



**Hi-Desert Water District**  
Yucca Valley, California

**Comprehensive Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2015**



## Our Mission Statement

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

### **Board of Directors as of June 30, 2015**

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Robert Stadum	President	Elected	12/12 - 12/16
Sheldon Hough	Vice President	Elected	12/14 - 12/18
Roger Mayes	Director	Elected	12/14 - 12/18
Sarann Graham	Director	Elected	12/12 - 12/16
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](http://www.hdwd.com)**



**Comprehensive Annual Financial Report**

**For the Fiscal Year Ended**

**June 30, 2015**

**HI-DESERT WATER DISTRICT**

55439 29 Palms Highway  
Yucca Valley, California 92284-2503

Prepared by:

*Tanya Gruwell, Accountant*

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

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# **Introductory Section**





January 13, 2016

Board of Directors  
Hi-Desert Water District

## **Introduction**

It is our pleasure to submit the Annual Financial Report for the Hi-Desert Water District for the fiscal year ended June 30, 2015, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data, its completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This memorandum is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after 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 General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The District employs approximately thirty-six (36) regular employees organized in six departments. The District's Board of Directors meets on the first and third Wednesdays of each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District provides water service to approximately 10,512 connections within its fifty-seven (57) square mile service area, located in the eastern desert area of San Bernardino County. The District encompasses the Town of Yucca Valley in its entirety and some of the 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 nearly 300 miles of pipeline. In 2015 and 2014, the District purchased 2,277 and 1,011 acre-feet of State Water Project imported water from Mojave Water Agency, respectively.

## **Economic Condition and Outlook**

The District offices are located within the Town of Yucca Valley in the County of San Bernardino (the “County”). The District’s service area expands north into unincorporated areas of the County predominantly referred to as the “Mesa”. Housing indicators within the County have shown signs of recovery from the decrease in economic activity that began in 2006/07. According to a publication created by the County titled, “San Bernardino County Community Indicators Report, 2015”, the County’s median home sale price for 2015 is \$206,660. This is a slight decrease (6%) from the reported \$220,000 found in the same publication for 2014. Foreclosures within the County have reduced consistently since 2011 where a rate of 4.7% was identified by the Community Indicator Report. Current 2015 foreclosure rates are 0.9% down from the 2014 rate of 1.1%. The median home sale price in the Town of Yucca Valley was \$143,000 in 2015.

California’s water supply is also slow to recover due to the continuing drought conditions. In January of 2014, the Governor of California, Jerry Brown, proclaimed a State of Emergency for the State of California due to the drought conditions which was followed by a similar proclamation in April of 2014. Due to the possibility of the drought continuing for its fifth straight year, the Governor also signed an executive order on April 1, 2015, calling for the California State Water Resources Control Board (the “Water Board”) to increase enforcement against water waste and obtain an overall 25% reduction in water use across California. The Water Board responded by establishing mandatory water use restrictions and conservation standards that called for water agencies to reduce overall water production by an assigned percentage. Due to the Districts low gallons per capita per day (gpcd) usage, the District received one of the lowest conservation standards equal to a 16% reduction of its annual water production.

While the County average exceeds 240 gpcd, as part of the States conservation standards, the District was recorded to have an extremely low gpcd rate of 90.2. This in part is due to the District’s understanding of its reliance upon State Water Project (SWP) deliveries which are directly impacted by the drought. Extended dry years mean reduced water availability through the SWP which the District utilizes to recharge the groundwater basin replacing extracted water used to meet water demands. Many of the State’s mandatory water use restrictions, including the recommendation to utilize tiered water rates, have been in use for decades by the District making it a leader in water conservation. In addition, public outreach, low flow toilet installation and grass abatement rebates, and providing low flow faucet and shower fixtures to the public are all methods used by the District to encourage reduced water use.

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

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

## **Accomplishments**

To assist the Board of Directors in meeting their strategic mission for our District, staff completed several initiatives during the 2014/15 fiscal year. The following is a list of accomplishments completed by District staff for both the water and wastewater enterprises:

### **Water Enterprise**

1. Completed the District's newest production well, Well 20W which added 900 gallons per minute of capacity to the District water distribution system;
2. Completed the design of new water main alignments with Atkins North America to replace failing steel water main infrastructure within the Phase I boundary of the Wastewater Reclamation Project;
3. Replaced 41,000 linear feet of failing and undersized steel water mains through the District's in-house Capital Replacement Program;
4. Awarded a \$7,200,000 Proposition 84, Drought Round grant through the California Department of Water Resources to replace steel water mains within the Phase I boundary of the Wastewater Reclamation Project;
5. Continued replacing existing meters as part of the District's Capital Replacement Program with automatic meter reading technology to enhance performance and assist with conservation measures;
6. Adopted two (2) resolutions to comply with the States mandatory water use restrictions due to the drought conditions plaguing California;
7. Created a notification and fine process for customers found in violation of the District's water use restrictions and ordinances in an effort to meet the State's 16% water use reduction target for our District;
8. Began updating the District's Water System Master Plan with Montgomery Watson Harza; and
9. Began the design of a new pneumatic pump system to replace the District's existing Pneumatic Station 26.

### **Wastewater Enterprise**

1. Awarded a total of \$42,000 in grants through the Carl Moyer Grant Program which is facilitated by the California Air Resources Board. The grants were used to provide the District with a head start on compliance with California's emission standards for heavy equipment by replacing one (1) motor grader and one (1) front-end loader;
2. Awarded a \$4,000,000 Title XVI grant through the United States Bureau of Reclamation for the Wastewater Treatment and Reclamation Project's construction;
3. Completed the collection system design component of the Wastewater Treatment Project with Atkins North America which has now started "packaging" the design into three (3) pipeline projects and one (1) pump station package that will be released for bid in 2016;
4. Completed the procurement process for Project Management Services which was awarded to Carollo Engineers;
5. Completed the Assessment District Engineers Report with Albert Webb and Associates which will developed the model that will be used to secure the Clean Water State Revolving Fund loan through the California State Water Resources Control Board;
6. Approval of a Clean Water State Revolving Fund loan for the Wastewater Reclamation Project in the amount of \$142,349,314 through the California State Water Resources Board;

7. Passed Assessment District 2014-1 with a 72% approval rating (only 50% + 1 required) which will provide debt service to the Clean Water State Revolving Fund loan obtained to complete the Wastewater Reclamation Project;
8. After consulting the Public Advisory Committee, the Board of Directors chose the Membrane Bioreactor technology for the Treatment Plant which provides a higher quality of water to recharge the aquifer with a smaller environmental footprint;
9. Completed the second Addendum to the District's environmental documents with Tom Dodson and Associates for the Wastewater Reclamation Project. The Addendum took into consideration the type of treatment technology used and minor changes to the project's phase boundaries; and
10. Began conversations with the Regional Water Quality Control Board to extend the compliance deadlines for the septic tank discharge prohibition which is a driver for the construction of the Wastewater Reclamation Project.

### **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 and institutional savings and checking accounts.

### **Water Rates and District Revenues**

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

### **Water Conservation Programs**

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

- **Residential Water Audits** (ensures homes have efficient fixtures and toilets)
- **“Cash for Grass” rebate program** (as funding permits, allows for the replacement of grass with desert landscaping)
- **Low flow toilet rebates** (as funding permits, allows rebates for the installation of low-flow toilets)
- **Water Awareness Program** (utilizes the District’s website and publications to educate on drought resistant plants, low use irrigation, and conservation practices in the home)
- **Landscape and irrigation plan review and irrigation use budgets** (uses the District’s landscape ordinance and the States model to ensure new landscape and irrigation is installed using best practices and establishes a water use budget that cannot be exceeded without fines)
- **Water main replacement program** (replaces old steel watermain that have a high leak history)
- **Low flow fixture purchases** (the District normally maintains a stock of low-flow sink and shower fixtures available to the public for free)
- **Leak and water waste warnings** (the District proactively investigates water waste complaints and observations and issues fines to residents/companies that violate the District’s ordinances)

### **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**

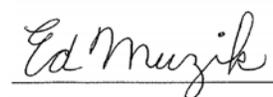
More information is contained in the Management’s Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

### **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, 2014. This was the eighth 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.

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,



Ed Muzik, General Manager

## 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)**



**Sheldon Hough  
(Vice-President)**



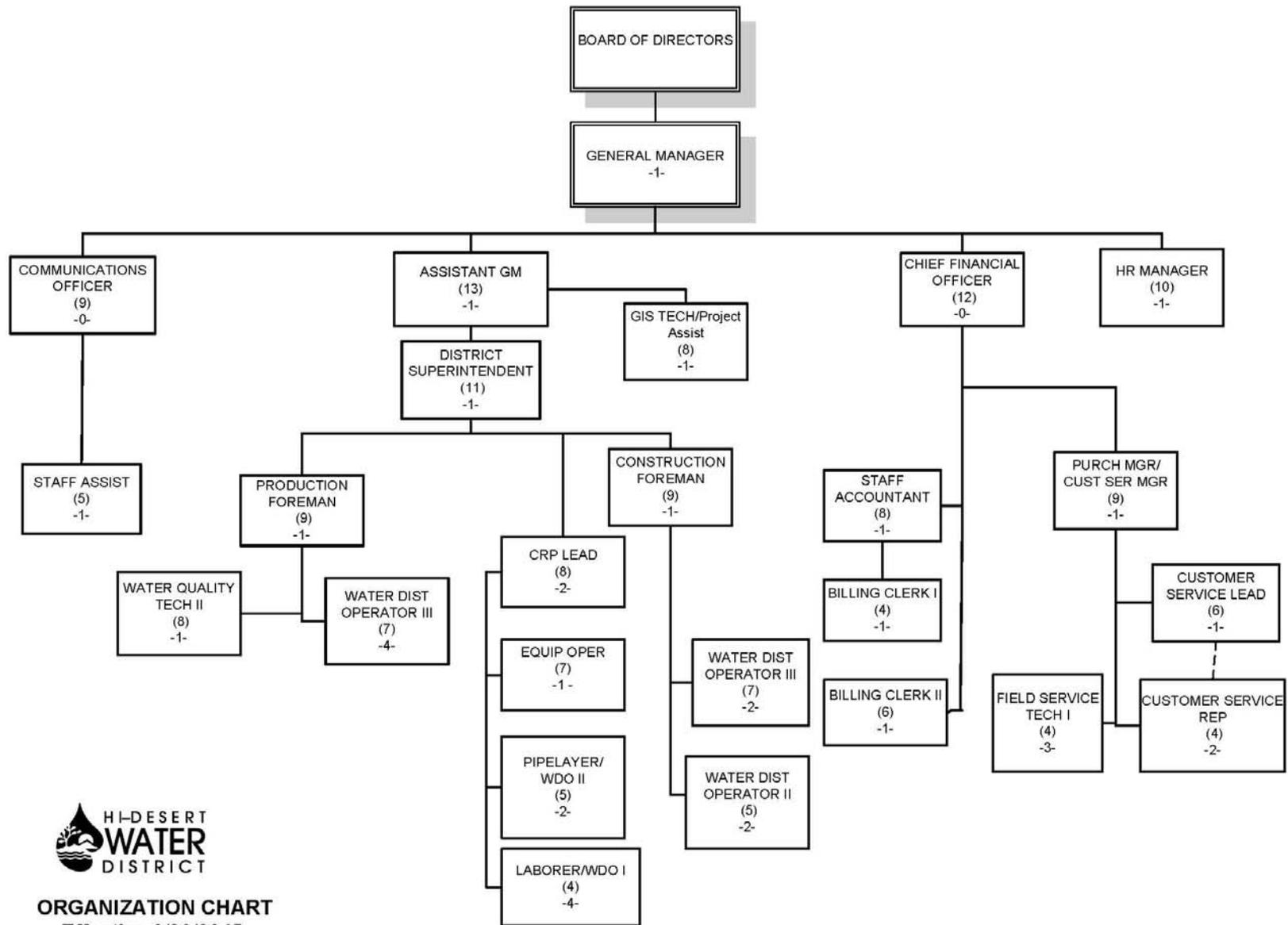
**Dan Munsey  
(Director)**



**Roger Mayes  
(Director)**



**Sarann Graham  
(Director)**



**ORGANIZATION CHART**  
Effective 6/30/2015



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Hi-Desert Water Desert  
California**

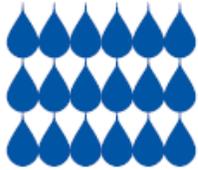
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2014**

Executive Director/CEO

# **Financial Section**





Charles Z. Fedak, CPA, MBA  
Christopher J. Brown, CPA, CGMA  
Jonathan P. Abadesco, CPA

## Fedak & Brown LLP

Certified Public Accountants

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### Independent Auditor's Report

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

#### Report on the Financial Statements

We have audited the accompanying financial statements of the Hi-Desert Water District (District), which comprises the statement of net position as of June 30, 2015, and the related statement of revenues, expenses and changes in net position for the year 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 audit. 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 opinion.

