



Hi-Desert Water District
Yucca Valley, California

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2016 and 2015



Our Mission Statement

"To provide a dependable water supply and wastewater treatment for the customers of the Hi-Desert Water District in a safe, efficient and financially responsible manner"

Hi-Desert Water District Board of Directors as of June 30, 2016

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Robert Stadum	President	Elected	12/12 - 12/16
Dan Munsey	Vice President	Elected	12/14 - 12/18
Sheldon Hough	Director	Elected	12/14 - 12/18
Roger Mayes	Director	Elected	12/14 - 12/18
Sarann Graham	Director	Elected	12/12 - 12/16

**Hi-Desert Water District
Ed Muzik, General Manager
55439 29 Palms Highway
Yucca Valley, California 92284-2503
(760) 365-8333 – www.hdwd.com**



Comprehensive Annual Financial Report

For the Fiscal Years Ended

June 30, 2016 and 2015

HI-DESERT WATER DISTRICT

55439 29 Palms Highway
Yucca Valley, California 92284-2503

Prepared by:

Tanya Gruwell, Controller

**Hi-Desert Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2016 and 2015**

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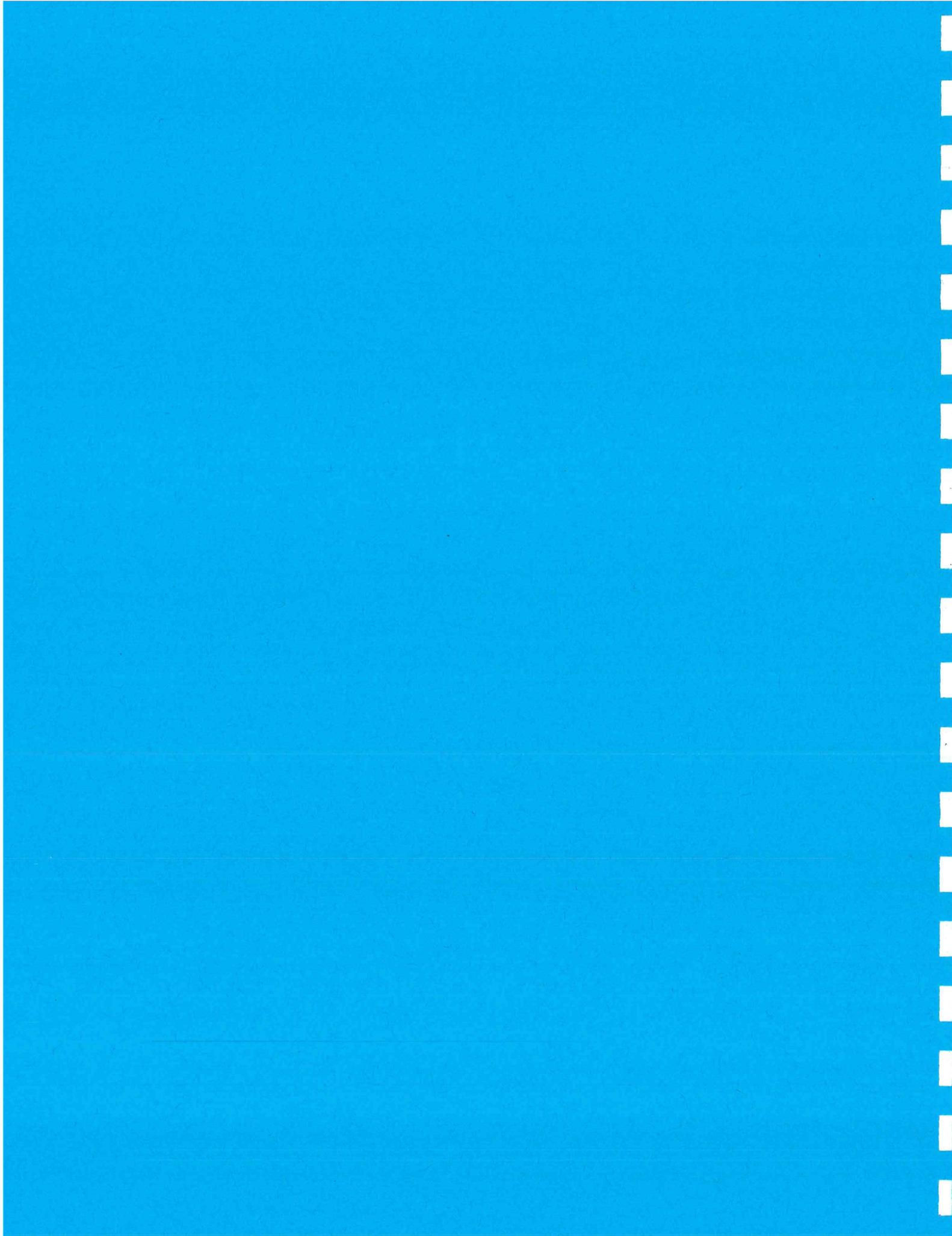
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Introductory Section





December 13, 2016

Board of Directors
Hi-Desert Water District

Introduction

It is our pleasure to submit Hi-Desert Water District's Annual Financial Report (the "Report") for the fiscal year ending June 30, 2016. District staff has prepared this report following guidelines set forth by the Governmental Accounting Standards Board. The District is responsible for the accuracy of the data included within this Report, as well as the completeness and fairness of its presentation and inclusion of all necessary disclosures. This Report is designed to enhance your understanding of the District's financial position and activities.

Generally Accepted Accounting Principles (GAAP) require District management to provide a Section within this Report that includes a narrative introduction with an overview and analysis referred to as the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD & A and should be read in conjunction with it. The District's MD & A can be found immediately following the Independent Auditors' Report.

District Structure and Leadership

The Hi-Desert Water District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The District was formed in 1962 and is governed by a five-member Board of Directors elected at-large from within the District's service area. The Board of Directors convenes for regularly scheduled meetings on the first and third Wednesday of each month. These meetings are publicly noticed and citizens are encouraged to attend. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. By the fiscal year ending June 30, 2016, the District employed approximately thirty-seven (37) regular full time employees and three (3) full-time temporary employees organized in six (6) departments.

The District provides water service to approximately 10,532 connections within its fifty-seven (57) square mile service area located in the eastern desert area of San Bernardino County which encompasses the Town of Yucca Valley in its entirety and portions of unincorporated San Bernardino County, California.

District Services

Residential customers represent approximately 95% of the District's customer base and consume approximately 82% of the water produced annually by the District. The District currently has a total of 12 groundwater wells with a maximum production capacity of 7,000 gallons per minute and over 300 miles of water distribution and transmission pipelines. In 2016 and 2015, the District purchased 2,253 and 2,277 acre-feet of State Water Project water respectively, imported from Mojave Water Agency, the District's State Water Project wholesaler.

Economic Condition and Outlook

The District offices are located in the Town of Yucca Valley in San Bernardino County (the "County"). Economic conditions within San Bernardino County continue to improve, however at a rate that is somewhat slower than neighboring Counties within Southern California. According to the County's 2015 Economic Indicators Report, the County's cost of living is 17% higher than the U.S. average with a median household income that increased 2% from the 2012 figures to \$53,323 in 2013. This is just above the national median income of \$52,250. Housing indicators are showing signs of recovery from the decrease in economic activity over the past few years in San Bernardino and Riverside counties (Inland Empire). The minimum qualifying income needed to purchase a median-priced entry-level home costing \$180,455 was approximately \$25,400 during the first quarter of 2015. The median home value in Yucca Valley is approximately \$26,300 less than that of the County average at \$153,700. Three quarters (75%) of households in San Bernardino County could afford an entry-level home, down from 80% in 2014, but up substantially from only 42% in 2006. San Bernardino County's homeownership rate is the second highest in Southern California at 60% in 2013. This figure was the same for 2012 but down from 64% in 2009. Seniors are found more likely to be homeowners (78%) within the County than non-seniors (56%).

Unemployment rates ranged from a low of 4.8% in 2006 to a high of 13.5% in 2010. These rates have declined since 2010 with an unemployment rate of 6.3% as of May 2015. While the local economy continues to improve, visitor spending totaled \$4.5 billion within the County in 2014, the highest level in 15 years which has had a positive impact on jobs within the County. Yucca Valley, being the hub of our local economy within the Morongo Basin, recognizes some of this visitor spending through tourist attractions such as the Joshua Tree National Park with over 2 million visitors per year. It is estimated that as much as 50% of Yucca Valley's sales tax revenue is generated by visitors.

Drought conditions continue to affect the State of California though fall and winter rains have brought some relief. According to californiadrought.org, approximately 43% of the State remains in extreme-to-exceptional drought however moderate-to-severe drought areas have declined from 41% to 32% of the State through the month of October 2016. A three-month precipitation outlook beginning in October 2016 shows a normal precipitation pattern for Northern California, but a slightly below average precipitation level for the southern part of the State. This should impact the District's State Water Project water supply favorably as northern and central rains may bring additional snowpack to the Sierras.

Reservoir levels throughout the State vary, with Lake Shasta at 105% of its historical average with Folsom Lake and Lake Oroville at 76% and 73% of their historical average respectively. San Luis Reservoir hit its lowest level in 27 years in mid-August 2016 and now stands at 59%. Though the State's northern water supplies are greatly affected by the drought, Mojave Water Agency is able to meet all of the District's annual water needs with minimal annual State Water Project allocations from the Department of Water Resources. Throughout the 2016 calendar year, the District will have the opportunity to bank up to an additional 1,000 acre-feet of water. This is above its typical annual request of 3,200 acre-feet for the year.

Though the drought conditions may continue to vary, urban water use is down 18.3% throughout the State for the month of September 2016 when compared to the same month in 2013. For years our District has been an example in water conservation with one of the lowest gallons per capita per day (gpcd) rates in the State at an average of less than 100 gpcd. The District continues to improve its customer's water conservation through public education and conservation incentives

Major Initiatives

The activities of the Board and staff of the District are driven by its Mission Statement: “To provide a safe, reliable water supply and wastewater reclamation system for the customers of the Hi-Desert Water District in an efficient and financially responsible manner”. The strategic goals adopted by the Board of Directors are:

1. Wastewater Collection and Treatment for Groundwater Protection.
2. Water Resource Management.
3. Emergency and Disaster Preparedness.
4. Public Information and Communication.
5. Infrastructure Development/Maintenance.
6. Financial Management.
7. Information Systems.
8. Human Resource Management.
9. Administrative Management.

All programs and operations of the District are developed and performed to provide the highest level of service to its customers. This is summarized in its motto, “Hi-Desert Water District—Serving You Today, Planning for Tomorrow”.

Accomplishments

To assist the Board of Directors in meeting their strategic mission for our District, staff completed several initiatives during the 2015/16 fiscal year. The following is a list of accomplishments completed by District staff for both the water and wastewater enterprises:

Water Enterprise

1. Completed construction of 51,583 linear feet of new water mains using a \$7.2 million Proposition 84 grant allocation awarded to the District by the California Department of Water Resources to replace 124,000 linear feet of steel water mains within the Phase I boundary of the Wastewater Reclamation Project;
2. Continued replacing existing meters as part of the District’s Capital Replacement Program with automatic meter reading (AMR) technology to enhance performance and assist with conservation measures;
3. Continued conservation efforts through public outreach and enforcement of the District’s water use restrictions to maintain the District’s contributions toward statewide water use reductions and protection of its future water supplies;
4. Completed the District’s Water System Master Plan with Montgomery Watson Harza;
5. Completed the design of a pneumatic pump system to replace the District’s existing Pneumatic Station 26 and increase water supply and fire protection reliability within the area it serves;
6. Began an update of the District’s landscape and irrigation ordinance to ensure compliance with the State’s Model Water Efficient Landscape Ordinance;
7. Completed an update of the District’s Urban Water Management Plan (UWMP);
8. Continued to participate as a member of the Mojave River Basin’s Integrated Regional Water Management Plan Technical Advisory Committee; and
9. Began creating the District’s Hazard Mitigation Program (HMP).
10. Began to update the District’s Emergency Response Plan (ERP); and

Water Enterprise, continued

11. Began an update to the District Strategic Plan.

Wastewater Enterprise

1. Awarded a \$1,600,000 grant from Proposition 84 for the construction of the Phase I Wastewater Reclamation Project's collection system;
2. Awarded a contract to Sukut Construction for the construction of approximately 25 miles of collection system pipelines and appurtenances within the Phase I, Package "A" portion of the Wastewater Reclamation Project. This selection was made following an extensive pre-qualification and bidding process that involved District staff, Carollo Engineers (Program Management Firm) and Atkins Engineering (Engineer of Record, collection system);
3. Completed the procurement process for Construction Management Services which was awarded to Montgomery Watson Harza Constructors (MWHC);
4. Completed the procurement process for a progressive design builder for the Wastewater Reclamation Project's Stage I Services (design of facility to 70%) which was awarded to WM Lyles Co;
5. Completed review and approved numerous technical memorandums and design parameters for the Wastewater Reclamation Facility;
6. Completed the Basis of Design (report compiling the processes used for the facility) for the Wastewater Reclamation Facility;
7. Reached substantial completion in gaining access to 345 easements required of the Wastewater Reclamation Project's collection system construction;
8. Worked with the District's environmental consultant to prepare the District's Mitigation and Monitoring Reporting Program for construction as outlined within the Project's CEQA/NEPA requirements;
9. Obtained permitting from the California Department of Transportation (CalTrans) for jack and bore crossing under SR-62;
10. Completed a Total Dissolved Solids Work Plan for submittal to the Regional Water Quality Control Board (requirement of discharge permit);
11. Submitted a request and back up documentation to the Regional Water Quality Control Board for an extension to the Yucca Valley Septic Tank Discharge Prohibition. This request was successful and extended the Prohibition dates to June 30, 2021 for Phase I and December 31, 2025 for Phase II and III; and
12. Filed for and received an interim discharge permit for the Wastewater Reclamation Facility through the Regional Water Quality Control Board

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The District Board of Directors annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The objectives of the Investment Policy are safety, liquidity, and yield. District funds are invested in the State Treasurer's Local Agency Investment Fund and institutional savings and checking accounts.

Water Rates and District Revenues

District policy direction ensures that all revenues from user charges and surcharges generated from District customers must support all District operations including capital project funding. Accordingly, water rates are reviewed on an annual basis. Water rates are user charges imposed on customers for services and are the primary component of the District's revenue. Water rates are composed of a commodity (usage) charge and a fixed meter (readiness-to-serve) charge.

Water Conservation Programs

The District has implemented conservation management practices since the early 1990's. In 1991, the District became a signatory to the California Department of Water Resources Urban Water Management Plan that agreed to develop and implement comprehensive conservation practices or "Best Management Practices." District staff participates in a number of community events and distributes materials to encourage water conservation. In addition to a tiered rate structure, which encourages conservation, the District offers the following conservation programs:

- Residential Water Audits
- Water Awareness Program

Audit and Financial Reporting

State Law and Bond covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Fedak & Brown LLP has conducted the audit of the District's financial statements. Their unqualified Independent Auditor's Report appears in the Financial Section.

Risk Management

The District is a member of the Association of California Water Agencies Joint Power Insurance Authority (Authority). The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

Other References

More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

Awards and Acknowledgements

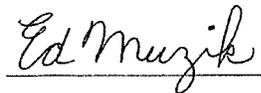
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. This was the ninth year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

The District also earned two (2) awards from the Special District Leadership Foundation (SDLF). The first was an award known as the District of Distinction Accreditation. In a time where proper fiscal management and responsibility in public agencies is paramount and the task of governing these agencies has become even more complex, regulated and costly, it has become increasingly important to demonstrate to constituents that districts have sound fiscal management policies and practices in place among other areas of importance in district operations. The District of Distinction Accreditation is designed as a way for districts to highlight their prudent fiscal practices along with other areas important to effectively operate and govern a special district.

The second award the District received from the SDLF is known as the District Transparency Certificate of Excellence. This program was created by the SDLF in an effort to promote transparency in the operations and governance of special districts to the public and to provide special districts with an opportunity to showcase their efforts in transparency. While there are many requirements surrounding transparency a district must meet in order to receive this award, our District practiced these requirements as a normal course of business. Having this award to showcase our efforts in transparency is invaluable for our work with the public.

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. We would also like to thank the members of the Board of Directors for their continued support in the planning and implementation of the Hi-Desert Water District's fiscal policies.

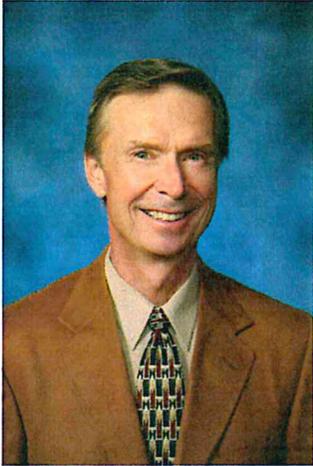
Respectfully submitted,

A handwritten signature in cursive script that reads "Ed Muzik". The signature is written in black ink and is positioned above a horizontal line.

