Indian Wells Valley Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2019 and 2018

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, 2019

Name	Title	Elected/ Appointed	Current Term
Donald J. Cortichiato	President	Elected	11/16-11/20
Charles F. Cordell	Vice-President	Elected	11/16-11/20
Ronald R. Kicinski	Director	Elected	11/16-11/20
Stan G. Rajtora	Director	Elected	11/18-11/22
David C.H. Saint-Amand	Director	Elected	11/18-11/22

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

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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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 opinions.

Opinions

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, 2019 and 2018, 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 Matter

As part of our audit of the June 30, 2018, financial statements, we audited the adjustments described in note 12. An adjustment was recognized for the Authority's total other post-employment benefits liability; and has reclassified its employer other post-employment benefits contributions from expense to deferred outflows of resources and recorded a prior period adjustment to restate net position as of July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the required supplementary information on pages 46 through 48 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 audit 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 February 10, 2020, 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 49 and 50.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
February 10, 2020

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, 2019 and 2018. 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 2019, the District's net position decreased 2.80%, or $1,104,390 to $38,374,637, due to a net loss of $1,475,487 from ongoing operations, which was offset by $371,097 in capital contributions. In fiscal year 2018, the District's net position increased 0.93%, or $363,599 to $39,479,027, due to net income of $616,670 from ongoing operations and $907,933 in capital contributions, which were offset by the effect of a $1,161,004 restatement to net position related to the implementation of GASB 75.
- In fiscal year 2019, the District's operating revenues decreased 1.94%, or $210,095 to $10,628,928. In fiscal year 2018, the District's operating revenues increased 4.56%, or $472,314 to $10,839,023.
- In fiscal year 2019, the District's operating expenses increased 13.01%, or $832,897 to $7,235,151. In fiscal year 2018, the District's operating expenses decreased 0.99%, or $64,135 to $6,402,254.

Required Financial Statements

This annual report consists of a series of financial statements. The Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements 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 Statements 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 Statements 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 Statements of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statements 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 questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question.

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.

Financial Analysis of the District, continued

These two statements report the District's *net position* and changes in it. 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 14 through 45.

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 and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by $38,374,637 and $39,479,027 as of June 30, 2019 and 2018, respectively.

Condensed Statements of Net Position

	2019	2018	Change	2017	Change
Assets:					
Current assets	$ 27,463,013	16,662,946	10,800,067	15,166,059	1,496,887
Non-current assets	120,000	420,000	(300,000)	1,447,065	(1,027,065)
Capital assets, net	51,654,079	52,255,505	(601,426)	53,098,248	(842,743)
Total assets	79,237,092	69,338,451	9,898,641	69,711,372	(372,921)
Deferred outflows of resources	1,308,258	942,715	365,543	536,533	406,182
Liabilities:					
Current liabilities	2,452,914	2,772,483	(319,569)	2,971,171	(198,688)
Non-current liabilities	39,444,010	27,634,576	11,809,434	27,678,131	(43,555)
Total liabilities	41,896,924	30,407,059	11,489,865	30,649,302	(242,243)
Deferred inflows of resources	249,285	395,080	(145,795)	483,175	(88,095)
Net position:					
Net investment in capital assets	15,282,058	27,110,846	(11,828,788)	26,433,614	677,232
Restricted	14,900,810	3,097,355	11,803,455	3,456,858	(359,503)
Unrestricted	8,191,769	9,270,826	(1,079,057)	9,224,956	45,870
Total net position	$ 38,374,637	39,479,027	(1,104,390)	39,115,428	363,599

The largest portion of the District's net position (40% and 69% as of June 30, 2019 and 2018, 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 2019 and 2018, the District showed a positive balance in its unrestricted net position of $8,191,769 and $9,270,826, 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

		2019	2018	Change	2017	Change
Revenue:						
Operating revenue	$	10,628,928	10,839,023	(210,095)	10,366,709	472,314
Non-operating revenue		392,139	228,111	164,028	289,001	(60,890)
Total revenue		11,021,067	11,067,134	(46,067)	10,655,710	411,424
Expense:						
Operating expense		7,235,151	6,402,254	832,897	6,466,389	(64,135)
Depreciation		3,321,180	2,852,125	469,055	2,815,357	36,768
Non-operating expense		1,940,223	1,196,085	744,138	1,265,696	(69,611)
Total expense		12,496,554	10,450,464	2,046,090	10,547,442	(96,978)
Net income(loss) before capital		(1,475,487)	616,670	(2,092,157)	108,268	508,402
Capital contributions:		371,097	907,933	(536,836)	1,085,559	(177,626)
Change in net position		(1,104,390)	1,524,603	(2,628,993)	1,193,827	330,776
Net position, beginning of year – as previously stated		39,479,027	39,115,428	363,599	37,921,601	1,193,827
Prior period adjustment		-	(1,161,004)	1,161,004	-	(1,161,004)
Net position, beginning of year – as restated		39,479,027	37,954,424	1,524,603	37,921,601	32,823
Net position, end of year	$	38,374,637	39,479,027	(1,104,390)	39,115,428	363,599

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 change in net position decreased 2.80%, or $1,104,390 to $38,374,637 in fiscal year 2019, due to a net loss of $1,475,487 from ongoing operations, which was offset by $371,097 in capital contributions. In fiscal year 2018, the District's net position increased 0.93%, or $363,599 to $39,479,027, due to net income of $616,670 from ongoing operations and $907,933 in capital contributions, which were offset by the effect of a $1,161,004 restatement to net position related to the implementation of GASB 75.

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

The District's operating revenues decreased 1.94%, or $210,095 to $10,628,928 in fiscal year 2019, primarily due to decreases of $209,818 in ready-to-serve charges, $31,518 in other charges, $15,133 in arsenic compliance charges, which were offset by increases of $30,989 in water consumption sales, and $15,385 in zone charges. In fiscal year 2018, the District's operating revenues increased 4.56%, or $472,314 to $10,839,023, primarily due to increases of $182,470 in water consumption sales, $168,472 in ready-to-serve charges, $63,457 in arsenic compliance charges, $11,840 in zone charges, and $46,075 in other charges.

