

**Apple Valley Heights
County Water District**

Report on Audit

June 30, 2018 and 2017

Apple Valley Heights County Water District
(A Special District)

June 30, 2018 and 2017

TABLE OF CONTENTS

| | |
|--|----|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 3 |
| Financial Statements | |
| Statement of Net Assets..... | 6 |
| Statement of Revenues, Expenses and Changes in Net Assets..... | 7 |
| Statement of Cash Flows..... | 8 |
| Notes to Financial Statements | 9 |
| Supplementary Information | |
| Schedule of Operating Expenses..... | 16 |
| Findings and Recommendations | |
| Schedule of Findings and Questioned Costs..... | 17 |
| Schedule of Prior Year Findings..... | 18 |

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Apple Valley Heights County Water District
Apple Valley, California

We have audited the accompanying financial statements of Apple Valley Heights Water District, as of and for the years ended June 30, 2018 and June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Apple Valley Heights County Water District, as of June 30, 2018 and 2017 and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information, shown on page 16, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

April 1, 2019

Apple Valley Heights County Water District

(A Special District)

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

THE AGENCY

Apple Valley Heights County Water District (the "District") was formed January 17, 1957, under the provision of the California Water Code. Its boundaries encompass approximately 960 acres. The District is governed by the board of directors (five members) elected by the voters within the District for four year terms. The District provides water to customers within its boundaries.

THE BASIC FINANCIAL STATEMENTS

Apple Valley Heights County Water District is a special purpose government (special district) engaged only in activities that support themselves through user charges and tax levies. Accordingly, the accompanying financial statements are presented in the format prescribed for proprietary funds by the Governmental Accounting Standards Board. As a proprietary fund, the Agency uses the full accrual basis of accounting. Proprietary fund statements offer short-term and long-term financial information about the activities that operate like a business.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes are located immediately after the basic financial statements.

The basic financial statements are made up of the statement of net assets, statement of revenues, expenses, and changes in net assets, and the statement of cash flows. Each statement is described in detail below.

The statement of net assets presents information on the District's assets and liabilities. Assets reflect what is owned and liabilities reflect what is owed. The difference between assets and liabilities is reported as net assets. The change in net assets is one way to measure the District's financial health. Increases and decreases are indicators of whether its financial health is improving or deteriorating, respectively.

The statement of revenues, expenses and changes in net assets describes the results of the District's financial activities during the years reported. It shows the change in net assets by comparing operating and non-operating revenues with operating and non-operating expenses. Operating revenues and expenses relate to the principal business activity of the District. All other revenues and expenses are classified as non-operating.

The statement of cash flows describes to the financial statement users how the District managed its cash during the year. It tells the user from what sources the District received cash and for what purposes cash was used. The statement converts operating income (or loss) from the statement of revenues, expenses and changes in net assets into actual cash provided by and used in operations. Additionally, the statement of cash flows details how the District obtains and spends cash for investing financing activities.

Apple Valley Heights County Water District

(A Special District)

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018 and 2017

SUMMARY FINANCIAL INFORMATION ANALYSIS

Net Assets

As illustrated in the following table, the June 30, 2018 fiscal year ended with an increase in net assets of approximately \$119,920.

| | <u>2018</u> | <u>2017</u> | <u>Net Change</u> |
|-------------------------------|-------------------|-------------------|-------------------|
| Total assets | \$ 893,591 | \$ 728,535 | \$ 165,056 |
| Total liabilities | 96,731 | 51,595 | 45,136 |
| Net assets | <u>\$ 796,860</u> | <u>\$ 676,940</u> | <u>\$ 119,920</u> |
| Revenues | \$ 442,299 | \$ 319,805 | \$ 122,494 |
| Expenses | 322,379 | 259,329 | 63,050 |
| Change in net assets | 119,920 | 60,476 | 59,444 |
| Net Assets - Beginning | 676,940 | 616,464 | 60,476 |
| Net Assets - Ending | <u>\$ 796,860</u> | <u>\$ 676,940</u> | <u>\$ 119,920</u> |

Capital Assets

The District had capital asset purchases of \$115,026 during the year, of which \$90,797 was related to construction in process.

| | <u>2018</u> | <u>2017</u> | <u>Net Change</u> |
|-----------------------------|-------------------|-------------------|--------------------|
| Land | \$ 4,873 | \$ 4,873 | \$ - |
| Plant and equipment | 1,172,582 | 1,148,352 | 24,230 |
| Accumulated depreciation | (815,317) | (776,969) | (38,348) |
| Total Capital Assets | <u>\$ 362,138</u> | <u>\$ 376,257</u> | <u>\$ (14,119)</u> |

