



Lebec County Water District

Annual Financial Report

Fiscal year Ended June 30, 2018



TABLE OF CONTENTS

	<u>Page</u>
ORGANIZATION.....	i
INDEPENDENT AUDITORS' REPORT.....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	4
BASIC FINANCIAL STATEMENTS	
Statement of Net Position.....	11
Statement of Revenue, Expenses and Changes in Net Position.....	12
Statement of Cash Flows.....	13
Notes to the Financial Statements.....	14
REQUIRED SUPPLEMENTARY INFORMATION	
Statement of Revenue, Expenses, and Changes in Net Position – Budget to Actual	21
SUPPLEMENTARY INFORMATION	
Schedule of Operating Revenue.....	23
Schedule of Operating Expenses.....	24
REPORTING IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26
Schedule of Findings and Recommendations.....	28
Schedule of Prior Audit Findings.....	30

**LEBEC COUNTY WATER DISTRICT
ORGANIZATION
JUNE 30, 2018**

BOARD OF DIRECTORS

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Samuel Stern	President	November 2019
William Hopper	Vice President	December 2019
Carl Radusch	Director	November 2021
Patricia Maillis	Secretary/ Treasurer	December 2022
Davin Cano	Director	March 2020

DISTRICT PERSONNEL

<u>NAME</u>	<u>TITLE</u>
Michael Hightower Jr.	Water Operations Supervisor
Jessica Carroll	General Manager/ Clerk of the Board
Javier Rodriguez	Water Operator



Mayer Hoffman McCann P.C.

5060 California Ave., Suite 800 ■ Bakersfield, CA 93309
Main: 661.325.7500 ■ Fax: 661.325.7004 ■ www.mhmcpa.com

To the Board of Directors
Lebec County Water District
Lebec, California

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Lebec County Water District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lebec County Water District, as of June 30, 2018, and the changes in financial position, and its cash flows 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 information 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 an opinion on the financial statements that collectively comprise the Lebec County Water District's basic financial statements. The Schedule of Operating Revenue and the Schedule of Operating Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2019, on our consideration of the Lebec County Water 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.

Mayer Hoffman McCann P.C.

Bakersfield, CA
March 11, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

LEBEC COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS

Fiscal Year Ended June 30, 2018

INTRODUCTION

The management discussion and analysis section of the Lebec County Water District's (the "District") annual financial report provides a narrative overview of the District's financial activities and financial position for the fiscal year ended June 30, 2018. This information should be read in conjunction with the District's basic financial statements and footnotes which follows this section.

PROFILE OF THE DISTRICT

The District was formed in 1968. A Board of Directors composed of five members governs the District. The District provides water to commercial and residential customers within the District's boundaries.

FINANCIAL HIGHLIGHTS

The key financial highlights for fiscal year ended June 30, 2018 are as follows:

- Total net position of the District, the amount by which assets exceed liabilities, was \$1,156,328 as of June 30, 2018 and includes:
 - \$392,295 is the net invested in capital assets.
 - \$764,033 is unrestricted and available to meet the ongoing need of the District.
- The total net position increased by \$19,993 as compared to prior's decrease of \$77,462. While revenue remained consistent, the increase in net position is related to a decrease in expenses specifically for non-recurring write offs of obsolete supplies inventory and depreciation taken in the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's financial statements are in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. Readers should evaluate the financial statements with the accompanying Notes. The Notes to the Financial Statements are an integral part of the financial statements and provide useful explanations and detailed information on the financial statements. Management's Discussion and Analysis precedes the financial statements to provide required supplementary information to the financial statements.

LEBEC COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS

Fiscal Year Ended June 30, 2018

REQUIRED FINANCIAL STATEMENTS

The *Statement of Net Position* states the financial position of the District at June 30, 2018. This statement includes the District's assets, and liabilities, with the difference between the two reported as net position. The list of assets and liabilities are in order of their liquidity. Therefore, assets readily convertible to cash appear first.

The *Statement of Revenues, Expenses and Changes in Net Position* accounts for the annual results of operations. This statement shows the current year's revenue, expenses, capital contributions, and also calculates the change in net position. The sum of the prior year's net position balance and the current year's change in net position equals the ending net position balance. The same ending net position balance appears on the *Statement of Net Position*. Over time, changes in net position serve as a key indicator of the District's financial position.

