

**SERVICE AREA 01 – INDIAN LAKES
(A COMPONENT UNIT OF THE COUNTY OF MADERA, CALIFORNIA)**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2016**

**SERVICE AREA 01 – INDIAN LAKES
(A COMPONENT UNIT OF THE COUNTY OF MADERA, CALIFORNIA)**

JUNE 30, 2016

TABLE OF CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT AUDITORS	1
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	3
Statement of Revenues, Expenses, and Changes in Net Position	4
Statement of Cash Flows	5
Notes to the Basic Financial Statements	7

Report of Independent Auditors

To the Board of Supervisors
Madera County

Report on the Financial Statements

We have audited the accompanying financial statements of the Service Area 01 – Indian Lakes (District), a component unit of the County of Madera, California as of and for the year then ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District’s financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the California Code of Regulations, Title 2, Section 1131.2, State Controller’s *Minimum Audit Requirements* for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Service Area 01 – Indian Lakes as of June 30, 2016, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Management has omitted the Management’s Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.



Fresno, California
December 4, 2017

BASIC FINANCIAL STATEMENTS

THIS PAGE IS LEFT BLANK INTENTIONALLY.

**SERVICE AREA 01 – INDIAN LAKES
(A COMPONENT UNIT OF THE COUNTY OF MADERA, CALIFORNIA)**

**STATEMENT OF NET POSITION
JUNE 30, 2016**

ASSETS

Current Assets:

Cash and investments	\$ 77,791
Cash and investments - restricted	235,287
Accounts receivable	10,446
Interest receivable	735
Taxes receivable	15
Total Current Assets	324,274

Non-Current Assets:

Long term receivables	531,537
Capital assets:	
Land	66,324
Depreciable assets	2,481,074
Accumulated depreciation	(1,135,229)
Total Non-Current Assets	1,943,706

Total Assets	2,267,980
--------------	-----------

LIABILITIES

Current Liabilities:

Accounts payable	18,411
Interest payable	9,038
Deposits from others	5,550
Due to County of Madera	138,697
Unearned revenue	4,013
Bonds payable, current portion	9,880
Certificate of participation, current portion	3,180
Total Current Liabilities	188,769

Non-Current Liabilities:

Bonds payable	472,610
Certificate of participation	152,370
Advance from County of Madera	60,440
Total Non-Current Liabilities	685,420

Total Liabilities	874,189
-------------------	---------

NET POSITION

Net Investment in capital assets	774,129
Restricted for debt service	235,287
Unrestricted	384,375

Total Net Position	\$ 1,393,791
--------------------	--------------

The notes to the basic financial statements are an integral part of this statement.

**SERVICE AREA 01 – INDIAN LAKES
(A COMPONENT UNIT OF THE COUNTY OF MADERA, CALIFORNIA)**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

Operating Revenues:	
Charges for services	\$ 175,846
Other revenues	<u>74</u>
Total Operating Revenues	<u>175,920</u>
Operating Expenses:	
Services and supplies	60,870
Maintenance	105,858
Insurance	4,992
Utilities	71,638
Depreciation	<u>71,921</u>
Total Operating Expenses	<u>315,279</u>
Operating Income (Loss)	<u>(139,359)</u>
Non-Operating Revenue (Expenses):	
Taxes	52,353
Investment income	1,933
Interest and fiscal charges	(27,205)
Gain (Loss) on disposal of capital assets	<u>(3,315)</u>
Total Non-Operating Revenue (Expenses)	<u>23,766</u>
Income (Loss) Before Contributions	(115,593)
Capital contributions	<u>38,041</u>
Change in Net Position	(77,552)
Net Position, Beginning of Year	<u>1,471,343</u>
Net Position, End of Year	<u>\$ 1,393,791</u>

The notes to the basic financial statements are an integral part of this statement.

**SERVICE AREA 01 – INDIAN LAKES
(A COMPONENT UNIT OF THE COUNTY OF MADERA, CALIFORNIA)**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

Cash flows from operating activities:	
Cash receipts from customers and users	\$ 179,371
Cash paid to suppliers	<u>(205,993)</u>
Net cash provided (used) by operating activities	<u>(26,622)</u>
Cash flows from noncapital financing activities:	
Taxes	53,513
Advance from County of Madera	<u>60,440</u>
Net cash provided (used) by noncapital financing activities	<u>113,953</u>
Cash flows from capital and related financing activities:	
Capital grants	38,041
Acquisition and construction of capital assets	(36,325)
Principal paid on capital debt	(12,520)
Interest paid on capital debt	(27,383)
Proceeds from borrowing	<u>10,430</u>
Net cash provided (used) by capital and related financing activities	<u>(27,757)</u>
Cash flows from investing activities:	
Interest on investments	<u>1,590</u>
Net cash provided (used) by investing activities	<u>1,590</u>
Net increase (decrease) in cash and cash equivalents	61,164
Cash and cash equivalents, beginning of the year	<u>251,914</u>
Cash and cash equivalents, end of the year	<u>\$ 313,078</u>

The notes to the basic financial statements are an integral part of this statement.

