Indian Wells Valley Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2016 and 2015

History and Organization:

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

Indian Wells Valley Water District

Board of Directors as of June 30, 2016

Name	Title	Elected/ Appointed	Current Term
Donald J. Cortichiato	President	Elected	11/12-11/16
Peter E. Brown	Vice-President	Elected	11/14-11/18
Charles F. Cordell	Director	Elected	11/12-11/16
Leroy H. Corlett	Director	Elected	11/12-11/16
Charles D. Griffin	Director	Elected	11/14-11/18

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

Indian Wells Valley Water District

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For the Fiscal Years Ended June 30, 2016 and 2015

Indian Wells Valley Water District
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For the Fiscal Years Ended June 30, 2016 and 2015

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Financial Section

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Certified Public Accountants

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Independent Auditor's Report

Board of Directors
Indian Wells Valley Water District
Ridgecrest, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Indian Wells Valley Water District (District) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Emphasis of a Matter

As described in note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72 – *Fair Value Measurement and Application* and early implementation of Statement No. 79 – *Certain External Investment Pools and Pool Participants,* for the year ended June 30, 2016; and GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions* and No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68,* for the year ended June 30, 2015. Our opinion is not modified with respect to these matters.

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 4 through 7 and the required supplementary information on pages 40 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 43 and 44.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 12, 2016

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Indian Wells Valley Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2016 and 2015. The two-year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In fiscal year 2016, the District's net position increased 0.75%, or $282,426 to $37,921,601, as a result of ongoing operations. In fiscal year 2015, net position decreased 4.54%, or $1,790,020 to $37,639,175, as a result of an increase of $446,258 from ongoing operations, offset by a decrease of $2,237,278 related to a prior period adjustment. See note 12 for further discussion.
- In fiscal year 2016, the District's operating revenues decreased 3.42%, or $342,091, primarily due to decreases of $500,797 in water consumption sales, and $24,393 in other charges for services, which was offset by increases of $135,967 in ready-to-serve charges and $50,494 in arsenic compliance charges. In fiscal year 2015, the District's operating revenues decreased 11.0%, or $1,233,073, primarily due to decreases of $990,502 in water consumption sales, $184,397 in ready-to-serve charges and $60,903 in arsenic compliance charges.
- In fiscal year 2016, the District's operating expenses increased 1.05%, or $63,944, primarily due to increases of $226,648 in general and administrative, $81,063 in arsenic plant, and $60,692 in engineering expense, which was offset by decreases of $141,853 in pumping plant and $136,671 in field services expenses. In fiscal year 2015, operating expenses decreased 6.9%, or $447,293, primarily due to decreases of $529,611 in pumping plant, $233,395 in arsenic plant, which was offset by an increase of $291,772 in general and administrative expenses.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

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

Financial Analysis of the District

One of the most important question asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question.

Financial Analysis of the District, continued

These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. One can think of the District's net position – the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 13 through 39.

Statements of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by $37,921,601 and $37,639,175 as of June 30, 2016 and 2015, respectively.

Condensed Statements of Net Position

	2016	2015	Change	As Restated 2014	Change
Assets:					
Current assets	$ 21,092,702	13,607,700	7,485,002	14,090,231	(482,531)
Non-current assets	1,732,180	2,108,519	(376,339)	2,381,306	(272,787)
Capital assets, net	46,203,468	46,105,138	98,330	46,586,536	(481,398)
Total assets	69,028,350	61,821,357	7,206,993	63,058,073	(1,236,716)
Deferred outflows of resources:					
Deferred pension outflows	180,582	159,795	20,787	-	159,795
Liabilities:					
Current liabilities	2,124,882	1,874,421	250,461	2,328,589	(454,168)
Non-current liabilities	28,398,457	21,838,782	6,559,675	21,299,289	539,493
Total liabilities	30,523,339	23,713,203	6,810,136	23,627,878	85,325
Deferred inflows of resources:					
Deferred pension inflows	763,992	628,774	135,218	-	628,774
Net position:					
Net investment in capital assets	18,307,515	25,061,457	(6,753,942)	24,324,483	736,974
Restricted	8,519,938	1,912,082	6,607,856	1,886,241	25,841
Unrestricted	11,094,148	10,665,636	428,512	13,219,471	(2,553,835)
Total net position	$ 37,921,601	37,639,175	282,426	39,430,195	(1,791,020)

Statements of Net Position, continued

By far, the largest portion of the District's net position (48% and 67% as of June 30, 2016 and 2015, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2016 and 2015, the District showed a positive balance in its unrestricted net position of $11,094,148 and $10,665,636, respectively, which may be utilized in future years. See note 11 for further information.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

