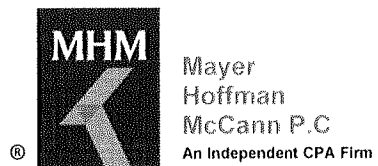


**LEBEC COUNTY WATER DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
FISCAL YEAR ENDED JUNE 30, 2016



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**LEBEC COUNTY WATER DISTRICT  
ORGANIZATION  
JUNE 30, 2016**

**BOARD OF DIRECTORS**

<b><u>NAME</u></b>	<b><u>OFFICE</u></b>	<b><u>TERM EXPIRES</u></b>
Willard Martin	President	December 2017
William Hopper	Vice President	December 2019
Samuel Stern	Director	December 2017
Brett Tucker	Director	December 2017

**DISTRICT PERSONNEL**

<b><u>NAME</u></b>	<b><u>TITLE</u></b>
Michael Hightower Jr.	Water Operations Supervisor
Jessica Carroll	Office Supervisor
Jeffrey Bryan	Water Operator



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, 2016, 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, 2016, 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.

## **Emphasis of Other Matter**

As described further in note 8 to the financial statements, the accompanying financial statements for the year ended June 30, 2016 reflect a prior period adjustment related to the correction of an error in the valuation of inventory. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 January 26, 2017, 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  
January 26, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

**LEBEC COUNTY WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION & ANALYSIS**

Fiscal Year Ended June 30, 2016

**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, 2016. 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 four 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, 2016 are as follows:

- Total net position of the District, the amount by which assets exceed liabilities, was \$1,213,797 as of June 30, 2016 and includes:
  - \$525,824 is the net invested in capital assets.
  - \$687,973 is unrestricted and available to meet the ongoing need of the District.
- The total net position increased by \$27,629 as compared to prior year's increase of \$214,108 as restated. This increase represents slower growth than in prior years which was partly related to current decreases in Commercial and Surplus water sales.

**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, 2016

**REQUIRED FINANCIAL STATEMENTS**

The *Statement of Net Position* states the financial position of the District at June 30, 2016. 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 20 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 22 of this report.

**LEBEC COUNTY WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION & ANALYSIS**

Fiscal Year Ended June 30, 2016

**Net Positions** - The following is a condensed version of the statement of net position for June 30, 2016 compared to June 30, 2015.

	<u>2016</u>	<u>2015 (As restated)</u>	<u>Dollar Increase (Decrease)</u>	<u>Percent</u>
Current assets	\$ 729,345	\$ 608,990	\$ 120,355	20%
Non-current assets, capital assets, net	525,824	595,148	(69,324)	-12%
Total assets	<u>1,255,169</u>	<u>1,204,138</u>	<u>51,031</u>	<u>4%</u>
Current liabilities	41,372	17,970	23,402	130%
Total liabilities	<u>41,372</u>	<u>17,970</u>	<u>23,402</u>	<u>130%</u>
Net position				
Net investment in capital assets	525,824	595,148	(69,324)	-12%
Unrestricted	687,973	591,020	96,953	16%
Total net position	<u>\$ 1,213,797</u>	<u>\$ 1,186,168</u>	<u>\$ 27,629</u>	<u>2%</u>

Total net position increased \$27,629 or 2% from the prior year. This increase represents slower growth than in prior years which was partly related to current decreases in Commercial and Surplus water sales. Overall, the District's financial health is continuing to improve which is shown by an increase in unrestricted net position as compared to prior year.

**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, 2016 compared to June 30, 2015.

	<u>2016</u>	<u>2015 (As restated)</u>	<u>Dollar Increase (Decrease)</u>	<u>Percent</u>
Revenues				
Commercial water sales	\$ 197,180	\$ 221,673	\$ (24,493)	-11%
Residential water sales	138,672	143,897	(5,225)	-4%
Grant revenue	46,111	-	46,111	100%
Property taxes	38,536	37,863	673	2%
Surplus water sales	26,409	118,052	(91,643)	-78%
Other	14,814	17,957	(3,143)	-18%
Rental income	8,026	7,792	234	3%
Total revenues	<u>469,748</u>	<u>547,234</u>	<u>(77,486)</u>	<u>-14%</u>
Expenses	<u>442,119</u>	<u>333,126</u>	<u>108,993</u>	<u>33%</u>
Changes in net position	<u>\$ 27,629</u>	<u>\$ 214,108</u>	<u>\$ (186,479)</u>	<u>-87%</u>

**LEBEC COUNTY WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION & ANALYSIS**

Fiscal Year Ended June 30, 2016

*Revenue* – In the fiscal year ended June 30, 2016, revenues total \$469,748, a decrease of \$77,486 or 14% over prior year. The decrease was due to lower Commercial and Surplus water sales offset by an increase in grant income in the current year.

