

RAND COMMUNITIES WATER DISTRICT

**COUNTY OF KERN
JOHANNESBURG, CALIFORNIA**

**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2016**

**BURKEY COX EVANS & BRADFORD
Accountancy Corporation
1058 West Avenue M-14, Suite B
Palmdale, CA 93551**

**RAND COMMUNITIES WATER DISTRICT
ORGANIZATION AND BOARD OF DIRECTORS
JUNE 30, 2016**

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>
Pamela Keiser	President
Dana Arbeit	Vice President
Randy Lee Halgunseth	Director
John Kittell	Director
Randy Brown	Director

GENERAL MANAGER

Mike Powell

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JUNE 30, 2016**

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FINANCIAL INFORMATION



BURKEY COX EVANS & BRADFORD

ACCOUNTANCY CORPORATION

1058 WEST AVENUE M-14, SUITE B
PALMDALE, CALIFORNIA 93551

TEL: (661) 267-2005
FAX: (661) 267-2471

425 WEST DRUMMOND AVENUE, SUITE A
RIDGECREST, CALIFORNIA 93555-3120

TEL: (760) 375-1508
FAX: (760) 375-8865

5122 AVENIDA ENCINAS, SUITE 120
CARLSBAD, CALIFORNIA 92008-4342

TEL: (760) 431-1755
FAX: (760) 431-1760

SCOTT EVANS, CPA, CFP
LAURA A. BRADFORD, CPA
HAROLD W. MANNING, CPA

WILLIAM C. GILCHRIST, CPA
DAN T. STANFIELD, CPA
LESLIE C. NEWQUIST, CPA

JANETTE HENRIQUEZ, CPA
KYLE LINDAMAN, CPA
KENNETH S. EVANS, CPA
JENNIFER M. EVANS, CPA
CHARISSA CROUCH, CPA

INDEPENDENT AUDITORS' REPORT

Board of Directors
Rand Communities Water District
Johannesburg, California

We have audited the accompanying financial statements of the business-type activities of Rand Communities Water District (the District), as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Rand Communities Water District, as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year 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 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 on pages 3 through 6 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 opinions of the Rand Communities Water District's financial statements. The schedule of revenue and expenses – budget and actual on pages 19 through 20 is presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of revenues and expenses – budget and actual is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 12, 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 Rand Communities Water District's internal control over financial reporting and compliance.

Burkey & Cox CPAs

BURKEY COX EVANS & BRADFORD
Accountancy Corporation

Palmdale, California
August 12, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

**RAND COMMUNITIES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2016**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Rand Communities Water District (the District) provides an introduction to the financial statements of the District for the year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the financial statements and related notes, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total assets were valued at \$916,665 on June 30, 2016.
- The District's total deferred outflows of resources were valued at \$3,031 on June 30, 2016.
- The District's total liabilities were valued at \$39,262 on June 30, 2016.
- The District's total net position was valued at \$880,434 on June 30, 2016.
- Total net position continued to increase with a 13.2% increase from prior fiscal year.
- Operating revenues for the year were \$216,586, which is \$22,609 less than revenue collected in the prior fiscal year.
- Operating expenses totaled \$282,315. Operating expenses were \$27,792 less than the prior fiscal year.
- Total revenues for the fiscal year ended June 30, 2016, were \$102,357 more than total expenses.

REQUIRED FINANCIAL STATEMENTS

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), consumption of net assets applicable to a future reporting period (deferred outflows of resources), and the obligations to creditors (liabilities). 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, 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 were the changes in cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting

**RAND COMMUNITIES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2016**

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 them. The District's net position – assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources – are one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are 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 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 11 through 18.

