



**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2015**

Idyllwild Water District

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**Idyllwild Water District
List of Principal Officers**

BOARD OF DIRECTORS

<u>Title</u>	<u>Name</u>
President	Jim Billman
Vice-President	John Cook
Director	Dean Lattin
Director	Warren Monroe
Director	Mike Freitas

ADMINISTRATION

General Manager	Tom Lynch
Chief Financial Officer	Hosny Shouman

ORGANIZATION

The Idyllwild Water District was formed on March 21, 1955 for the purpose of providing a domestic water supply to the community of Idyllwild, California under Section 30000 of the California Water Code. Improvement District No. 1 was established by Board action on March 10, 1966 to provide wastewater services within the community.



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CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

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Board of Directors
Idyllwild Water District
Idyllwild, California

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Idyllwild Water District (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America as well as the State Controller's *Minimum Audit Requirements for California Special Districts*; 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

PARTNERS

Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Kirk A. Franks, CPA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)

DIRECTORS

Bradferd A. Welebir, CPA, MBA

MANAGERS / STAFF

Jenny Liu, CPA, MST
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA
Yiann Fang, CPA
Nathan Statham, CPA, MBA
Brigitta Bartha, CPA
Gardenya Duran, CPA
Juan Romero, CPA
Ivan Gonzales, CPA, MSA
Brianna Pascoe, CPA

MEMBERS

American Institute of
Certified Public Accountants

*PCPS The AICPA Alliance
for CPA Firms*

*Governmental Audit
Quality Center*

California Society of
Certified Public Accountants

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2015, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other matters

Required supplementary information

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

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2015, 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, 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* in considering the District's internal control over financial reporting and compliance.

Rogers Anderson Malody & Scott, LLP

San Bernardino, California
October 8, 2015

**Idyllwild Water District
Statement of Net Position
June 30, 2015**

	<u>Water</u>	<u>Improvement District No. 1 - Wastewater</u>	<u>Total memorandum only</u>
Assets			
Current assets:			
Cash and investments	\$ 1,553,338	\$ 1,182,325	\$ 2,735,663
Certificates of deposit	25,000	178,326	203,326
Accounts receivable, net:			
Sales and service	21,676	11,985	33,661
Taxes and assessments	18,375	5,349	23,724
Accrued interest receivable	-	641	641
Inventories	67,657	928	68,585
	<u>1,686,046</u>	<u>1,379,554</u>	<u>3,065,600</u>
Total current assets			
Noncurrent assets:			
Restricted assets:			
Restricted cash and investments	412,851	171,187	584,038
Accrued interest receivable	711	-	711
	<u>413,562</u>	<u>171,187</u>	<u>584,749</u>
Total restricted assets			
Capital assets:			
Land and land improvements	577,785	25,966	603,751
Construction in progress	99,540	572,559	672,099
Property, plant and equipment, net	4,363,288	550,909	4,914,197
	<u>5,040,613</u>	<u>1,149,434</u>	<u>6,190,047</u>
Total capital assets			
	<u>7,140,221</u>	<u>2,700,175</u>	<u>9,840,396</u>
Total assets			

The notes are an integral part of these financial statements.

**Idyllwild Water District
Statement of Net Position
June 30, 2015**

	<u>Water</u>	<u>Improvement District No. 1 - Wastewater</u>	<u>Total memorandum only</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ 26,709	\$ 121,053	\$ 147,762
Retention payable	-	15,410	15,410
Unearned revenue	130,425	-	130,425
Compensated absences payable	22,441	9,149	31,590
	<u>179,575</u>	<u>145,612</u>	<u>325,187</u>
Total current liabilities			
Noncurrent liabilities:			
OPEB obligation	560,287	186,764	747,051
	<u>560,287</u>	<u>186,764</u>	<u>747,051</u>
Total noncurrent liabilities			
	<u>560,287</u>	<u>186,764</u>	<u>747,051</u>
Total liabilities	<u>739,862</u>	<u>332,376</u>	<u>1,072,238</u>
Net position			
Net investment in capital assets	5,040,613	1,134,024	6,174,637
Unrestricted (Note 5)	1,359,746	1,233,775	2,593,521
	<u>1,359,746</u>	<u>1,233,775</u>	<u>2,593,521</u>
Total net position	<u>\$ 6,400,359</u>	<u>\$ 2,367,799</u>	<u>\$ 8,768,158</u>

The notes are an integral part of these financial statements.

