

**HIDDEN VALLEY LAKE
COMMUNITY SERVICES DISTRICT,
CALIFORNIA**

**FINANCIAL STATEMENTS
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2016**

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HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

**Annual Financial Report
For the Year Ended June 30, 2016**

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INTRODUCTORY SECTION

- **List of Officials**

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HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Board of Directors

For the Year Ended June 30, 2016

Jim Freeman. President
Jim Lieberman. Vice President
Linda Herndon. Director
Carolyn Graham. Director
Judy Mirbegian. Director

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FINANCIAL SECTION

- **Independent Auditor's Report**
- **Management's Discussion and Analysis**
- **Basic Financial Statements**
- **Required Supplementary Information**
- **Combining Fund Statements**

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Hidden Valley Lake Community Services District
Hidden Valley Lake, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Hidden Valley Lake Community Services District, California (District), as of and for the year ended June 30, 2016, 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. 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 the District as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 10 to the financial statements, in 2016, the District implemented, if applicable, Governmental Accounting Standards Board (GASB) Statement Nos. 72, 73, 76 and 79. Our opinion is not modified with respect to these matters.

As described in Note 8B, the net pension liability is measured as of June 30, 2015, and the pension expense is for the measurement period of 2014-15. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, District Pension Plan - Schedule of Proportionate Share of the Net Pension Liability, District Pension Plan - Schedule of Contributions, Notes to District Pension Plan and District OPEB Plan - Schedule of Funding Progress as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

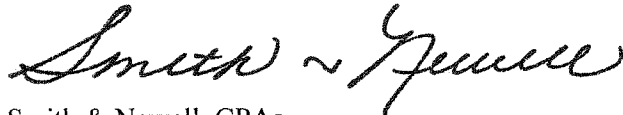
The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of 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 fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Board of Directors
Hidden Valley Lake Community Services District
Hidden Valley Lake, California

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 14, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.



Smith & Newell, CPAs
Yuba City, California
March 14, 2017

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**Management's Discussion and Analysis
(Unaudited)**

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**HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

This section of the Annual Financial Report contains a narrative overview and analysis of the Hidden Valley Lake Community Services District (District) financial activities for the year ended June 30, 2016. Readers are encouraged to consider the information presented here in conjunction with the Annual Financial Statements.

Overview of the Financial Statements

The financial section of this report consists of five parts.

- Independent Auditor’s Report
- Management Discussion and Analysis (Unaudited)
- Basic Financial Statements, which include:
 - Government-Wide Financial Statements
 - Fund Financial Statements
 - Notes to Basic Financial Statements
- Required Supplementary Information (Unaudited)
- Supplementary Information, which include:
 - Combining Fund Statements

Financial Highlights

Entity-wide:

- The District’s total net position was \$2,423,936 as of June 30, 2016. Of this total, \$1,846,969 was net investment in capital assets.
- The District’s total revenues include operating program revenues of \$2,865,995, and general revenues of \$354,967 for a total of \$3,220,962.
- District expenses were \$4,660,980.

The Basic Financial Statements for the District are presented as “Government-Wide” and Enterprise Fund financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private sector business. The government-wide financial statements can be found on pages 7 and 8 of this report.

Fund Financial Statements

A “fund” is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has two proprietary funds: Sewer Operations and Water Operations. The fund financial statements can be found on pages 9 through 14 of this report. Proprietary funds distinguish operating revenues and expenses from non-operating items.

Notes to Financial Statements

The notes provide additional information that is essential to fully understanding the data provided in the financial statements. The notes to the financial statements can be found on pages 15 through 36 of this report.

Table 1
Condensed Statement of Net Position
June 30,

	Total	
	2016	2015
Assets:		
Current and other assets	\$ 2,495,236	\$ 2,593,880
Capital assets	8,122,983	9,266,625
Total Assets	10,618,219	11,860,505
Deferred Outflows of Resources:		
Deferred Pension adjustments	185,018	169,935
Total Deferred Outflows of Resources	185,018	169,935
Liabilities:		
Current and other liabilities	1,785,135	210,422
Long-term liabilities	6,300,535	7,740,087
Total Liabilities	8,085,670	7,950,509
Deferred Inflows of Resources:		
Deferred Pension adjustments	293,631	215,977
Total Deferred Inflows of Resources	293,631	215,977
Net Position:		
Net investment in capital assets	1,846,969	2,885,565
Restricted	1,027,712	1,247,875
Unrestricted	(450,745)	(269,486)
Total Net Position	\$ 2,423,936	\$ 3,863,954

Net position represents the difference between the District's resources and its obligations. At June 30, 2016, a portion of the District's total net position, -18.6 percent, reflects the unrestricted net position. Unrestricted net position is considered the residual component of net position, meaning they are not restricted or a part of the net investment in capital assets. Additionally, the District had 31.2 percent of its net position restricted for debt service and 11.2 percent restricted for capital facilities. Finally, 76.2 percent of the District's net position represents the net investment in capital assets. These capital assets are used by the District to provide services to citizens. Additional capital asset information can be found in the Capital Assets and Debt Administration section of this MD&A.

Table 2
Condensed Statement of Activities
For the Year Ended June 30,

	Total	
	2016	2015
Program Revenues:		
Charges for services	\$ 2,537,404	\$ 2,288,816
Operating grants and contributions	328,591	905,685
Total Program Revenues	<u>2,865,995</u>	<u>3,194,501</u>
General Revenues:		
Interest and investment earnings	4,283	3,503
Miscellaneous	350,684	137,806
Total General Revenues	<u>354,967</u>	<u>141,309</u>
Total Revenues	<u>3,220,962</u>	<u>3,335,810</u>
Program Expenses:		
Sewer	2,837,785	2,297,037
Water	1,823,195	1,401,112
Total Expenses	<u>4,660,980</u>	<u>3,698,149</u>
Change in net position	<u>(1,440,018)</u>	<u>(362,339)</u>
Net Position - Beginning	3,863,954	5,187,999
Cumulative effect of change in accounting principal	-	(961,706)
Net Position - Beginning, Restated	<u>3,863,954</u>	<u>4,226,293</u>
Net Position - Ending	<u>\$ 2,423,936</u>	<u>\$ 3,863,954</u>

Capital Asset Administration

The District's net capital assets decreased from \$9,266,625 to \$8,122,983 for the year ended June 30, 2016. The total decrease was \$1,143,642 including additions and adjustments to capital assets of \$650,288, disposals of \$213,684, and additions to accumulated depreciation of \$1,580,246. Details of the capital asset transactions can be found on page 24, Note 4.

Debt Administration

The District's long-term debt was for the infrastructure of water lines, sewer lines, pump stations and processing plant. At year end June 30, 2016, the long-term debt decreased from \$6,421,414 to \$6,300,535 due to payments and the issuance of refunding bonds. Details of the debt outstanding can be found on pages 26 through 28, Note 6.

Economic Factors and Next Year's Budget

The effects of slow economic recovery are being addressed through a comprehensive rate study and five year plan to increase water and sewer use charges. For fiscal year 2015/2016, Hidden Valley Lake Community Services District had only three new water connections and six new sewer connections. This is consistent with numbers throughout the economic downturn. Although the housing market appears to have stabilized, new construction remains slow.

Requests for Information

This financial report is designed to provide a general overview of the finances of the District. This report does not reflect the overall finances of operations. For that information, please refer to the separate audit reports. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Hidden Valley Lake Community Services District, 19400 Hartmann Road, Hidden Valley Lake, CA 95467.

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Basic Financial Statements

- **Government-Wide Financial Statements**

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HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Statement of Net Position
June 30, 2016

	Business-Type Activities
ASSETS	
Cash and investments	\$ 1,850,066
Investments with fiscal agent	220,003
Receivables:	
Accounts (net of allowance)	260,896
Assessments	25,580
Delinquent assessments	66,115
Prepaid costs	72,576
Capital assets:	
Non-depreciable assets	607,918
Depreciable assets, net of depreciation	7,515,065
Total capital assets	<u>8,122,983</u>
Total Assets	<u>10,618,219</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension adjustments	<u>185,018</u>
Total Deferred Outflows of Resources	<u>185,018</u>
LIABILITIES	
Accounts payable	109,221
Salaries and benefits payable	28,425
Interest payable	72,926
Net pension liability	1,071,015
Net OPEB obligation	503,548
Long-term liabilities:	
Due within one year	280,929
Due in more than one year	<u>6,019,606</u>
Total Liabilities	<u>8,085,670</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred pension adjustments	<u>293,631</u>
Total Deferred Inflows of Resources	<u>293,631</u>
NET POSITION	
Net investment in capital assets	1,846,969
Restricted for debt service	757,329
Restricted for capital facilities	270,383
Unrestricted	<u>(450,745)</u>
Total Net Position	<u><u>\$ 2,423,936</u></u>

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

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Statement of Activities
For the Year Ended June 30, 2016

<u>Functions/Programs:</u>	Program Revenues			Changes in Net Position	
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Business- Type Activities	
Business-type activities:					
Sewer	\$ 2,837,785	\$ 1,106,654	\$ 328,591	\$ -	\$ (1,402,540)
Water	1,823,195	1,430,750	-	-	(392,445)
Total Business-Type Activities	4,660,980	2,537,404	328,591	-	(1,794,985)
Total	\$ 4,660,980	\$ 2,537,404	\$ 328,591	\$ -	(1,794,985)
 General revenues:					
Interest and investment earnings					4,283
Miscellaneous					350,684
Total General Revenues					354,967
 Change in Net Position					(1,440,018)
 Net Position - Beginning					3,863,954
 Net Position - Ending					\$ 2,423,936

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

Basic Financial Statements

- **Fund Financial Statements**

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HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Statement of Net Position
Enterprise Funds
June 30, 2016

