

**LEBEC COUNTY WATER DISTRICT**  
ANNUAL FINANCIAL REPORT  
JUNE 30, 2015

**LEBEC COUNTY WATER DISTRICT**  
**FINANCIAL AUDIT**  
**JUNE 30, 2015**

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**LEBEC COUNTY WATER DISTRICT  
FINANCIAL AUDIT  
JUNE 30, 2015**

<u>BOARD OF DIRECTORS</u>		
<b>Name</b>	<b>Office</b>	<b>Term Expires</b>
Michael Hightower	President	November 2015
Anthony Venegas	Vice President	November 2015
William Hopper	Secretary/Treasurer	November 2015
Willard Martin	Director	November 2015

<u>DISTRICT PERSONNEL</u>	
<b>Name</b>	<b>TITLE</b>
Rafael Molina	Water Operations Manager
Jessica Carroll	Office Staff
Michael Hightower Jr.	Water Operator

**Water Consumption** – The following is a summary of the number of cubic feet of water consumed and the average number of the monthly service outlets as of June 30, 2015.

Cubic Feet	7,279,834
Active Accounts	302

Michael D. Shinault, CPA, MS Taxation  
Larry G. Baker, CPA  
Justin D. Regan, CPA  
Marcela Farfan, CPA  
Daniel P. Gutierrez, CPA  
April Serrano, EA, CTRS



SHINAULT BAKER & COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER  
CALIFORNIA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To Board of Directors  
Lebec County Water District  
Lebec, CA

We have audited the accompanying financial statements of the business-type activities of the Lebec County Water District (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 business-type activities the District, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison on pages 4-7 and 18 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Operating costs is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepared the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the above mentioned supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Shinault Baker and Company  
Certified Public Accountants



Bakersfield, CA  
November , 2015

**LEBEC COUNTY WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2015**

**INTRODUCTION**

The management of the Lebec County Water District (the District) offers the following discussion and analysis as a supplement to the District's financial position and activities for the fiscal year ended June 30, 2015. This presentation is intended to enhance the readers' understanding of the financial statements which follow and should be read in conjunction with those statements and accompanying note disclosures to the financial statements.

**FINANCIAL HIGHLIGHTS**

- At June 30, 2015, the District's net position totaled \$1,150,050, reflecting a \$177,991 increase over the previous year due to a combination of acquisition of capital assets, increase in cash and cash equivalents resulting from increase in surplus water sales and decrease in expenses. Expense reduction was primarily the result of a reduction in facility maintenance expenses and outside professional maintenance fees.

**OVERVIEW OF FINANCIAL STATEMENTS**

The District's primary mission is to provide water to the customers of Lebec, California. The District does not provide other general purpose government services or programs. The District's operations and capital outlay programs are funded through rates, fees and other charges for water and water services. The District is considered to be, and therefore presents its financial report, as a stand-alone enterprise fund.

As a stand-alone enterprise fund, the District's basic financial statements consist of a Statement of Net Position, a Statement of Revenue, Expenses and Changes in Net Position and a Statement of Cash Flow. These statements, together with the Management's Discussion and Analysis, provide both short and long-term financial information about the District's financial position. Presentations of two-year comparative data in these schedules are intended to enhance the reader's ability to gauge the District's fiscal strength and provide useful trend information. Notes to the Financial Statements appear immediately following the basic financial statements.

The Statement of Cash Flow deals specifically with the flow of cash and cash equivalents arising from operating, capital and related financing and investing activities. Because the District's Statement of Revenue, Expenses and Changes in Net Position measures the flow of total economic resources, operating income usually differs from net cash flow from operations. To supplement the reader's understanding of this difference, the Statement of Cash Flow includes reconciliation between these two amounts. In accordance with accounting principles generally accepted in the United States, a reconciliation of cash and cash equivalents is also presented in this statement.

The notes to the Financial Statements provide additional information critical to the understanding of the basic financial statements.

**FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE**

**Net Position**

The District's combined net position was \$1,150,050 at June 30, 2015:

**Table 1: Net Position**

	2015	2014	Increase (Decrease)
CURRENT ASSETS	\$ 572,872	\$ 368,685	\$ 204,187
CAPITAL ASSETS, NET	<u>595,148</u>	<u>614,966</u>	<u>(19,818)</u>
TOTAL ASSETS	1,168,020	983,651	184,369
TOTAL CURRENT LIABILITIES	<u>17,970</u>	<u>11,592</u>	<u>6,378</u>
TOTAL LIABILITIES	17,970	11,592	6,378
NET POSITION			
Invested in capital assets	595,148	614,966	(19,818)
Unrestricted	<u>554,902</u>	<u>357,093</u>	<u>197,809</u>
TOTAL NET POSITION	<u>\$ 1,150,050</u>	<u>\$ 972,059</u>	<u>\$ 177,991</u>

The District's assets exceeded liabilities by \$1,150,050 at June 30, 2015, compared to \$972,059 at June 30, 2014. The District's overall financial position strengthened during this period as the board assumed management of the District's daily activities and terminated the contract of outside management services.

**Changes in Net Position**

Overall change in net position at June 30, 2015 was an increase of \$177,991.

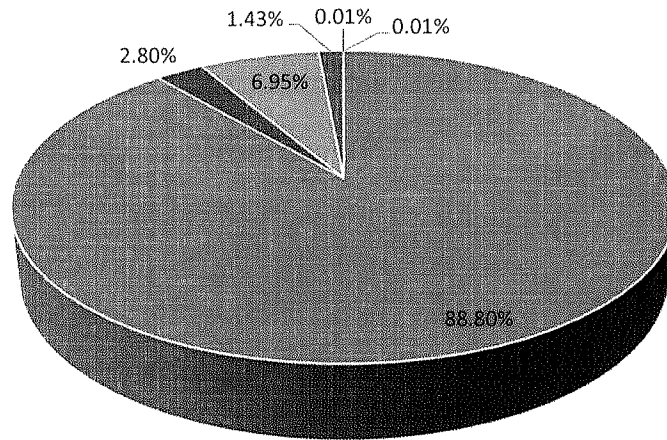
**Table 2: Changes in Net Position**

	2015	2014	Increase (Decrease)
REVENUE	\$ 544,614	\$ 572,694	\$ (28,080)
EXPENSES	<u>366,623</u>	<u>398,553</u>	<u>(31,930)</u>
NET SURPLUS/(DEFICIT)	177,991	174,141	3,850
BEGINNING NET POSITION	<u>972,059</u>	<u>797,918</u>	<u>174,141</u>
ENDING NET POSITION	<u>\$ 1,150,050</u>	<u>\$ 972,059</u>	<u>\$ 177,991</u>

The above condensed two year comparison of Revenue, Expenses and Change in Net Position, combined with the following discussion provides additional insight regarding changes in net position.

- Operating Revenues:** The District's revenues are primarily generated from sales of water to commercial and residential customers within the District's boundaries. Revenues from these sources accounted for 89% of all revenues reported by the District for the year ended June 30, 2015 with the remaining 11% coming from the County of Kern and other minor investment sources. The net decrease in revenue for 2015 when compared to 2014 is \$(28,080) which primarily is from the decrease in meter installs and late charges to customers. There was also a decline in residential revenue of \$12,010, which was primarily due to the decrease of demand during the California water crisis.

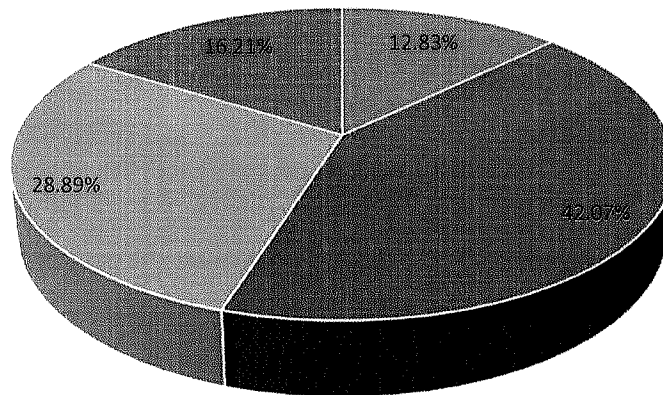
Revenue Allocation



▪ Water revenue ▪ Fees and permits ▪ Property tax ▪ Rent income ▪ Interest income ▪ Other Income

- Operating Expenses:** The District's expenses of operation were down \$31,930 in 2015 when compared to 2014. This reduction in expenses was primarily the result of terminating outside services used to manage the District's day-to-day operations in 2015. In 2015 the board of directors assigned management of the District's operations to the District's employees. Management has also been monitoring employee's overtime to ensure efficiency in the workplace, this resulted in \$22,527 in overtime savings throughout the year.

