



Hi-Desert Water District
Yucca Valley, California

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2017 and 2016



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, 2017

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Robert Stadum	President	Elected	12/16 - 12/20
Sarann Graham	Vice President	Elected	12/16 - 12/20
Sheldon Hough	Director	Elected	12/14 - 12/18
Roger Mayes	Director	Elected	12/14 - 12/18
Dan Munsey	Director	Elected	12/14 - 12/18

**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, 2017 and 2016

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, 2017 and 2016

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Introductory Section



December 13, 2017

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, 2017. 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) requires 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 second and fourth 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, 2017, the District employed forty-three (43) regular full-time employees and five (5) full-time temporary employees that are organized into six (6) departments.

The District provides water service to approximately 10,564 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 areas of 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 2017 and 2016, the District purchased 4,365 and 2,253 acre-feet of State Water Project water respectively, through 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 the County continue to improve, however at a rate that is somewhat slower than neighboring Counties within Southern California. According to the County’s 2016 Economic Indicators Report, the County’s cost of living is 19.5% higher than the U.S. average with a median household income that has decreased to 2% from the 2013 figures to \$52,041 in 2014. This is just above the national median income of \$53,657. 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 \$198,467 was approximately \$29,323 during the first quarter of 2016. Three-quarters (73%) of households in San Bernardino County could afford an entry-level home, which is down from 75% in 2015, but still remains substantially up from 44% in 2007. San Bernardino County’s homeownership rate is the second highest in Southern California at 58% in 2014. This figure was down from 63% in 2010. Seniors are found more likely to be homeowners (76%) within the County than non-seniors (53%).

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 6.7% as of May 2016. While the local economy continues to improve, visitor spending totaled \$4.6 billion within the County in 2015, 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 attracts over 3 million visitors per year. It is estimated that as much as 50% of Yucca Valley’s sales tax revenue, which is generated by visitors.

Drought conditions continue to affect the State of California, although recent fall and winter rains have brought some relief. According to californiadrought.org, approximately 8% of the State remains in moderate-to-severe drought. A three-month precipitation outlook beginning in November 2017 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 118% of its historical average with Folsom Lake and Lake Oroville at 109% and 55% of their historical average respectively. San Luis Reservoir saw a 10% increase from 59% in mid-August 2016 to 69% in mid-November 2017. 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 2017 calendar year, the District will have the opportunity to bank up to an additional 1,000 acre-feet of water, which is above its typical annual request of 3,200 acre-feet for the year.

Although drought conditions may continue to fluctuate, urban water use is down 28% throughout the State for the month of May 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 customers’ 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 and Transparency;
7. Information Systems;
8. Human Resource Management; and
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 its strategic mission for our District, staff completed several initiatives during the 2016/17 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 38,210 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 and service lines 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. Began an update of the District’s landscape and irrigation ordinance to ensure compliance with the State’s Model Water Efficient Landscape Ordinance;
5. Continued to participate as a member of the Mojave River Basin’s Integrated Regional Water Management Plan Technical Advisory Committee;
6. Began creating the District’s Hazard Mitigation Program (HMP);
7. Began to update the District’s Emergency Response Plan (ERP);
8. Implemented the Operations Plan for the District’s updated Strategic Plan;
9. Completed water main design for two of the six remaining capital replacement program project areas;
10. Developed a comprehensive five-year Stakeholder Communication Plan;
11. Developed a comprehensive Crisis Communication Plan;

Water Enterprise, continued

12. Updated and adopted Biennial Conflict of Interest Code;
13. Well 8 Repair and Rehabilitation; and
14. Installed a 20-camera surveillance system to ensure the safety of our customers and employees.

Wastewater Enterprise

1. Awarded a \$4,000,000 Bureau of Reclamation Grant for the construction of the Phase I Wastewater Reclamation Project's Wastewater Reclamation Facility and Collection System;
2. Completed approximately 7 of 25 miles of collection system pipeline installation and pavement restoration and reconstruction within the Phase I, Package "A" portion of the Wastewater Reclamation Project;
3. Completed the Wastewater Reclamation Project's Stage I Services (design of facility to 70%) and Guaranteed Maximum Price Workshop;
4. Completed the Membrane Bioreactor Workshop and approved the use of General Electric's Zeeweed 500/leap MBR for the Wastewater Reclamation Facility's MBR process;
5. Gained access to 345 easements required of the Wastewater Reclamation Project's collection system construction;
6. Worked with the District's environmental consultant to prepare updates to the District's Mitigation and Monitoring Reporting Program for construction as outlined within the Project's CEQA/NEPA requirements;
7. Awarded a contract to Sukut Construction for the construction of approximately 25 miles of collection system pipelines and appurtenances within the Phase I, Package "C" portion of the Wastewater Reclamation Project;
8. Completed the native plant relocation of plants protected under the Project's CEQA/NEPA requirements;
9. Drafted the Wastewater Treatment and Reclamation Project On-Lot Improvements Expanded Use Loan agreement with the California State Water Resources Control Board;
10. Awarded a contract to Atkins for the Initial Design of the Phase II and III collection system; and
11. Approval of Monitoring Well locations by the Colorado Regional Water Quality Control Board and the Division of Drinking Water.

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 objective of the Investment Policy is safety, liquidity and yield. District funds are invested in the State Treasurer's Local Agency Investment Fund, 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, 2016. This was the tenth consecutive 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.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

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)**



**Sarann Graham
(Vice-President)**



**Sheldon Hough
(Director)**



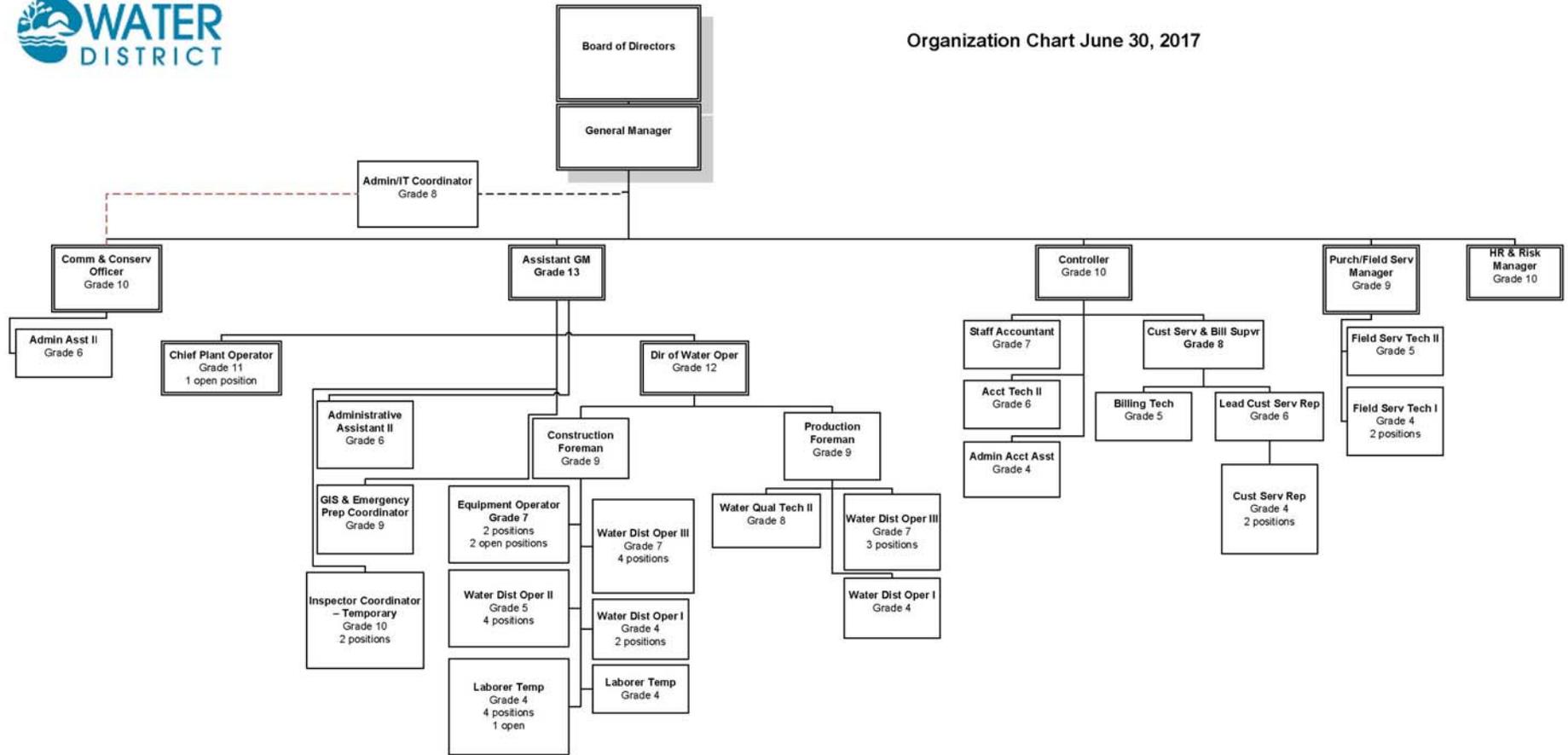
**Roger Mayes
(Director)**



**Dan Munsey
(Director)**



Organization Chart June 30, 2017



Staff Count
48 filled Positions
4 Open Positions



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, 2016

Executive Director/CEO



Financial Section



Charles Z. Fedak, CPA, MBA
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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, 2017 and 2016, 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, 2017 and 2016, 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

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 53 through 55 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 56 through 59, and the statistical section on pages 60 through 73 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, 2017, 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 74 and 75.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

December 13, 2017



Hi-Desert Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017 and 2016

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, 2017 and 2016. 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 10.38% or \$4,704,606 to \$50,007,041. In fiscal year 2016, the District's net position increased 8.58% or \$3,579,965 to \$45,302,435.
- The District's total revenues increased 15.70% or \$2,126,650 to \$15,673,441. In fiscal year 2016, the District's total revenues increased 2.32% or \$306,676 to 2,126,650.
- The District's total expenses increased 10.05% or \$1,002,009 to \$10,968,835. In fiscal year 2016, the District's total expenses increased 9.89 or \$897,089 to 9,966,826.
- The District's capital contributions amounted to \$4,571,514. In fiscal year 2016, capital contributions amounted to \$2,239,380.

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, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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 52.

Statements of Net Position

Condensed Statements of Net Position					
	<u>2017</u>	<u>As restated 2016</u>	<u>Change</u>	<u>As restated 2015</u>	<u>Change</u>
Assets:					
Current assets	\$ 21,109,531	12,431,967	8,677,564	12,379,096	52,871
Capital assets, net	62,280,681	44,977,047	17,303,634	41,043,340	3,933,707
Total assets	<u>83,390,212</u>	<u>57,409,014</u>	<u>25,981,198</u>	<u>53,422,436</u>	<u>3,986,578</u>
Deferred outflows of resources	<u>1,801,034</u>	<u>942,435</u>	<u>858,599</u>	<u>468,866</u>	<u>473,569</u>
Liabilities:					
Current liabilities	9,467,319	2,657,927	6,809,392	2,526,208	131,719
Non-current liabilities	25,481,553	9,974,147	15,507,406	8,831,282	1,142,865
Total liabilities	<u>34,948,872</u>	<u>12,632,074</u>	<u>22,316,798</u>	<u>11,357,490</u>	<u>1,274,584</u>
Deferred inflows of resources	<u>235,333</u>	<u>416,940</u>	<u>(181,607)</u>	<u>811,342</u>	<u>(394,402)</u>
Net position:					
Net investment in capital assets	42,424,863	39,682,015	2,742,848	35,998,775	3,683,240
Unrestricted	7,582,178	5,620,420	1,961,758	5,723,695	(103,275)
Total net position	<u>\$ 50,007,041</u>	<u>45,302,435</u>	<u>4,704,606</u>	<u>41,722,470</u>	<u>3,579,965</u>

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 \$50,007,041 and \$45,302,435 as of June 30, 2017 and 2016.