		2016	2015	Change	As Restated 2014	Change
Revenue:						
Operating revenue	$	9,656,800	9,998,891	(342,091)	11,231,964	(1,233,073)
Non-operating revenue		192,760	139,212	53,548	310,963	(171,751)
Total revenue		9,849,560	10,138,103	(288,543)	11,542,927	(1,404,824)
Expense:						
Operating expense		6,137,337	6,073,393	63,944	6,520,686	(447,293)
Depreciation		2,679,251	2,646,097	33,154	2,527,812	118,285
Non-operating expense		1,035,047	1,035,239	(192)	1,218,711	(183,472)
Total expense		9,851,635	9,754,729	96,906	10,267,209	(512,480)
Net income before capital		(2,075)	383,374	(385,449)	1,275,718	(892,344)
Capital contributions:		284,501	62,884	221,617	70,664	(7,780)
Change in net position		282,426	446,258	(163,832)	1,346,382	(900,124)
Net position, beginning of year – as previously stated		37,639,175	39,430,195	(1,791,020)	38,083,813	1,346,382
Prior period adjustment		-	(2,237,278)	2,237,278	-	(2,237,278)
Net position, beginning of year – as restated		37,639,175	37,192,917	446,258	38,083,813	(890,896)
Net position, end of year	$	37,921,601	37,639,175	282,426	39,430,195	(1,791,020)

The statements of revenues, expenses and changes of net position show how the District's net position changed during the fiscal years. In the case of the District, the District's change in net position increased 0.75%, or $282,426 to $37,921,601, as a result of ongoing operations. In fiscal year 2015, net position decreased 4.54%, or $1,790,020 to $37,639,175, as a result of an increase of $446,258 from ongoing operations, offset by a decrease of $2,237,278 related to a prior period adjustment. See note 12 for further discussion.

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

In fiscal year 2016, the District's operating revenues decreased 3.42%, or $342,091, primarily due to decreases of $500,797 in water consumption sales and $24,393 in other charges for services, which was offset by increases of $135,967 in ready-to-serve charges and $50,494 in arsenic compliance charges. In fiscal year 2015, the District's operating revenues decreased 11.0%, or $1,233,073, primarily due to decreases of $990,502 in water consumption sales, $184,397 in ready-to-serve charges and $60,903 in arsenic compliance charges.

Statements of Revenues, Expenses and Changes in Net Position, continued

In fiscal year 2016, the District's operating expenses increased 1.05%, or $63,944, primarily due to increases of $226,648 in general and administrative, $81,063 in arsenic plant, and $60,692 in engineering expense, which was offset by decreases of $141,853 in pumping plant and $136,671 in field services expenses. In fiscal year 2015, operating expenses decreased 6.9%, or $447,293, primarily due to decreases of $529,611 in pumping plant, $233,395 in arsenic plant, which was offset by an increase of $291,772 in general and administrative expenses.

Capital Asset Administration

Changes in capital asset amounts for 2016 were as follows:

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

Changes in capital asset amounts for 2015 were as follows:

		Balance 2014	Additions	Transfers/ Deletions	Balance 2015
Capital assets:					
Non-depreciable assets	$	4,382,795	2,082,507	(2,768,784)	3,696,518
Depreciable assets		88,283,807	2,850,976	-	91,134,783
Accumulated depreciation		(46,080,066)	(2,646,097)	-	(48,726,163)
Total capital assets, net	$	46,586,536	2,287,386	(2,768,784)	46,105,138

At the end of fiscal years 2016 and 2015, the District's investment in capital assets amounted to $46,203,468 and $46,105,138 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, buildings, equipment, vehicles and construction-in-process. See note 5 for further information.

Debt Administration

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

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

Changes in long-term debt amounts for 2015 were as follows:

		Balance 2014	Additions	Transfers/ Deletions	Balance 2015
Long-term debt:					
COPs payable	$	18,575,000	-	(380,000)	18,195,000
Loans payable		3,687,053	-	(838,372)	2,848,681
Total long-term debt	$	22,262,053	-	(1,218,372)	21,043,681

See note 7 for further information.

Conditions Affecting Current Financial Position

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

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Chief Financial Officer at 500 West Ridgecrest Boulevard, Ridgecrest, California 93555 – (760) 375-5086.

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Basic Financial Statements

Indian Wells Valley Water District
Statements of Net Position
June 30, 2016 and 2015