Statement of Net Position

Condensed Statements of Net Position

	June 30, 2016	June 30, 2015	Change
Assets:			
Current Assets	\$ 266,819	\$ 249,902	\$ 16,917
Capital Assets	649,846	560,493	89,353
Total Assets	<u>916,665</u>	<u>810,395</u>	<u>106,270</u>
Deferred Outflows of Resources:			
Prepaid Expenses	3,031	3,031	-
Total Deferred Outflows of Resources:	<u>3,031</u>	<u>3,031</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 919,696</u>	<u>\$ 813,426</u>	<u>\$ 106,270</u>
Liabilities:			
Current Liabilities	\$ 39,262	\$ 35,349	\$ 3,913
Total Liabilities	<u>39,262</u>	<u>35,349</u>	<u>3,913</u>
Net Position:			
Net Investment in Capital Assets	630,035	539,573	90,462
Unrestricted	250,399	238,504	11,895
Total Net Position	<u>880,434</u>	<u>778,077</u>	<u>102,357</u>
Total Liabilities and Net Position	<u>\$ 919,696</u>	<u>\$ 813,426</u>	<u>\$ 106,270</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 exceeded liabilities by \$880,434 and \$778,077 as of June 30, 2016 and 2015, respectively.

The majority of the District's net position, 72% as of June 30, 2016 and 69% 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.

**RAND COMMUNITIES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2016**

At the end of fiscal years 2016 and 2015, the District showed a positive balance in its unrestricted net position of \$250,399 and \$238,504, respectively, which may be utilized in future years.

Statement of Revenues, Expenses, and Changes in Net Position

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

	June 30, 2016	June 30, 2015	Change
Revenues:			
Operating Revenues	\$ 216,586	\$ 239,195	\$ (22,609)
Non-Operating Revenues	168,086	317,953	(149,867)
Total Revenues	<u>384,672</u>	<u>557,148</u>	<u>(172,476)</u>
Expenses:			
Operating Expenses	247,614	276,901	(29,287)
Depreciation	34,701	33,206	1,495
Non-operating Expenses	-	-	-
Total Expenses	<u>282,315</u>	<u>310,107</u>	<u>(27,792)</u>
Net Position:			
Change in Net Position	102,357	247,041	(144,684)
Net Position - Beginning of Year	778,077	531,036	247,041
Net Position - End of Year	<u>\$ 880,434</u>	<u>\$ 778,077</u>	<u>\$ 102,357</u>

The Statement of Revenues, Expenses, and Changes in Net Position shows how the District's net position changed during the years. In the case of the District, net position increased by \$102,357 and \$247,041 for the years ended June 30, 2016 and 2015, respectively.

A closer examination of the sources of changes in net position reveals that:

The District's fiscal year 2016 non-operating revenues decreased \$(149,867), while the non-operating expenses remained \$0. The decrease in non-operating revenues is primarily related to a decrease of \$(148,478) in state grant revenues.

BUDGETARY HIGHLIGHTS

Total revenues were \$94,672 more than budget projections. Of this amount \$5,215 is related to assessments, \$121,803 is related to grant revenue, and \$1,068 is related to interest income which were not budgeted.

Total expenses were \$6,391 less than budget projections. Of this amount, \$(24,846) is related to pumping plant expenses, \$20,001 is related to depreciation expense and \$(8,253) is related to transmission and distributions expenses.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - For the year ended June 30, 2016, the District invested \$124,054 in capital assets. More information regarding the District's changes in capital assets is presented in the notes to the financial statements.

Long-Term Debt - The District had no debt for the year ended June 30, 2016.

**RAND COMMUNITIES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2016**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In fiscal year 2016, revenues are projected to decrease by 24.6%; while expenses are projected to increase by 3.0%. These results are due to an expected decrease in revenues of \$(94,672) and an increase in expense of \$8,405.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, creditors, and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the District's general manager at P.O. Box 198, Randsburg, CA 93554 or phone 760-374-2124.