	<u>Sewer Operations</u>	<u>Water Operations</u>	<u>Totals</u>
ASSETS			
Current Assets:			
Cash and investments	\$ 1,703,173	\$ 146,893	\$ 1,850,066
Investments with fiscal agent	220,003	-	220,003
Receivables:			
Accounts (net of allowance)	97,464	163,432	260,896
Assessments	25,580	-	25,580
Prepaid costs	36,288	36,288	72,576
Due from other funds	-	125,530	125,530
Total Current Assets	<u>2,082,508</u>	<u>472,143</u>	<u>2,554,651</u>
Noncurrent Assets:			
Advances to other funds	366,085	-	366,085
Delinquent assessments receivable	66,115	-	66,115
Capital assets, net	4,327,426	3,795,557	8,122,983
Total Noncurrent Assets	<u>4,759,626</u>	<u>3,795,557</u>	<u>8,555,183</u>
Total Assets	<u>6,842,134</u>	<u>4,267,700</u>	<u>11,109,834</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension adjustments	91,690	93,328	185,018
Total Deferred Outflows of Resources	<u>91,690</u>	<u>93,328</u>	<u>185,018</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	61,716	47,505	109,221
Salaries and benefits payable	17,518	10,907	28,425
Interest payable	43,783	29,143	72,926
Due to other funds	101,000	24,530	125,530
Compensated absences	10,125	7,552	17,677
Bonds	152,263	-	152,263
Loans	-	95,989	95,989
Certificates of participation	15,000	-	15,000
Total Current Liabilities	<u>401,405</u>	<u>215,626</u>	<u>617,031</u>

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

Continued (Page 1 of 2)

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Statement of Net Position
Enterprise Funds
June 30, 2016

	Sewer Operations	Water Operations	Totals
LIABILITIES (CONTINUED)			
Noncurrent Liabilities:			
Advances from other funds	25,085	341,000	366,085
Compensated absences	3,920	2,924	6,844
Bonds	3,533,952	-	3,533,952
Loans	-	1,913,810	1,913,810
Certificates of participation	565,000	-	565,000
Net pension liability	519,299	551,716	1,071,015
Net OPEB obligation	230,889	272,659	503,548
	4,878,145	3,082,109	7,960,254
Total Noncurrent Liabilities			
	5,279,550	3,297,735	8,577,285
Total Liabilities			
DEFERRED INFLOWS OF RESOURCES			
Deferred pension adjustments	142,135	151,496	293,631
	142,135	151,496	293,631
Total Deferred Inflows of Resources			
NET POSITION			
Net investment in capital assets	61,211	1,785,758	1,846,969
Restricted for debt service	586,256	171,073	757,329
Restricted for capital facilities	264,344	6,039	270,383
Unrestricted	600,328	(1,051,073)	(450,745)
	\$ 1,512,139	\$ 911,797	\$ 2,423,936
Total Net Position			

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

Continued (Page 2 of 2)

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenses,
And Changes in Net Position
Enterprise Funds
For the Year Ended June 30, 2016

	Sewer Operations	Water Operations	Totals
OPERATING REVENUES			
Assessments	\$ 328,591	\$ -	\$ 328,591
Permits and inspections	56,800	-	56,800
Charges for services	1,049,854	1,430,750	2,480,604
Miscellaneous	217,436	133,248	350,684
Total Operating Revenues	1,652,681	1,563,998	3,216,679
OPERATING EXPENSES			
Salaries and benefits	772,181	850,007	1,622,188
Insurance	75,096	16,135	91,231
Office expenses	17,624	17,380	35,004
Contract services	47,287	-	47,287
Continuing education	7,479	5,026	12,505
Dues and subscriptions	3,597	16,700	20,297
Postage	652	652	1,304
Repairs and maintenance	109,410	237,628	347,038
Gas, fuel and oil	10,921	10,485	21,406
Supplies	12,723	42,885	55,608
Professional services	46,085	(92,091)	(46,006)
Travel	1,450	2,013	3,463
Telephone	9,141	9,141	18,282
Power	32,570	135,970	168,540
Depreciation	1,203,038	377,208	1,580,246
Other operating	3,091	33,951	37,042
Office and safety equipment	3,750	3,132	6,882
Director's compensation	-	1,882	1,882
Environmental monitoring	36,413	15,364	51,777
Water conservation	-	5,208	5,208
Water rights	-	37,280	37,280
Annual operating fees	1,199	25,415	26,614
Total Operating Expenses	2,393,707	1,751,371	4,145,078
Operating Income (Loss)	(741,026)	(187,373)	(928,399)
NON-OPERATING REVENUES (EXPENSES)			
Interest income	3,324	959	4,283
Interest expense	(185,439)	(71,824)	(257,263)
Cost of issuance	(184,213)	-	(184,213)
Loss on disposal	(74,426)	-	(74,426)
Total Non-Operating Revenue (Expenses)	(440,754)	(70,865)	(511,619)

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

Continued (Page 1 of 2)

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Statement of Revenues, Expenses,
And Changes in Net Position
Enterprise Funds
For the Year Ended June 30, 2016

	Sewer Operations	Water Operations	Totals
Income (Loss) Before Transfers	(1,181,780)	(258,238)	(1,440,018)
Transfers in	370,671	15,222	385,893
Transfers out	(379,003)	(6,890)	(385,893)
Change in Net Position	(1,190,112)	(249,906)	(1,440,018)
Total Net Position - Beginning	2,702,251	1,161,703	3,863,954
Total Net Position - Ending	\$ 1,512,139	\$ 911,797	\$ 2,423,936

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

Continued (Page 2 of 2)

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

**Statement of Cash Flows
Enterprise Funds
For the Year Ended June 30, 2016**

	Sewer Operations	Water Operations	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 1,732,031	\$ 1,580,553	\$ 3,312,584
Cash paid to suppliers	(404,030)	(515,222)	(919,252)
Cash paid to employees	(616,172)	(708,028)	(1,324,200)
Net Cash Provided (Used) by Operating Activities	<u>711,829</u>	<u>357,303</u>	<u>1,069,132</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Transfers from other funds	370,671	15,222	385,893
Transfers to other funds	(379,003)	(6,890)	(385,893)
Interfund loans received	107,000	(40,604)	66,396
Interfund loans made	(6,000)	(60,396)	(66,396)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>92,668</u>	<u>(92,668)</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on debt	(3,698,500)	(92,761)	(3,791,261)
Interest paid on debt	(216,627)	(73,169)	(289,796)
Issuance of debt debt	3,547,002	-	3,547,002
Acquisition of capital assets	(344,376)	(265,484)	(609,860)
Disposition of capital assets	98,830	-	98,830
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(613,671)</u>	<u>(431,414)</u>	<u>(1,045,085)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	3,324	960	4,284
Net Cash Provided (Used) by Investing Activities	<u>3,324</u>	<u>960</u>	<u>4,284</u>
Net Increase (Decrease) in Cash and Cash Equivalents	194,150	(165,819)	28,331
Balances - Beginning	<u>1,729,026</u>	<u>312,712</u>	<u>2,041,738</u>
Balances - Ending	<u><u>\$ 1,923,176</u></u>	<u><u>\$ 146,893</u></u>	<u><u>\$ 2,070,069</u></u>

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

Continued (Page 1 of 2)

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Statement of Cash Flows

Enterprise Funds

For the Year Ended June 30, 2016

	<u>Sewer Operations</u>	<u>Water Operations</u>	<u>Totals</u>
RECONCILIATION OF OPERATING INCOME LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (741,026)	\$ (187,373)	\$ (928,399)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation/amortization	1,203,038	377,208	1,580,246
Decrease (increase) in:			
Accounts receivable	81,145	16,555	97,700
Assessments receivable	(1,795)	-	(1,795)
Prepaid costs	15,535	15,535	31,070
Pension adjustment - deferred outflows	(10,405)	(4,678)	(15,083)
Increase (decrease) in:			
Accounts payable	(1,077)	(6,601)	(7,678)
Salaries and benefits payable	1,905	(6,544)	(4,639)
Compensated absences payable	(5,150)	(10,683)	(15,833)
Net pension liability	98,311	92,584	190,895
Net OPEB obligation	32,521	32,474	64,995
Pension adjustment - deferred inflows	38,827	38,826	77,653
	<u>\$ 711,829</u>	<u>\$ 357,303</u>	<u>\$ 1,069,132</u>

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

Continued (Page 2 of 2)

Basic Financial Statements

- **Notes to Basic Financial Statements**

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HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Hidden Valley Lake Community Services District is a public corporation formed in 1984 under the provisions of the Community Services District Law, Division 3 of Title 6 (commencing with Section 61000) of the Government Code of the State of California. The District was formed for the purposes of providing for the collection of sewage, waste and storm water of the District and of its residents as well as the supply of water to the residents of the District. On January 1, 1993, Stonehouse Mutual Water Company merged with Hidden Valley Lake Community Services District. Stonehouse Mutual Water Company was a mutual water company which had been organized in June 1968 to provide water and sewer services to the owners of Hidden Valley Lake Association lots. The merger was approved by the shareholders with authorization to transfer all assets and liabilities to the District as of December 31, 1992, and dissolve Stonehouse Mutual Water Company. Notification was received from the Franchise Tax Board that the Certificate of Dissolution was filed as a conditional dissolution on January 21, 1993. Upon the issuance of a Tax Clearance Certificate by the Franchise Tax Board, the corporation was dissolved.

The activities of the District are governed by a Board of Directors each of whom is elected to office for a term of four years by the registered voters of the District.

Generally accepted accounting principles require government financial statements to include the primary government and its component units. Component units of a governmental entity are legally separate entities for which the primary government is considered to be financially accountable and for which the nature and significance of their relationship with the primary government are such that exclusion would cause the combined financial statements to be misleading. The primary government is considered to be financially accountable if it appoints a majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government.

Component Units

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that there are no component units of the District.

