



VALLEY COUNTY WATER DISTRICT
14521 RAMONA BOULEVARD
BALDWIN PARK, CA 91706
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<http://www.vcwd.org>

FINANCE COMMITTEE MEETING

The Finance Committee is responsible for discussing and reviewing items related to the District's budget and short-term financial position.

DATE & LOCATION:

Thursday, March 12, 2015 at 1:00PM
Valley County Water District
14521 Ramona Boulevard
Baldwin Park, Ca 91706

COMMITTEE MEMBERS:

Margarita Vargas, Chairperson
Lenet Pacheco, Co-Chairperson
Paul C. Hernandez, Alternate Member

A. CALL TO ORDER**B. DISCUSSION/INFORMATION ITEMS**

1. Review DRAFT 2013-2014 Audited Financial Statements
2. Review DRAFT Resolution of the Board of Directors of Valley County Water District Adopting the Audited Financial Report for the Fiscal Year Ended August 31, 2014
3. Review DRAFT Resolution of the Board of Directors of Valley County Water District Transferring Funds Unappropriated as of August 31, 2014 to the Capital Improvement and Replacement Fund

C. ADJOURNMENT

Next Meeting Scheduled: To Be Determined.



VALLEY COUNTY WATER DISTRICT
Finance Committee Meeting
Thursday, March 12, 2015

AGENDA ITEM:

B1

Review DRAFT 2013-2014 Audited Financial Statements

VALLEY COUNTY WATER DISTRICT

BASIC FINANCIAL STATEMENTS

AUGUST 31, 2014

DRAFT

**VALLEY COUNTY WATER DISTRICT
FINANCIAL STATEMENTS**

AUGUST 31, 2014

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Valley County Water District

ORGANIZATION
For the Fiscal Year Ended August 31, 2014

GOVERNING BOARD OF DIRECTORS

<u>Name</u>	<u>Office</u>
Alfonso Contreras	President
Paul C. Hernandez	Vice President
Lenet Pacheco	Director
Margarita Vargas	Director
Mariana Lake	Director

DRAFT



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA
ALEXANDER C HOM, CPA
ADAM V GUISE, CPA
TRAVIS J HOLE, CPA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
Valley County Water District
Baldwin Park, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Valley County Water District (District), as of and for the fiscal year ended August 31, 2014, and the related notes to the 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 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. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Valley County Water District, as of August 31, 2014, and the changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change of Accounting Principles

As discussed in Note 2 of the notes to the basic financial statements, effective September 1, 2013, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, Statement No. 66, *Technical Correction - 2012*, Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees*. Our opinion is not modified with respect to this matter.

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 for Retiree Health Plan information on **pages 4 through 8** and page **27**, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Combining Statement of Net Position; Revenues, Expenses, and Changes in Net Position; and Cash Flows are presented for purposes of additional analysis and are not required parts of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated **XX, 2015**, on our consideration of the Valley County Water District's internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

Report on Summarized Comparative Information

We have previously audited the District’s August 31, 2013 financial statements and our audit report dated February 14, 2014, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended August 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM LLP
Culver City, California
XX, 2015

DRAFT

VALLEY COUNTY WATER DISTRICT
STATEMENT OF NET POSITION
August 31, 2014
With Comparative Totals as of August 31, 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets		
Cash and Investments	\$ 11,859,875	\$ 13,836,570
Cash and Investments with Fiscal Agents	50,000	50,000
Accounts Receivable, Water Sales and Service Charges	1,022,578	1,097,046
Accounts Receivable, Other	21,549	18,021
Cooperating Respondents Receivable, Water Treatment Plant Construction	323,763	2,922,596
Allowance for Doubtful Accounts		(1,023,378)
Prop 84 Grant Receivable	328,970	398,914
Accrued Interest Receivable	4,579	5,778
Material and Supplies Inventory	107,327	109,456
Prepaid Expenses	33,765	35,279
Total Current Assets	<u>13,752,406</u>	<u>17,450,282</u>
Noncurrent Assets		
Capital Assets, Net	59,304,805	57,952,416
Investment in Covina Irrigating Company	920,523	765,900
Total Noncurrent Assets	<u>60,225,328</u>	<u>58,718,316</u>
Total Assets	<u>73,977,734</u>	<u>76,168,598</u>
Liabilities		
Current Liabilities		
Accounts Payable and Accrued Expenses-Operations	961,854	1,120,223
Main San Gabriel Basin Watermaster Assessment	119,244	59,494
Accrued Wages and Compensated Absences	193,534	186,320
Accounts Payable-Pass-Through Receipts	11,807	13,984
Unearned Revenue	29,457	481,349
PERS Side Fund		72,501
Deposits Payable	278,139	268,989
Advances for Construction	51,358	17,081
Total Current Liabilities	<u>1,645,393</u>	<u>2,219,941</u>
Noncurrent Liabilities		
PERS Side Fund		411,465
OPEB Obligation	790,862	801,500
Total Noncurrent Liabilities	<u>790,862</u>	<u>1,212,965</u>
Total Liabilities	<u>2,436,255</u>	<u>3,432,906</u>
Net Position		
Net Investment in Capital Assets	59,304,805	57,952,416
Restricted for Construction	601,375	3,304,429
Unrestricted Net Position	11,635,299	11,478,847
Total Net Position	<u>\$ 71,541,479</u>	<u>\$ 72,735,692</u>

See accompanying notes to basic financial statements

VALLEY COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended August 31, 2014
With Comparative Totals for the Fiscal Year Ended August 31, 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Water Sales	\$ 7,128,327	\$ 6,992,397
Other Service Charges	407,230	455,590
Project Reimbursements and Settlement Revenue	5,975,258	6,305,698
Total Operating Revenues	<u>13,510,815</u>	<u>13,753,685</u>
Operating Expenses		
Source of Supply	2,364,816	1,509,334
Pumping	1,287,326	1,545,603
Treatment	1,452,234	3,811,339
Transmission and Distribution	2,645,869	1,781,765
Customer Service	421,048	405,525
General and Administrative	2,970,952	3,180,516
Total Operating Expenses	<u>11,142,245</u>	<u>12,234,082</u>
Operating Income (Loss) Before Depreciation	2,368,570	1,519,603
Other Operating Depreciation	<u>(1,879,234)</u>	<u>(1,839,514)</u>
Operating Income (Loss)	<u>489,336</u>	<u>(319,911)</u>
Non-Operating Revenues (Expenses)		
Property Taxes	294,359	411,318
Grant		398,914
Interest Income	32,050	37,130
Gain (Loss) on Sale of Capital Assets	4,700	4,100
Unrealized Gain (Loss) on Cash and Investments, Net	154,358	(9,793)
Total Non-Operating Revenues, Net	<u>485,467</u>	<u>841,669</u>
Capital Contributions		
Water Treatment Plant	252,627	83,398
Developer Contribution	23,985	11,206
Total Capital Contributions	<u>276,612</u>	<u>94,604</u>
Change in Net Position	<u>1,251,415</u>	<u>616,362</u>
Net Position, Beginning of Fiscal Year	72,735,692	72,637,482
Prior Period Adjustments	<u>(2,445,628)</u>	<u>(518,152)</u>
Net Position, Beginning of Fiscal Year, Restated	<u>70,290,064</u>	<u>72,119,330</u>
Net Position, End of Fiscal Year	<u>\$ 71,541,479</u>	<u>\$ 72,735,692</u>