Compared to prior year, net position of the District increased 10.38% or \$4,704,606. 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 (87.1% and 87.6% as of June 30, 2017 and 2016, 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 2017 and 2016, the District showed a positive balance in its unrestricted net position of \$6,474,494 and \$5,620,420, respectively, which may be utilized in future years.

Hi-Desert Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2017</u>	<u>As restated 2016</u>	<u>Change</u>	<u>As restated 2015</u>	<u>Change</u>
Operations:					
Operating revenues	\$ 7,779,002	7,512,847	266,155	7,616,919	(104,072)
Operating expenses	<u>8,423,756</u>	<u>7,512,365</u>	<u>911,391</u>	<u>6,863,367</u>	<u>648,998</u>
Operating (loss) income before depreciation	<u>(644,754)</u>	<u>482</u>	<u>(645,236)</u>	<u>753,552</u>	<u>(753,070)</u>
Depreciation	<u>(1,904,459)</u>	<u>(1,811,941)</u>	<u>(92,518)</u>	<u>(1,555,113)</u>	<u>(256,828)</u>
Operating loss	<u>(2,549,213)</u>	<u>(1,811,459)</u>	<u>(737,754)</u>	<u>(801,561)</u>	<u>(1,009,898)</u>
Non-operating revenue (expenses):					
Property taxes	1,483,026	1,448,390	34,636	1,393,362	55,028
Assessment revenue	18,160	650,071	(631,911)	-	650,071
Interest earnings	70,752	65,086	5,666	57,118	7,968
Capital surcharge	1,043,528	1,040,681	2,847	1,033,544	7,137
Morongo Basin Project surcharge	545,689	543,894	1,795	539,748	4,146
Lease payment – Morongo Basin Project	(479,651)	(479,946)	295	(480,187)	241
Interest expense – long-term debt	(147,196)	(158,943)	11,747	(139,733)	(19,210)
Other non-operating revenues (expenses):					
Other non-operating revenues	161,770	46,442	115,328	90,976	(44,534)
Other non-operating expenses	<u>(13,773)</u>	<u>(3,631)</u>	<u>(10,142)</u>	<u>(31,337)</u>	<u>27,706</u>
Total non-operating revenues, net	<u>2,682,305</u>	<u>3,152,044</u>	<u>(469,739)</u>	<u>2,463,491</u>	<u>688,553</u>
Net income before capital contributions	<u>133,092</u>	<u>1,340,585</u>	<u>(1,207,493)</u>	<u>1,661,930</u>	<u>(321,345)</u>
Capital contributions	<u>4,571,514</u>	<u>2,239,380</u>	<u>2,332,134</u>	<u>2,508,448</u>	<u>(269,068)</u>
Change in net position	<u>4,704,606</u>	<u>3,579,965</u>	<u>1,124,641</u>	<u>4,170,378</u>	<u>(590,413)</u>
Net position, beginning of period	45,302,435	41,722,470	3,579,965	40,585,530	1,136,940
Prior period adjustment (note 13)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,033,438)</u>	<u>3,033,438</u>
Net position, beginning of period as restated (note 13)	<u>45,302,435</u>	<u>41,722,470</u>	<u>3,579,965</u>	<u>37,552,092</u>	<u>4,170,378</u>
Net position – end of period	<u>\$ 50,007,041</u>	<u>45,302,435</u>	<u>4,704,606</u>	<u>41,722,470</u>	<u>3,579,965</u>

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal year. During the fiscal year ended June 30, 2017, the District's net position increased 10.38% or \$4,704,606 to \$50,007,041, as a result of ongoing operations. In fiscal year 2016, the District's net position increased 8.58% or \$3,579,965 to \$45,302,435, as a result of ongoing operations.

The District's operating revenues increase 3.5% or \$266,155 to \$7,779,002, primarily due to an increase in water sales of \$246,270. In fiscal year 2015, 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.

The District's operating expenses increased 12.13% or \$911,391, primarily due to increases of \$1,219,747 in source of supply and \$75,621 in transmission and distributions; which were offset by decreases of \$185,621 in pumping and water treatment, \$128,745 in general and administrative, \$32,461 in customer accounts and \$37,150 in wastewater operations. In fiscal year 2016, 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.

Hi-Desert Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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 decreased by \$469,739, primarily due to a decrease in property tax apportionment of \$597,275. In fiscal year 2016, non-operating revenues net of non-operating expenses increased by \$688,553, primarily due to the increase in property tax apportionment of \$705,099.

The District's received \$4,571,514 in capital contributions which is comprised of grant revenues of \$3,828,141 and \$527,275 for water operations and wastewater operations, respectively, and \$216,098 from developers for meter purchases and installation fees. In fiscal year 2016, the District 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.

Total Revenues

	<u>2017</u>	<u>As restated 2016</u>	<u>Change</u>	<u>2015</u>	<u>Change</u>
Operating revenues:					
Water consumption sales	\$ 5,684,811	5,438,541	246,270	5,538,428	(99,887)
Readiness-to-serve fees	1,783,455	1,770,154	13,301	1,762,154	8,000
Other charges	310,736	304,152	6,584	316,337	(12,185)
Total operating revenues	<u>7,779,002</u>	<u>7,512,847</u>	<u>266,155</u>	<u>7,616,919</u>	<u>(104,072)</u>
Non-operating revenues:					
Property taxes	1,483,026	1,448,390	34,636	1,393,362	55,028
Assessment revenue	18,160	650,071	(631,911)	-	650,071
Interest earnings	70,752	65,086	5,666	57,118	7,968
Capital surcharge	1,043,528	1,040,681	2,847	1,033,544	7,137
Morongo Basin Project surcharge	545,689	543,894	1,795	539,748	4,146
Other non operating revenue	161,770	46,442	115,328	90,976	(44,534)
Total non-operating revenues	<u>3,322,925</u>	<u>3,794,564</u>	<u>(471,639)</u>	<u>3,114,748</u>	<u>679,816</u>
Capital contributions:					
Grant revenue	4,355,416	2,086,535	2,268,881	2,274,933	(188,398)
Meter sales and installations	216,098	152,845	63,253	233,515	(80,670)
Total capital contributions	<u>4,571,514</u>	<u>2,239,380</u>	<u>2,332,134</u>	<u>2,508,448</u>	<u>(269,068)</u>
Total revenues	<u>\$ 15,673,441</u>	<u>13,546,791</u>	<u>2,126,650</u>	<u>13,240,115</u>	<u>306,676</u>

The District's total revenues increased \$2,126,650. Operating revenues increased by \$266,155, primarily due to an increase in water sales and services of \$246,270 and an increase in other charges of \$13,301. Non-operating revenues decreased by \$471,639, primarily due to a decrease of \$597,275 in assessment revenue and property taxes, which was offset by an \$115,328 increase in other non-operating revenue resulting from facilities, surplus and rebates reimbursement.

In fiscal year 2016, total revenues increased \$306,676. 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 \$679,816, primarily due to an increase of \$705,099 in property tax revenues.

Hi-Desert Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

Total Expenses

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>2015</u>	<u>Change</u>
Operating expenses including:					
depreciation expense					
Source of supply	\$ 2,341,561	1,121,814	1,219,747	1,070,190	51,624
Pumping and water treatment	1,689,555	1,875,176	(185,621)	1,772,996	102,180
Transmission and distribution	1,392,429	1,316,808	75,621	1,092,276	224,532
Customer accounts	456,547	489,008	(32,461)	174,430	314,578
Wastewater operations	38,649	75,799	(37,150)	198,639	(122,840)
General and administrative	2,505,015	2,633,760	(128,745)	2,554,836	78,924
Depreciation	<u>1,904,459</u>	<u>1,811,941</u>	<u>92,518</u>	<u>1,555,113</u>	<u>256,828</u>
Total operating expenses including depreciation expense	<u>10,328,215</u>	<u>9,324,306</u>	<u>1,003,909</u>	<u>8,418,480</u>	<u>905,826</u>
Non-operating expenses:					
Lease payment – Morongo Basin Project	479,651	479,946	(295)	480,187	(241)
Interest expense – long-term debt	147,196	158,943	(11,747)	139,733	19,210
Other non operating expense	<u>13,773</u>	<u>3,631</u>	<u>10,142</u>	<u>31,337</u>	<u>(27,706)</u>
Total non-operating expenses	<u>640,620</u>	<u>642,520</u>	<u>(1,900)</u>	<u>651,257</u>	<u>(8,737)</u>
Total expenses	<u>\$ 10,968,835</u>	<u>9,966,826</u>	<u>1,002,009</u>	<u>9,069,737</u>	<u>897,089</u>

The District's total expenses increased \$1,002,009. The District's operating expenses increased by \$1,003,909, primarily due to increases of \$1,387,886 in source of supply, transmission and distribution, and depreciation expense which were offset by decreases of \$383,977 in pumping and water treatment, customer accounts, general and administrative expenses, and wastewater operations.

The District's non-operating expenses decreased by \$1,900, primarily due to a decrease in interest expense of \$11,747, which was offset by a \$10,142 increase in other non-operating expense.

In fiscal year 2016, the District's total expenses increased \$897,089. The District's operating expenses increased by \$905,826, primarily due to increases of \$1,028,666 in source of supply, pumping and water treatment, transmission and distribution, customer accounts, general and administrative expenses, and depreciation expense which were offset by a decrease of \$122,840 in wastewater operations.

In fiscal year 2016, 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 decrease in other non-operating expense.

Capital Asset Administration

Changes in capital assets in 2017, were as follows:

	<u>Balance 2016</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2017</u>
Capital assets:				
Non-depreciable assets	\$ 12,369,102	16,786,219	-	29,155,321
Depreciable assets	63,775,285	2,421,874	-	66,197,159
Accumulated depreciation	<u>(31,167,340)</u>	<u>(1,904,459)</u>	<u>-</u>	<u>(33,071,799)</u>
Total capital assets	<u>\$ 44,977,047</u>	<u>17,303,634</u>	<u>-</u>	<u>62,280,681</u>

Hi-Desert Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

Capital Asset Administration, continued

Changes in capital assets in 2016, were as follows:

	As restated Balance 2015	Additions/ Transfers	Deletions/ Transfers	Balance 2016
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>

At the end of fiscal year 2017 and 2016, the District's investment in capital assets amounted to \$62,280,681 and \$44,977,047 (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 6 to the basic financial statements.

