

LOST HILLS UTILITY DISTRICT
FINANCIAL STATEMENTS

For The Years Ending June 30, 2018 and 2017

Lost Hills Utility District

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June 30, 2018 and 2017

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Albert & Associates, LLP

Certified Public Accountants

Independent Auditor's Report

The Board of Directors of the Lost Hills
Utility District, Lost Hills, California:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of Lost Hills Utility District, California, as of and for the years ending June 30, 2018 and 2017 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.

Auditor's 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Lost Hills Utility District, California, as of June 30, 2018 and 2017, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lost Hills Utility District's basic financial statements. The combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2018, on our consideration of Lost Hills Utility 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 Lost Hills Utility District's internal control over financial reporting and compliance.

Albert & Associates, LLP

Wasco, California
October 10, 2018

Lost Hills Utility District

STATEMENTS OF NET POSITION

PROPRIETARY FUND

June 30, 2018 and 2017

Assets:	2018	2017
Current Assets:		
Cash	\$ 2,287,918	\$ 1,998,318
Receivables, net	189,754	138,080
Prepaid Expenses	20,173	16,719
Total Current Assets	2,497,845	2,153,117
Noncurrent Assets:		
Capital Assets:		
Land	364,970	272,579
Depreciable Buildings, Property and Equipment, net of accumulated depreciation	6,270,995	6,634,546
Total Noncurrent Assets	6,635,965	6,907,125
Total Assets	\$ 9,133,810	\$ 9,060,242
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 90,596	\$ 207,803
Accrued Interest Payable	39,601	40,721
Customer Deposits	10,700	17,000
Current Portion of Long-Term Debt	67,420	62,005
Total Current Liabilities	208,317	327,529
Noncurrent Liabilities:		
Accrued Compensated Absences	6,263	5,850
Bonds and Notes Payable	1,909,727	1,977,147
Total Noncurrent Liabilities	1,915,990	1,982,997
Total Liabilities	2,124,307	2,310,526
Net Position:		
Net Invested in Capital Assets, net of related debt	4,658,818	4,867,973
Restricted For:		
Debt Service (expendable)	22,634	23,073
Capital Projects (expendable)	1,229,309	1,081,587
Unrestricted	1,098,742	777,083
Net Position	\$ 7,009,503	\$ 6,749,716

The accompanying notes are an integral part of these financial statements.

Lost Hills Utility District
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION – PROPRIETARY FUND
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Revenues		
Charges For Services	\$ 1,042,744	\$ 1,037,079
Other Fees	215,464	107,495
	1,258,208	1,144,574
Operating Expenses		
Vehicles	14,512	9,732
Outside Services	51,593	58,749
Professional Fees	169,276	124,677
Supplies	7,058	12,786
Director Fees	8,200	8,200
Depreciation	378,850	378,117
Repairs and Maintenance	136,843	158,440
Contract Labor	23,250	52,694
Utilities and Telephone	129,344	87,290
Insurance	49,099	49,226
Taxes	38,305	39,142
Payroll	204,693	185,440
	1,211,023	1,164,493
Total Operating Expenses		
Operating Income (loss)	47,185	(19,919)
Nonoperating Revenues (Expenses)		
Grant income	102,856	699,319
State of California receipts	728,432	-
Interest income	22,847	18,384
Connection fees	149,148	71,171
Interest expense	(104,959)	(108,086)
Grant expenditures	(29,411)	(298,733)
State of California expenditures	(656,311)	-
	212,602	382,055
Total Nonoperating Revenues (Expenses)		
Change in Net Position	259,787	362,136
Net Position - Beginning	6,749,716	6,387,580
Net Position - Ending	\$ 7,009,503	\$ 6,749,716

The accompanying notes are an integral part of these financial statements.