		2016	2015
Current assets:			
Cash and cash equivalents (note 2)	$	10,113,397	9,419,677
Restricted – cash and cash equivalents (note 2)		8,757,262	2,156,296
Accrued interest receivable		5,754	10,827
Accrued interest receivable – assessment bonds receivable		75,346	115,042
Accounts receivable – water sales and services		1,293,351	1,128,599
Accounts receivable – other		49,020	43,288
Assessment bonds receivable – current and delinquient (note 3)		362,199	352,199
Materials and supplies inventory		401,186	341,899
Prepaid expenses and other deposits		35,187	39,873
Total current assets		21,092,702	13,607,700
Non-current assets:			
Mitigation deposit – California Department of Fish and Game		120,000	120,000
Assessment bonds receivable (note 3)		815,000	1,060,000
Other post-employment benefits asset (note 4)		797,180	928,519
Capital assets – not being depreciated (note 5)		5,922,382	3,696,518
Capital assets, net – being depreciated (note 5)		40,281,086	42,408,620
Total non-current assets		47,935,648	48,213,657
Total assets		69,028,350	61,821,357
Deferred outflows of resources			
Deferred pension outflows (note 8)		180,582	159,795
Total deferred outflows of resources	$	180,582	159,795

Continued on next page

See accompanying notes to the basic financial statements

Indian Wells Valley Water District
Statements of Net Position, continued
June 30, 2016 and 2015

		2016	2015
Current liabilities:			
Accounts payable and accrued expenses	$	154,245	130,444
Accrued wages and related payables		49,914	34,695
Customer deposits and deferred revenue		411,940	280,394
Accrued interest payable		237,324	244,214
Long-term liabilities – due within one year:			
Compensated absences (note 6)		40,141	36,945
Bonds payable (note 7)		410,000	395,000
Loans payable (note 7)		821,318	752,729
Total current liabilities		2,124,882	1,874,421
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 6)		160,566	147,778
Bonds payable (note 7)		17,390,000	17,800,000
Loans payable (note 7)		9,274,635	2,095,952
Net pension liability (note 8)		1,573,256	1,795,052
Total non-current liabilities		28,398,457	21,838,782
Total liabilities		30,523,339	23,713,203
Deferred inflows of resources			
Deferred pension inflows (note 8)		763,992	628,774
Total deferred inflows		763,992	628,774
Net position:			
Net investment in capital assets (note 9)		18,307,515	25,061,457
Restricted for debt service (note 10)		8,519,938	1,912,082
Unrestricted (note 11)		11,094,148	10,665,636
Total net position	$	37,921,601	37,639,175

See accompanying notes to the basic financial statements

Indian Wells Valley Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2016 and 2015

		2016	2015
Operating revenues:			
Water consumption sales	$	3,110,313	3,611,110
Ready-to-serve charges		4,524,215	4,388,248
Arsenic compliance charges		1,624,702	1,574,208
Zone charge		113,387	116,749
Other charges for services		284,183	308,576
Total operating revenues		9,656,800	9,998,891
Operating expenses:			
Pumping plant		1,084,505	1,226,358
Arsenic plant		431,483	350,420
Transmission and distribution		1,319,299	1,340,480
Field services		315,776	452,447
Engineering		386,537	325,845
Customer service		391,975	383,948
Legislative		103,875	116,656
General and administrative		2,103,887	1,877,239
Total operating expenses		6,137,337	6,073,393
Operating income before depreciation expense		3,519,463	3,925,498
Depreciation expense – capital recovery		(2,679,251)	(2,646,097)
Operating income		840,212	1,279,401
Non-operating revenue(expense):			
Special assessment 87-1 for debt service		12,121	43,145
Investment earnings		57,984	43,642
Rental revenue		16,200	19,200
Interest expense		(1,021,217)	(1,014,455)
Debt service costs		(13,830)	(20,784)
Legal settlement		69,685	-
Other revenue		36,770	33,225
Total non-operating, net		(842,287)	(896,027)
Net (loss)income before capital contributions		(2,075)	383,374
Capital contributions:			
Capacity facility fees		214,527	62,884
Capital contributions		63,068	-
Department of Motor Vehicles grant		6,906	-
Total capital contributions		284,501	62,884
Change in net position		282,426	446,258
Net position, beginning of year – as previously stated		37,639,175	39,430,195
Prior period adjustment (note 12)		-	(2,237,278)
Net position, beginning of year – as restated		37,639,175	37,192,917
Net position, end of year	$	37,921,601	37,639,175

See accompanying notes to the basic financial statements

Indian Wells Valley Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2016 and 2015

		2016	2015
Cash flows from operating activities:			
Cash receipts from customers for water sales and services	$	9,740,517	10,305,090
Cash paid to employees for salaries and wages		(1,941,345)	(2,189,549)
Cash paid to vendors and suppliers for materials and services		(4,185,445)	(4,340,981)
Net cash provided by operating activities		3,613,727	3,774,560
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(2,777,581)	(2,164,699)
Proceeds from capital contributions		284,501	62,884
Special assessments for debt service		247,121	245,651
Issuance of debt		8,000,000	-
Principal paid on long-term debt		(1,147,728)	(1,218,372)
Interest paid on long-term debt		(1,028,107)	(1,022,183)
Net cash provided by (used in) capital and related financing activities		3,578,206	(4,096,719)
Cash flows from investing activities:			
Investment earnings		102,753	88,736
Net cash provided by investing activities		102,753	88,736
Net increase(decrease) in cash and cash equivalents		7,294,686	(233,423)
Cash and cash equivalents, beginning of year		11,575,973	11,809,396
Cash and cash equivalents, end of year	$	18,870,659	11,575,973