Both the *Statement of Net Position* and the *Statement of Revenues, Expenses and Changes in Net Position* are shown using the accrual basis of accounting. This means revenues are recorded when earned and expenses are recorded when incurred regardless of the timing of cash receipts and payments.

By contrast, the *Statement of Cash Flows* presents information on changes in cash and cash equivalents during the year. The statement categorizes changes by operating activities, non-capital financing activities, capital and related financing activities and investing activities. From this statement the reader can obtain information on the sources and uses of the District's cash.

Notes to the 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 financial statements can be found on pages 14 through 19 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, the District also presents a budgetary comparison schedule as part of required supplementary information. The budgetary comparison schedule is presented on a generally accepted accounting principal basis in this section. The schedule is intended to demonstrate the District's compliance with the legally adopted and final amended budget.

The required supplementary information, budget to actual can be found on page 21 of this report.

LEBEC COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS

Fiscal Year Ended June 30, 2018

Net Positions - The following is a condensed version of the statement of net position for June 30, 2018 compared to June 30, 2017.

	<u>2018</u>	<u>2017</u>	<u>Dollar Increase (Decrease)</u>	<u>Percent</u>
Current assets	\$ 804,493	\$ 806,655	\$ (2,162)	0%
Non-current assets, capital assets, net	392,295	434,837	(42,542)	-10%
Total assets	<u>1,196,788</u>	<u>1,241,492</u>	<u>(44,704)</u>	<u>-4%</u>
Current liabilities	40,460	105,157	(64,697)	-62%
Total liabilities	<u>40,460</u>	<u>105,157</u>	<u>(64,697)</u>	<u>-62%</u>
Net position				
Net investment in capital assets	392,295	434,837	(42,542)	-10%
Unrestricted	<u>764,033</u>	<u>701,498</u>	<u>62,535</u>	<u>9%</u>
Total net position	<u>\$ 1,156,328</u>	<u>\$ 1,136,335</u>	<u>\$ 19,993</u>	<u>2%</u>

Total net position increased \$19,993 or 2% from the prior year. This increase was partly related to current decreases in non-cash expenses. Overall, the District's financial health is continuing to improve which is shown by an increase in the District's cash balances.

Changes in Net Position – The results of this fiscal year's operations as a whole are reported in the Statement of Revenues, Expenses and Change in Net Position. The following is a condensed version of the Statement of Revenues, Expenses and Change in Net Position for June 30, 2018 compared to June 30, 2017.

	<u>2018</u>	<u>2017</u>	<u>Dollar Increase (Decrease)</u>	<u>Percent</u>
Revenues				
Commercial water sales	\$ 239,201	\$ 226,051	\$ 13,150	6%
Residential water sales	151,776	153,515	(1,739)	-1%
Property taxes	41,518	40,266	1,252	3%
Grant revenue	20,014	126,261	(106,247)	100%
Other	17,859	11,881	5,978	50%
Surplus water sales	9,867	35,702	(25,835)	-72%
Rental income	7,802	8,267	(465)	-6%
Meter installation	5,000	-	5,000	0%
Total revenues	<u>493,037</u>	<u>601,943</u>	<u>(108,906)</u>	<u>-18%</u>
Expenses	<u>473,044</u>	<u>679,405</u>	<u>(206,361)</u>	<u>-30%</u>
Changes in net position	<u>\$ 19,993</u>	<u>\$ (77,462)</u>	<u>\$ 97,455</u>	<u>-126%</u>

LEBEC COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS

Fiscal Year Ended June 30, 2018

Revenue – In the fiscal year ended June 30, 2018, revenues total \$493,037, a decrease of \$108,906 or 18% over prior year. The decrease was due to lower Surplus water sales and a decrease in grant income in the current year.

Expenses – In the fiscal year ended June 30, 2018, expenses total \$473,044 a decrease of \$206,361 or 30% over prior year. The decrease was due to decreases in employee wages, decreases in non-cash expenses, and a decrease in grant expenses related to capital projects for State compliance.