#### *Opinion*

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, 2015, and the respective changes in net position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Independent Auditor's Report, continued**

### ***Emphasis of matter***

As described in Note 1.C to the basic financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions, and No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68, for the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

### ***Report on Summarized Comparative Information***

We have previously audited the District's June 30, 2014 and 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 10, 2014 and December 20, 2013, respectively. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***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 12 through 17 and the required supplementary information on pages 45 through 47 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 8, the supplementary information of combining schedules on pages 48 through 49, and the statistical section on pages 50 through 62 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 January 13, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance. This report can be found on pages 63 and 64.

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

January 13, 2016



**Hi-Desert Water District**  
*Management's Discussion and Analysis*  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Amounts as of June 30, 2014 and 2013**

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 year ended June 30, 2015 (with comparative information for fiscal year ended June 30, 2014 and 2013). We encourage readers to consider the information presented here with additional information that we have furnished in the accompanying basic financial statements and related notes, which follow this section.

**Financial Highlights**

- In 2015, the District's net position decreased by 2.53% or \$928,239 to \$35,740,036, which is comprised of an increase from operations of \$2,105,199 and a decrease from a prior period adjustment in the amount of \$3,033,438. Please see note 10 to the basic financial statements for further discussion.
- In 2015, the District's operating expenses before depreciation exceeded its operating revenues by 17.22%, or \$1,311,627, as the result of the year's operations.
- In 2015, the District's net income from non-operating revenues and debt service expenses produced a positive return of \$2,463,491. The District has pledged certain non-operating property tax and surcharge revenue items to pay for the District's debt service expense and/or to be used for the District's capital improvement program.
- In 2015, capital contributions amounted to \$2,508,448, which is comprised of grant revenues of \$27,401 and \$2,247,532 for water operations and wastewater operations, respectively, and \$233,515 from developers for meter purchases and installation fees.

**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.

**Hi-Desert Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Amounts as of June 30, 2014 and 2013**

**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.

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 23 through 44.

**Statements of Net Position**

	<b>Condensed Statements of Net Position</b>				
	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>2013</u>	<u>Change</u>
Assets:					
Current assets	\$ 12,379,096	12,105,445	273,651	10,274,955	1,830,490
Capital assets, net	35,060,906	33,665,456	1,395,450	32,282,595	1,382,861
<b>Total assets</b>	<u>47,440,002</u>	<u>45,770,901</u>	<u>1,669,101</u>	<u>42,557,550</u>	<u>3,213,351</u>
<b>Deferred outflows of resources</b>	<u>468,866</u>	<u>-</u>	<u>468,866</u>	<u>-</u>	<u>-</u>
Liabilities:					
Current liabilities	2,526,208	2,099,578	426,630	2,367,962	(268,384)
Non-current liabilities	8,831,282	7,003,048	1,828,234	7,449,696	(446,648)
<b>Total liabilities</b>	<u>11,357,490</u>	<u>9,102,626</u>	<u>2,254,864</u>	<u>9,817,658</u>	<u>(715,032)</u>
<b>Deferred inflows of resources</b>	<u>811,342</u>	<u>-</u>	<u>811,342</u>	<u>-</u>	<u>-</u>
Net position:					
Net investment in capital assets	30,016,341	28,185,434	1,830,907	26,627,116	1,558,318
Unrestricted	5,723,695	8,482,841	(2,759,146)	6,112,776	2,370,065
<b>Total net position</b>	<u>\$ 35,740,036</u>	<u>36,668,275</u>	<u>(928,239)</u>	<u>32,739,892</u>	<u>3,928,383</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 \$35,740,036 as of June 30, 2015.

Compared to prior year, net position of the District decreased 2.6% or \$928,239. The District's total net position is made-up of two components: (1) net investment in capital assets and (2) unrestricted net position.

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**Management's Discussion and Analysis**  
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**Statements of Net Position, continued**

By far the largest portion of the District's net position (84% as of June 30, 2015) 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 2015 the District showed a positive balance in its unrestricted net position of \$5,723,695, which may be utilized in future years.

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

<b>Condensed Statements of Revenues, Expenses and Changes in Net Position</b>					
	<b>2015</b>	<b>2014</b>	<b>Change</b>	<b>2013</b>	<b>Change</b>
Operations:					
Operating revenues	\$ 7,616,919	8,270,632	(653,713)	7,875,823	394,809
Operating expenses	8,928,546	7,704,754	1,223,792	8,399,247	(694,493)
Operating income (loss) before depreciation	(1,311,627)	565,878	(1,877,505)	(523,424)	1,089,302
Depreciation	(1,555,113)	(1,375,158)	(179,955)	(1,532,888)	157,730
<b>Operating loss</b>	(2,866,740)	(809,280)	(2,057,460)	(2,056,312)	1,247,032
Non-operating revenue (expenses):					
Property taxes	1,393,362	1,338,163	55,199	1,354,043	(15,880)
Interest earnings	57,118	53,148	3,970	11,846	41,302
Capital surcharge	1,033,544	1,019,310	14,234	1,013,458	5,852
Morongo Basin Project surcharge	539,748	532,424	7,324	528,887	3,537
Lease payment – Morongo Basin Project	(480,187)	(480,021)	(166)	(513,073)	33,052
Interest expense – long-term debt	(139,733)	(257,853)	118,120	(284,330)	26,477
Other non-operating revenues (expenses):					
Other non-operating revenues	90,976	38,125	52,851	139,952	(101,827)
Other non-operating expenses	(31,337)	(3,631)	(27,706)	(141,789)	138,158
Total non-operating revenues, net	2,463,491	2,239,665	223,826	2,108,994	130,671
<b>Net (loss) income before capital contributions</b>	(403,249)	1,430,385	(1,833,634)	52,682	1,377,703
Capital contributions	2,508,448	2,497,998	10,450	1,572,905	925,093
<b>Change in net position</b>	2,105,199	3,928,383	(1,823,184)	1,625,587	2,302,796
<b>Net position, beginning of period as previously stated</b>	36,668,275	32,739,892	3,928,383	31,114,305	1,625,587
<b>Prior period adjustment (note 10)</b>	(3,033,438)	-	(3,033,438)	-	-
<b>Net position, beginning of period as restated</b>	33,634,837	32,739,892	894,945	31,114,305	1,625,587
<b>Net position – end of period</b>	\$ 35,740,036	36,668,275	(928,239)	32,739,892	3,928,383

**Fiscal Year 2015**

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal year. In the case of the District, net position decreased by 2.53% or \$928,239 to \$35,740,036, which is comprised of an increase from operations of \$2,105,199 and a decrease from a prior period adjustment in the amount of \$3,033,438. Please see note 11 to the basic financial statements for further discussion.

Operating revenues decreased by 7.9% or \$653,713 to \$7,616,919, due primarily to a decrease in water sales and services of \$667,476 and an increase in other charges of \$13,763. Operating expenses increased by \$1,223,792, primarily due to an increase of \$1,259,795 in source of supply, pumping and water treatment, transmission and distribution and general and administrative expenses, which were offset by a decrease of \$36,003 in wastewater operations.

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

**Fiscal Year 2015, 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. Non-operating revenues net of non-operating expenses increased by \$223,826, primarily due to the increase in property tax apportionment of \$55,199, decrease in interest expense and bond issuance costs of \$88,914, and an increase in other non-operating revenues of \$79,713.

In addition, the District received \$2,508,448 in capital contributions which is comprised of grant revenues of \$27,401 and \$2,247,532 for water operations and wastewater operations, respectively, and \$233,515 from developers for meter purchases and installation fees.

**Total Revenues**

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>2013</u>	<u>Change</u>
<b>Operating revenues:</b>					
Water consumption sales	\$ 5,538,428	6,229,153	(690,725)	5,852,385	376,768
Readiness-to-serve fees	1,762,154	1,738,905	23,249	1,721,526	17,379
Other charges	<u>316,337</u>	<u>302,574</u>	<u>13,763</u>	<u>301,912</u>	<u>662</u>
Total operating revenues	<u>7,616,919</u>	<u>8,270,632</u>	<u>(653,713)</u>	<u>7,875,823</u>	<u>394,809</u>
<b>Non-operating revenues:</b>					
Property taxes	1,393,362	1,338,163	55,199	1,354,043	(15,880)
Interest earnings	57,118	53,148	3,970	11,846	41,302
Capital surcharge	1,033,544	1,019,310	14,234	1,013,458	5,852
Morongo Basin Project surcharge	539,748	532,424	7,324	528,887	3,537
Other non operating revenue	<u>90,976</u>	<u>38,125</u>	<u>52,851</u>	<u>139,952</u>	<u>(101,827)</u>
Total non-operating revenues	<u>3,114,748</u>	<u>2,981,170</u>	<u>133,578</u>	<u>3,048,186</u>	<u>(67,016)</u>
<b>Capital contributions:</b>					
Grant revenue	2,274,933	2,199,518	75,415	1,393,934	805,584
Meter sales and installations	<u>233,515</u>	<u>298,480</u>	<u>(64,965)</u>	<u>178,971</u>	<u>119,509</u>
Total capital contributions	<u>2,508,448</u>	<u>2,497,998</u>	<u>10,450</u>	<u>1,572,905</u>	<u>925,093</u>
<b>Total revenues</b>	<b>\$ <u>13,240,115</u></b>	<b><u>13,749,800</u></b>	<b><u>(509,685)</u></b>	<b><u>12,496,914</u></b>	<b><u>1,252,886</u></b>

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

**Hi-Desert Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2015**  
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**Total Expenses**

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>2013</u>	<u>Change</u>
<b>Operating expenses:</b>					
Source of supply	\$ 1,070,190	454,950	615,240	1,446,300	(991,350)
Pumping and water treatment	1,772,996	1,536,227	236,769	1,469,160	67,067
Transmission and distribution	1,092,276	983,161	109,115	933,629	49,532
Customer accounts	174,430	231,935	(57,505)	273,606	(41,671)
Wastewater operations	2,263,818	2,299,821	(36,003)	1,924,239	375,582
General and administrative	2,554,836	2,198,660	356,176	2,352,313	(153,653)
Total operating expenses	<u>8,928,546</u>	<u>7,704,754</u>	<u>1,223,792</u>	<u>8,399,247</u>	<u>(694,493)</u>
<b>Non-operating expenses:</b>					
Lease payment – Morongo Basin Project	480,187	480,021	166	513,073	(33,052)
Interest expense – long-term debt	139,733	257,853	(118,120)	284,330	(26,477)
Other non operating expense	31,337	3,631	27,706	141,789	(138,158)
Total non-operating expenses	<u>651,257</u>	<u>741,505</u>	<u>(90,248)</u>	<u>939,192</u>	<u>(197,687)</u>
<b>Total expenses</b>	<u>\$ 9,579,803</u>	<u>8,446,259</u>	<u>1,133,544</u>	<u>9,338,439</u>	<u>(892,180)</u>

In 2015, the District's total expenses increased by 1,133,544. The District's operating expenses increased by \$1,223,792, primarily due to a \$1,259,795 increase in source of supply, pumping and water treatment, transmission and distribution and general and administrative expenses, which were offset by a decrease of \$36,003 in wastewater operations.

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

**Capital Asset Administration**

Changes in capital assets in 2015 were as follows:

	<u>Balance</u> <u>2014</u>	<u>Additions/</u> <u>Transfers</u>	<u>Deletions/</u> <u>Transfers</u>	<u>Balance</u> <u>2015</u>
<b>Capital assets:</b>				
Non-depreciable assets	\$ 5,182,831	1,995,681	(3,538,439)	3,640,073
Depreciable assets	56,282,911	4,536,751	(43,430)	60,776,232
Accumulated depreciation	<u>(27,800,286)</u>	<u>(1,555,113)</u>	<u>-</u>	<u>(29,355,399)</u>
Total capital assets	<u>\$ 33,665,456</u>	<u>4,977,319</u>	<u>(3,581,869)</u>	<u>35,060,906</u>

At the end of fiscal year 2015, the District's investment in capital assets amounted to \$35,060,906 (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 5 to the basic financial statements.