Idyllwild Water District
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2015

	Water	Improvement District No. 1 - Wastewater	Total memorandum only
Operating revenues			
Water sales - residential	\$ 754,447	\$ -	\$ 754,447
Water sales - commercial	539,981	-	539,981
Wastewater service fees - residential	-	189,581	189,581
Wastewater service fees - commercial	-	373,104	373,104
Service fees and other	18,705	1,479	20,184
	<u>1,313,133</u>	<u>564,164</u>	<u>1,877,297</u>
Operating expenses			
Source of supply	230,960	-	230,960
Transmission and distribution	111,614	-	111,614
Pumping	13,358	-	13,358
Water treatment	131,056	-	131,056
Customer accounts	105,333	-	105,333
Wastewater collection	-	10,040	10,040
Wastewater treatment	-	186,284	186,284
Wastewater disposal	-	69,760	69,760
Other operating	105,417	34,174	139,591
General and administrative	544,552	169,389	713,941
	<u>1,242,290</u>	<u>469,647</u>	<u>1,711,937</u>
Operating income	<u>70,843</u>	<u>94,517</u>	<u>165,360</u>
Nonoperating revenues			
Investment income	5,641	5,893	11,534
Property taxes and assessments	314,086	101,559	415,645
Other income	1,856	-	1,856
Standby fees	20,000	5,000	25,000
	<u>341,583</u>	<u>112,452</u>	<u>454,035</u>

The notes are an integral part of these financial statements.

Idyllwild Water District
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2015

	<u>Water</u>	<u>Improvement District No. 1 - Wastewater</u>	<u>Total memorandum only</u>
Nonoperating expenses			
Transfers in/(out)	\$ (42,023)	\$ 42,023	\$ -
Agency debt and county services	<u>1,018</u>	<u>-</u>	<u>1,018</u>
Total nonoperating expenses	<u>(41,005)</u>	<u>42,023</u>	<u>(1,018)</u>
Change in net position	453,431	164,946	618,377
Net position, beginning of year	<u>5,946,928</u>	<u>2,202,853</u>	<u>8,149,781</u>
Net position, end of year	<u>\$ 6,400,359</u>	<u>\$ 2,367,799</u>	<u>\$ 8,768,158</u>

The notes are an integral part of these financial statements.

**Idyllwild Water District
Statement of Cash Flows
For the year ended June 30, 2015**

	Water	Improvement District No. 1 - Wastewater	Total memorandum only
Cash flows from operating activities			
Cash received from customers	\$ 1,292,069	\$ 559,970	\$ 1,852,039
Cash payments for services, supplies and employees	(951,546)	(401,644)	(1,353,190)
Net cash provided by operating activities	<u>340,523</u>	<u>158,326</u>	<u>498,849</u>
Cash flows from noncapital financing activities			
Property taxes -1% received	304,035	103,820	407,855
Transfers in/(out)	42,023	(42,023)	-
Other nonoperating income	21,856	5,000	26,856
Other nonoperating expenses	(1,018)	-	(1,018)
Net cash provided by noncapital financing activities	<u>366,896</u>	<u>66,797</u>	<u>433,693</u>
Cash flows from capital and related financing activities			
Acquisition and construction of capital assets	(70,459)	(223,026)	(293,485)
Net cash (used for) capital and related financing activities	<u>(70,459)</u>	<u>(223,026)</u>	<u>(293,485)</u>
Cash flows from investing activities			
Proceeds from investments	460,123	706,531	1,166,654
Purchase of investments	-	25,080	25,080
Investment income	4,930	5,252	10,182
Net cash provided by investing activities	<u>465,053</u>	<u>736,863</u>	<u>1,201,916</u>
Net increase in cash and cash equivalents	1,102,013	738,960	1,840,973
Cash and cash equivalents, beginning of year	<u>451,325</u>	<u>443,365</u>	<u>894,690</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,553,338</u></u>	<u><u>\$ 1,182,325</u></u>	<u><u>\$ 2,735,663</u></u>

The notes are an integral part of these financial statements.