Joint Agencies

The District is a participant in the Special District Risk Management Authority (SDRMA), which is a joint powers agency organized for the purpose of pooled joint-protection coverage to member entities. SDRMA operates public entity pool's for auto and general liability coverage, plus workers compensation and errors and omissions coverage and pool purchases excess insurance for members. Complete audited financial statements of SDRMA can be obtained at 1112 I Street, Suite 300, Sacramento, CA 95814. The District is not financially accountable for this organization and therefore it is not a component unit under Statement Nos. 14, 39, and 61 of the Governmental Accounting Standards Board.

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information on all the activities of the District. These statements include the financial activities of the overall District. Eliminations have been made to minimize the double counting of internal activities. These statements present the business-type activities of the District, which rely to a significant extent on assessments and fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each different identifiable activity of the District's business-type activities. Direct expenses are those that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include (1) charges paid by the recipients of goods and services offered by the program and (2) operating grants and contributions, and (3) capital grants and contributions. Revenues that are not classified as program revenues, are presented instead as general revenues.

Fund Financial Statements

The fund financial statements provide information about the District funds. Funds are organized into the proprietary fund type. The operations of the District are organized as a series of sub-funds consolidated into four major proprietary funds which account for the total water and sewer operations. An emphasis is placed on major funds within the proprietary category; each is displayed in a separate column.

The District reports the following major proprietary funds:

- The Sewer Operations fund is an enterprise fund used to account for activity related to providing customers with sewer service and billing for service provided by the District.
- The Water Operations fund is an enterprise fund used to account for activity related to providing customers with water service and billing for service provided by the District.

C. Basis of Accounting and Measurement Focus

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange include revenue from grants, entitlements, and donations. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Cash Equivalents

For purposes of the accompanying Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased including investments with fiscal agent to be cash equivalents.

E. Investments

The District pools cash and investments of all funds. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments.

Investment transactions are recorded on the trade date. The fair value of investments is determined annually. Investments in nonparticipating interest-earning investment contracts are reported at cost; short term investments are reported at amortized cost, investments in Local Agency Investment Fund, an external pool, are reported at amortized cost which approximates fair value, and the fair value of all other investments are obtained by using quotations obtained from independent published sources or by the safekeeping institution. The fair value represents the amount the District could reasonably expect to receive for an investment in a current sale between a willing buyer and seller.

Income from pooled investments is allocated to the individual funds based on the fund or participant's average daily cash balance at quarter end in relation to the total pool investments. Income from non-pooled investments is recorded based on the specific investments held by the fund.

F. Receivables

Receivables consist mainly of user fees, assessments, and delinquent assessments. Although Management believes all assessments are ultimately collective because they are collected with property taxes, management has established an allowance for doubtful accounts of \$589 for the Sewer Operations fund, and \$0 for the Water Operations fund. Accounts receivables are stated net of these amounts.

Assessments receivable are recognized when billed. Assessments receivable shown in the financial statements include only those assessments currently due or delinquent.

G. Other Assets

Inventory

Inventory items are recorded as expenses at the time inventory is purchased rather than when consumed. Records are not maintained of inventory and supplies on hand, although these amounts are not considered material.

Prepaid Costs

Certain payments to vendors reflects costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets

Capital assets, including public domain (infrastructure such as roads, bridges, sidewalks, sewer and similar items) are defined by the District as assets with a cost of \$1,000 or more. Capital assets are recorded at historical cost or estimated historical cost if actual historical cost is unavailable. Contributed capital assets are valued at their acquisition value at the time of donation.

Capital assets used in operations are depreciated or amortized using the straight-line method over the assets estimated useful life. The range of estimated useful lives by type of asset is as follows:

<u>Depreciable Asset</u>	<u>Estimated Lives</u>
Equipment	5-30 years
Structures and Improvements	5-30 years
Infrastructure	20-75 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. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is to be included in the results of operations.

I. Assessment Revenue

The District levies special assessments on the property owners within the District boundaries. The special assessments are collected along with property taxes by the County of Lake.

Lake County assesses properties, bills, collects, and distributes the assessments to the District.

Assessments are due in two installments (secured roll) on November 1 and March 12 and become delinquent after December 10 and April 10, respectively.

J. Interfund Transactions

Interfund transactions are reflected as either loans, services provided or used, reimbursements or transfers.

Loans reported as receivables and payables are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans) as appropriate and are subject to elimination upon consolidation.

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenses. These services provide information on the net cost of each government function and therefore are not eliminated in the process of preparing the government-wide statement of activities.

Reimbursements occur when the funds responsible for particular expenses repay the funds that initially paid for them. Such reimbursements are reflected as expenses in the reimbursing fund and reductions to expenses in the reimbursed fund.

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Interfund Transactions (Continued)

All other interfund transactions are treated as transfers. Transfers between funds are netted as part of the reconciliation to the government-wide presentation.

K. Compensated Absences

The District's policy regarding compensated absences is to permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide and proprietary fund financial statements. The current portion of this debt is estimated based on historical trends.

L. Pensions

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

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. The District has one item that qualifies for reporting in this category. This item relates to the outflows from changes in the net pension liability and is reportable on the Statement of Net Position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. This item relates to the inflows from changes in the net pension liability and is reportable on the Statement of Net Position.

N. 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.

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Implementation of Governmental Accounting Standards Board Statements (GASB)

The following Governmental Accounting Standards Board (GASB) Statements have been implemented, if applicable, in the current financial statements.

Statement No. 72, Fair Value Measurement and Application. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining a fair value measurement and for applying fair value to certain investments and disclosures related to all fair value measurements.

Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This statement establishes requirements for defined benefit pensions and defined contribution pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions.

Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction is not specified within a source of authoritative GAAP.

Statement No. 79, Certain External Investment Pools and Pool Participants. This statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit Net Position

The sub-funds within the following enterprise funds had deficit net position at June 30, 2016:

Sewer Operations:	
1995-2 Bond Redemption	\$ 3,122,669
State Revolving fund	8,499
USDA Solar Loan	482,532
Water Operations:	
CIEDB Loan Redemption	\$ 2,174,143

These deficits will be eliminated in future years through loan and bond repayment.

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 3: CASH AND INVESTMENTS

A. Financial Statement Presentation

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

Cash:	
Cash on hand	\$ 600
Deposits (less outstanding checks)	<u>948,840</u>
Total Cash	<u>949,440</u>
Investments:	
Local Agency Investment Fund (LAIF)	900,626
Investments with Fiscal Agent	<u>220,003</u>
Total Investments	<u>1,120,629</u>
Total Cash and Investments	<u>\$ 2,070,069</u>

B. Cash

At year end, the carrying amount of the District's cash deposits (including amount in checking accounts) was \$948,840 and the bank balance was \$962,209. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. In addition, the District had cash on hand of \$600.

Custodial Credit Risk for Deposits - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The District complies with the requirements of the California Government Code. Under this code, deposits of more than \$250,000 must be collateralized at 105 percent to 150 percent of the value of the deposit to guarantee the safety of the public funds.

C. Investments

Investments are selected based on safety, liquidity and yield. The District's investment policy is more restrictive than the California Government Code. Under the provisions of the District's investment policy and the California Government Code, the District may invest or deposit in the following:

- Repurchase Agreements
- Local Agency Investment Funds (LAIF)
- U.S. Treasury Bonds/Notes/Bills
- U.S. Government Agency Obligations
- Bankers' Acceptances
- Commercial Paper
- Negotiable Certificates of Deposit
- Time Certificates of Deposit
- Reverse Repurchase Agreements

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

C. Investments (Continued)

Fair Value Measurements - The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and,
- Level 3: Unobservable inputs

The District's position in external investment pools is in its self regarded as a type of investment and looking through to the underlying investments of the pool is not appropriate. Therefore, the District's investment in external investment pools is not recognized in the three-tiered fair value hierarchy described above.

At June 30, 2016, the District had the following recurring fair value measurements:

Investment Type	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Investments by Fair Value Level				
Money Market Mutual Funds	\$ 220,003	\$ 220,003	\$ -	\$ -
Total Investments Measured at Fair Value	220,003	\$ 220,003	\$ -	\$ -
Investments in External Investment Pool				
Local Agency Investment Fund (LAIF)	900,626			
Total Investments	\$ 1,120,629			

Interest Rate Risk - Interest rate risk is the risk of loss due to the fair value of an investment falling due to interest rates rising. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. To limit exposure to fair value losses resulting from increases in interest rates, the District's investment policy limits investment maturities to a term appropriate to the need for funds so as to permit the District to meet all projected obligations.

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

C. Investments (Continued)

As of June 30, 2016, the District had the following investments, all of which had a maturity of 5 years or less:

Investment Type	Interest Rates	Maturities		Fair Value	Weighted Average Maturity (Years)
		0-1 year	1-5 years		
Pooled Investments					
Local Agency Investment Fund (LAIF)	Variable	\$ 900,626	\$ -	\$ 900,626	-
Total Pooled Investments		900,626	-	900,626	-
Investments Held by Fiscal Agents					
Money Market Mutual Funds	Variable	220,003	-	220,003	-
Total Investments Held by Fiscal Agents		220,003	-	220,003	-
Total Investments		\$ 1,120,629	\$ -	\$ 1,120,629	-

Credit Risk - 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 or the District's investment policy, and the actual rating as of year end for each investment type.

Investment Type	Minimum Legal Rating	Standard & Poor's Rating	Moody's Rating	% of Portfolio
Money Market Mutual Funds	A	AAAm	Aaa-mf	19.63%
LAIF	N/A	Unrated	Unrated	80.37%
Total				<u>100.00%</u>

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or collateral securities that are in the possession of an outside party. To mitigate the custodial credit risk, the District's investment policy requires that all securities owned by the District shall be held in safekeeping by a third party bank trust department.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer of securities. When investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. The District's investment policy contains limitations on the amount that can be invested in any one issuer. All investments of the District were pooled with the State of California Local Agency Investment Fund which holds a diversified portfolio of high quality investments or held by fiscal agents.