Ed Muzik
General Manager
Hi-Desert Water District

Board of Directors

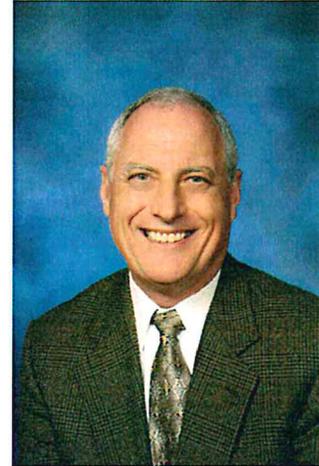
A five member Board of Directors are elected by the Yucca Valley area to set policy and govern the District. Currently the Board of Directors are:



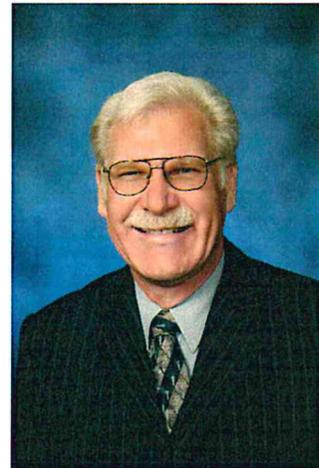
Robert Stadum
(President)



Dan Munsey
(Vice-President)



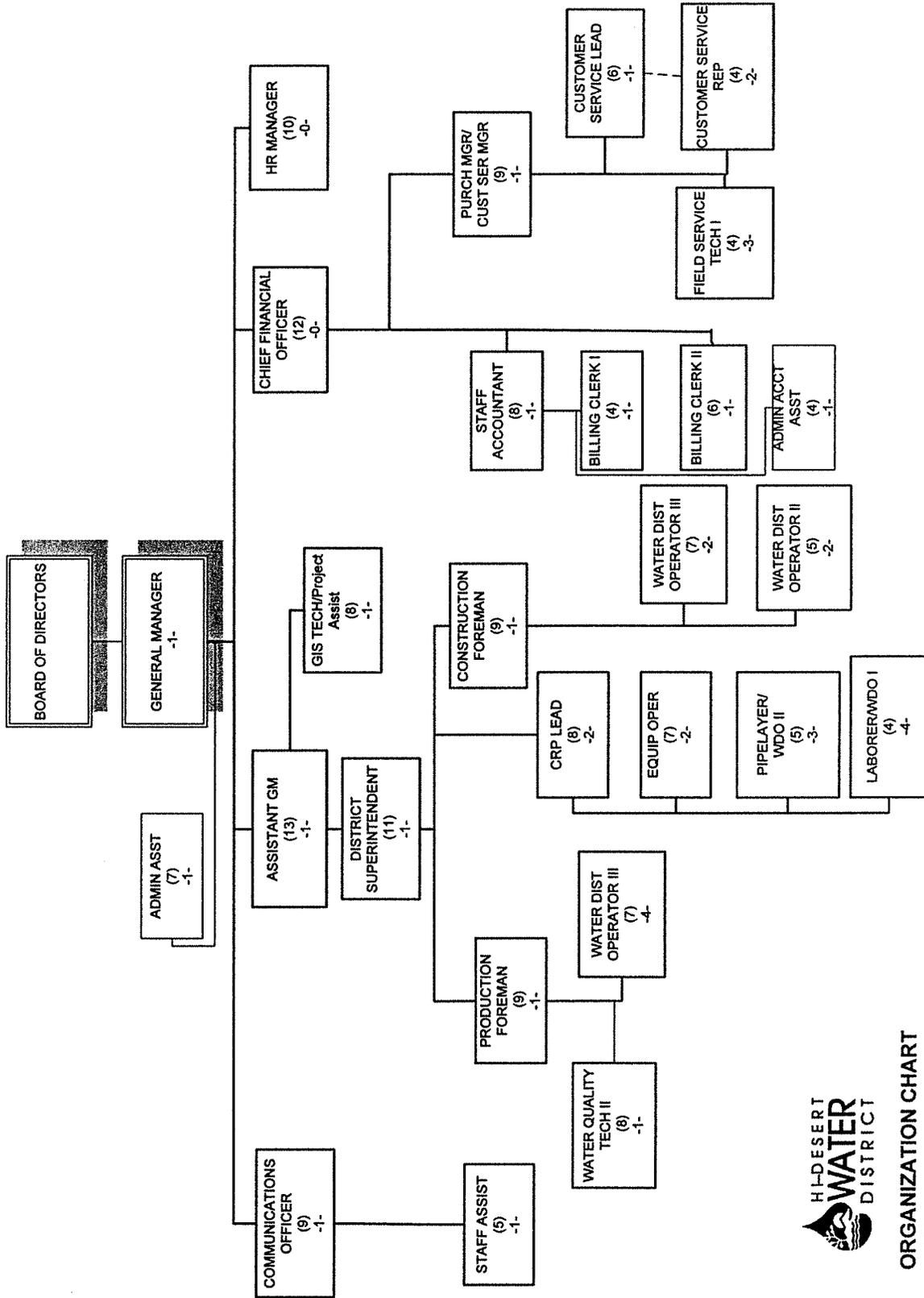
Sheldon Hough
(Director)



Roger Mayes
(Director)



Sarann Graham
(Director)



ORGANIZATION CHART
Effective 6/30/2016



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

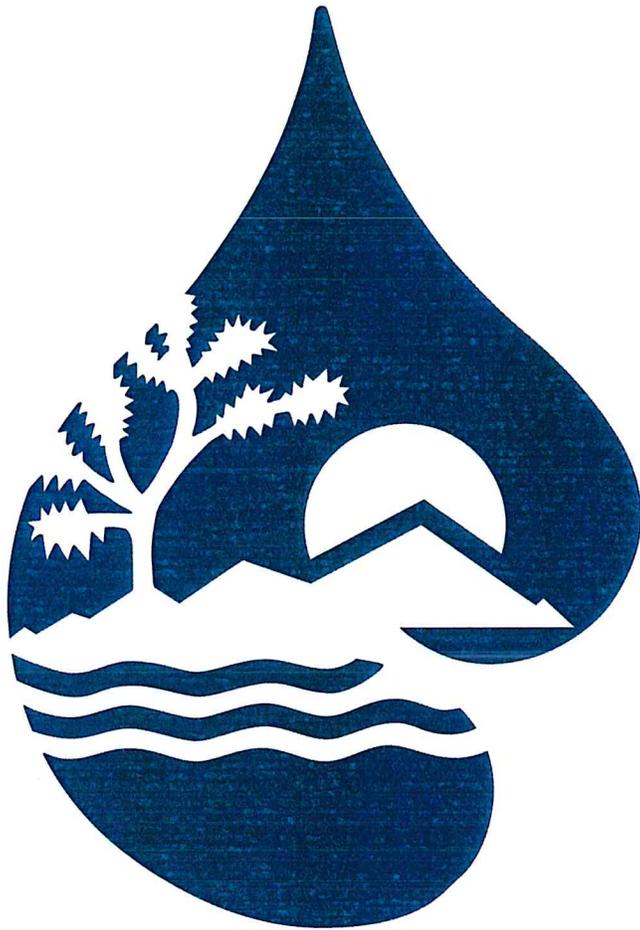
Presented to

**Hi-Desert Water District
California**

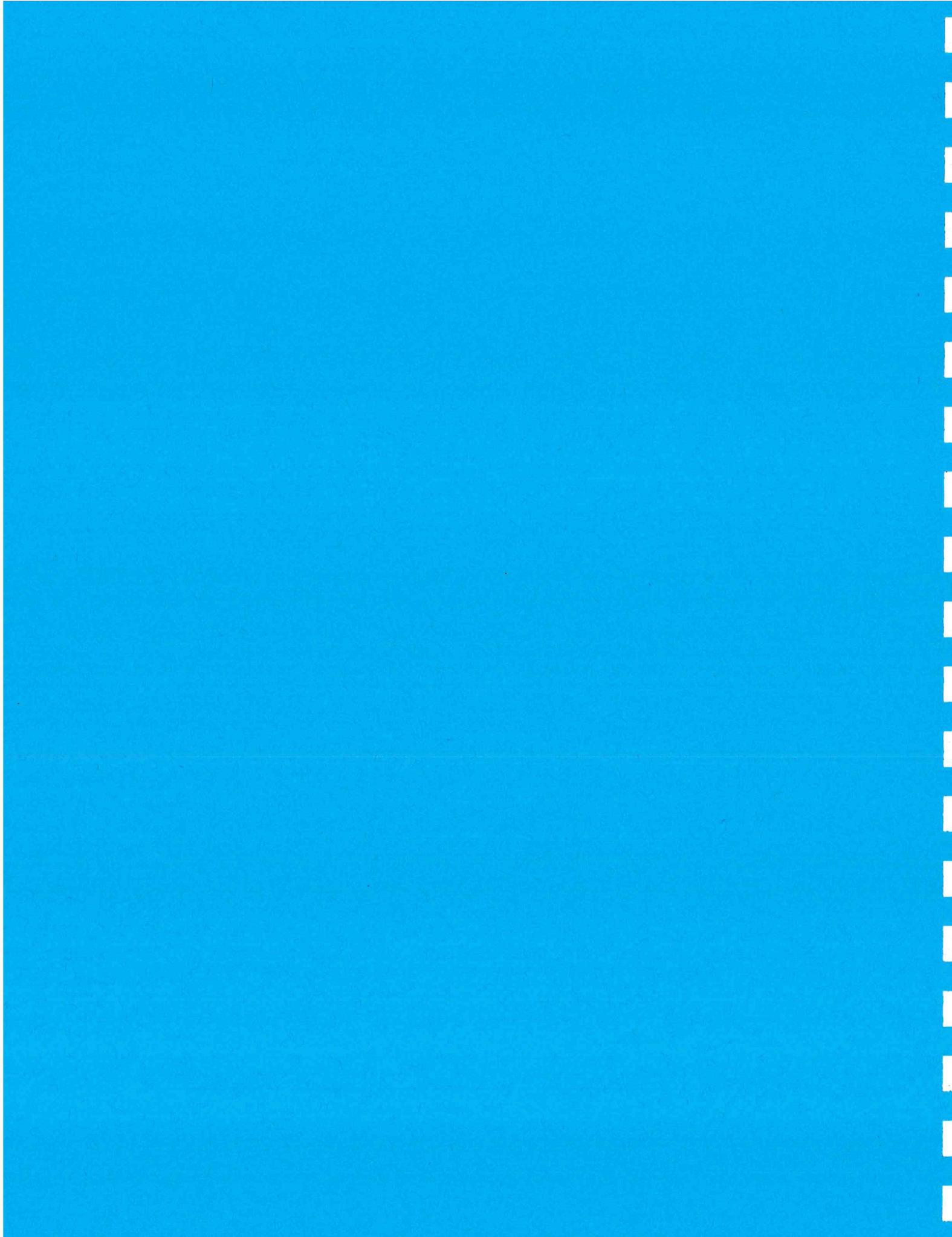
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO



Financial Section





Charles Z. Fedak, CPA, MBA
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Fedak & Brown LLP

Certified Public Accountants

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Independent Auditor's Report

Board of Directors
Hi-Desert Water District
Yucca Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Hi-Desert Water District (District), which comprises the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position for the fiscal years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2016 and 2015, and the respective changes in net position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Emphasis of matter

As described in note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72 – *Fair Value Measurement and Application*, GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*, for the year ended June 30, 2016, GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, for the year ended June 30, 2015. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13 through 19 and the required supplementary information on pages 52 through 54 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section on pages 1 through 9, the supplementary information of combining schedules on pages 55 through 58, and the statistical section on pages 59 through 72 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information of combining schedules 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance.

Independent Auditor's Report, continued

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance. This report can be found on pages 73 and 74.

FEDAK & BROWN LLP

Fedak & Brown LLP
Cypress, California
December 13, 2016



Hi-Desert Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Hi-Desert Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2016 and 2015. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position increased 7.02% or \$2,929,894 to \$44,652,364. In 2015, the District's net position increased 2.8% or \$1,136,940 to \$41,722,470.
- The District's operating revenues exceeded its operating expenses before depreciation by 0.01% or \$482, as the result of the year's operations. In 2015, operating revenues exceeded its operating expenses before depreciation exceeded by 9.89%, or \$753,552, as the result of the year's operations.
- The District's net income from non-operating revenues and debt service expenses produced a positive return of \$2,501,973. In 2015, net income from non-operating revenues and debt service expenses produced a positive return of \$2,463,491.
- The District's capital contributions amounted to \$2,239,380. In 2015, capital contributions amounted to \$2,508,448.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period.

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

Hi-Desert Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015

Financial Analysis of the District, continued

These two statements report the District's *net position* and changes in it. One can think of the District's net position – the difference between assets plus deferred outflows of resources, less liabilities and deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases* or *decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation (such as changes in Federal and State water quality standards).

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 25 through 51.

Statements of Net Position

	Condensed Statements of Net Position				
	2016	As restated 2015	Change	As restated 2014	Change
Assets:					
Current assets	\$ 11,781,896	12,379,096	(597,200)	12,105,445	273,651
Capital assets, net	44,977,047	41,043,340	3,933,707	37,582,711	3,460,629
Total assets	56,758,943	53,422,436	3,336,507	49,688,156	3,734,280
Deferred outflows of resources	942,435	468,866	473,569	-	468,866
Liabilities:					
Current liabilities	2,657,927	2,526,208	131,719	2,099,578	426,630
Non-current liabilities	9,974,147	8,831,282	1,142,865	7,003,048	1,828,234
Total liabilities	12,632,074	11,357,490	1,274,584	9,102,626	2,254,864
Deferred inflows of resources	416,940	811,342	(394,402)	-	811,342
Net position:					
Net investment in capital assets	39,682,015	35,998,775	3,683,240	32,102,689	3,896,086
Unrestricted	4,970,349	5,723,695	(753,346)	8,482,841	(2,759,146)
Total net position	\$ 44,652,364	41,722,470	2,929,894	40,585,530	1,136,940

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets plus deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$44,652,364 and \$41,722,470 as of June 30, 2016 and 2015.

Compared to prior year, net position of the District increased 7.02% or \$2,929,894. The District's total net position is made-up of two components: (1) net investment in capital assets and (2) unrestricted net position.

By far the largest portion of the District's net position (88.9% and 86.3% as of June 30, 2016 and 2015, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of fiscal year 2016 and 2015, the District showed a positive balance in its unrestricted net position of \$4,970,349 and \$5,723,695, respectively, which may be utilized in future years.

Hi-Desert Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2016</u>	<u>As restated 2015</u>	<u>Change</u>	<u>As restated 2014</u>	<u>Change</u>
Operations:					
Operating revenues	\$ 7,512,847	7,616,919	(104,072)	8,270,632	(653,713)
Operating expenses	<u>7,512,365</u>	<u>6,863,367</u>	<u>648,998</u>	<u>5,604,675</u>	<u>1,258,692</u>
Operating income before depreciation	<u>482</u>	<u>753,552</u>	<u>(753,070)</u>	<u>2,665,957</u>	<u>(1,912,405)</u>
Depreciation	<u>(1,811,941)</u>	<u>(1,555,113)</u>	<u>(256,828)</u>	<u>(1,375,158)</u>	<u>(179,955)</u>
Operating (loss) income	<u>(1,811,459)</u>	<u>(801,561)</u>	<u>(1,009,898)</u>	<u>1,290,799</u>	<u>(2,092,360)</u>
Non-operating revenue (expenses):					
Property taxes	1,448,390	1,393,362	55,028	1,338,163	55,199
Interest earnings	65,086	57,118	7,968	53,148	3,970
Capital surcharge	1,040,681	1,033,544	7,137	1,019,310	14,234
Morongo Basin Project surcharge	543,894	539,748	4,146	532,424	7,324
Lease payment – Morongo Basin Project	(479,946)	(480,187)	241	(480,021)	(166)
Interest expense – long-term debt	(158,943)	(139,733)	(19,210)	(257,853)	118,120
Other non-operating revenues (expenses):					
Other non-operating revenues	46,442	90,976	(44,534)	38,125	52,851
Other non-operating expenses	<u>(3,631)</u>	<u>(31,337)</u>	<u>27,706</u>	<u>(3,631)</u>	<u>(27,706)</u>
Total non-operating revenues, net	<u>2,501,973</u>	<u>2,463,491</u>	<u>38,482</u>	<u>2,239,665</u>	<u>223,826</u>
Net income before capital contributions	<u>690,514</u>	<u>1,661,930</u>	<u>(971,416)</u>	<u>3,530,464</u>	<u>(1,868,534)</u>
Capital contributions	<u>2,239,380</u>	<u>2,508,448</u>	<u>(269,068)</u>	<u>2,497,998</u>	<u>10,450</u>
Change in net position	<u>2,929,894</u>	<u>4,170,378</u>	<u>(1,240,484)</u>	<u>6,028,462</u>	<u>(1,858,084)</u>
Net position, beginning of period as restated	41,722,470	40,585,530	1,136,940	32,739,892	7,845,638
Prior period adjustment (note 11)	<u>-</u>	<u>(3,033,438)</u>	<u>3,033,438</u>	<u>1,817,176</u>	<u>(4,850,614)</u>
Net position, beginning of period as restated	<u>41,722,470</u>	<u>37,552,092</u>	<u>4,170,378</u>	<u>34,557,068</u>	<u>2,995,024</u>
Net position – end of period	<u>\$ 44,652,364</u>	<u>41,722,470</u>	<u>2,929,894</u>	<u>40,585,530</u>	<u>1,136,940</u>

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal year. In the case of the District, net position increased 7.02% or \$2,929,894 to \$44,652,364, as a result of ongoing operations. In fiscal year 2015, the District's net position decreased 2.8% or \$1,136,940 to \$41,722,470, which is comprised of an increase from operations of \$4,170,378 and a decrease from a prior period adjustment in the amount of \$3,033,438. Please see note 11 to the basic financial statements for further discussion.

The District's operating revenues decrease 1.4% or \$104,072 to \$7,512,847, primarily due to decrease in water sales of \$99,887. In fiscal year 2015, the District's operating revenues decreased 7.9% or \$653,713 to \$7,616,919, primarily due to a decrease in water sales and services of \$667,476 and an increase in other charges of \$13,763.

The District's operating expenses increased 9.46% or \$648,998, primarily due to increases of \$314,578 in customer accounts, \$224,532 in transmission and distributions, \$102,180 in pumping and water treatment, \$78,924 in general and administrative and \$51,624 in source of supply, which were offset by a decrease of \$122,840 in wastewater operations. In fiscal year 2015, the District's operating expenses increased 22.46% or \$1,258,692 to \$6,863,367, primarily due to increases of \$615,240 in source of supply, \$356,176 in general and administrative, \$236,769 in pumping and water treatment, \$109,115 in transmission and distributions, which were offset by decreases of \$57,505 in customer accounts and \$1,103 in wastewater operations.

Hi-Desert Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015

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

The District's non-operating revenues, such as property taxes, surcharge or surcharge recovery revenues are pledged to pay down the District's debt service expenses and for the District's capital improvement program. The District's non-operating revenues net of non-operating expenses increased by \$38,482, primarily due to the increase in property tax apportionment of \$55,028 and decrease in interest expense of \$19,210. In fiscal year 2015, non-operating revenues net of non-operating expenses increased by \$223,826, primarily due to the increase in property tax apportionment of \$55,199, decrease in interest expense and bond issuance costs of \$118,120, and an increase in other non-operating revenues of \$52,851.

The District's received \$2,239,380 in capital contributions which is comprised of grant revenues of \$1,692,923 and \$393,612 for water operations and wastewater operations, respectively, and \$152,845 from developers for meter purchases and installation fees. In fiscal year 2015, the District received \$2,508,448 in capital contributions which is comprised of grant revenues of \$27,401 and \$2,247,532 for water operations and wastewater operations, respectively, and \$233,515 from developers for meter purchases and installation fees.

Total Revenues

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>2014</u>	<u>Change</u>
Operating revenues:					
Water consumption sales	\$ 5,438,541	5,538,428	(99,887)	6,229,153	(690,725)
Readiness-to-serve fees	1,770,154	1,762,154	8,000	1,738,905	23,249
Other charges	304,152	316,337	(12,185)	302,574	13,763
Total operating revenues	<u>7,512,847</u>	<u>7,616,919</u>	<u>(104,072)</u>	<u>8,270,632</u>	<u>(653,713)</u>
Non-operating revenues:					
Property taxes	1,448,390	1,393,362	55,028	1,338,163	55,199
Interest earnings	65,086	57,118	7,968	53,148	3,970
Capital surcharge	1,040,681	1,033,544	7,137	1,019,310	14,234
Morongo Basin Project surcharge	543,894	539,748	4,146	532,424	7,324
Other non operating revenue	46,442	90,976	(44,534)	38,125	52,851
Total non-operating revenues	<u>3,144,493</u>	<u>3,114,748</u>	<u>29,745</u>	<u>2,981,170</u>	<u>133,578</u>
Capital contributions:					
Grant revenue	2,086,535	2,274,933	(188,398)	2,199,518	75,415
Meter sales and installations	152,845	233,515	(80,670)	298,480	(64,965)
Total capital contributions	<u>2,239,380</u>	<u>2,508,448</u>	<u>(269,068)</u>	<u>2,497,998</u>	<u>10,450</u>
Total revenues	<u>\$ 12,896,720</u>	<u>13,240,115</u>	<u>(343,395)</u>	<u>13,749,800</u>	<u>(509,685)</u>

The District's total revenues decreased \$343,395. Operating revenues decreased by \$104,072, primarily due to a decrease in water sales and services of \$99,887 and an increase in other charges of \$12,185. Non-operating revenues increased by \$29,745, primarily due to increases of \$55,028 in property tax revenues, a \$7,968 increase in interest earnings and a \$7,137 increase in capital surcharge, which was offset by a \$44,534 decrease in other non-operating revenue.

In fiscal year 2015, total revenues decreased by \$509,685. Operating revenues decreased by \$653,713, primarily due to a decrease in water sales and services of \$667,476 and an increase in other charges of \$13,763. Non-operating revenues increased by \$133,578, due primarily to increases of \$55,199 in property tax revenues, a \$14,234 increase in capital surcharge and a \$52,851 increase in other non-operating revenue.

