

QUARTZ HILL WATER DISTRICT

**COUNTY OF LOS ANGELES
QUARTZ HILL, CALIFORNIA**

FINANCIAL STATEMENTS

June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Quartz Hill Water District
Quartz Hill, California

We have audited the accompanying financial statements of the business-type activities of the Quartz Hill Water District as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Quartz Hill Water District as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity 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's discussion and analysis, budgetary comparison information, and other financial schedules on pages 6 through 11 and page 43 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the District's basic financial statements. The schedule listing the Board of Trustees presented on page 42 is presented for purposes of additional analysis and is not a required part of the financial statements. The required supplementary information section has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated Issuance February 1, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Cobb, Doerfler & Associates, CPA

COBB, DOERFLER & ASSOCIATES, CPA

February 1, 2017

MANAGEMENT DISCUSSION AND ANALYSIS

**Quartz Hill Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015**

As management of the Quartz Hill Water District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended June 30, 2016 and 2015. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

FINANCIAL HIGHLIGHTS

- In 2016, the District's net assets decreased by \$165,724 or by 0.61% to \$27,088,713. In 2015, the District's net assets decreased by \$986,553 or by 3.49% to \$27,254,437.
- In 2016, the District's operating revenues exceeded its operating expenses, before depreciation, by \$196,888, an increase from the prior fiscal year of \$605,279 or 148.21%. This increase was primarily due operating revenues remaining constant in the current period while expenses declined due to lower water purchase and water conservation expenses. In 2015, the District's operating expenses exceeded its operating revenues, before depreciation, by \$408,391, a decrease from the prior fiscal year of \$1,091,477 or 159.79%. This decrease was primarily due to a decrease in operating revenues caused by decreased water usage related to drought conditions of \$241,318. This was further compounded by increases in drought related water conservation program expenditures of \$751,534.
- The District's 2016 net income from non-operating revenues (expenses) was \$494,866, an increase from the prior fiscal year of \$391,376 or 378.18%. This increase was due primarily to an increase in investment performance of \$139,949 and a gain on the disposal of fixed assets of \$234,571. The District's 2015 net income from non-operating revenues (expenses) was \$103,490, an increase from the prior fiscal year of \$87,155 or 533.54%. This increase was due to overall increases property tax revenues, investment performance, increased grant revenues, and reduced losses on the disposal of fixed assets.
- In 2016, the District's total expenses decreased by \$480,521, due primarily to a \$444,206 decrease in operating expenses (including depreciation). In 2015, the District's total expenses increased by \$700,797 due primarily to increased water conservation costs of \$751,534 and increased depreciation expenses of \$84,286, partially offset by lower water purchasing and other costs.
- At June 30, 2016 and 2015, \$27,088,713 and \$27,254,437, respectively, of unrestricted net assets were available for use for general fund expenditures.
- In 2016, the District's total debt decreased by \$145,000, due to the ongoing retirement of the District's 2011 COPs. In 2015, the District's total debt decreased by \$140,000, due to the ongoing retirement of the District's 2011 COPs.

FINANCIAL STATEMENTS

The Financial Statements presented in this report are intended to provide readers with a broad overview of the District's finances and consist of the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows, along with related notes and other information. These statements include all assets and liabilities of the District using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. Under the *accrual basis of accounting*, all of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid. Since the District's primary function is to provide water to its customers and recover appropriate costs through user fees and charges, the financial statements only include business type activities.

**Quartz Hill Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015**

FINANCIAL STATEMENTS—continued

The Statement of Net Position presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference between the two reported as net position or net deficit. You can think of the District's net position – the difference between assets, liabilities, and deferred inflows/outflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. 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.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e., uncollected water sales and amounts due vendors). This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, noncapital financing capital and related financing activities, and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

The accounts of the District are organized based on fund accounting. A fund is a group of related accounts used to maintain control over resources that have been segregated for specific objectives. Because the District provides these services and recovers these costs through user fees and charges, District funds are accounted for as an enterprise fund type of the proprietary fund group.

The financial statements are presented on pages 13 through 17.

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 19 through 40 of this report.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain supplementary information regarding District's governing board and certain required supplementary information concerning the District's budgetary information and the District's progress in funding its obligation to provide pension and OPEB benefits to its employees. Other supplementary information can be found on page 42. Required supplementary information can be found on page 43 through 47.

FINANCIAL ANALYSIS

Overall Analysis

The decrease in net position of \$165,724 that occurred during the year ended June 30, 2016, was primarily due to increased depreciation and management and general expenses partially offset by improved investment performance, a gain on the sale of the old operations center and lower overall water delivery costs due to lower water sales in the current period.

**Quartz Hill Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015**

FINANCIAL ANALYSIS—continued

Overall Analysis—continued

The District's net position decreased by \$986,553 during the year ended June 30, 2015. The decrease in net position during the year ended June 30, 2015 was primarily due to reduced water revenue and increases in water conservation costs, due mandatory water usage reduction targets caused by drought conditions, partially offset by decreased water purchasing pumping, transmission and other costs.

Statement of Net Position

	<u>2016</u>	<u>2015</u>	<u>Difference</u>
ASSETS			
Current assets	\$ 12,765,099	\$ 13,136,318	\$ (371,219)
Non-current assets	1,433,427	1,435,858	(2,431)
Capital assets, net	22,481,825	23,016,988	(535,163)
Deferred outflows of resources	<u>768,972</u>	<u>103,549</u>	<u>665,423</u>
Total Assets	<u>37,449,323</u>	<u>37,692,713</u>	<u>(243,390)</u>
LIABILITIES			
Current liabilities	857,435	867,436	(10,001)
Non-current liabilities	9,379,570	9,331,775	47,795
Deferred inflows of resources	<u>123,605</u>	<u>239,065</u>	<u>(115,460)</u>
Total Liabilities	<u>10,360,610</u>	<u>10,438,276</u>	<u>(77,666)</u>
NET POSITION			
Investment in capital asset-net of related debt	14,726,825	15,116,988	(390,163)
Unrestricted	<u>12,361,888</u>	<u>12,137,449</u>	<u>224,439</u>
Total Net Position	<u>\$ 27,088,713</u>	<u>\$ 27,254,437</u>	<u>\$ (165,724)</u>

As noted earlier, net position may serve over time as a useful indicator of changes in a government's financial position. In the case of the Quartz Hill Water District, assets exceeded liabilities by \$27,088,713 and \$27,254,437 as of June 30, 2016 and 2015, respectively.

A significant portion of the District's net position, 54% and 55% as of June 30, 2016 and 2015, respectively, reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets which is outstanding. The District uses these assets to provide water services to its customers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net position of \$12,361,888 and \$12,137,499 as of June 30, 2016 and 2015, respectively, may be used to meet these debt service requirements and to provide ongoing services to its customers.

In 2016, there was a decrease in net position invested in capital assets of \$390,163 as the construction activity in the current period was insufficient to offset increases in accumulated depreciation. In 2015, the increase in net assets invested in capital assets of \$3,178,721 was due to significant solar plant development costs of \$377,230, construction costs related to the completion of the operations center totaling \$3,381,708, and water tank development costs, partially offset by depreciation expense for the period.