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

D. Investment in External Investment Pool

The District maintains an investment in the State of California Local Agency Investment Fund (LAIF), managed by the State Treasurer. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California State Code. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. At June 30, 2016, the District's investment in LAIF valued at amortized cost was \$900,626 and is the same as the value of the pool shares. There are no restrictions on withdrawal of funds. The total amount invested by all public agencies in LAIF on that day was \$75.4 billion. Of that amount, 97.19 percent is invested in non-derivative financial products and 2.81 percent in structured notes and asset-backed securities.

NOTE 4: CAPITAL ASSETS

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

	Balance July 1, 2015	Additions	Retirements	Adjustments	Balance June 30, 2016
Capital Assets, Not Being Depreciated:					
Land	\$ 605,586	\$ 2,332	\$ -	\$ -	\$ 607,918
Total Capital Assets, Not Being Depreciated	<u>605,586</u>	<u>2,332</u>	<u>-</u>	<u>-</u>	<u>607,918</u>
Capital Assets, Being Depreciated:					
Structures and improvements	4,025,634	-	(213,684)	-	3,811,950
Equipment	1,669,307	76,678	-	-	1,745,985
Infrastructure	<u>25,311,233</u>	<u>530,850</u>	<u>-</u>	<u>-</u>	<u>25,842,083</u>
Total Capital Assets, Being Depreciated	<u>31,006,174</u>	<u>607,528</u>	<u>(213,684)</u>	<u>-</u>	<u>31,400,018</u>
Less Accumulated Depreciation for:					
Structures and improvements	(1,388,991)	(235,947)	-	337,030	(1,287,908)
Equipment	(1,131,402)	(117,675)	-	(130,270)	(1,379,347)
Infrastructure	<u>(19,824,742)</u>	<u>(1,226,624)</u>	<u>-</u>	<u>(166,332)</u>	<u>(21,217,698)</u>
Total Accumulated Depreciation	<u>(22,345,135)</u>	<u>(1,580,246)</u>	<u>-</u>	<u>40,428</u>	<u>(23,884,953)</u>
Total Capital Assets, Being Depreciated, Net	<u>8,661,039</u>	<u>(972,718)</u>	<u>(213,684)</u>	<u>40,428</u>	<u>7,515,065</u>
Total Capital Assets, Net	<u>\$ 9,266,625</u>	<u>\$ 970,386</u>	<u>\$ 213,684</u>	<u>\$ 40,428</u>	<u>\$ 8,122,983</u>

Depreciation

Depreciation expense was charged to the business-type functions as follows:

Sewer	\$ 1,203,038
Water	<u>377,208</u>
Total Depreciation Expense - Business-Type Functions	<u>\$ 1,580,246</u>

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 5: INTERFUND TRANSACTIONS

Due To/From Other Funds

During the course of operations, transactions occur between funds to account for goods received or services rendered. These receivables and payables are classified as due from or due to other funds. In addition, when funds overdraw their share of pooled cash, the receivables and payables are also classified as due from or due to other funds. The following are due from and due to balances as of June 30, 2016:

	<u>Due From Other funds</u>	<u>Due To Other funds</u>
Sewer Operations	\$ -	\$ 101,000
Water Operations	<u>125,530</u>	<u>24,530</u>
Total	<u>\$ 125,530</u>	<u>\$ 125,530</u>

Advances To/From Other Funds

Advances to/from other funds are non-current interfund loans. The following are advances to/from other funds as of June 30, 2016:

	<u>Advances to Other funds</u>	<u>Advances from Other funds</u>
Sewer Operations	\$ 366,085	\$ 25,085
Water Operations	<u>-</u>	<u>341,000</u>
Total	<u>\$ 366,085</u>	<u>\$ 366,085</u>

Transfers

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various District operations and re-allocations of special revenues. The following are interfund transfers for the fiscal year ended June 30, 2016:

	<u>Transfer In</u>	<u>Transfer Out</u>
Sewer Operations	\$ 370,671	\$ 379,003
Water Operations	<u>15,222</u>	<u>6,890</u>
Total	<u>\$ 385,893</u>	<u>\$ 385,893</u>

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 6: LONG-TERM LIABILITIES

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

<u>Type of Indebtedness</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Adjustments/ Retirements</u>	<u>Balance June 30, 2016</u>	<u>Amounts Due Within One Year</u>
Bonds	\$ 3,684,000	\$ 3,650,000	(\$ 3,684,000)	\$ 3,650,000	\$ 150,000
Add: Premium	<u>-</u>	<u>36,215</u>	<u>-</u>	<u>36,215</u>	<u>2,263</u>
Total Bonds	3,684,000	3,686,215	(3,684,000)	3,686,215	152,263
Loans	2,102,560	-	(92,761)	2,009,799	95,989
Certificates of Participation	594,500	-	(14,500)	580,000	15,000
Compensated Absences	<u>40,354</u>	<u>40,052</u>	<u>(55,885)</u>	<u>24,521</u>	<u>17,677</u>
Total Long-Term Liabilities	<u>\$ 6,421,414</u>	<u>\$ 3,726,267</u>	<u>(\$ 3,847,146)</u>	<u>\$ 6,300,535</u>	<u>\$ 280,929</u>

Individual issues of debt payable outstanding at June 30, 2016, are as follows:

Bonds:

Sewer System Reassessment District No. 1 Limited Obligation Refunding Improvement Bonds Series 2016 issued March 9, 2016 in the amount of \$3,650,000, payable in annual installments of \$150,000-\$280,000 with an interest rate of 3.25-3.50% and maturity on September 2, 2032. The bonds were used to refund the Improvement Bonds Series 1995-2 which were used to finance improvements to the sewer system.

	<u>\$ 3,650,000</u>
Total Bonds	<u>3,650,000</u>

Loans:

California Infrastructure and Economic Development Bank Loan issued June 24, 2002 in the amount of \$3,000,000, payable in annual installments of \$61,530-\$160,350 with an interest rate of 3.48% and maturity on February 1, 2032. The loan was used to finance the expansion and upgrade of the water system.

	<u>2,009,799</u>
Total Loans	<u>2,009,799</u>

Certificates of Participation:

2012 Series Certificate of Participation Water Reclamation Plant Energy Sustainability Project issued October 1, 2012 in the amount of \$640,000 payable in annual installments of \$14,000 to \$31,500 with an interest rate of 3.00% and maturity on August 1, 2041. The Certificate of Participation was used to finance the sewer system solar project.

	<u>580,000</u>
Total Certificates of Participation	<u>580,000</u>

	<u>\$ 6,239,799</u>
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HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 6: LONG-TERM LIABILITIES (CONTINUED)

Following is a schedule of debt payment requirements of business-type activities to maturity for long-term debt, excluding compensated absences that have indefinite maturities, net pension liability which is reported in Note 8, and net OPEB obligation, which is reported in Note 9.

Year Ended June 30	Bonds		
	Principal	Interest	Total
2017	\$ 150,000	\$ 114,398	\$ 264,398
2018	166,000	116,501	282,501
2019	173,000	110,992	283,992
2020	179,000	105,272	284,272
2021	185,000	99,357	284,357
2022-2026	1,029,000	397,898	1,426,898
2027-2031	1,218,000	205,687	1,423,687
2032-2033	550,000	19,425	569,425
Total	<u>\$ 3,650,000</u>	<u>\$ 1,169,530</u>	<u>\$ 4,819,530</u>

Year Ended June 30	Loans		
	Principal	Interest	Total
2017	\$ 95,989	\$ 69,941	\$ 165,930
2018	99,330	66,601	165,931
2019	102,787	63,144	165,931
2020	106,363	59,567	165,930
2021	110,065	55,865	165,930
2022-2026	610,515	219,137	829,652
2027-2031	724,400	105,252	829,652
2032	160,350	5,581	165,931
Total	<u>\$ 2,009,799</u>	<u>\$ 645,088</u>	<u>\$ 2,654,887</u>

Year Ended June 30	Certificates of Participation		
	Principal	Interest	Total
2017	\$ 15,000	\$ 17,175	\$ 32,175
2018	15,500	16,717	32,217
2019	16,000	16,245	32,245
2020	16,500	15,757	32,257
2021	17,000	15,255	32,255
2022-2026	92,500	68,212	160,712
2027-2031	107,500	53,273	160,773
2032-2036	124,500	35,888	160,388
2037-2041	144,000	15,780	159,780
2042	31,500	473	31,973
Total	<u>\$ 580,000</u>	<u>\$ 254,775</u>	<u>\$ 834,775</u>

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 6: LONG-TERM LIABILITIES (CONTINUED)

The District issued \$3,650,000 of Sewer System Reassessment District No. 1 Limited Obligation Refunding Improvement Bonds Series 2016 with interest ranging from 3.25 percent to 3.50 percent. The proceeds were used to refund \$3,310,000 of outstanding Sewer System Assessment District No. 1 Limited Obligation Improvement Bonds Series 1995-2 with an interest rate of 5.00 percent.

The District refunded the Sewer System Assessment District No. 1 Limited Obligation Improvement Bonds Series 1995-2 to reduce its total debt service payments over 17 years by \$1,444,690 and to obtain an economic gain (difference between present values of the debt service payments on the old and new debt) of \$245,854.

NOTE 7: NET POSITION

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- **Net investment in capital assets** - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- **Restricted net position** - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- **Unrestricted net position** - all other net position that does not meet the definition of “restricted” or “net investment in capital assets”.

Net Position Flow Assumption

When a government funds outlays for a particular purpose from both restricted and unrestricted resources, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted net position are available, it is considered that restricted resources are used first, followed by the unrestricted resources.