Long-Term Liabilities

| | <u>2018</u> | <u>2017</u> | <u>Net Change</u> |
|------------------------------------|--------------------|--------------------|-------------------|
| Total Long-Term Liabilities | <u>\$ (44,400)</u> | <u>\$ (44,400)</u> | <u>\$ -</u> |

Apple Valley Heights County Water District

(A Special District)

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018 and 2017

ECONOMIC FACTORS AND FUTURE BUDGET CONSIDERATIONS

The District had completed an annual budget for fiscal year 2017-2018 that has been approved by the Board of Directors.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the District's financials and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District at 9429 Cerra Vista St. Apple Valley, CA 92308

FINANCIAL STATEMENTS

Apple Valley Heights County Water District
(A Special District)

STATEMENTS OF NET ASSETS
June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|------------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 374,024 | \$ 289,152 |
| Accounts receivable and other current assets | 66,632 | 63,126 |
| Total current assets | <u>440,656</u> | <u>352,278</u> |
| Non-current assets: | | |
| Utility plant, net | 362,138 | 376,257 |
| Construction in process | 90,797 | - |
| Total non-current assets | <u>452,935</u> | <u>376,257</u> |
| TOTAL ASSETS | <u><u>\$ 893,591</u></u> | <u><u>\$ 728,535</u></u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accrued expenses | \$ 41,983 | \$ 7,195 |
| Current portion of long-term debt | 11,100 | 11,100 |
| Customer deposits | 10,348 | - |
| Total current liabilities | <u>63,431</u> | <u>18,295</u> |
| Non-current liabilities | | |
| Loan payable | <u>33,300</u> | <u>33,300</u> |
| Total liabilities | <u>96,731</u> | <u>51,595</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 317,738 | 331,857 |
| Unrestricted | <u>479,122</u> | <u>345,083</u> |
| Total net assets | <u>796,860</u> | <u>676,940</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 893,591</u></u> | <u><u>\$ 728,535</u></u> |

See Accompanying Notes and Auditors' Report

Apple Valley Heights County Water District
(A Special District)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| OPERATING REVENUES | | |
| Water sales and services | \$ 318,926 | \$ 282,362 |
| Standby charges | 21,481 | 21,484 |
| Total operating revenues | <u>340,407</u> | <u>303,846</u> |
| OPERATING EXPENSES | | |
| Source of supply | 10,200 | 4,800 |
| Pumping | 19,113 | 18,674 |
| Transmission and distribution | 56,219 | 66,300 |
| General and administrative | 198,499 | 136,643 |
| Depreciation | 38,348 | 32,912 |
| Total operating expenses | <u>322,379</u> | <u>259,329</u> |
| OPERATING INCOME | 18,028 | 44,517 |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Interest income | 90 | 63 |
| Grant income | 89,397 | - |
| Miscellaneous | 12,405 | 15,896 |
| Total non-operating revenues (expenses) | <u>101,892</u> | <u>15,959</u> |
| CHANGE IN NET ASSETS | 119,920 | 60,476 |
| Net Assets - Beginning | <u>676,940</u> | <u>616,464</u> |
| Net Assets - Ending | <u>\$ 796,860</u> | <u>\$ 676,940</u> |

See Accompanying Notes and Auditors' Report

Apple Valley Heights County Water District
(A Special District)

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| Cash flows from operating activities | | |
| Cash received from customers | \$ 338,290 | \$ 304,078 |
| Cash payments to suppliers for goods and services | (111,710) | (116,927) |
| Cash payments to employees and directors for services | (128,574) | (109,081) |
| | <hr/> | <hr/> |
| Net cash provided by operating activities | 98,006 | 78,070 |
| Cash flows provided by non-capital and related financing activities | 101,802 | 25,896 |
| Cash flows from capital and related financing activities | | |
| Cash used for purchase of equipment | (115,026) | (8,500) |
| | <hr/> | <hr/> |
| Net cash used in capital and related financing activities | (115,026) | (8,500) |
| Cash flows from investing and financing activities | | |
| Cash payments on long-term debt | - | (11,100) |
| Interest received | 90 | 63 |
| | <hr/> | <hr/> |
| Net cash provided by used in investing activities | 90 | (11,037) |
| NET INCREASE IN CASH | 84,872 | 84,429 |
| Cash – Beginning | 289,152 | 204,723 |
| | <hr/> | <hr/> |
| Cash – Ending | <u>\$ 374,024</u> | <u>\$ 289,152</u> |
| Reconciliation of cash and cash equivalents to the statements of net assets | | |
| Reconciliation of operating income to cash provided by (used in) operating activities: | | |
| Operating income | \$ 119,920 | \$ 60,476 |
| Depreciation | 38,348 | 32,912 |
| Miscellaneous non-operating revenue / expense | (101,892) | (15,958) |
| (Increase) decrease: | | |
| Accounts receivable and other current assets | (3,506) | 498 |
| Accrued expenses and customer deposits | 45,136 | 142 |
| | <hr/> | <hr/> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 98,006</u> | <u>\$ 78,070</u> |

