

Hidden Valley Municipal Water District
Audited Financial Statements
As of and for the Years Ended June 30, 2018 and 2017
with Report of Independent Auditors

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Report of Independent Auditors

**To the Board of Directors
Hidden Valley Municipal Water District**

Report on the Financial Statements

We have audited the accompanying financial statements of the Hidden Valley Municipal Water District (the District) which comprise the statements of net position as of June 30, 2018 and 2017, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's *Minimum Audit Requirements and Reporting Guidelines for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 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 Hidden Valley Municipal Water District as of June 30, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The District has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

**Glendale, California
December 31, 2018**

**Hidden Valley Municipal Water District
Statements of Net Position**

		June 30	
		2018	2017
ASSETS			
Current assets			
Cash and investments	\$	300,867	\$ 305,935
Total current assets		300,867	305,935
Noncurrent assets			
Capital assets, net		27,958	28,975
Total noncurrent assets		27,958	28,975
Total assets		328,825	334,910
LIABILITIES			
Current liabilities			
Accrued expenses		10,383	7,006
Total current liabilities		10,383	7,006
Total liabilities		10,383	7,006
NET POSITION			
Net position			
Net investment in capital assets		27,958	28,975
Unrestricted		290,484	298,929
Total net position	\$	318,442	\$ 327,904

See notes to financial statements.

**Hidden Valley Municipal Water District
Statements of Activities**

	Years ended June 30	
	2018	2017
Operating revenues		
Trucked water	\$ 40,681	\$ 50,795
Total operating revenues	40,681	50,795
Operating expenses		
Water services	34,769	41,271
Salary	16,461	12,131
Audit and accounting fees	3,268	13,729
Payroll taxes	2,768	1,436
Insurance	1,651	6,634
Depreciation	1,017	1,017
Mileage	976	624
Dues	495	784
Phone	410	360
Banking, net	290	-
Miscellaneous office expenses	91	23
Postage	90	86
Outside services	33	4
Election expenses	-	569
Office supplies	-	65
Copying	-	23
Total operating expenses	62,319	78,756
Operating loss	(21,638)	(27,961)
Nonoperating revenues		
Property taxes	8,060	10,621
Interest income	3,204	2,018
Other income	912	-
Net nonoperating revenues	12,176	12,639
Change in net position	(9,462)	(15,322)
Net position at beginning of year	327,904	343,226
Net position at end of year	\$ 318,442	\$ 327,904

See notes to financial statements.

**Hidden Valley Municipal Water District
Statements of Cash Flows**

	Years ended June 30	
	2018	2017
Cash flows from operating activities		
Cash receipts from trucked water sales	\$ 40,681	\$ 50,795
Cash paid to vendors and suppliers for materials and services	(41,464)	(61,305)
Cash paid to employees for salaries and wages	(16,461)	(9,428)
Net cash used in operating activities	(17,244)	(19,938)
Cash flows from non-capital financing activities		
Proceeds from property taxes	8,060	10,621
Cash provided by non-capital financing activities	8,060	10,621
Cash flows from investing activities		
Interest and investment earnings	4,116	2,018
Cash provided by investing activities	4,116	2,018
Change in cash and cash equivalents	(5,068)	(7,299)
Cash and cash equivalents - beginning of year	305,935	313,234
Cash and cash equivalents - end of year	\$ 300,867	\$ 305,935
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (21,638)	\$ (27,961)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	1,017	1,017
Increase in accrued expenses	3,377	7,006
Net cash used in operating activities	\$ (17,244)	\$ (19,938)

See notes to financial statements.

NOTE 1 NATURE OF OPERATIONS

The Hidden Valley Municipal Water District (the District) is a special district formed on May 3, 1960 under the Municipal Water District Act of 1911, now recorded as the Municipal District Law of 1911, Division 20, Sections 71000-73000 of the Water Code for the State of California.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of managing the delivery of water to customers on a continuing basis are financed or recovered primarily through user charges (trucked water sales). Revenues and expenses are recognized on the full accrual basis of accounting. Revenues from trucked water sales are recognized in the accounting period in which the sales are incurred. Expenses are recognized in the period incurred.