Reconciliation of cash and cash equivalents to the statement of financial position:

		2016	2015
Cash and cash equivalents	$	10,113,397	9,419,677
Restricted assets – cash and cash equivalents		8,757,262	2,156,296
Total cash and cash equivalents	$	18,870,659	11,575,973

Continued on next page

See accompanying notes to the basic financial statements

Indian Wells Valley Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2016 and 2015

		2016	2015
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	840,212	1,279,401
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		2,679,251	2,646,097
Rental revenue		16,200	19,200
Debt service costs		(13,830)	(20,784)
Legal settlement		69,685	-
Other revenue		36,770	33,225
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:			
(Increase)Decrease in assets:			
Accounts receivable – water sales and services		(164,752)	230,504
Accounts receivable – other		(5,732)	(269)
Materials and supplies inventory		(59,287)	(264)
Prepaid expenses and other deposits		4,686	6,537
Other post-employment benefits asset		131,339	37,787
(Increase)Decrease in deferred outflows of resources		(20,787)	87,744
Increase(Decrease) in liabilities and deferred inflows:			
Accounts payable and accrued expenses		23,801	(517,670)
Accrued wages and related payables		15,219	8,454
Customer deposits and deferred revenue		131,546	23,539
Compensated absences		15,984	2,050
Net pension liability		(221,796)	(689,765)
Increase in deferred inflows of resources		135,218	628,774
Total adjustments		2,773,515	2,495,159
Net cash provided by operating activities	$	3,613,727	3,774,560

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

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

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

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

The District has adopted the following GASB pronouncements in the current year:

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*, effective for financial statements for periods beginning after June 15, 2015. The objective of this Statement is to enhance comparability of financial statements among governments by measurement of certain assets and liabilities at their fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value.

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

C. Financial Reporting, continued

In June 2015, the GASB issued Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68,* effective for fiscal years beginning after June 15, 2015. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the Scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions.

In June 2015, the GASB issued Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* effective for financial statements for periods beginning after June 15, 2015. This Statement replaces the requirements of Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment is not specified within the source of authoritative GAAP.

In December 2015, the GASB issued Statement No. 79 – *Certain External Investment Pools and Pool Participants,* effective for financial statements for periods beginning after June 15, 2015. This Statement enhances comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

Prior Year Financial Data Presentation

In 2015, the District has presented the annual financial statements with prior year data for comparative purposes, but not restate with regard to GASB 68 and 71, as all information available to restate prior year amounts was not readily available.

D. Assets, Deferred Outflows, Liabilities, Deferred inflows and Net Position

1. Use of Estimates

The preparation of the basic financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

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

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

3. Investments

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

4. Fair Value Measurements

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

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

5. Accounts Receivable and Allowance for Uncollectible Accounts

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

6. Restricted Assets

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

7. Materials and Supplies Inventory

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

8. Prepaids

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

9. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

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

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

9. Capital Assets, continued

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

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

10. Deferred Outflows of Resources

The statement of net position reports a separate section for deferred outflows of resources. This financial statement element, *deferred outflows of resources*, represents a consumption of resources applicable to future periods and therefore will *not* be recognized as an outflow of resources (expenditure) until that time. Included is a deferred outflow related to pensions equal to the employer contributions made after the measurement date of the net pension liability. This amount will be amortized-in-full against the net pension liability in the next fiscal year. Additionally, a deferred outflow related to pensions for the differences between expected and actual experience will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of the measurement date June 30, 2015, which is a 3.8 year period.

11. Compensated Absences

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

12. Pensions

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

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

- Valuation Date: June 30, 2014 and 2013
- Measurement Date: June 30, 2015 and 2014
- Measurement Period: July 1, 2014 to June 30, 2015 and July 1, 2013 to June 30, 2014

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

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

13. Deferred Inflows of Resources

The statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This financial statement element, *deferred inflows of resources*, represents an acquisition of resources applicable to future periods and therefore will *not* be recognized as an inflow of resources (revenue) until that time. Deferred inflows related to pensions for the changes in assumptions, differences between the actual employer contributions and the proportionate share of contributions and net changes in proportions will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of the measurement date June 30, 2015, which is 3.8 year period. Additionally, a deferred inflow related to pensions for the net difference in projected and actual earnings on investments of the pension plans fiduciary net position will be amortized over a 5 year period.

