



Lebec County Water District

Annual Financial Report

Fiscal year Ended June 30, 2017



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**LEBEC COUNTY WATER DISTRICT
ORGANIZATION
JUNE 30, 2017**

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

DISTRICT PERSONNEL

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



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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, 2017, 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.



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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, 2017, 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 August 17, 2018, 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
August 17, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

LEBEC COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS

Fiscal Year Ended June 30, 2017

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, 2017. 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, 2017 are as follows:

- Total net position of the District, the amount by which assets exceed liabilities, was \$1,136,335 as of June 30, 2017 and includes:
 - \$434,837 is the net invested in capital assets.
 - \$701,498 is unrestricted and available to meet the ongoing need of the District.
- The total net position decreased by \$77,462 as compared to prior's increase of \$27,629. This decrease represents slower growth than in prior years which was partly related to a write off of obsolete supplies inventory.

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's financial statements are in conformity with accounting principles generally accepted in the United States ("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, 2017

REQUIRED FINANCIAL STATEMENTS

The *Statement of Net Position* states the financial position of the District at June 30, 2017. 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, 2017

Net Positions - The following is a condensed version of the statement of net position for June 30, 2017 compared to June 30, 2016.

	<u>2017</u>	<u>2016</u>	<u>Dollar Increase (Decrease)</u>	<u>Percent</u>
Current assets	\$ 806,655	\$ 729,345	\$ 77,310	11%
Non-current assets, capital assets, net	434,837	525,824	(90,987)	-17%
Total assets	<u>1,241,492</u>	<u>1,255,169</u>	<u>(13,677)</u>	<u>-1%</u>
Current liabilities	105,157	41,372	63,785	154%
Total liabilities	<u>105,157</u>	<u>41,372</u>	<u>63,785</u>	<u>154%</u>
Net position				
Net investment in capital assets	434,837	525,824	(90,987)	-17%
Unrestricted	701,498	687,973	13,525	2%
Total net position	<u>\$ 1,136,335</u>	<u>\$ 1,213,797</u>	<u>\$ (77,462)</u>	<u>-6%</u>

Total net position decreased \$77,462 or 6% from the prior year. This decrease was partly related to current increases in non-cash expenses and a write off of obsolete supplies inventory. 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, 2017 compared to June 30, 2016.

	<u>2017</u>	<u>2016</u>	<u>Dollar Increase (Decrease)</u>	<u>Percent</u>
Revenues				
Commercial water sales	\$ 226,051	\$ 197,180	\$ 28,871	15%
Residential water sales	153,515	138,672	14,843	11%
Grant revenue	126,261	46,111	80,150	100%
Property taxes	40,266	38,536	1,730	4%
Surplus water sales	35,702	26,409	9,293	35%
Other	11,881	14,814	(2,933)	-20%
Rental income	8,267	8,026	241	3%
Total revenues	<u>601,943</u>	<u>469,748</u>	<u>132,195</u>	<u>28%</u>
Expenses	<u>679,405</u>	<u>442,119</u>	<u>237,286</u>	<u>54%</u>
Changes in net position	<u>\$ (77,462)</u>	<u>\$ 27,629</u>	<u>\$ (105,091)</u>	<u>-380%</u>

LEBEC COUNTY WATER DISTRICT
MANAGEMENT’S DISCUSSION & ANALYSIS

Fiscal Year Ended June 30, 2017

Revenue – In the fiscal year ended June 30, 2017, revenues total \$601,943, an increase of \$132,195 or 28% over prior year. The increase was due to higher Commercial and Surplus water sales and by an increase in grant income in the current year.

Expenses – In the fiscal year ended June 30, 2017, expenses total \$679,405, an increase of \$237,286 or 54% over prior year. The increase was due to increases in employee wages, increase in grant expenses related to capital projects for State compliance, and a write off of obsolete supplies inventory.

CAPITAL ASSETS

At of the end of the fiscal year ended June 30, 2017, the District’s capital assets, before accumulated depreciation, were \$1,298,255.

The following is a summary the capital assets, net of accumulated depreciation as of June 30, 2017:

	2017	2016	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	110,954	110,954	-	0%
Pumping equipment	59,888	48,905	10,983	22%
Less: accumulated depreciation	(863,418)	(761,448)	(101,970)	13%
	<u>\$ 434,837</u>	<u>\$ 525,824</u>	<u>\$ (90,987)</u>	<u>36%</u>

BUDGET TO ACTUAL

The District collected approximately \$3,800 less in revenue as compared with the budget. Actual revenue figures may vary from what was estimated in the budget. Operating expenses were budgeted at \$464,200, and actual operating expenses exceeded the budget by \$88,600. 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 2018, budgeted General Fund expenditures are balanced with anticipated revenues \$467,000.