**Idyllwild Water District
Statement of Cash Flows
For the year ended June 30, 2015**

	Water	Improvement District No. 1 - Wastewater	Total memorandum only
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 70,843	\$ 94,517	\$ 165,360
Adjustments to reconcile operating income to net cash provided by for operating activities:			
Depreciation	210,989	39,623	250,612
(Increase) decrease in assets:			
Receivables	(1,059)	(4,194)	(5,253)
Inventories	13,685	-	13,685
Increase (decrease) in liabilities:			
Accounts payable	18,617	12,559	31,176
OPEB obligation	63,276	21,092	84,368
Unearned revenue	(20,005)	-	(20,005)
Other liabilities	(15,823)	(5,271)	(21,094)
Net cash provided by operating activities	<u>\$ 340,523</u>	<u>\$ 158,326</u>	<u>\$ 498,849</u>
Noncash, investing, capital and financing activities			
Capital asset purchased in payables	<u>\$ -</u>	<u>\$ 123,904</u>	<u>\$ 123,904</u>
Cash and investments are presented in the financial statements as presented below:			
Cash and investments	\$ 1,553,338	\$ 1,182,325	\$ 2,735,663
Certificates of deposit	25,000	178,326	203,326
Total statement of net position	<u>\$ 1,578,338</u>	<u>\$ 1,360,651</u>	<u>\$ 2,938,989</u>
Cash and cash equivalents	\$ 1,553,338	\$ 1,182,325	\$ 2,735,663
Investments	25,000	178,326	203,326
Total cash and investments	<u>\$ 1,578,338</u>	<u>\$ 1,360,651</u>	<u>\$ 2,938,989</u>

The notes are an integral part of these financial statements.

Idyllwild Water District
Notes to Financial Statements
For the year ended June 30, 2015

Note 1: *Significant accounting policies*

Description of reporting entity

The Idyllwild Water District was formed on March 21, 1955 for the purpose of providing a domestic water supply to the community of Idyllwild, California under Section 30000 of the California Water Code. Improvement District No. 1 was established by Board action on March 10, 1966 to provide wastewater services within the community. The financial statements of the Idyllwild Water District include the financial activities of Improvement District No. 1 as an oversight component of the District. The oversight responsibility of the District arises from the fact that the two operations are related financially and have the same management and governing board.

Measurement focus and basis of accounting

The District utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, revenue and expenses are recognized on an accrual basis of accounting.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods (water) in connection with the principal ongoing operations.

The District recognizes revenue from water sales, wastewater service fees and water availability fees as it is earned. Taxes and assessments are recognized as revenue based upon amounts reported to the District by the County of Riverside, net of an allowance for delinquencies.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Materials inventory

Inventory consists primarily of supplies used in the maintenance of plant and equipment and is valued at weighted average cost using the first in/first out (FIFO) method.

Net position flow assumption

At various times the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Water receivables

No allowance for doubtful accounts is provided because management believes all receivables are collectible.

Deposits and Investments

Investments for the District are reported at fair value.

**Idyllwild Water District
Notes to Financial Statements
For the year ended June 30, 2015**

Note 1: Significant accounting policies, (continued)

Capital assets and depreciation

Acquisitions of property, plant and equipment of \$300 or more with a useful life of greater than two years are capitalized and depreciated. Contributed assets are recorded at their fair value at the date of contribution. Self-constructed assets are recorded at the amount of direct labor and materials.

Depreciation is provided on the straight-line method over the following estimated useful lives:

<u>Water District</u>	<u>Years</u>
Source of supply	15 -100
Pumping plant	7 - 50
Treatment plant	25 - 40
Transmission and distribution	40 - 60
General plant	3 - 40
<u>Improvement District No.1</u>	<u>Years</u>
Subsurface lines	20 - 40
Wastewater treatment facilities	5 - 40
Wastewater disposal facilities	12 - 100
General plant	4 - 20

Cash and cash equivalents

For purposes of the statement of cash flows, the District considers all investments purchases with a maturity of three months or less to be cash equivalents.

Budgetary accounting

The District prepares and adopts budgets for both the Water and Improvement District, but does not present budgetary information because it is not legally required to adopt and adhere to a budget. All budgets are adopted on a basis consistent with generally accepted accounting principles.

Use of estimates

The preparation of these financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the statements. Actual results could differ from those estimates.