**SERVICE AREA 01 – INDIAN LAKES
(A COMPONENT UNIT OF THE COUNTY OF MADERA, CALIFORNIA)**

**STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016**

Reconciliation of Cash and Cash Equivalents to the Statement of Net Position

Cash and Investments per Statement of Net Position	\$ 77,791
Restricted Cash and Investments per Statement of Net Position	<u>235,287</u>
Total Cash and Investments per Statement of Net Position	<u>\$ 313,078</u>

Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities

Operating income (loss)	\$ (139,359)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	71,921
Changes in operating assets and liabilities:	
Decrease/(Increase) in accounts receivable	562
Increase/(Decrease) in accounts payable	16,849
Increase/(Decrease) in due to County of Madera	20,516
Increase/(Decrease) in deposits from others	2,550
Increase/(Decrease) in unearned revenues	<u>339</u>
Net cash provided (used) by operating activities	<u>\$ (26,622)</u>

The notes to the basic financial statements are an integral part of this statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

THIS PAGE IS LEFT BLANK INTENTIONALLY.

**SERVICE AREA 01 – INDIAN LAKES
(A COMPONENT UNIT OF THE COUNTY OF MADERA, CALIFORNIA)**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the **SA 01 – Indian Lakes** (District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The District is located 3 miles south of Coarsegold and east of Highway 41 on County Road 417 in Madera County Supervisorial District 5. The District was formed on June 19, 1996 by Resolution No. 66-168

The District provides water service to 473.5 improved units and 44 standby units. The system consists of three wells with a combined production of approximately 550 gallons per minute, an iron and manganese removal plant, a 750,000 gallon storage tank, boost pumps, a hydro pneumatic distribution, and distribution mains and fire hydrants. The funding for the water system operations is derived from charges for water services. In addition to the charges for water services, the District also receives property taxes to cover operating expenses of the District.

The Board of Supervisors is the governing body of the District. The District is considered a blended component unit of the County of Madera and is reported as an enterprise fund in the County of Madera financial statements. The financial statements included in this report are intended to present the financial position and results of operations of only the District. They are not intended to present the financial position or results of operations of the County of Madera taken as a whole.

B. Basis of Presentation and Method of Accounting

Proprietary fund financial statements include a Statement of Net Position and a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. The principal operating revenues of the District are charges for services. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. Operating expenses for the District include the costs of sales and services, administrative expenses, and depreciation on capital assets. All other expenses are reported as non-operating expenses.

C. Cash and Investments

Cash and investments shown in the Statement of Net Position represent the District's share of the County of Madera's cash and investment pool. Interest earnings from this pool are transferred to the District on a quarterly basis based on the District's average daily balance. The County has an investment committee, which performs regulatory oversight for its pool as required by California Government Code Section 27134.

**SERVICE AREA 01 – INDIAN LAKES
(A COMPONENT UNIT OF THE COUNTY OF MADERA, CALIFORNIA)**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Receivables

Receivables consist of fees charged for water services, property taxes, assessments, and interest from the County of Madera. Management believes its receivables to be fully collectible, and accordingly, no allowance for doubtful accounts is required.

E. Property Taxes/Assessments

Secured and unsecured property taxes and assessments are levied in July each year. Property taxes and assessments become a lien against the property as of January 1 of each year. Secured property taxes and assessments are payable in two installments which are due November 1 and February 1. Unsecured property taxes and assessments are due on August 31. All property taxes and assessments receivable are due from property owners within the District.

F. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads and similar items), are reported in the Statement of Net Position. Capital assets are defined by the District as assets with a cost of more than \$5,000 for machinery and equipment and \$10,000 for the other categories of capital assets with an estimated useful life of more than one year. Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated assets are valued at their estimated fair market value on the date donated.

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

<u>Depreciable Asset</u>	<u>Estimated Life</u>
Infrastructure	20-50 years
Water Systems	15-65 years
Structures and Improvements	30-50 years
Equipment	3-20 years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Interest accrued during capital assets construction, if any, is capitalized as part of the asset cost.