See accompanying notes to basic financial statements

VALLEY COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended August 31, 2014
With Comparative Totals for the Fiscal Year Ended August 31, 2013

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities		
Receipts from Water Sales and Services	\$ 6,760,053	\$ 7,344,445
Receipts (Payments) from Sources of Supply Recovery	(2,465,044)	(112,547)
Receipts (Payments) from Other Service Charges	403,702	470,318
Project Reimbursements	5,659,127	6,305,698
Payments for Salaries and Services	(2,626,966)	(2,092,549)
Watermaster Assessment Received (Paid)	59,750	(138,479)
Payment for Materials and Services	<u>(7,248,570)</u>	<u>(9,312,654)</u>
Net Cash Flows Provided (Used) by Operating Activities	<u>542,052</u>	<u>2,464,232</u>
Cash Flows From Non-Capital and Related Financing Activities		
Property Tax Proceeds	294,359	411,318
Net Cash Flows Provided by Non-Capital and Related Financing Activities	<u>294,359</u>	<u>411,318</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition and Construction of Capital Assets	(3,231,623)	(1,196,902)
Prop 84 Grant Receivable	69,944	
Advance for Construction	34,277	(3,625)
Capital Contributions	276,612	94,604
Proceeds from Disposition of Capital Assets	4,700	4,100
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(2,846,090)</u>	<u>(1,101,823)</u>
Cash Flows From Investing Activities		
Interest Received	32,984	28,386
Net Cash Flows Provided (Used) by Investing Activities	<u>32,984</u>	<u>28,386</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,976,695)	1,802,113
Cash and Cash Equivalents, Beginning of Fiscal Year	<u>13,886,570</u>	<u>12,084,457</u>
Cash and Cash Equivalents, End of Fiscal Year	<u>\$ 11,909,875</u>	<u>\$ 13,886,570</u>
Reconciliation of Cash and Cash Equivalents to Statement of Net Position:		
Cash and Investments with Fiscal Agents	\$ 50,000	\$ 50,000
Cash and Investments	<u>11,859,875</u>	<u>13,836,570</u>
Total Cash and Investments	<u>\$ 11,909,875</u>	<u>\$ 13,886,570</u>

(Continued)

See accompanying notes to basic financial statements

VALLEY COUNTY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended August 31, 2014
With Comparative Totals for the Fiscal Year Ended August 31, 2013
(Continued)

	2014	2013
Reconciliation of Operating Income (Loss) to Net Cash Flows		
Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 489,336	\$ (319,911)
Adjustments to Reconcile Operating Income (Loss) to Cash Flows		
Provided (Used) by Operating Activities:		
Depreciation	1,879,234	1,839,514
Changes in Assets and Liabilities:		
Decrease (increase) in Accounts Receivable - Water Sales and Service Charges	74,468	(134,921)
Decrease (increase) in Accounts Receivable - Other	(3,528)	14,728
Decrease (increase) in Environmental Costs Mitigation Recovery Receivable		225,000
Decrease (increase) in Cooperating Respondents Receivable, Net	(870,173)	(112,547)
Decrease (increase) in Materials and Supplies Inventory	2,129	7,047
Decrease (increase) in Prepaid Expenses	1,514	(398)
Increase (decrease) in Accounts Payable and Accrued Expenses - Operations	(158,369)	226,731
Increase (decrease) in Main San Gabriel Basin Watermaster Assessment	59,750	(29,887)
Increase (decrease) in Accrued Wages and Compensated Absences	7,214	25,875
Increase (decrease) in PERS Side Fund	(483,966)	(34,186)
Increase (decrease) in OPEB Obligation	(10,638)	268,734
Increase (decrease) in Accounts Payable - Pass-Through Receipts	(2,177)	1,484
Increase (decrease) in Unearned Revenue	(451,892)	419,971
Increase (decrease) in Customer Deposits	9,150	66,998
	\$ 542,052	\$ 2,464,232
Net Cash Flows Provided (Used) by Operating Activities	\$ 542,052	\$ 2,464,232

See accompanying notes to basic financial statements

VALLEY COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
August 31, 2014

Note 1: Description of the Entity

The Valley County Water District (District) was formed in 1925 and incorporated in 1926, and is authorized by Division 12 of the California Water Code. The District provides water to residential and commercial customers in the Cities of Baldwin Park, Irwindale, Azusa and West Covina, all of which encompasses approximately 12.8 square miles, including the annexation of the Santa Fe Dam area in 1973.

Note 2: Summary of Significant Accounting Policies

A. Basis of Accounting

The District reports its activities as Water Operations and Treatment Plant Operations which are used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its customers on a continuing basis be financed through user charges (water sales and services), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues, such as water sales, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues such as grant funding and investment income result from non-exchange transactions in which the District (receives) value without directly receiving (giving) value in exchange.

B. Financial Reporting

The District's financial statements are presented in conformity with the provisions of Governmental Accounting Standards Board Statement (GASB) No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" (GASB No. 62). This statement established revised financial reporting requirements for State and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports. GASB No. 62 and subsequent GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net position replaces the balance sheet and reports assets, liabilities, and the difference between them as net position and not equity. A statement of revenues, expenses, and changes in net position replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No.62 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 62, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standard Board (FASB) subsequent to November 30, 1989.

The District has elected not to follow FASB standards issued after that date unless such standards are specifically adopted by GASB.

VALLEY COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
August 31, 2014

Note 2: Summary of Significant Accounting Policies (Continued)

C. Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash represents balances that can be readily withdrawn without substantial notice or penalty. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of three months or less.

D. Investments and Investment Policies

The District has adopted an investment policy directing the Treasurer to deposit funds in financial institutions. Investments are to be made in the following areas:

- Passbook checking and savings accounts
- Certificates of deposit (non-negotiable)
- Money market securities
- State of California - Local Agency Investment Fund (LAIF)
- Securities of the United States government
- Federal agency obligations
- Bonds issued by the District

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes earnings, changes in fair value and any gains or losses realized upon the liquidation or sale of investments.

E. Accounts Receivable

The District extends credit to customers in the normal course of operations. Bad debts associated with accounts receivable for services are provided for by use of the allowance method.

F. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipes and pipe fittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using a weighted average method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

G. Prepaid Expenses

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

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclose of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

VALLEY COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
August 31, 2014

Note 2: Summary of Significant Accounting Policies (Continued)

I. Capital Assets

Capital assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Contributed capital assets are valued at their estimated fair value at the date of the contribution. Net interest cost during construction is capitalized when the effects of capitalization materially impact the financial statements. Amortization/depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Source of supply and pumping equipment	10 to 75 years
Transmission and distribution system	10 to 50 years
Buildings, equipment, and furniture	5 to 40 years

J. Accounts Payable – Pass-Through Receipts

The District, on some of its water bills, collects Utility Users Tax for the Cities of Baldwin Park and Irwindale from customers who reside within each City's boundaries. Receipts from these collections are passed through to the respective Cities throughout the year. Accordingly, revenue from these collections has not been recorded.