LEBEC COUNTY WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS

Fiscal Year Ended June 30, 2017

The budget for the fiscal year ended June 30, 2018 includes:

- Expect a decrease in payroll and payroll related expenses as a result of a decreased need for outside services. Total payroll expenses are budgeted to decrease by \$15,000.
- Expect a slight increase in health insurance expenses due to a change the District's payment of employee health insurance premiums. Total health insurance expenses are budgeted to increase by \$1,000.
- Expect a slight increase in professional services to cover the additional engineering services relating to current capital projects.
- 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, 2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 649,824
Accounts receivable	121,870
Prepaid Items	2,157
Deposits	1,000
Inventory	31,804
TOTAL CURRENT ASSETS	<u>806,655</u>

NONCURRENT ASSETS

Capital assets not being depreciated	15,521
Depreciable capital assets, net	<u>419,316</u>
TOTAL NONCURRENT ASSETS	<u>434,837</u>
TOTAL ASSETS	<u>1,241,492</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	92,517
Other current liabilities	<u>12,640</u>
TOTAL CURRENT LIABILITIES	<u>105,157</u>

NET POSITION

Net investment in capital assets	434,837
Unrestricted	<u>701,498</u>
TOTAL NET POSITION	<u>1,136,335</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,241,492</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, 2017

Operating revenues	
Water revenue	\$ 415,268
Fees and permits	<u>11,826</u>
Total operating revenues	<u>427,094</u>
Operating expenses	
Transmission and distribution	264,783
General and administrative	141,816
Depreciation expense	101,970
Pumping	<u>44,227</u>
Total operating expenses	<u>552,796</u>
Operating loss	<u>(125,702)</u>
Non-operating revenues	
Grant revenue	126,261
Property tax revenue	40,266
Other Income	-
Rent received	8,267
Interest income	<u>55</u>
Total non-operating revenues	<u>174,849</u>
Non-operating expense	
Grant expense	<u>126,609</u>
Total non-operating expense	<u>126,609</u>
Change in net position	(77,462)
Net position at beginning of year	<u>1,213,797</u>
Net position at end of year	<u><u>\$ 1,136,335</u></u>

See Accompanying Notes to Financial Statements

LEBEC COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 433,341
Cash paid to suppliers	(220,810)
Cash paid to employees	<u>(199,675)</u>

NET CASH FLOWS FROM OPERATING ACTIVITIES 12,856

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Grant funds used	(59,147)
Grant funds received	58,799
Cash received from property taxes	40,266
Cash received from rent	<u>8,267</u>

NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES 48,185

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of capital assets	(10,983)
Cash receipt from interest income	<u>55</u>

NET CASH FLOWS FROM INVESTING ACTIVITIES (10,928)

INCREASE IN CASH AND CASH EQUIVALENTS 50,113

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 599,711

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 649,824

RECONCILIATION OF OPERATING LOSS TO NET

CASH FLOWS FROM OPERATING ACTIVITIES:

Operating loss	\$ (125,702)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	101,970
Change in assets and liabilities:	
Increase accounts receivable	(367)
Decrease in inventory	42,114
Decrease in deposits	675
Increase in prepaids	(2,157)
Decrease in accounts payable	(10,291)
Increase in other current liabilities	<u>6,614</u>

NET CASH FLOWS FROM OPERATING ACTIVITIES \$ 12,856

See Accompanying Notes to Financial Statements

LEBEC COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2017

(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 four 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, 2017

(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 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, 2017 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, 2017

(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, 2017.

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, 2017

(3) Cash and cash equivalents

The Districts cash and cash equivalents at June 30, 2017 consisted of:

Cash on hand	\$ 300
Deposits with financial institutions	649,524
Total	\$ 649,824

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, 2017, the District's bank balance of \$250,000 was insured, but \$399,524 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.