14. Net Position

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

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

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

- *Unrestricted Component of Net Position* – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

15. Capital Contributions

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

16. Budgetary Policies

The District adopts a bi-annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

17. Reclassification

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

(2) Cash and Investments

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

		2016	2015
Cash and cash equivalents	$	10,113,397	9,419,677
Cash and cash equivalents – restricted		8,757,262	2,156,296
Total cash and investments	$	18,870,659	11,575,973

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

		2016	2015
Cash on hand	$	1,200	1,200
Deposits with financial institutions		7,025,347	890,039
Deposits in Local Agency Investment Fund		1,536,681	2,030,872
Deposits in Kern County Investment Pool		8,698,093	7,050,641
Deposits in money market funds		1,609,338	1,603,221
Total cash and cash equivalents	$	18,870,659	11,575,973

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

	2016	2015
Deposits in Local Agency Investment Fund	167 days	239 days
Deposits in Kern County Investment Pool	478 days	474 days

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

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

Investment in State Investment Pool

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

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

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

(2) Cash and Investments, continued

Investment in Kern County Investment Pool

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

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to $250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF and the Pool).

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for external investment pools) that represent 5% or more of total District's investments at June 30, 2016 and 2015, respectively.

(3) Assessment Bonds Receivable

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

The assessment bonds receivable payment schedules at June 30, 2016 and 2015, are as follows:

	2016	2015
Assessment bonds receivable – current and delinquent	$ 362,199	352,199
Assessment bonds receivable	815,000	1,060,000
Total assessments bonds receivable, net	$ 1,177,199	1,412,199

Future Repayment Schedule

Year	Principal
2017	$ 245,000
2018	255,000
2019	260,000
2020	270,000
2021	30,000
Total	1,060,000
Delinquent	117,199
	$ 1,177,199

(4) Other Post-Employment Benefits Asset

Plan Description

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

Eligibility for District-paid Benefits

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

(4) Other Post-Employment Benefits Asset, continued

Membership in the Plan

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

	2016	2015	2014
Active plan members	29	28	29
Retirees and beneficiaries receiving benefits	10	10	9
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	39	38	38

Funding Policy

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

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

Annual OPEB Cost and Net OPEB Asset

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

The balance at June 30, consists of the following:

	2016	2015	2014
Annual OPEB expense:			
Annual required contribution (ARC)	$ 94,563	(6,956)	(8,034)
Interest on net OPEB obligation	-	-	-
Interest earnings on irrevocable trust balance	(9,922)	1,821	(161,130)
Adjustment to annual required contribution	452	1,000	22,395
Total annual OPEB expense	85,093	(4,135)	(146,769)
Contributions (to)from trust:			
Contributions made to irrevocable trust	-	-	-
Retiree benefit payments paid from trust	46,246	41,922	41,177
Total contributions made	46,246	41,922	41,177
Total change in net OPEB payable obligation	131,339	37,787	(105,592)
OPEB payable(asset) – beginning of year	(928,519)	(966,306)	(860,714)
OPEB payable(asset) – end of year	$ (797,180)	(928,519)	(966,306)

(4) Other Post-Employment Benefits Asset, continued

The District's Annual OPEB Cost, the Percentage of Annual OPEB Cost Contributed to the plan and the Net OPEB Obligation Asset for the fiscal year ended June 30, 2016, and the two preceding years are shown in the following table.

Three-Year History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Retiree Benefit Payments	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
2016	$ 85,093	46,246	54.35%	$ (797,180)
2015	(4,135)	41,922	-1013.83%	(928,519)
2014	(146,769)	41,177	-28.06%	(966,306)

The most recent valuation (dated July 1, 2015) includes an Actuarial Accrued Liability and Funded Actuarial Accrued Asset of $521,793. There is $887,234 in plan assets because the District pre-funded the plan in the California Employees' Retirement Benefit Trust (CERBT). The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2016 was $2,190,000. The ratio of the funded actuarial accrued liability to annual covered payroll was 23.83%. See page 42 for the Schedule of Funding Progress.

Actuarial Methods and Assumptions

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

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

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

(5) Capital Assets

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

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

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

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

	Balance 2014	Additions/	Deletions/ Transfers	Balance 2015
Non-depreciable assets:				
Land and land rights	$ 2,763,979	-	(496)	2,763,483
Construction-in-process	1,618,816	2,082,507	(2,768,288)	933,035
Total non-depreciable assets	4,382,795	2,082,507	(2,768,784)	3,696,518
Depreciable assets:				
Transmission and distribution system	52,336,193	2,586,028	-	54,922,221
Production and source of supply	30,251,055	178,065	-	30,429,120
General plant	5,696,559	86,883	-	5,783,442
Total depreciable assets	88,283,807	2,850,976	-	91,134,783
Accumulated depreciation:				
Depreciable assets	(46,080,066)	(2,646,097)	-	(48,726,163)
Total accumulated depreciation	(46,080,066)	(2,646,097)	-	(48,726,163)
Total depreciable assets, net	42,203,741	204,879	-	42,408,620
Total capital assets, net	$ 46,586,536	2,287,386	(2,768,784)	46,105,138