The District's non-operating revenues increased 71.91%, or $164,028 to $392,139 in fiscal year 2019, primarily due to increases of $110,122 in investment earnings, $64,654 in other revenue, $23,906 in gain on disposition of assets. In fiscal year 2018, the District's non-operating revenues decreased 21.07%, or $60,890 to $228,111, primarily due to decreases of $53,608 in other revenue, $19,924 in special assessment 87-1 for debt service, $18,328 in an energy curtailment credit, which were offset by an increase of $33,514 in investment earnings.

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

The District's operating expenses increased 13.01%, or $832,897 to $7,235,151 in fiscal year 2019, primarily due to increases of $632,768 in general and administrative, $190,941 in transmission and distribution, $50,802 in engineering, $50,737 in water supply, which were offset by decreases of $49,709 in arsenic plant, $19,869 in field services, $17,872 in customer service, and $4,901 in legislative expenses. In fiscal year 2018, the District's operating expenses decreased 0.99%, or $64,135 to $6,402,254, primarily due to decreases of $423,755 in transmission and distribution, $51,617 in water supply, $52,949 in arsenic plant, which were offset by increases of $338,960 in general and administrative, $62,464 in field services, $45,175 in customer service, $10,401 in engineering, and $7,186 in legislative expenses.

The District's depreciation increased 16.45%, or $469,055 to $3,321,180 in fiscal year 2019, primarily due to the District's ongoing maturation of depreciation in the current year. In fiscal year 2018, the District's depreciation increased 1.31%, or $36,768 to $2,852,125, primarily due to the District's additions of prior year assets beginning maturation of depreciation in that year.

The District's non-operating expenses increased 62.21%, or $744,138 to $1,940,223 in fiscal year 2019, primarily due to increases of $494,869 in debt issuance costs related to the issuance of the 2018 Certificates of Participation and $247,339 in interest expense sourcing from the District's bonds and loans payable. In fiscal year 2018, the District's non-operating expenses decreased 5.50%, or $69,611 to $1,196,085, primarily due to a decrease of $70,073 in interest expense sourcing from the District's bonds and loans payable.

The District's capital contributions decreased 59.13%, or $536,836 to $371,097 in fiscal year 2019, primarily due to decreases of $199,992 in capital contributions federal grants, $181,654 in capital facility fees, $120,424 in capital contributions from local sources and $88,188 in capital contributions for the Cash for Grass grant which were offset by an increase of $53,422 in capital contributions from developers. In fiscal year 2018, the District's capital contributions decreased 16.36%, or $177,626 to $907,933, primarily due to decreases of $629,175 in capital contributions from developers and $25,223 in capital facility fees, which were offset by increases of $199,992 in capital contributions federal, $177,697 in capital contributions from local sources and $99,083 in capital contributions for the Cash for Grass grant.

Capital Asset Administration

Changes in capital asset amounts for 2019 were as follows:

	Balance 2018	Additions	Transfers/ Deletions	Balance 2019
Capital assets:				
Non-depreciable assets	$ 5,910,996	2,554,300	(903,870)	7,561,426
Depreciable assets	103,359,585	1,076,324	(172,663)	104,263,246
Accumulated depreciation	(57,015,076)	(3,321,180)	165,663	(60,170,593)
Total capital assets, net	$ 52,255,505	309,444	(910,870)	51,654,079

Capital Asset Administration, continued

Changes in capital asset amounts for 2018 were as follows:

		Balance 2017	Additions	Transfers/ Deletions	Balance 2018
Capital assets:					
Non-depreciable assets	$	14,104,545	1,964,659	(10,158,208)	5,910,996
Depreciable assets		93,195,803	10,202,931	(39,149)	103,359,585
Accumulated depreciation		(54,202,100)	(2,852,125)	39,149	(57,015,076)
Total capital assets, net	$	53,098,248	9,315,465	(10,158,208)	52,255,505

At the end of fiscal years 2019 and 2018, the District's investment in capital assets amounted to $51,654,079 and $52,255,505 (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 4 for further information.

Debt Administration

Changes in long-term debt amounts for 2019 were as follows:

		Balance 2018	Additions	Transfers/ Deletions	Balance 2019
Long-term debt:					
COPs payable	$	16,965,000	30,063,032	(17,441,404)	29,586,628
Loans payable		8,179,659	-	(1,394,266)	6,785,393
Total long-term debt	$	25,144,659	30,063,032	(18,835,670)	36,372,021

Changes in long-term debt amounts for 2018 were as follows:

		Balance 2017	Additions	Transfers/ Deletions	Balance 2018
Long-term debt:					
COPs payable	$	17,390,000	-	(425,000)	16,965,000
Loans payable		9,274,634	-	(1,094,975)	8,179,659
Total long-term debt	$	26,664,634	-	(1,519,975)	25,144,659

See note 6 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.

Basic Financial Statements

Indian Wells Valley Water District
Statements of Net Position
June 30, 2019 and 2018

		2019	2018
Current assets:			
Cash and cash equivalents (note 2)	$	10,294,286	10,431,547
Restricted – cash and cash equivalents (note 2)		14,920,330	3,341,190
Accrued interest receivable		33,042	9,909
Accrued interest receivable – assessment bonds receivable		-	20,564
Accounts receivable – water sales and services		1,276,534	1,337,217
Accounts receivable – other		54,149	46,130
Assessment bonds receivable – delinquient (note 3)		145,124	410,854
Materials and supplies inventory		127,366	452,221
Prepaid expenses and other deposits		612,182	613,314
Total current assets		27,463,013	16,662,946
Non-current assets:			
Mitigation deposit – California Department of Fish and Game		120,000	120,000
Assessment bonds receivable (note 3)		-	300,000
Capital assets – not being depreciated (note 4)		7,561,426	5,910,996
Capital assets, net – being depreciated (note 4)		44,092,653	46,344,509
Total non-current assets		51,774,079	52,675,505
Total assets		79,237,092	69,338,451
Deferred outflows of resources:			
Deferred other post-employment benefits outflows (note 7)		514,281	57,651
Deferred pension outflows (note 8)		793,977	885,064
Total deferred outflows of resources	$	1,308,258	942,715

