

RAND COMMUNITIES WATER DISTRICT

**COUNTY OF KERN
JOHANNESBURG, CALIFORNIA**

**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2017**

**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, 2017**

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>
Dana Arbeit	President
John Kittell	Director
Randy Lee Halgunseth	Director
Randy Brown	Director
Will Liebscher	Director

GENERAL MANAGER

Mike Powell

RAND COMMUNITIES WATER DISTRICT
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JUNE 30, 2017

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FINANCIAL INFORMATION



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STACY REN, 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, 2017, 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. 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, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management 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 18 through 19 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 December 11, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Rand Communities Water District's internal control over financial reporting and compliance.

Burkey & Cox CPAs

BURKEY COX EVANS & BRADFORD
Accountancy Corporation

Palmdale, California
December 11, 2017

MANAGEMENT DISCUSSION AND ANALYSIS

**RAND COMMUNITIES WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2017**

The following Management 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, 2017. 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 \$970,703 on June 30, 2017.
- The District's total liabilities were valued at \$20,329 on June 30, 2017.
- The District's total net position was valued at \$950,374 on June 30, 2017.
- Total net position continued to increase with a 7.9% increase from prior fiscal year.
- Operating revenues for the year were \$271,120, which is \$54,534 more than revenue collected in the prior fiscal year.
- Operating expenses, including depreciation, totaled \$297,810. Operating expenses were \$15,495 more than the prior fiscal year.
- Total revenues for the fiscal year ended June 30, 2017, were \$69,940 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), 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 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.

**RAND COMMUNITIES WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2017**

These two statements report the District's net position and changes in them. The District's net position – assets less liabilities– is 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 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 17.

Statement of Net Position

Condensed Statements of Net Position

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Change</u>
Assets:			
Current Assets	\$ 299,921	\$ 269,850	\$ 30,071
Capital Assets	670,782	649,846	20,936
Total Assets	<u>\$ 970,703</u>	<u>\$ 919,696</u>	<u>\$ 51,007</u>
Liabilities:			
Current Liabilities	\$ 20,329	\$ 39,262	\$ (18,933)
Total Liabilities	<u>20,329</u>	<u>39,262</u>	<u>(18,933)</u>
Net Position:			
Net Investment in Capital Assets	670,782	630,035	40,747
Unrestricted	279,592	250,399	29,193
Total Net Position	<u>950,374</u>	<u>880,434</u>	<u>69,940</u>
Total Liabilities and Net Position	<u>\$ 970,703</u>	<u>\$ 919,696</u>	<u>\$ 51,007</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 \$950,374 and \$880,434 as of June 30, 2017 and 2016, respectively.

The majority of the District's net position, 71% as of June 30, 2017 and 72% as of June 30, 2016, 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 years 2017 and 2016, the District showed a positive balance in its unrestricted net position of \$279,592 and 250,399, respectively, which may be utilized in future years.

**RAND COMMUNITIES WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2017**

Statement of Revenues, Expenses, and Changes in Net Position

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

	June 30, 2017	June 30, 2016	Change
Revenues:			
Operating Revenues	\$ 271,120	\$ 216,586	\$ 54,534
Non-Operating Revenues	96,630	168,086	(71,456)
Total Revenues	<u>367,750</u>	<u>384,672</u>	<u>(16,922)</u>
Expenses:			
Operating Expenses	268,222	247,614	20,608
Depreciation	29,588	34,701	(5,113)
Total Expenses	<u>297,810</u>	<u>282,315</u>	<u>15,495</u>
Net Position:			
Change in Net Position	69,940	102,357	(32,417)
Net Position - Beginning of Year	880,434	778,077	102,357
Net Position - End of Year	<u>\$ 950,374</u>	<u>880,434</u>	<u>\$ 69,940</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 \$69,940 and \$102,357 for the years ended June 30, 2017 and 2016, respectively.

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

The District's fiscal year 2017 non-operating revenues decreased \$71,456, while the non-operating expenses remained \$0. The decrease in non-operating revenues is primarily related to a decrease of \$71,279 in state grant revenues.