Expense Allocation



▪ Pumping ▪ Transmission and distribution ▪ General and administrative ▪ Depreciation



## Capital Assets

At June 30, 2015, the District had invested \$595,148 net of accumulated depreciation in a broad range of capital assets, including land, improvements and equipment and vehicles.

**Table 3: Capital Assets**

	2015	2014	Increase (Decreased)
LAND	\$ 15,521	\$ 15,521	\$ -
GENERAL PLANT	110,954	71,347	39,607
TRANSMISSION AND DISTRIBUTION	949,604	949,604	-
PUMPING EQUIPMENT	48,905	48,905	-
SOURCE OF SUPPLIES	162,288	162,288	-
ACCUMULATED DEPRECIATION	<u>(692,124)</u>	<u>(632,699)</u>	<u>(59,425)</u>
TOTAL	<u>\$ 595,148</u>	<u>\$ 614,966</u>	<u>\$ (19,818)</u>

## CURRENT YEAR BUDGET 2013-2014

The budget versus actual comparison can be found on page 18. For the fiscal year ended 2015, the District had an overall favorable budget variance of \$159,613 primarily due to decrease in expenses.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

At the time these financial statements were prepared and audited, the District was not aware of any circumstances that will affect its future financial health.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, customers, taxpayers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for money it receives. If you have any questions about this report, or need additional financial information, contact the Office Supervisor, Jessica Carroll at 323 Frazier Park Mountain Park Road, Lebec, CA 933243.

Jessica Carroll  
Office Supervisor

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**FINANCIAL SECTION**

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**LEBEC COUNTY WATER DISTRICT**  
**STATEMENT OF NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2015**

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$	503,478
Accounts receivable		39,501
Deposit		1,675
Inventory		<u>28,218</u>
TOTAL CURRENT ASSETS		572,872
NON-CURRENT ASSETS		
Non-depreciable		15,521
Depreciable, net		<u>579,627</u>
TOTAL NON-CURRENT ASSETS		<u>595,148</u>
TOTAL ASSETS	\$	<u><u>1,168,020</u></u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$	11,652
Other current liabilities		<u>6,318</u>
TOTAL CURRENT LIABILITIES		17,970
NET POSITION		
Invested in capital assets		595,148
Unrestricted		<u>554,902</u>
TOTAL NET POSITION	\$	<u><u>1,150,050</u></u>

**LEBEC COUNTY WATER DISTRICT**  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2015**

OPERATING REVENUE	\$	498,896
OPERATING EXPENSES		<u>366,623</u>
OPERATING INCOME		132,273
NON-OPERATING REVENUES		45,718
NON-OPERATING EXPENSES		<u>-</u>
NON-OPERATING INCOME		<u>45,718</u>
CHANGES IN NET POSITION		177,991
NET POSITION		
NET POSTION AT BEGINNING OF THE YEAR		972,059
NET POSTION AT END OF THE YEAR	\$	<u>1,150,050</u>

**LEBEC COUNTY WATER DISTRICT**  
**STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED JUNE 30, 2015**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash receipts from customers	\$ 528,418
Cash payments to employees for services	(147,950)
Cash payments to suppliers for goods and services	<u>(157,628)</u>
Net Cash provided by (used in) operating activities	222,840
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Cash receipts from tax revenue	37,863
Cash receipts from rent revenue	7,792
Cash receipts from other revenues	<u>30</u>
Net Cash provided by (used in) noncapital financing activities	45,685
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of property, plant and equipment	<u>(39,607)</u>
Net Cash provided by (used in) noncapital financing activities	(39,607)
<b>CASH FROM INVESTING ACTIVITIES</b>	
Cash receipts from interest income	<u>33</u>
Net Cash provided by (used in) investing activities	33
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	228,951
CASH AND CASH EQUIVALENTS, BEGINNING BALANCE	<u>274,527</u>
CASH AND CASH EQUIVALENTS, ENDING BALANCE	<u>\$ 503,478</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>	
Operating Income (loss)	\$ 132,273
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities	
Depreciation	59,425
(Increase) decrease in accounts receivable	29,522
(Increase) in inventory	(4,759)
Increase (decrease) in accounts payable	3,771
Increase (decrease) in accrued payroll liabilities	<u>2,608</u>
NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 222,840</u>

