HEBER PUBLIC UTILITY DISTRICT

ANNUAL FINANCIAL REPORT

WITH REPORT ON AUDIT BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2018

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Heber Public Utility District
El Centro, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Heber Public Utility District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Heber Public Utility District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Offices located in Orange and San Diego Counties

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of the net pension liability, the schedule of contributions – defined benefit pension plans, and the budgetary comparison schedule, identified as Required Supplementary Information (RSI) in the accompanying 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 RSI 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI 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 December 11, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White Nelson Diehl Evans LLP

Carlsbad, California
December 11, 2018

June 30, 2018

This section of the Heber Public Utility District's annual financial report presents an analysis of the District's financial performance during the fiscal year ended June 30, 2018. This information is presented in conjunction with the audited basic financial statements, which follows this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2018

- The assets of the District exceeded liabilities at the close of the 2017-2018 the fiscal year by $29,631,049 (*Net Position*). Of this amount, $3,121,694 (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors, $713,915 is restricted for debt service and $25,795,440 is invested in capital assets – net of related debt.

- As of June 30, 2018 the District's governmental funds reported combined fund balances of $735,577 which is available to meet the District's Governmental Fund current and future needs (unassigned fund balance).

- The District new long term loan with State Water Resources Control Board for the Water Treatment Plant upgrade totals $4,740,492 as of June 30, 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components, government – wide financial statements, fund financial statements and notes to the financial statements. This report also includes additional required supplementary information in addition to the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

Government – Wide Financial Statements are designed to provide readers with a broad overview of District finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the District's assets, deferred outflows, liabilities, and deferred inflows and provides information about the nature and amounts of investments in resources and the obligations to District creditors. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a portion of their costs through user fees and charges (business type activities). The governmental activities of the District are Parks and Recreation/Retention Basin and Street Lighting activities. The business type activities are Water, Sewer, and Solid Waste.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and to demonstrate finance-related legal compliance. The funds of the District are: governmental funds, proprietary funds and fiduciary fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate comparison between governmental funds and governmental activities.

Proprietary Funds are used to account for when the District charges fees to cover the costs of certain services it provides. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. The District uses a proprietary fund to report its Water, Wastewater and Solid Waste activities.

Fiduciary Fund is used to account for assets held by the District as an agent for Heber Public Utility District Community Facilities District No. 2005-1 by making payments to bondholders from property taxes collected by the County of Imperial**.**

Notes to the Financial Statements
The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other Information
In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information and other supplementary information which can be found on pages 40-44 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A summary of the District's Statement of Net Position in comparison to the prior year is presented below.

Condensed Statement of Net Position
Fiscal Years
June 30, 2017 and 2018

	Governmental Activities		Business-type Activities		Total	
	2017	2018	2017	2018	2017	2018
Assets:						
Current and other Assets	$ 859,071	$ 750,990	$ 4,732,035	$ 3,891,342	$ 5,591,106	$ 4,642,332
Capital Assets	921,182	1,163,109	37,400,699	36,983,669	38,321,881	38,146,778
Total Assets	1,780,253	1,914,099	42,132,734	40,875,011	43,912,987	42,789,110
Deferred Outflows of Resources:						
Deferred amounts from pension	45,858	46,688	307,619	313,195	353,477	359,883
Total Deferred Outflows	45,858	46,688	307,619	313,195	353,477	359,883
Liabilities:						
Current Liabilities	24,438	32,129	1,814,309	627,380	1,838,747	659,509
Noncurrent	80,213	94,510	12,069,175	12,735,890	12,149,388	12,830,400
Total Liabilities	104,651	126,639	13,883,484	13,363,270	13,988,135	13,489,909
Deferred Inflows of Resources:						
Deferred amounts from pension	4,544	3,637	30,481	24,398	35,025	28,035
Total Deferred Inflows	4,544	3,637	30,481	24,398	35,025	28,035
Net Position:						
Net investment in capital assets	921,182	1,163,109	25,702,701	24,632,331	26,623,883	25,795,440
Restricted	-	-	736,257	713,915	736,257	713,915
Unrestricted	795,734	667,402	2,087,430	2,454,292	2,883,164	3,121,694
Total Net Position	$ 1,716,916	$ 1,830,511	$ 28,526,388	$ 27,800,538	$ 30,243,304	$ 29,631,049

June 30, 2018

A summary of the District's Statement of Activities in comparison to the prior year is presented below.

Condensed Statement of Activities
Fiscal Years
June 30, 2017 and 2018

	Governmental Activities		Business-type Activities		Total	
	2017	2018	2017	2018	2017	2018
Program Revenues:						
Charges for Services:						
Parks and Recreation	82,819	83,183	-	-	82,819	83,183
Water, Wastewater & Solid Waste			3,230,801	3,265,312	3,230,801	3,265,312
Capital contributions and grants	-	-	2,693,260	-	$ 2,693,260	-
	82,819	83,183	5,924,061	3,265,312	6,006,880	3,348,495
General Revenues:						
Property Taxes	473,482	461,220	-	-	473,482	461,220
Investment earnings	-	-	1,093	2,682	1,093	2,682
Other Revenues	12,649	55,840	71,396	22,654	84,045	78,494
	486,131	517,060	72,489	25,336	558,620	542,396
Total Revenue	568,950	600,243	5,996,550	3,290,648	6,565,500	3,890,891
Expenses:						
Parks and Recreation	437,554	486,648	-	-	437,554	486,648
Water, Wastewater & Trash OE			3,507,950	3,888,916	3,507,950	3,888,916
Interest on long-term debt	-	-	130,875	127,582	130,875	127,582
Total Expenses	437,554	486,648	3,638,825	4,016,498	4,076,379	4,503,146
Changes in Net Position	131,396	113,595	2,357,725	(725,850)	2,489,121	(612,255)
Beginning Net Position	1,585,520	1,716,916	26,168,663	28,526,388	27,754,183	30,243,304
Ending Net Position	$ 1,716,916	$ 1,830,511	$ 28,526,388	$ 27,800,538	$ 30,243,304	$ 29,631,049

The following is a brief explanation for the balance changes of the Condensed Statement of Activities for the year ending June 30, 2018.