Debt Administration

Changes in long-term debt amounts for 2017, were as follows:

	Balance 2016	Additions	Principal Payments/ Amortization	Balance 2017
Bonds payable:				
Bond payable	\$ 4,190,000	-	(410,000)	3,780,000
Premium on bond payable	<u>409,108</u>	<u>-</u>	<u>(45,456)</u>	<u>363,652</u>
Total bonds payable	4,599,108	-	(455,456)	4,143,652
Loans payable:				
Clean Water State Revolving Fund Loan	<u>695,924</u>	<u>15,016,242</u>	<u>-</u>	<u>15,712,166</u>
Total long-term debt	<u>\$ 5,295,032</u>	<u>15,016,242</u>	<u>(455,456)</u>	<u>19,855,818</u>

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

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

In 2017, long-term debt increased by \$13,453,102, primarily due to additions to long-term debt of \$13,908,558, which was offset by a \$445,456 decrease due to principal payments. 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. See further detailed information in Note 9.

Hi-Desert Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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, 2017 and 2016

	<u>2017</u>	<u>As restated 2016</u>
Current assets:		
Cash and cash equivalents (note 2)	\$ 8,263,055	8,617,995
Accrued interest receivable	10,133	5,947
Accounts receivable – water sales and services, net (note 3)	1,409,488	1,334,288
Grants receivable (note 4)	2,396,827	-
Loan receivable (note 5)	7,326,331	814,090
Accounts receivable – other	11,865	18,155
Property taxes receivable	44,384	52,367
Materials and supplies inventory	775,469	739,285
Prepaid lease payment (note 14)	720,261	719,394
Prepaid expenses and other deposits	151,718	130,446
Total current assets	<u>21,109,531</u>	<u>12,431,967</u>
Non-current assets:		
Capital assets – not being depreciated (note 6)	29,155,321	12,369,102
Depreciable capital assets, net (note 6)	33,125,360	32,607,945
Total non-current assets	<u>62,280,681</u>	<u>44,977,047</u>
Total assets	<u>83,390,212</u>	<u>57,409,014</u>
Deferred outflows of resources:		
Deferred pension outflows (notes 7 and 15)	1,801,034	942,435
Total deferred outflows of resources	<u>\$ 1,801,034</u>	<u>942,435</u>

Continued on next page

See accompanying notes to the basic financial statements

Hi-Desert Water District
Statements of Net Position, continued
June 30, 2017 and 2016

	<u>2017</u>	<u>As restated 2016</u>
Current liabilities:		
Accounts payable and accrued expenses	\$ 685,936	845,385
Accounts payable - construction	7,764,486	693,958
Deposits and unearned revenue	494,061	616,812
Accrued interest on long-term debt	23,958	26,008
Long-term liabilities – due within one year:		
Compensated absences (note 8)	78,878	65,764
Bonds payable (note 9)	420,000	410,000
Total current liabilities	<u>9,467,319</u>	<u>2,657,927</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 8)	236,633	197,292
Other post employment benefits payable (note 10)	804,042	657,057
Net pension liability (note 15)	5,005,060	4,234,766
Loans payable (note 9)	15,712,166	695,924
Bonds payable, net (note 9)	3,723,652	4,189,108
Total non-current liabilities	<u>25,481,553</u>	<u>9,974,147</u>
Total liabilities	<u>34,948,872</u>	<u>12,632,074</u>
Deferred inflows of resources:		
Deferred pension inflows (note 11 and 15)	235,333	416,940
Total deferred inflows of resources	<u>235,333</u>	<u>416,940</u>
Net position: (note 17)		
Net investment in capital assets	42,424,863	39,682,015
Unrestricted	7,582,178	5,620,420
Total net position	<u>\$ 50,007,041</u>	<u>45,302,435</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, 2017 and 2016

	2017	As restated 2016
Operating revenues:		
Water consumption sales	\$ 5,684,811	5,438,541
Readiness-to-serve fees	1,783,455	1,770,154
Other charges	310,736	304,152
Total operating revenues	7,779,002	7,512,847
Operating expenses:		
Source of supply	2,341,561	1,121,814
Pumping and water treatment	1,689,555	1,875,176
Transmission and distribution	1,392,429	1,316,808
Customer accounts	456,547	489,008
Wastewater operations	38,649	75,799
General and administrative	2,505,015	2,633,760
Total operating expenses	8,423,756	7,512,365
Operating (loss) income before depreciation	(644,754)	482
Depreciation	(1,904,459)	(1,811,941)
Operating loss	(2,549,213)	(1,811,459)
Non-operating revenue (expenses):		
Property taxes	1,483,026	1,448,390
Assessment revenue (note 16)	18,160	650,071
Interest earnings	70,752	65,086
Capital surcharge	1,043,528	1,040,681
Morongo Basin Project surcharge (note 14)	545,689	543,894
Lease payment – Morongo Basin Project	(479,651)	(479,946)
Interest expense – long-term debt	(147,196)	(158,943)
Other non-operating revenues, net	147,997	42,811
Total non-operating revenues, net	2,682,305	3,152,044
Net income before capital contributions	133,092	1,340,585
Capital contributions:		
Grant revenue	4,355,416	2,086,535
Meter sales and installations	216,098	152,845
Total capital contributions	4,571,514	2,239,380
Change in net position	4,704,606	3,579,965
Net position, beginning of period (note 13)	45,302,435	41,722,470
Net position, end of period	50,007,041	45,302,435

See accompanying notes to the basic financial statements

Hi-Desert Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2017 and 2016

	2017	As restated 2016
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 7,581,051	7,723,016
Cash paid to employees for salaries and wages	(3,337,381)	(2,981,926)
Cash paid to vendors and suppliers for materials and services	1,851,063	(5,352,495)
Net cash provided by (used) in operating activities	6,094,733	(611,405)
Cash flows from non-capital financing activities:		
Proceeds from property taxes	1,491,009	1,438,329
Proceeds from assessment revenue	18,160	650,071
Net cash provided by non-capital financing activities	1,509,169	2,088,400
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(19,208,093)	(5,213,930)
Proceeds from capital grants	16,974,831	3,165,785
Proceeds from loan	(6,512,241)	-
Proceeds from meter sales and installations	216,098	152,845
Principal paid on long-term debt	(455,456)	(445,457)
Interest paid on long-term debt	(149,246)	(160,277)
Proceeds from CRP surcharge	1,043,528	1,040,681
Proceeds from Morongo Basin Project surcharge	545,689	543,894
Lease payment – Morongo Basin Project	(480,518)	(479,486)
Net cash used in capital and related financing activities	(8,025,408)	(1,395,945)
Cash flows from investing activities:		
Interest earnings	66,566	62,218
Net cash provided by investing activities	66,566	62,218
Net (decrease) increase in cash and cash equivalents	(354,940)	143,268
Cash and cash equivalents – beginning of year	8,617,995	8,474,727
Cash and cash equivalents – end of year	\$ 8,263,055	8,617,995

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, 2017 and 2016

	2017	As restated 2016
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (2,549,213)	(1,811,459)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	1,904,459	1,811,941
Other non-operating revenues	161,770	46,442
Other non-operating expenses	(13,773)	(3,631)
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	(75,200)	(70,844)
Accounts receivable – other	6,290	19,394
Materials and supplies inventory	(36,184)	(216,527)
Prepaid expenses and other deposits	(21,272)	(12,483)
Deferred outflows of resources	(858,599)	(473,569)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	(159,449)	(530,344)
Accounts payable - construction	7,070,528	242,360
Deposits and unearned revenue	(122,751)	(121,707)
Compensated absences	52,455	4,105
Net pension liability	770,294	766,031
Other post employment benefits payable	146,985	133,288
Deferred inflows of resources	(181,607)	(394,402)
Total adjustments	8,643,946	1,200,054
Net cash used in operating activities	\$ 6,094,733	(611,405)

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, 2017 and 2016

(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. 61, *The Financial Reporting Entity*. 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.

On May 23, 2015, the District formed the Assessment District 2014-1 to finance the construction of the sewer improvements necessary to fund the construction of the Wastewater Reclamation Project (Project). Assessments are used to repay a loan from the California Water State Revolving Fund (SRF).

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, 2017 and 2016

(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. 74

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for financial statements for periods beginning after June 15, 2016.

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*.

Government Accounting Standards Board Statement No. 77

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*, effective for fiscal years beginning after December 15, 2015.

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.

Government Accounting Standards Board Statement No. 78

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for financial statements for periods beginning after December 15, 2015.

In December 2015, the GASB issued Statement No. 78 – *Pensions*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

C. Financial Reporting, continued

Government 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*, effective for financial statements for periods beginning after June 15, 2016.

The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. 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.

Government 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*, effective for financial statements for periods beginning after June 15, 2016.

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.

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.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

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

4. Fair Value Measurements, continued

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.

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.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

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

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.

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.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

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

12. Pensions, continued

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, 2015 and 2014
- Measurement Date: June 30, 2016 and 2015
- Measurement Period: July 1, 2015 to June 30, 2016 and July 1, 2014 to June 30, 2015

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.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(2) Cash and Cash Equivalents

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

	2017	As restated 2016
Cash and cash equivalents	\$ 8,263,055	8,617,995

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

	2017	As restated 2016
Cash on hand	\$ 1,700	1,700
Deposits held with financial institutions	3,865,974	4,242,006
Deposits held with California Local Agency Investment Fund (LAIF)	4,395,381	4,374,289
Total	\$ 8,263,055	8,617,995

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

	2017	2016
Deposits held with the California Local Agency Investment Fund (LAIF)	194 days	167 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
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.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(2) Cash and Cash Equivalents, continued

Investment in State Investment Pool, continued

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.

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 53% and 55% as of June 30, 2017 and 2016, 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).

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(3) Accounts Receivable – Water Sales and Services

The balance at June 30 consists of the following:

	<u>2017</u>	<u>2016</u>
Accounts receivable – water sales and services	\$ 1,516,242	1,438,546
Allowance for uncollectible accounts	<u>(106,754)</u>	<u>(104,258)</u>
Accounts receivable – water sales, net	<u>\$ 1,409,488</u>	<u>1,334,288</u>

(4) Grant Receivable

The balance at June 30 consists of the following:

	<u>2017</u>	<u>2016</u>
US Bureau of Reclamation Grant	\$ 100,271	-
Prop 84 IRWM Grant	2,291,223	-
Local Grant	<u>5,333</u>	<u>-</u>
Grant receivable	<u>\$ 2,396,827</u>	<u>-</u>

In September 16, 2014, the District was awarded with federal grant funding from the U.S. Department of Interior, Bureau of Reclamation (Reclamation) through a cooperative agreement (Agreement). The project to be constructed under the grant funding agreement includes the design, planning and construction of the District’s wastewater collection and reuse facility in Yucca Valley, California. The agreement provides for a total funding of \$119,445,206, where the federal and non-federal share of the total project cost shall not exceed 25% and 75%, respectively. As of June 30, 2017 and 2016, the receivable balance from the Reclamation amounted to \$100,271 and \$0, respectively.

In April 13, 2015, the District was awarded a state pass through grant funding from the Department of Water Resources (DWR). The State provides funding from the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006 to assist the District in financing the projects associated with the Mojave Integrated Regional Water Management Plan pursuant to Chapter 8 of Division 26.5 of the California Water Code (CWC), hereinafter collectively referred to as IRWM Program. The agreement provides for a total grant amount of \$10,176,364, with an estimated completion date of June 30, 2018. As of June 30, 2017 and 2016, the receivable balance from DWR amounted to \$2,296,556 and \$0, respectively.