*Expenses* – In the fiscal year ended June 30, 2016, expenses total \$442,119, an increase of \$108,993 or 33% over prior year. The increase was due to increases in employee wages and increase in grant expenses related to capital projects for State compliance.

**CAPITAL ASSETS**

At the end of the fiscal year ended June 30, 2016, the District's capital assets, before accumulated depreciation, were \$1,287,272. As there were no purchases or sales of capital assets in the current year, the net change in capital assets represents depreciation expense.

The following is a summary the capital assets, net of accumulated depreciation as of June 30, 2016:

	<b>2016</b>	<b>2015</b>	<b>Dollar Increase (Decrease)</b>	<b>Percent</b>
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	48,905	48,905	-	0%
Less: accumulated depreciation	(761,448)	(692,124)	(69,324)	10%
	<u>\$ 525,824</u>	<u>\$ 595,148</u>	<u>\$ (69,324)</u>	<u>10%</u>

**BUDGET TO ACTUAL**

The District collected approximately \$61,000 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 approximately \$392,000, and actual operating expenses exceeded the budget by \$7,500. The budget versus actual comparison can be found on page 22.

**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 2017, budgeted General Fund expenditures are balanced with anticipated revenues \$477,000.

**LEBEC COUNTY WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION & ANALYSIS**

Fiscal Year Ended June 30, 2016

The budget for the fiscal year ended June 30, 2017 includes:

- Expect an increase in payroll and payroll related expenses as a result of staff promotion and board approved raises. Total payroll expenses are budgeted to increase by \$15,000.
- Expect an 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 \$15,000.
- Expect a slight increase in professional services to cover the additional engineering services relating to current capital projects.
- Expect a slight increase in compensation of board due to an approved increase in compensation to board members.

**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, Office Supervisor  
323 Frazier Mountain Park Road  
Lebec, California 93243

## BASIC FINANCIAL STATEMENTS

LEBEC COUNTY WATER DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2016

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$	599,711
Accounts receivable		54,041
Deposits		1,675
Inventory		73,918
TOTAL CURRENT ASSETS		<u>729,345</u>

**NONCURRENT ASSETS**

Capital assets not being depreciated		15,521
Depreciable capital assets, net		<u>510,303</u>
TOTAL NONCURRENT ASSETS		<u>525,824</u>
TOTAL ASSETS		<u>1,255,169</u>

**LIABILITIES AND NET POSITION**

**CURRENT LIABILITIES**

Accounts payable		35,346
Other current liabilities		<u>6,026</u>
TOTAL CURRENT LIABILITIES		<u>41,372</u>

**NET POSITION**

Net investment in capital assets		525,824
Unrestricted		<u>687,973</u>
TOTAL NET POSITION		<u>1,213,797</u>
TOTAL LIABILITIES AND NET POSITION	\$	<u>1,255,169</u>

**LEBEC COUNTY WATER DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION**  
FISCAL YEAR ENDED JUNE 30, 2016

Operating revenues	
Water revenue	\$ 362,261
Fees and permits	<u>14,767</u>
Total operating revenues	<u>377,028</u>
Operating expenses	
Transmission and distribution	178,725
General and administrative	110,373
Depreciation expense	69,324
Pumping	<u>40,931</u>
Total operating expenses	<u>399,353</u>
Operating loss	<u>(22,325)</u>
Non-operating revenues	
Grant revenue	46,111
Property tax revenue	38,536
Rent received	8,026
Interest income	<u>47</u>
Total non-operating revenues	<u>92,720</u>
Non-operating expense	
Grant expense	<u>42,766</u>
Total non-operating expense	<u>42,766</u>
Change in net position	27,629
Net position at beginning of year, as restated	<u>1,186,168</u>
Net position at end of year	<u><u>\$ 1,213,797</u></u>

LEBEC COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2016

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from customers	\$ 376,236
Cash paid to suppliers	(177,347)
Cash paid to employees	<u>(152,609)</u>

NET CASH FLOWS FROM OPERATING ACTIVITIES 46,280

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Cash received from property taxes	38,536
Grant funds received	32,073
Grant funds used	(28,728)
Cash received from rent	<u>8,026</u>