Operating revenues, such as trucked water sales, result from exchange transactions associated with the District's principal activity. Exchange transactions are those in which each party receives and gives up essentially equal value. Nonoperating revenues, such as property taxes and investment income, result from non-exchange transactions, in which, the District gives or receives value without directly receiving or giving value in exchange. Operating expenses, such as water services purchases, are the result of the District's exchange transactions along with associated expenses for running the District's day-to-day operations. Nonoperating expenses, such as interest expense, are the result of expenses that do not relate to the District's day-to-day operations.

Basis of Presentation

The District's financial statements are presented in accordance with the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Statement No. 63 requires the classification of net position into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *Net investment in capital assets* – This component of net position consists of 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net assets. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of invested in capital assets. Instead, that portion of the debt or deferred inflow of resources should be included in the same net position component (restricted or unrestricted) as the unspent amounts.
- *Restricted* – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. The District did not have restricted net position as of June 30, 2018 and 2017.
- *Unrestricted* – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Budgets and Budgetary Process

The District operates under the laws of the State of California. The Board of Directors adopts a budget yearly, which can be amended by the Board.

Board of Directors

There are five members of the board, elected for four-year terms. Each member of the board is a resident and registered voter of the District.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue

Revenue to finance the District’s operations is derived from truck water revenue and Country property tax bills.

Trucked water revenue relates to sales of water to residents who live in the District’s service area.

Secured property taxes attach as an enforceable lien on property as of January 1st. Taxes are payable in two installments on April 10th and December 10th. Unsecured property taxes are payable in one installment on or before August 31st.

Ventura County levies, collects, and deposits property taxes for the District.

Property Taxes and Special Assessments

Secured property taxes are considered measurable and available when apportioned to the District. The County is responsible for assessing and collecting secured property taxes for the District in accordance with enabling state legislation (including appropriation limits). The County apportions secured taxes to the District under the “Teeter Plan” – California Revenue and Taxation Code Sections 4701-4717. A complex allocation formula is used to distribute levied secured taxes to the County and its districts. The levy date is July 1.

The District is credited with 100 percent of its apportionments, regardless of the actual collections and delinquencies, and accordingly, penalties and interest collected by the County are not allocated to the District. Apportionments are distributed according to the following schedule:

Action	Date	Percent
1st Apportionment	By December 10	55 Percent
2nd Apportionment	By April 10	45 Percent

Supplemental unsecured property taxes and special assessments are considered measurable and available when collected. The District assesses supplemental unsecured property taxes and special assessments on real property. These assessments are not based on property values, but on usage and are levied by parcel, square footage, dwelling unit, and/or space in accordance with Proposition 218. The assessments are remitted to the County for collection with the secured property tax billings. The County deposits collections in the District’s cash account.

Capital assets

Capital assets acquired and/or constructed are capitalized at historical cost. The District policy has set the capitalization threshold for reporting capital assets at \$5,000. The provision for depreciation is computed using the straight-line method over the following estimated useful life of the asset:

- Service connections - 30 years

NOTE 3 CASH AND INVESTMENTS

The District's total cash and investments at June 30, 2018 and 2017, consisted of the following:

	2018		2017
Cash in bank	\$ 10,021	\$	13,292
Money market mutual funds	290,846		292,643
Total cash and investments	\$ 300,867	\$	305,935

Investments

The District's approved Investment Policy states that funds be invested with safety, liquidity, and yield as the District's goals. The District continues to invest its available funds in money market mutual funds that invests in U.S. Treasury instruments. As with all accounts (Checking, Savings, and Investment), the signors on the investment account are the Board members of the District (President, Vice-President, Secretary-Treasurer) and the Clerk of the Board. Two signatures are required for all withdrawals.