BUDGETARY HIGHLIGHTS

Total operating revenues were \$21,120 more than budget projections. Of this amount \$32,567 is related to residential water sales. This is offset by an under budget amount of \$11,447 for miscellaneous operating revenues. Total non-operating revenues were \$56,630 more than budget projections. Of this amount \$50,524 is related to grant revenue, \$193 is related to interest income, \$5,403 is related to assessment revenue and \$510 is related to sale of fixed assets.

Total operating expenses were \$7,090 more than budget projections. Of this amount, \$14,888 relates to depreciation and \$8,746 relates to general and administrative. This is offset by under budget amounts of \$13,469 for pumping plant and \$3,075 for transmission and distribution.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - For the year ended June 30, 2017, the District invested \$50,524 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, 2017.

**RAND COMMUNITIES WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
AS OF JUNE 30, 2017**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In fiscal year 2018, revenues are projected to decrease by 23.9%; while expenses are projected to increase by 2.9%. These results are due to an expected decrease in revenues of \$87,750 and an increase in expenses of \$8,574.

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, 2017

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	263,836
Accounts Receivable, Net of Allowance for Doubtful Accounts		19,857
Inventory		13,197
Prepaid Expenses		3,031
Total Current Assets		<u>299,921</u>

PROPERTY, PLANT, AND EQUIPMENT

Capital Assets, Net of Accumulated Depreciation		670,782
Total Assets	\$	<u><u>970,703</u></u>

LIABILITIES AND NET POSITION

LIABILITIES

Accounts Payable	\$	129
Customer Deposits		13,732
Accrued Wages and Compensated Absences		3,163
Payroll Taxes Payable		3,305
Total Liabilities		<u>20,329</u>

NET POSITION

Net Investment in Capital Assets		670,782
Unrestricted		279,592
Total Net Position	\$	<u><u>950,374</u></u>

The accompanying notes are an integral part of these financial statements.

RAND COMMUNITIES WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

OPERATING REVENUES

Residential Water Sales	\$ 262,567
Miscellaneous Water Sales	8,553
Total Operating Revenues	<u>271,120</u>

OPERATING EXPENSES

Pumping Plant	78,705
Transmission and Distribution	37,646
Administrative and General	151,871
Depreciation	29,588
Total Operating Expenses	<u>297,810</u>
Operating Income (Loss)	<u>(26,690)</u>

NON-OPERATING REVENUES (EXPENSES)

Interest Income	193
Property Taxes	45,403
Grant Revenue - Acquisition of Capital Assets	50,524
Sales of Fixed Asset	510
Total Non-Operating Revenues (Expenses)	<u>96,630</u>
Net Increase (Decrease) in Net Position	69,940
Net Position at the Beginning of the Year	<u>880,434</u>
Net Position at the End of the Year	<u>\$ 950,374</u>

The accompanying notes are an integral part of these financial statements.

**RAND COMMUNITIES WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 277,902
Cash Paid for Supplies to Suppliers	(133,993)
Cash Paid to Employees and Directors	(131,983)
Net Cash Provided (Used) by Operating Activities	<u>11,926</u>

CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES

Water, Lighting, and Fire Protection Assessments	45,403
State Grants Received	50,524
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	<u>95,927</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of Property and Equipment	(50,524)
Receipt from Sale of Fixed Assets	510
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(50,014)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of Interest and Investment Income	193
Net Cash Provided (Used) by Investing Activities	<u>193</u>

Net Increase (Decrease) in Cash and Cash Equivalents	58,032
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Cash and Cash Equivalents - Beginning of Year	205,804
Cash and Cash Equivalents - End of Year	<u>\$ 263,836</u>

COMPONENTS OF CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents	\$ 263,836
Total Cash and Cash Equivalents	<u>\$ 263,836</u>

The accompanying notes are an integral part of these financial statements.