Continued on next page

See accompanying notes to the basic financial statements

Indian Wells Valley Water District
Statements of Net Position, continued
June 30, 2019 and 2018

		2019	2018
Current liabilities:			
Accounts payable and accrued expenses	$	861,844	883,853
Accrued wages and related payables		206,150	140,304
Customer deposits and deferred revenue		291,696	425,898
Accrued interest payable		19,520	243,835
Unearned revenue		71,196	-
Long-term liabilities – due within one year:			
Compensated absences (note 5)		60,463	55,303
Bonds payable (note 6)		641,250	445,000
Loans payable (note 6)		300,795	578,290
Total current liabilities		2,452,914	2,772,483
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 5)		241,851	221,213
Bonds payable (note 6)		28,945,378	16,520,000
Loans payable (note 6)		6,484,598	7,601,369
Net other post-employment benefits liability (note 7)		961,355	440,393
Net pension liability (note 8)		2,810,828	2,851,601
Total non-current liabilities		39,444,010	27,634,576
Total liabilities		41,896,924	30,407,059
Deferred inflows of resources:			
Deferred other post-employment benefits inflows (note 7)		24,504	-
Deferred pension inflows (note 8)		249,285	395,080
Total deferred inflows		273,789	395,080
Net position:			
Net investment in capital assets (note 9)		15,282,058	27,110,846
Restricted for debt service (note 10)		14,900,810	3,097,355
Unrestricted (note 11)		8,191,769	9,270,826
Total net position	$	38,374,637	39,479,027

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, 2019 and 2018

	2019	2018
Operating revenues:		
Water consumption sales	$ 3,680,638	3,649,649
Ready-to-serve charges	4,715,006	4,924,824
Arsenic compliance charges	1,755,612	1,770,745
Zone charge	152,003	136,618
Other charges for services	325,669	357,187
Total operating revenues	10,628,928	10,839,023
Operating expenses:		
Water supply	1,032,468	981,731
Arsenic plant	204,064	253,773
Transmission and distribution	1,350,555	1,159,614
Field services	507,280	527,149
Engineering	377,735	326,933
Customer service	407,940	425,812
Legislative	128,227	133,128
General and administrative	3,226,882	2,594,114
Total operating expenses	7,235,151	6,402,254
Operating income before depreciation expense	3,393,777	4,436,769
Depreciation expense – capital recovery	(3,321,180)	(2,852,125)
Operating income	72,597	1,584,644
Non-operating revenue(expense):		
Special assessment 87-1 for debt service	-	36,654
Investment earnings	256,053	145,931
Rental revenue	10,000	8,000
Interest expense	(1,424,020)	(1,176,681)
Debt issuance costs	(494,869)	-
Debt service costs	(21,334)	(19,404)
Gain on disposition of assets	27,406	3,500
Other revenue	98,680	34,026
Total non-operating, net	(1,548,084)	(967,974)
Net income before capital contributions	(1,475,487)	616,670
Capital contributions:		
Capital facility fees	211,924	393,578
Capital contributions – Cash for Grass grant	10,895	99,083
Capital contributions – developer	72,122	18,700
Capital contributions – local	76,156	196,580
Capital contributions – federal	-	199,992
Total capital contributions	371,097	907,933
Change in net position	(1,104,390)	1,524,603
Net position, beginning of year – as previously stated	39,479,027	39,115,428
Prior period adjustment (note 12)	-	(1,161,004)
Net position, beginning of year	39,479,027	37,954,424
Net position, end of year	$ 38,374,637	39,479,027

See accompanying notes to the basic financial statements

Indian Wells Valley Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2019 and 2018

		2019	2018
Cash flows from operating activities:			
Cash receipts from customers for water sales and services	$	10,754,672	10,828,303
Cash paid to employees for salaries and wages		(2,614,276)	(1,305,780)
Cash paid to vendors and suppliers for materials and services		(4,231,898)	(4,010,053)
Net cash provided by operating activities		3,908,498	5,512,470
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(2,643,598)	(2,773,814)
Proceeds from capital contributions		294,941	511,361
Special assessments for debt service		565,730	294,134
Proceeds from the issuance of debt 2018 Certificates of Participation		30,063,032	-
Defeasance of 2009 Certificates of Participation		(16,965,000)	-
Bond issuance costs 2018 Certificates of Participation		(494,869)	-
Principal paid on long-term debt		(1,870,670)	(1,519,975)
Interest paid on long-term debt		(1,648,335)	(1,185,962)
Debt service costs on long-term debt		(21,334)	(19,404)
Net cash provided by (used in) capital and related financing activities		7,279,897	(4,693,660)
Cash flows from investing activities:			
Investment earnings		253,484	176,219
Net cash provided by investing activities		253,484	176,219
Net increase in cash and cash equivalents		11,441,879	995,029
Cash and cash equivalents, beginning of year		13,772,737	12,777,708
Cash and cash equivalents, end of year	$	25,214,616	13,772,737

		2019	2018
Reconciliation of cash and cash equivalents to the statement of financial position:			
Cash and cash equivalents	$	10,294,286	10,431,547
Restricted assets – cash and cash equivalents		14,920,330	3,341,190
Total cash and cash equivalents	$	25,214,616	13,772,737

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, 2019 and 2018

		2019	2018
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	72,597	1,584,644
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		3,321,180	2,852,125
Rental revenue		10,000	8,000
Loss on disposition of assets		27,406	3,500
Other revenue		98,680	34,026
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:			
(Increase)Decrease in assets:			
Accounts receivable – water sales and services		60,683	50,712
Accounts receivable – other		(8,019)	(1,307)
Materials and supplies inventory		324,855	(62,385)
Prepaid expenses and other deposits		1,132	(506,646)
Other post-employment benefits liability		-	757,065
Increase in deferred outflows of resources			
Deferred other post-employment benefits outflows		(456,630)	(57,651)
Deferred pension outflows		91,087	(348,531)
Increase(Decrease) in liabilities and deferred inflows:			
Accounts payable and accrued expenses		(22,009)	356,607
Accrued wages and related payables		65,846	47,690
Customer deposits and deferred revenue		(134,202)	(105,651)
Unearned revenue		71,196	-
Compensated absences		25,798	43,186
Net other post-employment benefits liability		520,962	440,393
Net pension liability		(40,773)	504,788
Decrease in deferred inflows of resources			
Deferred other post-employment benefits inflows		24,504	-
Deferred pension inflows		(145,795)	(88,095)
Total adjustments		3,835,901	3,927,826
Net cash provided by operating activities	$	3,908,498	5,512,470

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 purpose 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:

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – Certain Asset Retirement Obligations. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

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

C. Financial Reporting, continued

Governmental Accounting Standards Board Statement No. 83, continued

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 88

In April 2018, the GASB issued Statement No. 88 – Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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.