Lost Hills Utility District

STATEMENTS OF CASH FLOWS PROPRIETARY FUND Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from:		
Customers	\$ 1,200,234	\$ 1,253,666
Cash paid to:		
Suppliers	(748,143)	(659,741)
Employees	(204,280)	(190,557)
Net cash provided (used) by operating activities	247,811	403,368
Net cash provided from noncapital financing activities:		
Connection fees	149,148	71,171
Grants received	102,856	699,319
Caltrans receipts	728,432	-
Caltrans expenditures	(656,311)	-
Grant project expenditures	(29,411)	(298,733)
Net cash provided (used) by noncapital financing activities	294,714	471,757
Cash flows from capital and related financing activities:		
Purchase of capital assets	(107,689)	(1,089,357)
Principal paid on capital debt	(62,004)	(57,109)
Interest paid on capital debt	(106,079)	(109,147)
Net cash provided (used) by capital and related financing activities	(275,772)	(1,255,613)
Cash flows from investing activities:		
Interest received	22,847	18,384
Net cash provided (used) by investing activities	22,847	18,384
Net Increase (decrease) in cash and cash equivalents	289,600	(362,104)
Cash and equivalents, Beginning of Year	1,998,318	2,360,422
Cash and equivalents, End of Year	\$ 2,287,918	\$ 1,998,318
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 47,185	\$ (19,919)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	378,850	378,117
(Increase) decrease in accounts receivable	(51,674)	102,592
(Increase) decrease in prepaid expenses	(3,455)	(2,639)
Increase (decrease) in accounts payable	(117,208)	(56,166)
Increase (decrease) in accrued wages and taxes	-	(6,956)
Increase (decrease) in customer deposits	(6,300)	6,500
Increase (decrease) in compensated Absences	413	1,839
Net cash provided (Used) by Operating Activities	\$ 247,811	\$ 403,368

The accompanying notes are an integral part of these financial statements.

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 1 – Summary of Significant Accounting Policies

The accompanying financial statements of Lost Hills Utility District (the "District") have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The following summary of the District's more significant accounting policies is presented to assist the reader in interpreting the basic financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying basic financial statements.

A - Reporting Entity

The District was established in 1978 for the purpose of supplying sewer service in the Lost Hills area. The District purchased the entire local water district in 1989 for the purpose of operating a water system. The District is governed by an elected Board of Directors. The primary source of revenues are fees for sewer and water services.

The District has defined its reporting entity in accordance with accounting principles generally accepted in the United States of America which provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. The Basic Financial Statements present information on the activities of the reporting entity, including all of the fund types of the District (the primary government) and its component units.

Accounting principles generally accepted in the United States of America require that the component units be separated into blended or discretely presented units for reporting purposes. Although legally separate entities, blended component units are, in substance, part of the District's operations. Therefore, they are reported as part of the primary government. Discretely presented component units are reported in a separate column in the basic financial statements to emphasize that they are legally separate from the District. The District has no discretely presented component units.

Blended Component Units

On July 3, 1990 the District and the Lost Hills Utility District Capital Facilities Corporation (the "Corporation") entered into a Joint Exercise of Powers Agreement for the purpose of constructing, financing, and leasing public facilities, land, and equipment for the use and benefit of the District and to borrow the necessary funds to acquire real and personal property, to enter into contracts to construct, reconstruct, modify, improve, and operate buildings, structures, equipment, facilities, and improvements. Separate financial statements are not available for the Corporation. The District Board of Directors is the governing body for the Corporation.

B - Basis of Presentation

Fund Financial Statements

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/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary.

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 1 – Summary of Significant Accounting Policies, (continued)

The District has only one fund for the year ended June 30, 2018 and 2017 which is a proprietary fund type, specifically an enterprise fund.

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Enterprise funds are also used when the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

C - Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

Proprietary funds are presented using the economic resources measurement focus. The accounting objectives of the economic measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

Basis of Accounting

The accrual basis of accounting is followed by the proprietary fund. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund’s principal ongoing operations. Operating expenses for 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.

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 1 – Summary of Significant Accounting Policies, (continued)

D - Assets, Liabilities, Net Position or Equity, and Other Financial Statement Items

Cash and Investments

California Government Code authorizes the District to invest in the following types of investments:

<u>Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Specified % Of Portfolio</u>	<u>Minimum Quality Requirements</u>
Local Agency Bonds	5 Years	None	None
U.S. Treasury Obligations	5 Years	None	None
State Obligations	5 Years	None	None
CA Local Agency Obligations	5 Years	None	None
U.S. Agency Obligations	5 Years	None	None
Bankers' Acceptance	180 Days	40%	None
Commercial Paper - Select Agencies	270 Days	25%	A-1
Commercial Paper - Other Agencies	270 Days	40%	A-1
Negotiable Certificates of Deposit	5 Years	30%	None
CD Placement Service	5 Years	30%	None
Repurchase Agreements	1 Year	None	None
Reverse Repurchase Agreements	92 Days	20%	None
Medium-Term Notes	5 Years	30%	A
Mutual and Money Market Fund	N/A	20%	Multiple
Collateralized Bank Deposits	5 Years	None	None
Mortgage Pass-Through Securities	5 Years	20%	AA
Bank/Time Deposits	5 Years	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple
Local Agency Investment Fund (LAIF)	N/A	None	None