Net position is categorized as follows

- *Net investment in capital assets* – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Idyllwild Water District
Notes to Financial Statements
For the year ended June 30, 2015

Note 2: Capital assets

The investment in capital assets at June 30, 2015 consists of the following:

<u>Water District</u>	Beginning balance	Additions	Deletions	Ending balance
Capital assets not being depreciated:				
Construction in progress	\$ 528,238	\$ 21,714	\$ (450,412)	\$ 99,540
Land and land improvements	577,785	-	-	577,785
Total capital assets not being depreciated	<u>1,106,023</u>	<u>21,714</u>	<u>(450,412)</u>	<u>677,325</u>
Capital assets being depreciated:				
Source of supply	1,336,153	-	-	1,336,153
Pumping plant	97,162	-	-	97,162
Treatment plant	683,377	-	-	683,377
Transmission and distribution	5,013,826	450,412	-	5,464,238
General plant	1,057,598	48,745	-	1,106,343
Total capital assets being depreciated	8,188,116	499,157	-	8,687,273
Less accumulated depreciation	<u>(4,112,996)</u>	<u>(210,989)</u>	<u>-</u>	<u>(4,323,985)</u>
Net capital assets being depreciated	<u>4,075,120</u>	<u>288,168</u>	<u>-</u>	<u>4,363,288</u>
Net capital assets	<u>\$ 5,181,143</u>	<u>\$ 309,882</u>	<u>\$ (450,412)</u>	<u>\$ 5,040,613</u>
<u>Improvement District No. 1</u>	Beginning balance	Additions	Deletions	Ending balance
Capital assets not being depreciated:				
Construction in progress	\$ 225,629	\$ 346,930	\$ -	\$ 572,559
Land	25,966	-	-	25,966
Total capital assets not being depreciated	<u>251,595</u>	<u>346,930</u>	<u>-</u>	<u>598,525</u>
Capital assets being depreciated:				
Subsurface lines	926,136	-	-	926,136
Wastewater treatment facilities	1,109,174	-	-	1,109,174
Wastewater disposal facilities	313,328	-	-	313,328
General plant	184,945	-	-	184,945
Total capital assets being depreciated	2,533,583	-	-	2,533,583
Less accumulated depreciation	<u>(1,943,051)</u>	<u>(39,623)</u>	<u>-</u>	<u>(1,982,674)</u>
Net capital assets being depreciated	<u>590,532</u>	<u>(39,623)</u>	<u>-</u>	<u>550,909</u>
Net capital assets	<u>\$ 842,127</u>	<u>\$ 307,307</u>	<u>\$ -</u>	<u>\$ 1,149,434</u>

**Idyllwild Water District
Notes to Financial Statements
For the year ended June 30, 2015**

Note 3: Cash and investments

Cash and investments are displayed on the financial statements at June 30, 2015 as follows:

	Water	Improvement District No. 1
Current assets:		
Cash and investments	\$ 1,553,338	\$ 1,182,325
Certificates of deposit	25,000	178,326
Restricted:		
Cash and investments	412,851	171,187
 Total cash and cash equivalents	 \$ 1,991,189	 \$ 1,531,838

Cash and investments as of June 30, 2015 consisted of the following:

Deposits with financial institutions	\$ 303,071	\$ 36,533
Cash on hand	275	-
Investments	1,687,843	1,495,305
 Total cash and cash equivalents	 \$ 1,991,189	 \$ 1,531,838

The District is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. Each participant may invest up to \$50,000,000. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest. Also, LAIF is overseen by the Local Agency Investment Advisory Board which consists of five members, in accordance with State statute. LAIF is not currently rated by any rating agency.

Interest rate risk

The District has adopted an investment policy which limits the weighted average maturity of the Districts' investments to one year as a means of managing their exposure to fair value losses arising from increasing interest rates.

Concentration of credit risk

During the fiscal year, the District did not hold investments in one issuer that represented 5% or more of the District's total investment portfolio. Investments issued or explicitly guaranteed by the US government as well as mutual funds, external investment pools and other pooled assets are exempt from disclosure.

Idyllwild Water District
Notes to Financial Statements
For the year ended June 30, 2015

Note 3: Cash and investments, (continued)

Investments authorized by the California Government Code and the Districts' Investment Policy

The table on the next page identifies the investment types that are authorized by the California Government Code (or the Districts' investment policies, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Districts' investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by trustees that are governed by the provisions of debt agreements, rather than the general provisions of the California Government Code or the Districts' investment policies.