- Charges for services in Governmental activities showed a modest increase primarily due to the CPI (Consumer Price Index) annual adjustment to the CFD's annual charge for services.
- No Capital Contributions or Grants were received from Federal or State Funds. The Grants for the Water Treatment Plant were depleted in FY 2017.
- Property Taxes had a decrease of 2.59% with respect to 2017.
- The Revenues in Water, Sewer & Trash had a modest 1.1% increase due to the rate increase with a modified rate for FY 2017-2018.

June 30, 2018

CAPITAL ASSETS

As of June 30, 2018 the District's investment in capital assets net of accumulated depreciation was $1,163,109 and $36,983,669 for Governmental and Business-type Activities respectively. The investment in capital assets includes land, site improvements, buildings and improvements, machinery and equipment. The capital assets are presented in the government – wide statement of net position. The District completed the improvements to the Water Treatment Plant, Rehabilitated Manholes and Lift-station on 6th Street in Wastewater Fund, installed sports field lights at Tito Huerta Park and an iron fence at Children's Park during Fiscal Year 2017-2018, committing available monies in fund balance and the remaining funds from SWRCB for the Water Fund. For more detailed information about the District's capital assets, see Note 3 to the financial statements.

	Balance at June 30, 2017 Net of Accumulated Depreciation	Increases	Decreases	Current Year Depreciation	Balance at June 30, 2018 Net of Accumulated Depreciation
Governmental Activities:					
Land	$ 511,367	$ -	$ -	$ -	$ 511,367
Construction in progress	26,403	232,960	(238,385)		20,978
Buildings	245,575	12,990	238,385	(14,861)	482,089
Machinery and Equipment	95,384	39,903	11,988	(21,709)	125,566
Furniture and Fixtures	40,779		(11,988)	(6,922)	21,869
Computer Equipment	1,674			(434)	1,240
	$ 921,182	$ 285,853	$ -	$ (43,926)	$ 1,163,109
Business-type Activities:					
Land	$ 512,276	$ -	$ -	$ -	$ 512,276
Construction in progress	9,780,914	908,236	(10,468,405)	-	220,745
Structures and Improvements	287,130	62,801	-	(39,034)	310,897
Machinery and Equipment	395,454	-	-	(52,722)	342,732
Infrastructure	26,399,012	10,468,405	-	(1,291,593)	35,575,824
Computer Equipment	25,913	-	-	(4,718)	21,195
	$ 37,400,699	$ 11,439,442	$ (10,468,405)	$ (1,388,067)	$ 36,983,669

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

- The governmental funds had a negative fund balance change of $84,853 in comparison with the prior year, due to the capital costs for the sports field lights and the iron fence at Tito Huerta Park and Children's Park respectively.

- The Water Fund had a negative net position change of $ 264,289. This is primarily due to the depreciation expenditures for the new Water Treatment Plant Up-grade with a total asset value of $10,468,405 and a 40 years life expectancy, the calculated annual depreciation for 9 months of the 2017-2018 year is $193,886.

- The Wastewater Fund had a negative net position change of $480,861. This negative balance change is due to the depreciation expenditures for the Wastewater Treatment Plant Up-grade with a total asset value of $12,453,248 and a 30 years life expectancy, the calculated annual depreciation is $415,108.

- The recently adopted rates are expected to cover capital costs such as depreciation and debt service. Depreciation is an operating expense according to the Governmental Accounting Standards Board (GASB) and needs to be recovered through fees and service charges.

- The Solid Waste Fund had a positive net position change of $19,300.

LONG – TERM DEBT

As of June 30, 2018 the District had $12,830,400 in noncurrent liabilities, which is net of the $404,818 current portion as reported in the statement of net position. The outstanding debt consists of 2009 USDA Certificates of Participation, 2012 SWRF Wastewater Treatment Expansion and SWRCB Water Boards Loan for the Water Treatment Plant Up-grade and the District's obligation to its employees for compensated absences, the District's net pension liability (note 6). For more detailed information about the District's long term-debt see note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The 2017-2018 fiscal year proved to be a challenge, since new rates were adopted and lower rates were implemented for FY 2018-2019 the rates are as adopted. The District anticipates a minimal increase in tax revenues as housing values depend on the offer and demand, the increase in property value is limited to no more than 2% according to Proposition 13. The District also anticipates capacity revenues due to the affordable capacity residential rates recently implemented.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, citizens, taxpayers, creditors, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Graciela Lopez, HPUD Finance Manager at (760) 482-2440.

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BASIC FINANCIAL STATEMENTS

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STATEMENT OF NET POSITION
June 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 733,714	$ 2,423,113	$ 3,156,827
Restricted cash and cash equivalents	-	713,915	713,915
Accounts receivable	17,276	754,314	771,590
Total Current Assets	750,990	3,891,342	4,642,332
Noncurrent Assets:			
Capital Assets:			
Capital assets not being depreciated	532,345	733,021	1,265,366
Capital assets, net of depreciation	630,764	36,250,648	36,881,412
Total Noncurrent Assets	1,163,109	36,983,669	38,146,778
TOTAL ASSETS	1,914,099	40,875,011	42,789,110
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amounts from pension	46,688	313,195	359,883
TOTAL DEFERRED OUTFLOWS OF RESOURCES	46,688	313,195	359,883
LIABILITIES			
Current Liabilities:			
Accounts payable	8,214	76,372	84,586
Accrued interest payable	-	12,653	12,653
Accrued wages and benefits payable	5,927	28,906	34,833
Deposits	1,272	121,347	122,619
Long-term debt due within one year	-	309,431	309,431
Current portion of compensated absences	16,716	78,671	95,387
Total Current Liabilities	32,129	627,380	659,509
Noncurrent Liabilities:			
Net pension liability	94,510	633,983	728,493
Long-term debt due in more than one year	-	12,041,907	12,041,907
Compensated absences	-	60,000	60,000
Total Noncurrent Liabilities	94,510	12,735,890	12,830,400
TOTAL LIABILITIES	126,639	13,363,270	13,489,909
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts from pension	3,637	24,398	28,035
TOTAL DEFERRED INFLOWS OF RESOURCES	3,637	24,398	28,035
NET POSITION			
Net investment in capital assets	1,163,109	24,632,331	25,795,440
Restricted for debt service	-	713,915	713,915
Unrestricted	667,402	2,454,292	3,121,694
TOTAL NET POSITION	$ 1,830,511	$ 27,800,538	$ 29,631,049