**Hi-Desert Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Amounts as of June 30, 2014 and 2013**

**Debt Administration**

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

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

In 2015, long-term debt decreased by \$435,457, due to the principal payment of \$390,000 and the amortization in the amount of \$45,457, related to the premium on bonds payable. See further detailed information in Note 7.

**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**  
**Statement of Net Position**  
**June 30, 2015**

	<b>2015</b>
<b>Current assets:</b>	
Cash and cash equivalents (note 2)	\$ 8,474,727
Accrued interest receivable	3,079
Accounts receivable – water sales and services, net (note 3)	1,263,444
Accounts receivable – other	1,234,965
Property taxes receivable	42,306
Materials and supplies inventory	522,758
Prepaid lease payment (note 13)	719,854
Prepaid expenses and other deposits	117,963
<b>Total current assets</b>	<b>12,379,096</b>
<b>Non-current assets:</b>	
Capital assets – not being depreciated (note 5)	3,640,073
Depreciable capital assets, net (note 5)	31,420,833
<b>Total non-current assets</b>	<b>35,060,906</b>
<b>Total assets</b>	<b>47,440,002</b>
<b>Deferred outflows of resources:</b>	
Deferred pension outflows (note 4 and 11)	468,866
<b>Total deferred outflows of resources</b>	<b>\$ 468,866</b>

*Continued on next page*

See accompanying notes to the basic financial statements

**Hi-Desert Water District**  
**Statement of Net Position, continued**  
**June 30, 2015**

	<b>2015</b>
<b>Current liabilities:</b>	
Accounts payable and accrued expenses	\$ 1,295,609
Deposits and unearned revenue	738,519
Accrued interest on long-term debt	27,342
Long-term liabilities – due within one year:	
Compensated absences (note 6)	64,738
Bonds payable (note 7)	400,000
<b>Total current liabilities</b>	<b>2,526,208</b>
<b>Non-current liabilities:</b>	
Long-term liabilities – due in more than one year:	
Compensated absences (note 6)	194,213
Other post employment benefits payable (note 8)	523,769
Net pension liability (note 11)	3,468,735
Bonds payable, net (note 7)	4,644,565
<b>Total non-current liabilities</b>	<b>8,831,282</b>
<b>Total liabilities</b>	<b>11,357,490</b>
<b>Deferred inflows of resources:</b>	
Deferred pension inflows (note 11)	811,342
<b>Total deferred inflows of resources</b>	<b>811,342</b>
<b>Net position: (note 12)</b>	
Net investment in capital assets	30,016,341
Unrestricted	5,723,695
<b>Total net position</b>	<b>\$ 35,740,036</b>

See accompanying notes to the basic financial statements

**Hi-Desert Water District**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2015**

	<b>2015</b>
<b>Operating revenues:</b>	
Water consumption sales	\$ 5,538,428
Readiness-to-serve fees	1,762,154
Other charges	316,337
Total operating revenues	7,616,919
<b>Operating expenses:</b>	
Source of supply	1,070,190
Pumping and water treatment	1,772,996
Transmission and distribution	1,092,276
Customer accounts	174,430
Wastewater operations	2,263,818
General and administrative	2,554,836
Total operating expenses	8,928,546
Operating loss before depreciation	(1,311,627)
Depreciation	(1,555,113)
<b>Operating loss</b>	<b>(2,866,740)</b>
<b>Non-operating revenue (expenses):</b>	
Property taxes	1,393,362
Interest earnings	57,118
Capital surcharge	1,033,544
Morongo Basin Project surcharge (note 13)	539,748
Lease payment – Morongo Basin Project	(480,187)
Interest expense – long-term debt	(139,733)
Other non-operating revenues, net	59,639
Total non-operating revenues, net	2,463,491
<b>Net loss before capital contributions</b>	<b>(403,249)</b>
<b>Capital contributions:</b>	
Grant revenue	2,274,933
Meter sales and installations	233,515
Total capital contributions	2,508,448
<b>Change in net position</b>	<b>2,105,199</b>
<b>Net position, beginning of period, as restated (note 10)</b>	<b>33,634,837</b>
<b>Net position, end of period</b>	<b>\$ 35,740,036</b>

See accompanying notes to the basic financial statements

**Hi-Desert Water District  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2015**

	<b>2015</b>
<b>Cash flows from operating activities:</b>	
Cash receipts from customers for water sales and services	\$ 7,439,199
Cash paid to employees for salaries and wages	(2,543,270)
Cash paid to vendors and suppliers for materials and services	(6,534,487)
<b>Net cash used in operating activities</b>	<b>(1,638,558)</b>
<b>Cash flows from non-capital financing activities:</b>	
Proceeds from property taxes	1,395,379
Proceeds from non-operating revenues, net	59,639
<b>Net cash provided by non-capital financing activities</b>	<b>1,455,018</b>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition and construction of capital assets	(2,950,563)
Proceeds from capital grants	2,274,933
Proceeds from meter sales and installations	233,515
Principal paid on long-term debt	(435,457)
Interest paid on long-term debt	(169,674)
Proceeds from Department of Water Resources Reach II surcharge	1,033,544
Proceeds from Morongo Basin Project surcharge	539,748
Lease payment – Morongo Basin Project	(479,816)
<b>Net cash provided by capital and related financing activities</b>	<b>46,230</b>
<b>Cash flows from investing activities:</b>	
Interest earnings	56,436
<b>Net cash provided by investing activities</b>	<b>56,436</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(80,874)</b>
<b>Cash and cash equivalents – beginning of year</b>	<b>8,555,601</b>
<b>Cash and cash equivalents – end of year</b>	<b>\$ 8,474,727</b>

*Continued on next page*

See accompanying notes to the basic financial statements

**Hi-Desert Water District**  
**Statement of Cash Flows, continued**  
**For the Fiscal Year Ended June 30, 2015**

	<b>2015</b>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss	\$ (2,866,740)
<b>Adjustments to reconcile operating loss to net cash used in operating activities:</b>	
Depreciation	1,555,113
<b>Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:</b>	
<b>(Increase) decrease in assets:</b>	
Accounts receivable – water sales and services, net	105,354
Accounts receivable – other	(263,210)
Materials and supplies inventory	(191,772)
Prepaid expenses and other deposits	(6,603)
<b>(Increase) in deferred outflows of resources:</b>	
Deferred pension outflows	(468,866)
<b>Increase (decrease) in liabilities:</b>	
Accounts payable and accrued expenses	343,912
Deposits and unearned revenue	(19,864)
Compensated absences	11,566
Net pension liability	(503,025)
Other post employment benefits payable	(145,765)
<b>Increase in deferred inflows of resources:</b>	
Deferred pension inflows	811,342
<b>Total adjustments</b>	1,228,182
<b>Net cash used in operating activities</b>	\$ (1,638,558)
<b>Non-cash investing, capital and financing transactions:</b>	
Change in fair-market value of funds deposited with LAIF	\$ 1,638

See accompanying notes to the basic financial statements

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

**(1) Reporting Entity and Summary of Significant Accounting Policies**

**A. Organization and Operations of the Reporting Entity**

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

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

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

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

**B. Basis of Accounting and Measurement Focus**

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

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

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

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

**C. Financial Reporting**

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

*Government Accounting Standards Board Statement No. 68*

For the fiscal year ended June 30, 2015, the District implemented Government Accounting Standards Board Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions*. The requirements of this statement are effective for the financial statement periods beginning after June 15, 2014.

GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision – useful information, supporting assessments of accountability and inter-period equity and creating additional transparency.

GASB 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

*Government Accounting Standards Board Statement No. 71*

For the fiscal year ended June 30, 2015, the District implemented Government Accounting Standards Board Statement No. 71 (GASB 71), *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The requirements of this statement are effective for the financial statement periods beginning after June 15, 2014. The provisions of this Statement are applied simultaneously with the provisions of GASB Statement No. 68.

GASB 71 improves accounting and financial reporting by addressing the issue in GASB 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation by employers and non-employer contributing entities. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

**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.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

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

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

**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 Chief Financial Officer to deposit funds in financial institutions.

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. 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.

**5. 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.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

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

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

**8. 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

**9. 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.

**10. Pensions**

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

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

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

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

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

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

**11. Deferred Outflows of Resources**

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

**12. Deferred Inflows of Resources**

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

**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 Year Ended June 30, 2015**

**(2) Cash and Cash Equivalents**

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

	<b>2015</b>
Cash and cash equivalents	\$ 8,474,727

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

	<b>2015</b>
Cash on hand	\$ 1,700
Deposits held with financial institutions	4,115,483
Deposits held with California Local Agency Investment Fund (LAIF)	4,357,544
Total	\$ 8,474,727

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

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

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

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

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%	10%
Commercial paper (prime)	270 days	10%	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

***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.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

**(2) Cash and Cash Equivalents, continued**

***Custodial Credit Risk, continued***

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).

***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 51% as of June 30, 2015, 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.

**(3) Accounts Receivable – Water Sales and Services**

The balance at June 30, consists of the following:

	<b>2015</b>
Accounts receivable – water sales and services	\$ 1,355,944
Allowance for uncollectible accounts	(92,500)
Accounts receivable – water sales, net	\$ 1,263,444

**(4) Deferred Outflows of Resources**

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

	<b>Balance 2014</b>	<b>Additions</b>	<b>Transfers</b>	<b>Amortization</b>	<b>Balance 2015</b>
Deferred outflows of resources:					
Pension contributions, 2014	\$ 318,102	-	(318,102)	-	-
Pension contributions, 2015	-	457,832	-	-	457,832
Adjustments due to differences in proportions	-	14,975	-	(3,941)	11,034
Total deferred outflows of resources	\$ 318,102	472,807	(318,102)	(3,941)	468,866

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

**(5) Capital Assets**

Changes in capital assets for 2015 were as follows:

	<u>Balance 2014</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2015</u>
Non-depreciable assets:				
Land	\$ 1,130,089	-	-	1,130,089
Easements	337,851	-	-	337,851
Construction-in-process	<u>3,714,891</u>	<u>1,995,681</u>	<u>(3,538,439)</u>	<u>2,172,133</u>
Total non-depreciable assets	<u>5,182,831</u>	<u>1,995,681</u>	<u>(3,538,439)</u>	<u>3,640,073</u>
Depreciable assets:				
Transmission and distribution mains	25,738,802	1,585,381	(43,430)	27,280,753
Reservoirs and tanks	6,481,178	31,679	-	6,512,857
Wells	4,911,443	1,877,253	-	6,788,696
Meter service installations	1,201,496	-	-	1,201,496
Recharge ponds	2,000,846	-	-	2,000,846
Recharge site #3	2,459,164	-	-	2,459,164
Nitrate removal facility	2,738,124	-	-	2,738,124
Reach II pipeline	1,473,958	-	-	1,473,958
Pumps	1,043,419	11,751	-	1,055,170
Boosters	890,673	-	-	890,673
Hydrants	847,105	-	-	847,105
Blending facility	771,483	-	-	771,483
Buildings and structures	1,151,786	-	-	1,151,786
Office furniture and equipment	1,036,751	17,105	-	1,053,856
Tools and equipment	565,572	-	-	565,572
Vehicles	<u>2,971,111</u>	<u>1,013,582</u>	<u>-</u>	<u>3,984,693</u>
Total depreciable assets	<u>56,282,911</u>	<u>4,536,751</u>	<u>(43,430)</u>	<u>60,776,232</u>
Accumulated depreciation and amortization:				
Transmission and distribution mains	(9,191,740)	(613,350)	-	(9,805,090)
Reservoirs and tanks	(3,218,784)	(143,672)	-	(3,362,456)
Wells	(3,712,366)	(208,964)	-	(3,921,330)
Meters	(1,201,496)	-	-	(1,201,496)
Recharge ponds	(987,260)	(47,593)	-	(1,034,853)
Recharge site #3	(522,572)	(61,479)	-	(584,051)
Nitrate removal facility	(775,394)	(69,110)	-	(844,504)
Reach II pipeline	(681,706)	(36,849)	-	(718,555)
Pumps	(1,010,435)	(8,329)	-	(1,018,764)
Boosters	(841,714)	(13,382)	-	(855,096)
Hydrants	(655,566)	(22,717)	-	(678,283)
Blending facility	(183,227)	(19,287)	-	(202,514)
Buildings and structures	(717,568)	(35,880)	-	(753,448)
Office furniture and equipment	(974,222)	(31,744)	-	(1,005,966)
Tools and equipment	(526,939)	(8,416)	-	(535,355)
Vehicles	<u>(2,599,297)</u>	<u>(234,341)</u>	<u>-</u>	<u>(2,833,638)</u>
Total accumulated depreciation	<u>(27,800,286)</u>	<u>(1,555,113)</u>	<u>-</u>	<u>(29,355,399)</u>
Total depreciable assets, net	<u>28,482,625</u>	<u>2,981,638</u>	<u>(43,430)</u>	<u>31,420,833</u>
Total capital assets, net	<u>\$ 33,665,456</u>			<u>35,060,906</u>

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

**(5) Capital Assets, continued**

Major depreciable capital asset additions during fiscal year 2015 include additions to the transmission and distribution system mains, reservoirs and tanks, wells, pumps, office furniture and equipment, and vehicles. Depreciation expense was charged to the District's water fund.