NOTE 8: PENSION PLAN

A. General Information about the Pension Plans

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District’s Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 8: PENSION PLAN (CONTINUED)

A. General Information about the Pension Plans (Continued)

Plan Description (Continued)

Effective January 1, 2013, the District added retirement tiers for the Miscellaneous Plan for new employees as required under the Public Employee Pension Reform Act (PEPRA). New employees hired on or after January 1, 2013 will be subject to new, lower pension formulas, caps on pensionable income levels and new definitions of pensionable income. In addition, new employees will be required to contribute half of the total normal cost of the pension benefit unless impaired by an existing Memorandum of Understanding. The cumulative effect of these PEPRA changes will ultimately reduce the District's retirement costs. As of the valuation date there were no Miscellaneous PEPRA employees.

Summary of Plans and Eligible Participants

Open for New Enrollment	
Miscellaneous PEPRA	Miscellaneous members hired on or after January 1, 2013
Closed to New Enrollment	
Miscellaneous	Miscellaneous members hired before January 1, 2013

Benefits Provided

CalPers provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Retirement benefits are paid monthly for life. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Each Plan's specific provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>Benefit Formula</u>	<u>Retirement Age</u>	<u>Monthly Benefits as a % of Eligible Compensation</u>
Miscellaneous	2.0% @ 55	50-55	1.426% to 2.418%
Miscellaneous PEPRA	2.0% @ 62	50-62	1.000% to 2.500%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for all Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 8: PENSION PLAN (CONTINUED)

A. General Information about the Pension Plans (Continued)

Contributions (Continued)

	<u>Employer Contribution Rates</u>	<u>Employee Contribution Rates</u>	<u>Employer Paid Member Contribution Rates</u>
Miscellaneous	9.671%	8.000%	0.000%
Miscellaneous PEPR	6.250%	6.250%	0.000%

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

For the year ended June 30, 2016, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>Contributions-Employer</u>	<u>Contributions-Employee (Paid by Employer)</u>
Miscellaneous	\$ 132,131	\$ -

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

	<u>Proportion June 30, 2014</u>	<u>Proportion June 30, 2015</u>	<u>Change - Increase (Decrease)</u>
Miscellaneous	.01414%	.01560%	.00146%

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$ 1,071,015
Total Net Pension Liability	<u>\$ 1,071,015</u>

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 8: PENSION PLAN (CONTINUED)

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

For the year ended June 30, 2016, the District recognized pension expense of (\$363,240). At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 130,850	\$ -
Changes of assumptions	-	(81,880)
Difference between expected and actual experience	8,655	-
Differences between projected and actual earnings on pension plan investments	-	(41,047)
Difference between District contributions and proportionate share of contributions	45,513	-
Adjustment due to differences in proportions	<u>-</u>	<u>(170,704)</u>
Total	<u>\$ 185,018</u>	<u>(\$ 293,631)</u>

\$130,850 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	
2017	(\$ 90,120)
2018	(92,470)
2019	(86,196)
2020	29,323
Thereafter	<u>-</u>
Total	<u>(\$ 239,463)</u>

Actuarial Assumptions

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	Varies by entry age and service
Mortality	Derived using CalPERS membership data for all funds
Post-Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 8: PENSION PLAN (CONTINUED)

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

Actuarial Assumptions (Continued)

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period 1997 to 2011 including updates to salary increase, mortality, and retirement rates. Further details of the Experience Study can be found on the CalPERS website.

Change of Assumptions

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of asset. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS website under the GASB 68 section.

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

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 8: PENSION PLAN (CONTINUED)

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

Discount Rate (Continued)

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	<u>100%</u>		

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

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

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

The following presents the District's proportionate share of the net pension liability for the Plan as of the measurement date, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease	Discount Rate	1% Increase
	<u>6.50%</u>	<u>7.50%</u>	<u>8.50%</u>
Miscellaneous	\$ 1,623,756	\$ 1,071,015	\$ 614,661

Pension Plan Fiduciary Net Position

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

NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Plan Description

The District provides a defined benefit healthcare plan (the "Retiree Health Plan") for eligible employees. The Retiree Health Plan provides lifetime healthcare insurance for eligible retirees through Special District Risk Management Authority (SDRMA), which covers both active and retired members. Spouses are also covered throughout the retiree's life. The District pays 50 percent of the healthcare premiums for all retirees.

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

B. Funding Policy

The District has hired a consultant to calculate the ARC and related information using the alternative measurement method permitted by GASB 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

GASB 45 does not require pre-funding of OPEB benefits. Therefore, the District's funding policy is to continue to pay healthcare premiums for retirees as they fall due. The District has elected not to establish an irrevocable trust at this time. The District Board reserves the authority to review and amend this funding policy annually.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in its net OPEB obligation to the Retiree Health Plan:

Annual Required Contribution	\$ 88,156
Interest on Net OPEB Obligation	13,157
Adjustment to Annual Required Contribution	<u>(16,780)</u>
Annual OPEB Cost	84,533
Contributions Made	<u>(19,538)</u>
Increase in Net OPEB Obligation	64,995
Net OPEB Obligation - Beginning of Year	<u>438,553</u>
Net OPEB Obligation - End of Year	<u><u>\$ 503,548</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the year ended June 30, 2016 is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2014	\$ 100,368	11.88%	\$ 350,997
June 30, 2015	99,895	12.35%	438,553
June 30, 2016	84,532	23.11%	503,548

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

D. Funding Status and Funding Progress

As of July 1, 2015, the actuarial accrued liability (AAL) for benefits was \$840,129, all of which was unfunded. The covered payroll (annual payroll of employees covered by the plan) was \$734,856 and the ratio of the UAAL to the covered payroll was 114.3 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer as subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as supplementary information following the notes to the financial statements presents multi-year trend information (as it becomes available) about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term prospective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 59, or at the first subsequent year in which the member would qualify for benefits.

Mortality - Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics website (www.cdc.gov). The calculation of OPEB liability for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.

Turnover - The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific age-based turnover data provided in Table 1 in paragraph 35 of GASB Statement No. 45. In addition the expected future working lifetimes of employees were determined using Table 2 in paragraph 35c of GASB Statement No. 45.

Healthcare cost trend rate - Healthcare cost trend rates were selected based on a combination of national and state trend surveys as well as professional judgment. The ultimate trend rate was 3.5 percent.

Health insurance premiums - 2015 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid. An employee is assumed to continue with the same medical plan upon retirement. If an employee waived medical coverage, then such waiver is assumed to continue into retirement.

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

NOTE 9: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

E. Actuarial Methods and Assumptions (Continued)

Payroll increase - Changes in the payroll for current employees are expected to increase at a rate of approximately 2 percent annually.

Discount rate - The calculation uses an annual discount rate of 3 percent. This is based on the assumed long-term return on plan assets or employer assets.

Actuarial cost method - The entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2016, was twenty-five years.

NOTE 10: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has joined together with other municipalities to participate in the Special District Risk Authority Management (SDRMA) for general liability, vehicle liability, and errors and omissions purposes. SDRMA is a public entity risk pool which serves as a common risk management and insurance program. The District pays an annual premium to SDRMA for its insurance coverage. The agreements with SDRMA provide that they will be self sustaining through member premiums and will reinsure through commercial companies for excess coverage.

There is no claims liability to be reported based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

There are no significant reductions in insurance coverage from prior years and there have been no settlements exceeding the insurance coverages for each of the past three fiscal years.

NOTE 11: OTHER INFORMATION

A. Subsequent Event

Management has evaluated events subsequent to June 30, 2016 through March 14, 2017, the date on which the financial statements were available for issuance. Management has determined no subsequent events requiring disclosure have occurred.

**Required Supplementary Information
(Unaudited)**

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HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Required Supplementary Information
District Pension Plan
Schedule of Proportionate Share of the Net Pension Liability
For the Year Ended June 30, 2016
Last 10 Years*

Measurement Period	<u>2014</u>	<u>2015</u>
Miscellaneous Plan		
Proportion of the net pension liability	0.01414%	0.01560%
Proportionate share of the net pension liability	\$ 880,120	\$ 1,071,015
Covered employee payroll	641,041	758,445
Proportionate share of the net pension liability as a percentage of covered employee payroll	137.30%	141.21%
Plan's fiduciary net position	3,073,394	3,073,394
Plan fiduciary net position as a percentage of the total pension liability	77.74%	73.61%

*The District implemented GASB 68 for the fiscal year June 30, 2015, therefore only two years are shown.

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Required Supplementary Information
District Pension Plan
Schedule of Contributions
For the Year Ended June 30, 2016
Last 10 Years*

	<u>2015</u>	<u>2016</u>
Miscellaneous Plan		
Contractually required contribution (actuarially determined)	\$ 134,415	\$ 68,280
Contributions in relation to the actuarially determined contributions	<u>(134,415)</u>	<u>(146,425)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (78,145)</u>
Covered employee payroll	641,041	797,110
Contributions as a percentage of covered employee payroll	20.97%	18.37%

*The District implemented GASB 68 for the fiscal year June 30, 2015, therefore only two years are shown.

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Required Supplementary Information
District Pension Plan
Notes to District Pension Plan
For the Year Ended June 30, 2016

NOTE 1: SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Change of assumptions: The discount rate was changed from 7.50 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

NOTE 2: SCHEDULE OF CONTRIBUTIONS

Methods and assumptions used to determine the contribution rates were as follows:

Valuation Date	June 30, 2012
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Asset valuation method	Actuarial value of assets
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.50% (1)
Retirement age	(2)
Mortality	Derived using CalPERS membership data for all funds

(1) Net of pension plan investment and administrative expense, including inflation

(2) Based on the CalPERS Experience Study of the period from 1997 to 2007

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Required Supplementary Information
District OPEB Plan
Schedule of Funding Progress
For the Year Ended June 30, 2016

SCHEDULE OF FUNDING PROGRESS

The Schedule of Funding Progress - Other Postemployment Benefits (OPEB) presents a consolidated snapshot of the District's ability to meet current and future liabilities with the plan assets. Of particular interest to most is the funded status ratio. This ratio conveys a plan's level of assets to liabilities, an important indicator to determine the financial health of the OPEB plan. The closer the plan is to 100 percent funded status, the better position it will be in to meet all of its future liabilities.