STATEMENT OF ACTIVITIES
For the year ended June 30, 2018

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Parks and recreation	$ 486,648	$ 83,183	$ -	$ -
Total governmental activities	486,648	83,183	-	-
Business-Type Activities:				
Water	1,839,502	1,563,438	-	-
Wastewater	1,693,098	1,200,901	-	-
Solid waste	483,898	500,973	-	-
Total business-type activities	4,016,498	3,265,312	-	-
Total primary government	$ 4,503,146	$ 3,348,495	$ -	$ -

GENERAL REVENUES
Property taxes
Investment earnings
Other revenues
Total General Revenues

CHANGES IN NET POSITION

NET POSITION AT BEGINNING OF YEAR

NET POSITION AT END OF YEAR

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
$ (403,465)	$ -	$ (403,465)
(403,465)	-	(403,465)
-	(276,064)	(276,064)
-	(492,197)	(492,197)
-	17,075	17,075
-	(751,186)	(751,186)
(403,465)	(751,186)	(1,154,651)
461,220	-	461,220
-	2,682	2,682
55,840	22,654	78,494
517,060	25,336	542,396
113,595	(725,850)	(612,255)
1,716,916	28,526,388	30,243,304
$ 1,830,511	$ 27,800,538	$ 29,631,049

See accompanying notes to financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 729,764	$ 3,950	$ 733,714
Accounts receivable	17,276	-	17,276
Total Assets	$ 747,040	$ 3,950	$ 750,990
LIABILITIES AND FUND BALANCES			
Accounts payable	$ 8,214	$ -	$ 8,214
Deposits	1,272	-	1,272
Accrued expenses	5,927	-	5,927
Total Liabilities	15,413	-	15,413
FUND BALANCES			
Restricted	731,627	3,950	735,577
Total Fund Balances	731,627	3,950	735,577
TOTAL LIABILITIES AND FUND BALANCES	$ 747,040	$ 3,950	$ 750,990

See accompanying notes to financial statements.

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2018

	Amount
Fund balances for governmental funds	$ 735,577
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in governmental funds (net of accumulated depreciation).	1,163,109
Long-term liabilities applicable to the governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long term, are reported in the statement of net position:	
Compensated absences	(16,716)
Pension-related debt applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Deferred outflows of resources and deferred inflows of resources related to pensions are only reported in the statement of net position, as the changes in these amounts affect only the government-wide statements for governmental activities.	
Deferred outflows of resources	46,688
Deferred inflows of resources	(3,637)
Net pension liability	(94,510)
Net position of governmental activities	$ 1,830,511

See accompanying notes to financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year ended June 30, 2018

	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
REVENUES			
Property taxes	$ 461,220	$ -	$ 461,220
Charges for services	83,183	-	83,183
Other revenues	77,840	-	77,840
Total Revenues	622,243	-	622,243
EXPENDITURES			
General government	421,243	3,747	424,990
Capital outlay	285,853	-	285,853
Total Expenditures	707,096	3,747	710,843
EXCESS OF REVENUES OVER EXPENDITURES	(84,853)	(3,747)	(88,600)
NET CHANGES IN FUND BALANCES	(84,853)	(3,747)	(88,600)
FUND BALANCES AT BEGINNING OF YEAR	816,480	7,697	824,177
FUND BALANCES AT END OF YEAR	$ 731,627	$ 3,950	$ 735,577

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2018

		Amount
Net changes in fund balances - total governmental funds		$ (88,600)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	$ 285,853	
Depreciation expense	(43,926)	241,927
Certain receivables recorded as unavailable revenue in government funds are recognized as revenue on the full-accrual basis and therefore are reported as revenue in the statement of activities.		(22,000)
Pension expense reported in the governmental funds includes the annual required contributions. In the statement of activities, pension expense includes the change in the net pension liability and related change in pension amounts for deferred outflows of resources and deferred inflows of resources.		(12,560)
The issuance of long-term liabilities provides current financial resources to governmental funds, while the repayment of the principal of long-term liabilities consumes current financial resources of governmental funds. However, these transactions have no effect on net position:		
Net decrease in compensated absences payable		(5,172)
Changes in net position of governmental activities		$ 113,595