**LEBEC COUNTY WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Lebec County Water District (the "District") was established by local election held within the boundaries of the proposed district and by resolution of the Kern County Board of Supervisors, effective January 13, 1968, in accordance with the provisions of the County Water District Law, Division 12, Section 30,000 et seq., of the Water Code of the State of California.

The District is governed by a Board of Directors comprised of four members who are registered voters of the District. The term of office for each director is two to four years. Lebec County Water District was formed to provide for the organization and management of water works to be used for the acquisition or construction of water facilities for the distribution and sale of water. The District provides water to customers in Lebec, California.

**Component Units**

The District follows the standards promulgated by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB No. 14* and GASB Statement No. 39, *Determining Whether Certain Organizations is Component Units*, to define the reporting entity. Component units are legally separate organizations for which the District is financially accountable or other organizations whose nature and significant relationship with the District are such that exclusion would cause the District's financial statements to be misleading. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the District's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the District. The District is not a participant in any joint venture and has not identified any entities which would be component units of the District.

**Basis of Accounting and Measurement Focus, Basis of Presentation, and Financial Reporting**

**Basis of Accounting and Measurement Focus** - The basic financial statements are prepared using the "economic resource" measurement focus and the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included in the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position present increases (revenues) and decreases (expenses) in total Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which the liabilities are incurred.

**Basis of Presentation** - 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 business enterprises where the intent of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

**Financial Reporting** - The basic financial statements, which include the Statement of Net Position; the Statement of Revenues, and Changes in Net Position; the Statement of Cash Flows; and the related notes to the financial statements, report information on all of the enterprise activities of the District. These basic financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34 *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*, and related standards.

**LEBEC COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Assets, Liabilities, and Net Position

**Cash and Cash Equivalents** - For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less to be cash and cash equivalents. At June 30, 2015 cash and cash equivalents include cash in bank at California Bank & Trust.

**Accounts Receivable** - The District's historical annual experience of uncollectible accounts has been consistently small that any method calculating an allowance for uncollectible accounts results in an immaterial amount. Consequently, no provision for uncollectible accounts has been recorded; instead the District uses the direct charge off method for bad debts. The District generally reads the meters of the District's "metered" customers in the last week of the month and accounts for that revenue in the month the meter was read.

**Inventory** – Inventory consists principally of residential water meters, pipes and fittings. Inventory is valued at the lower of cost or market and using a first-in, first out (FIFO) inventory method.

**Capital Assets** – Capital assets, which include property, plant, and equipment are reported in the enterprise fund on the Statement of Net Position as non-depreciable or depreciable non-current assets. Capital Assets are defined by the District as assets with an initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Pumps and wells	25 years
Transmission	30-40 years
Storage tanks	25 years
Office equipment	5 years

**LEBEC COUNTY WATER DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Net Position** – Fund equity for an enterprise fund is classified as net position and displayed in three components:

- *Net invested in capital assets* – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to those assets.
- *Restricted net position* – Consists of net assets with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
- *Unrestricted net position* – All other assets that do not meet the definition of “restricted” or “net invested in capital assets.”

**Restricted Net Position** – Amounts shown as restricted net position have been restricted by debt agreements, by law or regulations or by contractual obligations to be used for specified purposes, such as service of debt and construction of capital assets. When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed. The District has no restricted net position at June 30, 2015.

Revenues and Expenses

**Operating and Non-operating Revenues and Expenses** – The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering water in connection with the District’s principal ongoing operations. The principal operating revenue of the District are charges to customers for sales and services. Operating expenses included the cost of the sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses on a separate line item on the Statement of Revenue, Expenses, and Changes in Net Position.