For purposes of the Statement of Cash Flows for the Proprietary fund types, cash and cash equivalents includes all pooled cash investments, non-pooled restricted cash and restricted investments with an original maturity of three months or less. The District considers the investments held by the County of Kern to be a demand deposit account where funds may be withdrawn and deposited at any time without prior notice or penalty.

Receivables

All trade and tax receivables are shown net of an allowance for uncollectible accounts and estimated refunds due.

Prepaid Items

Certain payments to vendors applicable to future accounting periods are reported as prepaid items using the consumption method of accounting. Prepaid items do not reflect current appropriable resources and, thus, an equivalent portion of fund balance is reserved

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2018 and 2017

Note 1 – Summary of Significant Accounting Policies, (continued)

Capital Assets and Depreciation

Capital assets are defined by the District as assets with an initial cost of more than \$1,000 and an estimated life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	40
Improvements other than buildings	10 - 20
Machinery and Equipment	5 - 8
Transmission and Distribution	20 - 75

Compensated Absences

Depending on job classification, length of service, and other factors, employees of the District are entitled to paid vacation, sick, and personal days off. The District's policy is to accrue only the cost of vacation as the benefit vests to the employee.

Long-Term Obligations

For Proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond issuance costs, including underwriters' discount, are expensed when paid.

Net Position

The proprietary fund financial statements utilize a net position presentation. Net position is categorized as follows:

Net Invested 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 Net Position – 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. The statement of net position reports \$1,251,943 of net position restricted externally by grantors, creditors, or laws or regulations of other governments (\$1,104,660 at June 30, 2017).

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 1 – Summary of Significant Accounting Policies, (continued)

Unrestricted Net Position – This category represents net position of the District, not restricted for any project or other purpose.

When both restricted and unrestricted net position are available, it is the District’s policy to use restricted net position first, and then unrestricted net position as they are needed.

Appropriated Budget and Budgetary Control

The Board of Directors is required to adopt an annual budget resolution by July 1 of each fiscal year for the General Fund. The budget is presented for reporting purposes on a budgetary basis consistent with accounting principles generally accepted in the United States of America.

The level of appropriated budgetary control is at the functional departmental level. The Board of Directors may authorize transfers of appropriations within a departmental function. Expenditures may not legally exceed total departmental appropriations. Supplemental appropriations during the year must be approved by the Board of Directors by a majority vote. Unexpended or unencumbered appropriations lapse at the end of the fiscal year. Encumbered appropriations are reappropriated in the ensuing year’s budget.

The District adopts a budget for the Proprietary funds; however, all Proprietary fund types are accounted for on a cost of service (net income), or “capital maintenance” measurement focus. As a result, budget comparisons are impractical. Additionally, the District is not legally mandated to report the results of operations for these Proprietary fund types on a budget comparison basis; therefore, budgetary data related to these funds has not been presented.

Use of Estimates

The preparation of financial statements in conformity 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 expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Cash and Investments

The following is a summary of the District’s cash, cash equivalents, and investments with fiscal agents at June 30, 2018 and 2017:

	2018	2017
Cash on Hand	\$ 100	\$ 100
Demand Deposits	430,093	277,956
Monitoring Wells Project Bank Account	2,000	4,234
External Cash Pool - County of Kern	1,855,725	1,716,028
Total	\$ 2,287,918	\$ 1,998,318

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 2 – Cash and Investments, (continued)

Deposits:

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District has no deposit policy for custodial credit risk. As of June 30, 2018 and June 30, 2017, the District had exposure to custodial credit risk as the demand deposit balance exceeded the FDIC coverage limitations. At times throughout the year, these balances also exceeded the federally insured limit.

Investments:

The District had \$1,855,725 and \$1,716,028 held by the County of Kern at June 30, 2018 and 2017 respectively.

Interest rate risk – The District has no investment policy for interest rate risk.