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2018

	Water	Wastewater	Solid Waste	Total
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 1,075,009	$ 1,105,155	$ 242,949	$ 2,423,113
Restricted cash and cash equivalents	502,915	211,000	-	713,915
Accounts receivable	526,739	158,951	68,624	754,314
Total Current Assets	2,104,663	1,475,106	311,573	3,891,342
Noncurrent Assets:				
Capital Assets:				
Capital assets not being depreciated	-	733,021	-	733,021
Capital assets, net of depreciation	21,923,386	14,327,262	-	36,250,648
Total Noncurrent Assets	21,923,386	15,060,283	-	36,983,669
TOTAL ASSETS	24,028,049	16,535,389	311,573	40,875,011
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts from pension	160,245	146,739	6,211	313,195
TOTAL DEFERRED OUTFLOWS OF RESOURCES	160,245	146,739	6,211	313,195
LIABILITIES				
Current Liabilities:				
Accounts payable	23,317	14,851	38,204	76,372
Accrued interest payable	6,712	5,941	-	12,653
Accrued wages and benefits payable	14,457	11,856	2,593	28,906
Deposits	59,665	54,352	7,330	121,347
Long-term debt due within one year	144,901	164,530	-	309,431
Current portion of compensated absences	29,999	48,672	-	78,671
Total Current Liabilities	279,051	300,202	48,127	627,380
Noncurrent Liabilities:				
Net pension liability	324,375	297,036	12,572	633,983
Long-term debt due in more than one year	7,559,591	4,482,316	-	12,041,907
Compensated absences	30,000	30,000	-	60,000
Total Noncurrent Liabilities	7,913,966	4,809,352	12,572	12,735,890
TOTAL LIABILITIES	8,193,017	5,109,554	60,699	13,363,270
DEFERRED INFLOWS OF RESOURCES				
Deferred amounts from pension	12,483	11,431	484	24,398
TOTAL DEFERRED INFLOWS OF RESOURCES	12,483	11,431	484	24,398
NET POSITION				
Net investment in capital assets	14,218,894	10,413,437	-	24,632,331
Restricted	502,915	211,000	-	713,915
Unrestricted	1,260,985	936,706	256,601	2,454,292
TOTAL NET POSITION	$ 15,982,794	$ 11,561,143	$ 256,601	$ 27,800,538

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the year ended June 30, 2018

	Water	Wastewater	Solid Waste	Total
OPERATING REVENUES				
Charges for services	$ 1,563,438	$ 1,200,901	$ 500,973	$ 3,265,312
Total Operating Revenues	1,563,438	1,200,901	500,973	3,265,312
OPERATING EXPENSES				
Salaries and benefits	630,400	560,517	24,460	1,215,377
Materials and supplies	223,767	144,432	1,210	369,409
Contract and other services	237,178	220,657	458,228	916,063
Depreciation	668,672	719,395	-	1,388,067
Total Operating Expenses	1,760,017	1,645,001	483,898	3,888,916
OPERATING INCOME (LOSS)	(196,579)	(444,100)	17,075	(623,604)
NONOPERATING REVENUES (EXPENSES)				
Interest income	1,379	1,303	-	2,682
Other revenue	10,396	10,033	2,225	22,654
Interest expense	(79,485)	(48,097)	-	(127,582)
Total Nonoperating Revenues (Expenses)	(67,710)	(36,761)	2,225	(102,246)
Changes in Net Position	(264,289)	(480,861)	19,300	(725,850)
Net Position at Beginning of Year	16,247,083	12,042,004	237,301	28,526,388
Net Position at End of Year	$ 15,982,794	$ 11,561,143	$ 256,601	$ 27,800,538

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended June 30, 2018

	Water	Wastewater	Solid Waste	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	$ 1,263,940	$ 1,183,173	$ 488,361	$ 2,935,474
Cash paid to vendors and suppliers for materials and services	(661,574)	(388,897)	(421,648)	(1,472,119)
Cash paid for employee wages, benefits, and related costs	(600,575)	(516,599)	(22,823)	(1,139,997)
Net cash provided by (used by) operating activities	1,791	277,677	43,890	323,358
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(1,870,356)	(174,293)	-	(2,044,649)
Proceeds from grants and capital contributions	-	-	-	-
Proceeds from issuance of long term debt	2,120,752	-	-	2,120,752
Principal paid on long-term debt	(64,000)	(162,900)	-	(226,900)
Interest paid on long-term debt	(79,485)	(48,097)	-	(127,582)
Net cash provided (used) by capital and related financing activities	106,911	(385,290)	-	(278,379)
CASH FLOWS FROM INVESTMENT ACTIVITIES				
Investment income received	1,379	1,304	-	2,683
Net cash provided by investment activities	1,379	1,304	-	2,683
Net increase (decrease) in cash and cash equivalents	110,081	(106,309)	43,890	47,662
Cash and cash equivalents, beginning of year	1,467,843	1,422,464	199,059	3,089,366
Cash and cash equivalents, end of year	$ 1,577,924	$ 1,316,155	$ 242,949	$ 3,137,028
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	$ (196,579)	$ (444,100)	$ 17,075	$ (623,604)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	668,672	719,395	-	1,388,067
Other nonoperating revenues, net	10,396	10,033	2,225	22,654
Changes in operating assets, deferred outflows, liabilities, and deferred inflows:				
(Increase) decrease in assets:				
Receivables	(309,812)	(27,842)	(14,503)	(352,157)
Due from other funds	-	-	-	-
(Increase) decrease in deferred outflows:				
Deferred amounts from pension	(2,853)	(2,612)	(111)	(5,576)
Increase (decrease) in liabilities:				
Accounts payable	(200,629)	(23,808)	37,790	(186,647)
Accrued payroll and compensated absences	(13,279)	4,446	(33)	(8,866)
Deposits	(82)	81	(334)	(335)
Net pension liability	49,069	44,934	1,902	95,905
Increase (decrease) in deferred inflows:				
Deferred amounts from pension	(3,112)	(2,850)	(121)	(6,083)
Total Adjustments	198,370	721,777	26,815	946,962
Net cash provided by operating activities	$ 1,791	$ 277,677	$ 43,890	$ 323,358
Noncash investing, capital, and financing transactions:				
Acquisition and construction of capital assets in accounts payable	$ -	$ -	$ -	$ -

See accompanying notes to financial statements.

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
June 30, 2018

	Agency Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 459,799
Total Current Assets	459,799
Noncurrent Assets:	
Due from property owners	1,400,009
Total Noncurrent Assets	1,400,009
TOTAL ASSETS	$ 1,859,808
LIABILITIES	
Current Liabilities:	
Accounts payable	$ 99,808
Long-term debt due within one year	65,000
Total Current Liabilities	164,808
Noncurrent Liabilities:	
Long-term debt due in more than one year	1,695,000
Total Noncurrent Liabilities	1,695,000
TOTAL LIABILITIES	$ 1,859,808

June 30, 2018

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The reporting entity, Heber Public Utility District (the District), includes the accounts of the District and the Heber Public Utility Financing Corporation (HPUFC).