Authorized investment type	Maximum percentage of portfolio	Maximum investment in one issuer
United States treasury obligations	50%	Not applicable
US government sponsored enterprise securities	50%	Not applicable
California State warrants or notes	100%	Not applicable
Local Agency Investment Fund	67%	\$50,000,000
Money market mutual funds	25%	25%
Time certificates of deposit	50%	50%
Bankers acceptances	40%	30%
Commercial paper	25%	10%
Corporate medium term notes	30%	30%
Purchase agreements	20%	20%
Collateralized mortgage obligations and asset backed securities	20%	20%

Investments authorized by debt agreements

Investments of debt proceeds held by trustees (fiscal agents) are governed by provisions of the debt agreements, rather than the provisions of the California Government Code or the Districts' investment policies. The table below identifies the investment types that are authorized for investments held by trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration risk.

Authorized investment type	Maximum maturity	Maximum percentage of portfolio	Maximum investment in one issuer
United States treasury obligations	No limit	No limit	No limit
US government sponsored securities	No limit	No limit	No limit
Federal Housing Administration debt	No limit	No limit	No limit
Local Agency Investment Fund	No limit	No limit	\$50,000,000
Money market mutual funds	No limit	No limit	No limit
Bank time deposits and savings	No limit	No limit	No limit
State obligations	No limit	No limit	No limit
Investment agreements	No limit	No limit	No limit
Purchase agreements	No limit	No limit	No limit

**Idyllwild Water District
Notes to Financial Statements
For the year ended June 30, 2015**

Note 3: Cash and investments, (continued)

Investment maturities at June 30, 2015 were as follows:

Investment type	Fair value	Remaining maturity	
		12 months or less	13 to 60 months
<i>Water District</i>			
Local Agency Investment Fund	\$ 1,005,940	\$ 1,005,940	\$ -
Certificates of deposit	25,000	25,000	-
Public funds money market	656,903	656,903	-
Total investments - Water District	\$ 1,687,843	\$ 1,687,843	\$ -
<i>Improvement District No. 1</i>			
Local Agency Investment Fund	\$ 907,320	\$ 907,320	\$ -
Certificates of deposit	178,326	178,326	-
Public funds money market	409,659	409,659	-
Total investments - Improvement District No. 1	\$ 1,495,305	\$ 1,495,305	\$ -

Custodial credit risk

Custodial credit risk for deposits is the risk that, in the event of a 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 requires that a financial institute secure deposits made by state and local governmental units by pledging securities in an individual 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 pool must equal at least 110% of the total amount deposited by public agencies.

California law also allows financial institutions to secure the Districts' deposits by pledging first trust deed mortgage notes, having a value of 150% of the secured public deposits. At June 30, 2015, the Districts' deposits (bank balances) were insured by the Federal Depository Insurance Corporation or collateralized as required under California law.

Idyllwild Water District
Notes to Financial Statements
For the year ended June 30, 2015

Note 3: Cash and investments, (continued)

Credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. State law limits investments in certain investments in commercial paper, corporate bonds and mutual funds to the top two ratings issued by nationally recognized statistical rating organizations. The Districts' investment policies further limit investments in Money Market Mutual Funds to funds that carry the highest rating of at least two of the three largest national rating organizations.

<u>Investment type</u>	<u>Amount</u>	<u>Minimum legal rating</u>	<u>Rating</u>	<u>Not rated</u>
<i>Water District</i>				
Local Agency Investment Fund	\$ 1,005,940	NA	NA	\$ 1,005,940
Certificates of deposit	25,000	None	NA	25,000
Public funds money market	<u>656,903</u>	None	NA	<u>656,903</u>
Total investments - Water District	<u>\$ 1,687,843</u>			<u>\$ 1,687,843</u>
<i>Improvement District No. 1</i>				
Local Agency Investment Fund	\$ 907,320	NA	NA	\$ 907,320
Certificates of deposit	178,326	None	NA	178,326
Public funds money market	<u>409,659</u>	None	NA	<u>409,659</u>
Total investments - Improvement District No. 1	<u>\$ 1,495,305</u>			<u>\$ 1,495,305</u>

Note 4: Property tax calendar

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien date	March 1
Levy date	July 1 through June 30
Due date	November 1 – First installment March 1 – Second installment
Delinquent date	December 10 – First installment April 10 – Second installment

Under California law, property taxes and other charges (such as assessments) are assessed and collected by counties up to 1% of assessed value, plus other increases approved by voters. Property tax revenues are pooled and then allocated to agencies based on complex formulas prescribed by state statutes. The County of Riverside bills, collects and remits to the District property taxes and assessments through the County's property tax billing process.