***Construction-In-Process***

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

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

	<b>2015</b>
Wastewater treatment facility	\$ 1,735,005
Water master plan	249,960
Tank rehabilitation project	146,075
Various small projects under \$50,000	41,093
Construction-in-process	\$ 2,172,133

**(6) Compensated Absences**

Compensated absences comprise unpaid paid time off that accrues when benefits are fully vested and are determined annually. Compensated absences turn-over each year, therefore, the compensated absence balance of the District is considered a current 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:

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

**(7) Bonds Payable**

Changes in bonds payable for the year ended June 30, 2015, are as follows:

	<b>Balance 2014</b>	<b>Additions</b>	<b>Principal Payments/ Amortization</b>	<b>Balance 2015</b>
2013 Revenue Refunding bonds	\$ 4,980,000	-	(390,000)	4,590,000
Unamortized premium on 2013 Revenue Refunding bonds	500,022	-	(45,457)	454,565
Total	5,480,022	-	(435,457)	5,044,565
Less: current portion due	(195,000)			(400,000)
Long-term portion due	\$ 5,285,022			4,644,565

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

**(7) Bonds Payable, continued**

***2013 Revenue Refunding Bonds***

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

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

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 400,000	91,800	491,800
2017	410,000	125,700	535,700
2018	420,000	113,400	533,400
2019	435,000	134,400	569,400
2020	450,000	58,500	508,500
2021-2025	<u>2,475,000</u>	<u>295,050</u>	<u>2,770,050</u>
Total	4,590,000	<u>818,850</u>	<u>5,408,850</u>
Add: bond premium	454,565		
Less: current portion	<u>(400,000)</u>		
Long-term portion	<u>\$ 4,644,565</u>		

**(8) 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. During the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are set forth below.

***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.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

**(8) Other Post-Employment Benefits Payable, continued**

***Plan Description – Eligibility, continued***

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:

	<b>2015</b>
Active plan members	24
Retirees and beneficiaries receiving benefits	17
Separated plan members entitled to but not yet receiving benefits	-
Total plan membership	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 2.09% of the annual covered payroll.

***Annual Cost***

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

The balance at June 30, consists of the following:

	<b>2015</b>
Annual OPEB expense:	
Annual required contribution (ARC)	\$ 58,517
Interest on net OPEB obligation	7
Adjustment to annual required contribution	(14,380)
Total annual OPEB expense	44,144
Change in net OPEB payable obligation:	
Age adjusted contributions made	(189,909)
Total change in net OPEB payable obligation	(145,765)
OPEB payable – beginning of year	669,534
OPEB payable – end of year	\$ 523,769

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

**(8) Other Post-Employment Benefits Payable, continued**

*Annual Cost, continued*

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2015 and the two preceding years were as follows:

<i>Three-Year History of Net OPEB Obligation</i>				
<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Age Adjusted Contribution</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation Payable</b>
2015	\$ 44,144	189,909	430.20%	\$ 523,769
2014	39,813	175,092	439.79%	669,534
2013	35,745	207,015	579.14%	804,813

*Funded Status and Funding Progress of the Plan*

The most recent valuation (dated June 30, 2013) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$782,352. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2013, was \$2,798,440. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 27.96%.

See the Schedule of Funding Status in the Required Supplementary Information Section on Page 45.

**(9) 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, 2015 was \$113,199. The market value of all plan assets held in trust by Lincoln Financial Services at June 30, 2015, was \$719,609.

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.

**(10) Prior Period Adjustment**

*Accounts Receivable – Unbilled Receivable*

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

*Net Pension Liability – GASB 68 Implementation*

In fiscal year 2015, the District implemented GASB pronouncements 68 and 71 to recognize its proportionate share of the net pension liability.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

**(10) Prior Period Adjustment, continued**

*Net Pension Liability – GASB 68 Implementation, continued*

As a result of the implementation, the District recognized net pension liability and recorded a net prior period adjustment of \$3,033,438 to decrease the proprietary activities' beginning net position. The adjustment was made to reflect the prior period costs related to the implementation of GASB 68 and 71.

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:

The adjustment to net position is as follows:

Net position at June 30, 2013, as previously stated	\$	32,739,892
Effect of adjustment to accounts receivable		461,000
Change in net position at June 30, 2014, as previously stated		3,467,383
Net position at June 30, 2014, as restated		36,668,275
Effect of adjustment to record net pension liability		(4,289,862)
Effect of adjustment to write off side fund liability		938,322
Effect of adjustment to record deferred pension outflows		318,102
Total adjustment to net position		(3,033,438)
Net position, beginning, as restated at July 1, 2014	\$	33,634,837

Due to the implementation of GASB 68 and 71, the District written off \$938,322 balance of its CalPERS Side-Fund.

**(11) Defined Benefit Pension Plan**

*Plan Description*

All qualified permanent and probationary employees are eligible to participate in the District's separate Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan is established by State statute and Local Government 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 or may be obtained from their executive office: 400 P Street, Sacramento, CA, 95814.

*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.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

**(11) Defined Benefit Pension Plan, continued**

***Benefits provided, continued***

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, 2015 are summarized as follows:

	<b>Miscellaneous Plan</b>		
	<b>Classic</b>	<b>New Classic</b>	<b>PEPRA</b>
		On or after January 1, 2011 - December 31, 2012	On or after January 1, 2013
Hire date	Prior to January 1, 2011		
Benefit formula	2.5% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.00%	7.00%	6.50%
Required employer contribution rates	22.85%	8.72%	6.70%

***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.

As of the fiscal year ended June 30, 2015, the contributions recognized as part of pension expense for the Plan was as follows:

	<b>Miscellaneous</b>
Contributions – employer	\$ 318,102
Contributions – employee (paid by employer)	225,621
Total employer paid contributions	\$ <u>543,723</u>

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

	<b>Proportionate Share of Net Pension Liability</b>
Miscellaneous Plan	\$ <u>3,468,735</u>

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

**(11) Defined Benefit Pension Plan, continued**

*Contributions, continued*

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, 2014, 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, 2013, rolled forward to June 30, 2014, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the pension liability for the Plan as of June 30, 2013 and 2014 was as follows:

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

As a result of the implementation of the GASB 68 pronouncement at June 30, 2015, the District recognized pension expense of \$297,283 at June 30, 2015.

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

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

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

As of the fiscal year ended June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources for June 30, 2014 related to pensions as part of its adjustment to the beginning net position as of July 1, 2014 (Note 10) from the following sources:

<b>Description</b>	<b>Deferred Outflows of Resources</b>
Pension contributions between the valuation and measurement date	\$ 318,102

Employer pension contributions reported as deferred outflows of resources related to contributions between the valuation date and measurement date of \$318,102 were recognized as an adjustment to the beginning net position as of July 1, 2014.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

**(11) Defined Benefit Pension Plan, continued**

*Contributions, continued*

As a result of the implementation of the GASB 68 at June 30, 2015, the District recognized other amounts reported by the Plan actuarial as deferred outflows of resources and deferred inflows of resources related to the pension liability.

Pension related amounts will be recognized as pension expense as follows:

<u>Fiscal Year</u> <u>Ending June 30:</u>	<u>Deferred</u> <u>Outflows/Inflows</u> <u>of Resources</u>
2016	\$ 199,251
2017	199,251
2018	199,802
2019	202,004
2020	-
Thereafter	-

The total pension liability in the June 30, 2013 actuarial valuation report was determined using the following actuarial assumptions:

Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.50%
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

\* The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report. Further details of the Experience Study can be found on the CalPERS website.

***Discount Rate***

The Discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees' Retirement Fund (PERF). The stress test results are presented in a detailed report which can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

**(11) Defined Benefit Pension Plan, continued**

*Discount Rate, continued*

Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS confirmed the materiality threshold for the difference in the calculation and did not find it to be a material difference.

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

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

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

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

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10*</u>	<u>Real Return Year 11+**</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3	4.50	5.09
Liquidity	2	(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

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

**(11) Defined Benefit Pension Plan, continued**

**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:

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

**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 46 through 47 for the Required Supplementary Schedules.

**(12) Net Position**

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

	<b>2015</b>
Net investment in capital assets:	
Capital assets, net	\$ 35,060,906
Bonds payable – current portion	(400,000)
Bonds payable – non-current portion	(4,644,565)
Total net investment in capital assets	<u>30,016,341</u>
Unrestricted net position:	
Non-spendable net position:	
Materials and supplies inventory	522,758
Prepaid lease payment	719,854
Prepaid expenses and other deposits	117,963
Total non-spendable net position	<u>1,360,575</u>
Spendable net position are as follows:	
Unrestricted	<u>4,363,120</u>
Total spendable net position	<u>4,363,120</u>
Total unrestricted net position	<u>\$ 5,723,695</u>

**(13) 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.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

**(13) Morongo Basin Project and Surcharge, continued**

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 year ended June 30, 2015 was \$539,748.

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>
2016	\$ 480,076
2017	480,076
2018	480,076
2019	480,076
2020	480,076
2021-2023	<u>811,933</u>
Total	<u>\$ 3,212,313</u>

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

**(14) 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, 2015, 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 to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to \$100,000 per loss includes public employee dishonesty, forgery or alteration and theft, computer fraud, plus \$500,000 excess crime coverage.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$100 million per occurrence, subject to a \$2,500 deductible per occurrence.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

**(14) Risk Management, continued**

- 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 year ended June 30, 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 was no IBNR claims payable as of June 30, 2015.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2015, that have effective dates that may impact future financial presentations.

***Governmental Accounting Standards Board Statement No. 72***

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*. The objective of this Statement is to enhance comparability of financial statements among governments by measurement of certain assets and liabilities at their fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015. 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. 73***

In June 2015, the GASB issued Statement No. 73 – *Accounting and Financial Reporting for Pensions*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the Scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans as pensions that are within their respective scopes.

The requirements of this statement that address accounting and financial reporting by employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after December 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement No. 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. 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 Year Ended June 30, 2015**

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

***Governmental Accounting Standards Board Statement No. 74***

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

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

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

***Governmental Accounting Standards Board Statement No. 75***

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

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after 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. 76***

In June 2015, the GASB issued Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the source of authoritative GAAP.

This Statement replaces the requirements of Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015, and should be applied retroactively.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Year Ended June 30, 2015**

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

***Governmental Accounting Standards Board Statement No. 77***

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

**(16) 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.

**(17) Subsequent Events**

Events occurring after June 30, 2015, have been evaluated for possible adjustment to the financial statements or disclosure as of January 13, 2016, which is the date the financial statements were available to be issued.

## **Required Supplementary Information**



**Hi-Desert Water District**  
**Schedule of Funding Status – Other Post Employment Benefit**  
**For the Fiscal Year Ended June 30, 2015**

***Funding Status and Funding Progress of the Plan***

*Required Supplemental Information – Schedule of Funding Progress*

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (b)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll (b-a/c)</b>
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 2016 based on the year ending June 30, 2015.