See Accompanying Notes and Auditors' Report

Apple Valley Heights County Water District

(A Special District)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Apple Valley Heights County Water District (the “District”) was formed January 17, 1957, under the provision of the California Water Code. Its boundaries encompass approximately 960 acres. The District is governed by the board of directors (five members) elected by the voters within the District for four year terms. The District provides water to customers within its boundaries.

Method of Accounting

The accounts of the District are organized on the basis of fund accounting. Resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled. The District’s funds are accounted for as an enterprise fund type of the proprietary fund group. The accrual basis of accounting is used for the enterprise fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with water sales to customers.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund is accounted for on a flow of economic resources measurement focus. This measurement focus emphasizes the determination of net income. The accrual basis of accounting is used for the enterprise fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Pursuant to GASB Statement No. 20, “*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*”, all Financial Accounting Standards Board (FASB) statements and authoritative pronouncements issued before November 30, 1989 are applied to proprietary operations unless they conflict with GASB pronouncements. The District has elected not to apply FASB statements issued subsequent to November 30, 1989.

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*”. Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components: (1) invested in capital assets, net of related debt; (2) restricted; and (3) unrestricted.

Apple Valley Heights County Water District

(A Special District)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

These classifications are defined as follows:

- (1) ***Invested in capital assets, net of related debt*** – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- (2) ***Restricted*** – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- (3) ***Unrestricted*** – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

When both restricted and unrestricted resources are available, it is the District’s policy to use unrestricted resources first and the restricted resources as needed. As of June 30, 2018 and 2017, the District had no restricted resources.

Budgets and Budgetary Accounting

The Board of Directors does not operate under any legal budgeting constraints.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash, including restricted assets.

Accounts Receivable

The District extends credit to customers in the normal course of operation. The District considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If it is determined that they are uncollectable, they are written off as bad debt expense. There was no bad debt expense for the fiscal year ended June 30, 2018. There was no bad debt expense for the fiscal year ended June 30, 2017.

Prepaid Expenses

Expenses for insurance or other operating costs extending to future accounting periods have been recorded as prepaid expenses.

Capital Assets

Capital assets are stated at cost. Depreciation is provided on a straight-line basis over the estimated useful lives which range from five to forty years. Depreciation expense, for the years ended June 30, 2018 and 2017, was \$38,348 and \$32,912, respectively. It is the policy of the District to capitalize property, plant and equipment with a cost of \$5,000 or more. Expenses for routine maintenance and repairs are charged to expense as incurred.

Apple Valley Heights County Water District

(A Special District)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

Compensated Absences

The District has no requirement for retirement or compensated absences.

Use of Estimates

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

Cash Deposits

The carrying amounts of the District's cash deposits were \$374,024 at June 30, 2018. Bank balances before reconciling items were \$386,361 at that date, the total amount of which was collateralized or insured with securities held by pledging financial institutions in the District's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the District's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the District's name.

The market value of the pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the District's deposits. The District may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

The District follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investments balances. Interest income from cash and investments with fiscal agents is credited directly to the related funds.

NOTE 3 – ACCOUNTS RECEIVABLE AND OTHER ASSETS

The following summarizes the significant categories of receivables and other assets (current and non-current) at June 30, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|------------------------------------|------------------|------------------|
| Receivables: | | |
| Water sales and water services | \$ 35,051 | \$ 32,933 |
| | 35,051 | 32,933 |
| Prepaid expenses | 31,581 | 30,193 |
| Total receivables and other assets | <u>\$ 66,632</u> | <u>\$ 63,126</u> |

Apple Valley Heights County Water District

(A Special District)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 4 – CAPITAL ASSETS