Credit quality rating – The District has no investments in debt securities and therefore there is no credit quality rating to disclose. The District has no investment policy for credit quality ratings.

Concentration of credit risk – The District has no investment policy for concentration of credit risk.

Custodial credit risk – The District has no investment policy for custodial credit risk.

Note 3 – Receivables

Receivables at June 30, 2018 and 2017 consist of the following:

	2018	2017
Accounts Receivable, trade	\$ 134,035	\$ 132,970
Interest Receivable	5,110	5,110
Caltrans Reimbursement Receivable	50,609	-
Allowance for Doubtful accounts	None	None
Total	\$ 189,754	\$ 138,080

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 4 – Capital Assets

Capital asset activity for the years ended June 30, 2018 and 2017 is as follows:

	June 30, 2018				Balance June 30, 2018
	Balance June 30, 2017	Additions	Deletions	Transfers	
Capital assets, not being depreciated					
Land	\$ 272,579	\$ 92,392	\$ -	\$ -	\$ 364,971
Construction in Progress	-	-	-	-	-
Total Capital assets, not being depreciated	272,579	92,392	-	-	364,971
Capital assets, being depreciated					
Vehicles	62,987	7,603	-	-	70,590
Office Building and Equipment	112,488	7,695	-	-	120,183
Waste Water System	2,921,135	-	-	-	2,921,135
Water System	9,708,700	-	-	-	9,708,700
Total Capital assets, being depreciated	12,805,310	15,298	-	-	12,820,608
Less accumulated depreciation for:					
Vehicles	22,446	13,991	-	-	36,437
Office Building and Equipment	65,712	4,131	-	-	69,843
Waste Water System	2,245,092	95,137	-	(27,855)	2,312,374
Water System	3,837,514	265,591	-	27,855	4,130,960
Total accumulated depreciation	6,170,764	378,850	-	-	6,549,614
Total capital assets, being depreciated, net	6,634,546	(363,552)	-	-	6,270,994
Governmental activities capital assets, net	\$ 6,907,125	\$ (271,160)	\$ -	\$ -	\$ 6,635,965

	June 30, 2017				Balance June 30, 2017
	Balance June 30, 2016	Additions	Deletions	Transfers	
Capital assets, not being depreciated					
Land	\$ 272,579	\$ -	\$ -	\$ -	\$ 272,579
Construction in Progress	521,487	-	-	(521,487)	-
Total Capital assets, not being depreciated	794,066	-	-	(521,487)	272,579
Capital assets, being depreciated					
Vehicles	62,987	-	-	-	62,987
Office Building and Equipment	112,488	-	-	-	112,488
Waste Water System	2,921,135	-	-	-	2,921,135
Water System	8,097,856	1,089,357	-	521,487	9,708,700
Total Capital assets, being depreciated	11,194,466	1,089,357	-	521,487	12,805,310
Less accumulated depreciation for:					
Vehicles	9,849	12,597	-	-	22,446
Office Building and Equipment	62,260	3,452	-	-	65,712
Waste Water System	2,165,872	79,220	-	-	2,245,092
Water System	3,554,666	282,848	-	-	3,837,514
Total accumulated depreciation	5,792,647	378,117	-	-	6,170,764
Total capital assets, being depreciated, net	5,401,819	711,240	-	521,487	6,634,546
Governmental activities capital assets, net	\$ 6,195,885	\$ 711,240	\$ -	\$ -	\$ 6,907,125

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 4 – Capital Assets, (continued)

Depreciation charged to business-type activities on the combining statements of Revenues, Expenses, and Changes in Net Position are as follows:

	2018	2017
Sewer	\$ 98,761	\$ 82,430
Water	280,089	295,687
Total	\$ 378,850	\$ 378,117

Note 5 – Long-Term Liabilities

Outstanding debt balances at June 30, 2018 and 2017 are as follows:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
Certificates of Participation	\$ 1,940,700	\$ -	\$ (49,600)	\$ 1,891,100	\$ 54,500
Note Payable	115,500	-	(16,500)	99,000	16,500
Compensated Absences	5,850	413	-	6,263	-
Less Unamortized Discount	(17,048)	-	4,095	(12,953)	(3,580)
Total Long-Term Liabilities	\$ 2,045,002	\$ 413	\$ (62,005)	\$ 1,983,410	\$ 67,420