Hi-Desert Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015

Total Expenses

	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>2014</u>	<u>Change</u>
Operating expenses:					
Source of supply	\$ 1,121,814	1,070,190	51,624	454,950	615,240
Pumping and water treatment	1,875,176	1,772,996	102,180	1,536,227	236,769
Transmission and distribution	1,316,808	1,092,276	224,532	983,161	109,115
Customer accounts	489,008	174,430	314,578	231,935	(57,505)
Wastewater operations	75,799	198,639	(122,840)	199,742	(1,103)
General and administrative	2,633,760	2,554,836	78,924	2,198,660	356,176
Total operating expenses	<u>7,512,365</u>	<u>6,863,367</u>	<u>648,998</u>	<u>5,604,675</u>	<u>1,258,692</u>
Non-operating expenses:					
Lease payment – Morongo Basin Project	479,946	480,187	(241)	480,021	166
Interest expense – long-term debt	158,943	139,733	19,210	257,853	(118,120)
Other non operating expense	3,631	31,337	(27,706)	3,631	27,706
Total non-operating expenses	<u>642,520</u>	<u>651,257</u>	<u>(8,737)</u>	<u>741,505</u>	<u>(90,248)</u>
Total expenses	<u>\$ 8,154,885</u>	<u>7,514,624</u>	<u>640,261</u>	<u>6,346,180</u>	<u>1,168,444</u>

The District's total expenses increased \$640,261. The District's operating expenses increased by \$648,998, primarily due to increases of \$771,838 in source of supply, pumping and water treatment, transmission and distribution, customer accounts and general and administrative expenses, which were offset by a decrease of \$122,840 in wastewater operations.

In fiscal year 2015, the District's total expenses increased by \$1,168,444. The District's operating expenses increased by \$1,258,692, primarily due to increases of \$1,317,300 in source of supply, pumping and water treatment, transmission and distribution and general and administrative expenses, which were offset by decreases of \$57,505 in customer accounts and \$1,103 in wastewater operations.

The District's non-operating expenses decreased by \$8,737, primarily due to an increase in interest expense of \$19,210, which was offset by a \$27,706 increase in other non-operating expense.

In fiscal year 2015, non-operating expenses decreased by \$90,248, primarily due to the decrease in interest expense of \$118,120, which was offset by a \$27,706 increase in other non-operating expense.

Capital Asset Administration

Changes in capital assets in 2016 were as follows:

	<u>Balance</u>	<u>Additions/</u>	<u>Deletions/</u>	<u>As restated</u>
	<u>2015</u>	<u>Transfers</u>	<u>Transfers</u>	<u>Balance</u>
				<u>2016</u>
Capital assets:				
Non-depreciable assets	\$ 9,622,507	5,332,909	(2,586,314)	12,369,102
Depreciable assets	60,776,232	2,999,053	-	63,775,285
Accumulated depreciation	<u>(29,355,399)</u>	<u>(1,811,941)</u>	<u>-</u>	<u>(31,167,340)</u>
Total capital assets	<u>\$ 41,043,340</u>	<u>6,520,021</u>	<u>(2,586,314)</u>	<u>44,977,047</u>

Hi-Desert Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015

Capital Asset Administration, continued

Changes in capital assets in 2015 were as follows:

	<u>Balance 2014</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>As restated Balance 2015</u>
Capital assets:				
Non-depreciable assets	\$ 9,100,086	4,060,860	(3,538,439)	9,622,507
Depreciable assets	56,282,911	4,536,751	(43,430)	60,776,232
Accumulated depreciation	<u>(27,800,286)</u>	<u>(1,555,113)</u>	<u>-</u>	<u>(29,355,399)</u>
Total capital assets	<u>\$ 37,582,711</u>	<u>7,042,498</u>	<u>(3,581,869)</u>	<u>41,043,340</u>

At the end of fiscal year 2016 and 2015, the District's investment in capital assets amounted to \$44,977,047 and \$41,043,340 (net of accumulated depreciation), respectively. This investment in capital assets includes land, easements, transmission and distribution systems, wells, tanks, reservoirs, pumps, buildings and structures, equipment, vehicles and construction-in-process, etc. The capital assets of the District are more fully analyzed in Note 4 to the basic financial statements.

Debt Administration

Changes in long-term debt amounts for 2016 were as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Principal Payments/ Amortization</u>	<u>Balance 2016</u>
Bonds payable:				
Bond payable	\$ 4,590,000	-	(400,000)	4,190,000
Premium on bond payable	454,565	-	(45,457)	409,108
Total bonds payable	5,044,565	-	(445,457)	4,599,108
Loans payable:				
Clean Water State Revolving Fund Loan	-	695,924	-	695,924
Total long-term debt	<u>\$ 5,044,565</u>	<u>695,924</u>	<u>(445,457)</u>	<u>5,295,032</u>

Changes in long-term debt amounts for 2015 were as follows:

	<u>Balance 2014</u>	<u>Additions</u>	<u>Principal Payments/ Amortization</u>	<u>Balance 2015</u>
Bonds payable:				
Bond payable	\$ 4,980,000	-	(390,000)	4,590,000
Premium on bond payable	500,022	-	(45,457)	454,565
Total long-term debt	<u>\$ 5,480,022</u>	<u>-</u>	<u>(435,457)</u>	<u>5,044,565</u>

In 2016, long-term debt increased by \$250,467, primarily due to additions to long-term debt of \$695,924, which was offset by a \$445,457 decrease due to principal payments. In 2015, long-term debt decreased by \$435,457, due to the principal payment of \$390,000 and the amortization in the amount of \$45,457, related to the premium on bonds payable. See further detailed information in Note 7.

Hi-Desert Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015

Conditions Affecting Current Financial Position

Management is unaware of any conditions, which could have a significant impact on the District's current financial position, net position, or operating results in terms of past, present and future periods.

Requests for Information

This financial report is designed to provide the District's present users, including funding sources, customers, stakeholders, and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's General Manager, Ed Muzik at Hi-Desert Water District at 55439 29 Palms Highway, Yucca Valley, California 92284-2503 or (760) 365-8333.

Basic Financial Statements

Hi-Desert Water District
Statements of Net Position
June 30, 2016 and 2015

	<u>2016</u>	<u>As restated 2015</u>
Current assets:		
Cash and cash equivalents (note 2)	\$ 7,967,924	8,474,727
Accrued interest receivable	5,947	3,079
Accounts receivable – water sales and services, net (note 3)	1,334,288	1,263,444
Accounts receivable – other	832,245	1,234,965
Property taxes receivable	52,367	42,306
Materials and supplies inventory	739,285	522,758
Prepaid lease payment (note 14)	719,394	719,854
Prepaid expenses and other deposits	130,446	117,963
Total current assets	<u>11,781,896</u>	<u>12,379,096</u>
Non-current assets:		
Capital assets – not being depreciated (note 4)	12,369,102	9,622,507
Depreciable capital assets, net (note 4)	32,607,945	31,420,833
Total non-current assets	<u>44,977,047</u>	<u>41,043,340</u>
Total assets	<u>56,758,943</u>	<u>53,422,436</u>
Deferred outflows of resources:		
Deferred pension outflows (note 5 and 12)	942,435	468,866
Total deferred outflows of resources	<u>\$ 942,435</u>	<u>468,866</u>

Continued on next page

See accompanying notes to the basic financial statements

Hi-Desert Water District
Statements of Net Position, continued
June 30, 2016 and 2015

	<u>2016</u>	<u>As restated 2015</u>
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,539,343	1,295,609
Deposits and unearned revenue	616,812	738,519
Accrued interest on long-term debt	26,008	27,342
Long-term liabilities – due within one year:		
Compensated absences (note 6)	65,764	64,738
Bonds payable (note 7)	410,000	400,000
Total current liabilities	<u>2,657,927</u>	<u>2,526,208</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 6)	197,292	194,213
Other post employment benefits payable (note 9)	657,057	523,769
Net pension liability (note 12)	4,234,766	3,468,735
Loans payable (note 7)	695,924	-
Bonds payable, net (note 7)	4,189,108	4,644,565
Total non-current liabilities	<u>9,974,147</u>	<u>8,831,282</u>
Total liabilities	<u>12,632,074</u>	<u>11,357,490</u>
Deferred inflows of resources:		
Deferred pension inflows (note 8 and 12)	416,940	811,342
Total deferred inflows of resources	<u>416,940</u>	<u>811,342</u>
Net position: (note 13)		
Net investment in capital assets	39,682,015	35,998,775
Unrestricted	4,970,349	5,723,695
Total net position	<u>\$ 44,652,364</u>	<u>41,722,470</u>

See accompanying notes to the basic financial statements

Hi-Desert Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>As restated 2015</u>
Operating revenues:		
Water consumption sales	\$ 5,438,541	5,538,428
Readiness-to-serve fees	1,770,154	1,762,154
Other charges	304,152	316,337
Total operating revenues	<u>7,512,847</u>	<u>7,616,919</u>
Operating expenses:		
Source of supply	1,121,814	1,070,190
Pumping and water treatment	1,875,176	1,772,996
Transmission and distribution	1,316,808	1,092,276
Customer accounts	489,008	174,430
Wastewater operations	75,799	198,639
General and administrative	2,633,760	2,554,836
Total operating expenses	<u>7,512,365</u>	<u>6,863,367</u>
Operating income before depreciation	482	753,552
Depreciation	<u>(1,811,941)</u>	<u>(1,555,113)</u>
Operating loss	<u>(1,811,459)</u>	<u>(801,561)</u>
Non-operating revenue (expenses):		
Property taxes	1,448,390	1,393,362
Interest earnings	65,086	57,118
Capital surcharge	1,040,681	1,033,544
Morongo Basin Project surcharge (note 14)	543,894	539,748
Lease payment – Morongo Basin Project	(479,946)	(480,187)
Interest expense – long-term debt	(158,943)	(139,733)
Other non-operating revenues, net	42,811	59,639
Total non-operating revenues, net	<u>2,501,973</u>	<u>2,463,491</u>
Net income before capital contributions	<u>690,514</u>	<u>1,661,930</u>
Capital contributions:		
Grant revenue	2,086,535	2,274,933
Meter sales and installations	152,845	233,515
Total capital contributions	<u>2,239,380</u>	<u>2,508,448</u>
Change in net position	<u>2,929,894</u>	<u>4,170,378</u>
Net position, beginning of period, as restated (note 11)	41,722,470	40,585,530
Prior period adjustment (note 11)	-	(3,033,438)
Net position, beginning of period, as restated	<u>41,722,470</u>	<u>37,552,092</u>
Net position, end of period	<u>\$ 44,652,364</u>	<u>41,722,470</u>

See accompanying notes to the basic financial statements

Hi-Desert Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2016 and 2015

	2016	As restated 2015
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 7,723,016	7,439,199
Cash paid to employees for salaries and wages	(2,981,926)	(2,543,270)
Cash paid to vendors and suppliers for materials and services	(4,480,262)	(4,469,308)
Net cash provided by operating activities	260,828	426,621
Cash flows from non-capital financing activities:		
Proceeds from property taxes	1,438,329	1,395,379
Proceeds from non-operating revenues, net	42,811	59,639
Net cash provided by non-capital financing activities	1,481,140	1,455,018
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(5,745,648)	(5,015,742)
Proceeds from capital grants	2,782,459	2,274,933
Proceeds from meter sales and installations	152,845	233,515
Principal paid on long-term debt	(445,457)	(435,457)
Interest paid on long-term debt	(160,277)	(169,674)
Proceeds from CRP surcharge	1,040,681	1,033,544
Proceeds from Morongo Basin Project surcharge	543,894	539,748
Lease payment – Morongo Basin Project	(479,486)	(479,816)
Net cash used in capital and related financing activities	(2,310,989)	(2,018,949)
Cash flows from investing activities:		
Interest earnings	62,218	56,436
Net cash provided by investing activities	62,218	56,436
Net decrease in cash and cash equivalents	(506,803)	(80,874)
Cash and cash equivalents – beginning of year	8,474,727	8,555,601
Cash and cash equivalents – end of year	\$ 7,967,924	8,474,727

Continued on next page

See accompanying notes to the basic financial statements

Hi-Desert Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2016 and 2015

	2016	As restated 2015
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (1,811,459)	(801,561)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	1,811,941	1,555,113
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable – water sales and services, net	(70,844)	105,354
Accounts receivable – other	402,720	(263,210)
Materials and supplies inventory	(216,527)	(191,772)
Prepaid expenses and other deposits	(12,483)	(6,603)
Deferred outflows of resources	(473,569)	(468,866)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	243,734	343,912
Deposits and unearned revenue	(121,707)	(19,864)
Compensated absences	4,105	11,566
Net pension liability	766,031	(503,025)
Other post employment benefits payable	133,288	(145,765)
Deferred inflows of resources	(394,402)	811,342
Total adjustments	2,072,287	1,228,182
Net cash provided by operating activities	\$ 260,828	426,621

See accompanying notes to the basic financial statements

Hi-Desert Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2016 and 2015

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Hi-Desert Water District (District) was formed on December 14, 1962, and provides potable water and water services to a population of over 25,000 within a 57-square mile area between the cities of Joshua Tree and Morongo Valley within the County of San Bernardino. The District is governed by a five-member Board of Directors who serves overlapping four-year terms.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

The Hi-Desert Improvement Corporation (HDIC) was incorporated on February 13, 1981. The HDIC is a California nonprofit public benefit corporation formed to assist the Hi-Desert Water District (District) by acquiring, constructing, operating and maintaining facilities, equipment, or other property needed by the District and leasing or selling such property to the District and as such has no employees or other operations. Although the HDIC is legally separate, it is included as a blended component unit of the District, as it is in substance part of the District's operations.

The Warren Valley Basin (Basin) provides a groundwater supply for the community of Yucca Valley in the County of San Bernardino. Concerned about the significant increase in groundwater overdraft in the Basin, the District filed a complaint for adjudication of the groundwater in 1976. In 1977, the Superior Court for the County of San Bernardino issued its judgment for adjudication. In the adjudication, the Court recognized the need to issue groundwater rights in excess of the Basin's safe yield so that the local economy could support the cost of a solution to the overdraft problem. To administer the provisions of the adjudication judgment, the Court appointed the District as the Warren Valley Basin Watermaster (WVBW) for the Basin and ordered that the WVBW to formulate a plan and program for management of the Basin's resources. Although the WVBW is legally separate, it is included as a blended component unit of the District, as it is in substance part of the District's operations as it is governed by the same Board of Directors. No separate financial statements are prepared for the HDIC and/or WVBW.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales, water purchases and wastewater related charges, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grant funding and investment income, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

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

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

The District has adopted the following GASB pronouncements in the current year:

Government Accounting Standards Board Statement No. 72

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*, effective for financial statements for periods beginning after June 15, 2015.

The objective of this Statement is to enhance comparability of financial statements among governments by measurement of certain assets and liabilities at their fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value.

Government Accounting Standards Board Statement No. 73

In June 2015, the GASB issued Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*, effective for fiscal years beginning after June 15, 2015.

The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the Scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions.

Government Accounting Standards Board Statement No. 76

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 generally accepted accounting principles (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.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

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

C. Financial Reporting, continued

Government Accounting Standards Board Statement No. 79

In December 2015, the GASB issued Statement No. 79 – *Certain External Investment Pools and Pool Participants*, effective for financial statements for periods beginning after June 15, 2015.

This Statement enhances comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

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

1. Use of Estimates

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

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents.

3. Investments and Investment Policy

The District has adopted an investment policy directing the General Manager to deposit and invest funds in financial institutions in accordance with California Government Code section 53600. The investment policy applies to all financial assets and investment activities of the District.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

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

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

5. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

6. Property Taxes and Assessments

The County of San Bernardino Assessor's Office assesses all real and personal property within the County each year. The County of San Bernardino Tax Collector's Offices bills and collects the District's share of property taxes and assessments. The County of San Bernardino Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the County of San Bernardino, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

6. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipe and pipefittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using the first-in first-out method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

7. Prepaid Expenses

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

8. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources that is applicable to future periods.

9. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources that is applicable to future periods.

10. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

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

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

10. Capital Assets, continued

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Transmission and distribution mains – 15 to 40 years
- Reservoirs and tanks – 10 to 45 years
- Wells – 10 to 30 years
- Meter service installations – 7 to 10 years
- Recharge site #3 – 40 years
- Recharge ponds – 3 to 40 years
- Nitrate removal plant – 40 years
- Reach II pipeline – 40 years
- Pumps – 12 to 20 years
- Boosters – 20 to 25 years
- Hydrants – 25 to 40 years
- Blending facility – 40 years
- Buildings and structures – 5 to 30 years
- Office furniture and equipment – 5 to 10 years
- Tools and equipment – 5 years
- Vehicles – 4 years

11. Compensated Absences

The District's policy is to permit employees to accumulate paid time off (PTO) in lieu of vacation and sick leave. No employee is allowed to accrue PTO in excess of: four hundred forty-eight (448) for years one (1) through five (5); five hundred twenty-eight (528) for years six (6) through ten (10); six hundred eight (608) for years eleven (11) through fifteen (15); six hundred seventy-two (672) for years sixteen (16) and greater. Payment of unused PTO shall not reduce the accrual balance to less than eighty (80) hours.

12. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2014 and 2013
- Measurement Date: June 30, 2015 and 2014
- Measurement Period: July 1, 2014 to June 30, 2015 and July 1, 2013 to June 30, 2014

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

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

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

13. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net Investment in Capital Assets** – Investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – Restricted consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- **Unrestricted** – Unrestricted consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

14. Water Sales

Water sales are billed on a monthly cyclical basis and recognize the respective revenues when they are earned.

15. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

16. Capital Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a capital or operating grant receivable on the statement of net position and as capital grant contribution or operating grant revenue, as appropriate, on the statement of revenues, expenses and changes in net position.

17. Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, are classified in the accompanying financial statements as follows:

	2016	2015
Cash and cash equivalents	\$ 7,967,924	8,474,727

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(2) Cash and Cash Equivalents, continued

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

	<u>2016</u>	<u>2015</u>
Cash on hand	\$ 1,700	1,700
Deposits held with financial institutions	3,591,935	4,115,483
Deposits held with California Local Agency Investment Fund (LAIF)	4,374,289	4,357,544
Total	<u>\$ 7,967,924</u>	<u>8,474,727</u>

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

	<u>2016</u>	<u>2015</u>
Deposits held with the California Local Agency Investment Fund (LAIF)	167 days	239 days

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury obligations	5 years	None	None
Federal agency and bank obligations	5 years	None	None
Certificates-of-deposit (negotiable or placed)	5 years	30%	None
Commercial paper (prime)	270 days	25%	10%
Money market mutual funds	N/A	20%	None
State and local bonds, notes and warrants	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 and is under the management of the Treasurer of the State of California with oversight provided by the Local Agency Investment Advisory Board. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Bank balances are secured by the pledging of a pool of eligible securities to collateralize the District's deposits with the bank in accordance with the Code.

District's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of \$1,000 dollars.
- Withdrawals of \$10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF for verbal authorization.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(2) Cash and Cash Equivalents, continued

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization; however, LAIF is not rated.