***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, 2013
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Amortization period	25 Years
Total OPEB Retiree Premium	n/a
Actuarial assumptions:	
Age Adjustment Factor	1.986
Actual Contribution	\$95,624
Discount Rate	0.00%
Actuarial Value of Assets	\$0
Payroll Growth Rate	4.50%

**Hi-Desert Water District**  
**Schedule of the District's Proportionate Share of the Net Pension Liability**  
**As of June 30, 2015**  
**Last Ten Years\***

	<b>6/30/2014 (a)</b>
District's proportion of the net pension liability (asset)	0.05575%
District's proportionate share of the net pension liability (asset)	\$ 3,468,735
District's covered-employee payroll (b)	\$ 2,048,638
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	169.32%
Plan's fiduciary net position as a percentage of the total pension liability	81.15%

**Notes:**

- (a) Historical information is required only for measurement periods for which GASB 68 is applicable.
- (b) Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll related ratios.

\* Fiscal Year 2015 was the first year of implementation, therefore only one year is shown.

**Hi-Desert Water District**  
**Schedule of Pension Plan Contributions**  
**As of June 30, 2015**  
**Last Ten Years\***

<b><u>Schedule of Pension Plan Contributions (a):</u></b>	<b><u>Fiscal Year</u></b> <b><u>2013-2014</u></b>
Actuarially determined contribution (b)	\$ 436,417
Contributions in relation to the actuarially determined contribution (b)	(436,417)
Contribution deficiency (excess)	\$ -
District's covered payroll (c), (d)	\$ 2,048,638
Contribution's as a percentage of covered-employee payroll (c)	21.30%

**Notes:**

- (a) Historical information is required only for measurement periods for which GASB 68 is applicable.
  - (b) Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employer's may choose to make additional contributions towards their side fund or unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68, therefore are not considered separately financed specific liabilities.
  - (c) Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.
  - (d) Payroll from prior year (\$1,988,969) was assumed to increase by the 3.00 percent payroll growth assumption.
- \* Fiscal Year 2015 was the first year of implementation, therefore only one year is shown.



## **Supplemental Information Section**



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

	<b>Enterprise Funds</b>		<b>Total</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	
<b>Current assets:</b>			
Cash and cash equivalents	\$ 7,868,155	606,572	8,474,727
Accrued interest receivable	3,079	-	3,079
Accounts receivable – water sales and services, net	1,263,444	-	1,263,444
Accounts receivable – other	37,548	1,197,417	1,234,965
Property taxes receivable	42,306	-	42,306
Internal balances	5,149,370	(5,149,370)	-
Materials and supplies inventory	522,758	-	522,758
Prepaid lease payment	719,854	-	719,854
Prepaid expense and other deposits	117,963	-	117,963
<b>Total current assets</b>	<b>15,724,477</b>	<b>(3,345,381)</b>	<b>12,379,096</b>
<b>Non-current assets:</b>			
Capital assets – not being depreciated	1,581,782	2,058,291	3,640,073
Depreciable capital assets, net	31,420,833	-	31,420,833
<b>Total non-current assets</b>	<b>33,002,615</b>	<b>2,058,291</b>	<b>35,060,906</b>
<b>Total assets</b>	<b>48,727,092</b>	<b>(1,287,090)</b>	<b>47,440,002</b>
<b>Deferred outflows of resources:</b>			
Deferred pension outflows	468,866	-	468,866
<b>Total deferred outflows of resources</b>	<b>468,866</b>	<b>-</b>	<b>468,866</b>
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	844,011	451,598	1,295,609
Deposits and unearned revenue	738,482	37	738,519
Accrued interest on long-term debt	27,342	-	27,342
Long-term liabilities – due within one year:			
Compensated absences	64,738	-	64,738
Bonds payable	400,000	-	400,000
<b>Total current liabilities</b>	<b>2,074,573</b>	<b>451,635</b>	<b>2,526,208</b>
<b>Non-current liabilities</b>			
Long-term liabilities – due in more than one year:			
Compensated absences	194,213	-	194,213
Other post employment benefits	523,769	-	523,769
Net pension liability	3,468,735	-	3,468,735
Bonds payable, net	4,644,565	-	4,644,565
<b>Total non-current liabilities</b>	<b>8,831,282</b>	<b>-</b>	<b>8,831,282</b>
<b>Total liabilities</b>	<b>10,905,855</b>	<b>451,635</b>	<b>11,357,490</b>
<b>Deferred inflows of resources:</b>			
Deferred pension inflows	811,342	-	811,342
<b>Total deferred inflows of resources</b>	<b>811,342</b>	<b>-</b>	<b>811,342</b>
<b>Net position:</b>			
Net investment in capital assets	27,958,050	2,058,291	30,016,341
Unrestricted	9,520,711	(3,797,016)	5,723,695
<b>Total net position</b>	<b>\$ 37,478,761</b>	<b>(1,738,725)</b>	<b>35,740,036</b>

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, 2015**

	<b>Enterprise Funds</b>		<b>Total</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	
<b>Operating revenues:</b>			
Water consumption sales	\$ 5,538,428	-	5,538,428
Readiness-to-serve fees	1,762,154	-	1,762,154
Other charges	316,337	-	316,337
Total operating revenues	<u>7,616,919</u>	<u>-</u>	<u>7,616,919</u>
<b>Operating expenses:</b>			
Source of supply	1,070,190	-	1,070,190
Pumping and water treatment	1,772,996	-	1,772,996
Transmission and distribution	1,092,276	-	1,092,276
Customer accounts	174,430	-	174,430
Wastewater operations	-	2,263,818	2,263,818
General and administrative	2,554,836	-	2,554,836
Total operating expenses	<u>6,664,728</u>	<u>2,263,818</u>	<u>8,928,546</u>
Operating income (loss) before depreciation	952,191	(2,263,818)	(1,311,627)
Depreciation	<u>(1,555,113)</u>	<u>-</u>	<u>(1,555,113)</u>
<b>Operating loss</b>	<u>(602,922)</u>	<u>(2,263,818)</u>	<u>(2,866,740)</u>
<b>Non-operating revenue (expense):</b>			
Property taxes	1,393,362	-	1,393,362
Interest earnings	57,118	-	57,118
Capital surcharge	1,033,544	-	1,033,544
Morongo Basin Project surcharge	539,748	-	539,748
Lease payment – Morongo Basin Project	(480,187)	-	(480,187)
Interest expense – long-term debt	(139,733)	-	(139,733)
Bond issuance costs	-	-	-
Other non-operating revenues, net	59,639	-	59,639
Total non-operating revenues, net	<u>2,463,491</u>	<u>-</u>	<u>2,463,491</u>
<b>Net income (loss) before capital contributions</b>	<u>1,860,569</u>	<u>(2,263,818)</u>	<u>(403,249)</u>
<b>Capital contributions:</b>			
Grant revenue	27,400	2,247,533	2,274,933
Meter sales and installations	233,515	-	233,515
<b>Total capital contributions</b>	<u>260,915</u>	<u>2,247,533</u>	<u>2,508,448</u>
<b>Change in net position</b>	<u>2,121,484</u>	<u>(16,285)</u>	<u>2,105,199</u>
Net position – beginning of year, as restated	38,390,715	(1,722,440)	36,668,275
Prior period adjustment (note 10)	<u>(3,033,438)</u>	<u>-</u>	<u>(3,033,438)</u>
<b>Net position – beginning of period</b>	<u>35,357,277</u>	<u>(1,722,440)</u>	<u>33,634,837</u>
<b>Net position – end of period</b>	<u>\$ 37,478,761</u>	<u>(1,738,725)</u>	<u>35,740,036</u>

# **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.

### **Table of Contents**

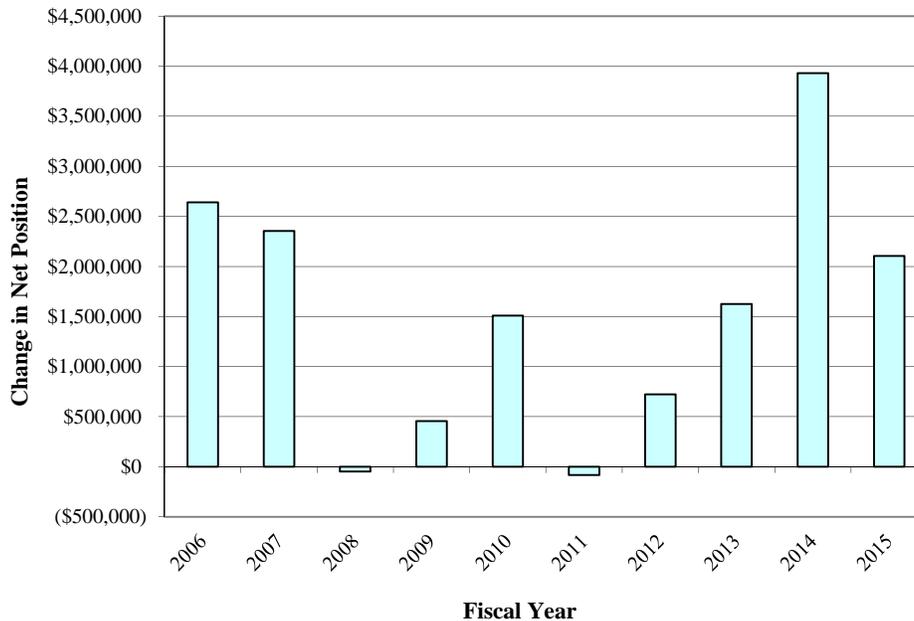
	<b><u>Page No.</u></b>
Financial Trends These schedules contain information to help the reader understand how the District’s financial performance and well-being have changed over time.	51-54
Revenue Capacity These schedules contain information to help the reader assess the District’s most significant own-source revenue, water sales.	55-58
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.	59-60
Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District’s financial activities take place.	61
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.	62

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

**Schedule 1**

	Fiscal Year				
	2006	2007	2008	2009	2010
Changes in net position:					
Operating revenues (see Schedule 2)	\$ 6,425,232	7,217,095	6,949,058	7,118,299	7,137,442
Operating expenses (see Schedule 3)	(6,246,266)	(7,439,423)	(8,045,653)	(8,199,546)	(7,574,071)
Depreciation and amortization	(1,327,810)	(1,359,177)	(1,379,933)	(1,405,368)	(1,433,748)
<b>Operating income(loss)</b>	<b>(1,148,844)</b>	<b>(1,581,505)</b>	<b>(2,476,528)</b>	<b>(2,486,615)</b>	<b>(1,870,377)</b>
Non-operating revenues(expenses):					
Property taxes	400,014	1,423,132	1,571,117	1,568,181	1,394,480
Rental income - cellular antennas	49,584	48,149	4,025	-	-
Investment income	245,540	301,267	306,604	144,520	35,667
Tax revenue recovery surcharge	608,050	621,257	260,317	-	-
Contract water delivery charge	547,605	-	-	-	-
Dept. of Water Resources Reach II surcharge	325,411	331,595	332,566	336,994	334,852
Morongo Basin Project	619,261	548,322	531,664	527,101	523,761
Lease payment - Morongo Basin Project	(665,933)	(474,449)	(494,987)	(287,098)	(523,984)
Interest expense	(470,576)	(445,216)	(370,525)	(348,944)	(296,724)
Bond issuance costs	-	-	-	-	-
Other revenue/(expense), net	(1) 160,120	561,897	98,736	697	1,370,945
<b>Total non-operating revenues(expenses), net</b>	<b>1,819,076</b>	<b>2,915,954</b>	<b>2,239,517</b>	<b>1,941,451</b>	<b>2,838,997</b>
<b>Net income (loss) before capital contributions</b>	<b>670,232</b>	<b>1,334,449</b>	<b>(237,011)</b>	<b>(545,164)</b>	<b>968,620</b>
Capital contributions	1,971,144	1,019,619	189,483	1,001,108	540,298
<b>Changes in net position</b>	<b>\$ 2,641,376</b>	<b>2,354,068</b>	<b>(47,528)</b>	<b>455,944</b>	<b>1,508,918</b>
Net position by component:					
Net investment in capital assets	\$ 19,148,873	19,646,826	20,791,852	22,214,518	24,348,361
Unrestricted	7,055,061	8,911,176	7,718,622	6,751,900	6,126,975
<b>Total net position</b>	<b>\$ 26,203,934</b>	<b>28,558,002</b>	<b>28,510,474</b>	<b>28,966,418</b>	<b>30,475,336</b>