K. Compensated Absences

The District has recorded an accrual for compensated absences in accordance with the District's policy of paying for unused vacation and sick time of employees. Employees earn vacation leave and sick time upon hire as follows: one to four years earn 80.08 hours (10 days) per year; Five to nine years earn 120.12 hours (15 days) per year; Ten to nineteen years earn 160.16 hours (20 days) per year; Twenty plus years earn an additional day per year for a maximum of 25 days per year. Upon termination, 25% of accrued sick time not taken is paid. In addition, vacation time accrued not exceeding 400 hours is paid at 100% using the employees wage rates.

L. Unearned Revenue

Under the accrual basis of accounting, revenues are recognized only when earned. Thus, the enterprise funds defer revenue recognition for resources that have been received at fiscal year-end, but not yet earned. Assets recognized before the earning process is complete are offset by a corresponding liability as unearned revenue. In addition, Cooperating Respondents Receivable for which repayments are deferred, or for which the balance may be written off if certain terms and conditions of the contract cannot be met, have also been offset by unearned revenue.

M. 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 capital expenditures or capacity commitment.

N. Budgetary Policies

The District adopts an annual, non-appropriated budget for planning, control and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

VALLEY COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
August 31, 2014

Note 2: Summary of Significant Accounting Policies (Continued)

O. Net Position

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

P. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 65

For the fiscal year ended August 31, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 65, "Items Previously Reported as Assets and Liabilities." This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to establish accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of the GASB Statement No. 65 did not have an impact on the District's financial statements for the fiscal year ended August 31, 2014.

Governmental Accounting Standards Board Statement No. 66

For the fiscal year ended August 31, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 66, "Technical Correction - 2012." This Statement is effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement No. 54 and Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, regarding the reporting of risk financing activities. Questions also have arisen about differences between Statement No. 62 and Statements No. 13, Accounting for Operating Leases with Scheduled Rent Increases, regarding the reporting of certain operating lease transactions, and No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. Implementation of the GASB Statement No. 66 did not have an impact on the District's financial statements for the fiscal year ended August 31, 2014.

VALLEY COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
August 31, 2014

Note 2: Summary of Significant Accounting Policies (Continued)

P. New Accounting Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 67

For the fiscal year ended August 31, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 67, "Financial Reporting for Pension Plans." This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No.25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and No. 50 "Pension Disclosures" as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. Implementation of the GASB Statement No. 67 did not have an impact on the District's financial statements for the fiscal year ended August 31, 2014.

Governmental Accounting Standards Board Statement No. 70

For the fiscal year ended August 31, 2014, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees." This Statement is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are non-exchange transactions. Implementation of the GASB Statement No. 70 did not have an impact on the District's financial statements for the fiscal year ended August 31, 2014.

Note 3: Cash and Investments

The District is following the requirements associated with the Governmental Accounting and Standards Board Statement No. 40, Deposit and Investment Risk Disclosures. This Statement addresses common deposit and investment risks related to credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values with a high sensitivity to interest rate changes.

Cash and Investments as of August 31, 2014 are classified in the accompanying financial statements as follows:

Cash and Investments	\$ 11,859,875
Cash and Investments with Fiscal Agents	50,000
Total Cash and Investments	<u><u>\$ 11,909,875</u></u>

Cash and Investments as of August 31, 2014 consisted of the following:

Cash on Hand	\$ 2,000
Deposits with Financial Institutions	913,618
Investments	10,994,257
Total Cash and Cash Equivalents and Investments	<u><u>\$ 11,909,875</u></u>

VALLEY COUNTY WATER DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 August 31, 2014

Note 3: Cash and Investments (Continued)

Investment Policy

The District's investment policy outlines the guidelines required to be used in effectively managing the District's available cash in accordance with the California Government Code. Summarized below are the investment vehicles that are authorized and certain provisions of the policy that address interest rate risk and concentration of credit risk.

	<u>Maturity</u>	<u>Portfolio Threshold</u>	<u>Investment Ceiling for a Single Issuer</u>
U.S. Government and Agencies	5 years	None	None
Banker's Acceptances	180 days	15%	15%
Commercial Paper	270 days	25%	10%
Certificates of Deposit	1 year	None	None
Negotiable Certificates of Deposit	1 year	20%	25%
LAIF	N/A	None	\$50 Million
Money Market Funds	90 days or less	20%	None

Interest Rate Risk

Interest rate risk, as defined under Governmental Accounting Standards Board (GASB) Statement No. 40, is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investments mature over time, generally consistent with its cash flow and liquidity needs.

	<u>Maturity</u>		<u>Investment Total</u>
	<u>Within 1 year</u>	<u>1-5 years</u>	
Held by Fiscal Agents:			
Money Market Funds	\$ 50,000	\$ -	\$ 50,000
Certificates of Deposit	261,317		261,317
State Investment Pool (1)	10,682,940		10,682,940
Total Cash, Cash Equivalents, and Investments	\$ 10,994,257	\$ -	\$ 10,994,257

- (1) The District is a voluntary participant in the Local Agency Investment Fund (LAIF), a special fund regulated by the California State Treasury through which each city, district, or agency may invest up to \$50 million. At August 31, 2014, the market value of The District's LAIF holdings, including accrued interest, was approximately \$11 million. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

The District has no investments that are highly sensitive to interest rate fluctuations.

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 the California Government Code and the District's investment policy, and the actual rating as of fiscal year end for each investment type.

VALLEY COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
August 31, 2014

Note 3: Cash and Investments (Continued)

Credit Risk (Continued)

<u>Investment Type</u>	<u>Rating as of August 31, 2014</u>		
	<u>AAA</u>	<u>Not Rated</u>	<u>Total</u>
Held by Fiscal Agents:			
Money Market funds	\$ -	\$ 50,000	\$ 50,000
Certificates of Deposit		261,317	261,317
State Investment Pool		10,682,940	10,682,940
Total	\$ -	\$ 10,994,257	\$ 10,994,257

Concentration of Credit Risk

Under GASB Statement No. 40, concentration of credit risk is the risk of loss attributable to the magnitude of the District's investment in a single issuer. As of August 31, 2014, the District had no investment (other than external investment pools) that represented 5% or more of total District investments.

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 or investments other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The fair 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.

Bank deposit amounts up to \$250,000 are insured by National Credit Union Administration (NCUA).

As of August 31, 2014, \$990,315 of the District's deposits with Southern California Edison Federal Credit Union in excess of federal depository insurance limits were held in collateralized accounts, as required by the California Government Code.