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.

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

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

4. Fair Value Measurements, continued

- *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 consist 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.

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

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

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

10. Deferred Outflows of Resources

The statement of net position will sometimes report a separate section for deferred outflows of resources. This separate 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. The District has the following items that qualify for reporting in this category:

Post-Employment Benefits Other Than Pensions (OPEB)

- Deferred outflow which is equal to the employer contributions made after the measurement date of the net other-postemployment benefits liability. This amount will be amortized-in-full against the net other-postemployment benefits liability in the next fiscal year.
- Deferred outflow for the changes in assumptions which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with other-postemployment benefits through the Plan.
- Deferred outflow for the differences between the actual and expected experience which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with other-postemployment benefits through the Plan.

Pensions

- Deferred outflow which is 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.
- Deferred outflow for the net differences between the actual and expected experience which 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 Plan.
- Deferred outflow for the net changes in assumptions which 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 Plan.
- Deferred outflow for the net difference in projected and actual earnings on investments of the pension plans fiduciary net position. This amount is amortized over a 5 year period.
- Deferred outflow for the net change due to differences in the changes in proportions of the net pension liability which 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 Plan.

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. Post-Employment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District’s OPEB plan (Plan) and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

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

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

12. Post-Employment Benefits Other Than Pensions (OPEB), continued

GASB 75 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 Dates: June 30, 2019 and 2018
- Measurement Dates: June 30, 2019 and 2018
- Measurement Periods: July 1, 2018 to June 30, 2019 and July 1, 2017 to June 30, 2018

13. 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 Dates: June 30, 2017 and 2016
- Measurement Dates: June 30, 2018 and 2017
- Measurement Periods: July 1, 2017 to June 30, 2018 and July 1, 2016 to June 30, 2017

14. Deferred Inflows of Resources

The statement of net position 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. The District has the following items that qualify for reporting in this category:

Post-Employment Benefits Other Than Pensions (OPEB)

- Deferred inflow for the difference in investment gains and losses of the other post-employment benefit plans' fiduciary net position. This amount is amortized over a 5 year period.

Pensions

- Deferred inflow for the net difference in actual and proportionate share of employer contribution and net changes in proportion which 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 Plan.

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

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

15. 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.

16. 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.

17. Budgetary Policies

The District adopts an 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.

18. 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:

		2019	2018
Cash and cash equivalents	$	10,294,286	10,431,547
Cash and cash equivalents – restricted		14,920,330	3,341,190
Total cash and investments	$	25,214,616	13,772,737

(2) Cash and Investments, continued

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

		2019	2018
Cash on hand	$	1,200	1,200
Deposits with financial institutions		1,843,289	3,098,543
Total cash on hand and deposits		1,844,489	3,099,743
Deposits in Local Agency Investment Fund		1,036,623	1,010,003
Deposits in Kern County Investment Pool		8,333,290	8,316,581
Deposits in money market funds		14,000,214	1,346,410
Total investments		23,370,127	10,672,994
Total cash and cash equivalents	$	25,214,616	13,772,737

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

	2019	2018
Deposits in Local Agency Investment Fund	173 days	193 days
Deposits in Kern County Investment Pool	580 days	547 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 pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. LAIF does not have any legally binding guarantees of share values. LAIF does not impose liquidity fees or redemption gates on participant withdrawals.

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.

(2) Cash and Investments, continued

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.

At June 30, 2019 and 2018, the District's investments held to maturity were categorized as twelve months or less, respectively.

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.

Credit ratings of investments as of June 30, 2019, were as follows:

		Minimum	Rating as of Year End	
Investment Types	**Total**	**Legal Rating**	**AAA**	**Not Rated**
Local Agency Investment Fund (LAIF)	$ 1,036,623	N/A	$ -	$ 1,036,623
Kern County Investment Pool	8,333,290	N/A	-	8,333,290
Money Market Funds	14,000,214	AAA	14,000,214	-
Total	$ 23,370,127		$ 14,000,214	$ 9,369,913

(2) Cash and Investments, continued

Credit Risk, continued

Credit ratings of investments as of June 30, 2018, were as follows:

Investment Types	Total	Minimum Legal Rating	Rating as of Year End: AAA	Rating as of Year End: Not Rated
Local Agency Investment Fund (LAIF)	$ 1,010,003	N/A	$ -	$ 1,010,003
Kern County Investment Pool	8,316,581	N/A	-	8,316,581
Money Market Funds	1,346,410	AAA	1,346,410	-
Total	$ 10,672,994		$ 1,346,410	$ 9,326,584

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, 2019 and 2018, respectively.

Fair Value Measurements

Investments measured at fair value on a recurring and non-recurring basis at June 30, 2019, are as follows:

Investment Type	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Held by bond trustee:				
Money market funds	$ 14,000,214	14,000,214	-	-
Total investments measured at fair value	14,000,214	14,000,214	-	-
Investments measured at amortized cost:				
Local Agency Investment Fund (LAIF)	1,036,623			
Kern County Investment Pool	8,333,290			
Total	$ 23,370,127			

(2) Cash and Investments, continued

Fair Value Measurements, continued

Investments measured at fair value on a recurring and non-recurring basis at June 30, 2018, are as follows:

		Fair Value Measurements Using		
Investment Type	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Held by bond trustee:				
Money market funds	$ 1,346,410	1,346,410	-	-
Total investments measured at fair value	1,346,410	1,346,410	-	-
Investments measured at amortized cost:				
Local Agency Investment Fund (LAIF)	1,010,003			
Kern County Investment Pool	8,316,581			
Total	$ 10,672,994			

(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 are as follows:

	2019	**2018**
Assessment bonds receivable – current and delinquent	$ 145,124	410,854
Assessment bonds receivable – non-current	-	300,000
Total assessments bonds receivable, net	$ 145,124	710,854

At June 30, 2019 the AD 87-1 Assessment District Bonds had been paid-in-full. At June 30, 2019, the remaining balance represents the delinquent portion of the assessment bonds receivable balance. This balance was determined collectible at June 30, 2019.