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

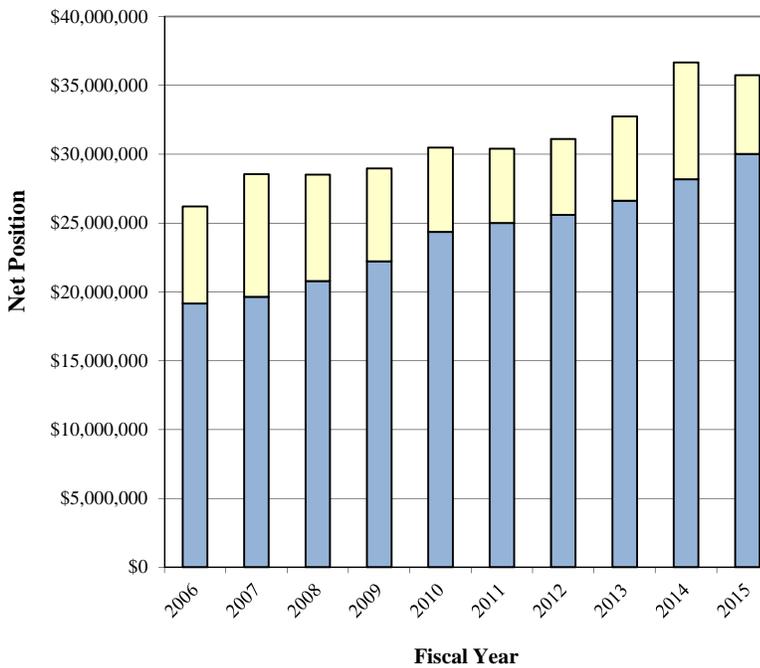


Source: Hi-Desert Water District Accounting Department

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

**Schedule 1**

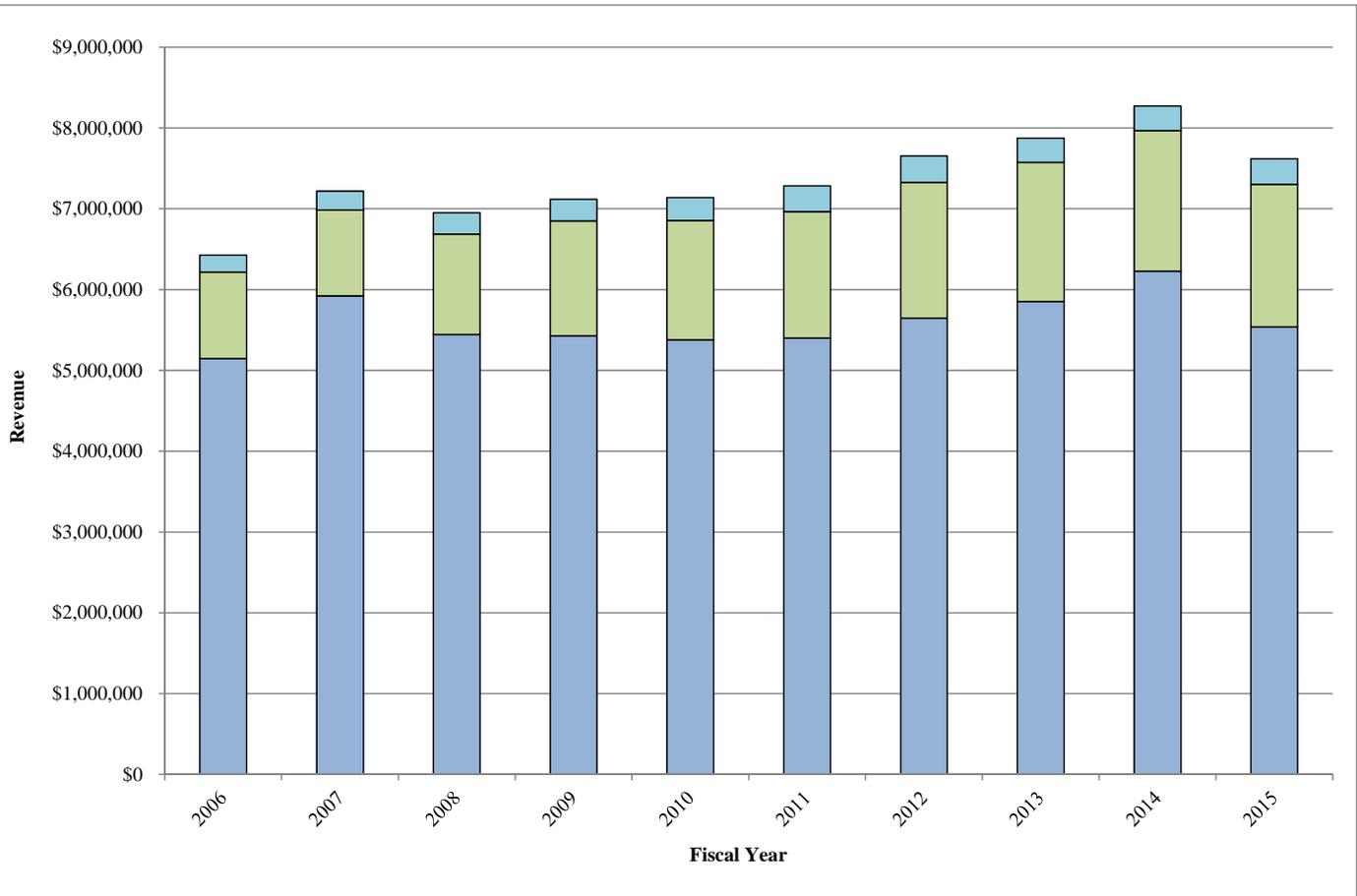
Fiscal Year				
2011	2012	2013	2014	2015
7,285,396	7,654,560	7,875,823	8,270,632	7,616,919
(7,836,459)	(7,153,393)	(8,399,247)	(7,704,754)	(8,928,546)
(1,435,786)	(1,393,659)	(1,532,888)	(1,375,158)	(1,555,113)
(1,986,849)	(892,492)	(2,056,312)	(809,280)	(2,866,740)
1,317,622	1,292,775	1,354,043	1,338,163	1,393,362
-	-	-	-	-
14,413	14,148	11,846	53,148	57,118
-	-	-	-	-
-	-	-	-	-
584,509	893,895	1,013,458	1,019,310	1,033,544
521,250	517,716	528,887	532,424	539,748
(527,290)	(524,958)	(513,073)	(480,021)	(480,187)
(260,680)	(243,280)	(284,330)	(257,853)	(139,733)
-	-	(110,078)	(2,131)	(31,337)
34,359	(1,021,925)	108,241	36,625	90,976
1,684,183	928,371	2,108,994	2,239,665	2,463,491
(302,666)	35,879	52,682	1,430,385	(403,249)
218,433	687,323	1,572,905	2,497,998	2,508,448
(84,233)	723,202	1,625,587	3,928,383	2,105,199
24,993,182	25,599,745	26,627,116	28,185,434	30,016,341
5,397,921	5,514,560	6,112,776	8,482,841	5,723,695
30,391,103	31,114,305	32,739,892	36,668,275	35,740,036



## 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
2006	(1) \$ 5,146,001	-	1,070,837	-	208,394	6,425,232
2007	5,919,654	-	1,063,068	-	234,373	7,217,095
2008	5,445,196	-	1,242,602	-	261,260	6,949,058
2009	5,430,238	-	1,417,866	-	270,195	7,118,299
2010	5,377,069	-	1,477,703	-	282,670	7,137,442
2011	5,399,333	-	1,564,094	-	321,969	7,285,396
2012	5,647,160	-	1,679,168	-	328,232	7,654,560
2013	5,852,385	-	1,721,526	-	301,912	7,875,823
2014	6,229,153	-	1,738,905	-	302,574	8,270,632
2015	5,538,428	-	1,762,154	-	316,337	7,616,919



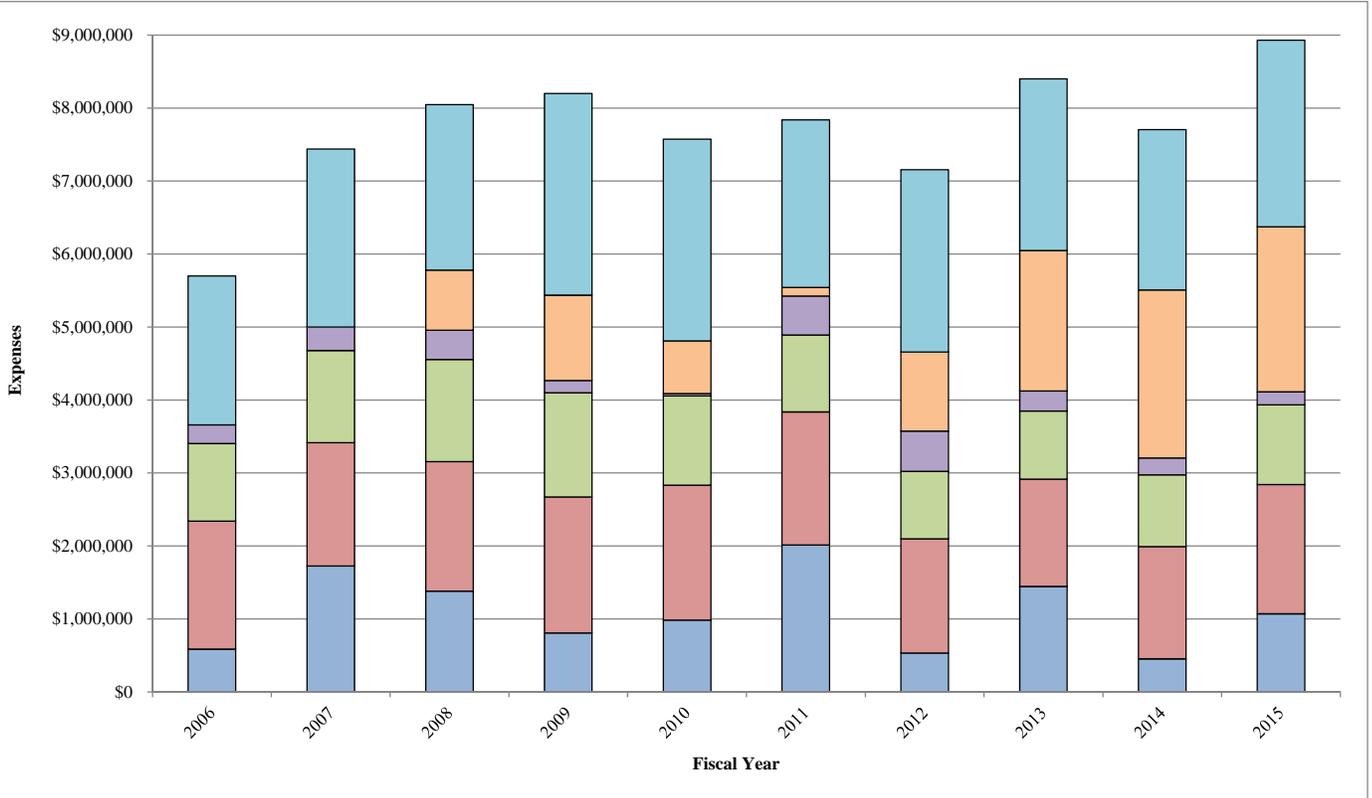
**Notes:** (1) Operating revenues were recategorized in 2005

**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
2006	\$ 587,457	1,754,028	1,061,388	255,359	-	2,040,429	5,698,661
2007	1,724,994	1,688,838	1,263,450	321,997	-	2,440,144	7,439,423
2008	1,379,445	1,776,631	1,399,020	400,415	823,947	2,266,195	8,045,653
2009	807,326	1,864,326	1,429,091	165,875	1,171,407	2,761,521	8,199,546
2010	985,193	1,848,562	1,221,711	30,816	723,124	2,764,665	7,574,071
2011	2,011,908	1,825,921	1,052,585	535,455	116,993	2,293,597	7,836,459
2012	532,350	1,564,708	925,133	551,548	1,084,190	2,495,464	7,153,393
2013	1,446,300	1,469,160	933,629	273,606	1,924,239	2,352,313	8,399,247
2014	454,950	1,536,227	983,161	231,935	2,299,821	2,198,660	7,704,754
2015	1,070,190	1,772,996	1,092,276	174,430	2,263,818	2,554,836	8,928,546