(5) Loan Receivable

In January 24, 2016, the District was awarded federal pass through grant funding from the State of California in the form of Clean State Water Revolving Fund financing. The financing is designed to assist the District in the construction of a sewer collection system, a wastewater treatment facility, and water reclamation recharge ponds. Total project cost is estimated to be \$142,349,314. As of June 30, 2017 and 2016, the receivable balance from the State Water Resources Control Board amounted to \$7,326,331 and \$814,090, respectively.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(6) Capital Assets

Changes in capital assets for 2017 were as follows:

	<u>Balance 2016</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2017</u>
Non-depreciable assets:				
Land	\$ 1,130,089	-	-	1,130,089
Easements	337,851	-	-	337,851
Construction-in-process	10,901,162	16,786,219	-	27,687,381
Total non-depreciable assets	<u>12,369,102</u>	<u>16,786,219</u>	<u>-</u>	<u>29,155,321</u>
Depreciable assets:				
Transmission and distribution mains	29,867,067	2,206,681	-	32,073,748
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	792,739	-	-	792,739
Buildings and structures	1,151,786	-	-	1,151,786
Office furniture and equipment	1,072,532	37,977	-	1,110,509
Tools and equipment	552,544	-	-	552,544
Vehicles	4,370,528	177,216	-	4,547,744
Total depreciable assets	<u>63,775,285</u>	<u>2,421,874</u>	<u>-</u>	<u>66,197,159</u>
Accumulated depreciation and amortization:				
Transmission and distribution mains	(10,460,510)	(715,114)	-	(11,175,624)
Reservoirs and tanks	(3,506,128)	(135,882)	-	(3,642,010)
Wells	(4,168,606)	(238,094)	-	(4,406,700)
Meters	(1,201,496)	-	-	(1,201,496)
Recharge ponds	(1,082,446)	(47,342)	-	(1,129,788)
Recharge site #3	(645,530)	(61,479)	-	(707,009)
Nitrate removal facility	(913,613)	(69,109)	-	(982,722)
Reach II pipeline	(755,404)	(36,849)	-	(792,253)
Pumps	(1,027,094)	(8,329)	-	(1,035,423)
Boosters	(868,096)	(7,885)	-	(875,981)
Hydrants	(699,565)	(8,866)	-	(708,431)
Blending facility	(222,864)	(21,413)	-	(244,277)
Buildings and structures	(789,333)	(34,161)	-	(823,494)
Office furniture and equipment	(1,039,986)	(38,382)	-	(1,078,368)
Tools and equipment	(543,766)	(6,495)	-	(550,261)
Vehicles	(3,242,903)	(475,059)	-	(3,717,962)
Total accumulated depreciation	<u>(31,167,340)</u>	<u>(1,904,459)</u>	<u>-</u>	<u>(33,071,799)</u>
Total depreciable assets, net	<u>32,607,945</u>	<u>517,415</u>	<u>-</u>	<u>33,125,360</u>
Total capital assets, net	<u>\$ 44,977,047</u>			<u>62,280,681</u>

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(6) Capital Assets, continued

Changes in capital assets for 2016 were as follows:

	<u>As restated Balance 2015</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2016</u>
Non-depreciable assets:				
Land	\$ 1,130,089	-	-	1,130,089
Easements	337,851	-	-	337,851
Construction-in-process	<u>8,154,567</u>	<u>5,332,909</u>	<u>(2,586,314)</u>	<u>10,901,162</u>
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	1,066,884	5,648	-	1,072,532
Tools and equipment	552,544	-	-	552,544
Vehicles	<u>3,984,693</u>	<u>385,835</u>	<u>-</u>	<u>4,370,528</u>
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	<u>(2,833,638)</u>	<u>(409,265)</u>	<u>-</u>	<u>(3,242,903)</u>
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, 2017 and 2016

(6) Capital Assets, continued

Major depreciable capital asset additions during fiscal year 2017 include additions to the transmission and distribution system mains, vehicles, and office furniture and equipment.

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.

Depreciation expense was charged to the District's water fund as of June 30, 2017 and 2016.

Construction-In-Process

The District has been involved in various construction projects throughout the year. The projects that comprise the construction-in-process balances at June 30, 2017 and 2016 are as follows:

	2017	2016
Wastewater treatment facility	\$ 1,735,005	1,735,005
Wastewater facility progressive design	25,553,516	8,978,989
CRP Design Phase 2	172,610	-
Pneumation Station	64,463	-
Tank rehabilitation project	146,076	146,075
Various small projects under \$50,000	15,711	41,093
Construction-in-process	\$ 27,687,381	10,901,162

(7) Deferred Outflows of Resources

Changes in deferred outflows of resources for 2017 were as follows:

	Balance 2016	Additions	Amortization	Balance 2017
Deferred outflows of resources:				
Deferred pension outflows	\$ 942,435	1,695,657	(837,058)	1,801,034
Total deferred outflows of resources	\$ 942,435	1,695,657	(837,058)	1,801,034

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

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

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(8) 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>2016</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2017</u>	<u>Due Within</u> <u>One Year</u>	<u>Due in More</u> <u>Than One Year</u>
\$ 263,056	340,255	(287,800)	315,511	78,878	236,633

<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

(9) Long-term Debt

Changes in long-term debt for the year ended June 30, 2017, are as follows:

	<u>Balance</u> <u>2016</u>	<u>Additions</u>	<u>Payments/ Amortization</u>	<u>Balance</u> <u>2017</u>
Bonds payable:				
2013 Revenue Refunding bonds	\$ 4,190,000	-	(410,000)	3,780,000
Premium on revenue refunding bonds	409,108	-	(45,456)	363,652
Total bonds payable	4,599,108	-	(455,456)	4,143,652
Loans payable:				
Clean Water State Revolving Fund Loan	695,924	15,016,242	-	15,712,166
Total loans payable	695,924	15,016,242	-	15,712,166
Total	5,295,032	15,016,242	(455,456)	19,855,818
Less: current portion due	(410,000)			(420,000)
Long-term portion due	\$ 4,885,032			19,435,818

Changes in long-term debt for the year ended June 30, 2016, are as follows:

	<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

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(9) Long-term Debt, continued

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.

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:

Year	Principal	Interest	Total
2018	\$ 420,000	143,750	563,750
2019	435,000	131,150	566,150
2020	450,000	113,750	563,750
2021	460,000	104,750	564,750
2022	480,000	86,350	566,350
2023-2025	1,535,000	155,750	1,690,750
Total	3,780,000	735,500	4,515,500
Add: bond premium	363,652		
Less: current portion	(420,000)		
Long-term portion	\$ 3,723,652		

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(10) 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:

	2017	2016	2015
Active plan members	21	22	24
Retirees and beneficiaries receiving benefits	19	19	17
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	40	41	41

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.

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, 2017 and 2016, the District’s ARC cost is \$267,387 and \$255,873, respectively. The District’s net OPEB payable obligation amounted to \$804,042 and \$657,057 for the fiscal year ended June 30, 2017 and 2016, respectively. The District contributed \$104,259 and \$110,566 in adjusted contributions for current retiree OPEB premiums for the fiscal year ended June 30, 2017 and 2016, respectively.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(10) Other Post-Employment Benefits Payable, continued

Annual Cost, continued

The balance at June 30, consists of the following:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 267,387	255,873	58,517
Interest on net OPEB obligation	7	5	7
Adjustment to annual required contribution	<u>(16,150)</u>	<u>(12,024)</u>	<u>(14,380)</u>
Total annual OPEB expense	251,244	243,854	44,144
Change in net OPEB payable obligation:			
Age adjusted contributions made	<u>(104,259)</u>	<u>(110,566)</u>	<u>(189,909)</u>
Total change in net OPEB payable obligation	146,985	133,288	(145,765)
OPEB payable – beginning of year	<u>657,057</u>	<u>523,769</u>	<u>669,534</u>
OPEB payable – end of year	<u>\$ 804,042</u>	<u>657,057</u>	<u>523,769</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, 2017, and the two preceding years were as follows:

<i>Three-Year History of Net OPEB Obligation</i>				
<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>
2017	\$ 251,244	104,259	41.50%	\$ 804,042
2016	243,854	110,566	45.34%	657,057
2015	44,144	189,909	430.20%	523,769

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 53.

(11) Deferred Inflows of Resources

Changes in deferred inflows of resources for 2017 were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2017</u>
Deferred inflows of resources:				
Deferred pension inflows	\$ 416,940	186,959	(368,566)	235,333
Total deferred inflows of resources	<u>\$ 416,940</u>	<u>186,959</u>	<u>(368,566)</u>	<u>235,333</u>

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(11) Deferred Inflows of Resources, continued

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

	<u>Balance 2015</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 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>

(12) 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, 2017 and 2016 were \$126,279 and \$127,560, respectively. The market value of all plan assets held in trust by Lincoln Financial Services at June 30, 2017 and 2016, were \$821,151 and \$742,768, 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.

(13) Prior Period Adjustment

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.

The effect of the above changes is summarized as follows:

Net position at June 30, 2014	<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>\$ 37,552,092</u>

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(13) Prior Period Adjustment, continued

Improvement Fund Cash

In fiscal year 2017, the District determined that the Improvement Fund cash account for Assessment District 2014-1 should have been included as part of the District's books as of June 30, 2016. As a result, \$650,071 was not recorded in the District's cash account as of June 30, 2016. Therefore, the District has recorded a prior period adjustment to net position in the amount of \$650,071 at June 30, 2016.

The adjustment to net position is as follows:

Net position at June 30, 2016, as previously stated	\$	44,652,364
Effect of adjustment to record cash account		<u>650,071</u>
Net position at July 1, 2016, as restated	\$	<u><u>45,302,435</u></u>

(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, 2017 and 2016 were \$545,689 and \$543,894, 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).

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

<u>Due June 1st</u>	<u>Amount</u>
2018	\$ 479,708
2019	479,708
2020	479,708
2021	479,708
2022	479,708
2023-2025	<u>1,439,124</u>
Total	<u><u>\$ 3,837,664</u></u>

At June 30, 2017 and 2016, the District has recorded a prepaid asset on the statement of net position in the amount of \$720,261 and \$719,394, respectively, related to the Morongo Basin Project and Surcharge.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(15) 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.

The Plans' provision and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous Plan Pool		
	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 service years	5 service years	5 service years
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	10.808%	7.809%	6.93%

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.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(15) Defined Benefit Pension Plan, continued

Contributions, continued

For the fiscal years ended June 30, 2017 and 2016, the contributions recognized as part of pension expense for the Plan was as follows:

	2017	2016
Contributions – employer	\$ 228,861	457,832

Net Pension Liability

As of June 30, 2017 and 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	2017	2016
Proportionate share of net pension liability	\$ 5,005,060	4,234,766

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, 2016 and 2015 (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, 2015 and 2014 (the valuation dates), rolled forward to June 30, 2016 and 2015, 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.

The District’s proportionate share of the pension liability for the Plan as of the measurement date June 30, 2016 and 2015, were as follows:

	Miscellaneous Plan
Proportion – June 30, 2014	0.05575%
Increase in proportion	0.00595%
Proportion – June 30, 2015	0.06170%
Decrease in proportion	-0.00385%
Proportion – June 30, 2016	0.05784%

Deferred Pension Outflows (Inflows) of Resources

For the fiscal years ended June 30, 2017 and 2016, the District recognized pension credit of \$269,912 and \$101,940, respectively.