(4) Accounts receivable

The District's accounts receivable as of June 30, 2017, were categorized as follows:

Ratepayers account receivables (operating)	\$ 40,370
Grant receivable (non-operating)	81,500
Total	\$ 121,870

LEBEC COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2017

(5) Capital assets

Capital asset activity for the year ended June 30, 2017 is as follows:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2017</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	-	-	110,954
Pumping equipment	48,905	10,983	-	59,888
Total depreciable capital assets	<u>1,271,751</u>	<u>10,983</u>	<u>-</u>	<u>1,282,734</u>
Less: accumulated depreciation				
Transmission and distribution	(596,651)	(75,365)	-	(672,016)
Source of supplies	(72,668)	(11,885)	-	(84,553)
General Plant	(59,617)	(11,905)	-	(71,522)
Pumping equipment	(32,512)	(2,815)	-	(35,327)
Total accumulated depreciation	<u>(761,448)</u>	<u>(101,970)</u>	<u>-</u>	<u>(863,418)</u>
 Total depreciable capital assets, net	 <u>510,303</u>	 <u>(90,987)</u>	 <u>-</u>	 <u>419,316</u>
Total capital assets, net	<u>\$ 525,824</u>	<u>\$ (90,987)</u>	<u>\$ -</u>	<u>\$ 434,837</u>

Depreciation expense for the year ended June 30, 2017 was \$101,970.

(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.

(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 ends in February 2018. Future minimum lease commitments under noncancellable operating lease are \$720 for the year ended June 30, 2018. For the year ended June 30, 2017, equipment rental expense was \$1,627.

LEBEC COUNTY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2017

(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 years ended June 30, 2017 were \$3,235.

(9) Subsequent events

The District has evaluated subsequent events through August 17, 2018, 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, 2017

	Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
Operating revenues			
Water revenue	\$ 415,800	\$ 415,268	\$ (532)
Fees and permits	15,100	11,826	(3,274)
Total operating revenues	<u>430,900</u>	<u>427,094</u>	<u>(3,806)</u>
Operating expenses			
Transmission and distribution	199,673	264,783	(65,110)
General and administrative	149,527	141,816	7,711
Depreciation expense	70,000	101,970	(31,970)
Pumping	45,000	44,227	773
Total operating expenses	<u>464,200</u>	<u>552,796</u>	<u>(88,596)</u>
Operating income	<u>(33,300)</u>	<u>(125,702)</u>	<u>(92,402)</u>
Non-operating revenues			
Grant revenue	-	126,261	126,261
Property tax revenue	38,000	40,266	2,266
Other Income	-	-	-
Rent received	8,100	8,267	167
Interest income	-	55	55
Total non-operating revenues	<u>46,100</u>	<u>174,849</u>	<u>128,749</u>
Non-operating expense			
Grant expense	-	126,609	(126,609)
Total non-operating expense	<u>-</u>	<u>126,609</u>	<u>(126,609)</u>
Change in net position	12,800	(77,462)	(90,262)
Net position at beginning of year	<u>1,213,797</u>	<u>1,213,797</u>	<u>-</u>
Net position at end of year	<u>\$ 1,226,597</u>	<u>\$ 1,136,335</u>	<u>\$ (90,262)</u>

SUPPLEMENTARY INFORMATION

LEBEC COUNTY WATER DISTRICT
SCHEDULE OF OPERATING REVENUE
FISCAL YEAR ENDED JUNE 30, 2017

OPERATING REVENUE	
Water revenue	
Commercial water sales	\$ 226,051
Residential water sales	153,515
Surplus water sales	<u>35,702</u>
Total water revenue	415,268
Fees and permit revenue	
Late charges	10,250
Service charge	<u>1,576</u>
Total fees and permit revenue	11,826
TOTAL OPERATING REVENUE	<u><u>\$ 427,094</u></u>

LEBEC COUNTY WATER DISTRICT
SCHEDULE OF OPERATING EXPENSES
FISCAL YEAR ENDED JUNE 30, 2017

OPERATING EXPENSES	<u>Transmission and distribution</u>	<u>General and adminstrative</u>	<u>Pumping</u>	<u>Depreciation</u>	<u>Total</u>
Salaries and wages	\$ 136,881	\$ 61,520	\$ -	\$ -	\$ 198,401
Supplies and Services	123,062	61,071	-	-	184,133
Utilities	-	1,575	44,227	-	45,802
Benefits	-	17,650	-	-	17,650
Repairs and Maintenance	4,840	-	-	-	4,840
Depreciation	-	-	-	101,970	101,970
Total operating expenses	<u>\$ 264,783</u>	<u>\$ 141,816</u>	<u>\$ 44,227</u>	<u>\$ 101,970</u>	<u>\$ 552,796</u>

LEBEC COUNTY WATER DISTRICT
REPORTING IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Fiscal Year Ended June 30, 2017