The table below shows a three year analysis of the actuarial value of assets as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll for the District Other Postemployment Benefit Plan.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
June 30, 2011	\$ -	\$ 1,240,847	\$ 1,240,847	0.00%	\$ 874,882	141.83%
July 1, 2012	-	815,015	815,015	0.00%	585,598	139.18%
July 1, 2015	-	840,129	840,129	0.00%	734,856	114.30%

Combining Fund Statements

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HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Combining Statement of Net Position
Sewer Operations
June 30, 2016

	<u>Sewer</u>	<u>1995-2 Bond Redemption</u>	<u>State Revolving Fund</u>	<u>USDA Solar Loan</u>
ASSETS				
Current Assets:				
Cash and investments	\$ 236,842	\$ 334,141	\$ -	\$ 104,718
Investments with fiscal agent	-	220,003	-	-
Receivables:				
Accounts (net of allowance)	97,464	-	-	-
Assessments	-	24,820	-	-
Prepaid costs	36,288	-	-	-
Total Current Assets	<u>370,594</u>	<u>578,964</u>	<u>-</u>	<u>104,718</u>
Noncurrent Assets:				
Advances to other funds	19,085	-	-	-
Delinquent assessments receivable	-	66,115	-	-
Capital assets, net	4,327,426	-	-	-
Total Noncurrent Assets	<u>4,346,511</u>	<u>66,115</u>	<u>-</u>	<u>-</u>
Total Assets	<u>4,717,105</u>	<u>645,079</u>	<u>-</u>	<u>104,718</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pension adjustments	91,690	-	-	-
Total Deferred Outflows of Resources	<u>91,690</u>	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES				
Current Liabilities:				
Accounts payable	16,716	45,000	-	-
Salaries and benefits payable	17,518	-	-	-
Interest payable	-	36,533	-	7,250
Due to other funds	-	-	-	-
Compensated absences	10,125	-	-	-
Bonds	-	152,263	-	-
Certificates of participation	-	-	-	15,000
Total Current Liabilities	<u>44,359</u>	<u>233,796</u>	<u>-</u>	<u>22,250</u>
Noncurrent Liabilities:				
Advances from other funds	-	-	8,499	-
Compensated absences	3,920	-	-	-
Bonds	-	3,533,952	-	-
Certificates of participation	-	-	-	565,000
Net pension liability	519,299	-	-	-
Net OPEB obligation	230,889	-	-	-
Total Noncurrent Liabilities	<u>754,108</u>	<u>3,533,952</u>	<u>8,499</u>	<u>565,000</u>
Total Liabilities	<u>798,467</u>	<u>3,767,748</u>	<u>8,499</u>	<u>587,250</u>

Wastewater Capital Facilities Reserved	Wastewater Capital Facilities Unreserved	USDA Reserve Fund	All Bonds Administration	All Bonds Assessment Revolving Fund	Total Sewer Operations
\$ 280,930	\$ 664,253	\$ 31,209	\$ 40,947	\$ 10,133	\$ 1,703,173
-	-	-	-	-	220,003
-	-	-	-	-	97,464
-	760	-	-	-	25,580
-	-	-	-	-	36,288
<u>280,930</u>	<u>665,013</u>	<u>31,209</u>	<u>40,947</u>	<u>10,133</u>	<u>2,082,508</u>
-	6,000	-	-	341,000	366,085
-	-	-	-	-	66,115
-	-	-	-	-	4,327,426
-	6,000	-	-	341,000	4,759,626
<u>280,930</u>	<u>671,013</u>	<u>31,209</u>	<u>40,947</u>	<u>351,133</u>	<u>6,842,134</u>
-	-	-	-	-	91,690
-	-	-	-	-	91,690
-	-	-	-	-	61,716
-	-	-	-	-	17,518
-	-	-	-	-	43,783
-	101,000	-	-	-	101,000
-	-	-	-	-	10,125
-	-	-	-	-	152,263
-	-	-	-	-	15,000
-	101,000	-	-	-	401,405
16,586	-	-	-	-	25,085
-	-	-	-	-	3,920
-	-	-	-	-	3,533,952
-	-	-	-	-	565,000
-	-	-	-	-	519,299
-	-	-	-	-	230,889
<u>16,586</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,878,145</u>
<u>16,586</u>	<u>101,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,279,550</u>

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Combining Statement of Net Position
Sewer Operations
June 30, 2016

	<u>Sewer</u>	<u>1995-2 Bond Redemption</u>	<u>State Revolving Fund</u>	<u>USDA Solar Loan</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred pension adjustments	142,135	-	-	-
Total Deferred Inflows of Resources	<u>142,135</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	4,327,426	(3,686,215)	-	(580,000)
Restricted for debt service	-	563,546	(8,499)	-
Restricted for capital facilities	-	-	-	-
Unrestricted	(459,233)	-	-	97,468
Total Net Position	<u>\$ 3,868,193</u>	<u>\$ (3,122,669)</u>	<u>\$ (8,499)</u>	<u>\$ (482,532)</u>

Wastewater Capital Facilities Reserved	Wastewater Capital Facilities Unreserved	USDA Reserve Fund	All Bonds Administration	All Bonds Assessment Revolving Fund	Total Sewer Operations
-	-	-	-	-	142,135
-	-	-	-	-	142,135
-	-	-	-	-	61,211
-	-	31,209	-	-	586,256
264,344	-	-	-	-	264,344
-	570,013	-	40,947	351,133	600,328
<u>\$ 264,344</u>	<u>\$ 570,013</u>	<u>\$ 31,209</u>	<u>\$ 40,947</u>	<u>\$ 351,133</u>	<u>\$ 1,512,139</u>

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Combining Statement of Revenues, Expenses,
And Changes in Net Position
Sewer Operations
For the Year Ended June 30, 2016

	<u>Sewer</u>	<u>1995-2 Bond Redemption</u>	<u>State Revolving Fund</u>	<u>USDA Solar Loan</u>
OPERATING REVENUES				
Assessments	\$ -	\$ 343,563	\$ (14,972)	\$ -
Permits and inspections	9,300	-	-	-
Charges for services	1,049,854	-	-	-
Miscellaneous	146,966	11,284	-	59,155
Total Operating Revenues	<u>1,206,120</u>	<u>354,847</u>	<u>(14,972)</u>	<u>59,155</u>
OPERATING EXPENSES				
Salaries and benefits	772,181	-	-	-
Insurance	75,096	-	-	-
Office expenses	17,624	-	-	-
Contract services	42,933	-	-	-
Continuing education	7,479	-	-	-
Dues and subscriptions	3,597	-	-	-
Postage	652	-	-	-
Repairs and maintenance	109,410	-	-	-
Gas, fuel and oil	10,921	-	-	-
Supplies	12,723	-	-	-
Professional services	44,842	-	-	-
Travel	1,450	-	-	-
Telephone	9,141	-	-	-
Power	32,570	-	-	-
Depreciation	1,203,038	-	-	-
Other operating	3,091	-	-	-
Office and safety equipment	3,750	-	-	-
Environmental monitoring	36,413	-	-	-
Annual operating fees	1,199	-	-	-
Total Operating Expenses	<u>2,388,110</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating Income (Loss)	<u>(1,181,990)</u>	<u>354,847</u>	<u>(14,972)</u>	<u>59,155</u>
NON-OPERATING REVENUES (EXPENSES)				
Interest income	275	563	-	67
Interest expense	-	(168,003)	-	(17,436)
Issuance of debt	-	(184,213)	-	-
Loss on disposal	(74,426)	-	-	-
Total Non-Operating Revenue (Expenses)	<u>(74,151)</u>	<u>(351,653)</u>	<u>-</u>	<u>(17,369)</u>
Income (Loss) before Transfers	<u>(1,256,141)</u>	<u>3,194</u>	<u>(14,972)</u>	<u>41,786</u>
Transfers in	271,831	10	-	1
Transfers out	(98,829)	-	(7,610)	-
Change in Net Position	<u>(1,083,139)</u>	<u>3,204</u>	<u>(22,582)</u>	<u>41,787</u>
Total Net Position - Beginning	<u>4,951,332</u>	<u>(3,125,873)</u>	<u>14,083</u>	<u>(524,319)</u>
Total Net Position - Ending	<u>\$ 3,868,193</u>	<u>\$(3,122,669)</u>	<u>\$ (8,499)</u>	<u>\$ (482,532)</u>