(6) Compensated Absences

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

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

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

Balance 2014	Earned	Taken	Balance 2015	Current Portion	Long-term Portion
$ 182,673	255,269	(253,219)	184,723	36,945	147,778

(7) Long-term Debt

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

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

(7) Long-term Debt, continued

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

Long-term debt:		Balance 2014	Additions	Payments	Balance 2015
Bonds payable:					
2009 Certificates of participation		18,575,000	-	(380,000)	18,195,000
Total bonds payable	$	18,575,000	-	(380,000)	18,195,000
Less: current portion		(380,000)			(395,000)
Total non-current		18,195,000			17,800,000
Loans payable:					
State of California Prop 55 loan		1,607,989	-	(334,778)	1,273,211
Municipal Finance Corp. – 2012 loan		2,079,064	-	(503,594)	1,575,470
Total loans payable		3,687,053	-	(838,372)	2,848,681
Less: current portion		(838,372)			(752,729)
Total non-current		2,848,681			2,095,952
Total long-term debt	$	22,262,053			21,043,681

2009 Series Certificates of Participation – Water Revenue Refunding Bonds

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

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

Year		Principal	Interest	Total
2017	$	410,000	898,788	1,308,788
2018		425,000	879,962	1,304,962
2019		445,000	858,213	1,303,213
2020		465,000	835,462	1,300,462
2021		485,000	811,713	1,296,713
2021-2025		2,760,000	3,665,437	6,425,437
2026-2030		3,530,000	2,885,688	6,415,688
2031-2035		4,580,000	1,857,676	6,437,676
2036-2040		4,700,000	511,875	5,211,875
Total		17,800,000	13,204,814	31,004,814
Current		(410,000)		
Long-term	$	17,390,000		

(7) Long-term Debt, continued

State of California Proposition 55 Loan

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

Year		Principal	Interest	Total
2017	$	246,762	32,757	279,519
2018		255,081	24,438	279,519
2019		263,753	15,766	279,519
2020		269,111	6,809	275,920
Total		1,034,707	79,770	1,114,477
Current		(246,762)		
Long-term	$	787,945		

Municipal Finance Corp. – 2012 Loan

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

Year		Principal	Interest	Total
2017	$	525,080	19,544	544,624
2018		536,166	8,460	544,626
Total		1,061,246	28,004	1,089,250
Current		(525,080)		
Long-term	$	536,166		

Mission Bank – 2016 Loan

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

Year		Principal	Interest	Total
2017	$	49,476	279,925	329,401
2018		303,734	273,443	577,177
2019		314,537	262,640	577,177
2020		325,036	252,141	577,177
2021		337,285	239,892	577,177
2022-2026		1,874,540	1,011,345	2,885,885
2027-2031		2,232,623	653,263	2,885,886
2032-2036		2,562,769	226,921	2,789,690
Total		8,000,000	3,199,570	11,199,570
Current		(49,476)		
Long-term	$	7,950,524		

(8) Defined Benefit Pension Plan

Plan Descriptions

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

Benefits Provided

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

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

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous Plan	
	Tier 1	**Tier 2**
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of servic
Benefit payments	monthly for life	monthly for life
Retirement age	55 - 60	52 - 67
Monthly benefits, as a % of eligible compensation	1.5% to 2.4%	1.0% to 2.5%
Required employee contribution rates	7.000%	6.257%
Required employer contribution rates	8.528%	6.237%

As of June 30, 2015, an actuarial report was not prepared by CalPERS for the District's PEPRA tier. CalPERS made this determination as a result of the District not having PEPRA eligible employees between the period January 1, 2013 and June 30, 2013, the valuation date of the actuarial report provided.

Contributions

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

(8) Defined Benefit Pension Plan, continued

Contributions, continued

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

		Miscellaneous Plan	
		2016	**2015**
Contributions – employer	$	171,853	137,635
Contributions – employee (paid by employer)		143,143	143,654
Total employer paid contributions	$	314,996	281,289

Net Pension Liability

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

		Proportionate Share of Net Pension Liability	
		2016	**2015**
Miscellaneous Plan	$	1,573,256	1,795,052

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015 and 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 and 2013, rolled forward to June 30, 2015 and 2014, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

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

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

The District's proportionate share of the pension liability for the District's Plan as of the June 30, 2013 and 2014, was as follows:

	Miscellaneous
Proportion – June 30, 2013	0.03083%
Proportion – June 30, 2014	0.02885%
Change – Increase (Decrease)	0.00198%

(8) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

As of June 30, 2016 and 2015, the District recognized pension expense of $64,488 and $164,388, respectively.