The Heber Public Utility District (HPUD) was formed in 1931 under the Public Utility Act of 1921. HPUD was given the authority to function as a legal entity with powers similar to those of a city administrative body.

Raw water used by HPUD is supplied by the Central Main Canal via the Dogwood Canal, both of which are under the jurisdiction of the Imperial Irrigation District. The water is drawn from the canal, treated, used by the community, and then re-treated in HPUD sewage treatment plant, and finally disposed of via agricultural drainage canals to the Salton Sea. Prior to 1972, when the first water treatment plant was completed, raw canal water was chlorinated by HPUD as a major part of the potable treatment process. Currently, the water treatment plant can now treat over 2,000,000 gallons of water per day.

Prior to 1968, sewage treatment needs in Heber were met through the use of septic tanks. Heber's first sewage treatment plant was completed in 1968 with a design capacity of 150,000 gallons per day. In 1981, a new sewage treatment plant was built, which more than doubled the previous treatment plant's operating capacity. The District completed an expansion project in 2013, which gave the District capacity of 1,200,000 gallons per day.

The Heber Public Utility District is the primary government unit. Component units are those entities that are financially accountable to the primary government. Since the District's Board of Directors serves as the governing board for HPUFC, it is considered a blended component unit. Blended component units, although legally separate entities, are in substance part of the District's operations, and so data from these units are reported with the interfund data of the primary government.

Separate financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Government-Wide and Fund Financial Statements (Continued)

Net position of the District is classified into three components - net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and 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.”

The fund balance reported on the fund statements consists of the following categories:

Restricted - This classification includes amounts that can be spent only for specific purposes stipulated by constitutional, external resource providers or through enabling legislation.

Committed - This classification includes amounts that can be used only for the specific purposes determined by a formal action of the District’s board of directors.

Assigned - This classification includes amounts to be used by the government, authorized by a board of directors, for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned - This classification includes the residual balance for the government’s general fund and includes all spendable amounts not contained in other classifications. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

In the government-wide statements, the District considers restricted funds to be spent first and then unrestricted funds when expenditures are incurred for purposes for which both restricted and unrestricted net position is available. In the governmental funds, when both restricted and unrestricted resources are available for use, expenses are considered to be paid first from restricted resources and then from unrestricted resources. When committed, assigned, or unassigned amounts are available for use, expenses are considered to be paid first from committed, then from assigned, and then unassigned.

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for the Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the District's governmental funds are presented after the government-wide financial statements. The District elected to show all funds as major funds in the fund financial statements.

The District reports the following major governmental funds:

The **Special Revenue Fund** is used to account for the proceeds of a specific revenue source that is legally restricted to expenditures for specified purposes. The District's Special Revenue Fund consists of the Parks and Recreation Fund.

The **Debt Service Fund** is used for the purpose of accumulating resources for the payment of interest and current principal on long-term general obligation debt of the governmental funds.

The District reports the following major proprietary funds:

Water Fund - To account for the operations, maintenance, and system construction of the District's water operations, which is funded by user charges and other fees.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Wastewater Fund - To account for the operations, maintenance, and system construction of the District's wastewater operations, which is funded by user charges and other fees.

Solid Waste Fund - To account for the operations, maintenance, and system construction of the District's solid waste operations, which is funded by user charges and other fees.

The District's fund structure also includes the following fund types:

The **Agency Fund** is custodial in nature and does not involve measurement of results of operations. It accounts for assets held by the District as an agent for Heber Public Utility District Community Facilities District No. 2005-1 by making payments to bondholders from property taxes collected by the County of Imperial.

d. New Accounting Pronouncements

Governmental Accounting Standards Board (GASB) Current-Year Standards

- GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for periods beginning after June 15, 2017, and did not impact the District
- GASB Statement No. 81 - *Irrevocable Split-Interest Agreements*, effective for periods beginning after December 15, 2016, and did not impact the District.
- GASB Statement No. 82 - *Pension Issues*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, and did not impact the District.
- GASB Statement No. 85 - *Omnibus 2017*, effective for periods beginning after June 15, 2017, and did not impact the District.
- GASB Statement No. 86 - *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017, and did not impact the District.

GASB Pending Accounting Standards

GASB has issued the following statements, which may impact the District's financial reporting requirements in the future:

- GASB Statement No. 83 - *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018.
- GASB Statement No. 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- GASB Statement No. 87 - *Leases*, effective for periods beginning after December 15, 2019.
- GASB Statement No. 88 - *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective for reporting periods beginning after June 15, 2018.
- GASB Statement No. 89 - *Accounting for Interest Cost Incurred Before the End of a Construction Period*, effective for reporting periods beginning after December 15, 2019.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. New Accounting Pronouncement (Continued)

GASB Pending Accounting Standards (Continued)

- GASB Statement No. 90 -*Majority Equity Interests-an amendment of GASB Statement No. 14 and 61*, effective for reporting periods beginning after December 15, 2018.

e. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents have been defined as demand deposits and highly liquid investments purchased with an original maturity of 90 days or less.

f. Restricted Cash and Cash Equivalents

Certain amounts of cash and cash equivalents are restricted in use by law or debt covenant and accordingly are shown as restricted on the statement of net position. For the fiscal year ended June 30, 2018, the District had restricted cash and cash equivalents in the Water and Wastewater Funds of $502,915 and $211,000, respectively.

g. Receivables and Payables

Management estimates all receivables at June 30, 2018 to be collectable, as any receivables deemed uncollectable have been written off.

h. Compensated Absences

Vacation pay is payable to employees at the time used or upon termination of employment. In the government-wide financial statements, the cost of vacation pay is recorded as a liability when incurred.

i. Claims and Judgments

When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the District records the estimated loss, net of any insurance coverage under its self-insurance program. At June 30, 2018, in the opinion of the District's counsel, the District had no material claims that would require loss provision in the financial statements, including losses for claims that are incurred but not reported. Small dollar claims and judgments are recorded as expenditures when paid, if any.

j. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments due on November 1 and delinquent if paid after December 10 and February 1 and delinquent if paid after April 10. Property taxes are collected by the County of Imperial and distributed to the District in installments during the fiscal year. District property tax revenues are recognized when received.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k. Capital Assets

The District defines capital assets as assets with initial, individual costs of more than $5,000 and an estimated useful life in excess of one year. The District's capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their acquisition value on the date donated. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Construction-in-progress costs are capitalized and transferred to their respective fixed asset category upon completion of the project.

Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Computer equipment	3 years
Machinery and equipment	5-15 years
Furniture and fixtures	6-15 years
Buildings	10-45 years
Infrastructure	5-40 years

l. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. The District has the following items that qualify for reporting in this category:

- Deferred outflow related to pensions for employer contributions made after the measurement date of the net pension liability.
- Deferred outflow related to pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.
- Deferred outflow from pensions resulting from changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans.
- Deferred outflow related to pensions for changes in proportion and differences between employer contributions and proportionate share of contributions. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans.
- Deferred outflow from pensions resulting from the difference in projected and actual earnings on investments of the pension plan fiduciary net position. This amount is amortized over five years.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has the following that qualify for reporting in this category:

- Deferred inflow from pensions resulting from changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans.
- Deferred inflow related to pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employee that are provided with pensions through the plans.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m. Interest Expense

The District incurs interest charges on long-term debt. For fiscal year ended June 30, 2018, the District expensed $127,582 of interest incurred.

n. Pensions

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

o. Use of Estimates

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

p. Capital Contributions

Capital contributions are recorded when the District receives cash contributions or accepts contributions of capital assets in kind or when governmental construction grants are earned. Capital contributions are reported as a separate line item in the statement of revenues, expenses, and changes in net position.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2018 are reported in the accompanying financial statements as follows:

Current Assets:		
Cash and cash equivalents	$	3,156,827
Restricted cash and cash equivalents		713,915
Cash and cash equivalents with fiscal agent*		459,799
Total Cash and Cash Equivalents	$	4,330,541

Cash and cash equivalents at June 30, 2018 consisted of the following:

Cash on hand	$	100
Deposits with financial institutions		3,870,642
Investments - money market mutual fund		459,799
Total Cash and Cash Equivalents	$	4,330,541

* Reported on the statement of fiduciary assets and liabilities.

2. CASH AND CASH EQUIVALENTS (Continued)

The District has adopted an investment policy that authorizes it to invest in various investments.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations. At June 30, 2018, District's investments in money market mutual funds have a maturity of less than one year.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At June 30, 2018, the District's investment in money market mutual fund is rated AAA by Standard & Poor's.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that in the event of the failure of a depository financial institution a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2018, all of the District's deposits with financial institutions were covered by federal depository insurance limits or were held in collateralized accounts.

Fair Value Measurements

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The District's investments in money market mutual funds are not subject to the fair value hierarchy.

3. CAPITAL ASSETS

Governmental capital asset activity for the year ended June 30, 2018 was as follows:

	Balance June 30, 2017	Additions	Deletions and Transfers	Balance June 30, 2018
Governmental Activities:				
Capital Assets, Not Depreciated:				
Land	$ 511,367	$ -	$ -	$ 511,367
Construction in process	26,403	232,960	(238,385)	20,978
Total Capital Assets, Not Depreciated	537,770	232,960	(238,385)	532,345
Capital Assets, Being Depreciated:				
Buildings	396,869	12,990	238,385	648,244
Machinery and equipment	177,818	39,903	11,988	229,709
Furniture and fixtures	57,063	-	(11,988)	45,075
Computer equipment	3,219	-	-	3,219
Subtotal	634,969	52,893	238,385	926,247
Less Accumulated Depreciation For:				
Buildings	(151,294)	(14,861)	-	(166,155)
Machinery and equipment	(82,434)	(21,709)	-	(104,143)
Furniture and fixtures	(16,284)	(6,922)	-	(23,206)
Computer equipment	(1,545)	(434)	-	(1,979)
Total Accumulated Depreciation	(251,557)	(43,926)	-	(295,483)
Net Capital Assets, Being Depreciated	383,412	8,967	238,385	630,764
Net Capital Assets	$ 921,182	$ 241,927	$ -	$ 1,163,109

3. CAPITAL ASSETS (Continued)

Business-type capital asset activity for the year ended June 30, 2018 was as follows:

	Balance June 30, 2017	Additions	Deletions and Transfers	Balance June 30, 2018
Business-type activities:				
Capital Assets, Not Depreciated:				
Land	$ 512,276	$ -	$ -	$ 512,276
Construction in process	9,780,914	908,236	(10,468,405)	220,745
Total Capital Assets, Not Depreciated	10,293,190	908,236	(10,468,405)	733,021
Capital Assets, Being Depreciated:				
Structures and improvements	569,582	62,801	-	632,383
Machinery and equipment	672,306	-	-	672,306
Infrastructure	37,735,334	-	10,468,405	48,203,739
Computer Equipment	77,165	-	-	77,165
Subtotal	39,054,387	62,801	10,468,405	49,585,593
Less Accumulated Depreciation For:				
Structures and improvements	(282,452)	(39,034)	-	(321,486)
Machinery and equipment	(276,852)	(52,722)	-	(329,574)
Infrastructure	(11,336,322)	(1,291,593)	-	(12,627,915)
Computer Equipment	(51,252)	(4,718)	-	(55,970)
Total Accumulated Depreciation	(11,946,878)	(1,388,067)	-	(13,334,945)
Net Capital Assets, Being Depreciated	27,107,509	(1,325,266)	10,468,405	36,250,648
Net Capital Assets	$ 37,400,699	$ (417,030)	$ -	$ 36,983,669