Note 4: Prop 84 Grant Receivable

In October 2012, the District entered in to a funding agreement with the State Water Resources Control Board Division of Drinking Water under the provisions of the Safe Drinking Water, Water Quality and Supply, Flood control, River and Coastal Protection Bond Act of 2006. The purpose of the funding is to assist in financing a project which will enable supplier to prevent or reduce the contamination of groundwater that serves as a source of drinking water. The total cost of the project is estimated to be \$847,020, which is fully funded by the State. The outstanding balance at August 31, 2014 was \$328,970. The project is expected to be completed by the end of fiscal year ended 2015. The outstanding balance will be reimbursed by the State when the project is completed.

VALLEY COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
August 31, 2014

Note 5: Investment in Covina Irrigating Company

The District has purchased 111 shares of stock from various individuals in the Covina Irrigating Company at various prices in the range of \$250 to \$1,230 per share for a total cost of \$85,585. These shares of stock were purchased to help provide the District with an additional source of water. Each share of stock has a proportionate right to water delivery based upon the annual entitlement as determined by the Main San Gabriel Basin Watermaster. For financial reporting purposes under GASB Statement No. 31, each share has been reported at its fair value of approximately \$8,293 per share, which totals \$920,523 for the total investment.

Note 6: Cooperating Respondents Receivable – Water Treatment Plant Construction

The overall basis for the Baldwin Park Operable Unit (BPOU) Agreement is to construct a new Water Treatment Plant (Plant) and distribution system. The Cooperating Respondents have agreed to pay for the construction of the Plant and the distribution system, while the District will operate and maintain the Plant. As of August 31, 2014, the District has incurred costs of approximately \$52.29 million for the construction of the Plant.

In March 2014, the District entered into a settlement agreement with the Cooperating Respondent (CR) Group regarding the capital and operations and maintenance reimbursement claims for the Clinton O. Nixon Granular Activated Carbon (GAC) Treatment Facilities and the Maine Street GAC Treatment Facility. Between the period of September 2003 and August 2005, the District's Clinton O. Nixon and Maine Street groundwater production wells were out of service due to the detection of contamination, specifically perchlorate contamination, which required the District to purchase an alternative imported water supply in order to satisfy customer demand. As the alternative water supply was being imported, the cost of the purchased water was invoiced and paid by the District. Upon payment of the invoice, the District requested reimbursement from the CR Group for the total cost of the alternative water supply, and the CR Group subsequently reimbursed the District for the full invoice amount.

During the recent settlement negotiations it was discussed that the District was overcompensated by the CR Group when it was reimbursed for the cost of the alternative water supply since the appropriate avoided costs to the District were not credited against the total cost of the alternative water supply. The CR Group then requested that the District credit the overcompensated amount against the outstanding claims related to the Clinton O. Nixon GAC Treatment Facilities and the Maine Street GAC Treatment Facility. It was calculated that a credit of \$2,445,628 was to be applied to the outstanding Clinton O. Nixon GAC Treatment Facilities and Maine Street GAC Treatment Facility claims of the District, which then totaled \$2,218,799, leaving a credit balance of \$226,829. The final settlement agreement stipulated that the outstanding credit balance of \$226,829 would be applied to future monthly Clinton O. Nixon GAC Treatment Facilities and Maine Street GAC Treatment Facility claims made by the District until the credit has been fully dissolved. Currently, Clinton O. Nixon GAC Treatment Facilities and Maine Street GAC Treatment Facility claims for reimbursement are processed on a monthly basis and are allocated on a 60/40 basis in which the CR Group reimburses 60% of the monthly reimbursement claim and the District applies the remaining 40% against the outstanding credit.

As of August 31, 2014, the outstanding balance of CR receivable and replacement water credit were \$323,763 and \$210,097, respectively.

VALLEY COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
August 31, 2014

Note 7: Capital Assets

	Balance at 8/31/2013	Additions	Deletions	Transfers	Balance at 8/31/2014
Capital Assets, not being depreciated:					
Land and Easements	\$ 1,161,151	\$ 97,350	\$ -	\$ 2,627,398	\$ 3,885,899
Construction in Progress	6,016,563	3,290,815	(283,402)	(3,239,599)	5,784,377
Total Capital Assets, not being depreciated	<u>7,177,714</u>	<u>3,388,165</u>	<u>(283,402)</u>	<u>(612,201)</u>	<u>9,670,276</u>
Capital Assets, being depreciated					
Production Equipment & Facilities	8,964,180	36,666	(41,211)		8,959,635
Treatment Facilities	35,854,837				35,854,837
Distribution System & Pipelines	23,025,982	18,873		509,204	23,554,059
Buildings, Structures and Improvements	2,557,551				2,557,551
Maintenance Equipment	620,988	62,666	(56,062)		627,592
Office Equipment & Furniture	489,987		(8,267)	14,384	496,104
District Documents & Plans	354,758	8,655		88,613	452,026
Total Capital Assets, being depreciated	<u>71,868,283</u>	<u>126,860</u>	<u>(105,540)</u>	<u>612,201</u>	<u>72,501,804</u>
Less Accumulated Depreciation	<u>(21,093,581)</u>	<u>(1,879,234)</u>	<u>105,540</u>		<u>(22,867,275)</u>
Total Capital Assets, being depreciated, net	<u>50,774,702</u>	<u>(1,752,374)</u>		<u>612,201</u>	<u>49,634,529</u>
Total Capital Assets, Net	<u>\$ 57,952,416</u>	<u>\$ 1,635,791</u>	<u>\$ (283,402)</u>	<u>\$ -</u>	<u>\$ 59,304,805</u>

Construction-in-Progress

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-process balance at August 31, 2014 are as follows:

Water Treatment Plant	\$ 5,769,747
Production Equipment and Facilities	14,630
Total	<u>\$ 5,784,377</u>

Note 8: Main San Gabriel Basin Watermaster Assessment

The Main San Gabriel Basin Watermaster Assessment (Watermaster) is the agency charged with administering adjudicated water rights and managing groundwater resources within the watershed and groundwater basin known as the Main San Gabriel Basin (Basin). The Watermaster was created in 1973 by the California Superior Court of Los Angeles County to administer the Basin's adjudicated water rights and to provide a basin-wide governing body for management of water resources. The Watermaster operates under a formal Set of Rules and Regulations, which spell out the procedures by which Watermaster-controlled actions are to be carried out.

Under the Rules and Regulations, water producers in the Basin must obtain Watermaster approval for activities such as 1) Constructing or modifying a well, 2) Constructing a groundwater treatment plant, 3) Increasing groundwater extraction, 4) Spreading water in the Basin, and 5) Spreading and storing supplemental water under a cyclic storage agreement.

In order to fund its operations, the Watermaster is authorized to levy and collect production assessments from the producers based upon their amounts of production during the preceding fiscal year. These assessments are applied primarily to the purchase of replacement water and to administrative costs. The Watermaster's production assessment is based on a production period from July 1 to June 30 each year. For the period ending August 31, 2014, the Watermaster billed the District \$119,244, which is due and payable to the Watermaster on September 20th each year.