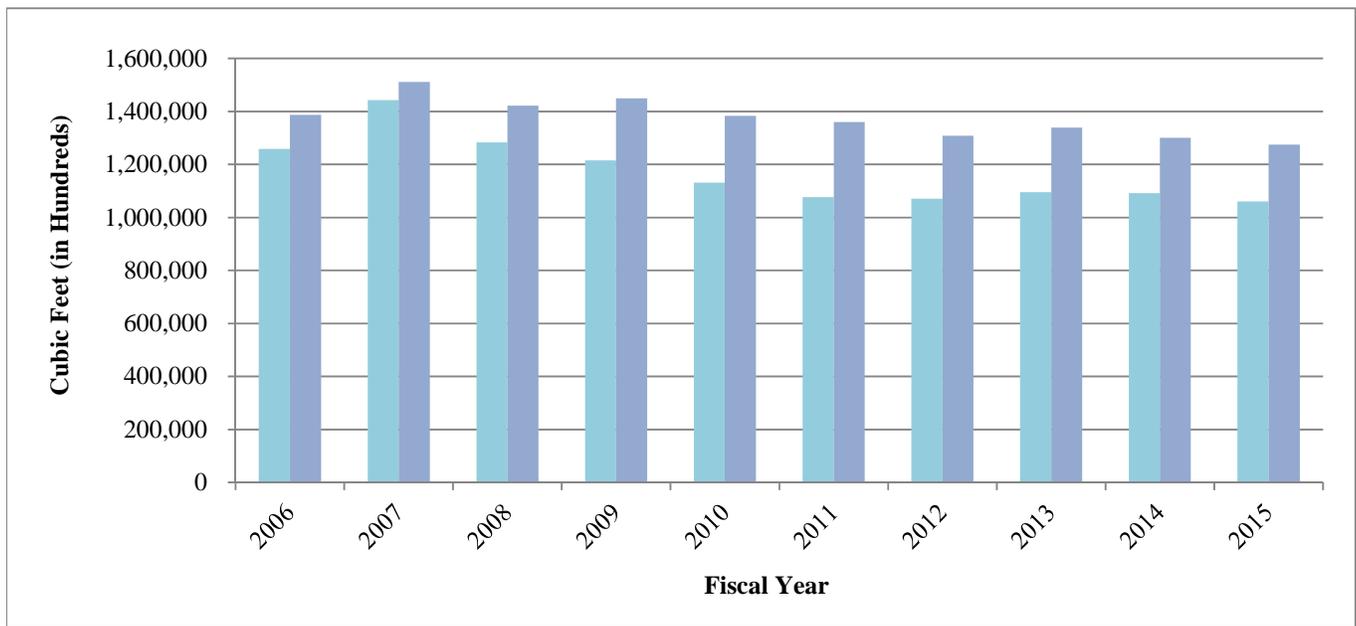


Source: Hi-Desert Water District Accounting Department

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

**Schedule 4**

<b>Fiscal Year</b>	<b>Water Sales (HCF)</b>	<b>Water Produced (HCF)</b>
2006	1,258,803	1,386,737
2007	1,442,794	1,511,401
2008	1,283,452	1,421,493
2009	1,215,482	1,449,610
2010	1,131,666	1,383,037
2011	1,076,856	1,359,862
2012	1,070,166	1,308,588
2013	1,095,624	1,339,394
2014	1,091,186	1,300,001
2015	1,060,296	1,275,294



**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<sup>(1)</sup>  
Last Ten Fiscal Years**

**Schedule 5**

**Water Consumption per Hundred Cubic Feet (HCF)<sup>(2)</sup>**

HCF Consumed		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
0-4	\$	2.80	2.80	2.97	2.97	3.18	3.40	3.59	3.59	3.59	3.59
5-10		4.35	4.35	4.61	4.61	4.97	5.30	5.69	5.69	5.69	5.69
11-28		5.25	5.25	5.57	5.57	6.01	6.41	6.89	6.89	6.89	6.89
29-40		6.80	6.80	7.21	7.21	8.04	8.56	9.08	9.08	9.08	9.08
41-53		6.80	6.80	7.21	7.21	8.04	8.56	9.08	9.08	9.08	9.08
54-65		7.60	7.60	8.06	8.06	8.04	8.56	9.08	9.08	9.08	9.08
66-78		7.60	7.60	8.06	8.06	8.04	8.56	9.08	9.08	9.08	9.08
79-over		7.60	7.60	8.06	8.06	8.04	8.56	9.08	9.08	9.08	9.08

**Connection Fees per Month**

Meter Size		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
5/8" & 3/4"	\$	7.00	7.00	10.00	10.00	10.40	11.10	11.80	11.80	11.80	11.80
1"		14.00	14.00	20.00	20.00	21.10	22.50	23.80	23.80	23.80	23.80
1 1/2"		21.00	21.00	30.00	30.00	38.90	41.50	43.80	43.80	43.80	43.80
2"		35.00	35.00	50.00	50.00	60.20	64.20	67.80	67.80	67.80	67.80
3"		77.00	77.00	110.00	110.00	117.10	124.90	131.90	131.90	131.90	131.90
4"		119.00	119.00	170.00	170.00	118.10	193.10	203.90	203.90	203.90	203.90
6"		231.00	231.00	330.00	330.00	368.80	382.70	404.10	404.10	404.10	404.10

**Pipeline Surcharge Fees per Month**

Meter Size		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
5/8" & 3/4"	\$	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
1"		9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
1 1/2"		13.50	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
2"		22.50	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
3"		49.50	44.00	44.00	44.00	44.00	44.00	44.00	44.00	44.00	44.00
4"		98.00	68.00	68.00	68.00	68.00	68.00	68.00	68.00	68.00	68.00
6"		198.00	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		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
5/8" & 3/4"	\$	2.50	2.50	2.50	2.50	2.50	5.00	7.50	7.50	7.50	7.50
1"		5.00	5.00	5.00	5.00	5.00	10.00	15.00	15.00	15.00	15.00
1 1/2"		7.50	7.50	7.50	7.50	7.50	15.00	22.50	22.50	22.50	22.50
2"		12.50	12.50	12.50	12.50	12.50	25.00	37.50	37.50	37.50	37.50
3"		27.50	27.50	27.50	27.50	27.50	55.00	82.50	82.50	82.50	82.50
4"		42.50	42.50	42.50	42.50	42.50	85.00	127.50	127.50	127.50	127.50
6"		82.50	82.50	82.50	82.50	82.50	165.00	247.50	247.50	247.50	247.50

**Notes:**

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

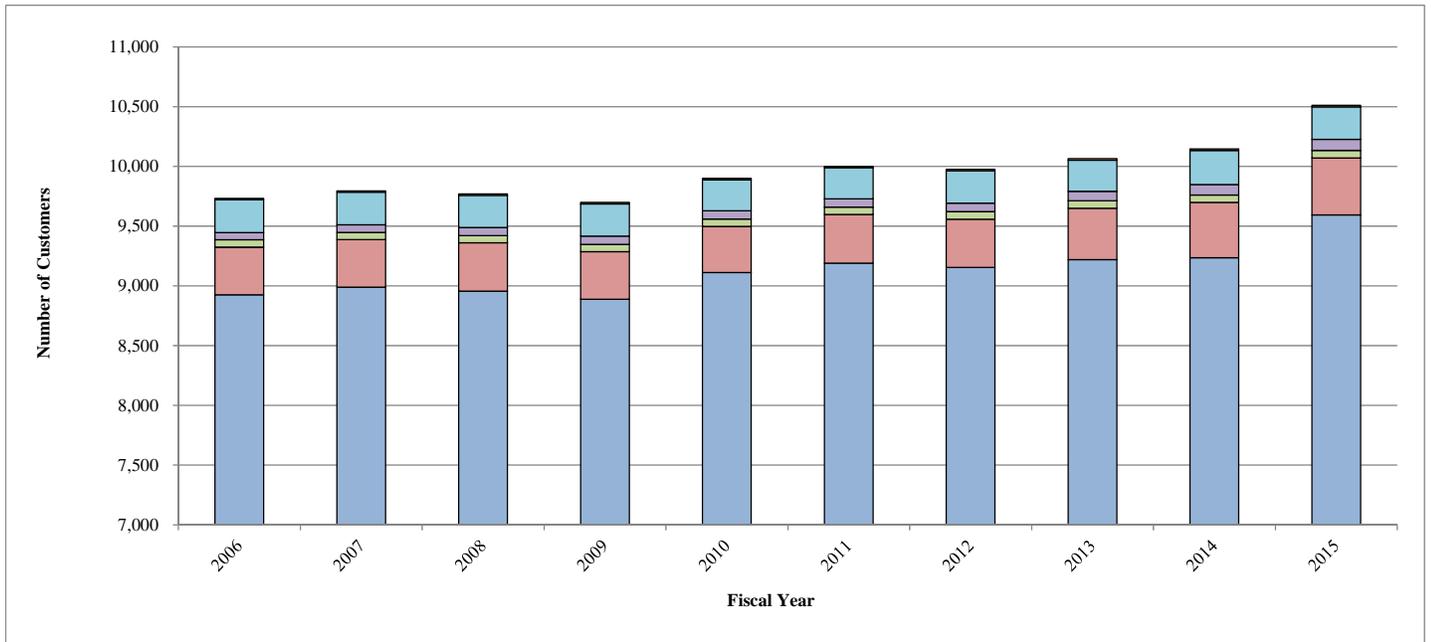
(2) HCF is Hundred Cubic Feet, which is equivalent to 1 unit.

**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	
2006	8,926	399	61	59	276	12	9,352
2007	8,989	398	61	63	273	12	9,733
2008	8,957	403	61	69	268	12	9,796
2009	8,888	399	61	69	270	12	9,770
2010	9,112	387	61	69	259	12	9,699
2011	9,190	408	61	69	261	12	9,902
2012	9,155	404	63	71	271	12	9,998
2013	9,220	431	62	79	261	12	10,065
2014	9,235	464	63	86	287	13	10,148
2015	9,594	477	64	91	273	13	10,512