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
Certificates of Participation	\$ 1,985,900	\$ -	\$ (45,200)	\$ 1,940,700	\$ 49,600
Note Payable	132,000	-	(16,500)	115,500	16,500
Compensated Absences	4,011	-	1,839	5,850	-
Less Unamortized Discount	(21,639)	-	4,591	(17,048)	(4,095)
Total Long-Term Liabilities	\$ 2,100,272	\$ -	\$ (55,270)	\$ 2,045,002	\$ 62,005

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 5 – Long-Term Liabilities, (continued)

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Certificates of Participation:		
<p>1992 Water Improvement Certificates of Participation (COP's) dated August 1, 1992, in the original amount of \$1,939,300 at 5.625% interest; principal and interest payable each February 1 and August 1 until August 1, 2032 maturity. COP's are secured by net revenues of the water enterprise.</p>	\$ 1,508,600	\$ 1,551,700
<p>Rate Covenant – the District is required to collect rates, fees, and charges for water services sufficient to provide net revenues equal to at least 1.25 times the debt service coming due.</p>		
<p>Arsenic Removal Water System Improvement Certificates of Participation (COP's) dated October 26, 2006, in the original amount of \$440,000; principal and interest at 4.125% payable each October 1 and April 1 until October 1, 2046 maturity. Loan secured by water delivery system.</p>	382,500	389,000
<p>Rate Covenant – the District is required to collect rates, fees, and charges for water services sufficient to provide net revenues equal to the installment payments coming due.</p>		
<p>Reserve Requirement – The District is required to maintain a reserve account holding the dollar amount necessary to equal the maximum annual debt service on the certificates.</p>		
Total Certificates of Participation	1,891,100	1,940,700

Note Payable:

Note payable dated May 26, 1989, to Chevron Incorporated in the original amount of \$656,000 at 0% interest. On May 26, 2009, the note was amended to require the then unpaid principal balance of \$231,000 to be repaid without interest in fourteen annual installments of \$16,500 beginning May 26, 2011 until May 26, 2024 maturity. The note is secured by the water collection system. The interest rate of 0% was considerably lower than market rates for secured notes payable at that time; therefore, an imputed interest rate of 4.16% has been used

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 5 – Long-Term Liabilities, (continued)

for this loan which created a discount on notes payable of \$65,423. This discount reduced the original carrying amount of the note to \$165,577. The discount is being amortized over the life of the loan using the effective interest method.

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Principal	99,000	115,500
Unamortized Discounts	<u>(12,953)</u>	<u>(17,048)</u>
	86,047	98,451
 Compensated Absences Payable	 <u>6,263</u>	 <u>5,850</u>
 Total Long-Term Liabilities	 <u><u>\$ 1,983,410</u></u>	 <u><u>\$ 2,045,002</u></u>

The annual requirements to amortize all indebtedness and other long-term liabilities outstanding at June 30, 2018, are as follows:

	June 30, 2018				
		Certificate of Participation		Note Payable	
		<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2019	\$ 54,500.0	\$ 99,157	\$ 16,500	\$ -	
2020	59,200	96,064	16,500	-	
2021	64,900	92,682	16,500	-	
2022	70,700	88,981	16,500	-	
2023	77,500	84,929	16,500	-	
2024-2028	512,600	348,817	16,500	-	
2029-2033	809,700	169,937	-	-	
2034-2038	70,500	42,890	-	-	
2039-2043	171,500	33,856	-	-	
Total	<u>\$ 1,891,100</u>	<u>\$ 1,057,313</u>	<u>\$ 99,000</u>	<u>\$ -</u>	

Lost Hills Utility District
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018 and 2017

Note 6 – Retirement Plan

The District's defined contribution 401(k) plan, the Lost Hills Utility District 401(k) Profit Sharing Plan and Trust, provides for retirement benefits to plan members and beneficiaries. The Plan is administered by Paychex, Inc.

The Plan allows employees to make elective salary deferrals of 3% to a maximum 10% and authorizes the District to make annual discretionary matching contributions of up to 1%. For the plan year ended December 31, 2017, the District matched up to 1% of the employee's deferral, which amounted to \$1,447. This amount was unpaid as of June 30, 2018.

Plan participants become 20% vested in matching contributions beginning after the second year of service. This vesting increases 20% each year until fully vested after the fifth year of service.