VALLEY COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
August 31, 2014

Note 9: Compensated Absences

The employees of the District at August 31, 2014 had unused sick pay and vacation of \$146,672. Considering that the employees have a vested right to these benefits, the corresponding liability has been reflected in accounts payable and accrued expenses.

Note 10: Public Employees Retirement System Side Fund

During the fiscal year 2005-06, the District was required to participate in the Public Employees Retirement System (PERS) risk pool. As a result, a side fund was created to account for the difference between the funded status of the pool and the funded status of the District's plan, in addition to the existing unfunded liability. During the fiscal year, the District paid off the outstanding balance of \$483,966.

Note 11: Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in two 457 Deferred Compensation Programs (Programs). The purposes of these Programs are to provide deferred compensation for public employees that elect to participate in the Programs. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employees, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District and are not subject to claims of the District's general creditors. The plan assets for the two Programs are held in trust by Nationwide Retirement Services and VOYA Financial. As of June 30, 2014 the fair values of assets held by Nationwide Retirement Services and VOYA Financial were \$513,035 and \$1,343,484, respectively.

The District has implemented GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net position.

Note 12: Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries.

CalPERS acts as a common investment and administrative agent for participating public agencies within the state of California. Benefit provisions and all other requirements are established by State statute and the District. Copies of CalPERS annual financial report may be obtained from their Executive Office: 400 P Street, Sacramento, CA 95814.

Funding Policy

The contribution rate for participants is 8% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Additionally, the District is required to contribute the actuarially-determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rate for the period of September 1, 2012 to June 30, 2014 was 20.533% and for the period of July 1, 2014 to August 31, 2014 was 17.692%. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

VALLEY COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
August 31, 2014

Note 12: Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For the fiscal year 2014, the District's annual pension cost was \$324,697 and was equal to the District's required and actual contributions. The District's annual pension cost for the fiscal years ending August 31, 2013 and 2012 were \$330,299 and \$319,049, respectively, and represent 100% of the annual required contributions for each fiscal year. The required contribution was determined as part of the June 30, 2012 and 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expense), (b) projected annual salary increase between 3.30% to 14.20% that vary by category, duration of service and entry age, (c) an inflation component of 2.75% and (d) payroll growth rate of 3.00%. The actuarial value of CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investment over a three-year period (smoothed market value).

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 19-year period.

Gains and losses that occur in the operation of the plan are amortized over a rolling period which results in an amortization of 10% or unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

Note 13: Post Employment Benefits Other than Pensions

Plan Description

The District administers a single employer defined benefit healthcare plan (Plan).

The District provides post employment healthcare benefits to all qualified employees who met the District's Public Employees Retirement System (PERS) current plan requirements. For regular District employees hired before June 1, 2014, five years of full time continuous employment with the District is required. The employee must be at least 50 years of age and has participated in the PERS plan for at least five years for health care benefits. Additionally, the employee must be at least 50 years of age and have participated in the PERS plan for at least ten years for dental and vision benefits, as well as receiving service retirement benefits pursuant to the terms and conditions of the District's PERS plan. For regular District employees hired on or after June 1, 2014, 15 years of full time continuous employment with the District is required. The employee must be at least 55 years of age and has participated in the PERS plan for at least 15 years for health care benefits. Additionally, the employee must be at least 55 years of age and have participated in the PERS plan for at least 20 years for dental and vision benefits, as well as receiving service retirement benefits pursuant to the terms and conditions of the District's PERS plan.

The District pays a fixed sum that is not to exceed 100% of the medical plan premium from the date of retirement for the life of the retired employee. Depending on the PERS payment plan chosen by the employees for spousal coverage after the death of an employee, the District would also cover the spouse for life under the same plan.

The District participates in the CalPERS health program for medical coverage and the Association of California Water Agencies (ACWA) health program for dental and vision coverage.

VALLEY COUNTY WATER DISTRICT
 NOTES TO BASIC FINANCIAL STATEMENTS
 August 31, 2014

Note 13: Post Employment Benefits Other than Pensions (Continued)

Funding Policy

The contribution requirement of plan members and the District are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the District. In the fiscal year 2013-2014, the District contributed \$328,031 to the Plan.

Annual OPEB 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), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and 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 fiscal year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

Annual required contribution	\$ 328,031
Interest on net OPEB obligation	60,994
Adjustment to annual required contribution	<u>(71,632)</u>
Annual OPEB cost (expense)	317,393
Contributions made	<u>(328,031)</u>
Increase (decrease) in net OPEB obligation	(10,638)
Net OPEB obligation - beginning of the fiscal year	<u>801,500</u>
Net OPEB obligation - end of the fiscal year	<u><u>\$ 790,862</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2011-12, 2012-2013, and 2013-14 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contribution	Net OPEB Obligation
8/31/2012	\$ 362,925	52%	\$ 532,766
8/31/2013	\$ 426,088	37%	\$ 801,500
8/31/2014	\$ 317,393	103%	\$ 790,862

Funded Status and Funding Progress

As of September 1, 2012, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$3,426,813, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,426,813.

VALLEY COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
August 31, 2014

Note 13: Post Employment Benefits Other than Pensions (Continued)

Funded Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve 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 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, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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 actuarial 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.

In the September 1, 2012, the actuarial cost method used is the Projected Unit Credit with service prorates. The actuarial assumptions included a 4.5 percent investment rate of return and an annual healthcare cost trend rate of 7.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after six years.

The method of determining the actuarial value of assets is not applicable. The UAAL is being amortized on a level dollar basis over thirty years. The remaining period at September 1, 2012 is 26 years.

Note 14: Risk Management

The District is exposed to various risks of loss related to torts, theft of, or damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority, an intergovernmental risk sharing joint powers authority created to provide self insurance programs for California water agencies.

The District's coverage for general, auto, public officials' and employees' errors and omissions, and employment practices liabilities risk financing limits is \$500,000 to \$35 million per occurrence with overall limits of \$35 million per year.

In addition to the above coverage, the District has commercial coverage for employee dishonesty of \$100,000, public officials' bond for faithful performance of duty of \$50,000, \$50 million coverage per occurrence for replacement cost of property on file and comprehensive general and auto liability insurance. All of the above policies are subject to various deductibles if not reported already. The District has obtained workers' compensation coverage to the statutory limits and employers' liability insurance with limits of \$2 million.

During the past three fiscal years, none of the above programs of protection experienced settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage in 2013-2014.

VALLEY COUNTY WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
August 31, 2014

Note 15: Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

General Lawsuits

The District is subject to other litigation arising in the normal course of business. In the opinion of the District Counsel, there is no pending litigation which is likely to have a material adverse effect on the financial position of the District.

Note 16: Leased Water Rights

Annually, the District leases water rights from various parties within the San Gabriel Basin for a one-year term to pump excess water for operations. For the fiscal year ended August 31, 2014, the District leased water rights amounting to \$1,011,470.

Note 17: Prior Period Adjustments

Prior period adjustments in an amount of \$2,445,628 made to the District's financial statements were due to understatement of replacement water credit payable.