CAPITAL ASSETS

At of the end of the fiscal year ended June 30, 2018, the District's capital assets, before accumulated depreciation, were \$1,267,509.

The following is a summary the capital assets, net of accumulated depreciation as of June 30, 2018:

	<u>2018</u>	<u>2017</u>	Dollar Increase (Decrease)	Percent
Land	\$ 15,521	15,521	\$ -	0%
Transmission and distribution	949,604	949,604	-	0%
Source of supplies	162,288	162,288	-	0%
General Plant	95,729	110,954	(15,225)	-14%
Pumping equipment	59,888	59,888	-	0%
Less: accumulated depreciation	<u>(890,735)</u>	<u>(863,418)</u>	<u>(27,317)</u>	<u>3%</u>
	<u>\$ 392,295</u>	<u>434,837</u>	<u>\$ (42,542)</u>	<u>-11%</u>

BUDGET TO ACTUAL

The District collected approximately \$5,600 more in revenue as compared with the budget. Actual revenue figures may vary from what was estimated in the budget. Operating expenses were budgeted at \$470,350, and actual operating expenses fell below the budget by \$19,900. The budget versus actual comparison can be found on page 21.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The District remains dependent on residential and commercial water sales which are the District's primary source of revenue. This revenue source is economically sensitive to water prices and subject to slowdowns in the economy and legislative appropriations.

The District is committed to maintain a cash reserve for operations in the amount of \$120,000 each year, both for financial stability and in anticipation of the capital and ongoing operational needs of the District. For the fiscal year ended June 30 2019, budgeted General Fund expenditures are balanced with anticipated revenues \$460,000.

LEBEC COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS

Fiscal Year Ended June 30, 2018

The budget for the fiscal year ended June 30, 2019 includes:

- Expect an increase in payroll and payroll related expenses as a result of pay raises and an increased need for outside services. Total payroll expenses are budgeted to increase by approximately \$14,000.
- Expect an increase in equipment rental expense as a result of an increased need for equipment in the District office. Total equipment rental expenses are budgeted to increase by \$7,000.
- Expect a slight increase in health insurance expenses due to increased health insurance premiums. Total health insurance expenses are budgeted to increase by \$1,000.
- Expect a decrease in grant income of approximately \$20,000 and a related decrease in grant expense of approximately \$20,000.
- Expect the compensation of the board to remain consistent.

CONTACTING THE DISTRICT

The District's financial report is designed to provide the District's Board of Directors, management, creditors, legislative and oversight agencies, citizens and customers with an overview of the Lebec County Water District's finances and to demonstrate its accountability for funds received. For additional information about this report, please contact:

Jessica Carroll, General Manager
323 Frazier Mountain Park Road
Lebec, California 93243

BASIC FINANCIAL STATEMENTS

LEBEC COUNTY WATER DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	716,440
Accounts receivable		42,319
Prepaid Items		1,104
Deposits		1,000
Inventory		43,630
TOTAL CURRENT ASSETS		<u>804,493</u>

NONCURRENT ASSETS

Capital assets not being depreciated		15,521
Depreciable capital assets, net		376,774
TOTAL NONCURRENT ASSETS		<u>392,295</u>
TOTAL ASSETS		<u>1,196,788</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable		27,858
Other current liabilities		12,602
TOTAL CURRENT LIABILITIES		<u>40,460</u>

NET POSITION

Net investment in capital assets		392,295
Unrestricted		764,033
TOTAL NET POSITION		<u>1,156,328</u>
TOTAL LIABILITIES AND NET POSITION	\$	<u>1,196,788</u>

See Accompanying Notes to Financial Statements

LEBEC COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
FISCAL YEAR ENDED JUNE 30, 2018