RAND COMMUNITIES WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

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

Operating Income (Loss)	\$ (26,690)
Adjustments to Reconcile Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities:	
Depreciation	29,588
Changes in Assets - (Increase)/Decrease:	
Accounts Receivable, Net of Allowance for Doubtful Accounts	5,344
Grant Receivable	19,811
Inventory	2,806
Changes in Liabilities - Increase/(Decrease):	
Accounts Payable	129
Customer Deposits	1,438
Grant Payable	(19,811)
Payroll Taxes Payable	(689)
Net Cash Provided (Used) by Operating Activities	<u>\$ 11,926</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

RAND COMMUNITIES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

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 Water Code Sections 30000 et seq. The District operates under an elected Board of Directors-Manager form of government.

The District accounts for its financial transactions in accordance with the policies and procedures of the State of California – Uniform System of Account for Special Districts. The accounting policies of the District conform to generally accepted accounting principles (GAAP) as prescribed by the Government Accounting Standards Board and the American Institute of Certified Public Accountants.

B. 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

C. 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.

RAND COMMUNITIES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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.

D. 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. The original and final budget are presented in the financial statements.

All budgets were adopted on a basis that materially conforms to generally accepted accounting principles (GAAP).

E. 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 as money market accounts and certificates of deposits.

F. Allowances for Uncollectible Accounts

For reporting purposes an allowance for doubtful accounts has been established. This account is maintained to estimate the losses that result from the failure or inability of customers to make required payments.

G. Inventories

Inventory is valued at the lower of cost or net realizable value. Inventory consists of materials and supplies and is recorded as expenditures when consumed.

H. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

I. 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.

RAND COMMUNITIES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

I. Capital Assets (Continued)

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

J. Customer Deposits

Certain payments received from customers reflect applicable amounts for which an obligation exists to perform a service(s) or to return the funds are recorded as customer deposits. As of June 30, 2017 Customer Deposits totals \$13,732.

K. 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.

L. 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, 2017.

M. 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 represents 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*.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first.

RAND COMMUNITIES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

N. 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.

O. 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.

P. Income Taxes

The District is a state agency and therefore, is exempt from paying taxes on its income.

Q. Recent Government Accounting Standards Board Pronouncements

In March 2017 the GASB issued Statement No. 85, "Omnibus 2017". The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The Agency is evaluating the impact of this standard on the financial statements.

In May 2017 the GASB issued Statement No. 86, "Certain Debt Extinguishment Issues". The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The Agency is evaluating whether or not this standard will have an impact on the financial statements.

In June 2017 the GASB issued Statement No 87, "Leases". The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Agency is evaluating the impact of this standard on the financial statement.

RAND COMMUNITIES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and investments at June 30, 2017, are classified in the accompanying financial statements as follows:

Cash and Cash Equivalents	\$ 263,836
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Cash and cash equivalents as of June 30, 2017, consists of the following:

Cash on Hand	\$ 200
Cash in Bank	263,636
Total Cash and Cash Equivalents	\$ 263,836

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, 2017, consisted of the following:

Investment Type	Amount	<u>Remaining Maturity (in Months)</u>
		12 months or less
Cash on Hand	\$ 200	\$ 200
Cash in Banks	263,636	263,636
Total	\$ 263,836	\$ 263,836

RAND COMMUNITIES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

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.

<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	263,636	N/A	263,636	-
Total	<u>\$ 263,836</u>		<u>\$ 263,836</u>	

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable consist of the follow as of June 30, 2017:

Accounts Receivable	\$ 37,857
Less: Allowance for Doubtful Accounts	<u>(18,000)</u>
Total Accounts Receivable, Net of Allowance for Doubtful Accounts	<u>\$ 19,857</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, is shown below:

	<u>Balance July 01, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
Non-depreciable Assets:				
Land	\$ 8,029	\$ -	\$ -	\$ 8,029
Construction in Progress	446,841	50,524	-	497,365
Total Non-depreciable Assets	<u>454,870</u>	<u>50,524</u>	<u>-</u>	<u>505,394</u>
Depreciable Assets:				
General Plant	141,878		(13,457)	128,421
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>1,199,358</u>	<u>-</u>	<u>(13,457)</u>	<u>1,185,901</u>
Accumulated Depreciation	<u>(1,004,382)</u>	<u>(29,588)</u>	<u>13,457</u>	<u>(1,020,513)</u>
Total Depreciable Assets, Net	<u>194,976</u>	<u>(29,588)</u>	<u>-</u>	<u>165,388</u>
Total Capital Assets, Net	<u>\$ 649,846</u>	<u>\$ 20,936</u>	<u>\$ -</u>	<u>\$ 670,782</u>