Note 18: Date of Management's Review

Subsequent events were evaluated through XX, 2015, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

DRAFT

VALLEY COUNTY WATER DISTRICT
 SCHEDULE OF FUNDING PROGRESS FOR RETIREE HEALTH PLAN
 August 31, 2014

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Trend Information

Schedule of Funding Progress for
Retiree Health Plan

Actuarial Valuation Date	Projected Unit Credit Cost Accrued Liability	Actuarial Value of Assets	Actuarial Unfunded Liability (Excess Assets)	Funded Ratio	Annual Covered Payroll	Percentage of Unfunded Liability to Annual Covered Payroll
9/1/2009	\$ 3,373,113	\$ -	\$ 3,373,113	0%	\$ 949,848	28%
9/1/2012	\$ 3,426,813	\$ -	\$ 3,426,813	0%	\$ 1,338,193	39%

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SUPPLEMENTARY INFORMATION

DRAFT

VALLEY COUNTY WATER DISTRICT
COMBINING STATEMENT OF NET POSITION
As of August 31, 2014
With Comparative Totals as of August 31, 2013

	2014			2013 Total
	Water Operations	Treatment Plant Operations	Total	
Assets				
Current Assets				
Cash and Investments	\$ 11,859,875	\$ -	\$ 11,859,875	\$ 13,836,570
Cash and Investments with Fiscal Agents	50,000		50,000	50,000
Accounts Receivable, Water Sales and Service Charges	1,022,578		1,022,578	1,097,046
Accounts Receivable, Other	21,549		21,549	18,021
Cooperating Respondents Receivable, Water Treatment Plant Construction	7,632	316,131	323,763	2,922,596
Allowance for Doubtful Accounts				(1,023,378)
Prop 84 Grant Receivable	328,970		328,970	398,914
Accrued Interest Receivable	4,579		4,579	5,778
Material and Supplies Inventory	107,327		107,327	109,456
Prepaid Expenses	13,918	19,847	33,765	35,279
Total Current Assets	<u>13,416,428</u>	<u>335,978</u>	<u>13,752,406</u>	<u>17,450,282</u>
Noncurrent Assets				
Capital Assets, Net	13,287,303	46,017,502	59,304,805	57,952,416
Investment in Covina Irrigating Company	920,523		920,523	765,900
Total Noncurrent Assets	<u>14,207,826</u>	<u>46,017,502</u>	<u>60,225,328</u>	<u>58,718,316</u>
Total Assets	<u>27,624,254</u>	<u>46,353,480</u>	<u>73,977,734</u>	<u>76,168,598</u>
Liabilities				
Current Liabilities				
Accounts Payable and Accrued Expenses-Operations	680,631	281,223	961,854	1,120,223
Main San Gabriel Basin Watermaster Assessment	99,463	19,781	119,244	59,494
Accrued Wages and Compensated Absences	171,596	21,938	193,534	186,320
Accounts Payable - Pass-Through Receipts	11,807		11,807	13,984
Unearned Revenue	29,457		29,457	481,349
PERS Side Fund				72,501
Deposits Payable	278,139		278,139	268,989
Advances for Construction	51,358		51,358	17,081
Total Current Liabilities	<u>1,322,451</u>	<u>322,942</u>	<u>1,645,393</u>	<u>2,219,941</u>
Noncurrent Liabilities				
PERS Side Fund				411,465
OPEB Obligation	680,886	109,976	790,862	801,500
Total Noncurrent Liabilities	<u>680,886</u>	<u>109,976</u>	<u>790,862</u>	<u>1,212,965</u>
Total Liabilities	<u>2,003,337</u>	<u>432,918</u>	<u>2,436,255</u>	<u>3,432,906</u>
Net Position				
Net Investment in Capital Assets	13,287,303	46,017,502	59,304,805	57,952,416
Restricted for Construction	285,244	316,131	601,375	3,304,429
Unrestricted Net Position	12,048,370	(413,071)	11,635,299	11,478,847
Total Net Position	<u>\$ 25,620,917</u>	<u>\$ 45,920,562</u>	<u>\$ 71,541,479</u>	<u>\$ 72,735,692</u>

VALLEY COUNTY WATER DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended August 31, 2014
With Comparative Totals for the Fiscal Year Ended August 31, 2013

	2014			2013 Total
	Water Operations	Treatment Plant Operations	Total	
Operating Revenues				
Water Sales	\$ 7,128,327	\$ -	\$ 7,128,327	\$ 6,992,397
Other Service Charges	215,351	191,879	407,230	455,590
Project Reimbursements and Settlement Revenue	1,578,376	4,396,882	5,975,258	6,305,698
Total Operating Revenues	<u>8,922,054</u>	<u>4,588,761</u>	<u>13,510,815</u>	<u>13,753,685</u>
Operating Expenses				
Source of Supply	1,911,002	453,814	2,364,816	1,509,334
Pumping	694,999	592,327	1,287,326	1,545,603
Treatment	125,861	1,326,373	1,452,234	3,811,339
Transmission and Distribution	879,991	1,765,878	2,645,869	1,781,765
Customer Service	421,048		421,048	405,525
General and Administrative	2,261,649	709,303	2,970,952	3,180,516
Total Operating Expenses	<u>6,294,550</u>	<u>4,847,695</u>	<u>11,142,245</u>	<u>12,234,082</u>
Operating Income (Loss) Before Depreciation	2,627,504	(258,934)	2,368,570	1,519,603
Depreciation	<u>(981,599)</u>	<u>(897,635)</u>	<u>(1,879,234)</u>	<u>(1,839,514)</u>
Operating Income (Loss)	<u>1,645,905</u>	<u>(1,156,569)</u>	<u>489,336</u>	<u>(319,911)</u>
Non-Operating Revenues (Expenses)				
Property Taxes	294,359		294,359	411,318
Grant				398,914
Interest Income	32,050		32,050	37,130
Gain (Loss) on Sale of Capital Assets	4,700		4,700	4,100
Unrealized Gain (Loss) on Cash and Investments, Net	154,358		154,358	(9,793)
Total Non-Operating Revenues, Net	<u>485,467</u>		<u>485,467</u>	<u>841,669</u>
Capital Contributions				
Water Treatment Plant Developer Contribution	23,985	252,627	252,627	83,398
Total Capital Contributions	<u>23,985</u>	<u>252,627</u>	<u>276,612</u>	<u>94,604</u>
Change in Net Position	<u>2,155,357</u>	<u>(903,942)</u>	<u>1,251,415</u>	<u>616,362</u>
Net Position, Beginning of Fiscal Year	25,911,188	46,824,504	72,735,692	72,637,482
Prior Period Adjustments	<u>(2,445,628)</u>		<u>(2,445,628)</u>	<u>(518,152)</u>
Net Position, Beginning of Fiscal Year, Restated	<u>23,465,560</u>	<u>46,824,504</u>	<u>70,290,064</u>	<u>72,119,330</u>
Net Position, End of Fiscal Year	<u>\$ 25,620,917</u>	<u>\$ 45,920,562</u>	<u>\$ 71,541,479</u>	<u>\$ 72,735,692</u>