Operating revenues	
Water revenue	\$ 400,844
Fees and permits	<u>22,799</u>
Total operating revenues	<u>423,643</u>
Operating expenses	
Transmission and distribution	223,889
General and administrative	135,951
Depreciation expense	47,109
Pumping	<u>43,535</u>
Total operating expenses	<u>450,484</u>
Operating loss	<u>(26,841)</u>
Non-operating revenues	
Property tax revenue	41,518
Grant revenue	20,014
Rent received	7,802
Interest income	<u>60</u>
Total non-operating revenues	<u>69,394</u>
Non-operating expense	
Grant expense	20,043
Loss on sale of asset	2,490
Interest expense	<u>27</u>
Total non-operating expense	<u>22,560</u>
Change in net position	19,993
Net position at beginning of year	<u>1,136,335</u>
Net position at end of year	<u>\$ 1,156,328</u>

See Accompanying Notes to Financial Statements

LEBEC COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 425,494
Cash paid to suppliers	(228,475)
Cash paid to employees	(172,670)
	<hr/>
NET CASH FLOWS FROM OPERATING ACTIVITIES	24,349

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Grant funds used	(98,793)
Grant funds received	98,764
Cash received from property taxes	41,518
Cash received from rent	7,802
	<hr/>
NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	49,291

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of capital assets	(13,557)
Sale of capital assets	6,500
Cash receipt from interest income	33
	<hr/>
NET CASH FLOWS FROM INVESTING ACTIVITIES	(7,024)

INCREASE IN CASH AND CASH EQUIVALENTS 66,616

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

649,824

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 716,440

RECONCILIATION OF OPERATING LOSS TO NET

CASH FLOWS FROM OPERATING ACTIVITIES:

Operating loss	\$ (26,841)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	47,109
Change in assets and liabilities:	
Decrease in accounts receivable	801
Increase in inventory	(11,826)
Decrease in prepaids	1,053
Increase in accounts payable	14,091
Decrease in other current liabilities	(38)
	<hr/>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 24,349</u>

See Accompanying Notes to Financial Statements

LEBEC COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018

(1) Nature of operations and basis of accounting

Nature of operations - 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 five members who are registered voters of the District. The term of office for each director is two to four years. The 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.

Basis of accounting - The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The District reports its activities as an enterprise fund. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

(2) Summary of significant accounting policies

The accounting principles of the District conform to generally accepted accounting principles applicable to government – type organizations. The following is a summary of the District's significant accounting policies:

Component units - Under the provisions of these statements, the District is considered a primary government, since it is a special purpose government that has a separate governing body, is legally separate, and is fiscally independent of other state or local governments. The District designates its own governing board and management. The County of Kern is not financially accountable for the District as it cannot impose its will on the District, and there is no potential for the District to provide financial benefits to, or impose financial burdens on, the County of Kern. Accordingly, the District is not a component unit of the financial reporting entity of the County of Kern.

LEBEC COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018

(2) **Summary of significant accounting policies, (continued)**

Operating and non-operating activities - Enterprise funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal operations. The principal operating revenues of the District consist of water sales. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Property taxes - The District is authorized to levy taxes on all taxable property within its boundaries for the purposes of carrying on its operations and paying its obligations, subject to certain limitations in the Water Code, the Revenue and Taxation Code, and the California Constitution.

Property taxes are levied annually by the District's Board of Directors as of July 1, using a lien date of January 1, and are payable by property owners in two equal installments, which are due by December 1 and February 1. The taxes levied are billed and collected by the County of Kern and are remitted to the District throughout the year. Property taxes are recognized as revenues in the year for which they are levied.

Financial reporting - The basic financial statements, which include the Statement of Net Position; the Statement of Revenues, Expenses 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.

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, 2018 cash and cash equivalents include cash in bank.

Accounts receivable - The District's historical annual experience of uncollectible accounts has been consistently small, therefore any method used in calculating an allowance for uncollectible accounts results in an insignificant 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 net realizable value using a first-in, first out ("FIFO") inventory method.

LEBEC COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018

(2) Summary of significant accounting policies, (continued)

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.

Depreciable capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Lives</u>
Transmission and distribution	25-40 years
Source of supplies	25 years
General plant	5 years
Pumping equipment	25 years

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

- *Net investment in capital assets* – Consists of capital assets, net of accumulated depreciation, 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 investment 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, 2018.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) 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.

LEBEC COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018

(2) Summary of significant accounting policies, (continued)

Concentrations of credit risk – As of June 30, 2018 the District had two customers, with an uncollateralized accounts receivable balance in excess of 10% of total outstanding accounts receivable. The amount of these account balances is 27% (11% and 16%).