**Quartz Hill Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015**

FINANCIAL ANALYSIS—continued

Statement of Net Assets—continued

During the year ended June 30, 2016, the District's net position decreased by \$165,724. The decrease was primarily due to increases in accumulated depreciation partially offset by increases in deferred inflows of \$665,423 and declines in deferred inflows of \$115,460 related to the District's funding of its pension liabilities (which also resulted in a related decrease in current assets which were used to fund those liabilities) and due to improved investment performance of the assets in the pension plan. The District's net position decreased by \$986,553 during the year ended June 30, 2015. However, as previously mentioned this decline primarily related to reduced operating revenues and increased water conservation costs related to drought conditions.

Statement of Revenues, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>Difference</u>
REVENUES:			
Operating revenues	\$ 4,334,437	\$ 4,347,705	\$ (13,268)
Non-operating revenues	<u>913,082</u>	<u>558,021</u>	<u>355,061</u>
Total revenues	5,247,519	4,905,726	341,793
EXPENSES:			
Operating expenses	4,137,549	4,756,096	(618,547)
Depreciation expense	858,083	683,742	174,341
Non-operating expenses	<u>418,216</u>	<u>454,531</u>	<u>(36,315)</u>
Total expenses	<u>5,413,848</u>	<u>5,894,369</u>	<u>(480,521)</u>
Net income (loss) before capital contributions	(166,329)	(988,643)	822,314
CAPITAL CONTRIBUTIONS	<u>605</u>	<u>2,090</u>	<u>(1,485)</u>
Change in net position	(165,724)	(986,553)	820,829
Net position, beginning of year	<u>27,254,437</u>	<u>28,240,990</u>	<u>(986,553)</u>
Net position, end of year	<u>\$ 27,088,713</u>	<u>\$ 27,254,437</u>	<u>\$ (165,724)</u>

The activities of the District (decreased) increased the District's net assets by (\$165,724) and by (\$986,821) during the years ended June 30, 2016 and 2015, respectively. Key elements in these changes are as follows:

- Operating revenues (decreased) increased by (\$13,268) and by (\$298,391) or by (0.31%) and by (6.42%) in 2016 and 2015, respectively. Revenues decreased in 2016 due to lower consumption partially offset by higher service charges and, in 2015, due to lower water services fees and consumption.
- Operating expenses during 2016 decreased by 13.01% over the prior year primarily due to reduced water purchases and water conservation expenditures. Operating expenses before depreciation increased in 2015 primarily due to increased water conservation expenditures, partially offset by lower water purchases and other costs.
- During the year ended June 30, 2016, investment earnings increased by 141.99% due to increased capital gains on investments held in the current period. Investment earnings during the year ended June 30, 2015 increased by 21.60% due to ongoing increases in interest rates which resulted in a higher effective yield on those investments.

**Quartz Hill Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015**

FINANCIAL ANALYSIS—continued

Statement of Revenues, Expenses and Changes in Net Position—continued

- In 2016, net income from non-operating revenues and expenses increased by 478.18%, due to gains on the disposal of fixed assets and improved investment performance. In 2015, net income from non-operating revenues and expenses increased by 533.54%, partially due to a reduction asset disposal costs of \$12,823, increased investment earnings of \$17,512, and increased property tax revenues of \$30,198.

CAPITAL ASSET ADMINISTRATION

Changes in capital assets in 2016 were as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital Assets				
Non-depreciable assets	\$ 691,746	\$ -0-	\$ -0-	\$ 691,746
Depreciable assets	31,998,571	470,099	(547,866)	31,920,804
Accumulated depreciation	(9,673,329)	(858,082)	400,686	(10,130,725)
Total Capital Assets	<u>\$ 23,016,988</u>	<u>\$ (387,983)</u>	<u>\$ (147,180)</u>	<u>\$ 22,481,825</u>

Changes in capital assets in 2015 were as follows:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Capital Assets				
Non-depreciable assets	\$ 3,394,773	\$ -0-	\$ (2,703,027)	\$ 691,746
Depreciable assets	25,655,476	6,454,885	(111,790)	31,998,571
Accumulated depreciation	(9,071,982)	(683,742)	82,395	(9,673,329)
Total Capital Assets	<u>\$ 19,978,267</u>	<u>\$ 5,771,143</u>	<u>\$ (2,732,422)</u>	<u>\$ 23,016,988</u>

At the end of fiscal years 2016 and 2015, the District's investment in capital assets amounted to \$22,481,825 and \$23,016,988 (net of accumulated depreciation), respectively. The investment in capital assets included land, easements, transmission and distribution systems, wells, tanks, pumps, buildings and structures, equipment, vehicles and construction-in-process, etc. Major depreciable capital asset additions during 2016 included the installation of new meters, building improvements, software upgrades and other improvements. Major fixed asset deletions during 2016 the sale of the former operations center and the disposal of old meters. Major depreciable capital asset additions during 2015 included additions to solar systems, the completion of the operations center, and water storage tanks. Major deletions during 2015 included certain furniture and fixtures, meters, and certain software. For further detailed information, see Note E.

**Quartz Hill Water District
Management Discussion and Analysis
For the Fiscal Years Ended June 30, 2016 and 2015**

DEBT ADMINISTRATION

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

	<u>Balance July 1, 2015</u>	<u>Additions/ Deletions</u>	<u>Principal Payments</u>	<u>Balance June 30, 2016</u>
Long-term debt:				
2011 COPs	\$ 7,900,000	\$ -0-	\$ (145,000)	\$ 7,755,000
Total Long-term Debt	<u>\$ 7,900,000</u>	<u>\$ -0-</u>	<u>\$ (145,000)</u>	<u>\$ 7,755,000</u>

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

	<u>Balance July 1, 2014</u>	<u>Additions/ Deletions</u>	<u>Principal Payments</u>	<u>Balance June 30, 2015</u>
Long-term debt:				
2011 COPs	\$ 8,040,000	\$ -0-	\$ (140,000)	\$ 7,900,000
Total Long-term Debt	<u>\$ 8,040,000</u>	<u>\$ -0-</u>	<u>\$ (140,000)</u>	<u>\$ 7,900,000</u>

In 2016 and 2015, long-term debt decreased by \$145,000 and \$140,000, respectively due to regular principal payments and amortization on the District's outstanding debts.

BUDGET ANALYSIS

For the year ended June 30, 2016, the variances between the actual budgeted amounts and the actual budget results were significant for several budget line items. Reported revenues were lower than originally budgeted due to decreases in water consumption sales, caused by drought conditions, and changes assessing water conservation fees.

The District's total operating expenses were higher than budgeted due to higher than budgeted, conservation expenses, transmission and distribution costs, and administrative costs. Net non-operating revenues after expenses were higher than expected due to higher than expected investment income, property tax revenue, and a gain on the sale of the old operations center. The budgetary comparison schedule can be found on page 43 of this report.

FACTORS AFFECTING CURRENT FINANCIAL CONDITION

The District is finishing several large Capital Improvement Projects that have spanned several years. The District recently finished the two million gallon tank at Calprop and will finish the Operations Center during fiscal year 2015. The District is also investigating options for Well 6A where we have historically exceeded the MCL (maximum contaminant level) for the molecule of arsenic. At this time the District is examining the option of point of use treatment at the well head.

The District's water wholesaler Antelope Valley East Kern has changed their rate structure from one rate for summer and one rate for winter to one annual rate. This change will result in an increase wholesale water cost by 20% during our winter and no difference in the charge during the summer starting January 1, 2015. For this reason, the District will be forced to change our rate structure in a similar manner with only one rate for the year and similar increase January 1, 2015. It is also anticipated that the District will also increase the fixed meter cost for all meter sizes by 2% this would result in the ¾" meter flat rate going from \$22.63 to \$23.13 and the 1" will go from \$32.57 to \$33.29.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

These financial statements are designed to provide a general overview of the Quartz Hill Water District finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Quartz Hill Water District, General Manager, 5034 West Avenue L, Quartz Hill, CA 93536.