As of June 30, 2017 and 2016, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of \$573,347 and \$228,861 will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018 and 2017, respectively.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(15) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

Description	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	\$ 573,347		228,861	
Differences between actual and expected experience	14,187		29,354	
Changes in assumptions	-	(174,115)	-	(277,717)
Net differences between projected and actual earnings on plan investments	-	(61,218)	-	(139,223)
Differences between actual contribution and proportionate share of contribution	906,213		123,867	
Net adjustment due to differences in proportions of net pension liability	307,287		560,353	
Total	<u>\$ 1,801,034</u>	<u>(235,333)</u>	<u>942,435</u>	<u>(416,940)</u>

At June 30, 2017, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30,	Deferred Net Outflows/(Inflows) of Resources
2018	\$ 239,079
2019	206,253
2020	307,153
2021	239,869
2022	-
Remaining	-

Actuarial Assumptions

The total pension liabilities were determined as of June 30, 2015, which were rolled forward to June 30, 2016, using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.65%
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

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(15) Defined Benefit Pension Plan, continued

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan.

The long-term expected rate of return on pension plan investments was determined 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 calculated 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 expected 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.

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 calculated 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 expected 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, 2017 and 2016

(15) 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.

As of June 30, 2017, the target allocation and the long-term expected real rate of return by asset class were as follows:

<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%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
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

As of June 30, 2016, the target allocation and the long-term expected real rate of return by asset class were as follows:

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Year 11+**</u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	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 table 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.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(15) Defined Benefit Pension Plan, continued

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

As of June 30, 2017, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

	Discount Rate - 1% 6.65%	Current Discount Rate 7.65%	Discount Rate + 1% 8.65%
District's Net Pension Liability	\$ 8,133,318	5,005,060	2,813,102

As of June 30, 2016, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

	Discount Rate - 1% 6.65%	Current Discount Rate 7.65%	Discount Rate + 1% 8.65%
District's Net Pension Liability	\$ 7,363,482	4,234,766	1,936,292

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 54 through 55 for the Required Supplementary Schedules.

Payable to the Pension Plan

At June 30, 2017 and 2016, the District reported no payables for the outstanding amount of contribution to the pension plan.

(16) Assessment District No. 2014-1

On February 18, 2015, The Board of Directors of the District authorized staff to initiate the construction of certain sewer improvements, including the construction of the wastewater reclamation facility, sewer collection and lateral lines connecting sewer lines to the property lines of certain properties, together with appurtenances and appurtenant work, including the repairs to streets within which the sewer lines are installed, and initiating proceedings to establish a special assessment district to finance the costs of such construction pursuant to the terms and provisions of the Municipal Improvement Act of 1913. The special assessment district is designated as Assessment District 2014-1.

On May 13, 2015, the Board of Directors of the District authorized the District's Treasurer to establish an Improvement Fund, whereby assessment revenues collected from owners of real property within the Assessment District will be used to service the Clean Water State Revolving Fund Loan from the California State Water Resources Control Board. For the fiscal year ended June 30, 2017 and 2016, the District's assessment revenue amounted to \$18,160 and \$650,071, respectively.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(17) Net Position

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

	2017	2016
Net investment in capital assets:		
Capital assets, net	\$ 62,280,681	44,977,047
Loans payable	(15,712,166)	(695,924)
Bonds payable – current portion	(420,000)	(410,000)
Bonds payable – non-current portion	(3,723,652)	(4,189,108)
Total net investment in capital assets	42,424,863	39,682,015
Unrestricted net position:		
Non-spendable net position:		
Materials and supplies inventory	775,469	739,285
Prepaid lease payment	720,261	719,394
Prepaid expenses and other deposits	151,718	130,446
Total non-spendable net position	1,647,448	1,589,125
Spendable net position are as follows:		
Unrestricted	5,934,730	4,031,295
Total spendable net position	5,934,730	4,031,295
Total unrestricted net position	7,582,178	5,620,420
Total net position	\$ 50,007,041	45,302,435

(18) 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.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(18) Risk Management, continued

- 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, 2017, 2016 and 2015. 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 were no IBNR claims payable as of June 30, 2017, 2016 and 2015.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2017, that have effective dates that may impact future financial presentations.

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 December 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. 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.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government’s AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) and requires disclosure of information about the nature of a government’s AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2018. 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. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. 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. 85

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits - OPEB).

The provisions of this Statement are effective for reporting 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.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

Governmental Accounting Standards Board Statement No. 86

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. 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. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

(20) 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.

(21) Subsequent Events

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of December 13, 2017, 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, 2017

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, 2017
Last Ten Years*

	Measurement Dates		
	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
District's Proportion of the Net Pension Liability	0.05784%	0.06170%	0.05575%
District's Proportionate Share of the Net Pension Liability	\$ 5,005,060	4,234,766	3,468,735
District's Covered-Employee Payroll	\$ 2,408,114	2,255,616	2,048,638
District's proportionate share of the net pension liability as a as a Percentage of its Covered-Employee Payroll	207.84%	187.74%	169.32%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	69.36%	73.05%	77.23%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 421,873	396,966	436,417

Notes:

Changes in Benefit Terms – There were no changes in benefit terms for the measurement date June 30, 2017.

Changes of Assumptions – There were no changes of assumption for the measurement date June 30, 2017.

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

Hi-Desert Water District
Schedule of Pension Plan Contributions
As of June 30, 2017
Last Ten Years*

Description	Measurement Dates		
	6/30/16	6/30/15	6/30/14
Actuarially Determined Contribution	\$ 576,531	522,794	436,417
Contributions in Relation to the Actuarially Determined Contribution	(228,861)	(457,832)	(436,417)
Contribution Deficiency (Excess)	\$ 347,670	64,962	-
Covered Payroll	\$ 2,408,114	2,255,616	2,048,638
Contribution's as a percentage of Covered-employee Payroll	9.50%	20.30%	21.30%

Notes:

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.



Supplemental Information Section

Hi-Desert Water District
Combining Schedule of Net Position
June 30, 2017

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Current assets:			
Cash and cash equivalents	\$ 7,018,567	1,244,488	8,263,055
Accrued interest receivable	10,133	-	10,133
Accounts receivable – water sales and services, net	1,409,488	-	1,409,488
Grants receivable	2,291,223	105,604	2,396,827
Loan receivable	-	7,326,331	7,326,331
Accounts receivable – other	11,865	-	11,865
Property taxes receivable	44,384	-	44,384
Internal balances	7,093,162	(7,093,162)	-
Materials and supplies inventory	775,469	-	775,469
Prepaid lease payment	720,261	-	720,261
Prepaid expense and other deposits	151,718	-	151,718
Total current assets	19,526,270	1,583,261	21,109,531
Non-current assets:			
Capital assets – not being depreciated	1,543,515	27,611,806	29,155,321
Depreciable capital assets, net	33,125,360	-	33,125,360
Total non-current assets	34,668,875	27,611,806	62,280,681
Total assets	54,195,145	29,195,067	83,390,212
Deferred outflows of resources:			
Deferred pension outflows	1,801,034	-	1,801,034
Total deferred outflows of resources	1,801,034	-	1,801,034
Current liabilities:			
Accounts payable and accrued expenses	685,936	-	685,936
Accounts payable - construction	-	7,764,486	7,764,486
Deposits and unearned revenue	494,024	37	494,061
Accrued interest on long-term debt	23,958	-	23,958
Long-term liabilities – due within one year:			
Compensated absences	78,878	-	78,878
Bonds payable	420,000	-	420,000
Total current liabilities	1,702,796	7,764,523	9,467,319
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences	236,633	-	236,633
Other post employment benefits	804,042	-	804,042
Net pension liability	5,005,060	-	5,005,060
Loans payable	-	15,712,166	15,712,166
Bonds payable, net	3,723,652	-	3,723,652
Total non-current liabilities	9,769,387	15,712,166	25,481,553
Total liabilities	11,472,183	23,476,689	34,948,872
Deferred inflows of resources:			
Deferred pension inflows	235,333	-	235,333
Total deferred inflows of resources	235,333	-	235,333
Net position:			
Net investment in capital assets	30,525,223	11,899,640	42,424,863
Unrestricted	13,763,440	(6,181,262)	7,582,178
Total net position	\$ 44,288,663	5,718,378	50,007,041

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, 2017

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Operating revenues:			
Water consumption sales	\$ 5,684,811	-	5,684,811
Readiness-to-serve fees	1,783,455	-	1,783,455
Other charges	310,736	-	310,736
Total operating revenues	<u>7,779,002</u>	<u>-</u>	<u>7,779,002</u>
Operating expenses:			
Source of supply	2,341,561	-	2,341,561
Pumping and water treatment	1,689,555	-	1,689,555
Transmission and distribution	1,392,429	-	1,392,429
Customer accounts	456,547	-	456,547
Wastewater operations	-	38,649	38,649
General and administrative	2,505,015	-	2,505,015
Total operating expenses	<u>8,385,107</u>	<u>38,649</u>	<u>8,423,756</u>
Operating loss before depreciation	(606,105)	(38,649)	(644,754)
Depreciation	<u>(1,904,459)</u>	<u>-</u>	<u>(1,904,459)</u>
Operating loss	<u>(2,510,564)</u>	<u>(38,649)</u>	<u>(2,549,213)</u>
Non-operating revenue (expense):			
Property taxes	1,483,026	-	1,483,026
Assessment revenue	-	18,160	18,160
Interest earnings	70,752	-	70,752
Capital surcharge	1,043,528	-	1,043,528
Morongo Basin Project surcharge	545,689	-	545,689
Lease payment – Morongo Basin Project	(479,651)	-	(479,651)
Interest expense – long-term debt	(147,196)	-	(147,196)
Other non-operating revenues, net	147,997	-	147,997
Total non-operating revenues, net	<u>2,664,145</u>	<u>18,160</u>	<u>2,682,305</u>
Net income (loss) before capital contributions	<u>153,581</u>	<u>(20,489)</u>	<u>133,092</u>
Capital contributions:			
Grant revenue	3,828,141	527,275	4,355,416
Meter sales and installations	216,098	-	216,098
Total capital contributions	<u>4,044,239</u>	<u>527,275</u>	<u>4,571,514</u>
Change in net position	4,197,820	506,786	4,704,606
Net position, beginning of period	<u>40,090,843</u>	<u>5,211,592</u>	<u>45,302,435</u>
Net position, end of period	<u>\$ 44,288,663</u>	<u>5,718,378</u>	<u>50,007,041</u>

See accompanying notes to the basic financial statements

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

	Enterprise Funds		As restated
	Water Fund	Sewer Fund	Total
Current assets:			
Cash and cash equivalents	\$ 7,692,195	925,800	8,617,995
Accrued interest receivable	5,947	-	5,947
Accounts receivable – water sales and services, net	1,334,288	-	1,334,288
Loan receivable	-	814,090	814,090
Accounts receivable – other	18,155	-	18,155
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	(4,435,769)	12,431,967
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	6,601,511	57,409,014
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	-	845,385
Accounts payable - construction	-	693,958	693,958
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	(5,129,764)	5,620,420
Total net position	\$ 40,090,843	5,211,592	45,302,435

See accompanying notes to the basic financial statements

Hi-Desert Water District
Combining Schedule of Revenues, Expenses and Changes in Net Position
June 30, 2016