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

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

As of the fiscal year ended June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$ 137,635	-
Net differences between projected and actual earnings on plan investments	-	(628,774)
Net adjustment due to differences in proportions of net pension liability	22,160	-
Total	$ 159,795	(628,774)

As of June 30 2016 and 2015, employer pension contributions of $171,853 and $137,635, respectively, reported as deferred outflows of resources related to contributions subsequent to the measurement date will be and was recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017 and 2016, respectively.

(8) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As of June 30, 2016, the District recognized other amounts reported by the Plan actuarial as deferred outflows of resources and deferred inflows of resources related to the pension liability. Pension related amounts will be recognized as pension expense as follows.

Fiscal Year Ending June 30,	Deferred Net Outflows / (Inflows) of Resources
2017	$ (301,774)
2018	(303,356)
2019	(257,679)
2020	107,546
2021	-
Thereafter	-

Actuarial Assumptions

The total pension liability in the June 30, 2015 and 2014 actuarial valuation report was determined using the following actuarial assumptions:

Valuation Date	June 30, 2014 and 2013
Measurement Date	June 30, 2015 and 2014
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.50% Net of Administrative Expenses for 2015 and 2014
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

(8) Defined Benefit Pension Plan, continued

Discount Rate

The Discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans ran out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees' Retirement Fund (PERF). The stress test results are presented in a detailed report which can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS confirmed the materiality threshold for the difference in the calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the Discount rate will require CalPERS Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the fiscal year ended 2017-2018. CalPERS will continue to check the materiality of the difference in the calculation until such time as it has changed its methodology.

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

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

(8) Defined Benefit Pension Plan, continued

Discount Rate, continued

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

Asset Class	New Strategic Allocation	Real Return Years 1–10*	Real Return Year 11+**
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)
Total	100.0%		

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

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

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

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

	Discount Rate – 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
District's Net Pension Liability	$ 2,466,956	1,573,256	648,708

At June 30, 2015, the discount rate comparison was the following:

	Discount Rate – 1% (6.50%)	Prior Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
District's Net Pension Liability	$ 3,247,581	1,795,052	589,591

(8) Defined Benefit Pension Plan, continued

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports. See pages 40 and 41 for the Required Supplementary Schedules.

Payable to the Pension Plan

At June 30, 2016 and 2015, the District reported no payables for the outstanding amount of contribution to the pension plan.

(9) Net Investment in Capital Assets

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

		2016	2015
Capital assets:			
Capital assets – not being depreciated	$	5,922,382	3,696,518
Capital assets, net – being depreciated		40,281,086	42,408,620
Current:			
Certificates-of-participation		(410,000)	(395,000)
Loans payable		(821,318)	(752,729)
Non-current:			
Certificates-of-participation		(17,390,000)	(17,800,000)
Loans payable		(9,274,635)	(2,095,952)
Total net investment in capital assets	$	18,307,515	25,061,457

(10) Restricted Net Position

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

		2016	2015
Restricted – cash and cash equivalents	$	8,757,262	2,156,296
Accrued interest payable		(237,324)	(244,214)
Total restricted net position	$	8,519,938	1,912,082

(11) Unrestricted net Position

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

		2016	2015
Non-spendable net position:			
Materials and supplies inventory	$	401,186	341,899
Prepaid expenses and other deposits		35,187	39,873
Mitigation deposit – California Department of Fish and Game		120,000	120,000
Assessment bonds receivable		815,000	1,060,000
Other post-employment benefits asset		797,180	928,519
Total non-spendable net position		2,168,553	2,490,291
Spendable net position are designated as follows:			
Capital replacement reserve		5,950,397	5,450,230
Rate stabilization reserve		2,975,198	2,725,115
Total spendable net position		8,925,595	8,175,345
Total unrestricted net position	$	11,094,148	10,665,636

(12) Restatement of Net Position

Accounts Receivable – Unbilled Receivable

In fiscal year 2015, the District determined that revenue cutoff did not consider the adjustment of receivables for unbilled accounts receivable related to the 2014 fiscal year, causing receivable to be under accrued from what was reported in total receivables. Accordingly, the District has recorded a prior period adjustment to net position in the amount of $711,379 at June 30, 2014.

Net Pension Liability – GASB 68 Implementation

In fiscal year 2015, the District implemented GASB pronouncements 68 and 71 to recognize its proportionate share of the net pension liability. As a result of the implementation, the District recognized the pension liability and recorded a prior period adjustment, a (decrease) to net position, of $2,484,817 at July 1, 2014. The District recorded a prior period adjustment, increase to net position, to reclassify from expense to deferred outflows of resources, the prior year's proportionate share of employer pension contributions including payoff of the District's side-fund of $247,539 at July 1, 2014.

Previously recorded net position of $38,083,813 has been adjusted to $39,430,195 as of Jun 30, 2014. In addition, the effect of the implementation of GASB 68 is recorded as an adjustment to the beginning net position of June 30, 2015.