VALLEY COUNTY WATER DISTRICT
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended August 31, 2014
With Comparative Totals for the Fiscal Year Ended August 31, 2013

	2014			2013 Total
	Water Operations	Treatment Plant Operations	Total	
Cash Flows From Operating Activities				
Receipts from Water Sales and Services	\$ 6,760,053	\$ -	\$ 6,760,053	\$ 7,344,445
Receipts (Payments) from Sources of Supply Recovery	(2,465,044)		(2,465,044)	(112,547)
Receipts (Payments) from Other Service Charges	211,823	191,879	403,702	470,318
Project Reimbursements	1,578,376	4,080,751	5,659,127	6,305,698
Payments for Salaries and Services	(2,049,577)	(577,389)	(2,626,966)	(2,092,549)
Watermaster Assessment Received (Paid)	39,969	19,781	59,750	(138,479)
Payment for Materials and Services	(2,819,431)	(4,429,139)	(7,248,570)	(9,312,654)
Net Cash Flows Provided (Used) by Operating Activities	<u>1,256,169</u>	<u>(714,117)</u>	<u>542,052</u>	<u>2,464,232</u>
Cash Flows From Non-Capital and Related Financing Activities				
Property Tax Proceeds	294,359		294,359	411,318
Net Cash Flows Provided by Non-Capital and Related Financing Activities	<u>294,359</u>		<u>294,359</u>	<u>411,318</u>
Cash Flows From Capital and Related Financing Activities				
Acquisition and Construction of Capital Assets	(3,693,113)	461,490	(3,231,623)	(1,196,902)
Prop 84 Grant Receivable	69,944		69,944	
Advance for Construction	34,277		34,277	(3,625)
Capital Contributions	23,985	252,627	276,612	94,604
Proceeds from Disposition of Capital Assets	4,700		4,700	4,100
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(3,560,207)</u>	<u>714,117</u>	<u>(2,846,090)</u>	<u>(1,101,823)</u>
Cash Flows From Investing Activities				
Interest Received	32,984		32,984	28,386
Net Cash Flows Provided by Investing Activities	<u>32,984</u>		<u>32,984</u>	<u>28,386</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,976,695)		(1,976,695)	1,802,113
Cash and Cash Equivalents, Beginning of Fiscal Year	<u>13,886,570</u>		<u>13,886,570</u>	<u>12,084,457</u>
Cash and Cash Equivalents, End of Fiscal Year	<u>\$11,909,875</u>	<u>\$ -</u>	<u>\$ 11,909,875</u>	<u>\$ 13,886,570</u>
Reconciliation of Cash and Cash Equivalents to Statement of Net Position:				
Cash and Investments with Fiscal Agents	\$ 50,000	\$ -	\$ 50,000	\$ 50,000
Cash and Investments	<u>11,859,875</u>		<u>11,859,875</u>	<u>13,836,570</u>
Total Cash and Investments	<u>\$11,909,875</u>	<u>\$ -</u>	<u>\$ 11,909,875</u>	<u>\$ 13,886,570</u>

(Continued)

**VALLEY COUNTY WATER DISTRICT
COMBINING STATEMENT OF CASH FLOWS
For the Fiscal Year Ended August 31, 2014
With Comparative Totals For the Fiscal Year Ended August 31, 2013
(Continued)**

	2014			2013 Total
	Water Operations	Treatment Plant Operations	Total	
Reconciliation of Operating Income (Loss) to Cash Flows				
Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 1,645,905	\$ (1,156,569)	\$ 489,336	\$ (319,911)
Adjustments to Reconcile Operating Income (Loss) to Cash Flows				
Provided (Used) by Operating Activities:				
Depreciation	981,599	897,635	1,879,234	1,839,514
Changes in Assets and Liabilities:				
Decrease (increase) in Accounts Receivable - Water Sales and Service Charges	74,468		74,468	(134,921)
Decrease (increase) in Accounts Receivable - Other	(3,528)		(3,528)	14,728
Decrease (increase) in Environmental Costs Mitigation Recovery Receivable				225,000
Decrease (increase) in Cooperating Respondents Receivable , Net	(554,042)	(316,131)	(870,173)	(112,547)
Decrease (increase) in Materials and Supplies Inventory	2,129		2,129	7,047
Decrease (increase) in Prepaid Expenses	21,361	(19,847)	1,514	(398)
Increase (decrease) in Accounts Payable and Accrued Expenses - Operations	112,531	(270,900)	(158,369)	226,731
Increase (decrease) in Main San Gabriel Basin Watermaster Assessment	39,969	19,781	59,750	(29,887)
Increase (decrease) in Accrued Wages and Compensated Absences	(14,724)	21,938	7,214	25,875
Increase (decrease) in PERS Side Fund	(483,966)		(483,966)	(34,186)
Increase (decrease) in OPEB Obligation	(120,614)	109,976	(10,638)	268,734
Increase (decrease) in Accounts Payable - Pass-Through Receipts	(2,177)		(2,177)	1,484
Increase (decrease) in Unearned Revenue	(451,892)		(451,892)	419,971
Increase (decrease) in Customer Deposits	9,150		9,150	66,998
Net Cash Flows Provided (Used) by Operating Activities	<u>\$ 1,256,169</u>	<u>\$ (714,117)</u>	<u>\$ 542,052</u>	<u>\$ 2,464,232</u>

VALLEY COUNTY WATER DISTRICT
MANAGEMENT REPORT
AND
AUDITOR'S COMMUNICATION LETTER

August 31, 2014

DRAFT

VALLEY COUNTY WATER DISTRICT
August 31, 2014

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MOSS, LEVY & HARTZHEIM LLP

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February 23, 2015

Board of Directors
Valley County Water District
14521 Ramona Boulevard
Baldwin Park, CA 91706

We have audited the financial statements of the Valley County Water District (District) for the fiscal year ended August 31, 2014, and have issued our report thereon dated February 23, 2015. Professional standards require that we provide you with the information about our responsibilities under auditing standards generally accepted in the United States of America, and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated August 11, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Valley County Water District are described in Note 2 to the financial statements. As discussed in Note 2 of the notes to the financial statements, four new accounting policies were adopted during the fiscal year. The new policies are Governmental Accounting Standards Board (GASB) Statements No. 65, 66, 67, and 70.

We noted no transactions entered into by the District during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were management's estimate of the funding progress of PERS, Other Postemployment Benefits (OPEB) actuarial values, the collectability of receivables, and the estimated historical cost and useful lives of capital assets. These estimates are based on PERS' and consultants' estimates, historical data and industry guidelines, and actuarial tables provided by GASB, respectively. The amount of estimated collectability of receivables is based on historical data. We evaluated the key factors and assumptions used to develop the estimates above in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 23, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Valley County Water District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis and the Schedule of Funding Progress for Retiree Health Plan information, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Combining Statement of Net Position; Revenues, Expenses, and Changes in Net Position; and Cash Flows, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of members of the Board of Directors and management of the Valley County Water District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Moss, Levy & Hartzheim LLP
Culver City, CA

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MOSS, LEVY & HARTZHEIM LLP

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Valley County Water District
Baldwin Park, CA

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 Valley County Water District (District), as of and for the fiscal year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 23, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying management report, we identified one deficiency that we consider to be a significant deficiency.