**Property Taxes** - The District is authorized to levy taxes on all taxable property within its boundaries. Property taxes are recognized as revenues in the year for which they are levied.

The property tax calendar is as follows:

Lien date:	January 1
Levy date:	July 1
Due date:	First installment - November 1 Second installment - February 1
Delinquent date :	First installment - December 10 Second installment - April 10



**LEBEC COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

The Districts cash and cash equivalents at June 30, 2015 consisted of:

Cash on hand	\$ 300
Checking account with California Bank and Trust	103,159
Savings account with California Bank and Trust	<u>400,019</u>
Total	<u>\$ 503,478</u>

**Policies and Practices** - The California Government Code requires California banks and savings and loan associations to secure the District’s cash deposits by pledging securities as collateral. The Government Code States that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of general creditor.

The fair value of pledged securities must equal at least 110 percent of the District’s cash deposits. California law also allows the institution to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of District’s total cash deposits. The District may waive collateral requirements for cash deposits that are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The District however, has not waived the collateralization requirements.

**Custodial Credit Risk – Deposits** - The District maintains its cash in a savings and a checking account with California Bank and Trust. At June 30, 2015, the District’s bank balance of \$250,000 was insured, but \$253,178 was exposed to custodial credit risk because it exceeded the FDIC insured limits and was not collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the name of the District.

**NOTE 3 – ACCOUNTS RECEIVABLE**

The District’s accounts receivable as of June 30, 2015, were categorized as follows:

Ratepayers account receivables	\$ 39,501
Total	<u>\$ 39,501</u>

**LEBEC COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**  
**NOTE 4 – CAPITAL ASSETS**

A summary of changes in capital assets are as follows:

	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015
<b>NON-DEPRECIABLE CAPITAL ASSETS:</b>				
Land	\$ 15,521	\$ -	\$ -	\$ 15,521
Total Non-Depreciable Capital Assets	<u>15,521</u>	<u>-</u>	<u>-</u>	<u>15,521</u>
<b>DEPRECIABLE CAPITAL ASSETS:</b>				
General Plant	71,347	39,607	-	110,954
Transmission and distribution	949,604	-	-	949,604
Pumping equipment	48,905	-	-	48,905
Source of supplies	162,288	-	-	162,288
Total Depreciable Capital Assets	<u>1,232,144</u>	<u>39,607</u>	<u>-</u>	<u>1,271,751</u>
<b>LESS ACCUMULATED DEPRECIATION:</b>				
General Plant	(25,791)	(17,021)	-	(42,812)
Transmission and distribution	(520,168)	(33,956)	-	(554,124)
Pumping equipment	(28,090)	(1,956)	-	(30,046)
Source of supplies	(58,650)	(6,492)	-	(65,142)
Total Accumulated Depreciation	<u>(632,699)</u>	<u>(59,425)</u>	<u>-</u>	<u>(692,124)</u>
Total Depreciable Capital Assets, Net	<u>599,445</u>	<u>(19,818)</u>	<u>-</u>	<u>579,627</u>
Total Capital Assets, Net	<u>\$ 614,966</u>	<u>\$ (19,818)</u>	<u>\$ -</u>	<u>\$ 595,148</u>

Depreciation expense for fiscal year ended June 30, 2015 was \$59,425.

**NOTE 5 - ECONOMIC AND GEOGRAPHIC DEPENDENCY**

The District relies upon ground water wells for its source of water supply. The loss of any of the larger wells could negatively impact the source of water supply and impair the District's operations. Any change in the availability of or demand for water in Lebec could negatively impact the District's operations.

**NOTE 6 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to general liability. It is the District's policy to purchase commercial insurance for risk of losses to which it is exposed.

**NOTE 7 - SUBSEQUENT EVENTS**

Subsequent events have been evaluated through November 23, 2015. There were no subsequent events identified by management which would require disclosure in the financial statements.