BASIC FINANCIAL STATEMENTS

**RAND COMMUNITIES WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016**

ASSETS

Cash and Cash Equivalents	\$ 205,804
Accounts Receivable	25,201
Grant Receivable	19,811
Inventory	16,003
Capital Assets, Net of Accumulated Depreciation	<u>649,846</u>
Total Assets	<u>916,665</u>

DEFERRED OUTFLOWS OF RESOURCES

Prepaid Expenses	<u>3,031</u>
Total Deferred Outflows of Resources	<u>3,031</u>
Total Assets and Deferred Outflow of Resources	<u><u>\$ 919,696</u></u>

LIABILITIES

Grant Payable	\$ 19,811
Customer Deposits	12,294
Accrued Wages and Compensated Absences	3,163
Payroll Taxes Payable	<u>3,994</u>
Total Liabilities	<u>39,262</u>

NET POSITION

Net Investment in Capital Assets	630,035
Unrestricted	<u>250,399</u>
Total Net Position	<u><u>\$ 880,434</u></u>

See accompanying notes to financial statements.

RAND COMMUNITIES WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

OPERATING REVENUES

Water Sales	\$ 216,323
Miscellaneous	<u>263</u>
Total Operating Revenues	<u>216,586</u>

OPERATING EXPENSES

Pumping Plant	75,904
Transmission and Distribution	35,297
Administrative and General	136,413
Depreciation	<u>34,701</u>
Total Operating Expenses	<u>282,315</u>
Operating Income (Loss)	<u>(65,729)</u>

NON-OPERATING REVENUES (EXPENSES)

Interest Income	1,068
Assessment Revenue	45,215
Grant Revenue	<u>121,803</u>
Total Non-Operating Revenues (Expenses)	<u>168,086</u>
Net Increase (Decrease) in Net Position	102,357
Net Position at the Beginning of the Year	<u>778,077</u>
Net Position at the End of the Year	<u><u>\$ 880,434</u></u>

See accompanying notes to financial statements.

**RAND COMMUNITIES WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 225,002
Cash Paid for Supplies to Suppliers	(134,274)
Cash Paid to Employees and Directors	<u>(109,546)</u>
Net Cash Provided (Used) by Operating Activities	<u>(18,818)</u>

CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES

Water, Lighting, and Fire Protection Assessments	45,215
State Grants Received	<u>122,912</u>
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	<u>168,127</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of Property and Equipment	<u>(125,163)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(125,163)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of Interest and Investment Income	<u>1,068</u>
Net Cash Provided (Used) by Investing Activities	<u>1,068</u>

Net Increase (Decrease) in Cash and Cash Equivalents	25,214
Cash and Cash Equivalents - Beginning of Year	<u>180,590</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 205,804</u></u>

COMPONENTS OF CASH AND CASH EQUIVALENTS

Cash and Investments - Unrestricted	\$ 205,804
Total Cash and Cash Equivalents	<u><u>\$ 205,804</u></u>

NON-CASH ACTIVITIES

Acquisition of Property and Equipment	\$ 1,109
Increase in Accounts Payable - State Grant Awards	<u><u>\$ (1,109)</u></u>

See accompanying notes to financial statements.

**RAND COMMUNITIES WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Income (Loss)	\$ (65,729)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Depreciation	34,701
Changes in Assets - (Increase)/Decrease:	
Accounts Receivable	7,416
Inventory	(228)
Changes in Deferred Outflows of Resources - (Increase)/Decrease:	
Prepaid Expenses	-
Changes in Liabilities - Increase/(Decrease):	
Customer Deposits	1,000
Accrued Wages and Compensated Absences	-
Payroll Taxes Payable	<u>4,022</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (18,818)</u></u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

**RAND COMMUNITIES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rand Communities Water District (the District) is located in Johannesburg, California. The District supplies water services to the local communities. The Rand Communities Water District is a special district organized under the California Public Utilities Code Sections 22001 et seq. The District operates under an elected Board of Directors-Manager form of government.