Idyllwild Water District
Notes to Financial Statements
For the year ended June 30, 2015

Note 5: Net position

The District has adopted net position reserve policies which clearly identify reserve categories and purposes while also setting target levels that are consistent with the District's mission, uniqueness and philosophy. The District believes the reserves are prudent fiscal management tools which provide a cornerstone of long-term financial management. The reserve balances are reviewed annually to ensure they meet the needs, current and long-term, of the District. At June 30, 2015, the District had the following reserves in unrestricted net position:

Net position reserves	Water	Improvement District No. 1 - Wastewater
Working capital	\$ 112,500	\$ 37,500
Emergency	150,000	50,000
Capital improvement and replacement	150,000	50,000
Vehicle and equipment replacement	75,000	25,000
Vacation/sick/annual leave liability	37,500	12,500
OPEB	420,000	140,000
Total reserves	\$ 945,000	\$ 315,000

Note 6: Compensated absences payable

Vested or accumulated vacation leave is recognized as an expense and liability as the benefits accrue to the employees. Pursuant to GASB Statement No. 16, *Accounting for Compensated Absences*, only the vested portion of sick pay benefits are recognized as a liability.

	Beginning balance	Additions	Deletions	Ending balance
Compensated absences	\$ 45,936	\$ -	\$ (14,346)	\$ 31,590

Note 7: Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2015, the District participated in the Association of California Water Agencies Joint Powers Insurance Authority (JPIA), which was organized for the purpose of providing liability insurance for the member agencies. The JPIA is a risk-pooling self-insurance authority created under the provisions of California Government Code Section 6500. The JPIA is governed by a board consisting of a representative from each member agency. The board controls the operations of the JPIA, including selections of management and approval of operating budgets. The purpose of the JPIA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. The accounts and records of ACWA/JPIA are audited by an independent certified public accounting firm. The District has deductibles as follows:

Buildings, fixed equipment and personal property:	\$2,500
Mobile equipment:	\$2,500
Licensed vehicles:	\$1,000

**Idyllwild Water District
Notes to Financial Statements
For the year ended June 30, 2015**

Note 7: Risk management (continued)

The District pays annual premiums for the coverages, which are subject to retrospective adjustments based on claims experience. The nature and amounts of these adjustments cannot be estimated and there were no instances in the past three years where a settlement exceeded the district's coverage.

Note 8: Employees' retirement plan – defined contribution

All permanent employees hired on or before December 31, 2013 are covered under the Idyllwild Water District Money Purchase Pension Plan (the Plan) 401(a) administered by the District through ING Pension acting as trustee. The Plan is fully funded by a contribution rate of 21.5% of eligible salaries and wages made entirely by the District. The Board of Directors of the District has the authority, in its sole discretion, to amend, reduce contributions or terminate the plan at any time.

The activities related to the Plan, presented at market value, are as follows:

Balance, July 1, 2014	\$ 1,268,523
District contributions	90,171
Employee contributions	-
Withdrawals	(402,502)
Forfeitures	-
Earnings, net of fees	39,218
Balance, June 30, 2015	\$ 995,410

The District adopted a new pension plan 457(b) starting January 1, 2014. For new hires on or after January 1, 2014, the District contributes 10% for each new employee and matching up to 5%, if the employee elects to contribute up to 5%. The 457(b) Plan is administrated by the District through ING pension acting as trustee.

The 457(b) Plan is also available to all current employees hired before December 31, 2013 however, the District will not provide matching contributions.

The activities related to the 457(b) Plan, presented at market value are as follows:

Balance, July 1, 2014	\$ 4,628
District contributions	17,689
Employee contributions	9,617
Withdrawals	-
Forfeitures	-
Earnings, net of fees	(4,241)
Balance, June 30, 2015	\$ 27,693

District employees are also covered under Social Security, funded equally by the District and the employee, or as prescribed by applicable laws.

**Idyllwild Water District
Notes to Financial Statements
For the year ended June 30, 2015**

Note 9: Postemployment benefits other than pensions

Plan description

The Idyllwild Water District administers a single-employer benefit healthcare plan (the Plan). The Plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Districts' group health insurance plans, which covers both active and retired District members. Benefit provisions are established and can be amended by the District's Board of Directors. The Plan does not issue a publicly available financial report.