G. Net Position

Net position is classified in the following three components:

- Net investment in capital assets – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This category represents all other net position of the District, that do not meet the definition of “net investment in capital assets” or “restricted net position.”

When both restricted and unrestricted resources are available for use, unrestricted resources are used only after the restricted resources are depleted.

**SERVICE AREA 01 – INDIAN LAKES
(A COMPONENT UNIT OF THE COUNTY OF MADERA, CALIFORNIA)**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: CASH AND INVESTMENTS

Cash and investments at June 30, 2016 are classified in the financial statements as follows:

Cash and investments – unrestricted	\$ 77,791
Cash and investments – restricted	<u>235,287</u>
Total cash and investments	<u>\$ 313,078</u>

The District's cash and investments consisted of the following as of June 30, 2016:

Deposits held with County of Madera Investment Pool	\$ 313,078
---	------------

Risk Disclosure

Required disclosures for the District's deposit and investment risks for the cash held in the County of Madera Treasury at June 30, 2016, were as follows:

Credit risk	Not rated
Custodial risk	Not applicable
Concentration of credit risk	Not applicable
Interest rate risk	Refer to County of Madera's financial statements

Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County of Madera's Comprehensive Annual Financial Report and may be obtained by contacting the County Auditor-Controller's Office at 200 W. 4th Street – Madera, CA 93637.

Fair Value Measurements

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and,
- Level 3: Investments reflect prices based upon unobservable sources.

The District's cash investments in the County of Madera Investment Pool are carried at fair value. County of Madera invests in numerous types of investments ranging all levels in the fair value hierarchy. Accordingly, County of Madera Investment Pool is not an investment type that can be categorized in any particular level in the fair value hierarchy.

**SERVICE AREA 01 – INDIAN LAKES
(A COMPONENT UNIT OF THE COUNTY OF MADERA, CALIFORNIA)**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3: CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 66,324	\$ -	\$ -	\$ 66,324
Total capital assets, not being depreciated	66,324	-	-	66,324
Capital assets, being depreciated:				
Water system	2,397,165	-	(9,689)	2,387,476
Equipment	57,273	36,325	-	93,598
Total capital assets, being depreciated	2,454,438	36,325	(9,689)	2,481,074
Less accumulated depreciation for:				
Water system	(1,057,256)	(62,864)	6,374	(1,113,746)
Equipment	(12,426)	(9,057)	-	(21,483)
Total accumulated depreciation	(1,069,682)	(71,921)	6,374	(1,135,229)
Total capital assets being depreciated, net	1,384,756	(35,596)	(3,315)	1,345,845
Total capital assets, net	\$ 1,451,080	\$ (35,596)	\$ (3,315)	\$ 1,412,169

Depreciation expense of \$71,921 was charged to the District.

NOTE 4: RELATED PARTY TRANSACTIONS

The District's property taxes are levied and collected through County of Madera Assessor and Treasurer-Tax Collector departments. The District contracts with the County of Madera to provide certain maintenance services. The District's accounting and clerical functions are performed by County personnel. The County of Madera charges the District for administrative costs incurred.

The amount due to the County of Madera as of June 30, 2016 is \$138,697. The District intends to pay back this amount through future cash flow at the current established rate, however, future rate increases may be necessary in order to fulfill the obligation.

NOTE 5: LONG-TERM LIABILITIES

The following is a summary of the long-term liabilities for the year-ended June 30, 2016:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Due Within One Year
Improvement Bonds, Series 2003	\$ 491,960	\$ -	\$ (9,470)	\$ 482,490	\$ 9,880
Certificate of Participation, Series 2003-A	158,600	-	(3,050)	155,550	3,180
Advance from County of Madera	-	17,440	-	17,440	-
Advance from County of Madera	-	43,000	-	43,000	-
Total	\$ 650,560	\$ 60,440	\$ (12,520)	\$ 698,480	\$ 13,060

**SERVICE AREA 01 – INDIAN LAKES
(A COMPONENT UNIT OF THE COUNTY OF MADERA, CALIFORNIA)**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5: LONG-TERM LIABILITIES (Continued)

Improvement Bonds, Series 2003

On September 23, 2003, the District issued \$632,140 of improvement bonds with an interest rate of 4.25% payable semi-annually. The proceeds were used to improve the Indian Lakes Estates Water System facilities. The improvement bonds mature on September 2, 2042. Annual principal installments range from \$6,600 to \$29,200. The District pledged a portion of special assessments revenue to repay the bonds. The outstanding principal balance at June 30, 2016 is \$482,490.