A. Description of the Reporting Entity

The District is a reporting entity which consists of the District as the oversight unit. Oversight responsibility is determined by such criteria as financial interdependency, selection of governing authority and designation of management, budget control and ability to significantly influence operations

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District accounts for its operation in an enterprise fund using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all the eligibility requirements imposed by the provider are met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that these standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The District has the option of following subsequent private-sector guidance for the business-type activities, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

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. Operating revenues are those revenues that are generated by water sales, while operating expenses pertain to the furnishing of those services. Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of water services. Non-operating revenues mainly consist of program grants, assessment revenues, investment income, and miscellaneous income.

The District recognizes assets of nonexchange transactions in the period when the underlying transaction occurs, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Revenues are recognized, on the modified accrual basis, when they are measurable and available. Nonexchange transactions occur when one government provides (or receives) value to (from) another party without receiving (or giving) equal or nearly equal value in return. Various sales taxes, property taxes, and most donations are examples of nonexchange transactions.

Under the terms of grant agreements, the District funds certain programs by specific grants, resources and/or general revenues. Thus when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply grant resources to such programs and then general revenues.

RAND COMMUNITIES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgets and Budgetary Accounting

By state law, the District's Governing Board must adopt a final budget no later than August 1. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements.

These budgets are revised by the District's Governing Board and District Manager during the year to give consideration to unanticipated income and expenditures. It is this final revised budget that is presented in the financial statements.

All budgets were adopted on a basis that materially conforms to generally accepted accounting principles (GAAP). The adopted budget did not recognize the current portion of unpaid employee vacation benefits when earned.

D. Deposits and Investments

All deposits of the District are made in board-designated official depositories and are secured as required by State Law. The District may designate as an official depository any bank or savings and loan association. Also, the District may establish time deposit accounts such money market accounts and certificates of deposits.

As required the District's investments are stated at fair value as determined by quoted market prices. The District's investments are pooled moneys in the local agency investment fund administered by Kern County. Income from pooled moneys is allocated to the District based on the District's respective share of total pooled cash and investments. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

E. Allowances for Uncollectible Accounts

Allowances for uncollectible accounts are maintained on all types of receivables that historically experience uncollectible amounts. Allowances are based on collection experience and management's evaluation of the current status of existing receivables. There is no allowance for uncollectible accounts at June 30, 2016, as management believes all accounts will be collected.

F. Inventories

Inventory is valued at cost, using the first-in first-out method. Inventory consists of materials and supplies and is recorded as expenditures when consumed.

G. Deferred Outflows of Resources

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as deferred outflows of resources.

RAND COMMUNITIES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets

Capital assets that are purchased or constructed are recorded at historical cost. Donated assets are recorded at estimated market value at the time of donation. The District defines capital assets as assets with an individual cost of more than \$5,000, and an estimated useful life of more than two years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation is computed using the straight-line method. Capital assets are depreciated on the following basis:

Pumping Plant and Transmission Lines	30 years
Buildings	30 years
Improvements	30 years
Equipment	5 years

I. Accrued Liabilities and Long-Term Debt Obligations

All payables, accrued liabilities and long-term obligations are reported in the financial statements. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources.

J. Compensated Absences

The vacation policy of the District provides for the accumulation of earned vacation leave with such leave being fully vested when earned. An expense and a liability for vacation pay, sick pay, and salary related payments are accrued as the leave is earned in the financial statements. The compensated absences liability is liquidated using funds to which the liability accrued as the accumulated leave is used. Accumulated unpaid vacation leave has been determined to be \$3,163 as of June 30, 2016.

K. Restricted Assets

The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

L. Net Position

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

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets.
- **Restricted Net Position** – This component of net position represent constraints on resources that are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – This component of net position consists of net position that does not meet the definition of *restricted* or *net investment in capital assets*.

**RAND COMMUNITIES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States require 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.

N. Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15, and March 15. Unsecured property taxes are payable in one installment on or before August 31. Property taxes are billed and collected for the District by Kern and San Bernardino Counties. The District does not receive any property tax revenues directly; however delinquent special assessments are turned over to the counties for collection with regular delinquent property tax assessments.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2016, are classified in the accompanying financial statements as follows:

Cash and Cash Equivalents	<u><u>\$ 205,804</u></u>
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Cash and cash equivalents as of June 30, 2016, consists of the following:

Cash on Hand	\$ 200
Cash in Bank	<u>205,604</u>
Total Cash and Cash Equivalents	<u><u>\$ 205,804</u></u>

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

The following table identifies the investment types that are authorized by the District in accordance with the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

RAND COMMUNITIES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS (Continued)

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio *	Minimum Quality Requirements
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations - CA And Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S Agency Obligations	5 years	None	None
Bankers' Acceptances	180 days	40%	None
Commercial Paper — Pooled Funds	270 days	40% of the agency's money	Highest letter and member rating by a NRSRO
Commercial Paper— Non-Pooled Funds	270 days	25% of the agency's money	Highest letter and member rating by a NRSRO
Negotiable Certificates of Deposit	5 years	30%	None
Non-negotiable Certificates of Deposit	5 years	None	None
Placement Service Deposits	5 years	30% (inclusive of placement service CDs)	None
Placement Service Certificates of Deposit	5 years	30% (combine with placement service deposits)	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	20% of the base value of the portfolio	None
Medium-Term Notes	5 years	30%	"A" Rating
Mutual Funds And Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	"AA" Rating
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None
Supranational Obligations	5 years	30%	"AA" Rating

**RAND COMMUNITIES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 – CASH AND INVESTMENTS (Continued)

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 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. 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.

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, 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. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the bank balances, up to \$250,000 is federally insured and remaining balances is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date.

Investments at June 30, 2016, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>
		<u>12 months or less</u>
Cash on Hand	\$ 200	\$ 200
Cash in Banks	205,604	205,604
Total	<u>\$ 205,804</u>	<u>\$ 205,804</u>

Credit Risk

Generally, 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. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

**RAND COMMUNITIES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Credit Risk (Continued)

Credit ratings at June 30, 2016, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt from Disclosure</u>	<u>Ratings AAA</u>
Cash on Hand	\$ 200	N/A	\$ 200	-
Cash in Banks	205,604	N/A	205,604	-
Total	<u>\$ 205,804</u>		<u>\$ 205,804</u>	

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2016, is shown below:

	<u>Balance July 01, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
Non-depreciable Assets:				
Land	\$ 8,029	\$ -	\$ -	\$ 8,029
Construction in Progress	323,537	123,304	-	446,841
Total Non-depreciable Assets	<u>331,566</u>	<u>123,304</u>	<u>-</u>	<u>454,870</u>
Depreciable Assets:				
General Plant	141,128	750	-	141,878
Intangible Assets	12,104	-	-	12,104
Park Equipment	2,695	-	-	2,695
Pumping Plant	122,584	-	-	122,584
Source of Supply-Wells and Buildings	1,785	-	-	1,785
Transmission and Distribution	918,312	-	-	918,312
Total Depreciable Assets	<u>1,198,608</u>	<u>750</u>	<u>-</u>	<u>1,199,358</u>
Accumulated Depreciation	<u>(969,681)</u>	<u>(34,701)</u>	<u>-</u>	<u>(1,004,382)</u>
Total Depreciable Assets, Net	<u>228,927</u>	<u>(33,951)</u>	<u>-</u>	<u>194,976</u>
Total Capital Assets, Net	<u>\$ 560,493</u>	<u>\$ 89,353</u>	<u>\$ -</u>	<u>\$ 649,846</u>

NOTE 4 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year ended June 30, 2016, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for any of the past three fiscal years.

**RAND COMMUNITIES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 – CONTINGENT LIABILITY

As of June 30, 2016, the District may be subject to a contingency liability from Kern County involving tax liabilities in litigation or tax appeal cases. At this time, it's not possible to predict the potential financial impact on the District.