Wastewater Capital Facilities Reserved	Wastewater Capital Facilities Unreserved	USDA Reserve Fund	All Bonds Administration	All Bonds Assessment Revolving Fund	Total Sewer Operations
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 328,591
38,000	9,500	-	-	-	56,800
-	-	-	-	-	1,049,854
-	31	-	-	-	217,436
<u>38,000</u>	<u>9,531</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,652,681</u>
-	-	-	-	-	772,181
-	-	-	-	-	75,096
-	-	-	-	-	17,624
-	-	-	4,354	-	47,287
-	-	-	-	-	7,479
-	-	-	-	-	3,597
-	-	-	-	-	652
-	-	-	-	-	109,410
-	-	-	-	-	10,921
-	-	-	-	-	12,723
-	-	-	1,243	-	46,085
-	-	-	-	-	1,450
-	-	-	-	-	9,141
-	-	-	-	-	32,570
-	-	-	-	-	1,203,038
-	-	-	-	-	3,091
-	-	-	-	-	3,750
-	-	-	-	-	36,413
-	-	-	-	-	1,199
-	-	-	5,597	-	2,393,707
<u>38,000</u>	<u>9,531</u>	<u>-</u>	<u>(5,597)</u>	<u>-</u>	<u>(741,026)</u>
1,413	864	29	113	-	3,324
-	-	-	-	-	(185,439)
-	-	-	-	-	(184,213)
-	-	-	-	-	(74,426)
<u>1,413</u>	<u>864</u>	<u>29</u>	<u>113</u>	<u>-</u>	<u>(440,754)</u>
39,413	10,395	29	(5,484)	-	(1,181,780)
-	98,829	-	-	-	370,671
<u>(239,000)</u>	<u>(29,461)</u>	<u>(4,103)</u>	<u>-</u>	<u>-</u>	<u>(379,003)</u>
(199,587)	79,763	(4,074)	(5,484)	-	(1,190,112)
<u>463,931</u>	<u>490,250</u>	<u>35,283</u>	<u>46,431</u>	<u>351,133</u>	<u>2,702,251</u>
<u>\$ 264,344</u>	<u>\$ 570,013</u>	<u>\$ 31,209</u>	<u>\$ 40,947</u>	<u>\$ 351,133</u>	<u>\$ 1,512,139</u>

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Combining Statement of Cash Flows
Sewer Operations
For the Year Ended June 30, 2016

	<u>Sewer</u>	<u>1995-2 Bond Redemption</u>	<u>State Revolving Fund</u>	<u>USDA Solar Loan</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 1,250,603	\$ 353,052	\$ 7,600	\$ 59,155
Cash paid to suppliers	(398,433)	-	-	-
Cash paid to employees	(616,172)	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>235,998</u>	<u>353,052</u>	<u>7,600</u>	<u>59,155</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers from other funds	271,831	10	-	1
Transfers to other funds	(98,829)	-	(7,610)	-
Interfund loans received	6,000	-	-	-
Interfund loans made	-	-	-	-
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>179,002</u>	<u>10</u>	<u>(7,610)</u>	<u>1</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on debt	-	(3,684,000)	-	(14,500)
Interest paid on debt	-	(199,010)	-	(17,617)
Issuance of debt	-	3,547,002	-	-
Acquisition of capital assets	(344,376)	-	-	-
Disposition of capital assets	98,830	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(245,546)</u>	<u>(336,008)</u>	<u>-</u>	<u>(32,117)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest on investments	275	563	-	67
Net Cash Provided (Used) by Investing Activities	<u>275</u>	<u>563</u>	<u>-</u>	<u>67</u>
Net Increase (Decrease) in Cash and Cash Equivalents	169,729	17,617	(10)	27,106
Balances - Beginning	<u>67,113</u>	<u>536,527</u>	<u>10</u>	<u>77,612</u>
Balances - Ending	<u>\$ 236,842</u>	<u>\$ 554,144</u>	<u>\$ -</u>	<u>\$ 104,718</u>

Wastewater Capital Facilities Reserved	Wastewater Capital Facilities Unreserved	USDA Reserve Fund	All Bonds Administration	All Bonds Assessment Revolving Fund	Total Sewer Operations
\$ 38,000	\$ 23,621	\$ -	\$ -	\$ -	\$ 1,732,031
-	-	-	(5,597)	-	(404,030)
-	-	-	-	-	(616,172)
<u>38,000</u>	<u>23,621</u>	<u>-</u>	<u>(5,597)</u>	<u>-</u>	<u>711,829</u>
-	98,829	-	-	-	370,671
(239,000)	(29,461)	(4,103)	-	-	(379,003)
-	101,000	-	-	-	107,000
-	(6,000)	-	-	-	(6,000)
<u>(239,000)</u>	<u>164,368</u>	<u>(4,103)</u>	<u>-</u>	<u>-</u>	<u>92,668</u>
-	-	-	-	-	(3,698,500)
-	-	-	-	-	(216,627)
-	-	-	-	-	3,547,002
-	-	-	-	-	(344,376)
-	-	-	-	-	98,830
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(613,671)</u>
<u>1,413</u>	<u>864</u>	<u>29</u>	<u>113</u>	<u>-</u>	<u>3,324</u>
<u>1,413</u>	<u>864</u>	<u>29</u>	<u>113</u>	<u>-</u>	<u>3,324</u>
(199,587)	188,853	(4,074)	(5,484)	-	194,150
<u>480,517</u>	<u>475,400</u>	<u>35,283</u>	<u>46,431</u>	<u>10,133</u>	<u>1,729,026</u>
<u>\$ 280,930</u>	<u>\$ 664,253</u>	<u>\$ 31,209</u>	<u>\$ 40,947</u>	<u>\$ 10,133</u>	<u>\$ 1,923,176</u>

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Combining Statement of Cash Flows
Sewer Operations
For the Year Ended June 30, 2016

	<u>Sewer</u>	<u>1995-2 Bond Redemption</u>	<u>State Revolving Fund</u>	<u>USDA Solar Loan</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (1,181,990)	\$ 354,847	\$ (14,972)	\$ 59,155
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation/amoritzation	1,203,038	-	-	-
Decrease (increase) in:				
Accounts receivable	44,483	-	22,572	-
Assessments receivable	-	(1,795)	-	-
Prepaid costs	15,535	-	-	-
Pension adjustment - deferred outflows	(10,405)	-	-	-
Increase (decrease) in:				
Accounts payable	(1,077)	-	-	-
Salaries and benefits payable	1,905	-	-	-
Compensated absences payable	(5,150)	-	-	-
Net pension liability	98,311	-	-	-
Net OPEB obligation	32,521	-	-	-
Pension adjustment - deferred inflows	38,827	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 235,998</u>	<u>\$ 353,052</u>	<u>\$ 7,600</u>	<u>\$ 59,155</u>

<u>Wastewater Capital Facilities Reserved</u>	<u>Wastewater Capital Facilities Unreserved</u>	<u>USDA Reserve Fund</u>	<u>All Bonds Administration</u>	<u>All Bonds Assessment Revolving Fund</u>	<u>Total Sewer Operations</u>
\$ 38,000	\$ 9,531	\$ -	\$ (5,597)	\$ -	\$ (741,026)
-	-	-	-	-	1,203,038
-	14,090	-	-	-	81,145
-	-	-	-	-	(1,795)
-	-	-	-	-	15,535
-	-	-	-	-	(10,405)
-	-	-	-	-	(1,077)
-	-	-	-	-	1,905
-	-	-	-	-	(5,150)
-	-	-	-	-	98,311
-	-	-	-	-	32,521
-	-	-	-	-	38,827
<u>\$ 38,000</u>	<u>\$ 23,621</u>	<u>\$ -</u>	<u>\$ (5,597)</u>	<u>\$ -</u>	<u>\$ 711,829</u>

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Combining Statement of Net Position
Water Operations
June 30, 2016

	<u>Water</u>	<u>CIEDB Loan Redemption</u>	<u>CIEDB Loan Reserve</u>	<u>Water Capital Fund</u>	<u>Total Water Operations</u>
ASSETS					
Current Assets:					
Cash and investments	\$ 350	\$ -	\$ 146,543	\$ -	\$ 146,893
Receivables:					
Accounts (net of allowance)	140,855	22,577	-	-	163,432
Prepaid costs	36,288	-	-	-	36,288
Due from other funds	94,961	-	24,530	6,039	125,530
Total Current Assets	<u>272,454</u>	<u>22,577</u>	<u>171,073</u>	<u>6,039</u>	<u>472,143</u>
Noncurrent Assets:					
Capital assets, net	3,795,557	-	-	-	3,795,557
Total Noncurrent Assets	<u>3,795,557</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,795,557</u>
Total Assets	<u>4,068,011</u>	<u>22,577</u>	<u>171,073</u>	<u>6,039</u>	<u>4,267,700</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred pension adjustments	93,328	-	-	-	93,328
Total Deferred Outflows of Resources	<u>93,328</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,328</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	47,505	-	-	-	47,505
Salaries and benefits payable	10,907	-	-	-	10,907
Interest payable	-	29,143	-	-	29,143
Due to other funds	6,752	17,778	-	-	24,530
Compensated absences	7,552	-	-	-	7,552
Loans	-	95,989	-	-	95,989
Total Current Liabilities	<u>72,716</u>	<u>142,910</u>	<u>-</u>	<u>-</u>	<u>215,626</u>
Noncurrent Liabilities:					
Advances from other funds	201,000	140,000	-	-	341,000
Compensated absences	2,924	-	-	-	2,924
Loans	-	1,913,810	-	-	1,913,810
Net pension liability	551,716	-	-	-	551,716
Net OPEB obligation	272,659	-	-	-	272,659
Total Noncurrent Liabilities	<u>1,028,299</u>	<u>2,053,810</u>	<u>-</u>	<u>-</u>	<u>3,082,109</u>
Total Liabilities	<u>1,101,015</u>	<u>2,196,720</u>	<u>-</u>	<u>-</u>	<u>3,297,735</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred pension adjustments	151,496	-	-	-	151,496
Total Deferred Inflows of Resources	<u>151,496</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>151,496</u>

Continued (Page 1 of 2)

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Combining Statement of Net Position
Water Operations
June 30, 2016

	<u>Water</u>	<u>CIEDB Loan Redemption</u>	<u>CIEDB Loan Reserve</u>	<u>Water Capital Fund</u>	<u>Total Water Operations</u>
NET POSITION					
Net investment in capital assets	\$ 3,795,557	\$ (2,009,799)	\$ -	\$ -	\$ 1,785,758
Restricted for debt service	-	-	171,073	-	171,073
Restricted for capital facilities	-	-	-	6,039	6,039
Unrestricted	(886,729)	(164,344)	-	-	(1,051,073)
Total Net Position	<u>\$ 2,908,828</u>	<u>\$ (2,174,143)</u>	<u>\$ 171,073</u>	<u>\$ 6,039</u>	<u>\$ 911,797</u>