Certificate of Participation, Series 2003-A (Indian Lakes Estates Water System - Water Project)

On September 23, 2003, the District issued \$185,000 Certificate of Participation with an interest rate of 4.25% payable semi-annually. The proceeds were used to improve the Indian Lakes Estates Water System facilities. The Certificate of Participation matures on September 6, 2042. Annual principal installments range from \$1,930 to \$9,410. The outstanding principal balance at June 30, 2016 is \$155,550.

Advances from the County of Madera

The District obtained a \$17,440 loan from the County of Madera on May 31, 2016 to help pay for the water rate study. The loan is to be repaid with interest at the County of Madera treasury pool rate plus 50 basis points as soon as funds are available from the District. Interest will be accrued on the unpaid principal balance until loan is paid in full.

The District obtained a \$43,000 loan from the County of Madera on June 26, 2016 to help fund the District's operation. The loan is to be repaid with interest at the County of Madera treasury pool rate plus 50 basis points as soon as funds are available from the District. Interest will be accrued on the unpaid principal balance until loan is paid in full.

The District intends to pay back these advances through future cash flow at the current established rate, however, future rate increases may be necessary in order to fulfill the obligation.

As of June 30, 2016, annual debt service requirements of the District to maturity are as follows:

Year ending June 30,	Improvement Bonds, Series 2003	
	Principal	Interest
2017	\$ 9,880	\$ 20,296
2018	10,290	19,867
2019	10,730	19,420
2020	11,180	18,955
2021	11,660	18,470
2022-2026	66,190	84,311
2027-2031	81,490	68,674
2032-2036	100,360	49,419
2037-2041	123,560	25,709
2042	57,150	2,456
	<u>\$ 482,490</u>	<u>\$ 327,577</u>

**SERVICE AREA 01 – INDIAN LAKES
(A COMPONENT UNIT OF THE COUNTY OF MADERA, CALIFORNIA)**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5: LONG-TERM LIABILITIES (Continued)

Year ending June 30,	Certificate of Participation, Series 2003-A	
	Principal	Interest
2017	\$ 3,180	\$ 6,543
2018	3,320	6,405
2019	3,460	6,261
2020	3,610	6,111
2021	3,760	5,954
2022-2026	21,340	27,180
2027-2031	26,280	22,137
2032-2036	32,350	13,305
2037-2041	31,190	9,945
2042	27,060	1,758
	<u>\$ 155,550</u>	<u>\$ 105,599</u>

NOTE 6: INSURANCE AND RISK OF LOSS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and natural disasters. Because the District does not have employees, it is not exposed to injuries to employees. The District's officers are officials of the County, and therefore coverage for general liability and errors and omissions is provided under the County's program. This program is self-insured to a level of \$100,000, after which excess coverage is obtained through participation in the CSAC Excess Insurance Authority (EIA). Disclosure of complete information on risk management can be found in the County of Madera Comprehensive Annual Financial Report.

NOTE 7: SUBSEQUENT EVENTS

The District had obtained a \$57,000 loan from the County of Madera on June 20, 2017 to help fund the District's operation. The loan is to be repaid with interest at the County of Madera treasury pool rate plus 50 basis points as soon as funds are available from the District. Interest will be accrued on the unpaid principal balance until loan is paid in full.

The Board of Directors of the District adopted Resolution 2017-134 on October 10, 2017 to increase the water service rates within the District. The increase in rates are necessary because the current rates are insufficient to pay ongoing expenses of operating the water system and the long-term replacement costs. The new water service rates are effective November 1, 2017. The existing rates and new rates are as follows:

Rates	<u>FY15/16</u>	<u>FY17/18</u>	<u>FY18/19</u>	<u>FY19/20</u>	<u>FY20/21</u>	<u>FY21/22</u>
<u>Improved Parcels</u>						
<u>Volumetric Rates</u>						
Volumetric Rate (All CCF*)		\$ 0.75	\$ 0.78	\$ 0.81	\$ 0.84	\$ 0.87
Excess Use Charge >105 CCF Quarterly)	\$ 1.15					
<u>Monthly Fixed Rate</u>						
1" Meters	\$ 21.34	\$ 44.01	\$ 45.34	\$ 46.71	\$ 48.12	\$ 49.57
2" Meters	\$ 32.01	\$ 61.72	\$ 63.58	\$ 65.49	\$ 67.46	\$ 69.49
Debt Surcharge (All Meters)	\$ 2.66	\$ 2.66	\$ 2.66	\$ 2.66	\$ 2.66	\$ 2.66
<u>Unimproved Parcels</u>						
Standby Rate	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00

* CCF = One hundred cubic feet = 748 gallons