**LEBEC COUNTY WATER DISTRICT**  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION -**  
**BUDGET AND ACUTAL**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>	<u>Actual</u>	Variance with Final Budget Favorable
<b>OPERATING REVENUES</b>	<u>Original</u>	<u>Amounts</u>	<u>(Unfavorable)</u>
Water revenue	\$ 486,255	\$ 483,622	\$ (2,633 )
Fees and permits	-	15,274	15,274
Total Operating Revenue	486,255	498,896	12,641
<b>OPERATING EXPENSES</b>			
Pumping	50,000	47,050	2,950
Transmission and distribution	184,000	147,056	36,944
General and administrative	185,877	113,092	72,785
Depreciation expense	48,000	59,425	(11,425)
Total Operating Expenses	467,877	366,623	101,254
Operating Income	18,378	132,273	113,895
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Property tax revenue	-	37,863	37,863
Rent received	-	7,792	7,792
Interest income	-	33	33
Other income	-	30	30
Total Non-Operating Revenue (Expenses)	-	45,718	45,718
Changes in Net Position	\$ 18,378	\$ 177,991	\$ 159,613
<b>NET POSITION</b>			
	Beginning of year	<u>972,059</u>	
	End of year	<u>\$ 1,150,050</u>	

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**OTHER SUPPLEMENTARY INFORMATION**

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**LEBEC COUNTY WATER DISTRICT**  
**SCHEDULE OF OPERATING AND NON-OPERATING REVENUE**  
**FOR THE YEAR ENDED JUNE 30, 2015**

REVENUE

OPERATING REVENUE

Water Revenue		
Commercial		\$ 221,673
Residential		143,897
Surplus water		<u>118,052</u>
TOTAL WATER REVENUE		<u>483,622</u>
Fees and Permit Revenue		
Service charge		1,998
Late charges		<u>13,276</u>
TOTAL FEES AND PERMIT REVENUE		<u>15,274</u>
	TOTAL OPERATING REVENUE	<u>498,896</u>

NON-OPERATING REVENUE

Property tax revenue		37,863
Rent received		7,792
Interest income		33
Other income		2,650
Grant Income, net		<u>(2,620)</u>
	TOTAL NON-OPERATING REVENUE	<u>45,718</u>

TOTAL REVENUE		\$ <u>544,614</u>
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**LEBEC COUNTY WATER DISTRICT**  
**SCHEDULE OF OPERATING EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2015**

OPERATING EXPENSES	<u>Pumping</u>	<u>Transmission and Distribution</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and Wages	\$ -	\$ 104,780	\$ 40,579	\$ 145,359
Benefits	-	-	816	816
Supplies and services	-	40,533	70,428	110,961
Depreciation	1,956	40,448	17,021	59,425
Utilities	47,050	-	1,269	48,319
Repairs and maintenance	-	1,743	-	1,743
Total	<u>\$ 49,006</u>	<u>\$ 187,504</u>	<u>\$ 130,113</u>	<u>\$ 366,623</u>

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**OTHER INDEPENDENT AUDITOR'S REPORT**

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Lebec County Water District  
Lebec, CA 93243

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 business-type activities of Lebec County Water District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 23, 2015.

#### **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 opinions 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*.



**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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Shinault Baker and Company  
Certified Public Accountants

A handwritten signature in cursive script that reads "Shinault Baker & Co.".

Bakersfield, California

November 23, 2015

**LEBEC COUNTY WATER DISTRICT**  
**PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

**2014-1: Maintained Fixed Asset and Depreciation Schedules**

*Condition* - Fixed asset and depreciation schedules not maintained.

*Effect* – At year end, the District was not able to determine the amount of depreciation expenses to be recorded.

*Cause* – No one at the District is assigned to maintain fixed asset and depreciation schedules.

*Criteria* – Fixed assets and expenses related to fixed assets are fairly stated in accordance with generally accepted accounting principles for governmental accounting in the United States of America.

*Recommendation* - Assign staff or external bookkeeper to maintain fixed assets and depreciation schedules. Proper recording of depreciation expenses and accumulated depreciation, and disposal or impaired of fixed assets for the financial statements to be fairly stated.

*Management's Response* – Discussed with management and management will implement needed changes for fiscal year ending June 30, 2015.

*Current Status* – Outside bookkeeping service has prepared a depreciation schedule using a reputable software provider which was tested as part of the annual audit.