FINANCIAL STATEMENTS

**QUARTZ HILL WATER DISTRICT
STATEMENTS OF NET POSITION
June 30, 2016 and 2015 (Restated)**

ASSETS	2016	2015 (Restated)
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,516,467	\$ 5,079,328
Investments	8,164,022	7,129,912
Accounts receivable	663,310	442,635
Interest receivable	137	604
Taxes receivable	3,588	20,249
SCE rebates receivable	253,746	311,862
Note receivable	2,491	2,400
Inventory	97,972	117,217
Prepaid expenses	<u>63,366</u>	<u>32,111</u>
Total Current Assets	<u>12,765,099</u>	<u>13,136,318</u>
NON-CURRENT ASSETS		
Restricted - investments	567,025	566,965
Note receivable	105,602	108,093
Banked water inventory	760,800	760,800
Capital assets - not being depreciated	691,746	691,746
Capital assets, net - being depreciated	<u>21,790,079</u>	<u>22,325,242</u>
Total Non-current Assets	<u>23,915,252</u>	<u>24,452,846</u>
Total Assets	<u>36,680,351</u>	<u>37,589,164</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension plan - Difference between expected and actual experiences	7,337	-0-
Pension plan - Contributions after measurement date	<u>761,635</u>	<u>103,549</u>
Total Deferred Outflows of Resources	<u>768,972</u>	<u>103,549</u>

**QUARTZ HILL WATER DISTRICT
STATEMENTS OF NET POSITION - continued
June 30, 2016 and 2015 (Restated)**

	2016	2015
LIABILITIES		
(Restated)		
CURRENT LIABILITIES		
Certificates of Participation	\$ 150,000	\$ 145,000
Accounts payable	163,696	175,602
Customer deposits	315,461	309,208
Compensated absences	91,862	100,316
Accrued expenses	<u>136,416</u>	<u>137,310</u>
Total Current Liabilities	<u>857,435</u>	<u>867,436</u>
LONG-TERM LIABILITIES		
Certificates of Participation	7,605,000	7,755,000
Other post employment benefits	1,109,672	929,276
Net Pension Liability	<u>664,898</u>	<u>647,499</u>
Total Long-Term Liabilities	<u>9,379,570</u>	<u>9,331,775</u>
Total Liabilities	<u>10,237,005</u>	<u>10,199,211</u>
DEFERRED INFLOWS OF RESOURCES		
Pension deferral - Change in proportion	9,555	17,485
Pension deferral - Difference between projected and actual earnings	34,797	221,580
Pension deferral - Changes of assumptions	69,412	-0-
Pension deferral - Difference between actual vs. projected contributions	<u>9,841</u>	<u>-0-</u>
Total Deferred Inflows of Resources	<u>123,605</u>	<u>239,065</u>
NET POSITION		
Investment in capital assets - net of related debt	14,726,825	15,116,988
Unrestricted	<u>12,361,888</u>	<u>12,137,449</u>
Total Net Position	<u>\$ 27,088,713</u>	<u>\$ 27,254,437</u>

QUARTZ HILL WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2016 and 2015 (Restated)

	2016	2015 (Restated)
OPERATING REVENUES		
Water consumption sales	\$ 2,377,940	\$ 2,555,447
Monthly water service charges	1,834,471	1,661,689
Other service charges	<u>122,026</u>	<u>130,569</u>
Total Operating Revenues	<u>4,334,437</u>	<u>4,347,705</u>
OPERATING EXPENSES		
Water purchases	1,043,342	1,408,184
Pumping plant	416,022	455,868
Transmission and distribution	710,504	767,944
Customer accounts	407,528	459,397
Water conservation	501,843	767,770
Administrative and general	1,058,310	896,933
Depreciation	<u>858,083</u>	<u>683,742</u>
Total Operating Expenses	<u>4,995,632</u>	<u>5,439,838</u>
Operating Income (Loss)	<u>(661,195)</u>	<u>(1,092,133)</u>
NON-OPERATING REVENUES (EXPENSES)		
Property taxes	362,817	358,208
Investment income	105,958	97,931
Investment gain (loss)	132,555	633
Gain (loss) on disposal of fixed assets	234,571	(29,396)
Interest and financing costs	(418,216)	(425,135)
AVEK grant	11,187	27,660
Capacity charges	9,806	26,912
Rental income	<u>56,188</u>	<u>46,677</u>
Total Non-operating Revenues (Expenses)	<u>494,866</u>	<u>103,490</u>
Net Increase (Decrease) Before Capital Contributions	<u>(166,329)</u>	<u>(988,643)</u>
CAPITAL CONTRIBUTIONS		
Meter sales and installations	<u>605</u>	<u>2,090</u>
Total Capital Contributions	<u>605</u>	<u>2,090</u>
Change in Net Position	(165,724)	(986,553)
Net Position at Beginning of Year	<u>27,254,437</u>	<u>28,240,990</u>
Net Position at End of the Year	<u>\$ 27,088,713</u>	<u>\$ 27,254,437</u>

QUARTZ HILL WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015 (Restated)

	2016	2015 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 4,120,015	\$ 4,535,640
Cash paid to suppliers for supplies	(2,651,517)	(2,968,923)
Cash paid to employees and directors	<u>(2,097,397)</u>	<u>(1,528,412)</u>
Net Cash Provided (Used) by Operating Activities	<u>(628,899)</u>	<u>38,305</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipt of property taxes	379,478	356,564
Receipt of rental income	56,188	46,677
Other non-operating income	<u>69,304</u>	<u>27,660</u>
Net Cash Provided (Used) by Non-capital and Related Financing Activities	<u>504,970</u>	<u>430,901</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Release of restricted investments	-0-	3,443,910
Receipt of funds for meter sales and installations	605	2,090
Receipt of capacity charges	9,806	26,912
Acquisition of property and equipment	(458,316)	(4,639,222)
Proceeds from sale of fixed assets	367,721	-0-
Principal paid on capital debt	(145,000)	(140,000)
Interest paid on capital debt	<u>(421,225)</u>	<u>(425,500)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(646,409)</u>	<u>(1,731,810)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment of note receivable	2,400	2,312
Proceeds from sale of investments	4,847,798	2,099,824
Purchase of investments	(5,762,654)	(1,891,780)
Receipt of interest and investment income	<u>119,397</u>	<u>115,164</u>
Net Cash Provided (Used) by Investing Activities	<u>(793,059)</u>	<u>325,520</u>
Net Change in Cash and Cash Equivalents	(1,563,397)	(937,084)
Cash and Cash Equivalents - Beginning of Year	<u>5,079,328</u>	<u>6,016,412</u>
Cash and Cash Equivalents - End of Year	<u>\$ 3,515,931</u>	<u>\$ 5,079,328</u>

QUARTZ HILL WATER DISTRICT
STATEMENTS OF CASH FLOWS - continued
For the Years Ended June 30, 2016 and 2015 (Restated)