(3) Cash and cash equivalents

The Districts cash and cash equivalents at June 30, 2018 consisted of:

Cash on hand	\$	300
Deposits with financial institutions		716,140
Total		\$ 716,440

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 - 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 District maintains its cash in a savings and a checking account with California Bank and Trust. At June 30, 2018, the District’s bank balance of \$250,000 was insured, but \$466,140 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, and not in the name of the District.

LEBEC COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018

(4) Accounts receivable

The District's accounts receivable as of June 30, 2018, were categorized as follows:

Ratepayers account receivables (operating)	\$ 39,569
Grant receivable (non-operating)	2,750
Total	<u>\$ 42,319</u>

(5) Capital assets

Capital asset activity for the year ended June 30, 2018 is as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2018</u>
Non-depreciable capital assets				
Land	\$ 15,521	\$ -	\$ -	\$ 15,521
Total non-depreciable capital assets	<u>15,521</u>	<u>-</u>	<u>-</u>	<u>15,521</u>
Depreciable capital assets				
Transmission and distribution	949,604	-	-	949,604
Source of supplies	162,288	-	-	162,288
General Plant	110,954	13,557	(28,782)	95,729
Pumping equipment	59,888	-	-	59,888
Total depreciable capital assets	<u>1,282,734</u>	<u>13,557</u>	<u>(28,782)</u>	<u>1,267,509</u>
Less: accumulated depreciation				
Transmission and distribution	(672,016)	(31,347)	-	(703,363)
Source of supplies	(84,553)	(4,674)	-	(89,227)
General Plant	(71,522)	(9,383)	(19,792)	(61,113)
Pumping equipment	(35,327)	(1,705)	-	(37,032)
Total accumulated depreciation	<u>(863,418)</u>	<u>(47,109)</u>	<u>(19,792)</u>	<u>(890,735)</u>
 Total depreciable capital assets, net	 419,316	 (33,552)	 (48,574)	 376,774
Total capital assets, net	<u>\$ 434,837</u>	<u>\$ (33,552)</u>	<u>\$ (48,574)</u>	<u>\$ 392,295</u>

Depreciation expense for the year ended June 30, 2018 was \$47,109.

(6) 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.

LEBEC COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2018

(7) Commitments

Commencing on March 1, 2013, the Organization entered into a 60-month lease agreement for a printer. The monthly rent amount is \$90 per month, including personal property tax and repairs and maintenance. The Lease agreement ended in February 2018. For the year ended June 30, 2018, equipment rental expense was \$1,778.

(8) Retirement Plans

Effective July 1, 2016, the District began sponsoring a SIMPLE Individual Retirement Account ("IRA") with Wells Fargo Financial Services for employees. Employees meeting certain service requirements may contribute up to 100% of their compensation to the IRA, not to exceed \$5,500 annually. The District elected to contribute 2% of employee compensation regardless of employee contributions. The District contributions for the year ended June 30, 2018 were \$3,274.

(9) Subsequent events

The District has evaluated subsequent events through March 11, 2019, the date on which the financial statements were available to be issued. There were no subsequent events identified by management which would require disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

LEBEC COUNTY WATER DISTRICT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION – BUDGET AND ACTUAL

JUNE 30, 2018

	Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
Operating revenues			
Water revenue	\$ 405,000	\$ 400,844	\$ (4,156)
Fees and permits	13,000	22,799	9,799
Total operating revenues	<u>418,000</u>	<u>423,643</u>	<u>5,643</u>
Operating expenses			
Transmission and distribution	214,000	223,889	(9,889)
General and administrative	157,000	135,951	21,049
Depreciation expense	56,000	47,109	8,891
Pumping	43,000	43,535	(535)
Total operating expenses	<u>470,000</u>	<u>450,484</u>	<u>19,516</u>
Operating income	<u>(52,000)</u>	<u>(26,841)</u>	<u>25,159</u>
Non-operating revenues			
Property tax revenue	41,000	41,518	518
Rent received	8,300	7,802	(498)
Interest income	60	60	-
Grant revenue	-	20,014	20,014
Total non-operating revenues	<u>49,360</u>	<u>69,394</u>	<u>20,034</u>
Non-operating expense			
Grant expense	-	20,043	(20,043)
Total non-operating expense	<u>-</u>	<u>22,560</u>	<u>(22,560)</u>
Change in net position	<u>(2,640)</u>	<u>19,993</u>	<u>22,633</u>
Net position at beginning of year	<u>1,136,335</u>	<u>1,136,335</u>	<u>-</u>
Net position at end of year	<u>\$ 1,133,695</u>	<u>\$ 1,156,328</u>	<u>\$ 22,633</u>