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's deposit portfolio with governmental agencies, LAIF, is 55% and 51% as of June 30, 2016 and 2015, respectively, of the District's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 5% or more of the District's total investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the District's bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

(3) Accounts Receivable – Water Sales and Services

The balance at June 30, consists of the following:

		2016	2015
Accounts receivable – water sales and services	\$	1,438,546	1,355,944
Allowance for uncollectible accounts		(104,258)	(92,500)
Accounts receivable – water sales, net	\$	1,334,288	1,263,444

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(4) Capital Assets

	As restated Balance 2015	Additions/ Transfers	Deletions/ Transfers	Balance 2016
Non-depreciable assets:				
Land	\$ 1,130,089	-	-	1,130,089
Easements	337,851	-	-	337,851
Construction-in-process	8,154,567	5,332,909	(2,586,314)	10,901,162
Total non-depreciable assets	<u>9,622,507</u>	<u>5,332,909</u>	<u>(2,586,314)</u>	<u>12,369,102</u>
Depreciable assets:				
Transmission and distribution mains	27,280,753	2,586,314	-	29,867,067
Reservoirs and tanks	6,512,857	-	-	6,512,857
Wells	6,788,696	-	-	6,788,696
Meter service installations	1,201,496	-	-	1,201,496
Recharge ponds	2,000,846	-	-	2,000,846
Recharge site #3	2,459,164	-	-	2,459,164
Nitrate removal facility	2,738,124	-	-	2,738,124
Reach II pipeline	1,473,958	-	-	1,473,958
Pumps	1,055,170	-	-	1,055,170
Boosters	890,673	-	-	890,673
Hydrants	847,105	-	-	847,105
Blending facility	771,483	21,256	-	792,739
Buildings and structures	1,151,786	-	-	1,151,786
Office furniture and equipment	1,053,856	5,648	-	1,059,504
Tools and equipment	565,572	-	-	565,572
Vehicles	3,984,693	385,835	-	4,370,528
Total depreciable assets	<u>60,776,232</u>	<u>2,999,053</u>	<u>-</u>	<u>63,775,285</u>
Accumulated depreciation and amortization:				
Transmission and distribution mains	(9,805,090)	(655,420)	-	(10,460,510)
Reservoirs and tanks	(3,362,456)	(143,672)	-	(3,506,128)
Wells	(3,921,330)	(247,276)	-	(4,168,606)
Meters	(1,201,496)	-	-	(1,201,496)
Recharge ponds	(1,034,853)	(47,593)	-	(1,082,446)
Recharge site #3	(584,051)	(61,479)	-	(645,530)
Nitrate removal facility	(844,504)	(69,109)	-	(913,613)
Reach II pipeline	(718,555)	(36,849)	-	(755,404)
Pumps	(1,018,764)	(8,330)	-	(1,027,094)
Boosters	(855,096)	(13,000)	-	(868,096)
Hydrants	(678,283)	(21,282)	-	(699,565)
Blending facility	(202,514)	(20,350)	-	(222,864)
Buildings and structures	(753,448)	(35,885)	-	(789,333)
Office furniture and equipment	(1,005,966)	(34,020)	-	(1,039,986)
Tools and equipment	(535,355)	(8,411)	-	(543,766)
Vehicles	(2,833,638)	(409,265)	-	(3,242,903)
Total accumulated depreciation	<u>(29,355,399)</u>	<u>(1,811,941)</u>	<u>-</u>	<u>(31,167,340)</u>
Total depreciable assets, net	<u>31,420,833</u>	<u>1,187,112</u>	<u>-</u>	<u>32,607,945</u>
Total capital assets, net	<u>\$ 41,043,340</u>			<u>44,977,047</u>

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(4) Capital Assets, continued

	As restated Balance 2014	Additions/ Transfers	Deletions/ Transfers	As restated Balance 2015
Non-depreciable assets:				
Land	\$ 1,130,089	-	-	1,130,089
Easements	337,851	-	-	337,851
Construction-in-process	7,632,146	4,060,860	(3,538,439)	8,154,567
Total non-depreciable assets	<u>9,100,086</u>	<u>4,060,860</u>	<u>(3,538,439)</u>	<u>9,622,507</u>
Depreciable assets:				
Transmission and distribution mains	25,738,802	1,585,381	(43,430)	27,280,753
Reservoirs and tanks	6,481,178	31,679	-	6,512,857
Wells	4,911,443	1,877,253	-	6,788,696
Meter service installations	1,201,496	-	-	1,201,496
Recharge ponds	2,000,846	-	-	2,000,846
Recharge site #3	2,459,164	-	-	2,459,164
Nitrate removal facility	2,738,124	-	-	2,738,124
Reach II pipeline	1,473,958	-	-	1,473,958
Pumps	1,043,419	11,751	-	1,055,170
Boosters	890,673	-	-	890,673
Hydrants	847,105	-	-	847,105
Blending facility	771,483	-	-	771,483
Buildings and structures	1,151,786	-	-	1,151,786
Office furniture and equipment	1,036,751	17,105	-	1,053,856
Tools and equipment	565,572	-	-	565,572
Vehicles	2,971,111	1,013,582	-	3,984,693
Total depreciable assets	<u>56,282,911</u>	<u>4,536,751</u>	<u>(43,430)</u>	<u>60,776,232</u>
Accumulated depreciation and amortization:				
Transmission and distribution mains	(9,191,740)	(613,350)	-	(9,805,090)
Reservoirs and tanks	(3,218,784)	(143,672)	-	(3,362,456)
Wells	(3,712,366)	(208,964)	-	(3,921,330)
Meters	(1,201,496)	-	-	(1,201,496)
Recharge ponds	(987,260)	(47,593)	-	(1,034,853)
Recharge site #3	(522,572)	(61,479)	-	(584,051)
Nitrate removal facility	(775,394)	(69,110)	-	(844,504)
Reach II pipeline	(681,706)	(36,849)	-	(718,555)
Pumps	(1,010,435)	(8,329)	-	(1,018,764)
Boosters	(841,714)	(13,382)	-	(855,096)
Hydrants	(655,566)	(22,717)	-	(678,283)
Blending facility	(183,227)	(19,287)	-	(202,514)
Buildings and structures	(717,568)	(35,880)	-	(753,448)
Office furniture and equipment	(974,222)	(31,744)	-	(1,005,966)
Tools and equipment	(526,939)	(8,416)	-	(535,355)
Vehicles	(2,599,297)	(234,341)	-	(2,833,638)
Total accumulated depreciation	<u>(27,800,286)</u>	<u>(1,555,113)</u>	<u>-</u>	<u>(29,355,399)</u>
Total depreciable assets, net	<u>28,482,625</u>	<u>2,981,638</u>	<u>(43,430)</u>	<u>31,420,833</u>
Total capital assets, net	<u>\$ 37,582,711</u>			<u>41,043,340</u>

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(4) Capital Assets, continued

Major depreciable capital asset additions during fiscal year 2016 include additions to the transmission and distribution system mains, reservoirs and tanks, blending facility, office furniture and equipment, and vehicles.

Major depreciable capital asset additions during fiscal year 2015 include additions to the transmission and distribution system mains, reservoirs and tanks, wells, pumps, office furniture and equipment, and vehicles.

Depreciation expense was charged to the District's water fund as of June 30, 2016 and 2015.

Construction-In-Process

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-process balances at June 30, 2016 and 2015 are as follows:

The balance at June 30, consists of the following projects:

	<u>2016</u>	<u>2015</u>
Wastewater treatment facility	\$ 1,735,005	\$ 1,735,005
Wastewater facility progressive design	8,978,989	6,232,394
Tank rehabilitation project	146,075	146,075
Various small projects under \$50,000	<u>41,093</u>	<u>41,093</u>
Construction-in-process	<u>\$ 10,901,162</u>	<u>\$ 8,154,567</u>

(5) Deferred Outflows of Resources

Changes in deferred outflows of resources for 2016, were as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2016</u>
Deferred outflows of resources:				
Deferred pension outflows	\$ 468,866	1,187,657	(714,088)	942,435
Total deferred outflows of resources	<u>\$ 468,866</u>	<u>1,187,657</u>	<u>(714,088)</u>	<u>942,435</u>

Changes in deferred outflows of resources for 2015, were as follows:

	<u>Balance 2014</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2015</u>
Deferred outflows of resources:				
Deferred pension outflows	\$ 318,102	472,807	(322,043)	468,866
Total deferred outflows of resources	<u>\$ 318,102</u>	<u>472,807</u>	<u>(322,043)</u>	<u>468,866</u>

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(6) Compensated Absences

Compensated absences comprise unpaid paid time off that accrues when benefits are fully vested and are determined annually. Compensated absences turn-over each year, therefore, the compensated absence balance of the District is recorded as a liability on the Statement of Net Position, and will be liquidated through the water fund.

The changes to compensated absences balances at June 30, were as follows:

<u>Balance</u> <u>2015</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2016</u>	<u>Due Within</u> <u>One Year</u>	<u>Due in More</u> <u>Than One Year</u>
\$ 258,950	305,779	(301,673)	263,056	65,764	197,292

<u>Balance</u> <u>2014</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2015</u>	<u>Due Within</u> <u>One Year</u>	<u>Due in More</u> <u>Than One Year</u>
\$ 247,385	254,827	(243,261)	258,951	64,738	194,213

(7) Long-term Debt

	<u>Balance</u> <u>2015</u>	<u>Additions</u>	<u>Payments/ Amortization</u>	<u>Balance</u> <u>2016</u>
Bonds payable:				
2013 Revenue Refunding bonds	\$ 4,590,000	-	(400,000)	4,190,000
Premium on revenue refunding bonds	454,565	-	(45,457)	409,108
Total bonds payable	5,044,565	-	(445,457)	4,599,108
Loans payable:				
Clean Water State Revolving Fund Loan	-	695,924	-	695,924
Total loans payable	-	695,924	-	695,924
Total	5,044,565	695,924	(445,457)	5,295,032
Less: current portion due	(400,000)			(410,000)
Long-term portion due	\$ 4,644,565			4,885,032

Changes in long-term debt for the year ended June 30, 2015, are as follows:

	<u>Balance</u> <u>2014</u>	<u>Additions</u>	<u>Payments/ Amortization</u>	<u>Balance</u> <u>2015</u>
2013 Revenue Refunding bonds	\$ 4,980,000	-	(390,000)	4,590,000
Premium on revenue refunding bonds	500,022	-	(45,457)	454,565
Total	5,480,022	-	(435,457)	5,044,565
Less: current portion due	(390,000)			(400,000)
Long-term portion due	\$ 5,090,022			4,644,565

Clean Water State Revolving Fund Loan

On December 17, 2015, the District entered into a grant funding agreement with California State Water Resources Control Board ("State") for a construction loan and grant pursuant under the California Water State Revolving Fund (SRF) pursuant to Chapter 6.5 of Division 7 of the California Water Code to be used for purposes of the Clean Water Act. The SRF program is a federal state partnership that provides communities a permanent, independent source of low-cost financing for a wide range of water quality infrastructure projects.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(7) Long-term Debt, continued

Clean Water State Revolving Fund Loan, continued

The project to be constructed under the grant funding agreement includes the construction of a sewer collection system, a wastewater treatment facility and water reclamation recharge ponds. The grant is funded by federal and state monies of 80% and 20% (matching funds), respectively.

The agreement provides for a total funding of \$142,349,314 at 1% interest rate with a loan repayment term of 30 years. The loan repayment term shall commence after all disbursements have been paid and construction of the Project has been estimated to be completed in Fiscal Year 2020.

2013 Revenue Refunding Bonds

On April 1, 2013, the District issued \$5,110,000 in twelve-year Water Revenue Refunding Bonds, Series 2013, (2013 Revenue Refunding Bonds) to provide funds to pay off and refund the Districts following prior obligations: the 1986 California Department of Water Resources loan, the 1982 Lease Revenue bonds, the 1998 Revenue Refunding bonds, and the 1978 Farmer's Home Loan Administration note. The bonds and interest are payable from, and are secured by a pledge of net revenues and certain funds held under the indenture.

The bonds are scheduled to mature in 2025. Interest is payable semi-annually on September 1st and March 1st each year at a rate of 2.00% while principal payments are made on March 1st each year.

Annual debt service requirements on the 2013 Revenue Refunding Bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 410,000	143,750	553,750
2018	420,000	131,150	551,150
2019	435,000	113,750	548,750
2020	450,000	104,750	554,750
2021	460,000	86,350	546,350
2022-2025	<u>2,015,000</u>	<u>155,750</u>	<u>2,170,750</u>
Total	4,190,000	<u>735,500</u>	<u>4,925,500</u>
Add: bond premium	409,108		
Less: current portion	<u>(410,000)</u>		
Long-term portion	<u>\$ 4,189,108</u>		

(8) Deferred Inflows of Resources

Changes in deferred inflows of resources for 2016, were as follows:

	<u>Balance</u> <u>2015</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance</u> <u>2016</u>
Deferred inflows of resources:				
Deferred pension inflows	\$ 811,342	376,902	(771,304)	416,940
Total deferred inflows of resources	<u>\$ 811,342</u>	<u>376,902</u>	<u>(771,304)</u>	<u>416,940</u>

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(8) Deferred Inflows of Resources, continued

Changes in deferred inflows of resources for 2015, were as follows:

	<u>Balance 2014</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2015</u>
Deferred inflows of resources:				
Deferred pension inflows	\$ 1,014,534		(203,192)	811,342
Total deferred inflows of resources	\$ 1,014,534	-	(203,192)	811,342

(9) Other Post-Employment Benefits Payable

The District provides other post-employment benefits (OPEB) to qualified employees who retire from the District and meet the District's vesting requirements.

Plan Description – Eligibility

A retired employee and dependent spouse, or spouse of a deceased employee or retiree must satisfy the following requirements in order to be eligible for post employment medical and dental benefits:

- Full time employees hired before November 15, 2000, with 10 years of continuous service with a minimum of 50 years of age.
- Full time employees hired on or after November 15, 2000, with 20 years of continuous service with a minimum of 55 years of age.
- Full time employees hired on or after May 17, 2006, is a minimum of 55 years of age with a minimum of 20 years of continuous service will receive benefits until the earlier of age 65 or until eligible for Medicare.
- Full time employees hired on or after July 1, 2009, are not eligible for post employment benefits.

If the spouse of a deceased employee or retiree remarries and becomes eligible for health benefits under his/her new spouse's health plan, all District benefits shall be terminated.

Membership in the OPEB plan consisted of the following members as of June 30:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Active plan members	22	24	26
Retirees and beneficiaries receiving benefits	19	17	19
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	<u>41</u>	<u>41</u>	<u>45</u>

Plan Description – Benefits

The District offers post employment medical and dental benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the District's medical and dental programs. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(9) Other Post-Employment Benefits Payable, continued

Funding Policy

The District is required to contribute the Annual Required Contribution (ARC) of the Employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 8.5% of the annual covered payroll.

Annual Cost

For the fiscal year ended June 30, 2016 and 2015, the District's ARC cost is \$255,873 and 58,517, respectively. The District's net OPEB payable obligation amounted to \$657,057 and \$523,769 for the fiscal year ended June 30, 2016 and 2015, respectively. The District contributed \$110,566 and \$189,909 in adjusted contributions for current retiree OPEB premiums for the fiscal year ended June 30, 2016 and 2015, respectively.

The balance at June 30, consists of the following:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 255,873	58,517	55,997
Interest on net OPEB obligation	5	7	8
Adjustment to annual required contribution	<u>(12,024)</u>	<u>(14,380)</u>	<u>(16,192)</u>
Total annual OPEB expense	243,854	44,144	39,813
Change in net OPEB payable obligation:			
Age adjusted contributions made	<u>(110,566)</u>	<u>(189,909)</u>	<u>(175,092)</u>
Total change in net OPEB payable obligation	133,288	(145,765)	(135,279)
OPEB payable – beginning of year	<u>523,769</u>	<u>669,534</u>	<u>976,083</u>
OPEB payable – end of year	<u>\$ 657,057</u>	<u>523,769</u>	<u>669,534</u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year ended June 30, 2016 and the two preceding years were as follows:

<u><i>Three-Year History of Net OPEB Obligation</i></u>				
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Age Adjusted Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation Payable</u>
2016	\$ 243,854	110,566	45.34%	\$ 657,057
2015	44,144	189,909	430.20%	523,769
2014	39,813	207,015	519.97%	669,534

Funded Status and Funding Progress of the Plan

The most recent valuation (dated June 30, 2016) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$3,590,088. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2016 was \$3,003,778. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 119.52%.

See the Schedule of Funding Status in the Required Supplementary Information Section on Page 52.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(10) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by CalPERS at June 30, 2016 and 2015 were \$127,560 and \$113,199, respectively. The market value of all plan assets held in trust by Lincoln Financial Services at June 30, 2016 and 2015, were \$742,768 and \$719,609, respectively.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net position.

(11) Prior Period Adjustment

Capital Assets

In fiscal year 2014 and 2013, the District determined that expenditures spent for its ongoing wastewater treatment plant including costs related to facility progressive design, project management, engineering, easement and legal costs should have been capitalized as of June 30, 2014 and 2013. As a result, \$2,100,079 and \$1,817,176, respectively were not recorded in the District's books. Therefore, the District has recorded a prior period adjustment to net position in the amount of \$2,100,079 and \$1,817,176 at June 30, 2014 and 2013, respectively.

Accounts Receivable – Unbilled Receivable

In fiscal year 2015, the District determined that accounts receivable related to the 2014 fiscal year were under accrued. As a result, the District has recorded a prior period adjustment to net position.

Net Pension Liability – GASB 68 and 71 Implementation

In fiscal year 2015, the District implemented GASB pronouncements 68 and 71 to recognize its proportionate share of the net pension liability. As a result of the implementation, the District recognized pension liability and recorded a prior period adjustment, a decrease in net position, of \$4,289,862 at July 1, 2014. The District recorded a prior period adjustment, an increase in net position, to reclassify from expense to deferred outflows of resources, the prior year's proportionate share of employer pension contribution totaling \$318,102 at July 1, 2014. The District wrote off \$938,322 balance of its CalPERS Side-Fund.

In 2014, ending net position of \$36,207,275 has been restated to \$36,668,275. In addition, the effect of the implementation of GASB 68 is recorded as an adjustment to the beginning net position at June 30, 2015.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(11) Prior Period Adjustment, continued

The effect of the above changes is summarized as follows:

The adjustment to net position is as follows:

Net position at July 1, 2012, as previously stated	\$	31,114,305
Effect of adjustment to record capitalized assets		1,817,176
Change in net position at June 30, 2013, as previously stated		<u>1,625,587</u>
Net position at June 30, 2013, as restated		34,557,068
Effect of adjustment to accounts receivable		461,000
Effect of adjustment to record capitalized assets		2,100,079
Change in net position at June 30, 2014, as previously stated		<u>3,467,383</u>
Net position at June 30, 2014, as restated		<u>40,585,530</u>
Effect of adjustment to record net pension liability		(4,289,862)
Effect of adjustment to side fund liability		938,322
Effect of adjustment to record deferred pension outflows		<u>318,102</u>
Total adjustment to net position		<u>(3,033,438)</u>
Net position, beginning, as restated at July 1, 2014	\$	<u><u>37,552,092</u></u>

(12) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.5% at 55 Risk Pool Retirement Plan to new employee entrants effective December 31, 2013. All employees hired after January 1, 2013 are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(12) Defined Benefit Pension Plan, continued

The Plans' provision and benefits in effect at June 30, 2016 are summarized as follows:

	Miscellaneous Plan		
	Classic	New Classic	PEPRA
Hire date	Prior to January 1, 2011	On or after January 1, 2011 - December 31, 2012	On or after January 1, 2013
Benefit formula	2.5% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.00%	7.00%	6.50%
Required employer contribution rates	10.612%	7.51%	6.73%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates, for all public employers, be determined on an annual basis by the actuary and shall be effective on July 1 following notice of the change in rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the fiscal years ended June 30, 2016 and 2015, the contributions recognized as part of pension expense for the Plan was as follows:

	Miscellaneous Plan	
	2016	2015
Contributions – employer	\$ 228,861	457,832

Net Pension Liability

As of the fiscal year ended June 30, 2016 and 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability	
	2016	2015
Miscellaneous Plan	\$ 4,234,766	3,468,735

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015 and 2014 (the measurement dates), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 and 2013 (the valuation dates), rolled forward to June 30, 2015 and 2014, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(12) Defined Benefit Pension Plan, continued

Net Pension Liability, continued

The District's proportionate share of the pension liability for the Plan as of the measurement date June 30, 2015, was as follows:

	Miscellaneous Plan
Proportion – June 30, 2014	0.05575%
Proportion – June 30, 2015	0.06170%
Change – Increase (Decrease)	0.00595%

The District's proportionate share of the pension liability for the Plan as of the measurement date June 30, 2014, was as follows:

	Miscellaneous Plan
Proportion – June 30, 2013	0.05322%
Proportion – June 30, 2014	0.05575%
Change – Increase (Decrease)	0.00253%

Deferred Pension Outflows (Inflows) of Resources

For the fiscal years ended June 30, 2016 and 2015, the District recognized pension expense of \$126,921 and \$297,283, respectively.