(12) Restatement of Net Position, continued

The effect of the above adjustments to net position is summarized as follows:

Net position at June 30, 2013, as previously stated	$	38,083,813
Effect of adjustment to record unbilled receivables		711,379
Change in net position at June 30, 2014, as previously stated		635,003
Net position at June 30, 2014, as restated		39,430,195
Effect of adjustment to record deferred pension outflows		247,539
Effect of adjustment to net pension liability as a result of GASB 68		(2,484,817)
Total adjustment to net position		(2,237,278)
Net position at July 1, 2014	$	37,192,917

(13) Deferred Compensation Savings Plan

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District’s general creditors. Market value of all plan assets held in trust by Mutual of America at June 30, 2016 and 2015, was $1,761,284 and $1,634,046, respectively.

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

(14) Debt without District Commitment

Special Assessment Districts

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

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

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

(14) Debt without District Commitment, continued

Assessment District No. 87-1

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

Year		Principal	Interest	Total
2017	$	245,000	31,605	276,605
2018		255,000	23,177	278,177
2019		260,000	14,496	274,496
2020		270,000	5,562	275,562
2021		30,000	506	30,506
Total	$	1,060,000	75,346	1,135,346

Assessment District No. 91-1

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

(15) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2016, the District participated in the liability and property programs of the SDRMA as follows:

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

(15) Risk Management, continued

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

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

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal years 2016, 2015, and 2014. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2016, 2015, and 2014.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2016, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 74

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

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

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

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

Governmental Accounting Standards Board Statement No. 75

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

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

Governmental Accounting Standards Board Statement No. 77

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. This Statement is effective for financial statements for periods beginning after December 15, 2015. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

Governmental Accounting Standards Board Statement No. 80

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

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

Governmental Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement is effective for financial statements for periods beginning after December 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

Governmental Accounting Standards Board Statement No. 82

In March 2016, the GASB issued Statement No. 82 – *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No.73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

(17) Commitments and Contingencies

Construction Contracts

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

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(18) Subsequent Events

Events occurring after June 30, 2016, have been evaluated for possible adjustment to the financial statements or disclosure as of December 12, 2016, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

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Required Supplementary Information

Indian Wells Valley Water District
District's Proportionate Share of the Net Pension Liability – Last Ten Years*
As of June 30, 2016 and 2015

Description		Measurement Date 6/30/2015	Measurement Date 6/30/2014
District's Proportion of the Net Pension Liability		0.02292%	0.02885%
District's Proportionate Share of the Net Pension Liability	$	1,573,256	1,795,052
District's Covered-Employee Payroll	$	2,075,823	1,907,011
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll		75.79%	94.13%

Notes:

Changes in Benefit Terms – The figures above do not include any liability impact that may have resulted from Plan changes which occurred after the June 30, 2014, valuation date.

Changes of Assumptions – For the June 30, 2015, measurement date, the discount rate was changed from 7.50% (net of administrative expense) to 7.65% percent to correct for an adjustment to exclude administrative expense.

***** Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

Indian Wells Valley Water District
Pension Plan Contributions – Last Ten Years*
As of June 30, 2016 and 2015

Schedule of Pension Plan Contributions:		Fiscal Year 2015-2016	Fiscal Year 2014-2015	Fiscal Year 2013-2014
Actuarially Determined Contribution	$	170,777	137,635	136,504
Contribution's in Relation to the Actuarially Determined Contribution		(171,853)	(137,635)	(136,504)
Contribution Deficiency (Excess)	$	(1,076)	-	-
Covered Payroll	$	2,966,107	2,075,823	1,907,011
Contribution's as a percentage of Covered-employee Payroll		5.76%	6.63%	7.16%

Notes:

The actuarial methods and assumptions used to set the actuarially determined contributions from June 30, 2014 through June 30, 2015 (the measurement period), were derived from the June 30, 2012, funding valuation report.

There were no changes in methods or assumptions used to determine the legally required contributions, which are actuarially determined, from the June 30, 2011 to the June 30, 2012, funding valuation report.

***** Fiscal Year 2015 was the first year of implementation, therefore only three years are shown.

Indian Wells Valley Water District
Schedule of Funding Status – Other Post-Employment Benefits Obligation
For the Fiscal Years Ended June 30, 2016 and 2015

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	$ 848,394	519,396	(328,998)	163.34%	$ 1,952,000	-16.85%
July 1, 2013	869,638	621,318	(248,320)	139.97%	1,931,000	-12.86%
July 1, 2015	887,234	365,441	(521,793)	242.78%	2,190,000	-23.83%

Funding progress is presented for the years that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2018, based on the year ending June 30, 2019.

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Report on Internal Controls and Compliance

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

Board of Directors
Indian Wells Valley Water District
Ridgecrest, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Indian Wells Valley Water District (District) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 12, 2016.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 12, 2016