	2016	2015 (Restated)
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (661,195)	\$ (1,092,133)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	858,083	683,742
(Increase) Decrease in Assets:		
Accounts receivable	(220,675)	187,045
Inventory	19,245	39,600
Prepaid expenses	(31,255)	11,626
(Increase) Decrease in Deferred Outflows of Resources		
Pension plan contributions	(665,423)	-0-
Increase (Decrease) in Liabilities:		
Accounts payable	(9,928)	29,707
Customer deposits	6,253	890
Accrued expenses	2,115	174,601
Compensated absences	(8,454)	3,227
Other post employment benefits	180,396	-0-
Net pension liability	17,399	-0-
Increase (Decrease) in Deferred Inflows of Resources		
Pension deferrals	<u>(115,460)</u>	<u>-0-</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (628,899)</u>	<u>\$ 38,305</u>

SUPPLEMENTAL DISCLOSURE

Schedule of Noncash Investing and Financing Transactions:

Purchases of property and equipment included in accounts payable	\$ <u>-0-</u>	\$ <u>1,978</u>
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Total Noncash Transactions	\$ <u>-0-</u>	\$ <u>1,978</u>
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NOTES TO THE FINANCIAL STATEMENTS

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. The Reporting Entity

Description - Quartz Hill Water District (the “District”) was formed as a County Water District under Division 12 of the County Water District law on March 11, 1954. The District is located in Quartz Hill, California and provides water services to portions of incorporated areas of Lancaster and Palmdale and to neighboring unincorporated communities. Currently the Quartz Hill Water District operates and is organized under the California Public Utilities Code Sections 22001 et seq. The District operates under an elected Board of Directors-Manager form of government.

Component Units - In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Statements No. 14, “*The Financial Reporting Entity*,” and No. 39, *Determining Whether Certain Organizations Are Component Units*” (an amendment of No. 14). The primary, but not only, criterion for including a potential component unit, which is a legally separate organization for which the elected officials of the primary government are financially accountable, is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, and the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no potential component units.

The Quartz Hill Water District, for financial purposes, includes all funds relevant to the operations of the District. The Board of Directors has governance responsibilities over all activities related to the District. The District receives funding from local, county, state and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since board members are elected by the public and have decision making authority, the power to designate management, and the responsibility to significantly influence operations and primary accountability for fiscal matters.

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

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to business enterprises, where the intent of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The basic financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. Under the economic resources measurement focus all assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with the District’s activities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned while expenses are recognized when the liability is incurred regardless of the timing of cash flow.

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

2. Financial Reporting—continued

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering water in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses and Changes in Net Position.

3. Implementation of New Governmental Accounting Standards Board (GASB) Pronouncements

Governmental Accounting Standards Board Statement No. 73

In June of 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Statement 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 74

In June of 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*. Statement 74 will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. The new information will enhance the decision-usefulness of the financial reports of those OPEB plans, their value for assessing accountability, and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 75

In June of 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. Statement 75 will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense

This statement is expected to have a significant impact on the presentation of the District's financial statements. At July 1, 2013, the date of the District's last actuarial report, the total actuarial accrued liability was \$1,807,910, of which under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, \$1,109,672 has been recognized on the Statement of Net Position as of June 30, 2016. Assuming that the actuarial accrued liability has not changed materially since the last study was performed, upon the implementation of GASB No. 75, the remaining balance will be recognized and result in additional long-term liabilities of \$698,238 being recognized related to other postemployment benefits and a related adjustment being made to unrestricted net position to reflect the related reduction in net position.

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3. Implementation of New Governmental Accounting Standards Board (GASB) Pronouncements – continued

Governmental Accounting Standards Board Statement No. 77

In June of 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosure*. Statement 77 will improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 78

In December of 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, amend the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plans that contain certain characteristics and establishes accounting requirements for those plans. The statement is effective for financial periods beginning after December 15, 2015. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 80

In January of 2016, the GASB issued Statement No. 80, *Blending for Certain Component Units – An Amendment of GASB Statement No. 14*, to amend the blending of component units to require the blending of an incorporated not-for-profit corporation in which the primary government is the sole corporate member. The statement is effective for financial periods beginning after June 15, 2016. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 81

In March of 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, to require governments that receive resources pursuant to an irrevocable split-interest agreement to recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The statement is effective for financial periods beginning after December 15, 2016. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 82

In March of 2016, the GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, to (1) address the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviation from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The statement is effective for financial periods beginning after June 15, 2016. While the content of certain supplementary information will be effected, this statement is not expected to have a significant impact on the presentation of the District's financial statements.

Governmental Accounting Standards Board Statement No. 83

In November of 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, to address accounting and financial reporting for certain retirement obligations (AROs). This statement is effective for financial periods beginning after June 15, 2018. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4. Financial Statement Amounts

a. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates

b. Cash and Cash Equivalents

The District has adopted GASB Statement No. 9, "*Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting.*" For purposes of reporting cash flows, all highly liquid investments (unrestricted assets) with a maturity of three months or less at the time of purchase are considered to be cash equivalents.

c. Deposits and Investments

The District adopted GASB Statement No. 40, "*Deposit and Investment Risk Disclosures,*" as of July 1, 2004. GASB Statement No. 40 requires governmental entities to assess categories of risk associated with their deposits and investments and disclose these risks.

The District adopted GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools,*" as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the District reports its investments at fair value in the Statement of Net Position.

Investments are reported at fair value, which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

d. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

e. Inventory

Inventory is based on a physical count at June 30, 2016 and 2015 and is valued at the lower of cost or market, cost being determined on the first-in, first-out basis. Inventory consists of supplies necessary for the repair and maintenance of the water lines.

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

4. Financial Statement Amounts – continued

f. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

g. Deferred Outflows of Resources

The District reports decreases in net assets that relate to future periods as deferred outflows in a separate section of its proprietary funds statements of net position. Deferred outflows of resources reported in this year's financial statements include (1) a deferred outflow of resources for contributions made to the District's California Public Employees' Retirement System (CalPERS) plan (Plan) between the measurement date of the net pension liabilities from the Plan and the end of the District's fiscal year and (2) deferred outflows of resources related to the differences between the expected actuarial experience and the actual experience. Deferred outflows for pension contributions will be recognized in the subsequent fiscal year. The deferred amount related to the actuarial assumptions will be recognized in expense over the average expected remaining service lives of plan members.

h. Capital Assets

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities associated with their activity, whether current or noncurrent, are included on their statement of net assets. Their reported fund equity (net assets) is segregated into net asset accounts. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net assets.

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets or assets that are dedicated to the District are recorded at estimated fair market value at the date of donation or dedication.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation of all exhaustible property, plant and equipment used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Distribution System	10 to 75 years
General Plant	5 to 40 years
Pumping Plant and Equipment	5 to 40 years
Wells and Improvements	10 to 45 years
Reservoirs and Tanks	10 to 50 years

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5. Financial Statement Amounts – continued

i. Restricted Assets

Certain assets of the District are restricted for use by debt covenant and, accordingly, are shown as restricted assets on the accompanying statement of net assets. The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of the restricted resources by a third party.

j. Pensions

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

k. Customer Deposits

Based on a customer's credit, the District may require a deposit deemed reasonable by the District. These deposits are held by the District and used to pay off any balances owed by the customer to the District upon the closure of the customer's account with the District.

l. Compensated Absences

Accumulated vacation benefits and sick leave are recorded as liabilities on the books of the District. The District's policy is to record amounts as operating expenses in the period vacation or sick leave is taken. The dollar value of such accumulations as of June 30, 2016 and 2015, was \$91,862 and \$100,316, respectively.

m. Deferred Inflows of Resources

The District's statements of net position report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period(s). Deferred inflows of resources are reported in the District's statements of net position include (1) changes in the District's proportionate share of the collective net pension liability in the Plan, (2) differences between projected and actual earnings on plan investments, (3) changes in actuarial assumptions, and (4) differences between actual and projected plan participant contributions. With the exception of the differences between projected and actual earnings which are amortized over a five year period, all deferred inflows are amortized over the expected remaining service lives of the plan members.

n. Water Sales

Water sales are billed on a monthly cyclical basis. Estimated unbilled water revenue through June 30 has been accrued at year-end.

o. Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1 and are levied on July 1 of each year. 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 Los Angeles County. The District does not receive any property tax revenues directly; however, delinquent special assessments are turned over to the County for collection with regular delinquent property tax assessments.