(4) 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 2018	Additions/	Deletions/ Transfers	Balance 2019
Non-depreciable assets:				
Land and land rights	$ 2,787,233	82,802	-	2,870,035
Construction-in-process	3,123,763	2,471,498	(903,870)	4,691,391
Total non-depreciable assets	5,910,996	2,554,300	(903,870)	7,561,426
Depreciable assets:				
Transmission and distribution system	57,199,411	797,974	-	57,997,385
Production and source of supply	32,167,586	32,719	-	32,200,305
General plant	13,992,588	245,631	(172,663)	14,065,556
Total depreciable assets	103,359,585	1,076,324	(172,663)	104,263,246
Accumulated depreciation:				
Depreciable assets	(57,015,076)	(3,321,180)	165,663	(60,170,593)
Total accumulated depreciation	(57,015,076)	(3,321,180)	165,663	(60,170,593)
Total depreciable assets, net	46,344,509	(2,244,856)	(7,000)	44,092,653
Total capital assets, net	$ 52,255,505	309,444	(910,870)	51,654,079

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

	Balance 2017	Additions/	Deletions/ Transfers	Balance 2018
Non-depreciable assets:				
Land and land rights	$ 2,787,233	-	-	2,787,233
Construction-in-process	11,317,312	1,964,659	(10,158,208)	3,123,763
Total non-depreciable assets	14,104,545	1,964,659	(10,158,208)	5,910,996
Depreciable assets:				
Transmission and distribution system	55,898,055	1,301,356	-	57,199,411
Production and source of supply	30,499,089	1,668,497	-	32,167,586
General plant	6,798,659	7,233,078	(39,149)	13,992,588
Total depreciable assets	93,195,803	10,202,931	(39,149)	103,359,585
Accumulated depreciation:				
Depreciable assets	(54,202,100)	(2,852,125)	39,149	(57,015,076)
Total accumulated depreciation	(54,202,100)	(2,852,125)	39,149	(57,015,076)
Total depreciable assets, net	38,993,703	7,350,806	-	46,344,509
Total capital assets, net	$ 53,098,248	9,315,465	(10,158,208)	52,255,505

(5) Compensated Absences

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

Balance 2018	Earned	Taken	Balance 2019	Current Portion	Long-term Portion
$ 276,516	351,699	(325,901)	302,314	60,463	241,851

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

Balance 2017	Earned	Taken	Balance 2018	Current Portion	Long-term Portion
$ 233,330	310,620	(267,434)	276,516	55,303	221,213

(6) Long-term Debt

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

Long-term debt:	Balance 2018	Additions	Payments	Balance 2019
Bonds payable:				
2009 Certificates of participation	$ 16,965,000	-	(16,965,000)	-
2018 Certificates of participation	-	26,805,000	(413,750)	26,391,250
Premium on issuance - 2018 Series	-	3,258,032	(62,654)	3,195,378
Total bonds payable	16,965,000	30,063,032	(17,441,404)	29,586,628
Less: current portion	(445,000)			(641,250)
Total non-current	16,520,000			28,945,378
Loans payable:				
State of California Prop 55 loan	532,865	-	(532,865)	-
Mission Bank – 2016 loan	7,646,794	-	(861,401)	6,785,393
Total loans payable	8,179,659	-	(1,394,266)	6,785,393
Less: current portion	(578,290)			(300,795)
Total non-current	7,601,369			6,484,598
Total long-term debt	$ 25,144,659			36,372,021

(6) Long-term Debt, continued

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

Long-term debt:	Balance 2017	Additions	Payments	Balance 2018
Bonds payable:				
2009 Certificates of participation	$ 17,390,000	-	(425,000)	16,965,000
Total bonds payable	17,390,000	-	(425,000)	16,965,000
Less: current portion	(425,000)			(445,000)
Total non-current	16,965,000			16,520,000
Loans payable:				
State of California Prop 55 loan	787,946	-	(255,081)	532,865
Municipal Finance Corp. – 2012 loan	536,164	-	(536,164)	-
Mission Bank – 2016 loan	7,950,524	-	(303,730)	7,646,794
Total loans payable	9,274,634	-	(1,094,975)	8,179,659
Less: current portion	(1,094,980)			(578,290)
Total non-current	8,179,654			7,601,369
Total long-term debt	$ 26,239,634			25,144,659

2018 Series Certificates of Participation – Water Revenue Refunding Bonds

On November 13, 2018, the District issued 2018 Series Certificates of Participation Water Revenue Bonds, not to exceed $38,000,000 for the purpose of advance refunding its outstanding 2009 Series Certificates of Participation Water Revenue Bonds and to finance new capital improvement projects. As a result of the refunding, the District's 2009 Certificates of Participation issue is considered defeased and the liability for that obligation has been removed from the District's financial statements. The District completed the advance refunding to reduce the District's total debt service payments over a 20-year period by a present-value amount of approximately $2.905 million to obtain an economic gain of approximately $3.831 million.

The certificates-of-participation are scheduled to mature in fiscal year 2049. An interest rate premium in the amount of $3,258,032 was calculated on the issuance of the refunding revenue bonds and will be amortized over the life of the debt. Principal and interest are payable in monthly installments due on the 1st of each month at rates ranging from 4.00% to 5.00% with monthly principal installments ranging from $43,333 to $129,583 as follows:

(6) Long-term Debt, continued

2018 Series Certificates of Participation – Water Revenue Refunding Bonds, continued

Future long-term debt service requirements to maturity are as follows:

Year		Principal	Interest	Total
2020	$	641,250	1,253,800	1,895,050
2021		666,250	1,228,150	1,894,400
2022		688,750	1,201,500	1,890,250
2023		710,000	1,172,200	1,882,200
2024		747,500	1,136,700	1,884,200
2025-2029		4,305,000	5,087,126	9,392,126
2030-2034		5,537,500	3,893,625	9,431,125
2035-2039		6,830,000	2,362,312	9,192,312
2040-2044		2,897,500	1,061,000	3,958,500
2045-2049		3,367,500	399,300	3,766,800
Total		26,391,250	18,795,713	45,186,963
Current		(641,250)		
Bond premium		3,195,378		
Long-term	$	28,945,378		

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. At June 30, 2019, the District had paid the remaining loan balance in the amount $532,865 and therefore the loan has been repaid in-full.