Capital asset activity, for the fiscal year ended June 30, was as follows:

| Capital Assets: | <u>July 1, 2017</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2018</u> |
|---------------------------------------|---------------------|------------------|------------------|----------------------|
| Land | \$ 4,873 | \$ - | \$ - | \$ 4,873 |
| Transmission and distribution | 539,921 | 19,730 | - | 559,651 |
| Water tank and pumping | 562,025 | - | - | 562,025 |
| Equipment | 46,406 | 4,500 | - | 50,906 |
| Total Capital Assets | <u>1,153,225</u> | <u>24,230</u> | <u>-</u> | <u>1,177,455</u> |
| Accumulated Depreciation | | | | |
| Transmission and distribution | 331,977 | 15,119 | - | 347,096 |
| Water tank and pumping | 407,961 | 20,437 | - | 428,398 |
| Equipment | 37,031 | 2,792 | - | 39,823 |
| Total Accumulated Depreciation | <u>776,969</u> | <u>\$ 38,348</u> | <u>\$ -</u> | <u>815,317</u> |
| Capital Assets, net | <u>\$ 376,257</u> | | | <u>\$ 362,138</u> |
| | | | | |
| Capital Assets: | <u>July 1, 2016</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2017</u> |
| Land | \$ 4,873 | \$ - | \$ - | \$ 4,873 |
| Transmission and distribution | 539,921 | - | - | 539,921 |
| Water tank and pumping | 562,025 | - | - | 562,025 |
| Equipment | 37,906 | 8,500 | - | 46,406 |
| Total Capital Assets | <u>1,144,725</u> | <u>-</u> | <u>-</u> | <u>1,153,225</u> |
| Accumulated Depreciation | | | | |
| Transmission and distribution | 318,748 | 13,229 | - | 331,977 |
| Water tank and pumping | 391,224 | 16,737 | - | 407,961 |
| Equipment | 34,084 | 2,946 | - | 37,031 |
| Total Accumulated Depreciation | <u>744,056</u> | <u>\$ 32,912</u> | <u>\$ -</u> | <u>776,969</u> |
| Capital Assets, net | <u>\$ 400,669</u> | | | <u>\$ 376,257</u> |

Apple Valley Heights County Water District
(A Special District)

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 5 – LONG-TERM DEBT

The District agreed in September, 2008 to reimburse the County of San Bernardino for costs incurred by the County for a waterline relocation project on Central Road during the year ended June 30, 2009. Payments are due each year with an interest rate of 0%.

As of June 30, 2018, the annual maturities of long-term debt are as follows:

| | Balance July 1, 2017 | Additions | Reductions | Due in one year | Long-term balance June 30, 2018 |
|-----------------------|-------------------------|-----------|------------|--------------------|---------------------------------------|
| San Bernardino County | | | | | |
| Interest rate: 0% | \$ 44,400 | \$ - | \$ - | \$ 11,100 | \$ 44,400 |

As of June 30, 2018, the annual maturities of long-term debt are as follows:

| | Principal | Interest |
|----------------------|------------------|-------------|
| Year ending June 30, | | |
| 2019 | \$ 11,100 | \$ - |
| 2020 | 11,100 | - |
| 2021 | 11,100 | - |
| 2022 | 11,100 | - |
| | <u>\$ 44,400</u> | <u>\$ -</u> |

Apple Valley Heights County Water District

(A Special District)

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

NOTE 6 – UNRESTRICTED NET ASSETS

Certain amounts shown as unrestricted net assets have been reserved by the Board to be used for specified purposes as listed below:

| | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------------|
| Reserved for capital improvement (Meter Sales) | \$ 138,767 | \$ 105,853 |
| Reserved for Construction (grant fund) | 8,600 | - |
| Surcharge Reserve Fund | 20,022 | 8,249 |
| Reserved for water rights | 9,360 | 9,360 |
| Reserved for capital improvement (replacement fund) | <u>92,881</u> | <u>75,779</u> |
| | | |
| Total reserves included in unrestricted net assets | <u>\$ 269,630</u> | <u>\$ 199,241</u> |

NOTE 7 – RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets, and injuries to employees. The District mitigates these risks through internal control procedures, physical security of assets, and safety training of employees. Additionally, the District maintains liability and property insurance through participation in the Joint Powers Authority, Association of California Water Agencies Joint Power Insurance Authority (ACWA/JPIA). See the Joint Power Agreement (Note 8) for nature of participation. Settled claims have not exceeded this coverage in any of the past two fiscal years.

NOTE 8 – JOINT VENTURE

The District participates in a joint venture under a Joint Powers Agreement (JPA): the Special District Risk Management Authority. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The Special District Risk Management Authority has budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements.