NET CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES 49,907

**CASH FLOWS FROM INVESTING ACTIVITIES**

Cash receipt from interest income	<u>47</u>
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NET CASH FLOWS FROM INVESTING ACTIVITIES 47

INCREASE IN CASH AND CASH EQUIVALENTS 96,234

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 503,477

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 599,711

**RECONCILIATION OF OPERATING LOSS TO NET**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Operating loss	\$ (22,325)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	69,324
Change in assets and liabilities:	
Increase accounts receivable	(502)
Increase in inventory	(9,582)
Increase in accounts payable	9,655
Decrease in other current liabilities	<u>(290)</u>

NET CASH FLOWS FROM OPERATING ACTIVITIES \$ 46,280



**LEBEC COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

Fiscal Year Ended June 30, 2016

**(1) Nature of operations and basis of accounting**

**Nature of operations** - 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 Lebec County Water District (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 THE FINANCIAL STATEMENTS**

Fiscal Year Ended June 30, 2016

**(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 November 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, 2016 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.

**LEBEC COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

Fiscal Year Ended June 30, 2016

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

**Inventory** – Inventory consists principally of residential water meters, pipes and fittings. Inventory is valued at the lower of cost or market 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:

<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 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 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, 2016.

**LEBEC COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

Fiscal Year Ended June 30, 2016

**(2) 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.

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

**(3) Cash and cash equivalents**

The Districts cash and cash equivalents at June 30, 2016 consisted of:

Cash on hand	\$	300
Deposits with financial institutions		599,411
Total		\$ 599,711

**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.

**LEBEC COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

Fiscal Year Ended June 30, 2016

**(3) Cash and cash equivalents (continued)**

**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, 2016, the District's bank balance of \$250,000 was insured, but \$349,411 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, 2016, were categorized as follows:

Ratepayers account receivables (operating)	\$	40,003
Grant receivable (non-operating)		14,038
Total	\$	<u>54,041</u>

**(5) Capital assets**

Capital asset activity for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
Non-depreciable capital assets				
Land	\$ 15,521	\$ -	\$ -	\$ 15,521
Total non-depreciable capital assets	15,521	-	-	15,521
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	-	-	48,905
Total depreciable capital assets	1,271,751	-	-	1,271,751
Less: accumulated depreciation				
Transmission and distribution	(554,124)	(42,527)	-	(596,651)
Source of supplies	(65,142)	(7,526)	-	(72,668)
General Plant	(42,812)	(16,805)	-	(59,617)
Pumping equipment	(30,046)	(2,466)	-	(32,512)
Total accumulated depreciation	(692,124)	(69,324)	-	(761,448)
Total depreciable capital assets, net	579,627	(69,324)	-	510,303
Total capital assets, net	\$ 595,148	\$ (69,324)	\$ -	\$ 525,824

Depreciation expense for the year ended June 30, 2016 was \$69,324.

**LEBEC COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

Fiscal Year Ended June 30, 2016

**(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.

Future minimum lease commitments under the above noncancellable operating lease as of June 30, 2016, are as follows:

<u>Years Ending June 30,</u>	
2017	\$ 1,080
2018	180
	<u>\$ 1,260</u>

For the year ended June 30, 2016, equipment rental expense was \$1,400.

**(8) Prior period adjustments**

During the year ended June 30, 2016, the District corrected an error related to the valuation of inventory.

The effect of correction of this error on results of operations for the above mentioned financial statements is as follows for the year ended June 30, 2015:

Change in net position:	
As previously reported	\$ 177,990
As restated	\$ 214,108

**LEBEC COUNTY WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

Fiscal Year Ended June 30, 2016

**(8) Prior period adjustments (continued)**

The effect of correction of this error on net position and inventory accounts is as follows:

Net position:

As previously reported	\$ 1,150,050
As restated	\$ 1,186,168

Inventory:

As previously reported	\$ 28,218
As restated	\$ 64,336

**(9) Subsequent events**

The District has evaluated subsequent events through January 26, 2017, the date on which the financial statements were available to be issued. Management identified the following subsequent event:

On May 10, 2016, the Board of Directors approved a motion to offer an Individual Retirement Account ("IRA") with Wells Fargo Financial Services to employees. Effective July 1, 2016, employees meeting certain service requirements may contribute up to 100% of their compensation to the IRA, not to exceed \$5,500 annually. The District has elected to contribute 2% of employee compensation regardless of employee contributions.