**2014-2: Physical Inventory Count – Property and Equipment**

*Condition* – The District does not maintain a listing of property and equipment.

*Effect* – Absent a physical count at or near year end of property and equipment could result in misstatement of fixed assets on the Statement of Net Position.

*Cause* – Listing of property and equipment could not be provided by management at June 30, 2014.

*Criteria* – Fixed assets and related expenses are fairly stated on the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position in accordance with generally accepted accounting principles for governmental accounting in the United States of America.

*Recommendation* – Annual physical observation and count of property and equipment should be performed. Verify and adjust book values to reflect physical counts.

*Management's Response* – Discussed with District Water Operations Manager in charge of property and equipment. Beginning with fiscal year ending June 30, 2015, he and his staff will perform observation and count at or near June 30<sup>th</sup>. Staff will submit the count report to the District's external bookkeeper to reconcile and adjust the District's books to reflect property and equipment on hand.

*Current Status* – Using the fixed asset and depreciation schedule provided by the District's bookkeeper, discussed at 2014-1 the District's water transmission and distribution staff physically verified the existence of said fixed assets at June 30, 2015.

**2014-3: Physical Inventory Count – Parts (i.e. Meters, pipes and fittings, etc.)**

*Condition* – District did not perform a physical count of inventory at year end.

*Effect* – \$23,460 estimated value of inventory was not recorded on the books causing a material understatement of assets on the Statement of Net Position. Transmission and distribution costs on the Statement of Revenues, Expenses, and Changes in Net Position are overstated by the same amount, therefore understating changes in net position for the fiscal year ended June 30, 2014.

*Cause* – Parts inventory should be accounted for at year end. Inventory on hand was not recorded on the books. No records were maintained from January 2014 to June 30, 2014 to determine actual details of purchase or inventory relief for use. Used last physical count in January 2014 and current market value at June 30, 2014 as best estimate of inventory value at June 30, 2014.

*Criteria* – Fairly state the value and expense related to inventory on the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

*Recommendation* – Perform physical inventory at or near June 30<sup>th</sup> of each fiscal year. Maintain inventory addition and relief for usage. Properly post adjusting journal entries to reconcile the inventory value to actual per physical count at fiscal year ending.

*Management's Response* – Discussed with District Water Operations Manager in charge of inventory. Beginning with fiscal year ending June 30, 2015, he and his staff will perform an inventory count at or near June 30<sup>th</sup> of each fiscal year ending. He will submit the Physical count report to the District's external bookkeeper to reconcile and adjust inventory per books to agree with the count on hand.

*Current Status* – Districts staff performed a physical inventory observation of parts and supplies on hand at June 30, 2015. With the assistance of the office staff, the staff valued the inventory; which the bookkeeping used to adjust District accounting records to reflect the value of inventory on hand at June 30, 2015.

**2014-4:**

**Internal Control over Cash Receipts – Collection and Bank Deposit**

*Condition* – Absence of internal control procedures over cash collections and bank deposits.

*Effect* – Increase risk of misappropriation of cash and reducing the District's ability to identify the cause for any possible misappropriation of the cash.

*Cause* – The District maintained one change drawer used by multiple staff. Bank deposits are given to field staff in unsealed envelopes for deposits and the amount handed off is not verified by neither office staff nor the field staff.

*Criteria* – Implement internal control procedures for cash collections and bank deposits.

*Recommendation* – Maintain separate change drawer for each District staff that handles cash collections. Perform cash count and have the field staff initial off the count before the bank deposit is handed to the field staff to take to the bank for deposit.

*Management's Response* – Discussed with management and management will implement needed changes for fiscal year ending June 30, 2015

*Current Status* – District office staff has been reduced to one employee who collects cash payments and posts said payments to billing system. Prepares the bank deposits which are then checked and verified by a field employee who delivers the deposit to the bank.

**2014-5: Internal Control over Cash Receipts – Cut off**

*Condition* – The District holds its cash register open for several days before closing the register in order to minimize the fees charged by the bank for deposits made.