**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**

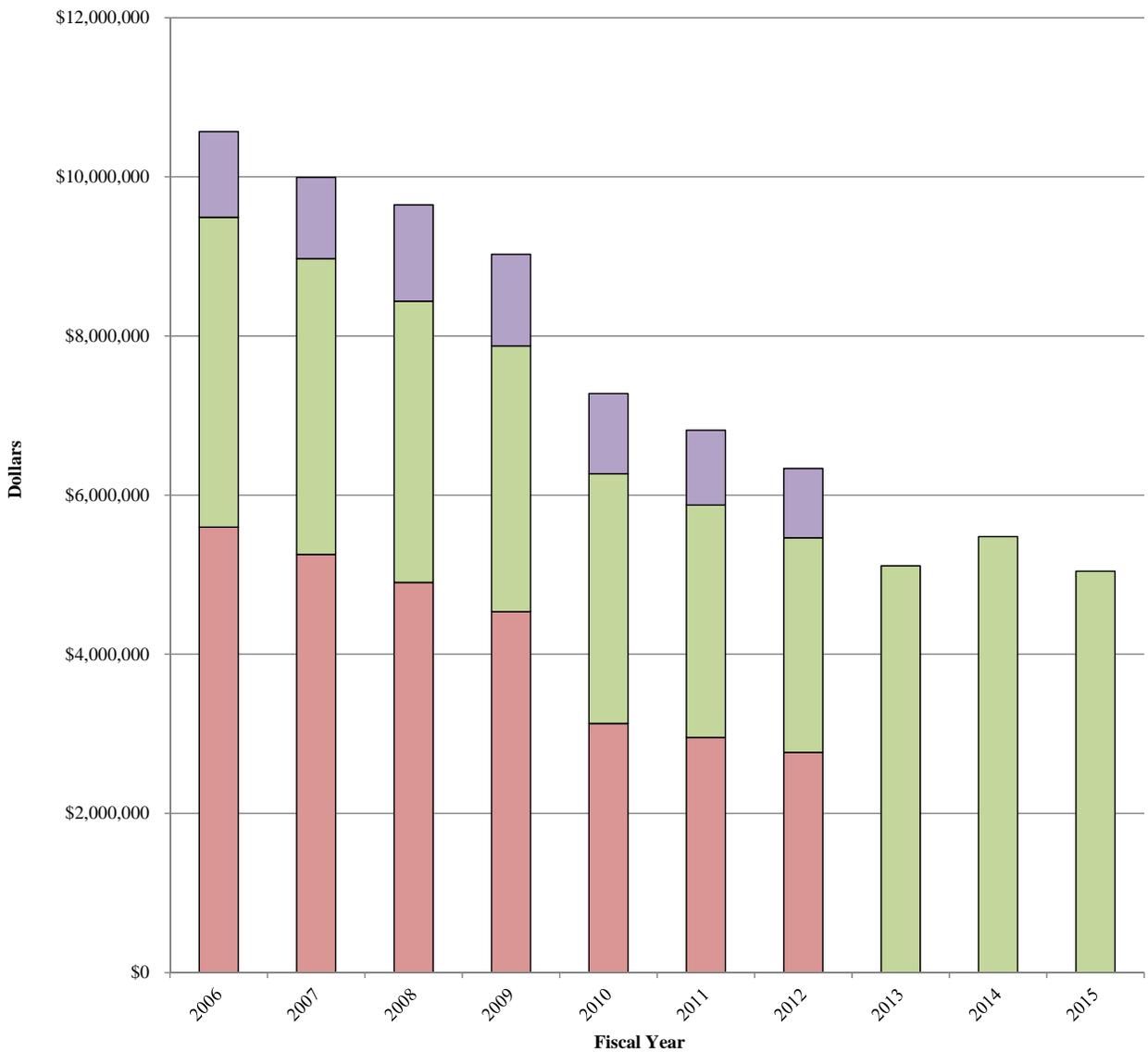
<b>Customer</b>	<b>2015</b>		<b>Customer</b>	<b>2006</b>	
	<b>Water Consumed</b>	<b>Percentage of Total</b>		<b>Water Consumed</b>	<b>Percentage of Total</b>
Morongo Unified School District	20,775	1.96%	Morongo Unified School District	17,605	1.40%
Brehm Basin Wide Foundation	8,999	0.85%	Shamrock Millco-Aztec	9,623	0.76%
Caritas Corporation	7,826	0.74%	Country Club Mobilehome Estate	7,281	0.58%
Town of Yucca Valley	6,790	0.64%	Town of Yucca Valley	6,982	0.55%
Country Club Mobilehome Estate	6,593	0.62%	Apache MHP Association	6,102	0.48%
Apache MHP Association	6,413	0.60%	Tri-Valley Little League	5,568	0.44%
Walmart Stores	6,378	0.60%	Sky Harbor Care Center	5,500	0.44%
Sky Harbor Care Center	5,227	0.49%	Sunnysploye Apts	4,538	0.36%
Tri-Valley Little League	4,705	0.44%			
<b>Total</b>	<b>73,706</b>	<b>6.95%</b>	<b>Total</b>	<b>63,199</b>	<b>5.02%</b>
<b>Total Water Consumed (HCF)</b>	<b>1,060,296</b>	<b>100.00%</b>	<b>Total Water Consumed (HCF)</b>	<b>1,258,803</b>	<b>100.00%</b>

**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
2006	5,598,503	3,895,000	1,075,600	10,569,103	514.09	2.09%
2007	5,256,376	3,715,000	1,020,600	9,991,976	506.54	2.10%
2008	4,902,577	3,535,000	1,210,515	9,648,092	459.94	1.70%
2009	4,535,480	3,340,000	1,151,115	9,026,595	425.00	1.48%
2010	3,131,446	3,135,000	1,010,600	7,277,046	357.03	1.33%
2011	2,954,195	2,920,000	940,600	6,814,795	329.22	1.62%
2012	2,769,768	2,695,000	870,600	6,335,368	302.90	1.01%
2013	-	5,110,000	-	5,110,000	242.20	0.82%
2014	-	5,480,022	-	5,480,022	260.58	0.87%
2015	-	5,044,565	-	5,044,565	236.22	0.74%



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 <sup>(1)</sup>	Net Available Revenues	Debt Service			Coverage Ratio
				Principal <sup>(2)</sup>	Interest	Total	
2006	8,714,884	(5,698,661)	3,016,223	788,548	470,576	1,259,124	2.40
2007	10,578,265	(7,439,423)	3,138,842	577,127	445,216	1,022,343	3.07
2008	9,559,100	(8,045,653)	1,513,447	693,284	370,525	1,063,809	1.42
2009	9,408,694	(8,199,546)	1,209,148	622,097	348,944	971,041	1.25
2010	10,273,163	(7,574,071)	2,699,092	1,749,549	296,724	2,046,273	1.32
2011	9,230,259	(7,836,459)	1,393,800	462,251	260,680	722,931	1.93
2012	8,826,211	(7,153,393)	1,672,818	479,427	243,280	722,707	2.31
2013	10,924,009	(8,399,247)	2,524,762	130,000	57,665	187,665	13.45
2014	11,251,802	(7,704,754)	3,547,048	195,000	171,850	366,850	9.67
2015	10,731,667	(8,928,546)	1,803,121	390,000	85,925	475,925	3.79

**Notes:**

(1) Operating expenses exclude depreciation expense.

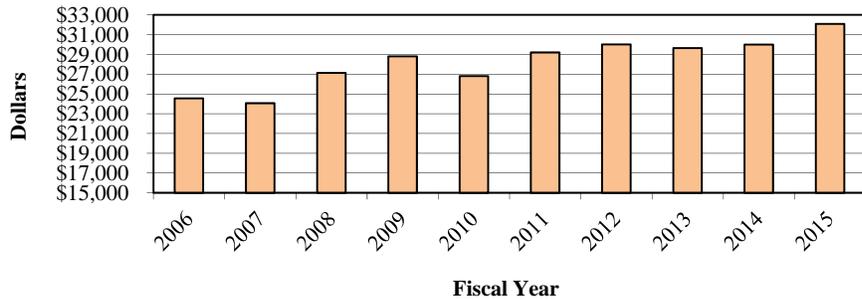
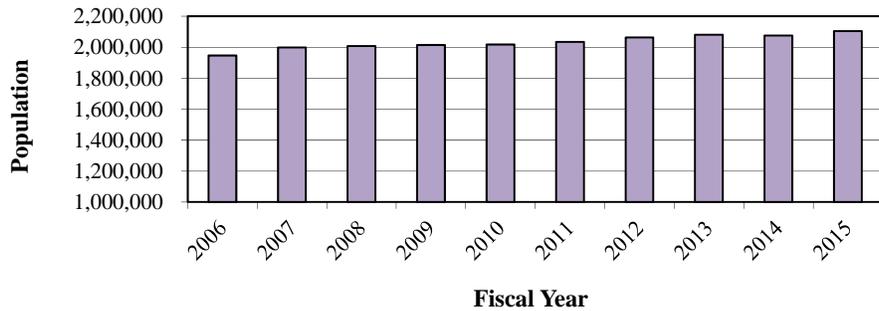
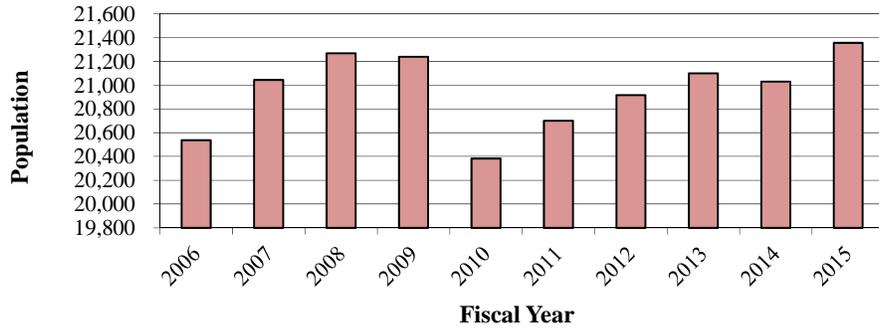
(2) Includes only normal principal payments (does not include payments as a result of refinancing of debt)

**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 <sup>(2)</sup>				
	Yucca Valley Population <sup>(1)</sup>	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2006	20,537	5.0%	1,946,202	47,792,249	24,557
2007	21,044	5.6%	1,999,332	48,116,593	24,066
2008	21,268	8.2%	2,007,800	54,479,645	27,134
2009	21,239	13.0%	2,015,355	58,050,285	28,804
2010	20,382	13.0%	2,017,673	54,093,000	26,810
2011	20,700	16.0%	2,035,210	59,411,850	29,192
2012	20,916	16.0%	2,063,919	61,913,442	29,998
2013	21,098	12.0%	2,081,313	61,677,629	29,634
2014	21,030	10.3%	2,076,274	62,259,000	29,990
2015	21,355	6.5%	2,104,291	67,488,821	32,072



**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.

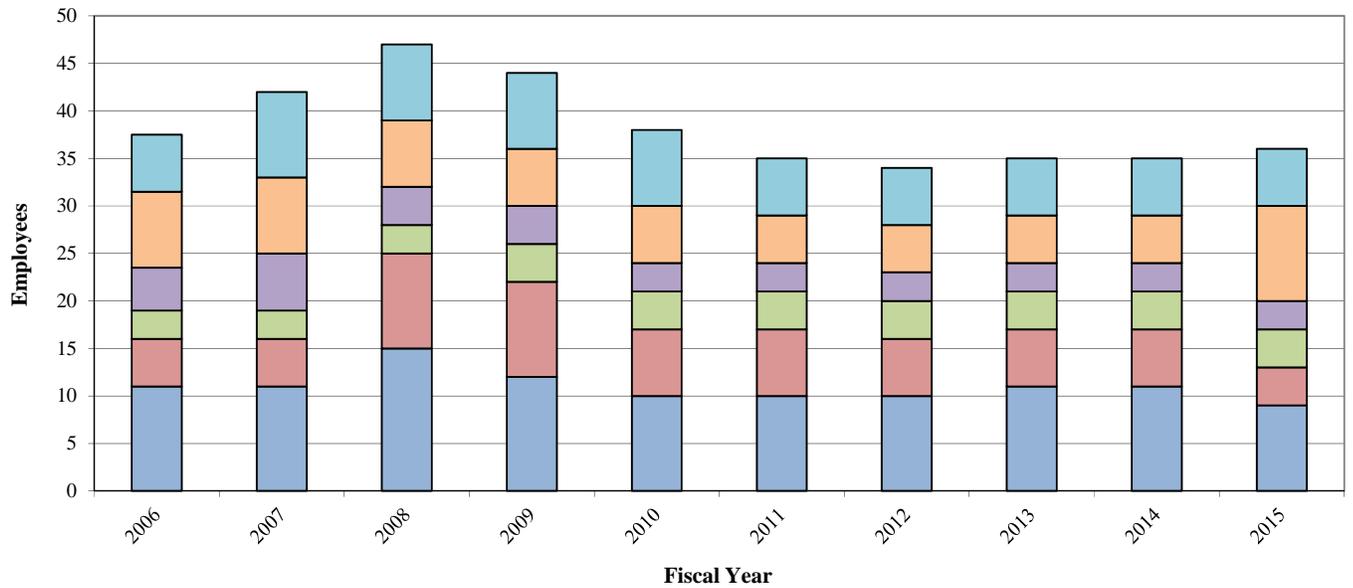
N/A - Data not available

# Hi-Desert Water District Operating and Capacity Indicators 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
2006	11	5	3	5	8	6	38
2007	11	5	3	6	8	9	42
2008	15	10	3	4	7	8	47
2009	12	10	4	4	6	8	44
2010	10	7	4	3	6	8	38
2011	10	7	4	3	5	6	35
2012	10	6	4	3	5	6	34
2013	11	6	4	3	5	6	35
2014	11	6	4	3	5	6	35
2015	9	4	4	3	10	6	36



**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
2006	57	316	16	12.90	14	10.0	1,858
2007	57	316	16	12.90	13	9.2	1,858
2008	57	316	16	12.90	13	9.2	1,858
2009	57	316	16	12.90	13	9.2	1,858
2010	57	316	16	12.90	13	9.2	1,801
2011	57	316	16	13.14	13	9.2	1,801
2012	57	296	16	12.66	11	9.2	1,801
2013	57	296	16	12.66	13	9.2	1,801
2014	57	296	16	12.66	13	9.2	1,801
2015	57	308	16	13.18	12	9.2	2,042

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 year ended June 30, 2015, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated January 13, 2016.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Fedak & Brown LLP*

**Fedak & Brown LLP**  
Cypress, California  
January 13, 2016