Depreciation expense was charged to functions/programs of the District as follows:

Governmental Activities:	
Parks and recreation	$ 43,926
Total depreciation expense - governmental activities	$ 43,926
Business-type Activities:	
Water	$ 668,672
Wastewater	719,395
Total depreciation expense - business-type activities	$ 1,388,067

4. LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2018 consist of the following:

	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018	Due Within One Year
Business-type activities:					
2009 U.S.D.A. Certificates of Participation	$ 3,028,000	$ -	$ (64,000)	$ 2,964,000	$ 64,000
2012 SRF Wastewater Treatment Expansion Loan	4,809,746	-	(162,900)	4,646,846	164,530
SWRCB - Water Boards Loan	3,860,252	956,035	(75,795)	4,740,492	80,901
Total	$ 11,697,998	$ 956,035	$ (302,695)	$ 12,351,338	$ 309,431

2009 U.S.D.A. Certificates of Participation

Certificates of Participation with a principal amount not to exceed $3,533,000 were issued July 20, 2009, bear an interest rate of 2.63% and mature June 1, 2049. The Certificates of Participation were issued to secure the loan from the U.S.D.A. RDA and to provide financing for the acquisition and installation of certain water system improvements. The principal amount outstanding at June 30, 2018 was $2,964,000. Future debt service requirements for the Certificates of Participation are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	$ 64,000	$ 77,805	$ 141,805
2020	90,000	76,334	166,334
2021	90,000	73,763	163,763
2022	90,000	71,400	161,400
2023	90,000	69,038	159,038
2024-2028	450,000	310,089	760,089
2029-2033	490,000	249,242	739,242
2034-2038	500,000	183,670	683,670
2039-2043	500,000	118,197	618,197
2044-2048	500,000	52,558	552,558
2049	100,000	2,625	102,625
	$ 2,964,000	$ 1,284,721	$ 4,248,721

2012 SRF Wastewater Treatment Expansion Loan

This obligation is with the California State Water Resources Control Board - State Revolving Fund with a principal amount not to exceed $10,911,131. The net revenues of the Wastewater Fund are pledged to secure this obligation. The obligation is for providing financing for the acquisition and installation of improvements to the wastewater treatment plant. The interest rate is 1.00% and matures on January 10, 2043. The principal amount outstanding at June 30, 2018 was $4,646,846.

4. LONG-TERM DEBT (Continued)

2012 SRF Wastewater Treatment Expansion Loan (Continued)

Future debt service requirements for the above loan are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	$ 164,530	$ 46,468	$ 210,998
2020	166,175	44,823	210,998
2021	167,837	43,161	210,998
2022	169,515	41,483	210,998
2023	171,210	39,788	210,998
2024-2028	882,078	172,913	1,054,991
2029-2033	927,073	127,918	1,054,991
2034-2038	974,363	80,628	1,054,991
2039-2043	1,024,065	30,926	1,054,991
	$ 4,646,846	$ 628,108	$ 5,274,954

2015 SRF Water Treatment Improvement Loan

On April 29, 2015, the District entered into a loan agreement to receive up to $4,850,000 from the California State Water Resources Control Board to fund improvements to the water treatment plant. As of June 30, 2018, $4,816,287 of the loan proceeds has been drawn down and utilized. The loans bears no interest and is payable in annual payments of $75,795. The loan matures on July 2048. The principal amount outstanding at June 30, 2018 was $4,740,492.

5. SPECIAL DISTRICT RISK MANAGEMENT AUTHORITY

The District is a member of the Special District Risk Management Authority. Each member District pays for its proportionate share of its individually contracted insurance coverage. The District is insured against the following:

	Insurance Per Occurrence
General Liability (including Auto)	$ 5,000,000
Public Officials and Employees' Errors and Omissions	5,000,000
Employment Practices Liability	5,000,000
Employee Dishonesty	1,000,000
Personal Liability for Board Members	500,000
Employment Practices Liability	5,000,000
Fire, Theft, and Flood	1,000,000,000
Uninsured Motorists	750,000
Boiler and Machinery	100,000,000
Workers' Compensation	5,000,000
Pollution	1,000,000

Settled claims have not exceeded any of the District's coverage amounts in any of the last three fiscal years, and there were no reductions in the District's insurance coverage during the year ended June 30, 2018.

6. PENSION PLANS

a. General Information about the Pension Plans

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the District's 2.5% at 55 (Tier I), 2.0% at 60 (Tier II), and 2.0% at 62 (Tier III PEPRA) miscellaneous employee pension plans and cost-sharing multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS) (Plans). Benefit provisions under the Plans are established by state statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS's website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. All members are eligible for nonindustrial disability benefits after five years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each Plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2018 are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013
Benefit formula	2.5%@55	2%@62
Benefit vesting schedule	5 Years of service	5 Years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 - 67	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8%	6.25%
Required employer contribution rates:		
Normal cost rate	9.539%	6.533%
Payment of unfunded liability	$36,102	$159

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS's annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. District contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

6. PENSION PLANS (Continued)

b. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported net pension liabilities for its proportionate shares of the net pension liability of all Plans as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$ 728,493

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2017, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for each Plan as of the measurement dates ended June 30, 2016 and 2017 was as follows:

	Miscellaneous
Proportion - June 30, 2016	0.01780%
Proportion - June 30, 2017	0.01848%
Change - Increase (Decrease)	0.00068%

For the year ended June 30, 2018, the District recognized pension expense of $202,263. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 105,456	$ -
Differences between actual and expected experiences	1,179	(16,885)
Change in assumptions	146,232	(11,150)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	33,072	-
Net differences between projected and actual earnings on plan investments	73,944	-
Total	$ 359,883	$ (28,035)

6. PENSION PLANS (Continued)

b. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

An amount of $105,456 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2019	$ 82,716
2020	101,966
2021	61,346
2022	(19,636)
2023	-
Thereafter	-
	$ 226,392

Actuarial Assumptions

For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability determined in the June 30, 2016 actuarial accounting valuation. The June 30, 2017 total pension liability was based on the following actuarial methods and assumptions:

	Miscellaneous
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	(1)
Mortality Rate Table	(2)
Post-Retirement Benefit Increase	(3)

(1) Varies by entry age and service.