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	\$ 228,861	
Differences between actual and expected experience	29,354	
Changes in assumptions	-	(277,717)
Net differences between projected and actual earnings on plan investments	-	(139,223)
Differences between actual contribution and proportionate share of contribution	123,867	
Net adjustment due to differences in proportions of net pension liability	560,353	
Total	\$ 942,435	(416,940)

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(12) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to the measurement date	\$ 457,832	-
Net differences between projected and actual earnings on plan investments	-	(811,342)
Net adjustment due to differences in proportions of net pension liability	11,034	-
Total	<u>\$ 468,866</u>	<u>(811,342)</u>

As of June 30, 2016 and 2015, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of \$228,861 and \$457,832 will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2017 and 2016, respectively.

At June 30, 2016, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Deferred Net Outflows/(Inflows) of Resources</u>
2017	\$ 71,111
2018	70,559
2019	37,733
2020	117,231
2021	-
Remaining	-

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(12) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liability in the June 30, 2015 and 2014 actuarial valuation report was determined using the following actuarial assumptions:

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

Valuation Date	June 30, 2014 and 2013
Measurement Date	June 30, 2015 and 2014
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.50% Net of Administrative Expenses for 2015 and 2014
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

Discount Rate

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS confirmed the materiality threshold for the difference in the calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the Discount rate will require CalPERS Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the fiscal year ended 2017-2018. CalPERS will continue to check the materiality of the difference in the calculation until such time as it has changed its methodology.

The long-term expected rate of return on pension plan investments was determine using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculates over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(12) Defined Benefit Pension Plan, continued

Discount Rate, continued

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Year 11+**</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)
Total	<u>100.0%</u>		

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following tables presents the District's proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the District's proportional share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

	<u>Discount Rate - 1% 6.65%</u>	<u>Current Discount Rate 7.65%</u>	<u>Discount Rate + 1% 8.65%</u>
District's Net Pension Liability	\$ <u>7,363,463</u>	<u>4,234,766</u>	<u>1,936,287</u>

	<u>Discount Rate - 1% 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>Discount Rate + 1% 8.50%</u>
District's Net Pension Liability	\$ <u>5,489,478</u>	<u>3,468,735</u>	<u>1,791,691</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 53 through 54 for the Required Supplementary Schedules.

Payable to the Pension Plan

At June 30, 2016 and 2015, the District reported no payables for the outstanding amount of contribution to the pension plan.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(13) Net Position

Calculation of net position as of June 30, were as follows:

	2016	2015
Net investment in capital assets:		
Capital assets, net	\$ 44,977,047	41,043,340
Loans payable	(695,924)	-
Bonds payable – current portion	(410,000)	(400,000)
Bonds payable – non-current portion	(4,189,108)	(4,644,565)
Total net investment in capital assets	39,682,015	35,998,775
Unrestricted net position:		
Non-spendable net position:		
Materials and supplies inventory	739,285	522,758
Prepaid lease payment	719,394	719,854
Prepaid expenses and other deposits	130,446	117,963
Total non-spendable net position	1,589,125	1,360,575
Spendable net position are as follows:		
Unrestricted	3,381,224	4,363,120
Total spendable net position	3,381,224	4,363,120
Total unrestricted net position	\$ 4,970,349	5,723,695

(14) Morongo Basin Project and Surcharge

The District is a project participant in the Mojave Water Agency's Improvement District M State Water Project (Morongo Basin Project). The Mojave Water Agency was authorized to issue \$66,500,000 of general obligation bonds to build a pipeline connection from the State Water Project's California Aqueduct in Hesperia to the Morongo Basin. The project was completed in June 1996, and to date \$51,780,000 in bonded debt has been issued to cover the costs of the construction.

The District and the other project participants have agreed to pay their proportional portion of the construction, operation and financing costs for the entire project.

Therefore, the District is charging all of its customers a monthly surcharge to pay for the District's participation in the Morongo Basin Project. The total surcharge revenue for the fiscal years ended June 30, 2016 and 2015 were \$543,894 and \$539,748, respectively.

The agreement is being treated as a 25-year operating lease since title to the pipeline connection assets will not be transferred to the District. As part of the agreement, the District is required to pre-pay its portion of the lease (debt service on the project) on June 1, for the next fiscal year.

The District's commitment under the agreement is 17.70% of the annual bonded debt service requirements (principal and interest).

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(14) Morongo Basin Project and Surcharge, continued

The District's remaining operating lease payments are as follows:

<u>Due June 1st</u>	<u>Amount</u>
2017	\$ 480,076
2018	480,076
2019	480,076
2020	480,076
2021	480,076
2022-2023	<u>331,857</u>
Total	<u>\$ 2,732,237</u>

At June 30, 2016 and 2015, the District has recorded a prepaid asset on the statement of net position in the amount of \$719,394 and \$719,854, respectively, related to the Morongo Basin Project and Surcharge.

(15) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2016, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$2,000,000, combined single limit at \$2,000,000 per occurrence. The ACWA/JPIA purchased additional excess coverage layers: \$60 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition, the District also has the following insurance coverage:

- Employee dishonesty coverage up to \$100,000 per loss includes public employee dishonesty, forgery or alteration and theft, computer fraud, plus \$500,000 excess crime coverage.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$100 million per occurrence, subject to a \$2,500 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law purchased through the Special District Risk Management Authority (SDRMA).

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the fiscal years ended June 30, 2016, 2015 and 2014. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There was no IBNR claims payable as of June 30, 2016, 2015 and 2014.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2016, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 74

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 77

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. This Statement is effective for financial statements for periods beginning after December 15, 2015. It is believed that the implementation of this Statement will not have a material effect to the Agency's financial statements.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

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

Governmental Accounting Standards Board Statement No. 80

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District’s financial statements.

Governmental Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement is effective for financial statements for periods beginning after December 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District’s financial statements.

Governmental Accounting Standards Board Statement No. 82

In March 2016, the GASB issued Statement No. 82 – *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No.73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District’s financial statements.

(17) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Litigation

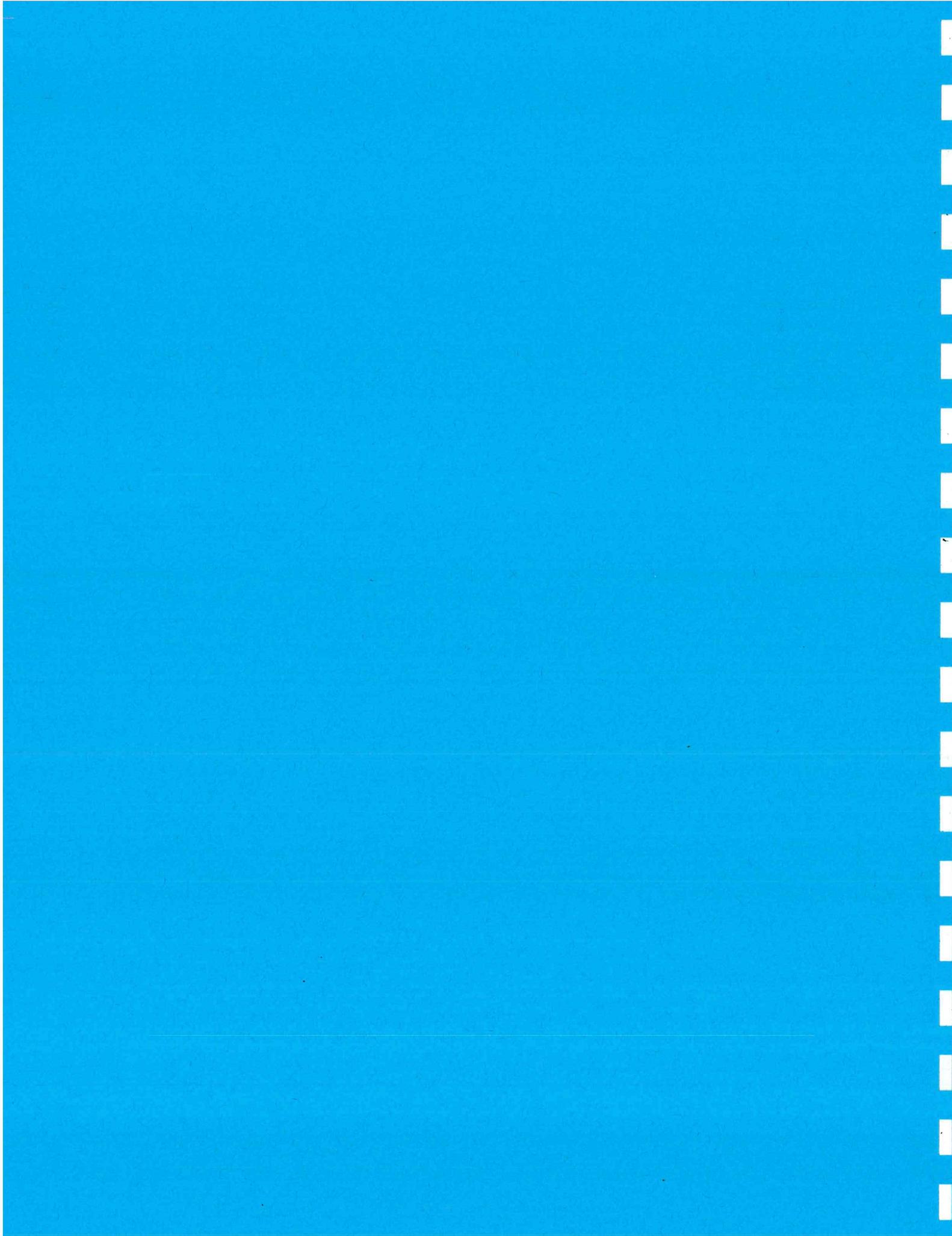
In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2016 and 2015

(18) Subsequent Events

Events occurring after June 30, 2016, have been evaluated for possible adjustment to the financial statements or disclosure as of December 13, 2016, which is the date the financial statements were available to be issued.

Required Supplementary Information



Hi-Desert Water District
Schedule of Funding Status – Other Post Employment Benefit
For the Fiscal Year Ended June 30, 2016

Funding Status and Funding Progress of the Plan

Required Supplemental Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c)
6/30/2016	\$ -	3,590,088	3,590,088	0.00%	\$ 3,003,778	119.52%
6/30/2013	-	782,352	782,352	0.00%	2,798,440	27.96%
6/30/2010	-	3,296,127	3,296,127	0.00%	2,444,369	134.85%

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2020 based on the year ending June 30, 2019.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially-determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

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

Valuation date	June 30, 2016
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Amortization period	24 Years
Actuarial assumptions:	
Actual contribution	\$ 109,039
Total OPEB Retiree Premium	n/a
Age Adjustment Factor	1.986
Annual Required Contribution (ARC)	\$ 255,873
Net OPEB Obligation	\$ 523,769
Payroll Growth Rate	4.50%
Individual salary growth	District annual COLA

Hi-Desert Water District
Schedule of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2016
Last Ten Years*

	<u>Measurement Date 6/30/2015</u>	<u>Measurement Date 6/30/2014</u>
District's Proportion of the Net Pension Liability	<u>0.06170%</u>	<u>0.05575%</u>
District's Proportionate Share of the Net Pension Liability	\$ <u>4,234,766</u>	\$ <u>3,468,735</u>
District's Covered-Employee Payroll	\$ <u>2,255,616</u>	\$ <u>2,048,638</u>
District's proportionate share of the net pension liability as a as a Percentage of its Covered-Employee Payroll	<u>187.74%</u>	<u>169.32%</u>
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	<u>73.05%</u>	<u>77.23%</u>
Plan's Proportionate Share of Aggregate Employer Contributions	\$ <u>396,966</u>	\$ <u>436,417</u>

Notes:

* Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

Hi-Desert Water District
Schedule of Pension Plan Contributions
As of June 30, 2016
Last Ten Years*

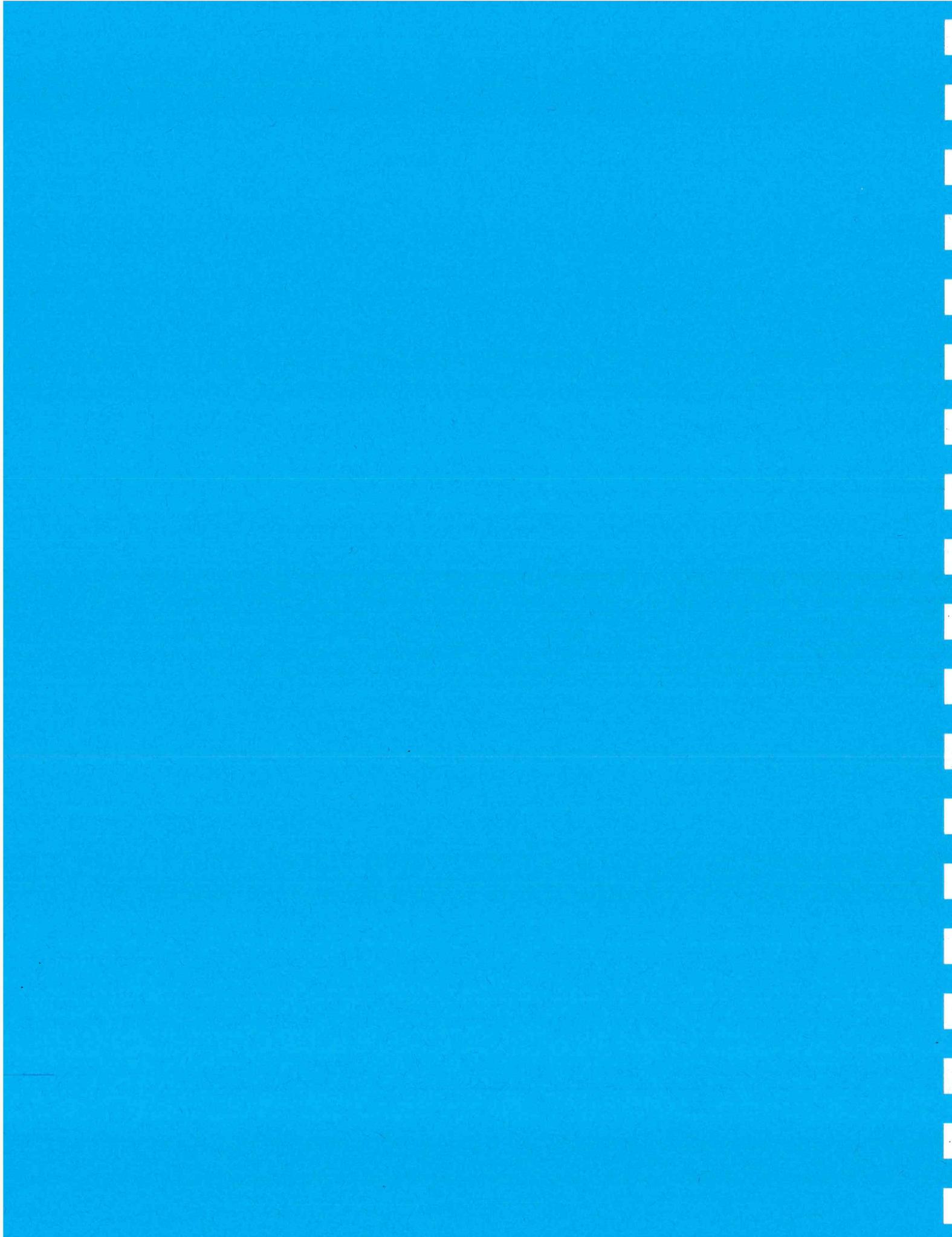
<u>Schedule of Pension Plan Contributions:</u>	Measurement Date <u>2014-2015</u>	Measurement Date <u>2013-2014</u>
Actuarially Determined Contribution	\$ 396,966	\$ 436,417
Contributions in relation to the Actuarially Determined Contribution	<u>(228,861)</u>	<u>(436,417)</u>
Contribution Deficiency (Excess)	\$ 168,105	\$ -
District's Covered-Employee Payroll	\$ <u>2,255,616</u>	\$ <u>2,048,638</u>
Contribution's as a percentage of Covered-Employee Payroll	<u>10.15%</u>	<u>21.30%</u>

Notes:

* Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.