	Enterprise Funds		As restated
	Water Fund	Sewer Fund	Total
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
Assessment revenues	-	650,071	650,071
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)
Other non-operating revenues, net	42,811	-	42,811
Total non-operating revenues, net	<u>2,501,973</u>	<u>650,071</u>	<u>3,152,044</u>
Net income before capital contributions	<u>766,313</u>	<u>574,272</u>	<u>1,340,585</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	967,884	3,579,965
Net position, beginning of period	<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>5,211,592</u>	<u>45,302,435</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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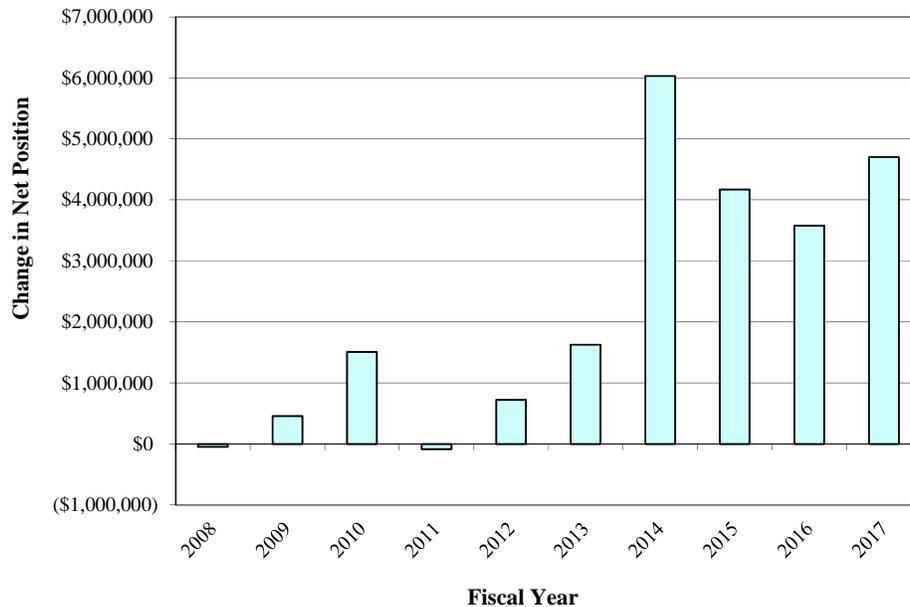
	<u>Page No.</u>
Financial Trends These schedules contain information to help the reader understand how the District’s financial performance and well-being have changed over time.	61-64
Revenue Capacity These schedules contain information to help the reader assess the District’s most significant own-source revenue, water sales.	65-68
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.	69-70
Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District’s financial activities take place.	71
Operating Information This schedule contains service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the service the District provides.	72-73

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

Schedule 1

	Fiscal Year				
	2008	2009	2010	2011	2012
Changes in net position:					
Operating revenues (see Schedule 2)	\$ 6,949,058	7,118,299	7,137,442	7,285,396	7,654,560
Operating expenses (see Schedule 3)	(8,045,653)	(8,199,546)	(7,574,071)	(7,836,459)	(7,153,393)
Depreciation and amortization	(1,379,933)	(1,405,368)	(1,433,748)	(1,435,786)	(1,393,659)
Operating income(loss)	(2,476,528)	(2,486,615)	(1,870,377)	(1,986,849)	(892,492)
Non-operating revenues(expenses):					
Property taxes	1,571,117	1,568,181	1,394,480	1,317,622	1,292,775
Assessment revenue	-	-	-	-	-
Rental income - cellular antennas	4,025	-	-	-	-
Investment income	306,604	144,520	35,667	14,413	14,148
Tax revenue recovery surcharge	260,317	-	-	-	-
Contract water delivery charge	-	-	-	-	-
Dept. of Water Resources Reach II surcharge	332,566	336,994	334,852	584,509	893,895
Morongo Basin Project	531,664	527,101	523,761	521,250	517,716
Lease payment - Morongo Basin Project	(494,987)	(287,098)	(523,984)	(527,290)	(524,958)
Interest expense	(370,525)	(348,944)	(296,724)	(260,680)	(243,280)
Bond issuance costs	-	-	-	-	-
Other revenue/(expense), net	(1) 98,736	697	1,370,945	34,359	(1,021,925)
Total non-operating revenues, net	2,239,517	1,941,451	2,838,997	1,684,183	928,371
Net income (loss) before capital contributions	(237,011)	(545,164)	968,620	(302,666)	35,879
Capital contributions	189,483	1,001,108	540,298	218,433	687,323
Changes in net position	\$ (47,528)	455,944	1,508,918	(84,233)	723,202
Net position by component:					
Net investment in capital assets	\$ 20,791,852	22,214,518	24,348,361	24,993,182	25,599,745
Unrestricted	7,718,622	6,751,900	6,126,975	5,397,921	5,514,560
Total net position	\$ 28,510,474	28,966,418	30,475,336	30,391,103	31,114,305

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

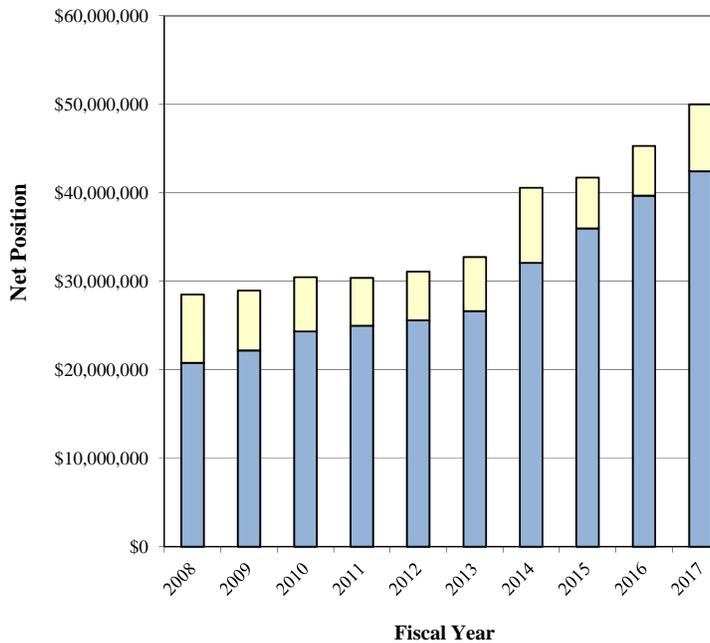


Source: Hi-Desert Water District Accounting Department

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

Schedule 1

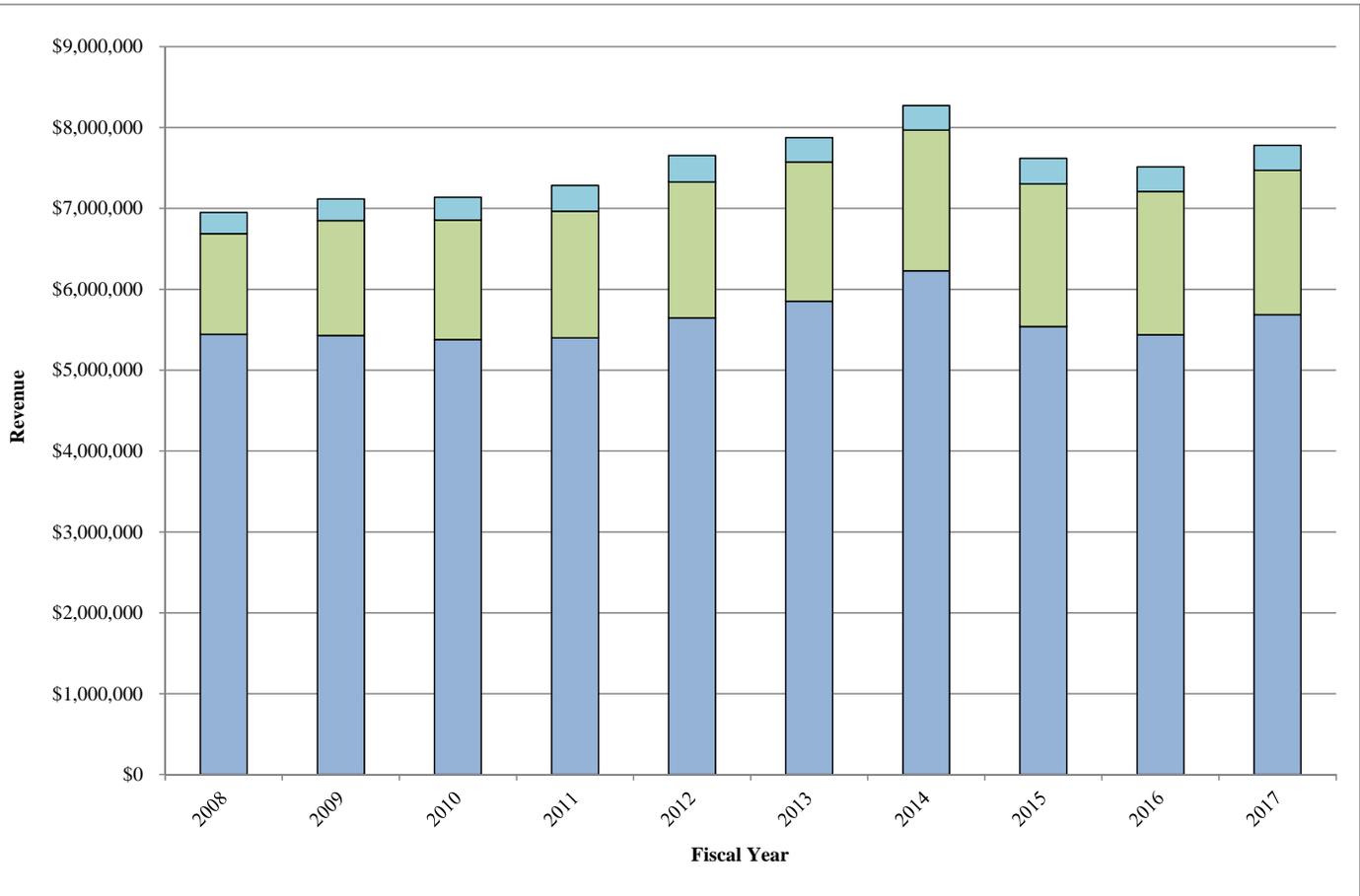
Fiscal Year				
2013	2014	2015	2016	2017
7,875,823	8,270,632	7,616,919	7,512,847	7,779,002
(8,399,247)	(5,604,675)	(6,863,367)	(7,512,365)	(8,423,756)
<u>(1,532,888)</u>	<u>(1,375,158)</u>	<u>(1,555,113)</u>	<u>(1,811,941)</u>	<u>(1,904,459)</u>
<u>(2,056,312)</u>	<u>1,290,799</u>	<u>(801,561)</u>	<u>(1,811,459)</u>	<u>(2,549,213)</u>
1,354,043	1,338,163	1,393,362	1,448,390	1,483,026
-	-	-	650,071	18,160
-	-	-	-	-
11,846	53,148	57,118	65,086	70,752
-	-	-	-	-
-	-	-	-	-
1,013,458	1,019,310	1,033,544	1,040,681	1,043,528
528,887	532,424	539,748	543,894	545,689
(513,073)	(480,021)	(480,187)	(479,946)	(479,651)
(284,330)	(257,853)	(139,733)	(158,943)	(147,196)
(110,078)	(2,131)	(31,337)	(3,631)	(3,631)
<u>108,241</u>	<u>36,625</u>	<u>90,976</u>	<u>46,442</u>	<u>151,628</u>
<u>2,108,994</u>	<u>2,239,665</u>	<u>2,463,491</u>	<u>3,152,044</u>	<u>2,682,305</u>
52,682	3,530,464	1,661,930	1,340,585	133,092
<u>1,572,905</u>	<u>2,497,998</u>	<u>2,508,448</u>	<u>2,239,380</u>	<u>4,571,514</u>
<u>1,625,587</u>	<u>6,028,462</u>	<u>4,170,378</u>	<u>3,579,965</u>	<u>4,704,606</u>
26,627,116	32,102,689	35,998,775	39,682,015	42,424,863
<u>6,112,776</u>	<u>8,482,841</u>	<u>5,723,695</u>	<u>5,620,420</u>	<u>7,582,178</u>
<u>32,739,892</u>	<u>40,585,530</u>	<u>41,722,470</u>	<u>45,302,435</u>	<u>50,007,041</u>