REQUIRED SUPPLEMENTARY INFORMATION



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

JUNE 30, 2016

	Budgeted Amounts	Actual	Variance with Final Budget Positive (Negative)
Operating revenues			
Water revenue	\$ 438,000	\$ 362,261	\$ (75,739)
Fees and permits	-	14,767	14,767
Total operating revenues	<u>438,000</u>	<u>377,028</u>	<u>(60,972)</u>
Operating expenses			
Transmission and distribution	160,628	178,725	(18,097)
General and administrative	121,207	110,373	10,834
Depreciation expense	60,000	69,324	(9,324)
Pumping	50,000	40,931	9,069
Total operating expenses	<u>391,835</u>	<u>399,353</u>	<u>(7,518)</u>
Operating income	<u>46,165</u>	<u>(22,325)</u>	<u>(68,490)</u>
Non-operating revenues			
Grant revenue	-	46,111	46,111
Property tax revenue	-	38,536	38,536
Rent received	-	8,026	8,026
Interest income	-	47	47
Total non-operating revenues	<u>-</u>	<u>92,720</u>	<u>92,720</u>
Non-operating expense			
Grant expense	-	42,766	(42,766)
Total non-operating expense	<u>-</u>	<u>42,766</u>	<u>(42,766)</u>
Change in net position	46,165	27,629	(18,536)
Net position at beginning of year, as restated	<u>1,186,168</u>	<u>1,186,168</u>	<u>-</u>
Net position at end of year	<u>\$ 1,232,333</u>	<u>\$ 1,213,797</u>	<u>\$ (18,536)</u>



**LEBEC COUNTY WATER DISTRICT**  
**SCHEDULE OF OPERATING REVENUE**  
FISCAL YEAR ENDED JUNE 30, 2016

OPERATING REVENUE

Water revenue	
Commercial water sales	\$ 197,180
Residential water sales	138,672
Surplus water sales	26,409
Total water revenue	<u>362,261</u>
 Fees and permit revenue	
Late charges	12,127
Service charge	1,712
Copy revenue	928
Total fees and permit revenue	<u>14,767</u>
 TOTAL OPERATING REVENUE	<u><u>\$ 377,028</u></u>

**LEBEC COUNTY WATER DISTRICT**  
**SCHEDULE OF OPERATING EXPENSES**  
**FISCAL YEAR ENDED JUNE 30, 2016**

OPERATING EXPENSES	<u>Transmission and distribution</u>	<u>General and adminstrative</u>	<u>Pumping</u>	<u>Depreciation</u>	<u>Total</u>
Salaries and wages	\$ 117,728	\$ 45,457	\$ -	\$ -	\$ 163,185
Supplies and Services	57,181	59,432	-	-	116,613
Utilities	-	1,645	40,931	-	42,576
Benefits	-	3,839	-	-	3,839
Repairs and Maintenance	3,816	-	-	-	3,816
Depreciation	-	-	-	69,324	69,324
Total operating expenses	<u>\$ 178,725</u>	<u>\$ 110,373</u>	<u>\$ 40,931</u>	<u>\$ 69,324</u>	<u>\$ 399,353</u>

**LEBEC COUNTY WATER DISTRICT**  
**REPORTING IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Fiscal Year Ended June 30, 2016



## **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**

District's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. 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.

*Mayer Hoffman McCann P.C.*

Bakersfield, California  
January 26, 2017

**LEBEC COUNTY WATER DISTRICT**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

**(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 material weaknesses and significant deficiencies 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, 2016.

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

**2016-1 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 a clerical error in the June 30, 2015 inventory schedule (per unit value was not multiplied by quantity on hand). The current year listing also contained similar clerical errors.

**Effect:** These errors resulted in an adjustment to beginning net assets (prior period adjustment related to the June 30, 2015 inventory balance) and an adjustment to the June 30, 2016 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



**LEBEC COUNTY WATER DISTRICT**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

**2016-2 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.

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

**2016-3 Agreements not retained**

**Condition:** Key agreements were not retained by Management.

**Criteria:** During our testing we noted two instances where key agreements were not available (rental income agreement and reimbursement from a customer for certain costs incurred by the District).

**Effect:** Support for certain District agreements was not maintained.

**Cause:** This occurred because no procedure was in place to ensure retention of documents.

**Recommendation:** We recommend all significant agreements the District enters into should be in writing and retained. Not retaining written agreements could result in non-payment from the customer and potential 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

**LEBEC COUNTY WATER DISTRICT**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

**2016-4 Recording of grant income**

**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 revenue 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

**LEBEC COUNTY WATER DISTRICT**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2016

There were no audit findings reported for the year ended June 30, 2015.