SUPPLEMENTARY INFORMATION

LEBEC COUNTY WATER DISTRICT
SCHEDULE OF OPERATING REVENUE

FISCAL YEAR ENDED JUNE 30, 2018

OPERATING REVENUE

Water revenue	
Commercial water sales	\$ 239,201
Residential water sales	151,776
Surplus water sales	9,867
Total water revenue	<u>400,844</u>
 Fees and permit revenue	
Late charges	16,311
Service charge	6,488
Total fees and permit revenue	<u>22,799</u>
 TOTAL OPERATING REVENUE	 <u><u>\$ 423,643</u></u>

	<u>Transmission and distribution</u>	<u>General and administrative</u>	<u>Pumping</u>	<u>Depreciation</u>	<u>Total</u>
OPERATING EXPENSES					
Salaries and wages	\$ 123,881	\$ 59,330	\$ -	\$ -	\$ 183,211
Supplies and Services	99,896	58,548	-	-	158,444
Utilities	-	1,597	43,535	-	45,132
Benefits	-	16,476	-	-	16,476
Repairs and Maintenance	112	-	-	-	112
Depreciation	-	-	-	47,109	47,109
Total operating expenses	<u>\$ 223,889</u>	<u>\$ 135,951</u>	<u>\$ 43,535</u>	<u>\$ 47,109</u>	<u>\$ 450,484</u>

REPORTING IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



5060 California Ave., Suite 800 ■ Bakersfield, CA 93309
Main: 661.325.7500 ■ Fax: 661.325.7004 ■ www.mhmcpa.com

Board of Directors
Lebec County Water District
Lebec, California

**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**

Independent Auditors' Report

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 Lebec County Water District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 11, 2019.

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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies that we consider to be material weaknesses. We consider the deficiency described in the accompany schedule of findings and recommendations to be a significant deficiency (See 2018-1).

Compliance and Other Matters

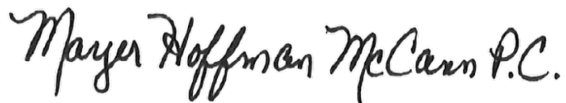
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." in a cursive style.

Bakersfield, California
March 11, 2019

LEBEC COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2018

(A) Summary of auditors' results

1. An unmodified opinion was issued by the auditors on the financial statements of the auditee.
2. The audit disclosed a significant deficiency in internal control over financial reporting.
3. The audit disclosed no noncompliance which is material to the financial statements of the auditee.
4. The auditee did not meet the criteria to require a single audit for the year ended June 30, 2018.

(B) Findings related to the financial statements which are required to be reported in accordance with GAGAS

2018-1 Preparation of financial statements

Condition: For convenience and efficiency, Management relies on the external auditor to assist in preparing the financial statements.

Criteria: Mayer Hoffman McCann P.C. ("MHM") prepared and drafted the financial statements and footnotes for the District. Upon completion, a draft of the financial statements is submitted to the District's management for review and approval. This service is performed as a convenience to management. Management accepts the responsibility to establish and maintain effective internal controls over financial reports and to adjust the financial statements and footnotes prepared by MHM in order to correct any material mistakes.

Effect: MHM assisted with the preparation of the financial statements, which is a less effective of a control than performing the reporting function internally.

Cause: Management relies upon MHM to draft the financial statements as a convenience to management.

Recommendation: We recommend that the District identify a member of Management to take over the responsibility of financial reporting.

Management's Comments Regarding Corrective Actions Planned: Management appreciates this recommendation and will review this requirement and develop and implement the appropriate policy.