Note 7 – State of California Utility Agreement

On March 14, 2017, the District entered into a Utility Agreement with the State of California – Department of Transportation (the State) regarding the conversion of a portion of Highway 46 from 2-lane highway to 4-lane highway. This project is requiring the relocation of certain of the District's water pipelines. The agreement acknowledged the State's liability for the work to be performed by the District and established a mechanism for cost reimbursement by the State. As of June 30, 2018, the State owed the District \$36,310 for unreimbursed costs.

Note 8 – Other Disclosures

Economic Dependency

The District is dependent on user fees of customers in the district.

Date of Management Evaluation

Management has evaluated subsequent events through October 10, 2018, the date on which the financial statements were available to be issued.

Excess of Expenditures over Appropriations

For the years ended June 30, 2018 and 2017, some expenditures exceeded appropriations. The over expenditures were funded from current tax revenue, programs & contributions.

Installment Purchase Contract

The District has pledged net revenues from water sales for the payment of the Certificates of Participation (COP's). Proceeds from the COP's originally provided financing for the acquisition of certain water system improvements. The COP'S are payable solely from net revenues and are payable through 2047. The total principal and interest remaining to be paid on the COP's is \$2,948,413. Principal and interest paid for the current year was \$151,583.

COMBINING STATEMENTS

Lost Hills Utility District
COMBINING STATEMENTS
OF NET POSITION
Years Ended June 30, 2018 and 2017

	2018			2017		
	Sewer	Water	Total	Sewer	Water	Total
Assets:						
Current Assets:						
Cash	\$ 935,673	\$ 1,352,246	\$ 2,287,919	\$ 983,288	\$ 1,015,030	\$ 1,998,318
Receivables, net	30,276	159,478	189,754	23,415	114,665	138,080
Prepaid Expenses	2,289	17,883	20,172	1,003	15,716	16,719
Total Current Assets	968,238	1,529,607	2,497,845	1,007,706	1,145,411	2,153,117
Noncurrent Assets:						
Capital Assets:						
Land	80,361	284,609	364,970	70,225	202,354	272,579
Depreciable Buildings, Property and Equipment, net of accumulated depreciation	597,807	5,673,188	6,270,995	582,087	6,052,459	6,634,546
Total Noncurrent Assets	678,168	5,957,797	6,635,965	652,312	6,254,813	6,907,125
Total Assets	\$ 1,646,406	\$ 7,487,404	\$ 9,133,810	\$ 1,660,018	\$ 7,400,224	\$ 9,060,242
Liabilities:						
Current Liabilities:						
Accounts Payable	\$ 14,495	\$ 76,101	\$ 90,596	\$ 33,249	\$ 174,554	\$ 207,803
Accrued Interest Payable	-	39,601	39,601	-	40,721	40,721
Customer Deposits	-	10,700	10,700	-	17,000	17,000
Current Portion of Long-Term Debt	-	67,420	67,420	-	62,005	62,005
Total Current Liabilities	14,495	193,822	208,317	33,249	294,280	327,529
Noncurrent Liabilities:						
Accrued Compensated Absences	1,253	5,010	6,263	1,170	4,680	5,850
Bonds and Notes Payable	-	1,909,727	1,909,727	-	1,977,147	1,977,147
Total Noncurrent Liabilities	1,253	1,914,737	1,915,990	1,170	1,981,827	1,982,997
Total Liabilities	15,748	2,108,559	2,124,307	34,419	2,276,107	2,310,526
Net Position:						
Net Invested in Capital Assets, net of related debt	678,168	3,980,650	4,658,818	652,312	4,215,661	4,867,973
Restricted For:						
Debt Service (expendable)	-	22,634	22,634	-	23,073	23,073
Capital Projects (expendable)	562,156	667,153	1,229,309	485,852	595,735	1,081,587
Unrestricted	390,334	708,408	1,098,742	487,435	289,648	777,083
Net Position	\$ 1,630,658	\$ 5,378,845	\$ 7,009,503	\$ 1,625,599	\$ 5,124,117	\$ 6,749,716

Lost Hills Utility District
COMBINING STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
Years Ended June 30, 2018 and 2017