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% maturing in fiscal year 2036.

Future long-term debt service requirements to maturity are as follows:

Year		Principal	Interest	Total
2020	$	300,795	233,337	534,132
2021		312,131	222,001	534,132
2022		323,232	210,900	534,132
2023		334,729	199,403	534,132
2024		346,123	188,009	534,132
2025-2029		1,926,631	744,029	2,670,660
2030-2034		2,294,671	375,989	2,670,660
2035-2036		947,081	32,132	979,213
Total		6,785,393	2,205,800	8,991,193
Current		(300,795)		
Long-term	$	6,484,598		

(6) Long-term Debt, continued

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%. At June 30, 2018, the loan was paid-in-full.

(7) Other Post-Employment Benefits (OPEB) Plan

General Information about the OPEB Plan

Plan Description

The District provides other post-employment benefits (OPEB) to qualified employees who retire from the District and meet the District's vesting requirements. The District participates in CalPERS California Employer's Retiree Benefit Trust Program (CERBT), a Prefunding Plan trust fund intended to perform an essential government function within the meaning of Section 115 of the Internal Revenue Code. Copies of CalPERS CERBT audited financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA 95814. The new reporting requirements for these benefit programs as they pertain to the District are set forth below.

Benefits Provided

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 CalPERS 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.

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.

Employees Covered by Benefit Terms

At June 30 the following employees were covered by the benefit terms:

	2019	2018
Active plan members	29	29
Retirees and beneficiaries receiving benefits	9	9
Separated plan members entitled to but not yet receiving benefits	-	-
Total Plan membership	38	38

Contributions

The Plan and its contribution requirements for eligible retired employees of the District are established and may be amended by the Board of Directors. The District pays 100% of the cost of health insurance for retirees under any group plan offered by CalPERS, subject to certain restrictions as determined by the District. The annual contribution is based on the actuarially determined contribution.

(7) Other Post-Employment Benefits (OPEB) Plan, continued

Contributions, continued

As of the fiscal year ended June 30, the contributions were as follows:

		2019	2018
Contributions – employer	$	61,487	57,651

As of June 30 2019 and 2018, employer's pension contributions of $61,487 and $57,651 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of net OPEB liability in the fiscal year ended June 30, 2020 and 2019, respectively.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2017, and the total net liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

Actuarial Assumptions

The net OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Discount rate	7.00 percent
Healthcare cost trend rates	4.00 percent for 2017
Retirees' share of benefit-related costs	100 percent of the District's share of projected health insurance premiums for retirees age 55 with a minimum 15 years of service hired before July 1, 2013.

Discount Rate

The discount rate used to measure the net OPEB liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates.

(7) Other Post-Employment Benefits (OPEB) Plan, continued

Changes in the Net OPEB Liability

Changes in net OPEB liability amounts for the year ended June 30, 2019, were as follows:

	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability
Balance at beginning of year	$ 1,400,889	960,496	440,393
Changes for the year:			
Service cost	42,456	-	42,456
Interest	70,031	-	70,031
Assumption changes	485,414	-	485,414
Expected investment income	-	46,906	(46,906)
Investment gains/losses	-	30,630	(30,630)
Administrative expense	-	(1,787)	1,787
Expected benefit payments	(44,151)	(44,151)	-
Actual minus expected benefit payments	1,172	1,172	-
Other **	-	1,190	(1,190)
Net changes	554,922	33,960	520,962
Balance at end of year	$ 1,955,811	994,456	961,355

Changes in net OPEB liability amounts for the year ended June 30, 2018, were as follows:

	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability
Balance at beginning of year	$ 1,310,361	906,422	403,939
Changes for the year:			
Service cost	41,320	-	41,320
Interest	91,646	-	91,646
Actual investment income	-	97,323	(97,323)
Adminstrative expenses	-	(811)	811
Benefit payments	(42,438)	(42,438)	-
Net changes	90,528	54,074	36,454
Balance at end of year	$ 1,400,889	960,496	440,393

(7) Other Post-Employment Benefits (OPEB) Plan, continued

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current discount rate:

At June 30, 2019, the discount rate comparison was the following:

	Discount Rate - 1% 6.00%	Current Discount Rate 7.00%	Discount Rate + 1% 8.00%
District's Net OPEB liability	1,307,932	961,355	720,815

At June 30, 2018, the discount rate comparison was the following:

	Discount Rate - 1% 6.00%	Current Discount Rate 7.00%	Discount Rate + 1% 8.00%
District's Net OPEB liability	644,413	440,393	271,370

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (3.00 percent) or 1-percentage-point higher (5.00 percent) than the current healthcare cost trend rates:

At June 30, 2019, the healthcare cost trend rate comparison was the following:

	1% Decrease 3.00%	Current Healthcare Cost Trend Rate 4.00%	1% Increase 5.00%
District's Net OPEB liability	731,537	961,355	1,258,674

At June 30, 2018, the healthcare cost trend rate comparison was the following:

	1% Decrease 3.00%	Current Healthcare Cost Trend Rate 4.00%	1% Increase 5.00%
District's Net OPEB liability	295,246	440,393	611,125

For the years ended June 30, 2019 and 2018, the District recognized OPEB expense of $150,323 and $36,454, respectively.