(2) The mortality table used was developed based on CalPERS's specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study report (based on CAlPERS demographic date from 1997 to 2011) available on the CAlPERS's website.

(3) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

6. PENSION PLANS (Continued)

b. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions (Continued)

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial Experience Study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study report can be obtained at the CalPERS's website under Forms and Publications.

Change of Assumptions

In fiscal year 2017-2018, the financial reporting discount rate was reduced from 7.65% to 7.15%. Deferred outflows of resources and deferred inflows of resources for changes of assumptions represent the unamortized portion of this assumption change and the unamortized portion of the changes of assumptions related to prior measurement periods.

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for each Plan and reflects the long-term expected rate of return for the each Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the Plans, the tests revealed the assets would not run out. Therefore, the current 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS's website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

6. PENSION PLANS (Continued)

b. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Discount Rate (Continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS's Board of Directors effective on July 1, 2014.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	0.90%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability for all Plans, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	Miscellaneous
1% Decrease	6.15%
Net Pension Liability	$ 1,210,516
Current Discount Rate	7.15%
Net Pension Liability	$ 728,493
1% Increase	8.15%
Net Pension Liability	$ 329,274

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS's financial reports.

6. PENSION PLANS (Continued)

c. Payable to the Pension Plan

At June 30, 2018, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

7. COMMITMENTS AND CONTINGENT LIABILITIES

Grant Audit Contingencies

Grant funds received by the District are subject to audit by the grantor agencies. Such audits could lead to request for reimbursements to grantor agencies for expenditures disallowed under terms of the grant. District management believes disallowances, if any, will be immaterial.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

8. SUBSEQUENT EVENTS

Events occurring after June 30, 2018 have been evaluated for possible adjustments to the financial statements or disclosures as of December 11, 2018, which is the date these financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

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SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Ten Fiscal Years*

Fiscal year ended	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement period	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Plan's proportion of the net pension liability	0.00735%	0.00715%	0.01627%	0.00126%
Plan's proportionate share of the net pension liability	$ 728,493	$ 618,291	$ 446,488	$ 313,558
Plan's covered payroll	$ 764,649	$ 760,005	$ 745,373	$ 745,373
Plan's proportionate share of the net pension liability as a percentage of its covered payroll	95.27%	81.35%	59.90%	42.07%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability	73.31%	74.06%	83.52%	87.25%
Plan's proportionate share of aggregate employer contributions	$ 105,031	$ 90,102	$ 82,674	$ 58,011

Notes to Schedule:

Benefit Changes:
There were no changes in benefits.

Changes in Assumptions:
From fiscal year June 30, 2015 to June 30, 2016:
GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:
There were no changes in assumptions.
From fiscal year June 30, 2017 to June 30, 2018:
The discount rate was reduced from 7.65% to 7.15%.

* Fiscal year 2015 was the first year of implementation; therefore, only four years are shown.

SCHEDULE OF CONTRIBUTIONS - DEFINED BENEFIT PENSION PLANS

Last Ten Fiscal Years*

	2018	2017	2016	2015
Actuarially determined contribution	$ 105,456	$ 101,781	$ 93,108	$ 80,895
Contributions in relation to the actuarially determined contributions	(105,456)	(101,781)	(93,108)	(80,895)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 775,142	$ 764,649	$ 760,005	$ 745,373
Contributions as a percentage of covered payroll	13.60%	13.31%	12.25%	10.85%

Notes to Schedule:

Valuation Date	6/30/2015	6/30/2014	6/30/2013	6/30/2012

Methods and Assumptions Used to Determine Contribution Rates:

Single and agent employers	Entry age**
Amortization method	Level percentage of payroll, closed**
Asset valuation method	Market value***
Inflation	2.75%**
Salary increases	Depending on age, service, and type of employment**
Investment rate of return	7.50%, net of pension plan investment expense, including inflation**
Retirement age	50 years (2% @ 55), 52 years (2% @62)**
Mortality	Morality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS's Board.**

* Fiscal year 2015 was the first year of implementation; therefore, only four years are shown.
** The valuation for June 30, 2012, 2013, and 2014 (applicable to fiscal years ended June 30, 2015, 2016, and 2017, respectively) included the same actuarial assumptions.
*** The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using a 15-Year Smoothed Market method. The market value asset valuation method was utilized for the June 30, 2013, 2014, and 2015 valuations (applicable to fiscal years ended June 30, 2016, 2017, and 2018, respectively)

BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUND
For the year ended June 30, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
FUND BALANCE, JULY 1, 2018	$ 816,480	$ 816,480	$ 816,480	$ -
RESOURCES (INFLOWS):				
Property taxes	525,000	525,000	461,220	(63,780)
Charges for services	77,000	77,000	83,183	6,183
Other revenues	12,000	12,000	77,840	65,840
Amount Available for Appropriations	614,000	614,000	622,243	8,243
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
General government	509,400	509,400	426,712	82,688
Capital outlay	65,000	65,000	280,384	(215,384)
Total Charges to Appropriations	574,400	574,400	707,096	(132,696)
NET CHANGES IN FUND BALANCE	39,600	39,600	(84,853)	(124,453)
FUND BALANCE, JUNE 30, 2018	$ 856,080	$ 856,080	$ 731,627	$ (124,453)

1. BUDGETS AND BUDGETARY ACCOUNTING

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriation budgets are adopted for the special revenue fund. All annual appropriations lapse at fiscal year end.