Supplemental Information Section



Hi-Desert Water District
Combining Schedule of Net Position
June 30, 2016

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Current assets:			
Cash and cash equivalents	\$ 7,692,195	275,729	7,967,924
Accrued interest receivable	5,947	-	5,947
Accounts receivable – water sales and services, net	1,334,288	-	1,334,288
Accounts receivable – other	18,155	814,090	832,245
Property taxes receivable	52,367	-	52,367
Internal balances	6,175,659	(6,175,659)	-
Materials and supplies inventory	739,285	-	739,285
Prepaid lease payment	719,394	-	719,394
Prepaid expense and other deposits	130,446	-	130,446
Total current assets	16,867,736	(5,085,840)	11,781,896
Non-current assets:			
Capital assets – not being depreciated	1,331,822	11,037,280	12,369,102
Depreciable capital assets, net	32,607,945	-	32,607,945
Total non-current assets	33,939,767	11,037,280	44,977,047
Total assets	50,807,503	5,951,440	56,758,943
Deferred outflows of resources:			
Deferred pension outflows	942,435	-	942,435
Total deferred outflows of resources	942,435	-	942,435
Current liabilities:			
Accounts payable and accrued expenses	845,385	693,958	1,539,343
Deposits and unearned revenue	616,775	37	616,812
Accrued interest on long-term debt	26,008	-	26,008
Long-term liabilities – due within one year:			
Compensated absences	65,764	-	65,764
Bonds payable	410,000	-	410,000
Total current liabilities	1,963,932	693,995	2,657,927
Non-current liabilities			
Long-term liabilities – due in more than one year:			
Compensated absences	197,292	-	197,292
Other post employment benefits	657,057	-	657,057
Net pension liability	4,234,766	-	4,234,766
Loans payable	-	695,924	695,924
Bonds payable, net	4,189,108	-	4,189,108
Total non-current liabilities	9,278,223	695,924	9,974,147
Total liabilities	11,242,155	1,389,919	12,632,074
Deferred inflows of resources:			
Deferred pension inflows	416,940	-	416,940
Total deferred inflows of resources	416,940	-	416,940
Net position:			
Net investment in capital assets	29,340,659	10,341,356	39,682,015
Unrestricted	10,750,184	(5,779,835)	4,970,349
Total net position	\$ 40,090,843	4,561,521	44,652,364

See accompanying notes to the basic financial statements

Hi-Desert Water District
Combining Schedule of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Operating revenues:			
Water consumption sales	\$ 5,438,541	-	5,438,541
Readiness-to-serve fees	1,770,154	-	1,770,154
Other charges	304,152	-	304,152
Total operating revenues	<u>7,512,847</u>	<u>-</u>	<u>7,512,847</u>
Operating expenses:			
Source of supply	1,121,814	-	1,121,814
Pumping and water treatment	1,875,176	-	1,875,176
Transmission and distribution	1,316,808	-	1,316,808
Customer accounts	489,008	-	489,008
Wastewater operations	-	75,799	75,799
General and administrative	2,633,760	-	2,633,760
Total operating expenses	<u>7,436,566</u>	<u>75,799</u>	<u>7,512,365</u>
Operating income (loss) before depreciation	76,281	(75,799)	482
Depreciation	<u>(1,811,941)</u>	<u>-</u>	<u>(1,811,941)</u>
Operating loss	<u>(1,735,660)</u>	<u>(75,799)</u>	<u>(1,811,459)</u>
Non-operating revenue (expense):			
Property taxes	1,448,390	-	1,448,390
Interest earnings	65,086	-	65,086
Capital surcharge	1,040,681	-	1,040,681
Morongo Basin Project surcharge	543,894	-	543,894
Lease payment – Morongo Basin Project	(479,946)	-	(479,946)
Interest expense – long-term debt	(158,943)	-	(158,943)
Bond issuance costs	-	-	-
Other non-operating revenues, net	42,811	-	42,811
Total non-operating revenues, net	<u>2,501,973</u>	<u>-</u>	<u>2,501,973</u>
Net income (loss) before capital contributions	<u>766,313</u>	<u>(75,799)</u>	<u>690,514</u>
Capital contributions:			
Grant revenue	1,692,923	393,612	2,086,535
Meter sales and installations	152,845	-	152,845
Total capital contributions	<u>1,845,768</u>	<u>393,612</u>	<u>2,239,380</u>
Change in net position	2,612,081	317,813	2,929,894
Net position, beginning of period, as restated	<u>37,478,762</u>	<u>4,243,708</u>	<u>41,722,470</u>
Net position, end of period	<u>\$ 40,090,843</u>	<u>4,561,521</u>	<u>44,652,364</u>

See accompanying notes to the basic financial statements

Hi-Desert Water District
Combining Schedule of Net Position
June 30, 2015

	<u>Enterprise Funds</u>		<u>As restated</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 7,868,155	606,572	8,474,727
Accrued interest receivable	3,079	-	3,079
Accounts receivable – water sales and services, net	1,263,444	-	1,263,444
Accounts receivable – other	37,548	1,197,417	1,234,965
Property taxes receivable	42,306	-	42,306
Internal balances	5,149,370	(5,149,370)	-
Materials and supplies inventory	522,758	-	522,758
Prepaid lease payment	719,854	-	719,854
Prepaid expense and other deposits	117,963	-	117,963
Total current assets	<u>15,724,477</u>	<u>(3,345,381)</u>	<u>12,379,096</u>
Non-current assets:			
Capital assets – not being depreciated	1,581,782	8,040,725	9,622,507
Depreciable capital assets, net	31,420,833	-	31,420,833
Total non-current assets	<u>33,002,615</u>	<u>8,040,725</u>	<u>41,043,340</u>
Total assets	<u>48,727,092</u>	<u>4,695,344</u>	<u>53,422,436</u>
Deferred outflows of resources:			
Deferred pension outflows	468,866	-	468,866
Total deferred outflows of resources	<u>468,866</u>	<u>-</u>	<u>468,866</u>
Current liabilities:			
Accounts payable and accrued expenses	844,011	451,598	1,295,609
Deposits and unearned revenue	738,482	37	738,519
Accrued interest on long-term debt	27,342	-	27,342
Long-term liabilities – due within one year:			
Compensated absences	64,738	-	64,738
Bonds payable	400,000	-	400,000
Total current liabilities	<u>2,074,573</u>	<u>451,635</u>	<u>2,526,208</u>
Non-current liabilities			
Long-term liabilities – due in more than one year:			
Compensated absences	194,213	-	194,213
Other post employment benefits	523,769	-	523,769
Net pension liability	3,468,735	-	3,468,735
Bonds payable, net	4,644,565	-	4,644,565
Total non-current liabilities	<u>8,831,282</u>	<u>-</u>	<u>8,831,282</u>
Total liabilities	<u>10,905,855</u>	<u>451,635</u>	<u>11,357,490</u>
Deferred inflows of resources:			
Deferred pension inflows	811,342	-	811,342
Total deferred inflows of resources	<u>811,342</u>	<u>-</u>	<u>811,342</u>
Net position:			
Net investment in capital assets	27,958,050	8,040,725	35,998,775
Unrestricted	9,520,712	(3,797,017)	5,723,695
Total net position	<u>\$ 37,478,762</u>	<u>4,243,708</u>	<u>41,722,470</u>

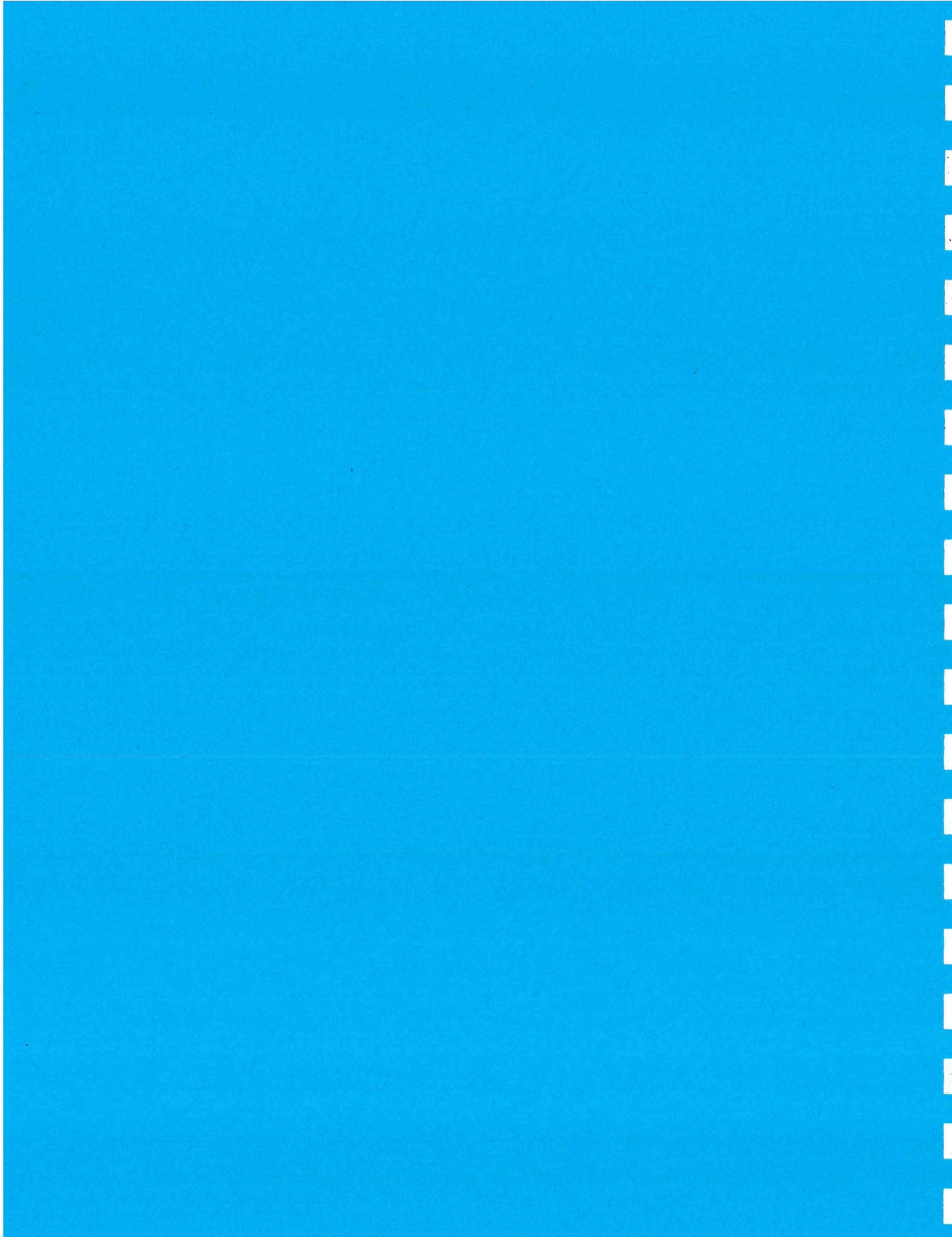
See accompanying notes to the basic financial statements

Hi-Desert Water District
Combining Schedule of Revenues, Expenses and Changes in Net Position
June 30, 2015

	<u>Enterprise Funds</u>		<u>As restated</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating revenues:			
Water consumption sales	\$ 5,538,428	-	5,538,428
Readiness-to-serve fees	1,762,154	-	1,762,154
Other charges	316,337	-	316,337
Total operating revenues	<u>7,616,919</u>	<u>-</u>	<u>7,616,919</u>
Operating expenses:			
Source of supply	1,070,190	-	1,070,190
Pumping and water treatment	1,772,996	-	1,772,996
Transmission and distribution	1,092,276	-	1,092,276
Customer accounts	174,430	-	174,430
Wastewater operations	-	198,639	198,639
General and administrative	2,554,836	-	2,554,836
Total operating expenses	<u>6,664,728</u>	<u>198,639</u>	<u>6,863,367</u>
Operating income (loss) before depreciation	952,191	(198,639)	753,552
Depreciation	(1,555,113)	-	(1,555,113)
Operating loss	<u>(602,922)</u>	<u>(198,639)</u>	<u>(801,561)</u>
Non-operating revenue (expense):			
Property taxes	1,393,362	-	1,393,362
Interest earnings	57,118	-	57,118
Capital surcharge	1,033,544	-	1,033,544
Morongo Basin Project surcharge	539,748	-	539,748
Lease payment – Morongo Basin Project	(480,187)	-	(480,187)
Interest expense – long-term debt	(139,733)	-	(139,733)
Bond issuance costs	-	-	-
Other non-operating revenues, net	59,639	-	59,639
Total non-operating revenues, net	<u>2,463,491</u>	<u>-</u>	<u>2,463,491</u>
Net income (loss) before capital contributions	<u>1,860,569</u>	<u>(198,639)</u>	<u>1,661,930</u>
Capital contributions:			
Grant revenue	27,401	2,247,532	2,274,933
Meter sales and installations	233,515	-	233,515
Total capital contributions	<u>260,916</u>	<u>2,247,532</u>	<u>2,508,448</u>
Change in net position	<u>2,121,485</u>	<u>2,048,893</u>	<u>4,170,378</u>
Net position, beginning of period, as restated	38,390,715	2,194,815	40,585,530
Prior period adjustment (note 11)	(3,033,438)	-	(3,033,438)
Net position, beginning of period, as restated	<u>35,357,277</u>	<u>2,194,815</u>	<u>37,552,092</u>
Net position, end of period	<u>\$ 37,478,762</u>	<u>4,243,708</u>	<u>41,722,470</u>

See accompanying notes to the basic financial statements

Statistical Information Section



Hi-Desert Water District Statistical Section

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

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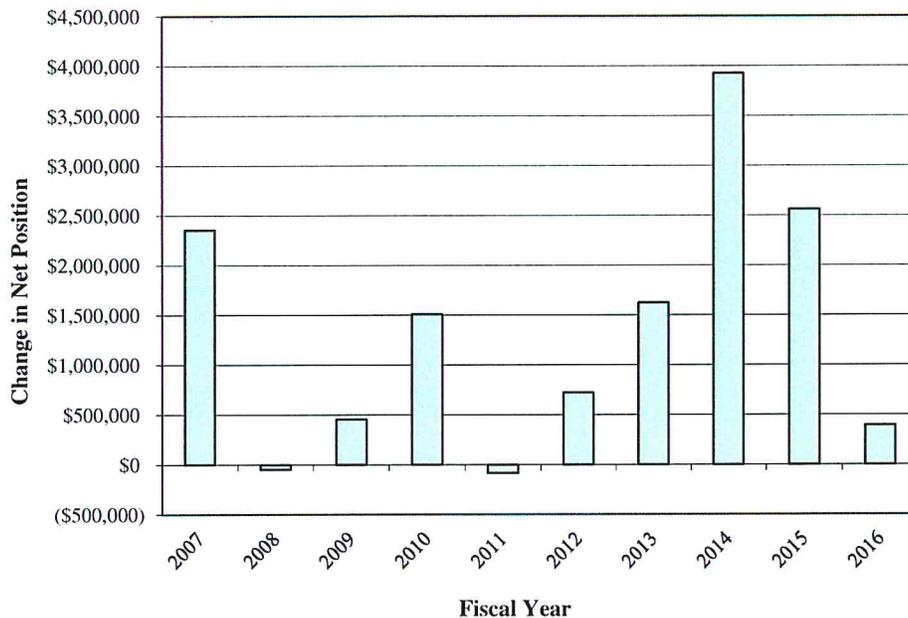
	<u>Page No.</u>
Financial Trends These schedules contain information to help the reader understand how the District's financial performance and well-being have changed over time.	60-63
Revenue Capacity These schedules contain information to help the reader assess the District's most significant own-source revenue, water sales.	64-67
Debt Capacity These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.	68-69
Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District's financial activities take place.	70
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Hi-Desert Water District
Changes in Net Position and Net Position by Component
Last Ten Fiscal Years

Schedule 1

	Fiscal Year				
	2007	2008	2009	2010	2011
Changes in net position:					
Operating revenues (see Schedule 2)	\$ 7,217,095	6,949,058	7,118,299	7,137,442	7,285,396
Operating expenses (see Schedule 3)	(7,439,423)	(8,045,653)	(8,199,546)	(7,574,071)	(7,836,459)
Depreciation and amortization	(1,359,177)	(1,379,933)	(1,405,368)	(1,433,748)	(1,435,786)
Operating income(loss)	(1,581,505)	(2,476,528)	(2,486,615)	(1,870,377)	(1,986,849)
Non-operating revenues(expenses):					
Property taxes	1,423,132	1,571,117	1,568,181	1,394,480	1,317,622
Rental income - cellular antennas	48,149	4,025	-	-	-
Investment income	301,267	306,604	144,520	35,667	14,413
Tax revenue recovery surcharge	621,257	260,317	-	-	-
Contract water delivery charge	-	-	-	-	-
Dept. of Water Resources Reach II surcharge	331,595	332,566	336,994	334,852	584,509
Morongo Basin Project	548,322	531,664	527,101	523,761	521,250
Lease payment - Morongo Basin Project	(474,449)	(494,987)	(287,098)	(523,984)	(527,290)
Interest expense	(445,216)	(370,525)	(348,944)	(296,724)	(260,680)
Bond issuance costs	-	-	-	-	-
Other revenue/(expense), net	(1) 561,897	98,736	697	1,370,945	34,359
Total non-operating revenues, net	2,915,954	2,239,517	1,941,451	2,838,997	1,684,183
Net income (loss) before capital contributions	1,334,449	(237,011)	(545,164)	968,620	(302,666)
Capital contributions	1,019,619	189,483	1,001,108	540,298	218,433
Changes in net position	\$ 2,354,068	(47,528)	455,944	1,508,918	(84,233)
Net position by component:					
Net investment in capital assets	\$ 19,646,826	20,791,852	22,214,518	24,348,361	24,993,182
Unrestricted	8,911,176	7,718,622	6,751,900	6,126,975	5,397,921
Total net position	\$ 28,558,002	28,510,474	28,966,418	30,475,336	30,391,103

Note: (1) Includes CalPERS Side-Fund expense in FY 2012.