- | | |
|--------------------|---|
| A. Entity | Special District Risk Management Authority |
| B. Purpose | To purchase property and liability insurance for member districts and provide a program of self-insurance for workers compensation. |
| C. Participants | Special districts in California |
| D. Governing Board | Two directors selected by the California Special Districts Association and five elected from membership and certain members from the special districts. |

Apple Valley Heights County Water District
(A Special District)

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 10 – SUBSEQUENT EVENTS

Events occurring after June 30, 2018 have been evaluated for possible adjustment to the financial statements or disclosure, as of April 1, 2019, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Apple Valley Heights County Water District

(A Special District)

SCHEDULE OF OPERATING EXPENSES

For the Years Ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|-------------------------------------|--------------------------|--------------------------|
| Source of supply | | |
| Purchased water | \$ 10,200 | \$ 4,800 |
| Pumping | | |
| Plant power | 19,113 | 18,674 |
| Transmission and distribution | | |
| Salaries and wages | 56,219 | 61,200 |
| Lab fees | - | 2,485 |
| Repairs and maintenance | - | 2,615 |
| Total transmission and distribution | <u>56,219</u> | <u>66,300</u> |
| General and administrative | | |
| Salaries and wages | 69,869 | 40,101 |
| Payroll taxes | 10,713 | 7,780 |
| Directors' fees | 2,513 | 2,469 |
| Rent | 4,500 | 4,500 |
| Dues and subscriptions | 5,190 | 4,537 |
| Insurance expense | 13,668 | 14,483 |
| Miscellaneous | 84 | 309 |
| Office supplies | 6,707 | 7,016 |
| Professional fees | 4,631 | 7,163 |
| Repairs and maintenance | 62,713 | 36,310 |
| Travel and mileage | 12,898 | 8,205 |
| Utilities | 5,013 | 3,770 |
| Total general and administrative | <u>198,499</u> | <u>136,643</u> |
| Depreciation | <u>38,348</u> | <u>32,912</u> |
| TOTAL OPERATING EXPENSES | <u><u>\$ 322,379</u></u> | <u><u>\$ 259,329</u></u> |

See Accompanying Notes and Auditors' Report

FINDINGS AND RECOMMENDATIONS

Apple Valley Heights County Water District

(A Special District)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

FINDING 2018-1

FINANCIAL REPORTING

Criteria:

Each year, special districts are responsible for preparing complete and accurate financial statements, including footnote disclosures, and management's discussion and analysis, which are prepared in accordance with governmental generally accepted accounting principles. This financial reporting responsibility extends beyond the preparation of traditional fund financial statements, and includes financial statements that are required to be presented in accordance with Governmental Accounting Standards Board Statement 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Accordingly, special districts should have policies and procedures in place to ensure that complete and accurate financial statements, including footnote disclosures and management's discussion and analysis are prepared and reviewed prior to the arrival of the independent auditors.

Condition:

Similar to the vast majority of California special districts, the District does not have policies and procedures in place to ensure that complete and accurate financial statements, including footnote disclosures and management's discussion and analysis, which conform to GASB 34 and the applicable governmental generally accepted accounting principles, are prepared and reviewed prior to the arrival of the independent auditors.

Questioned Costs:

None

Context:

This condition has always existed at the District, and is being reported in accordance with the requirements of Statement on Auditing Standards No. 115 (SAS 115) which became effective for all financial statements.

Effect:

When appropriate financial reporting policies and procedures are not established, there is more than a remote likelihood that a material misstatement of the financial statements may occur and not be prevented or detected by the District's system of internal control.

Recommendation:

Due to the nature of special district finance and the specific types of financial activities processed by the District, management and the governing board should weigh the cost of eliminating this control weakness against the benefits to be received.

Management Response:

The District does not have the staff or the resources to fully prepare financial statements.

See Accompanying Notes and Auditors' Report

Apple Valley Heights County Water District

(A Special District)

SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended June 30, 2018

FINDING 2017-1

FINANCIAL REPORTING

Condition:

Similar to the vast majority of California special districts, the District does not have policies and procedures in place to ensure that complete and accurate financial statements, including footnote disclosures and management's discussion and analysis, which conform to GASB 34 and the applicable governmental generally accepted accounting principles, are prepared and reviewed prior to the arrival of the independent auditors.

Recommendation:

Appropriate financial reporting policies and procedures need to be established so that a material misstatement of the financial statements will be prevented or detected by the District's system of internal control.

Current Status:

Not implemented. See Finding 2018-1.