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

5. Financial Statement Amounts – continued

p. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require expenditures or capacity commitment.

q. Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

- i. Prior to June 30, the District Manager submits to the Board of Directors a proposed operating and capital budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- ii. Public hearings are conducted for comments.
- iii. Prior to September 1, the budget is legally enacted.
- iv. Formal budgetary integration is employed as a management control device during the year for the Proprietary Funds.
- v. Budgeted amounts are as originally adopted, or as amended. Individual amendments were not material in relation to the original appropriations which were amended.

r. Net Assets

The financial statements utilize a net asset presentation. Net assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted as follows:

- Net Investment in Capital Assets – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- Restricted Net Assets – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets – This component of net assets consists of net assets that do not meet the definition of restricted or net investment in capital assets.

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE B – CASH AND INVESTMENTS

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

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 3,516,467	\$ 5,079,328
Investments	8,164,022	7,129,912
Restricted – cash and investments	<u>567,025</u>	<u>566,965</u>
Total Cash and Investments	<u>\$ 12,247,514</u>	<u>\$ 12,776,205</u>

Cash and investments as of June 30, consisted of the following:

	<u>2016</u>	<u>2015</u>
Cash on hand	\$ 1,755	\$ 1,755
Deposits with financial institutions	1,422,137	994,485
Money Market funds	<u>2,092,575</u>	<u>4,083,088</u>
Total Cash and Equivalents	3,516,467	5,079,328
External Investment Pool	100,846	790,858
Certificates of Deposit	4,502,100	3,922,020
Money Market funds	567,025	566,965
Corporate bonds	1,523,346	1,251,694
State or municipality bonds or notes	<u>2,037,730</u>	<u>1,165,340</u>
Total Cash and Investments	<u>\$ 12,247,514</u>	<u>\$ 12,776,205</u>

Investments Authorized by the Entity's Investment Policy

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
US Treasury Bills, Notes and Bonds	5 Years	None	None
Government Agency Securities	5 Years	None	None
Bankers Acceptances	180 Days	30%	5%
Medium Term Notes and Deposit Notes	5 Years	30%	5%
Commercial Paper	270 Days	10%	5%
Certificates of Deposit	5 Years	30%	10%
Repurchase Agreements	30 Days	10%	None
CA State Local Agency Investment Fund	N/A	None	N/A
Los Angeles County Investment Pool	N/A	20%	N/A
Money Market Mutual Funds	N/A	50%	None
Registered State Warrants, Notes or Bonds	5 Years	20%	10%

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE B – CASH AND INVESTMENTS – continued

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee is governed by provisions of the debt agreement rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investment held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
US Treasury Bills, Notes and Bonds	5 Years	None	None
Government Agency Securities	5 Years	None	None
Bankers Acceptances	180 Days	40%	None
State or municipality bonds or notes	5 Years	None	None
Commercial Paper	270 Days	40%	None
Certificates of Deposit	5 Years	30%	None
Repurchase Agreements	30 Days	None	None
CA State Local Agency Investment Fund	N/A	None	None
Los Angeles County Investment Pool	N/A	None	None
Money Market Mutual Funds	N/A	20%	None

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. 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. The District may waive collateral requirements for deposits that are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2016 and 2015, \$1,172,137 and \$662,115, respectively of the District's deposits with financial institutions were in excess of federal depository insurance limits.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The 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 investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE B – CASH AND INVESTMENTS – continued

Investments in Local Agency Investment Fund (LAIF)

The District is a voluntary participant in the Local Agency Investment Fund that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF invests some of its portfolio in derivatives. Detailed information on derivative investments held by this pool is not readily available.

Disclosures Relating to 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 is the sensitivity of its fair value to changes in market interest rates. The District manages interest rate risk by mandating a maximum maturity for single investments of five years, and a maximum average maturity of the portfolio of three years.

As of June 30, 2016, the District had the following investments and maturities:

Investment Type:	Invest Maturities in Years		
	Fair Value	Less Than 1	1 – 5
Local Agency Investment Fund	\$ 100,846	N/A	N/A
Corporate Bonds	1,523,346	503,864	1,019,482
State or municipality bonds or notes	2,037,730	-0-	2,037,730
Certificates of Deposit	4,502,100	-0-	4,502,100
Held by Bond Trustee			
Money Market Deposits	567,025	N/A	N/A
Total	<u>\$ 8,731,047</u>	<u>\$ 503,864</u>	<u>\$ 7,559,312</u>

As of June 30, 2015, the District had the following investments and maturities:

Investment Type:	Invest Maturities in Years		
	Fair Value	Less Than 1	1 – 5
Local Agency Investment Fund	\$ 790,858	N/A	N/A
Corporate Bonds	1,251,694	-0-	1,251,694
State or municipality bonds or notes	1,165,340	-0-	1,165,340
Certificates of Deposit	3,922,020	736,081	3,185,939
Held by Bond Trustee			
Money Market Deposits	566,965	N/A	N/A
Total	<u>\$ 7,696,877</u>	<u>\$ 736,081</u>	<u>\$ 5,602,973</u>

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE B – CASH AND INVESTMENTS – continued

Disclosures Relating to 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 yearend for each investment type.

Credit ratings as of June 30, 2016, were as follows:

Investment Type:	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End	
				At least an A	Not Rated
External Investment Pool (LAIF)\$	100,846	N/A	\$ -0-	\$ -0-	\$ 100,846
Corporate bonds	1,523,346	A	-0-	1,523,346	-0-
State or municipality bonds	2,037,730	N/A	-0-	-0-	2,037,730
Certificates of Deposit	4,502,100	N/A	-0-	-0-	4,502,100
Held by bond trustee:					
Money Market Funds	567,025	N/A	567,025	-0-	-0-
Total	\$ 8,731,047		\$ 567,025	\$ 1,523,346	\$ 6,640,676

Credit ratings as of June 30, 2015, were as follows:

Investment Type:	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End	
				At least an A	Not Rated
External Investment Pool (LAIF)\$	790,858	N/A	\$ -0-	\$ -0-	\$ 790,858
Corporate bonds	1,251,694	A	-0-	1,251,694	-0-
State or municipality bonds	1,165,340	A	-0-	1,165,340	-0-
Certificates of Deposit	3,922,020	N/A	-0-	-0-	3,922,020
Held by bond trustee:					
Money Market Funds	566,965	N/A	566,965	-0-	-0-
Total	\$ 7,696,877		\$ 566,965	\$ 2,417,034	\$ 4,712,878

Concentrations of Credit Risk

The investment policy of the District contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer represented 5% or more of total investments by the reporting unit, therefore the following amounts are required to be disclosed.