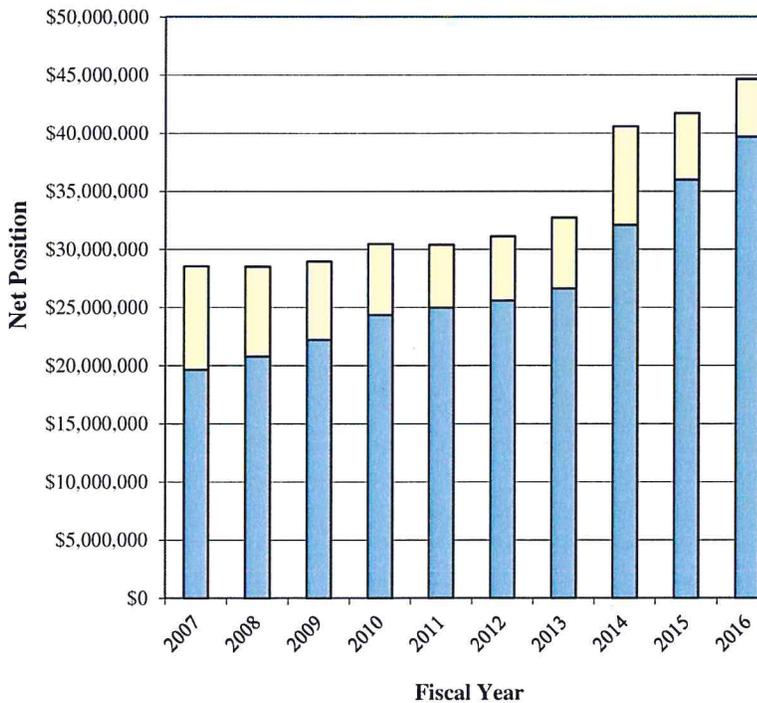


Source: Hi-Desert Water District Accounting Department

**Hi-Desert Water District
Changes in Net Position and Net Position by Component
Last Ten Fiscal Years**

Schedule 1

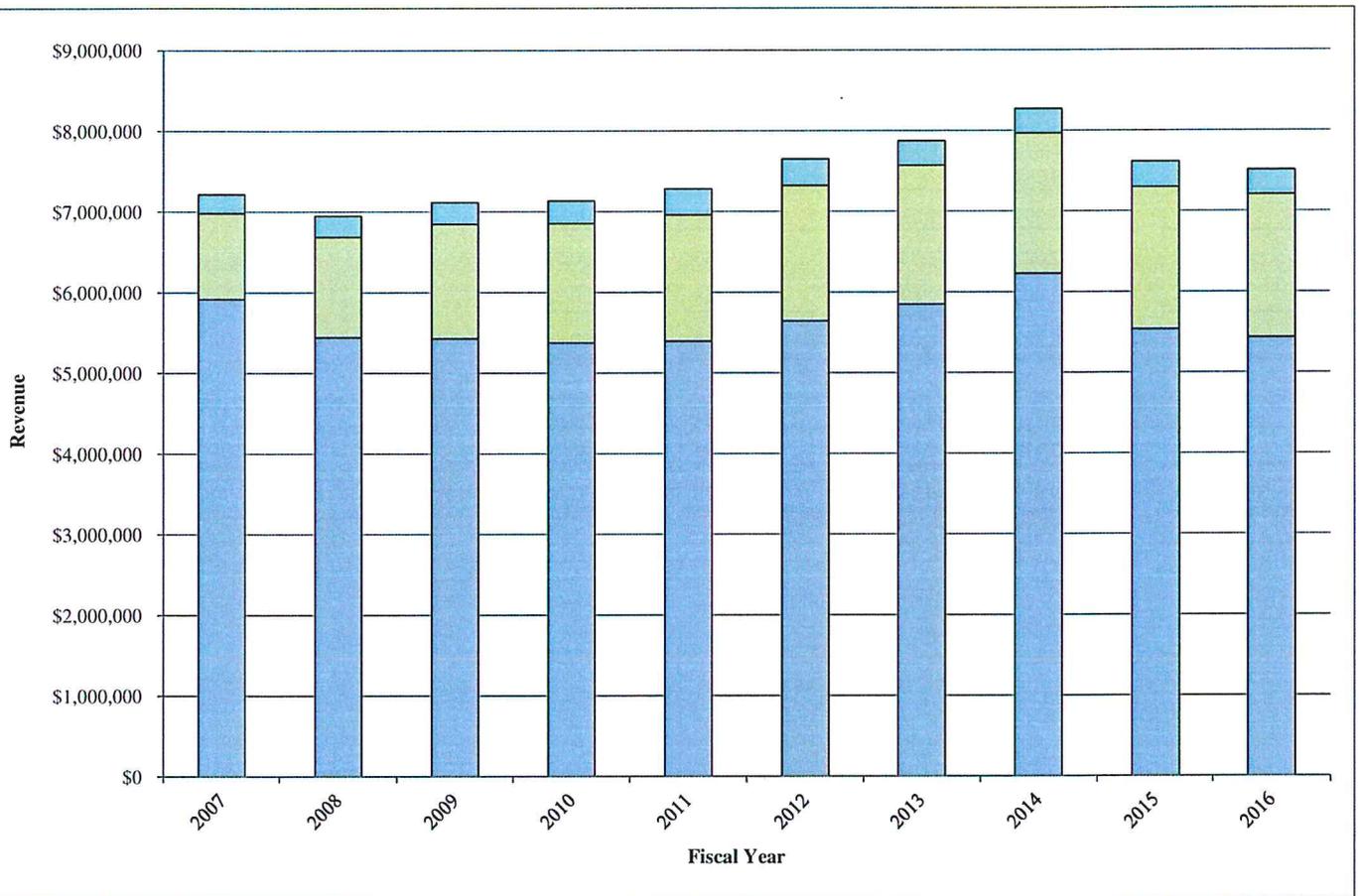
Fiscal Year				
2012	2013	2014	2015	2016
7,654,560	7,875,823	8,270,632	7,616,919	7,512,847
(7,153,393)	(8,399,247)	(5,604,675)	(6,863,367)	(7,512,365)
(1,393,659)	(1,532,888)	(1,375,158)	(1,555,113)	(1,811,941)
(892,492)	(2,056,312)	1,290,799	(801,561)	(1,811,459)
1,292,775	1,354,043	1,338,163	1,393,362	1,448,390
-	-	-	-	-
14,148	11,846	53,148	57,118	65,086
-	-	-	-	-
-	-	-	-	-
893,895	1,013,458	1,019,310	1,033,544	1,040,681
517,716	528,887	532,424	539,748	543,894
(524,958)	(513,073)	(480,021)	(480,187)	(479,946)
(243,280)	(284,330)	(257,853)	(139,733)	(158,943)
-	(110,078)	(2,131)	(31,337)	(3,631)
(1,021,925)	108,241	36,625	90,976	46,442
928,371	2,108,994	2,239,665	2,463,491	2,501,973
35,879	52,682	3,530,464	1,661,930	690,514
687,323	1,572,905	2,497,998	2,508,448	2,239,380
723,202	1,625,587	6,028,462	4,170,378	2,929,894
25,599,745	26,627,116	32,102,689	35,998,775	39,682,015
5,514,560	6,112,776	8,482,841	5,723,695	4,970,349
31,114,305	32,739,892	40,585,530	41,722,470	44,652,364



Hi-Desert Water District Operating Revenues by Source Last Ten Fiscal Years

Schedule 2

Fiscal Year	Water Consumption Sales	Connection Fees	Readiness-to-serve Fees	Service Assessments	Other Charges	Total Operating Revenue
2007 (1) \$	5,919,654	-	1,063,068	-	234,373	7,217,095
2008	5,445,196	-	1,242,602	-	261,260	6,949,058
2009	5,430,238	-	1,417,866	-	270,195	7,118,299
2010	5,377,069	-	1,477,703	-	282,670	7,137,442
2011	5,399,333	-	1,564,094	-	321,969	7,285,396
2012	5,647,160	-	1,679,168	-	328,232	7,654,560
2013	5,852,385	-	1,721,526	-	301,912	7,875,823
2014	6,229,153	-	1,738,905	-	302,574	8,270,632
2015	5,538,428	-	1,762,154	-	316,337	7,616,919
2016	5,438,541	-	1,770,154	-	304,152	7,512,847

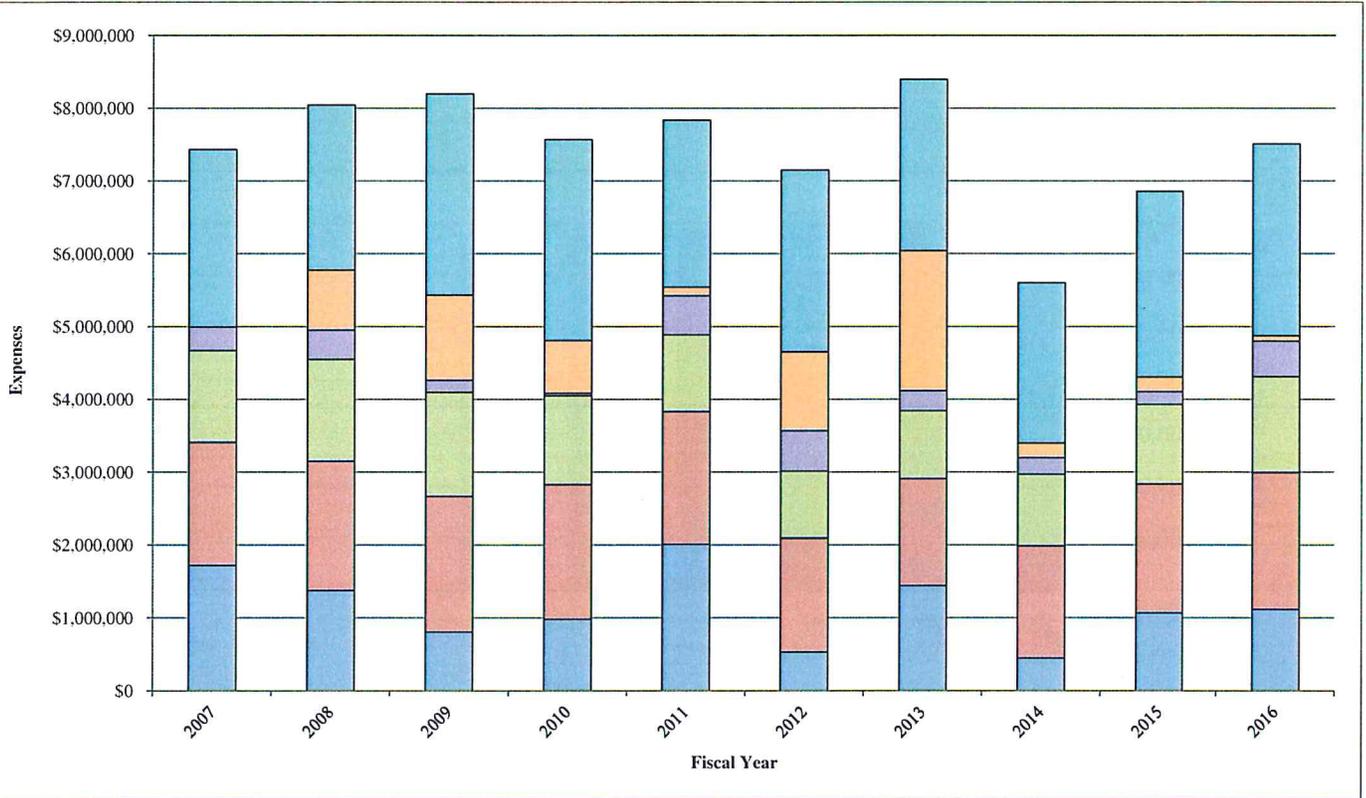


Source: Hi-Desert Water District Accounting Department

Hi-Desert Water District Operating Expenses by Activity Last Ten Fiscal Years

Schedule 3

Fiscal Year	Source of Supply	Pumping and Water Treatment	Transmission and Distribution	Customer Accounts	Wastewater Operations	General and Administrative	Total Operating Expenses
2007	\$ 1,724,994	1,688,838	1,263,450	321,997	-	2,440,144	7,439,423
2008	1,379,445	1,776,631	1,399,020	400,415	823,947	2,266,195	8,045,653
2009	807,326	1,864,326	1,429,091	165,875	1,171,407	2,761,521	8,199,546
2010	985,193	1,848,562	1,221,711	30,816	723,124	2,764,665	7,574,071
2011	2,011,908	1,825,921	1,052,585	535,455	116,993	2,293,597	7,836,459
2012	532,350	1,564,708	925,133	551,548	1,084,190	2,495,464	7,153,393
2013	1,446,300	1,469,160	933,629	273,606	1,924,239	2,352,313	8,399,247
2014	454,950	1,536,227	983,161	231,935	199,742	2,198,660	5,604,675
2015	1,070,190	1,772,996	1,092,276	174,430	198,639	2,554,836	6,863,367
2016	1,121,814	1,875,176	1,316,808	489,008	75,799	2,633,760	7,512,365

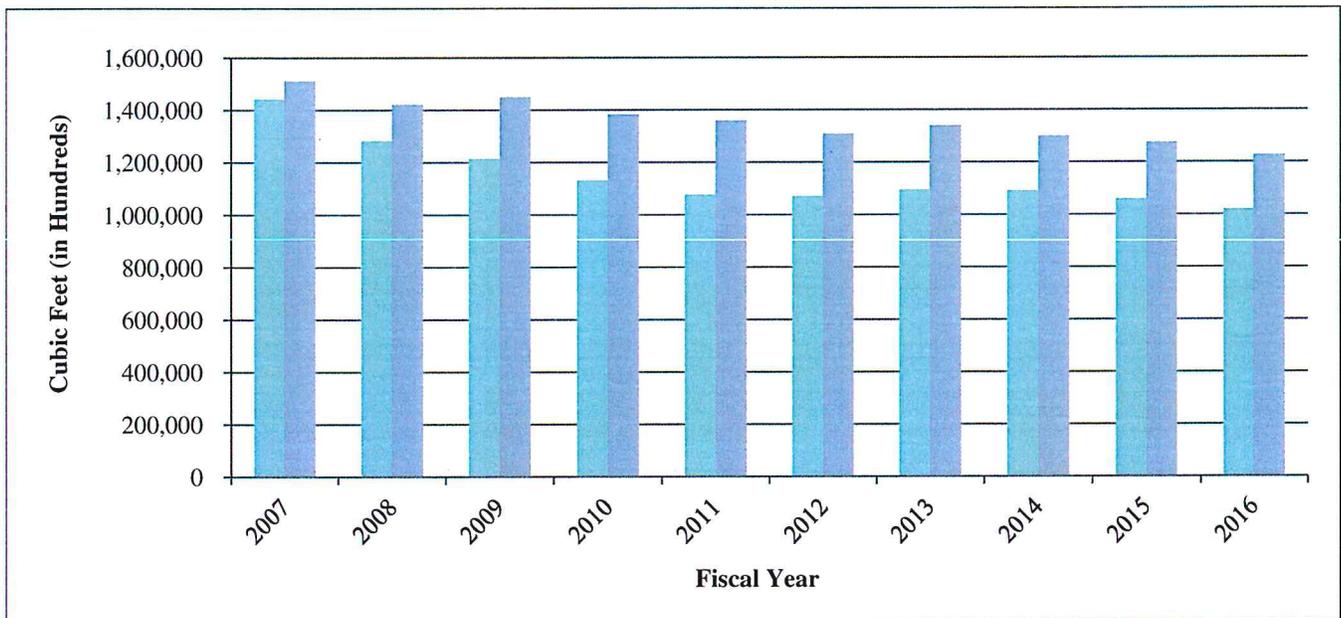


Source: Hi-Desert Water District Accounting Department

**Hi-Desert Water District
Revenue Base
Last Ten Fiscal Years**

Schedule 4

Fiscal Year	Water Sales (HCF)	Water Produced (HCF)
2007	1,442,794	1,511,401
2008	1,283,452	1,421,493
2009	1,215,482	1,449,610
2010	1,131,666	1,383,037
2011	1,076,856	1,359,862
2012	1,070,166	1,308,588
2013	1,095,624	1,339,394
2014	1,091,186	1,300,001
2015	1,060,296	1,275,294
2016	1,020,490	1,227,125



Note: See Schedule 2 "Operating Revenue by Source" for information regarding water revenues.

Source: Hi-Desert Water District Accounting Department

**Hi-Desert Water District
Revenue Rates⁽¹⁾
Last Ten Fiscal Years**

Schedule 5

Water Consumption per Hundred Cubic Feet (HCF)

HCF Consumed		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
0-4	\$	2.80	2.97	2.97	3.18	3.40	3.59	3.59	3.59	3.59	3.59
5-10		4.35	4.61	4.61	4.97	5.30	5.69	5.69	5.69	5.69	5.69
11-28		5.25	5.57	5.57	6.01	6.41	6.89	6.89	6.89	6.89	6.89
29-40		6.80	7.21	7.21	8.04	8.56	9.08	9.08	9.08	9.08	9.08
41-53		6.80	7.21	7.21	8.04	8.56	9.08	9.08	9.08	9.08	9.08
54-65		7.60	8.06	8.06	8.04	8.56	9.08	9.08	9.08	9.08	9.08
66-78		7.60	8.06	8.06	8.04	8.56	9.08	9.08	9.08	9.08	9.08
79-over		7.60	8.06	8.06	8.04	8.56	9.08	9.08	9.08	9.08	9.08

Connection Fees per Month

Meter Size		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
5/8" & 3/4"	\$	7.00	10.00	10.00	10.40	11.10	11.80	11.80	11.80	11.80	11.80
1"		14.00	20.00	20.00	21.10	22.50	23.80	23.80	23.80	23.80	23.80
1 1/2"		21.00	30.00	30.00	38.90	41.50	43.80	43.80	43.80	43.80	43.80
2"		35.00	50.00	50.00	60.20	64.20	67.80	67.80	67.80	67.80	67.80
3"		77.00	110.00	110.00	117.10	124.90	131.90	131.90	131.90	131.90	131.90
4"		119.00	170.00	170.00	118.10	193.10	203.90	203.90	203.90	203.90	203.90
6"		231.00	330.00	330.00	368.80	382.70	404.10	404.10	404.10	404.10	404.10

Pipeline Surcharge Fees per Month

Meter Size		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
5/8" & 3/4"	\$	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
1"		8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
1 1/2"		12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
2"		20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
3"		44.00	44.00	44.00	44.00	44.00	44.00	44.00	44.00	44.00	44.00
4"		68.00	68.00	68.00	68.00	68.00	68.00	68.00	68.00	68.00	68.00
6"		132.00	132.00	132.00	132.00	132.00	132.00	132.00	132.00	132.00	132.00

Recharge Surcharge Fees per Month

Meter Size		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
5/8" & 3/4"	\$	2.50	2.50	2.50	2.50	5.00	7.50	7.50	7.50	7.50	7.50
1"		5.00	5.00	5.00	5.00	10.00	15.00	15.00	15.00	15.00	15.00
1 1/2"		7.50	7.50	7.50	7.50	15.00	22.50	22.50	22.50	22.50	22.50
2"		12.50	12.50	12.50	12.50	25.00	37.50	37.50	37.50	37.50	37.50
3"		27.50	27.50	27.50	27.50	55.00	82.50	82.50	82.50	82.50	82.50
4"		42.50	42.50	42.50	42.50	85.00	127.50	127.50	127.50	127.50	127.50
6"		82.50	82.50	82.50	82.50	165.00	247.50	247.50	247.50	247.50	247.50

Notes:

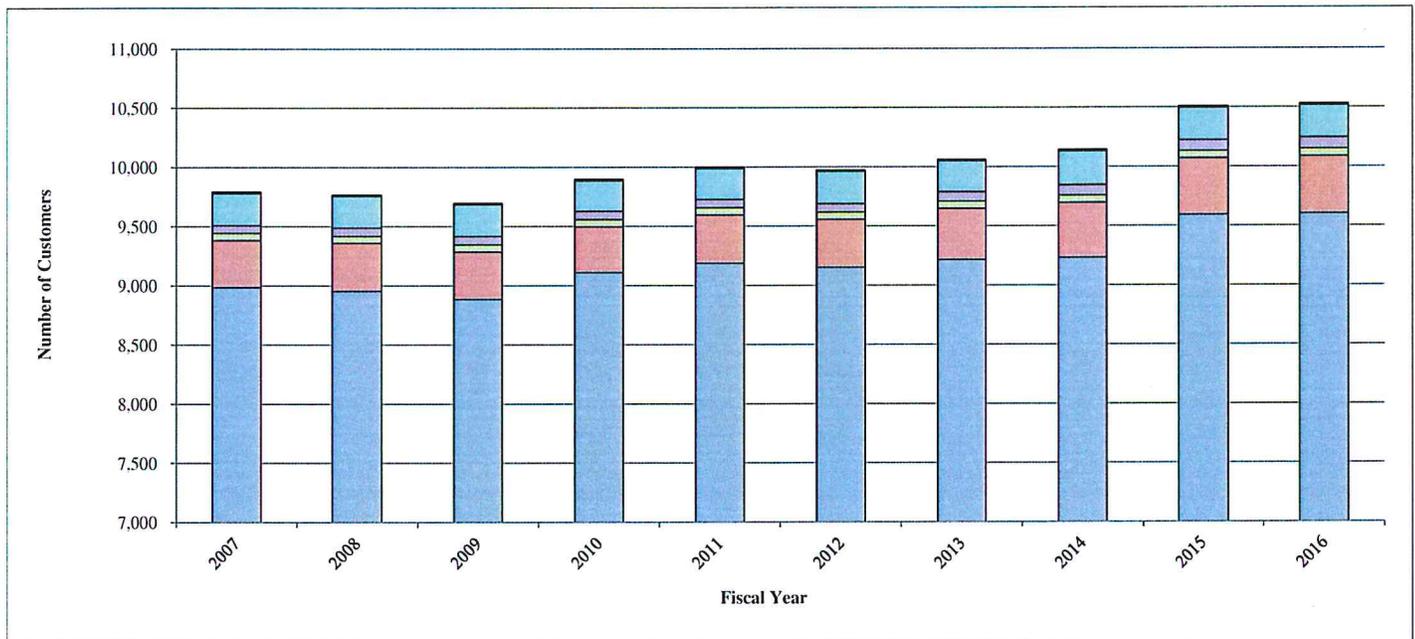
(1) Rates as of June 30, of each fiscal year.

Source: Hi-Desert Water District Board of Directors approved rate ordinances and resolutions

Hi-Desert Water District Customers by Type Last Ten Fiscal Years

Schedule 6

Fiscal Year	Customer Type						Total
	Residential	Commercial	Public Entities	Irrigation	Multi-Family	Parks	
2007	8,989	398	61	63	273	12	9,733
2008	8,957	403	61	69	268	12	9,796
2009	8,888	399	61	69	270	12	9,770
2010	9,112	387	61	69	259	12	9,699
2011	9,190	408	61	69	261	12	9,902
2012	9,155	404	63	71	271	12	9,998
2013	9,220	431	62	79	261	12	10,065
2014	9,235	464	63	86	287	13	10,148
2015	9,594	477	64	91	273	13	10,512
2016	9,605	483	64	94	273	13	10,532



Note: Number of customers as of June 30, of fiscal year.