	2018			2017		
	Sewer	Water	Total	Sewer	Water	Total
Operating Revenues						
Charges For Services	\$ 198,034	\$ 844,710	\$ 1,042,744	\$ 187,299	\$ 849,780	\$ 1,037,079
Construction Water	-	191,566	191,566	-	88,508	88,508
Other Fees	9,684	14,213	23,897	6,104	12,883	18,987
Total Operating Revenues	207,718	1,050,489	1,258,207	193,403	951,171	1,144,574
Operating Expenses						
Vehicles	2,337	12,175	14,512	1,956	7,776	9,732
Outside Services	6,678	44,915	51,593	4,538	54,211	58,749
Professional Fees	55,524	113,752	169,276	26,513	98,164	124,677
Supplies	1,494	5,094	6,588	2,405	10,381	12,786
Director Fees	1,670	6,530	8,200	1,640	6,560	8,200
Depreciation	98,761	280,089	378,850	82,430	295,687	378,117
Repairs and Maintenance	11,353	125,337	136,690	12,383	146,057	158,440
Contract Labor	840	22,410	23,250	27,984	24,710	52,694
Utilities and Telephone	20,024	109,320	129,344	18,075	69,215	87,290
Insurance	10,855	38,867	49,722	9,700	39,526	49,226
Taxes	6,604	31,701	38,305	6,781	32,361	39,142
Payroll	39,190	165,503	204,693	33,676	151,764	185,440
Total Operating Expenses	255,330	955,693	1,211,023	228,081	936,412	1,164,493
Operating Income (loss)	(47,612)	94,796	47,184	(34,678)	14,759	(19,919)
Nonoperating Revenues (Expenses)						
Grant Income	-	102,856	102,856	-	699,319	699,319
Interest Income	3,009	19,837	22,846	5,659	12,725	18,384
Connection Fees	49,662	99,486	149,148	32,854	38,317	71,171
Interest Expense	-	(104,959)	(104,959)	-	(108,086)	(108,086)
Project/Grant Expenditures	-	(29,410)	(29,410)	-	(298,733)	(298,733)
California State Project	-	72,122	72,122	-	-	-
Total Nonoperating Revenues (Expenses)	52,671	159,932	212,603	38,513	343,542	382,055
Income Before Transfers	5,059	254,728	259,787	3,835	358,301	362,136
Transfers	-	-	-	-	-	-
Change in Net Position	5,059	254,728	259,787	3,835	358,301	362,136
Net Position - Beginning	1,625,599	5,124,117	6,749,716	1,621,764	4,765,816	6,387,580
Net Position - Ending	\$ 1,630,658	\$ 5,378,845	\$ 7,009,503	\$ 1,625,599	\$ 5,124,117	\$ 6,749,716

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**ADDITIONAL REPORTING REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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Albert & Associates, LLP

Certified Public Accountants

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

The Board of Directors of the Lost Hills
Utility District, Lost Hills, California:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of Lost Hills Utility District, California, as of and for the years ending June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Lost Hills Utility District's basic financial statements, and have issued our report thereon dated October 10, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies (Items 2018-1 through 2018-2).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lost Hills Utility District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Albert & Associates, LLP

Wasco, California
October 10, 2018

Lost Hills Utility District

SCHEDULE OF FINDINGS

Year ended June 30, 2018

2018-1 Preparation of Financial Statement

Criteria and Condition: The District should be able to produce its own financial statements in conformity with U.S. generally accepted accounting principles.

Context: The District is not able to produce its own financial statements.

Cause: The District's size and budget does not justify the cost to hire an employee trained in government accounting and reporting.

Effect: There is an increased risk that reporting errors could go unnoticed

Recommendation: Staff levels should be maintained to enable preparation of financial statements

Management Response: The District acknowledges that it uses the services of its audit firm to prepare the end of the year financial statements. The District does not believe it is cost effective to hire the necessary staff in order to achieve this competency.

2018-2 Segregation of Duties

Criteria and Condition: The District should have adequate segregation of accounting duties.

Context: The District does not have adequate segregation of duties.

Cause: The District's size and budget limit the number of office accounting employees.

Effect: There is an increased risk that accounting errors could go unnoticed.

Recommendation: Systems should be designed so employees do not oversee their own work. We recommend the District design and implement policies and procedures to help mitigate the lack of segregation of duties.

Management Response: The District's small size does not allow for the allocation of necessary funds that would be required to properly staff an office to adequately segregate accounting duties.

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