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
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
2017	5,684,811	-	1,783,455	-	310,736	7,779,002

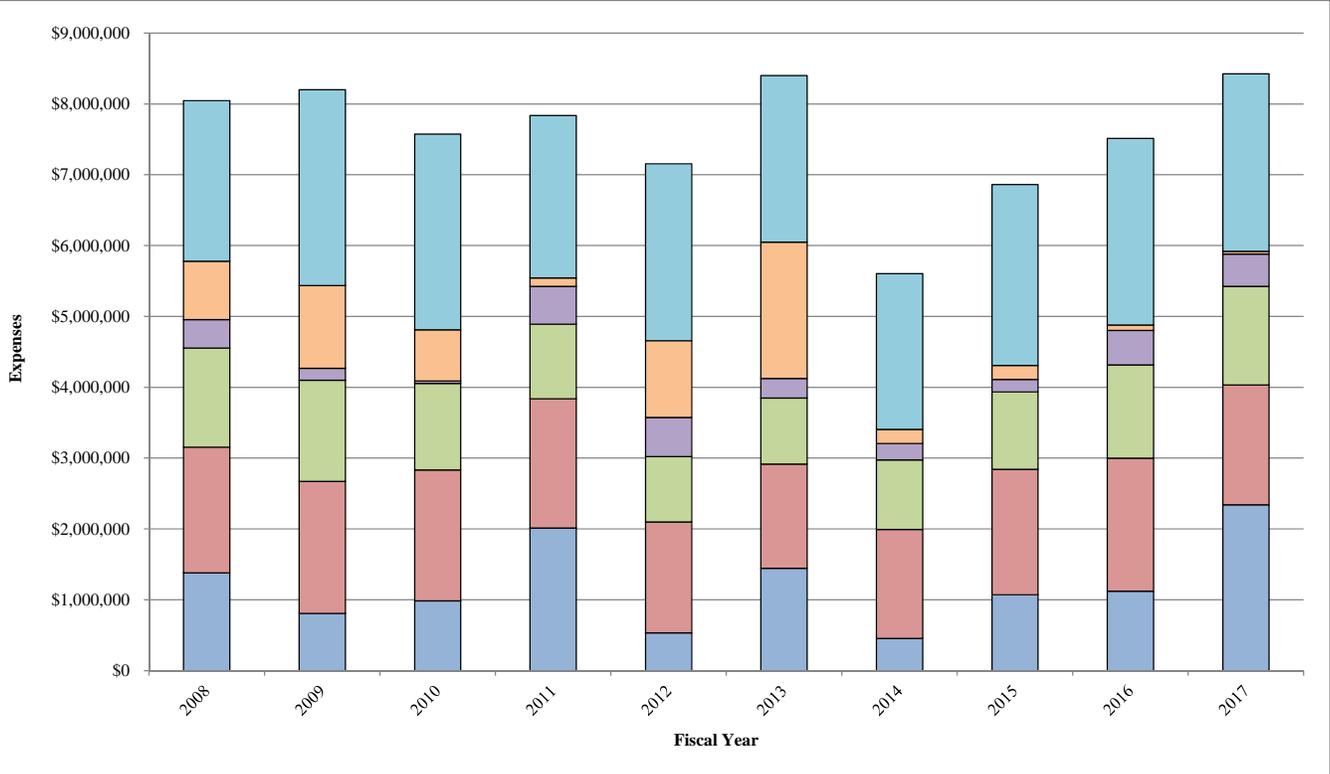


Source: Hi-Desert Water District Accounting Department

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
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
2017	2,341,561	1,689,555	1,392,429	456,547	38,649	2,505,015	8,423,756

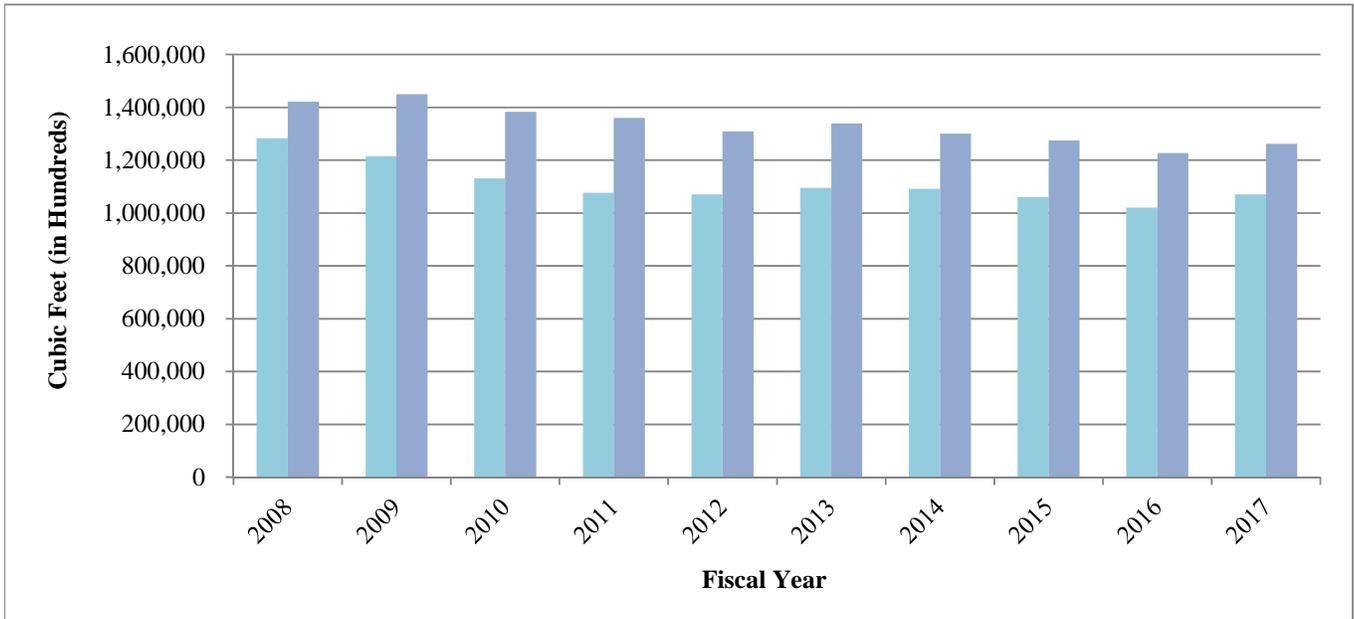


Source: Hi-Desert Water District Accounting Department

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

Schedule 4

Fiscal Year	Water Sales (HCF)	Water Produced (HCF)
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
2017	1,070,591	1,262,241



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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
0-4	\$ 2.97	2.97	3.18	3.40	3.59	3.59	3.59	3.59	3.59	3.59
5-10	4.61	4.61	4.97	5.30	5.69	5.69	5.69	5.69	5.69	5.69
11-28	5.57	5.57	6.01	6.41	6.89	6.89	6.89	6.89	6.89	6.89
29-40	7.21	7.21	8.04	8.56	9.08	9.08	9.08	9.08	9.08	9.08
41-53	7.21	7.21	8.04	8.56	9.08	9.08	9.08	9.08	9.08	9.08
54-65	8.06	8.06	8.04	8.56	9.08	9.08	9.08	9.08	9.08	9.08
66-78	8.06	8.06	8.04	8.56	9.08	9.08	9.08	9.08	9.08	9.08
79-over	8.06	8.06	8.04	8.56	9.08	9.08	9.08	9.08	9.08	9.08

Connection Fees per Month

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

Pipeline Surcharge Fees per Month

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

Notes:

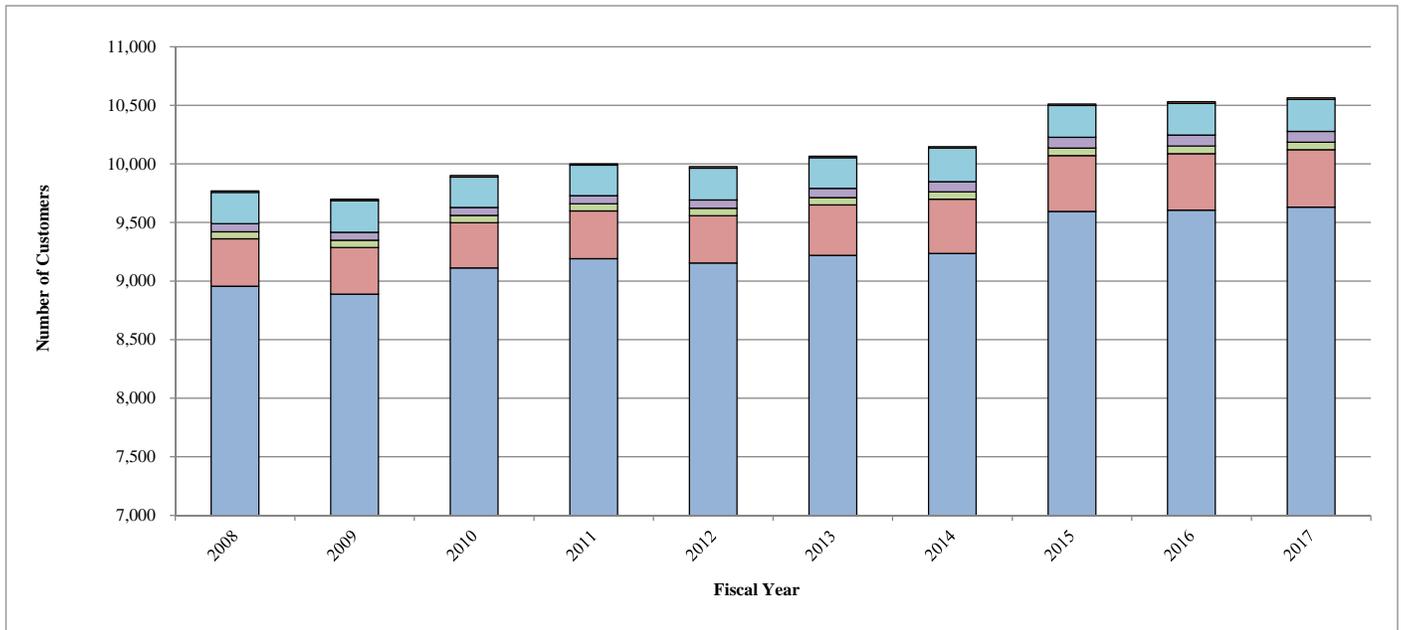
(1) Rates as of June 30, of each fiscal year.