RAND COMMUNITIES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following are the excess of expenditures over appropriations as of June 30, 2017:

Labor, Pumping Plant	\$ 882
Supervision and Labor, Transmission and Distribution	610
Director's Fees	1,920
Maintenance - Equipment	1,783
Office Expenses	21,115
Supervision and Labor, General and Administrative	768
Utilities	710
Depreciation	14,888

NOTE 6 – CONTINGENT LIABILITY

As of June 30, 2017, 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.

NOTE 7 – 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, 2017, 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.

NOTE 8 – COMPLIANCE AND ACCOUNTABILITY

A. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported.	Not applicable.

B. Deficit Fund Balance of Fund Net Position of Individual Funds

The following are funds having deficit fund balances or fund net assets at year-end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported.	Not applicable.	Not applicable.

SUPPLEMENTARY INFORMATION

RAND COMMUNITIES WATER DISTRICT
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

	ORIGINAL 2016-17 BUDGET	FINAL 2016-17 BUDGET	2016-17 ACTUAL	OVER (UNDER) BUDGET
OPERATING REVENUES				
WATER SALES				
Residential	\$ 230,000	\$ 230,000	\$ 262,567	\$ 32,567
Miscellaneous	20,000	20,000	8,553	(11,447)
Total Operating Revenues	250,000	250,000	271,120	21,120
OPERATING EXPENSES				
Pumping Plant:				
Labor	49,574	49,574	50,456	882
Maintenance	9,600	9,600	4,072	(5,528)
Power	30,000	30,000	22,772	(7,228)
Water Treatment and Analysis	3,000	3,000	1,405	(1,595)
Sub-Total	92,174	92,174	78,705	(13,469)
Transmission and Distribution:				
Maintenance	6,400	6,400	2,715	(3,685)
Supervision and Labor	34,321	34,321	34,931	610
Sub-Total	40,721	40,721	37,646	(3,075)
General and Administrative:				
Director's Fees	-	-	1,920	1,920
Insurance	51,000	51,000	45,427	(5,573)
Maintenance - Equipment	2,500	2,500	4,283	1,783
Maintenance - Vehicles	9,500	9,500	2,177	(7,323)
Office Expenses	9,610	9,610	30,725	21,115
Other Expenses	7,296	7,296	5,783	(1,513)
Outside Services	14,500	14,500	11,359	(3,141)
Supervision and Labor	43,219	43,219	43,987	768
Utilities	5,500	5,500	6,210	710
Sub-Total	143,125	143,125	151,871	8,746
Depreciation	14,700	14,700	29,588	14,888
Total Operating Expenses	290,720	290,720	297,810	7,090
Operating Income (Loss)	(40,720)	(40,720)	(26,690)	14,030

See independent auditors' report.

RAND COMMUNITIES WATER DISTRICT
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017

	ORIGINAL 2016-17 BUDGET	FINAL 2016-17 BUDGET	2016-17 ACTUAL	OVER (UNDER) BUDGET
NON-OPERATING REVENUES				
Interest Income	-	-	193	193
Assessment Revenue	40,000	40,000	45,403	5,403
Grant Revenue	-	-	50,524	50,524
Sales of Fixed Assets	-	-	510	510
	<u>40,000</u>	<u>40,000</u>	<u>96,630</u>	<u>56,630</u>
Total Non-Operating Revenues	40,000	40,000	96,630	56,630
Total Non-Operating Expenses	-	-	-	-
	<u>40,000</u>	<u>40,000</u>	<u>96,630</u>	<u>56,630</u>
Non-Operating Income(Loss)	40,000	40,000	96,630	56,630
Net Increase (Decrease) in Net Position	<u>(720)</u>	<u>\$ (720)</u>	<u>\$ 69,940</u>	<u>\$ 70,660</u>

See independent auditors' report.

OTHER INDEPENDENT AUDITORS' REPORT



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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, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 11, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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
December 11, 2017