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Combining Statement of Revenues, Expenses,
And Changes in Net Position
Water Operations
For the Year Ended June 30, 2016

	Water	CIEDB Loan Redemption	CIEDB Loan Reserve	Water Capital Fund	Total Water Operations
OPERATING REVENUES					
Charges for services	\$ 1,242,754	\$ 187,996	\$ -	\$ -	\$ 1,430,750
Miscellaneous	133,248	-	-	-	133,248
Total Operating Revenues	<u>1,376,002</u>	<u>187,996</u>	<u>-</u>	<u>-</u>	<u>1,563,998</u>
OPERATING EXPENSES					
Salaries and benefits	850,007	-	-	-	850,007
Insurance	16,135	-	-	-	16,135
Office expenses	17,380	-	-	-	17,380
Continuing education	5,026	-	-	-	5,026
Dues and subscriptions	16,700	-	-	-	16,700
Postage	652	-	-	-	652
Repairs and maintenance	237,628	-	-	-	237,628
Gas, fuel and oil	10,485	-	-	-	10,485
Supplies	42,885	-	-	-	42,885
Professional services	(92,091)	-	-	-	(92,091)
Travel	2,013	-	-	-	2,013
Telephone	9,141	-	-	-	9,141
Power	135,970	-	-	-	135,970
Depreciation	377,208	-	-	-	377,208
Other operating	33,951	-	-	-	33,951
Office and safety equipment	3,132	-	-	-	3,132
Director's compensation	1,882	-	-	-	1,882
Environmental monitoring	15,364	-	-	-	15,364
Water conservation	5,208	-	-	-	5,208
Water rights	37,280	-	-	-	37,280
Annual operating fees	19,107	6,308	-	-	25,415
Total Operating Expenses	<u>1,745,063</u>	<u>6,308</u>	<u>-</u>	<u>-</u>	<u>1,751,371</u>
Operating Income (Loss)	<u>(369,061)</u>	<u>181,688</u>	<u>-</u>	<u>-</u>	<u>(187,373)</u>
NON-OPERATING REVENUES (EXPENSES)					
Interest income	\$ 357	\$ (37)	\$ 639	\$ -	\$ 959
Interest expense	-	(71,824)	-	-	(71,824)
Total Non-Operating Revenue (Expenses)	<u>357</u>	<u>(71,861)</u>	<u>639</u>	<u>-</u>	<u>(70,865)</u>
Income (Loss) before Transfers	<u>(368,704)</u>	<u>109,827</u>	<u>639</u>	<u>-</u>	<u>(258,238)</u>
Transfers in	-	15,200	-	22	15,222
Transfers out	(6,890)	-	-	-	(6,890)
Change in Net Position	<u>(375,594)</u>	<u>125,027</u>	<u>639</u>	<u>22</u>	<u>(249,906)</u>
Total Net Position - Beginning	<u>3,284,422</u>	<u>(2,299,170)</u>	<u>170,434</u>	<u>6,017</u>	<u>1,161,703</u>
Total Net Position - Ending	<u>\$ 2,908,828</u>	<u>\$ (2,174,143)</u>	<u>\$ 171,073</u>	<u>\$ 6,039</u>	<u>\$ 911,797</u>

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Combining Statement of Cash Flows
Water Operations
For the Year Ended June 30, 2016

	<u>Water</u>	<u>CIEDB Loan Redemption</u>	<u>CIEDB Loan Reserve</u>	<u>Water Capital Fund</u>	<u>Total Water Operations</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 1,382,183	\$ 198,370	\$ -	\$ -	\$ 1,580,553
Cash paid to suppliers	(508,914)	(6,308)	-	-	(515,222)
Cash paid to employees	(708,028)	-	-	-	(708,028)
Net Cash Provided (Used) by Operating Activities	<u>165,241</u>	<u>192,062</u>	<u>-</u>	<u>-</u>	<u>357,303</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Transfers from other funds	-	15,200	-	22	15,222
Transfers to other funds	(6,890)	-	-	-	(6,890)
Interfund loans received	713	(41,295)	-	(22)	(40,604)
Interfund loans made	(35,866)	-	(24,530)	-	(60,396)
Net Cash Provided (Used) by Non- Capital Financing Activities	<u>(42,043)</u>	<u>(26,095)</u>	<u>(24,530)</u>	<u>-</u>	<u>(92,668)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal paid on debt	-	(92,761)	-	-	(92,761)
Interest paid on debt	-	(73,169)	-	-	(73,169)
Acquisition of capital assets	(265,484)	-	-	-	(265,484)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(265,484)</u>	<u>(165,930)</u>	<u>-</u>	<u>-</u>	<u>(431,414)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	358	(37)	639	-	960
Net Cash Provided (Used) by Investing Activities	<u>358</u>	<u>(37)</u>	<u>639</u>	<u>-</u>	<u>960</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(141,928)	-	(23,891)	-	(165,819)
Balances - Beginning	142,278	-	170,434	-	312,712
Balances - Ending	<u>\$ 350</u>	<u>\$ -</u>	<u>\$ 146,543</u>	<u>\$ -</u>	<u>\$ 146,893</u>

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HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Combining Statement of Cash Flows
Water Operations
For the Year Ended June 30, 2016

	<u>Water</u>	<u>CIEDB Loan Redemption</u>	<u>CIEDB Loan Reserve</u>	<u>Water Capital Fund</u>	<u>Total Water Operations</u>
RECONCILIATION OF OPERATING INCOME					
(LOSS) TO NET CASH PROVIDED (USED) BY					
OPERATING ACTIVITIES					
Operating income (loss)	\$ (369,061)	\$ 181,688	\$ -	\$ -	\$ (187,373)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation/amortization	377,208	-	-	-	377,208
Decrease (increase) in:					
Accounts receivable	6,181	10,374	-	-	16,555
Prepaid costs	15,535	-	-	-	15,535
Pension adjustment - deferred outflows	(4,678)	-	-	-	(4,678)
Increase (decrease) in:					
Accounts payable	(6,601)	-	-	-	(6,601)
Salaries and benefits payable	(6,544)	-	-	-	(6,544)
Compensated absences payable	(10,683)	-	-	-	(10,683)
Net pension liability	92,584	-	-	-	92,584
Net OPEB obligation	32,474	-	-	-	32,474
Pension adjustment - deferred inflows	38,826	-	-	-	38,826
Net Cash Provided (Used) by Operating Activities	<u>\$ 165,241</u>	<u>\$ 192,062</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 357,303</u>

Continued (Page 2 of 2)

OTHER REPORT AND SCHEDULES

- **Other Report**
- **Schedule of Findings and Recommendations**
- **Schedule of Prior Year Findings and Recommendations**
- **Management's Corrective Action Plan**

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

The Board of Directors
Hidden Valley Lake Community Services District
Hidden Valley Lake, 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 business-type activities and each major fund of Hidden Valley Lake Community Services District, California (District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 14, 2017.

Internal Control Over Financial Reporting

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

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 weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations that we consider to be material weaknesses. (2016-001)

The Board of Directors
Hidden Valley Lake Community Services District
Hidden Valley Lake, California

Compliance and Other Matters

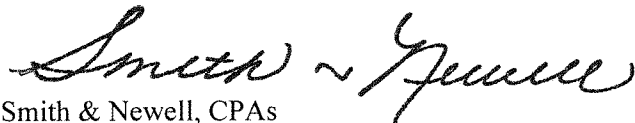
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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.

District's Response to Finding

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

Purpose of this Report

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



Smith & Newell, CPAs
Yuba City, California
March 14, 2017

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Schedule of Findings and Recommendations
For the Year Ended June 30, 2016

2016-001 Account Balances (Material Weakness)

Condition

During our audit, we noted the following:

1. Approximately \$220,000 of cash and investments was not reported on the general ledger.
2. Intergovernmental receivables/revenues were not recorded.
3. Assessments receivable for June 30, 2015 had not been reversed out of the account balance and the June 30, 2016 balance had not been recorded.
4. Prepaid accruals for June 30, 2015 had not been reversed out of the balance and the current year amounts recorded.
5. Miscellaneous revenues of approximately \$76,983 were recorded as a liability and should have been recorded as revenue.
6. The payroll tax accrual was posted twice.
7. The June 30, 2015 interest payable liability was not reversed out of the current balance.
8. The debt payment had not been recorded against the loan balance and the additional debt refunding of \$300,000 had not been recorded.

Cause

We noted that cash and investments, intergovernmental receivables, prepaids, salaries payable, interest payable, and debt payable were not adjusted as necessary to accurately reflect current balances.

Criteria

Generally accepted accounting principles require that account balances be adjusted as necessary to reflect current balances.

Effect of Condition

Accounts were not properly adjusted prior to the start of the annual audit.

Recommendation

We recommend that the District reconcile and adjust account balances in a timely manner.

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Schedule of Prior Year Findings and Recommendations
For the Year Ended June 30, 2016

<u>Audit Reference</u>	<u>Status of Prior Year Audit Recommendation</u>
2015-001	<p>Account Balances</p> <p>Recommendation</p> <p>We recommend that the District reconcile and adjust account balances in a timely manner.</p> <p>Status</p> <p>In Progress</p>

HIDDEN VALLEY LAKE COMMUNITY SERVICES DISTRICT
Management's Corrective Action Plan
For the Year Ended June 30, 2016

Finding 2016-001 Account Balances (Material Weakness)

We recommend that the District reconcile and adjust account balances in a timely manner.

Responsible Individual: Trish Wilkinson, Full Charge Bookkeeper

Corrective Action Plan: Accounts will be properly reconciled and adjustments will be made in a timely manner. The full charge bookkeeper is currently enrolled in college accounting classes.

Anticipated Completion Date: June 30, 2017

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