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 misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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. We consider the deficiency described in this report to be a significant deficiency (Finding 2014-01).

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 instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Valley County Water District's Response to Finding

The District's response to the finding identified in our audit is described in this report. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim LLP
Culver City, California
February 23, 2015

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CURRENT YEAR RECOMMENDATION

Significant Deficiency

2014-01 Finding – Deficiencies in control over cash receipts:

During our test of controls over cash receipts, we noted that customer service is able to void cash receipt entries

Effect:

Without proper restrictions on voids, there is an increased risk of misappropriation of funds as the accounting records can be altered.

Recommendation:

We recommend that the District restrict the ability to void cash receipt entries so that a supervisor's approval is required in order to void cash receipt entries.

Management's Response:

The current INCODE financial accounting software allows for restrictive use and required permissions when processing various transactions through the cash collections module. Therefore, in efforts of eliminating the unwarranted void of processed cash collection transactions, and the associated potential misappropriation of funds, management has implemented a password requirement to manage and administer cash collection voids. The General Manager, Finance & Customer Service Manager, and Senior Accounting Technician will maintain system passwords required for approval of cash collection voided transactions.

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STATUS OF PRIOR YEAR RECOMMENDATIONS

Significant Deficiencies

2013-01 Finding – Lack of controls over customer account fees adjustment:

During our review of internal control over cash receipts, we noted that there were no controls in place to restrict access to adjust a utility customer's account fees.

Effect:

Without proper restrictions of customer account fees, there is an increased risk of misappropriation of funds through offering reduced rates.

Recommendation:

We recommend that the District restrict the ability to change customer account fees so that a supervisor's approval is needed in order to change a customer's account fees.

Status:

Implemented

2013-02 Finding – Lack of checks and balances on approving General Manager's credit card statement:

During our review of internal control over credit card expenditures, we noted that the General Manager approved her own credit card purchases.

Effect:

Without a separate person approving the General Manager's credit card expenditures, there is an increased risk of misappropriation of funds through disallowed purchases.

Recommendation:

We recommend that a wmanager reviews and approved the General Manager's credit card expenditures.

Status:

Implemented

Other Matters

2013-03 Finding – Lack of control over payroll documentation:

During the test of payroll, we examined twenty-five employee personnel files and time sheets and noted the following findings:

1. Three new hires during the 2012-2013 fiscal year were missing personnel action forms in their personnel folder.
2. Three employee timesheets were missing a supervisor's signature.

Effect:

1. Without proper documentation of employee pay rates, it is difficult to verify if an employee is being paid the correct salary.
2. Without a supervisor's signature on an employee's time sheet, there is an increased risk of misappropriation of funds through working hours being overstated.

STATUS OF PRIOR YEAR RECOMMENDATIONS (CONTINUED)

Other Matters (Continued)

Recommendation:

We recommend that the District keep updated personnel action forms for all employees, and enforce the District's current policy requiring a supervisor's signature on all employee time sheets.

Status:

Implemented

2013-04 Finding – Lack of control over cellphone usage:

During the test of cellphone fraud, we noted that there is a lack of control over video messaging.

Effect:

Without proper controls over video messaging, there is an increased risk of improper use of District issued cellphones and an employee's working hours.

Recommendation:

We recommend that the District update their cellphone policy to restrict use of video messaging on cellphones and implement controls to enforce the policy.

Status:

Implemented

2013-05 Finding – Lack of control over employee computer loans:

During the review of employee computer loans, we noted the following findings:

1. One employee had two computer loans concurrently, but District policy only allows an employee to have one computer loan at a time.
2. Three employees purchased computer accessories with their computer loan, but District policy does not specifically allow purchases other than computers.

Effect:

The District is not enforcing its administrative code on employee computer loans.

Recommendation:

1. We recommend that the District implement controls to enforce the computer loan policy that only allows one computer loan per employee.
2. We recommend that the District disallow employee computer loans for computer accessory purchases, or update the administrative code to specifically allow for computer accessory purchases.

Status:

Implemented



VALLEY COUNTY WATER DISTRICT
Finance Committee Meeting
Thursday, March 12, 2015

AGENDA ITEM:

B2

Review DRAFT Resolution of the Board of Directors of Valley County Water District Adopting the Audited Financial Report for the Fiscal Year Ended August 31, 2014

DRAFT



RESOLUTION NO. 03-15-760

**A RESOLUTION OF THE BOARD OF DIRECTORS OF VALLEY COUNTY WATER DISTRICT
ADOPTING THE AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2014**

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF VALLEY COUNTY WATER DISTRICT, as follows:

Effective March 23, 2015, the Board of Directors of Valley County Water District hereby resolve to accept the audited financial statements for the year ended August 31, 2014, as prepared and presented by Moss, Levy, & Hartzheim LLP.

PASSED, APPROVED, AND ADOPTED this 23rd day of March 2015.

SIGNED:

President of the Board of Directors

ATTEST:

Secretary of the Board of Directors

(OFFICIAL VCWD SEAL)



**VALLEY COUNTY WATER DISTRICT
Finance Committee Meeting
Thursday, March 12, 2015**

COVER PAGE:

B3

Review DRAFT Resolution of the Board of Directors of Valley County Water District Transferring Funds Unappropriated as of August 31, 2014 to the Capital Improvement and Replacement Fund

DRAFT



RESOLUTION NO. 03-15-761

**A RESOLUTION OF THE BOARD OF DIRECTORS OF VALLEY COUNTY WATER DISTRICT
TRANSFERRING FUNDS UNAPPROPRIATED AS OF AUGUST 31, 2014
TO THE CAPITAL IMPROVEMENTS AND REPLACEMENT FUND**

BE IT RESOLVED BY THE BOARD OF DIRECTORS OF VALLEY COUNTY WATER DISTRICT, as follows:

The District has previously established a General Fund and a Capital Improvements and Replacement Fund. The continued existence of such funds is hereby affirmed.

All monies, which are not expended as of August 31, 2014, shall be appropriated to the Capital Improvements and Replacement Fund.

Monies totaling \$1,251,417.35 as of August 31, 2014, in addition to those previously and currently appropriated to the Capital Improvement and Replacement Fund shall be expended during future fiscal years, first to avoid borrowing pending receipt of tax revenues and then for usual and necessary expenses of the General Fund prior to the expenditures of appropriations said to the extent that appropriations to the Capital Improvements and Replacement Fund are being accumulated to provide reserves for emergencies, other unforeseen contingencies, specific capital projects, or other property acquisition.

PASSED, APPROVED, AND ADOPTED this 23rd day of March 2015.

SIGNED:

President of the Board of Directors

ATTEST:

Secretary of the Board of Directors

(OFFICIAL VCWD SEAL)