Funding policy

Contribution requirements are set by the District's Board of Directors. The District contributes 100% of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2015, the District contributed \$31,750 to the Plan. The District is funding the Plan on a pay-as-you go basis. During the 2014 fiscal year, the plan was closed to new entrants.

Annual OPEB cost and net OPEB obligation

The District's annual other postemployment 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 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 cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty 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 the District's net OPEB obligation to the Plan:

Annual required contribution	\$	118,586
Interest on net OPEB obligation		26,507
Adjustment to annual required contribution		(28,975)
Annual OPEB cost (expense)		116,118
Contributions made		(31,750)
Increase in net OPEB obligation		84,368
Net OPEB obligation, beginning of year		662,683
Net OPEB obligation, end of year	\$	747,051

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

Fiscal year ended	Annual OPEB cost (expense)	Percentage of OPEB cost contributed	Net OPEB obligation
June 30, 2013	\$ 143,319	12.19%	\$ 530,830
June 30, 2014	148,433	11.17%	662,683
June 30, 2015	116,118	27.35%	747,051

**Idyllwild Water District
Notes to Financial Statements
For the year ended June 30, 2015**

Note 9: Postemployment benefits other than pensions, (continued)

Funded status and funding progress

The funded status of the Plan as of June 30, 2015, was as follows (as of the January 1, 2015 actuarial):

Actuarial accrued liability (AAL)	\$	999,983
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)		<u>\$ 999,983</u>
Funded ratio (actuarial value of plan assets/AAL)		-
Covered payroll (active plan members)	\$	560,000
UAAL as a percentage of covered payroll		178.57%

As of the January 1, 2015 actuarial report, the actuarial accrued liability for benefits was \$999,983, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$560,000, and the ratio of the underfunded actuarial accrued liability to the covered payroll was 179%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding 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, presented as required supplementary information following the notes to the financial statements, 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.

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 the 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 perspective of the calculations.

The actuarial cost method used was the entry age normal cost method in the January 1, 2015 valuation. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis.

Changes since the June 2011 AMM valuation include:

- Plan experience relative to prior assumptions. This includes factors such as more or fewer employee terminations or retirements than assumed, as well as premiums and retiree benefit levels higher or lower than assumed;
- Changes in retiree medical benefits for those hired by the District after December 31, 2013;
- Revised assumptions for mortality (including projection of future improvements, resulting in longer life expectancies), termination and retirement;
- Recognition of dental, vision and/or prescription drug coverage in addition to supplemental medical coverage for retirees and/or their spouses covered by Medicare; and
- Differences in the rates in which future premium levels will increase.

**Idyllwild Water District
Notes to Financial Statements
For the year ended June 30, 2015**

Note 9: *Postemployment benefits other than pensions, (continued)*

The following simplifying assumptions were made:

Retirement age for active employees

Retirement age for active members is assumed to be when a member attains Medicare eligibility age. However, if a member will not qualify for OPEB benefits at the age of Medicare eligibility, the year of retirement is assumed to be the year OPEB benefit qualifications have been met. Under current policy, a member must have been employed by the District for 10 years and have attained the age of 55 to qualify for OPEB benefits.

Marital status

Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality

Mortality rates were determined using CalPERS experience study using data from 1997 to 2007. The valuation used the CalPERS Public Agency Miscellaneous tables projected by applying Scale AA on a fully generational basis.

Turnover

Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rates

The expected rate of increase in healthcare insurance premiums were based on projections of the Association of California Water Agencies for medical, dental and vision coverage and projected to increase annually at a rate of 5%.

Health insurance premiums

2014 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate

The expected long-term inflation assumption of 3% was used.

Payroll growth rate

The expected long-term payroll growth rate used was 3.25%.

Discount rate

Based on the historical and expected returns of the Districts' short-term investment portfolio, a discount rate of 4% was used since the plan is unfunded.

Idyllwild Water District
Required Supplementary Information – Schedule of Funding Progress
for the Retiree Health Plan (OPEB)
June 30, 2015

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll [(b-a)/c]
06/30/10	\$ -	\$ 765,613	\$ 765,613	0.0%	\$ 526,400	145%
06/30/11	-	2,577,048	2,577,048	0.0%	574,301	449%
01/01/15	-	999,983	999,983	0.0%	560,000	179%