Issuer	Investment Type	Investment amount	
		2016	2015
General Electric Capital Corporation	Corporate Bonds	\$ 503,864	\$ 515,787
California State	State Bond	\$ -0-	\$ 1,165,341
Wells Fargo & Company	Corporate Bonds	\$ 1,019,482	\$ 735,907
Pasadena California Unified School District	Municipality Bond	\$ 1,019,960	\$ -0-
University of California	Municipality Bond	\$ 1,017,770	\$ -0-

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE C – PREPAID EXPENSES

At June 30, the District had paid for expenses for which it expects to receive a benefit in a future period. Prepaid expenses consist of the following:

	2016	2015
Prepaid insurance	\$ 42,110	\$ 23,412
Prepaid software costs	9,700	7,732
Miscellaneous prepaid expenses	11,556	967
Prepaid Expenses	\$ 63,366	\$ 32,111

NOTE D – BANKED WATER INVENTORY

On December 10, 2010 and March 12, 2013, the District entered into an agreement with Antelope Valley East Kern Water Agency (AVEK) to purchase 1,150 and 2,400 acre feet of water, respectively, for storage in AVEK's water banking facility. Under this agreement, the District expects to be able to purchase water at current market rates and withdraw water from the facility during dry years at a cost substantially below market rates. Banked water inventory at June 30, 2016 and 2015 totaled \$760,800 and \$760,800, respectively.

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE E – CAPITAL ASSETS

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

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Non-depreciable assets:				
Land and land rights	\$ 691,746	\$ -0-	\$ -0-	\$ 691,746
Total non-depreciable assets	691,746	-0-	-0-	691,746
Depreciable assets:				
Distribution system	11,203,686	-0-	(8,458)	11,195,228
General plant	3,122,861	179,569	(143,533)	3,158,897
Pumping plant and equipment	1,074,264	-0-	(31,725)	1,042,539
Wells and improvements	5,600,270	-0-	(22,795)	5,577,475
Reservoirs and tanks	4,615,133	-0-	-0-	4,615,133
Buildings and structures	4,735,891	162,821	(237,825)	4,660,887
Office furniture and equipment	325,152	78,242	(40,675)	362,719
Tools and equipment	392,419	-0-	(48,057)	344,362
Vehicles	928,895	49,467	(14,798)	963,564
Total depreciable assets	31,998,571	470,099	(547,866)	31,920,804
Accumulated depreciation:				
Distribution system	(3,617,023)	(199,572)	8,458	(3,808,137)
General plant	(351,522)	(154,882)	81,557	(424,847)
Pumping plant and Equipment	(320,621)	(25,032)	31,725	(313,928)
Wells and improvements	(2,405,668)	(177,214)	20,332	(2,562,550)
Reservoirs and tanks	(1,449,672)	(96,583)	-0-	(1,546,255)
Buildings and structures	(170,964)	(117,259)	172,718	(115,505)
Office furniture and equipment	(210,651)	(40,853)	37,071	(214,433)
Tools and equipment	(358,183)	(8,676)	34,296	(332,563)
Vehicles	(789,025)	(38,011)	14,529	(812,507)
Total accumulated depreciation	(9,673,329)	(858,082)	400,686	(10,130,725)
Total depreciable assets, net	22,325,242	\$ (387,983)	\$ (147,180)	21,790,079
Total capital assets, net	\$ 23,016,988			\$ 22,481,825

Major depreciable capital asset additions during fiscal year 2016 include meter purchases, software upgrades, a vehicle purchase, and map book additions. Major depreciable capital asset deletions during fiscal year 2016 include water meters, the former operations center, and related equipment.

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE E – CAPITAL ASSETS—continued

Capital asset activity for the year ended June 30, 2015 is shown below:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Non-depreciable assets:				
Land and land rights	\$ 691,746	\$ -0-	\$ -0-	\$ 691,746
Construction in progress	<u>2,703,027</u>	<u>-0-</u>	<u>(2,703,027)</u>	<u>-0-</u>
Total non-depreciable assets	<u>3,394,773</u>	<u>-0-</u>	<u>(2,703,027)</u>	<u>691,746</u>
Depreciable assets:				
Distribution system	11,203,686	-0-	-0-	11,203,686
General plant	2,765,515	456,927	(99,581)	3,122,861
Pumping plant and equipment	1,074,264	-0-	-0-	1,074,264
Wells and improvements	5,597,241	3,029	-0-	5,600,270
Reservoirs and tanks	3,132,032	1,483,101	-0-	4,615,133
Buildings and structures	237,825	4,498,066	-0-	4,735,891
Office furniture and equipment	337,361	-0-	(12,209)	325,152
Tools and equipment	378,657	13,762	-0-	392,419
Vehicles	<u>928,895</u>	<u>-0-</u>	<u>-0-</u>	<u>928,895</u>
Total depreciable assets	<u>25,655,476</u>	<u>6,454,885</u>	<u>(111,790)</u>	<u>31,998,571</u>
Accumulated depreciation:				
Distribution system	(3,417,451)	(199,572)	-0-	(3,617,023)
General plant	(283,532)	(139,626)	71,636	(351,522)
Pumping plant and equipment	(295,589)	(25,032)	-0-	(320,621)
Wells and improvements	(2,228,588)	(177,080)	-0-	(2,405,668)
Reservoirs and tanks	(1,395,463)	(54,209)	-0-	(1,449,672)
Buildings and structures	(164,490)	(6,474)	-0-	(170,964)
Office furniture and equipment	(181,070)	(40,340)	10,759	(210,651)
Tools and equipment	(349,507)	(8,676)	-0-	(358,183)
Vehicles	<u>(756,292)</u>	<u>(32,733)</u>	<u>-0-</u>	<u>(789,025)</u>
Total accumulated depreciation	<u>(9,071,982)</u>	<u>(683,742)</u>	<u>82,395</u>	<u>(9,673,329)</u>
Total depreciable assets, net	<u>16,583,494</u>	<u>\$ 5,771,143</u>	<u>\$ (29,395)</u>	<u>22,325,242</u>
Total capital assets, net	<u>\$ 19,978,267</u>			<u>\$ 23,016,988</u>

Major depreciable capital asset additions during fiscal year 2015 include additions to solar systems, the completion of the operations center, and water storage tanks. Major depreciable capital asset deletions during fiscal year 2015 include certain furniture and fixtures, meters, and certain software.

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE F – LONG-TERM DEBT

On April 6, 2011, the Quartz Hill Water District issued \$8,400,000 in Series 2011 Revenue Certificates of Deposit. These bonds were issued to fund the construction of certain capital improvements in the District including two new reservoirs, three additional well sites, a new administrative and warehouse facility, and to purchase shares in a water banking facility. The 2011 COPs were issued with interest rates ranging from 3.00% to 5.75% with lengths to maturity ranging from seven months to thirty years. At June 30, 2011, the principal balance outstanding of the 2011 COPs was \$8,400,000.

Long-term obligations include debt and other long-term liabilities.