2018-2 Consistency with audited financial statements

Condition: Beginning net assets balance per the general ledger did not agree to the audited financial statements.

Criteria: Upon initial review of the trial balance, we noted that beginning net assets in proprietary funds did not agree to the audit financial statements.

LEBEC COUNTY WATER DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2018

Effect: Failing to appropriately post adjusting and closing entries can lead to potential misstatements in the financial records of the District.

Cause: This occurred because there is no procedure in place to ensure account balances agree to audited financial statements.

Recommendation: We recommend that year end account balances be compared to the audited financial statements to ensure consistency.

Management's Comments Regarding Corrective Actions Planned: Management appreciates this recommendation and will review this requirement and develop and implement the appropriate policy.

LEBEC COUNTY WATER DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS

Fiscal Year Ended June 30, 2018

2017-1 Preparation of inventory schedule

Condition: Management did not have a process in place to ensure the year-end inventory schedule was properly prepared, and reviewed for clerical accuracy and reasonableness.

Criteria: While testing inventory, we noted obsolete items in the June 30, 2017 inventory schedule.

Effect: These errors resulted in an adjustment to the June 30, 2017 inventory balance.

Cause: Procedures to review and update the inventory listing are not in place.

Recommendation: Inventory should be counted on a regular basis, but at a minimum annually. After the count is performed, the inventory listing should be updated accordingly. After the inventory listing is prepared, it should be reviewed for clerical accuracy and reasonableness, and then reconciled to the trial balance. Not reviewing and monitoring the inventory schedules appropriately may lead to misstatements in the financial statements and possible misappropriation of assets.

Management's Comments Regarding Corrective Actions Planned: Management appreciates this recommendation and will review this requirement and develop and implement the appropriate policy.

Current Status: Management has implemented a process to ensure the year-end inventory schedule is properly prepared, however, the listing is not updated with the addition or use of supplies inventory. See the Auditors' Communication of Internal Control Matters for the recommendation with regards to maintaining a perpetual inventory system.

2017-2 Preparation of financial statements

Condition: For convenience and efficiency, Management relies on the external auditor to assist in preparing the financial statements.

Criteria: Mayer Hoffman McCann P.C. ("MHM") prepared and drafted the financial statements and footnotes for the District. Upon completion, a draft of the financial statements is submitted to the District's management for review and approval. This service is performed as a convenience to management. Management accepts the responsibility to establish and maintain effective internal controls over financial reports and to adjust the financial statements and footnotes prepared by MHM in order to correct any material mistakes.

Effect: MHM assisted with the preparation of the financial statements, which is a less effective of a control than performing the reporting function internally.

Cause: Management relies upon MHM to draft the financial statements as a convenience to management.

Recommendation: We recommend that the District identify a member of Management to take over the responsibility of financial reporting.

LEBEC COUNTY WATER DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS

Fiscal Year Ended June 30, 2018

Management's Comments Regarding Corrective Actions Planned: Management appreciates this recommendation and will review this requirement and develop and implement the appropriate policy.

Current Status: The District has not implemented a policy related to preparation of the financial statements, see 2018-1 for the current year finding and recommendation.

2016-4 Preparation of financial statements

Condition: Grant income should be recognized when all eligibility requirements are met, independent of when payment is received.

Criteria: During our testing of grant income and expenses, we noted that certain grant income that met all eligibility requirements was not recorded in the current year (cash was not received in fiscal year 2016 but revenue should have been recognized).

Effect: This resulted in an adjustment to record the income in the proper period.

Cause: This occurred because proper cut-off procedures were not performed at the end of the fiscal year.

Recommendation: We recommend that an analysis and cut-off procedures be applied to grant revenue to ensure that income is reported in the proper period. Failure to properly report in the appropriate period can lead to potential material misstatements in the financial statements.

Management's Comments Regarding Corrective Actions Planned: Management appreciates this recommendation and will review this requirement and develop and implement the appropriate policy.

Current Status: The District has not implemented new procedures related to the recording of grant income. MHM proposed an entry for grant income during the 2018 audit, similar to the one posted during the 2016 and 2017 audits.