Source: Hi-Desert Water District Accounting Department

**Hi-Desert Water District
Principal Customers
Current Fiscal Year and Nine Years Ago**

Schedule 7

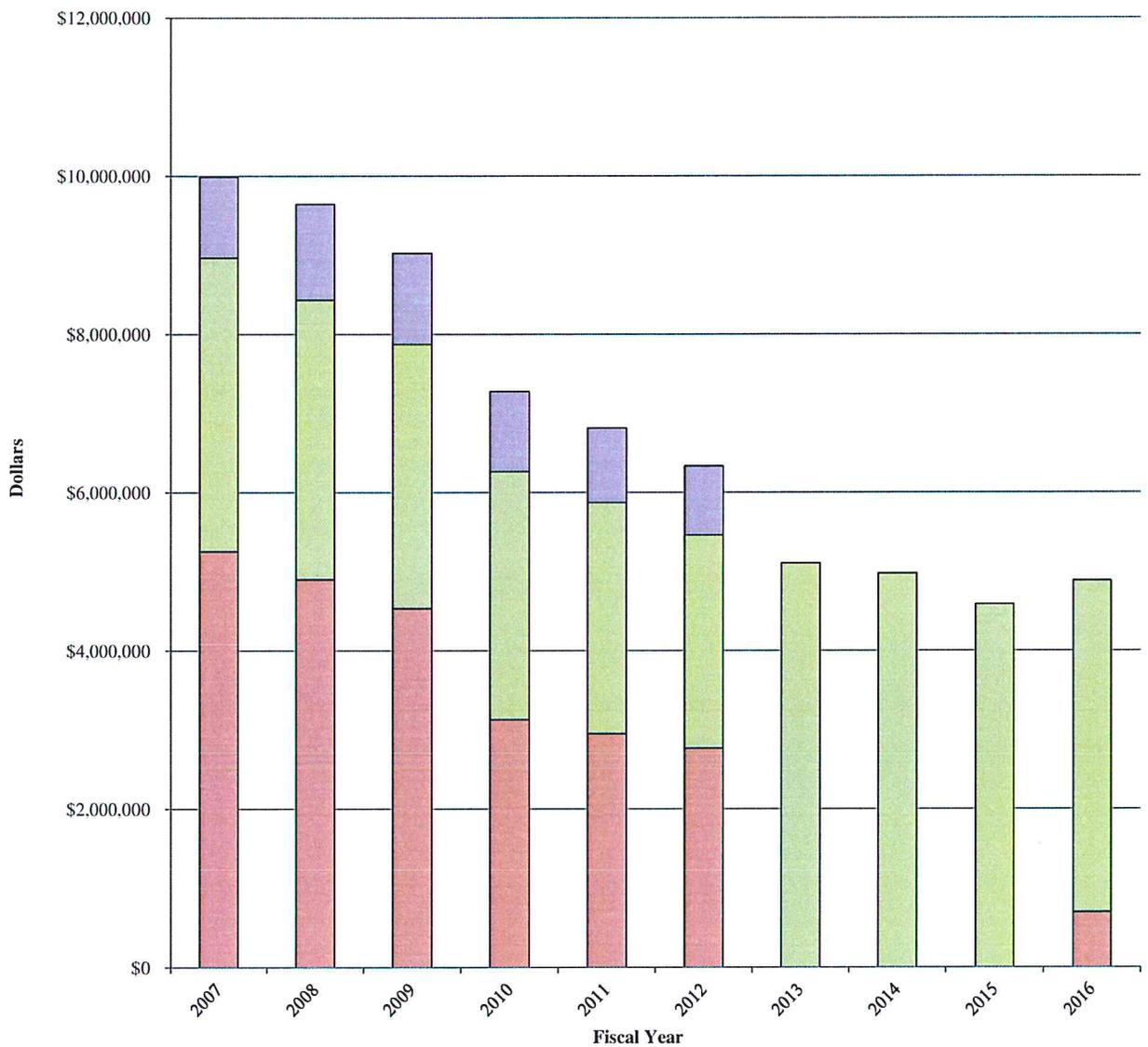
Customer	2016		Customer	2007	
	Water Consumed	Percentage of Total		Water Consumed	Percentage of Total
Bill Shack III	18,134	1.78%	Desert Vista Village	16,317	1.13%
Morongo Unified School District	11,120	1.09%	Shamrock Millco-Aztec	10,416	0.72%
Caritas Corporation	6,667	0.65%	Drake Development	9,914	0.69%
Apache MHP Association	6,407	0.63%	Country Club Mobilehome Estate	9,753	0.68%
Town of Yucca Valley	6,366	0.62%	Apache MHP Association	8,250	0.57%
Country Club Mobilehome Estate	6,172	0.60%	Morongo Unified School District	7,981	0.55%
Brehm2 Town of Yucca Valley	5,967	0.58%	Engineered Structures, Inc.	7,304	0.51%
Morongo Unified School District	5,232	0.51%	Morongo Unified School District	5,864	0.41%
Best Western Joshua Tree Hotel & Suites	5,120	0.50%	Town of Yucca Valley	5,615	0.39%
Walmart Stores	5,087	0.50%	Sky Harbor Care Center	5,525	0.38%
Total	76,272	7.47%	Total	86,939	6.03%
Total Water Consumed (HCF)	1,020,490	100.00%	Total Water Consumed (HCF)	1,442,794	100.00%

Source: Hi-Desert Water District Accounting Department

**Hi-Desert Water District
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years**

Schedule 8

Fiscal Year	Loans Payable	Bonds Payable	Notes Payable	Total		
				Debt	Per Capita	As a Share of Personal Income
2007	5,256,376	3,715,000	1,020,600	9,991,976	506.54	2.10%
2008	4,902,577	3,535,000	1,210,515	9,648,092	459.94	1.70%
2009	4,535,480	3,340,000	1,151,115	9,026,595	425.00	1.48%
2010	3,131,446	3,135,000	1,010,600	7,277,046	357.03	1.33%
2011	2,954,195	2,920,000	940,600	6,814,795	329.22	1.62%
2012	2,769,768	2,695,000	870,600	6,335,368	302.90	1.01%
2013	-	5,110,000	-	5,110,000	242.20	0.82%
2014	-	4,980,000	-	4,980,000	236.80	0.79%
2015	-	4,590,000	-	4,590,000	214.94	0.67%
2016	695,924	4,190,000	-	4,885,924	226.20	0.69%



Source: Hi-Desert Water District Accounting Department

**Hi-Desert Water District
Pledged-Revenue Coverage
Last Ten Fiscal Years**

Schedule 9

Fiscal Year	Net Revenues	Operating Expenses ⁽¹⁾	Net Available Revenues	Debt Service			Coverage Ratio
				Principal ⁽²⁾	Interest	Total	
2007	10,578,265	(7,439,423)	3,138,842	577,127	445,216	1,022,343	3.07
2008	9,559,100	(8,045,653)	1,513,447	693,284	370,525	1,063,809	1.42
2009	9,408,694	(8,199,546)	1,209,148	622,097	348,944	971,041	1.25
2010	10,273,163	(7,574,071)	2,699,092	1,749,549	296,724	2,046,273	1.32
2011	9,230,259	(7,836,459)	1,393,800	462,251	260,680	722,931	1.93
2012	8,826,211	(7,153,393)	1,672,818	479,427	243,280	722,707	2.31
2013	10,924,009	(8,399,247)	2,524,762	609,708	57,665	667,373	3.78
2014	11,251,802	(5,604,675)	5,647,127	869,708	171,850	1,041,558	5.42
2015	10,731,667	(6,863,367)	3,868,300	879,708	164,050	1,043,758	3.71
2016	10,657,340	(7,512,365)	3,144,975	889,708	156,050	1,045,758	3.01

Notes:

(1) Operating expenses exclude depreciation expense.

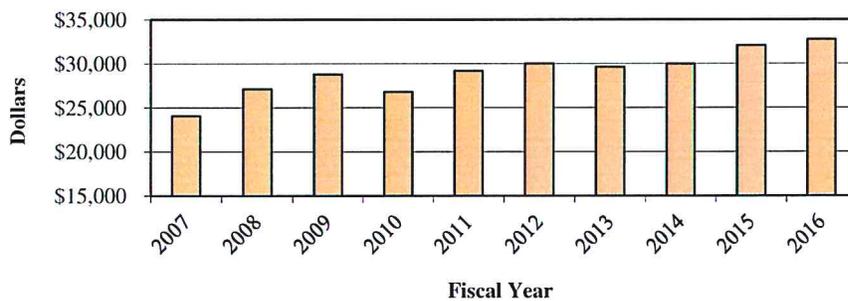
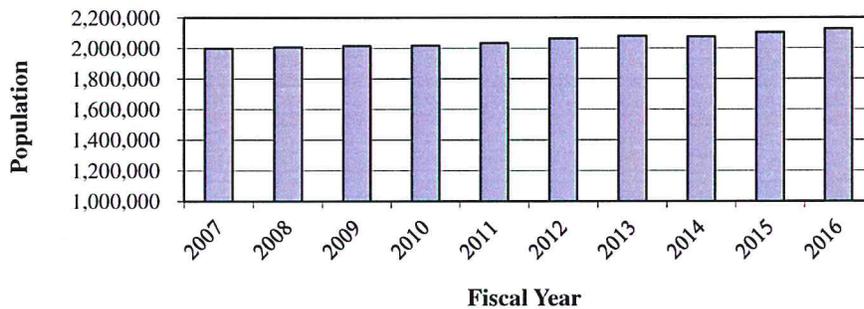
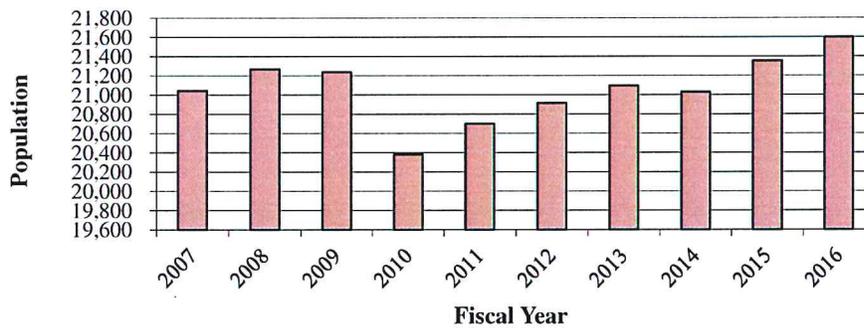
(2) Includes only normal principal payments (does not include payments as a result of refinancing of debt)

Source: Hi-Desert Water District Accounting Department

Hi-Desert Water District Demographic and Economic Statistics Last Ten Fiscal Years

Schedule 10

County of San Bernardino ⁽²⁾					
Year	Yucca Valley Population ⁽¹⁾	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2007	21,044	5.6%	1,999,332	48,116,593	24,066
2008	21,268	8.2%	2,007,800	54,479,645	27,134
2009	21,239	13.0%	2,015,355	58,050,285	28,804
2010	20,382	13.0%	2,017,673	54,093,000	26,810
2011	20,700	16.0%	2,035,210	59,411,850	29,192
2012	20,916	16.0%	2,063,919	61,913,442	29,998
2013	21,098	12.0%	2,081,313	61,677,629	29,634
2014	21,030	10.3%	2,076,274	62,259,000	29,990
2015	21,355	6.5%	2,104,291	67,488,821	32,072
2016	21,600	5.9%	2,128,133	69,689,971	32,747



Sources: California Department of Finance and California Labor Market Info

Notes:

- (1) Separate data is not prepared for the District, therefore, the District has used data for the Town of Yucca Valley. A substantial portion of the District lies within the Town, and therefore, is a reasonable basis for determining the demographic and economic statistics of the District.
- (2) Only County data is updated annually. Therefore, the District has chose to use its data since the District believes that the County data is representative of the conditions and experience of the District.

N/A - Data not available

Hi-Desert Water District

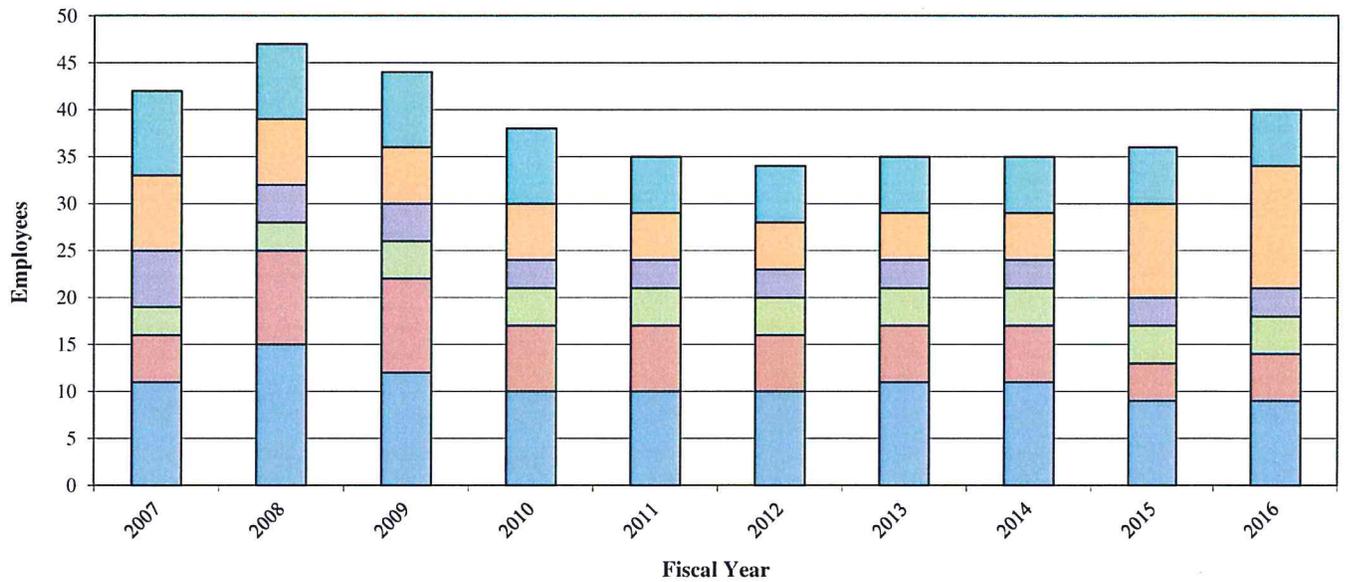
Full Time Equivalent District Employees by Department

Last Ten Fiscal Years

Schedule 11

Full-time Equivalent District Employees by Department

Fiscal Year	Operations	Staff	Accounting and Billing	Customer Service	CRP	Construction & Maintenance	Total
2007	11	5	3	6	8	9	42
2008	15	10	3	4	7	8	47
2009	12	10	4	4	6	8	44
2010	10	7	4	3	6	8	38
2011	10	7	4	3	5	6	35
2012	10	6	4	3	5	6	34
2013	11	6	4	3	5	6	35
2014	11	6	4	3	5	6	35
2015	9	4	4	3	10	6	36
2016	9	5	4	3	13	6	40



**Hi-Desert Water District
Operating and Capacity Indicators
Last Ten Fiscal Years**

Schedule 12

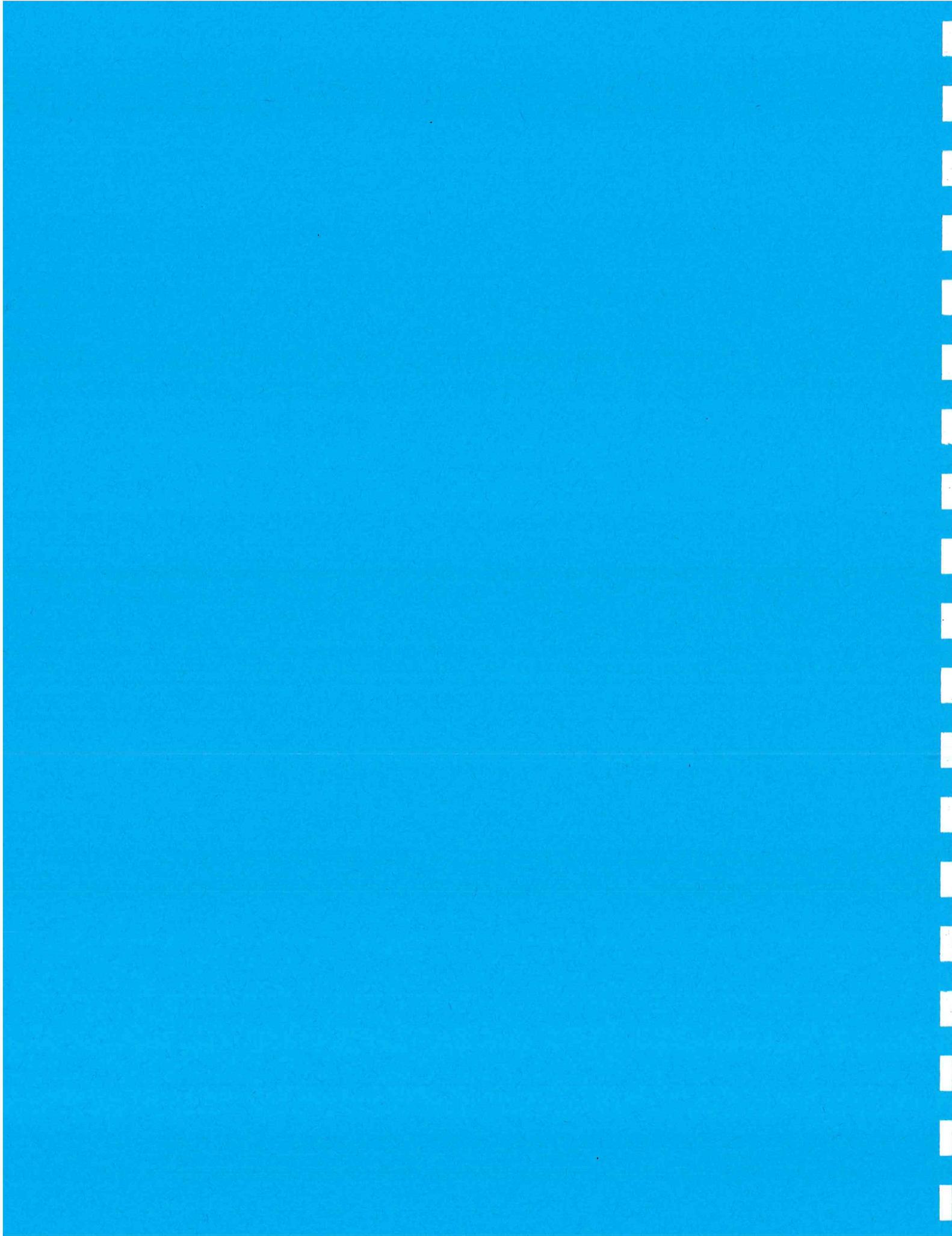
Other Operating and Capacity Indicators							
Fiscal Year	District Area (Square Miles)	Miles of Pipeline	Storage Tanks	Storage Capacity (MG)	Groundwater Wells	Well Capacity (MGD)	Fire Hydrants
2007	57	316	16	12.90	13	9.2	1,858
2008	57	316	16	12.90	13	9.2	1,858
2009	57	316	16	12.90	13	9.2	1,858
2010	57	316	16	12.90	13	9.2	1,801
2011	57	316	16	13.14	13	9.2	1,801
2012	57	296	16	12.66	11	9.2	1,801
2013	57	296	16	12.66	13	9.2	1,801
2014	57	296	16	12.66	13	9.2	1,801
2015	57	308	16	13.18	12	9.2	2,042
2016	57	308	16	13.18	12	9.2	2,066

MG - Millions of Gallons
MGD - Millions of Gallons per Day

Sources: Hi-Desert Water District Operations and Accounting Departments

Note: The Fire Hydrant total is inclusive of Hydrants and Jones heads.

Report on Internal Controls and Compliance





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Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Hi-Desert Water District
Yucca Valley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Hi-Desert Water District (District) as of and for the fiscal years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*, continued**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

FEDAK & BROWN LLP

Fedak & Brown LLP
Cypress, California
December 13, 2016