(7) Other Post-Employment Benefits (OPEB) Plan, continued

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	June 30, 2019		June 30, 2018	
Description	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
OPEB contributions subsequent to the measurement date at June 30	$ 61,487	-	57,651	-
Changes in assumptions	451,704	-	-	-
Differences between actual and expected experience	1,090	-	-	-
Investment gains and losses	-	(24,504)	-	-
Total	$ 514,281	(24,504)	57,651	-

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB, continued

At June 30, 2019, amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB to be recognized in OPEB expense in future periods:

Fiscal Year Ending June 30:	**Net, Deferred Outflows/ (Inflows) of Resources**
2020	$ 27,666
2021	27,666
2022	27,666
2023	27,666
2024	33,792
Thereafter	283,834
Total	$ 428,290

Schedule of Changes in the District's Net OPEB Liability and Related Ratios

See page 46 for the Required Supplementary Schedule.

(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 District's CalPERS 2.0% at 60 Risk Pool Retirement Plan to new employee entrants effective December 31, 2012. All employees hired after January 1, 2013, are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA. New employees that have previously participated in the Classic Plan are eligible for the District's CalPERS 2.0% at 60 Retirement Plan.

The Plan's provisions and benefits in effect at June 30, 2019, 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 service
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	6.912%	6.250%
Required employer contribution rates	7.634%	6.842%

(8) Defined Benefit Pension Plan, continued

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers to 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.

As of the fiscal years ended June 30, the contributions for the Plan were as follows:

		Miscellaneous Plan	
		2019	**2018**
Contributions – employer	$	299,379	238,735
Contributions – employee (paid by employer)		146,529	136,227
Total employer paid contributions	$	445,908	374,962

Net Pension Liability

As of the fiscal years 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	
		2019	**2018**
Miscellaneous Plan	$	2,810,828	2,851,601

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, 2018 and 2017, 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 2017, rolled forward to June 30, 2018 and June 30, 2016, rolled forward to June 30, 2017, respectively, 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 changes in the proportionate share of the pension liability for the District's Plan as of the fiscal years ended June 30, were as follows:

	Miscellaneous Plan	
	2019	**2018**
Proportion – Beginning of year	0.02875%	0.02712%
Proportion – End of year	0.02917%	0.02875%
Change – Increase (Decrease)	0.00042%	0.00163%

(8) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

As of June 30, 2019 and 2018, the District recognized pension expense of $203,898 and $306,897, respectively.

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

	June 30, 2019		June 30, 2018	
Description	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Pension contributions subsequent to the measurement date	$ 299,379	-	238,735	-
Net differences between actual and expected experience	71,144	-	-	(60,371)
Net changes in assumptions	241,898	-	519,212	-
Net differences between projected and actual earnings on plan investments	13,895	-	127,117	-
Net differences between actual contribution and proportionate share of contribution	-	(249,285)	-	(260,258)
Net adjustment due to differences in proportions of net pension liability	167,661	-	-	(74,451)
Total	$ 793,977	(249,285)	885,064	(395,080)

As of June 30 2019 and 2018, employer pension contributions of $299,379 and $238,735, were reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020 and 2019, respectively.

As of June 30, 2019, 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**
2019	$ 245,053
2020	97,611
2019	(65,640)
2022	(31,711)
2023	-
Thereafter	-

(8) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liability in the June 30, 2018 and 2017, actuarial valuation reports were determined using the following actuarial assumptions:

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

Valuation dates	June 30, 2017 and 2016
Measurement dates	June 30, 2018 and 2017
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2018 – 2.50% 2017 – 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
Period upon which actuarial Experience Survey assumptions were based	2018 – 1997–2015 2017 – 1997–2011
Post Retirement Benefit	2018 – Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter 2017 – 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.

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan.

(8) Defined Benefit Pension Plan, continued

Discount Rate, continued

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 calculated 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 expected 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.

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.

At June 30, 2019, the long-term expected real rate of return by asset class was as follows:

Asset Class	New Strategic	Real Return Years 1–10*	Real Return Year 11+**
Global Equity	50.0%	4.80%	2.98%
Global Fixed Income	28.0%	1.00%	2.62%
Inflation Sensitive	0.0%	77.00%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Infrastructure and Forestland	0.0%	0.00%	0.00%
Liquidity	1.0%	0.00%	-0.92%
Total	100.0%		

At June 30, 2018, the long-term expected real rate of return by asset class was as follows:

Asset Class	New Strategic	Real Return Years 1–10*	Real Return Year 11+**
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100.0%		

(8) Defined Benefit Pension Plan, continued

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, 2019, the discount rate comparison was the following:

	Discount Rate 1% Decrease 6.15%	Current Discount Rate 7.15%	Discount Rate 1% Increase 8.15%
District's Net pension liability	$ 4,661,357	2,810,828	1,283,246

At June 30, 2018, the discount rate comparison was the following:

	Discount Rate 1% Decrease 6.15%	Current Discount Rate 7.15%	Discount Rate 1% Increase 8.15%
District's Net pension liability	$ 4,704,346	2,851,601	1,317,124

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 47 and 48 for the Required Supplementary Schedules.

Payable to the Pension Plan

At June 30, 2019 and 2018, the District reported no payables for the outstanding amount of contribution to the pension plan, respectively.

(9) Net Investment in Capital Assets

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

	2019	2018
Capital assets:		
Capital assets – not being depreciated	$ 7,561,426	5,910,996
Capital assets, net – being depreciated	44,092,653	46,344,509
Current:		
Certificates-of-participation	(641,250)	(445,000)
Loans payable	(300,795)	(578,290)
Non-current:		
Certificates-of-participation	(28,945,378)	(16,520,000)
Loans payable	(6,484,598)	(7,601,369)
Total net investment in capital assets	$ 15,282,058	27,110,846

(10) Restricted Net Position

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

		2019	2018
Restricted – cash and cash equivalents	$	14,920,330	3,341,190
Accrued interest payable		(19,520)	(243,835)
Total restricted net position	$	14,900,810	3,097,355

(11) Unrestricted net Position

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

		2019	2018
Non-spendable net position:			
Materials and supplies inventory	$	127,366	452,221
Prepaid expenses and other deposits		612,182	613,314
Mitigation deposit – California Department of Fish and Game		120,000	120,000
Assessment bonds receivable		-	300,000
Total non-spendable net position		859,548	1,485,535
Spendable net position are designated as follows:			
Capital replacement reserve		4,888,147	5,190,194
Rate stabilization reserve		2,444,074	2,595,097
Total spendable net position		7,332,221	7,785,291
Total unrestricted net position	$	8,191,769	9,270,826

(12) Adjustment to Net Position

Other Post-employment Benefits (OPEB) – GASB 75 Implementation

In fiscal year 2018, the District implemented GASB pronouncements 74 and 75 to recognize its net other post-employment benefits (OPEB) liability. As a result of the implementation, the District recognized the OPEB liability and recorded a prior period adjustment, a decrease to net position, of $403,939 at July 1, 2017. The District recorded a prior period adjustment, a decrease to net position, to reclassify from liabilities to net position, the prior year's OPEB asset, recognized in accordance with GASB 45, of $757,065.