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	
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	21,096
2017	9,630	492	63	93	273	13	10,564



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

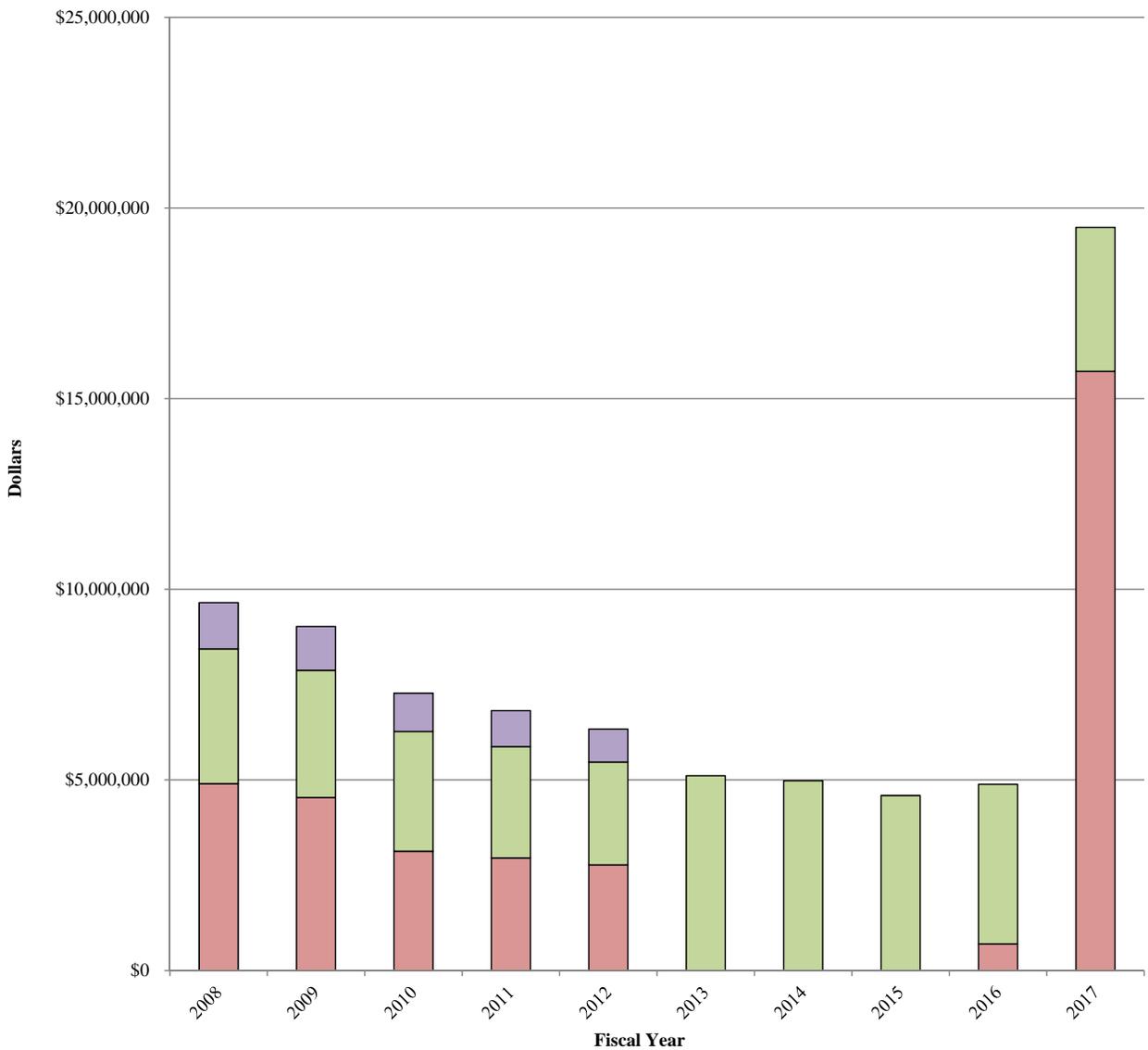
Customer	2017		Customer	2008	
	Water Consumed	Percentage of Total		Water Consumed	Percentage of Total
Morongo Unified Schol District	17,089	1.60%	Shamrock Millco-Aztec	11,010	0.86%
WJB Golf Inc.	13,777	1.29%	Country Club Mobilehome Estate	7,668	0.60%
Sukut Construction, LLC	9,571	0.89%	Apache MHP Association	7,556	0.59%
Brehm2 Town of Yucca Valley	7,343	0.69%	Morongo Unified School District	7,393	0.58%
Caritas Corporation	6,938	0.65%	Town of Yucca Valley	6,305	0.49%
Walmart Stores	6,849	0.64%	Vons Store #63058	6,084	0.47%
Apache MHP Association	6,764	0.63%	Engineered Structures, Inc.	5,740	0.45%
Town of Yucca Valley	6,478	0.61%	Morongo Unified School District	5,475	0.43%
Country Club Mobilehome Estate	6,197	0.58%	Morongo Unified School District	5,153	0.40%
Bill Shack III	6,008	0.56%	Braswell Medical Consultant	4,249	0.33%
Total	87,014	8.13%	Total	66,633	5.19%
Total Water Consumed (HCF)	1,070,591	100.00%	Total Water Consumed (HCF)	1,283,452	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
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%
2017	15,712,166	3,780,000	-	19,492,166	900.25	2.48%



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	
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	11,307,411	(7,512,365)	3,795,046	889,708	156,050	1,045,758	3.63
2017	11,101,927	(8,423,756)	2,678,171	899,708	147,196	1,046,904	2.56

Notes:

(1) Operating expenses exclude depreciation expense.

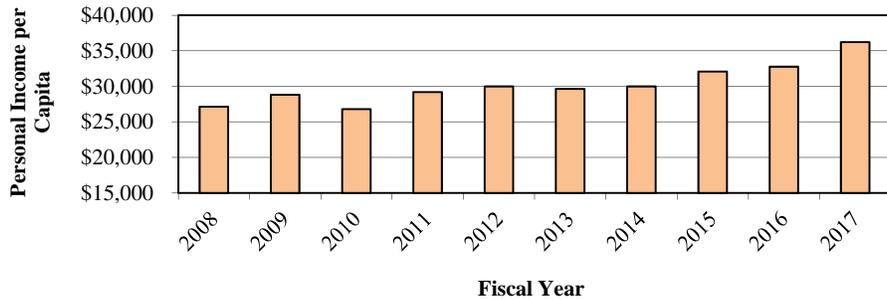
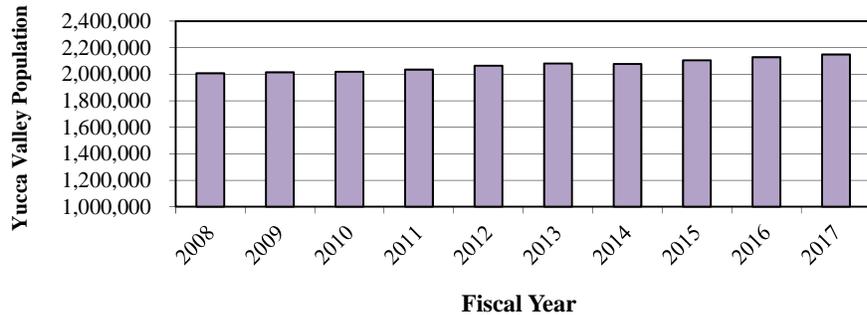
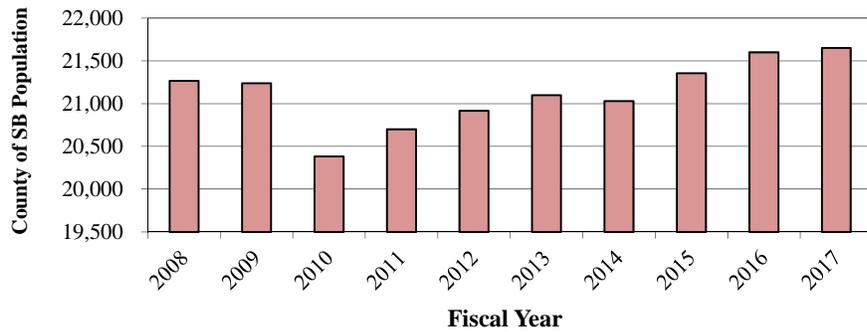
(2) Includes only normal principal payments (does not include payments as a result of refinancing of debt)

Source: Hi-Desert Water District Accounting Department

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

Schedule 10

Year	County of San Bernardino ⁽²⁾				
	Yucca Valley Population ⁽¹⁾	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
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
2017	21,652	5.4%	2,147,933	77,823,908	36,232



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.

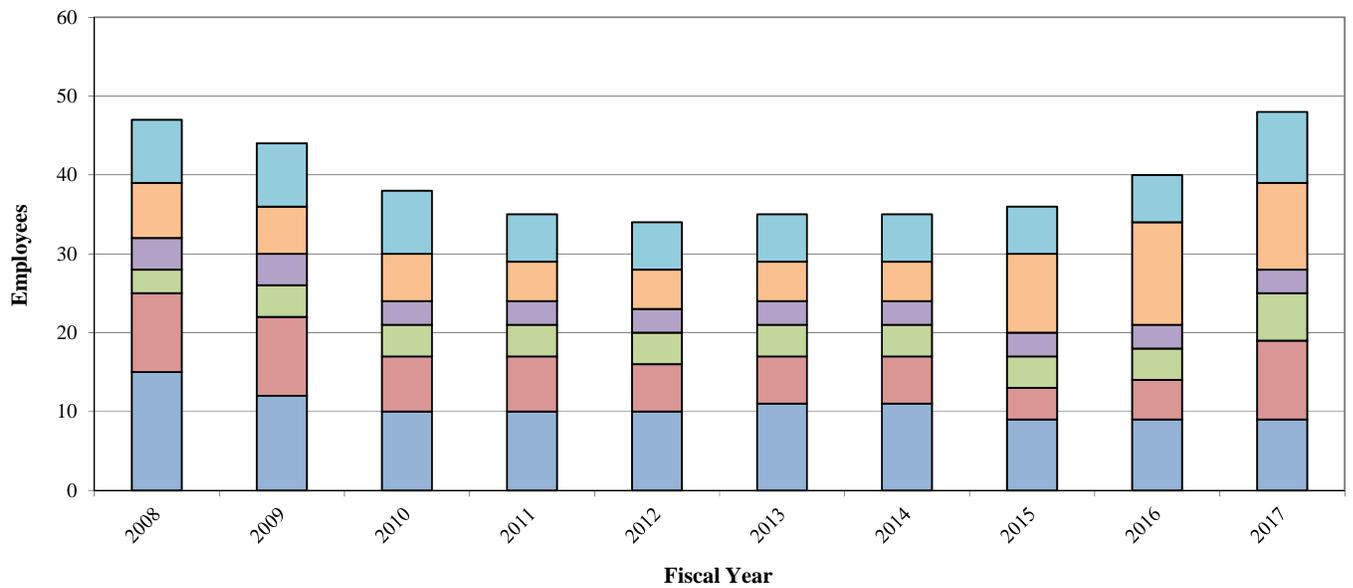
N/A - Data not available

**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
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
2017	9	10	6	3	11	9	48



Sources: Hi-Desert Water District Operations and Accounting Departments

**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
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
2017	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, 2017 and 2016, 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, 2017.

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.

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

Fedak & Brown LLP
Cypress, California
December 13, 2017