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 over time as necessary to provide the cash flow and liquidity needed for operations. As of June 30, 2018 and 2017, the District's funds are placed in investments with maturities of 12 months or less.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Maturities of investments at June 30, 2018, were as follows:

Investment Type	Total	Remaining Maturity (in Months)		
		12 Months or Less	13 to 24 Months	25+ Months
Cash and investments:				
Money market mutual funds	\$ 290,846	\$ 290,846	\$ -	\$ -

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Maturities of investments at June 30, 2017, were as follows:

Investment Type	Total	Remaining Maturity (in Months)		
		12 Months or Less	13 to 24 Months	25+ Months
Cash and investments:				
Money market mutual funds	\$ 292,643	\$ 292,643	\$ -	\$ -

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Credit ratings of investments as of June 30, 2018, were as follows:

Investment Type	Total	Minimum Legal Rating	Ratings as of Year End			
			Unrated	AAA	AA-	BBB+
Cash and investments:						
Money market mutual funds	\$ 290,846	A	\$ -	\$ 290,846	\$ -	\$ -

Credit ratings of investments as of June 30, 2017, were as follows:

Investment Type	Total	Minimum Legal Rating	Ratings as of Year End			
			Unrated	AAA	AA-	BBB+
Cash and investments:						
Money market mutual funds	\$ 292,643	A	\$ -	\$ 292,643	\$ -	\$ -

Concentration of Credit Risk

The District's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2018 and 2017, there were no investments in any one issuer (other than money market mutual funds) that represent 5% or more of total District cash and investments.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

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 and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2018 and 2017, the District's deposits with financial institutions were not in excess of federal depository insurance limit of \$250,000.

Fair Value Measurement

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, the District categorizes its fair value measurement within the fair value hierarchy that is based on the valuation inputs used to measure the fair value of the investment. Level 1 inputs are quoted prices in active markets for identical investments; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

- Level 1 inputs are quoted prices for identical assets or liabilities in active markets that government can access at the measurement date.
- Level 2 inputs are other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The District's investments in money market mutual funds as of June 30, 2018 and 2017 were measured using Level 2 inputs.

Hidden Valley Municipal Water District
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 4 CAPITAL ASSETS

Capital assets consisted of the following as of June 30, 2018:

	Balance July 1, 2017	Additions	Disposals	Balance June 30, 2018
Capital assets, gross	\$ <u>30,500</u>	\$ -	\$ -	\$ <u>30,500</u>
	<u>30,500</u>	<u>-</u>	<u>-</u>	<u>30,500</u>
Less: Accumulated Depreciation	<u>1,525</u>	<u>1,017</u>	<u>-</u>	<u>2,542</u>
	<u>1,525</u>	<u>1,017</u>	<u>-</u>	<u>2,542</u>
Capital assets, net	\$ <u><u>28,975</u></u>	\$ <u><u>(1,017)</u></u>	\$ <u><u>-</u></u>	\$ <u><u>27,958</u></u>

Capital assets consisted of the following as of June 30, 2017:

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Capital assets, gross	\$ <u>30,500</u>	\$ -	\$ -	\$ <u>30,500</u>
	<u>30,500</u>	<u>-</u>	<u>-</u>	<u>30,500</u>
Less: Accumulated Depreciation	<u>508</u>	<u>1,017</u>	<u>-</u>	<u>1,525</u>
	<u>508</u>	<u>1,017</u>	<u>-</u>	<u>1,525</u>
Capital assets, net	\$ <u><u>29,992</u></u>	\$ <u><u>(1,017)</u></u>	\$ <u><u>-</u></u>	\$ <u><u>28,975</u></u>

NOTE 5 RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance to cover claims and judgments against it.

NOTE 6 SUBSEQUENT EVENTS

The District has evaluated events or transactions through December 31, 2018, the date on which the financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no other subsequent matters require disclosure or adjustment to the accompanying financial statements.

**Hidden Valley Municipal Water District
Board Members
Years ended June 30, 2018 and 2017**

BOARD MEMBERS

Eddy Hartenstein	President
Lou Gonda	Vice-President
Mary Power	Secretary-Treasurer
Robert Werner	Director



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655 N Central Avenue, Suite 1550 • Glendale, California 91203-1437 • Ph. (213) 873-1700 • Fax (213) 873-1777