The adjustment to net position was as follows:

Net position at July 1, 2017, as previously stated	$	39,115,428
Effect of adjustment to record net other post-employment benefits liability		(403,939)
Effect of adjustment to remove other post-employment benefits asset under GASB 45		(757,065)
Total adjustment to net position		(1,161,004)
Net position at July 1, 2017, as restated	$	37,954,424

(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, 2019 and 2018, was $2,375,590 and $2,214,560, 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.

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. At June 30, 2019, the bond debt service was paid-in-full.

(14) Debt without District Commitment, continued

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, 2018, Assessment District 91-1 did not hold a cash balance in the Kern County Treasury. 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, 2019, 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: to a combined total coverage limit of $10,000,000 for general, auto and public officials' liability, increasing the limits on the insurance coverage noted above. Deductibles: General Liability Property Damage- $500, Auto Liability Property Damage - $1,000

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 per occurrence (pool limit), 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 (pool limit), 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.

(15) Risk Management, continued

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 2019, 2018, and 2017. 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, 2019, 2018, and 2017.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2019, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. 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. 87

In June 2017, the GASB issued Statement No. 87 – *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. 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. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period.* The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

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

Governmental Accounting Standards Board Statement No. 89, continued

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. 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. 90

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61.* The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition

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

Governmental Accounting Standards Board Statement No. 90, continued

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. 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. 91

In August 2018, the GASB issued Statement No. 91 – Conduit Debt Obligations. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

(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

Management is not aware of any other events or transactions, including estimates that provide additional evidence about conditions which existed after June 30, 2019, which require disclosure as of February 10, 2020, which is the date the financial statements were available to be issued.

Required Supplementary Information

Indian Wells Valley Water District
Schedules of Changes in the District's Net OPEB Liability and Related Ratios – Last Ten Fiscal Years*
As of June 30, 2019

		2019	2018
Total OPEB Liability			
Service cost	$	42,456	41,320
Interest		70,031	91,646
Employer contributions		-	-
Employee contributions		-	-
Assumption changes		485,414	-
Expected benefit payments		(44,151)	-
Actual minus expected benefit payments		1,172	(42,438)
Net change in total OPEB liability		554,922	90,528
Total OPEB liability – beginning		1,400,889	1,310,361
Total OPEB liability – ending	$	1,955,811	1,400,889
Plan Fiduciary Net Position			
Employer contributions	$	-	-
Employee contributions		-	-
Expected investment income		46,906	-
Investment gains/losses		30,630	-
Actual investment income		-	97,323
Adminstrative expenses		(1,787)	(811)
Expected benefit payments		(44,151)	-
Benefit payments		-	(42,438)
Actual minus expected benefit payments		1,172	-
Other **		1,190	-
Net change in plan fiduciary net position		33,960	54,074
Plan fiduciary net position – beginning		960,496	906,422
Plan fiduciary net position – ending	$	994,456	960,496
Net OPEB liability – ending	$	961,355	440,393
Covered payroll	$	2,305,138	2,156,274
Net OPEB liability as a percentage of covered payroll		41.70%	20.42%

Notes to Schedule:

** 6/30/2017 FNP adjustment

* Historical information presented above follows the measurement periods for which GASB 74 & 75 were applicable. The fiscal year ended June 30, 2018, (valuation date of June 30, 2017) was the first year of implementation required by GASB 74 & 75; therefore, only two years are shown.

Indian Wells Valley Water District
District's Proportionate Share of the Net Pension Liability – Last Ten Fiscal Years*
As of June 30, 2019

Description		Measurement Date 6/30/2018	Measurement Date 6/30/2017	Measurement Date 6/30/2016	Measurement Date 6/30/2015	Measurement Date 6/30/2014
District's Proportion of the Net Pension Liability		0.02917%	0.02875%	0.02712%	0.02292%	0.02885%
District's Proportionate Share of the Net Pension Liability	$	2,810,828	2,851,601	2,346,813	1,573,256	1,795,052
District's Covered Payroll	$	2,305,138	2,156,274	2,095,489	2,075,823	1,907,011
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll		121.94%	132.25%	111.99%	75.79%	94.13%
District's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability		79.45%	78.83%	80.54%	86.11%	83.61%

Notes:

* Historical information presented above follows the measurement periods for which GASB 68 & 71 were applicable. The fiscal year ended June 30, 2015, was the first year of implementation required by GASB 68 & 71; therefore, only five years are shown.

Indian Wells Valley Water District
Pension Plan Contributions – Last Ten Fiscal Years*
As of June 30, 2019

Schedule of Pension Plan Contributions:		Fiscal Year 2018-2019	Fiscal Year 2017-2018	Fiscal Year 2016-2017	Fiscal Year 2015-2016	Fiscal Year 2014-2015
Actuarially Determined Contribution	$	317,222	261,417	232,521	170,777	136,504
Contribution's in Relation to the Actuarially Determined Contribution		(299,379)	(238,735)	(223,955)	(171,853)	(136,504)
Contribution Deficiency (Excess)	$	17,843	22,682	8,566	(1,076)	-
Covered Payroll	$	2,305,138	2,156,274	2,095,489	2,075,823	1,907,011
Contribution's as a percentage of Covered Payroll		13.76%	12.12%	11.10%	8.23%	7.16%

Notes:

* Historical information presented above follows the measurement periods for which GASB 68 & 71were applicable. The fiscal year ended June 30, 2015, was the first year of implementation required by GASB 68 & 71; therefore, only five years are shown.

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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, 2019 and 2018, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated February 10, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit 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 audit 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 audit, 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
February 10, 2020