*Effect* – Unable to determine correct cash on hand balance at June 30, 2014. Unable to determine if any cash receipts, received from June 24, 2014 to June 30, 2014 were posted in the correct accounting period. Cash and accounts receivable balances may be misstated on the Statement of Net Position.

*Cause* – The last day cash on hand counted for fiscal year ended June 30, 2014 was on June 24, 2014. The District used the bank deposit dates to record cash deposits on the books.

*Criteria* – Full accrual accounting in accordance with generally accepted accounting principles for government accounting in the United States of America requires cash receipts be recorded when received not when the bank deposits are made.

*Recommendation* – Implement control procedures to close cash register daily and reconcile the count to the cash receipt report from the RVS billing system. Date cash receipts in QuickBooks with the same date as the receipt date in the RVS billing system. Date the bank deposit receipts in QuickBooks the same date as the bank deposit slip.

*Management's Response* – Discussed with management and management will implement needed changes for fiscal year ending June 30, 2015

*Current Status* – Cash receipts are deposited more frequently and must be made after business closes on the final business day of each month.

**2014-6: Policies and Procedures for Identifying, Responding to, and Monitoring Fraud Risk**

*Condition* – District has no program or controls or formal written policy for identifying, responding to, and monitoring fraud risk.

*Effect* – Occurrence of any fraud due to misappropriation of assets or financial statement reporting will not be timely discovered and material amounts will have a negative impact on the financial health and continuance of the District.

*Cause* – No programs or control for identifying, responding to, and monitoring fraud risk.

*Criteria* – Written formal policies and procedures will provide guidance on the implementation programs and controls for identifying, responding to, and monitoring fraud risk. Existence of policies and procedures and implementing programs and controls will timely detect potential fraud due to misappropriation of assets or fraudulent financial reporting and minimize the negative financial impact on the District.

*Recommendation* – Establish formal written policies and procedures and implement program and controls for identifying, responding to, and monitoring fraud risk.

*Management's response* – Discussed with management and management will implement needed changes for fiscal year ending June 30, 2015.

*Current Status* – The District Board of Directors adopted a district-wide fraud policy and was instrumental in conveying this policy to District staff.

**2014-7:           Accrued Revenues – Cut Off**

*Condition* – Property tax and surplus water sales revenues recorded on cash basis of accounting.

*Effect* – Revenue is understated on the Statement of Revenues, Expenses, and Changes in Net Assets. Assets on the Statement of Net Position as a result of understating accounts receivable related to unrecorded revenue.

*Cause* – Property tax and surplus water sales revenues were recorded on cash basis. Audit testing resulted in a \$20,505.84 proposed adjusting journal entry for revenues earned in the fiscal year ended June 30, 2014 but was reported as revenues for the fiscal year ending June 30, 2015.

*Criteria* – Full accrual accounting in accordance with generally accepted accounting principles for government accounting in the United States of America requires revenues be accrued in the period earned not in the period when cash is received.

*Recommendation* – Accrue all revenues in period earned. Recognize cash receipts in period payment is received.

*Management's response* – Discussed with management and management will implement needed changes for fiscal year ending June 30, 2015.

*Current Status* – The District Board of Directors have worked with the county tax collector's office to obtain a better understanding of collections so that any uncollected taxes may be accrued. Surplus water sales are now billed monthly via the billing system ensuring proper cutoff and measurement.

**2014-8:           Accrued Expenses – Cut Off**

*Condition* – Expenses not accrued at fiscal year ended June 30, 2014.

*Effect* – Expenses are understated on the Statement of Revenues, Expenses, and Changes in Net Assets. Liabilities understated on the Statement of Net Position.

*Cause* – Search for unrecorded liabilities resulted in legal and repair and maintenance expense for fiscal year ended June 30, 2014 totaling \$1,893.50 were recorded as expenses for fiscal year ending June 30, 2015.

*Criteria* – Full accrual accounting in accordance with generally accepted accounting principles for government accounting in the United States of America requires expenses be accrued in the period incurred.

*Recommendation* – Accrue all expenses in the period the liability is incurred.

*Management's response* – Discussed with management and management will implement needed change for fiscal year ending June 30, 2015.

*Current Status* – The District's outside bookkeeping service holds the year-end close open longer to more fully ensure open payables at year end get reported.