SUPPLEMENTARY INFORMATION

RAND COMMUNITIES WATER DISTRICT
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	ORIGINAL AND FINAL 2015-16 BUDGET	2015-16 ACTUAL	OVER (UNDER) BUDGET	2016-17 BUDGET
OPERATING REVENUES				
WATER SALES				
Residential	\$ 230,000	\$ 216,323	\$ (13,677)	\$ 230,000
Miscellaneous	20,000	263	(19,737)	20,000
Total Operating Revenues	250,000	216,586	(33,414)	250,000
OPERATING EXPENSES				
Pumping Plant:				
Labor	40,950	43,831	2,881	49,574
Maintenance	22,800	7,429	(15,371)	9,600
Power	30,000	22,829	(7,171)	30,000
Water Treatment and Analysis	7,000	1,815	(5,185)	3,000
Sub-Total	100,750	75,904	(24,846)	92,174
Transmission and Distribution:				
Maintenance	15,200	4,952	(10,248)	6,400
Supervision and Labor	28,350	30,345	1,995	34,321
Sub-Total	43,550	35,297	(8,253)	40,721
General and Administrative:				
Director's Fees	-	1,180	1,180	-
Insurance	51,000	56,012	5,012	51,000
Maintenance - Equipment	1,200	1,298	98	2,500
Maintenance - Vehicles	8,500	4,007	(4,493)	9,500
Office Expenses	8,610	8,830	220	9,610
Other Expenses	7,296	6,216	(1,080)	7,296
Outside Services	11,900	16,114	4,214	14,500
Supervision and Labor	35,700	38,212	2,512	43,219
Utilities	5,500	4,544	(956)	5,500
Sub-Total	129,706	136,413	6,707	143,125
Depreciation	14,700	34,701	20,001	14,700
Total Operating Expenses	288,706	282,315	(6,391)	290,720
Operating Income (Loss)	(38,706)	(65,729)	(27,023)	(40,720)

See independent auditors' report.

RAND COMMUNITIES WATER DISTRICT
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	ORIGINAL AND FINAL 2015-16 BUDGET	2015-16 ACTUAL	OVER (UNDER) BUDGET	2016-17 BUDGET
NON-OPERATING REVENUES				
Interest Income	-	1,068	1,068	-
Assessment Revenue	40,000	45,215	5,215	40,000
Grant Revenue	-	121,803	121,803	-
Total Non-Operating Revenues	40,000	168,086	128,086	40,000
Total Non-Operating Expenses	-	-	-	-
Non-Operating Income(Loss)	40,000	168,086	128,086	40,000
Net Increase (Decrease) in Net Position	\$ 1,294	\$ 102,357	\$ 101,063	\$ (720)

See independent auditors' report.

OTHER INDEPENDENT AUDITORS' REPORT



BURKEY COX EVANS & BRADFORD

ACCOUNTANCY CORPORATION

1058 WEST AVENUE M-14, SUITE B
PALMDALE, CALIFORNIA 93551

TEL: (661) 267-2005
FAX: (661) 267-2471

425 WEST DRUMMOND AVENUE, SUITE A
RIDGECREST, CALIFORNIA 93555-3120

TEL: (760) 375-1508
FAX: (760) 375-8865

5122 AVENIDA ENCINAS, SUITE 120
CARLSBAD, CALIFORNIA 92008-4342

TEL: (760) 431-1755
FAX: (760) 431-1760

SCOTT EVANS, CPA, CFP
LAURA A. BRADFORD, CPA
HAROLD W. MANNING, CPA

WILLIAM C. GILCHRIST, CPA
DAN T. STANFIELD, CPA
LESUE C. NEWQUIST, CPA

JANETTE HENRIQUEZ, CPA
KYLE LINDAMAN, CPA
KENNETH S. EVANS, CPA
JENNIFER M. EVANS, CPA
CHARISSA CROUCH, CPA

INDEPENDENT AUDITORS' 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*

Board of Directors
Rand Communities Water District
Johannesburg, 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 business-type activities of Rand Communities Water District (the District), as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 12, 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 District'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*.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Burkey & Cox CPAs

BURKEY COX EVANS & BRADFORD
Accountancy Corporation

Palmdale, California
August 12, 2016