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
2011 COPs	<u>\$7,900,000</u>	<u>\$ -0-</u>	<u>\$ (145,000)</u>	<u>\$7,755,000</u>	<u>\$ 150,000</u>

Changes in long-term obligations for the period ended June 30, 2015 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
2011 COPs	<u>\$8,040,000</u>	<u>\$ -0-</u>	<u>\$ (140,000)</u>	<u>\$7,900,000</u>	<u>\$ 145,000</u>

The annual requirements to amortize the 2011 COPs, outstanding as of June 30, 2016, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 150,000	\$ 416,425	\$ 566,425
2018	155,000	410,700	565,700
2019	160,000	404,400	564,400
2020	165,000	397,694	562,694
2021	175,000	390,250	565,250
2022-2026	1,010,000	1,811,831	2,821,831
2027-2031	1,325,000	1,501,813	2,826,813
2032-2036	1,750,000	1,078,275	2,828,275
2037-2041	2,315,000	506,462	2,821,462
2042	<u>550,000</u>	<u>15,813</u>	<u>565,813</u>
Totals	<u>\$ 7,755,000</u>	<u>\$ 6,933,663</u>	<u>\$ 14,688,663</u>

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE G – DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's agent multiple-employer defined benefit pension plan administered by the California Public Employee's Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan member, who must be public employees and beneficiaries. Benefits are based on years of credit service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Pre-Retirement Option 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

The Plan's provisions and benefits in effect at June 30, 2016 and 2015, are summarized as follows:

Benefit formula	2% @ 55
Benefit vesting schedule	5 years of service
Benefit payments	monthly for life
Retirement age	50-63
Monthly benefits, as a % of eligible compensation	2% to 2.418%
Required employee contribution rates	6.891%
Required employer contributions rates:	
For the Year Ended June 30, 2016	12.277%
For the Year Ended June 30, 2015	12.285%

Funding Policy

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The District makes the contributions required of District employees on their behalf.

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE G – DEFINED BENEFIT PENSION PLAN—continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016 and 2015, the District reported a liability of \$664,898 and \$647,499 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on its proportion of the Miscellaneous Risk Pool, actuarially determined. At June 30, 2016 and 2015, the District's proportion was 0.00968% and 0.01041%, respectively.

For the years ended June 30, 2016 and 2015, the District recognized pension expense of \$56,616 and \$84,064. At June 30, 2016 the Districted reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net Difference between Projected And Actual Earnings on Pension Plan Investments	\$ -0-	\$ (34,797)
Changes of Assumptions	-0-	(69,412)
Adjustment due to Differences in Proportions	-0-	(9,555)
Differences between Projected and Actual Experiences	7,337	-0-
Difference between Actual versus Projected Contributions	-0-	(9,841)
Contributions Subsequent to the Measurement Date	<u>761,635</u>	<u>-0-</u>
Construction in process	<u>\$ 768,972</u>	<u>\$ (123,605)</u>

At June 30, 2015 the Districted reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net Difference between Projected And Actual Earnings on Pension Plan Investments	\$ -0-	\$ (221,580)
Adjustment due to Differences in Proportions	-0-	(17,485)
Contributions Subsequent to the Measurement Date	<u>103,549</u>	<u>-0-</u>
Construction in process	<u>\$ 103,549</u>	<u>\$ (239,065)</u>

\$761,635 and \$103,549 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be or has been recognized as a reduction to the net pension liability for the years ended June 30, 2017 and 2016, respectively.

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE G – DEFINED BENEFIT PENSION PLAN—continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—continued

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2017	\$ (53,875)
2018	(52,625)
2019	(42,615)
2020	32,847
Thereafter	<u>-0-</u>
	<u>\$ (116,268)</u>

Actuarial Assumptions – The total pension liabilities in the June 30, actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50%
Mortality Rate Table	Derived using CalPERS Membership Data
Post Retirement Benefit Increase	Contract COAL up to 2.75%

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a 2010 CalPERS Experience Study for the period from 1997 to 2007. Further details of the Experience Study can be found on the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The expected rate of return was then set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using each major asset class. The table below reflects long-term real rate of return by asset class.

Asset Class:	Target Allocation	Real Return Years 1 - 10	Real Return Years 11+
Global Equity	47%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	12%	6.83%	6.95%
Real Estate	11%	4.50%	5.13%
Infrastructure and Forestland	3%	4.50%	5.09%
Liquidity	2%	(0.55%)	(1.05%)

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE G – DEFINED BENEFIT PENSION PLAN—continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—continued

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for the Plan. The projection of cash flows used to determine the discount rate assumed that both members and employers will make their required contributions on time and as scheduled in all future years. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans ran out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate – The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.65 percent) or 1-percent higher (8.65 percent) than the current rate:

	Discount Rate – 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan’s Net Pension Liability/(Asset)	1,115,080	664,898	293,220

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial report.

NOTE H – DEFERRED COMPENSATION PLAN

All employees who meet the eligibility requirements may participate in a “qualified deferred compensation plan.” This plan is qualified under the Internal Revenue Code of 1986 Section 457, and is administered by the District. Participants in this plan may elect to defer a portion of their annual compensation as provided for by the plan document and Code Section 457. The District makes no employer contribution on behalf of the employee participant.

While the Employer/District is considered the owner of the plan assets, these assets are held in trust and the District has no rights of acquisition. All funds are held for the benefit of, and must be distributed to, plan participants.

NOTE I – OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District administers a single-employer defined benefit other post employment healthcare plan providing health plan coverage to eligible retired employees. The District offers retirees coverage through the Association of California Water Agencies Joint Powers Insurance Authority (ACWA JPIA). Employees become eligible to retire and receive healthcare benefits with one (1) year of service to the District. The District pays 100% of the retiree’s premium only. Benefits are available for the life of the retiree.

Funding Policy

The District’s Board of Trustees will not be funding the plan in the current year. The Board will review the funding requirements and policy annually.

**QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE I – OTHER POST EMPLOYMENT BENEFITS – continued

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over the remaining period of thirty (30) years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in its net OPEB obligation to the Retiree Health Plan:

	2016	2015
Annual required contribution	\$ 221,546	\$ 221,546
Interest on net OPEB obligation	27,878	22,388
Adjustment to annual required contribution	(34,418)	(27,639)
Annual OPEB cost (expense)	215,006	216,294
Contributions made	34,610	31,296
Increase in net OPEB obligation	180,396	184,998
Net OPEB obligation - beginning of year	929,276	744,278
Net OPEB obligation - end of year	\$ 1,109,672	\$ 929,276

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the current fiscal year are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 216,100	15%	\$ 744,278
June 30, 2015	\$ 216,294	14%	\$ 929,276
June 30, 2016	\$ 215,006	16%	\$ 1,109,672

Funding Status and Funding Progress

As of July 1, 2013, the actuarial accrued liability (AAL) for benefits was \$1,807,910, all of which is unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE I – OTHER POST EMPLOYMENT BENEFITS – continued

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term prospective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 60, or at the first subsequent year in which the member would qualify for benefits.

Mortality – Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics website (www.cdc.gov). The calculation of OPEB liability for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.

Turnover – The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific age-based turnover data provided in Table 1 in paragraph 35 of GASB Statement No. 45. In addition the expected future working lifetimes of employees were determined using Table 2 in paragraph 35(c) of GASB Statement No. 45.

Healthcare cost trend rate – Healthcare cost trend rates were selected based on a combination of national and state trend surveys as well as professional judgment. The ultimate trend rate was 4.0%.

Health insurance premiums – 2013-14 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid. An employee is assumed to continue with the same medical plan upon retirement. If an employee waived medical coverage, then such waiver is assumed to continue into retirement.

Medicare Coordination – Medicare was assumed as the primary payer for current and future retirees at age 65.

Payroll increase – Changes in the payroll for current employees are expected to increase at a rate of approximately 3.0% annually.

Discount rate – The calculation uses an annual discount rate of 3%. This is based on the assumed long-term return on plan assets or employer assets.

Actuarial cost method – The entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at July 1, 2013 was twenty-nine (27) years.

Plan for Funding

On an ongoing basis, the District will be reviewing its assumptions, comparing them against actual experience and recalculating the needed funding with the goal of paying for postemployment benefits out of interest earned on designated funds.

QUARTZ HILL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE J – JOINT VENTURES

The District participates in the property and liability program organized by the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA). ACWA/JPIA is a Joint Powers Authority created to provide a self-insurance program to water agencies in the State of California. The ACWA/JPIA is not a component unit of the District for financial reporting purposes as explained below.

ACWA/JPIA provides liability, property and workers' compensation insurance for approximately 292 water agencies for losses in excess of the member districts' specified self-insurance retention levels. Individual claims (and aggregate public liability and property claims) in excess of specified levels are covered by excess insurance policies purchased from commercial carriers. ACWA/JPIA is governed by a separate board comprised of members from participating districts. The board controls the operation of ACWA/JPIA, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the board. Each member shares surpluses and deficiencies proportionately to its participation in ACWA/JPIA. Based on financial information at September 30, 2015 ACWA/JPIA had total assets, liabilities and fund balance of \$194,775,717, \$133,620,777, and \$80,933,818, respectively. Based on financial information at September 30, 2014 ACWA/JPIA had total assets, liabilities and fund balance of \$195,584,006, \$107,626,833, and \$87,957,173, respectively.

NOTE K – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2016, expenditures exceeded the revised budget estimates in individual funds as follows:

	Excess Expenditures
Operating Expenses	
Transmission and distribution	\$ 21,995
Water conservation	\$ 501,843
Administrative and general	\$ 215,754

NOTE L – PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2015, the District withdrew certain bank water inventories (See Note D) which were delivered for consumption by AVEK. These amounts were subsequently replenished at original cost per an agreement with AVEK. As result of these transactions certain entries were booked that resulted in an increase in the cost of water inventories despite the fact that no additional costs were incurred. Due to this reason the prior period financial statements have been restated to correct this error. Changes to prior year banked water inventory and water purchases expense are as follows:

Banked Water Inventory – Before Adjustment	\$ 972,502
Inventory Reclassified to Water Purchases Expense	(211,702)
Banked Water Inventory – After Adjustment	\$ 760,800
Water Purchases Expense – Before Adjustment	\$ 1,196,482
Water Purchases Expense Reclassified from Inventory	211,702
Water Purchases Expense – After Adjustment	\$ 1,408,184

SUPPLEMENTARY INFORMATION

**QUARTZ HILL WATER DISTRICT
BOARD OF TRUSTEES
June 30, 2016**

The members of the Board of Trustees of the Quartz Hill Water District holding office during the audit period were as follows:

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Allen Flick	President	November 2017
James D. Powell, DDS	Vice President	November 2017
K. Mike Scott	Director	November 2019
Peggy Powell	Director	November 2017
Sheldon Carter	Director	November 2019

APPOINTED OFFICIALS

Chad Reed, General Manager

Brent Byrne, Assistant General Manager

Debi Pizzo, Secretary

QUARTZ HILL WATER DISTRICT
COMPARISON STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET TO ACTUAL
For the Year Ended June 30, 2016

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>OVER (UNDER) BUDGET</u>
OPERATING REVENUES			
WATER SALES			
Water consumption sales	\$ 2,722,249	\$ 2,377,940	\$ (344,309)
Monthly water service charges	1,854,498	1,834,471	(20,027)
Other service charges	<u>228,034</u>	<u>122,026</u>	<u>(106,008)</u>
 Total Operating Revenues	 <u>4,804,781</u>	 <u>4,334,437</u>	 <u>(470,344)</u>
 OPERATING EXPENSES			
Water purchases	1,452,229	1,043,342	(408,887)
Pumping plant	461,591	416,022	(45,569)
Transmission and distribution	688,509	710,504	21,995
Customer accounts	414,641	407,528	(7,113)
Water conservation	-0-	501,843	501,843
Administrative and general	842,288	1,058,310	216,022
Depreciation/OPEB	<u>900,000</u>	<u>858,083</u>	<u>(41,917)</u>
 Total Operating Expenses	 <u>4,759,258</u>	 <u>4,995,632</u>	 <u>236,374</u>
 Net Operating Income (Loss)	 <u>45,523</u>	 <u>(661,195)</u>	 <u>(706,718)</u>
 NON-OPERATING REVENUES			
Property taxes	268,083	362,817	94,734
Investment income	101,363	105,958	4,595
Investment gain or (loss)	168	132,555	132,387
Loss on disposal of fixed assets	-0-	234,571	234,571
Interest and financing costs	(425,500)	(418,216)	7,284
AVEK grant	17,138	11,187	(5,951)
Capacity charges	20,000	9,806	(10,194)
Rental income	<u>52,477</u>	<u>56,188</u>	<u>3,711</u>
 Total Non-Operating Revenues	 <u>33,729</u>	 <u>494,866</u>	 <u>461,137</u>
 Net Revenues in Excess of Expenses	 <u>\$ 79,252</u>	 <u>\$ (166,329)</u>	 <u>\$ (245,581)</u>

QUARTZ HILL WATER DISTRICT
NOTES TO SCHEDULE OF PLAN'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
AND SCHEDULE OF FUNDING PROGRESS – OTHER POST-EMPLOYMENT BENEFIT PLANS
June 30, 2016 and 2015

NOTE A – CHANGE IN BENEFIT TERMS

The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 as they have minimal cost impact.

NOTE B – CHANGE IN ASSUMPTIONS

None

NOTE C – PERIOD OF PRESENTATION

The schedule reports the Plan's Share of Net Pension Liability through June 30, 2015, the date of the plans most recent financial statements, which is different than the date of the District's financial statements. As more recent financial information becomes available the schedule will be updated to reflect such information in future financial statements issued by the District.

NOTE D – FUNDING PROGRESS

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefit liability and funding status is performed every three years or annually, if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2016-17, based on the year beginning July 1, 2016.

OTHER INDEPENDENT AUDITOR'S REPORT

COBB, DOERFLER & ASSOCIATES, CPA
A PROFESSIONAL CORPORATION
1039 WEST AVENUE J
LANCASTER, CALIFORNIA 93534

**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**

To the Board of Trustees
Quartz Hill Water District
Quartz Hill, 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 Quartz Hill Water District (the "District") as of and for the year ended June 30, 2016, which comprise the District's basic financial statements and have issued our report thereon dated February 1, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit we considered District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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 of 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cobb, Doerfler & Associates, CPA

COBB, DOERFLER & ASSOCIATES, CPA
February 1, 2017

**QUARTZ HILL WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2016**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

- 1) Financial Statements – The auditor’s report expresses an unqualified opinion on the financial statements of the Quartz Hill Water District.
- 2) Internal Control Over Financial Reporting – No material weaknesses were disclosed during the audit of the financial statements.
- 3) Noncompliance Material to Financial Statements – No instances of noncompliance material to the financial statements of the Quartz Hill Water District were disclosed during the audit.
- 4) Federal Awards – There was not an audit of major federal awards programs for the year ended June 30, 2016, since the Quartz Hill Water District did not receive any Federal Funding in the current fiscal period.

SECTION II – INTERNAL CONTROL FINDINGS AND RESPONSES

No Material Weaknesses were noted during the audit of the financial statements.