

Frazier Park Public Utility District

Financial Statements

June 30, 2017 and 2016

Frazier Park Public Utility District

June 30, 2017 and 2016

Directors

Brahma Neyman, President

Terry Kelling, Vice President

Rebecca Gipson, Secretary

Lisa Schoenberg, Treasurer

Gerald Garcia, Member at Large

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Independent Auditors' Report

Board of Directors
Frazier Park Public Utility District
Frazier Park, California

We have audited the accompanying financial statements of Frazier Park Public Utility District (the District) as of and for the years ended June 30, 2017 and 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 controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Frazier Park Public Utility District as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 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 audits 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The history and organization, schedule of rates, and schedules of general and administrative expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation

BARBICH HOOPER KING

Bakersfield, California
March 8, 2018

Frazier Park Public Utility District

Management's Discussion and Analysis

As management of the Frazier Park Public Utility District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the fiscal years ended June 30, 2017 and 2016. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Highlights

- The District's total net position decreased by \$3,709 or 0.1% over the course of the year's operations.
- The District's total net operating and nonoperating revenues decreased \$95,480 or 8.1% over the course of the year's operations. The decrease was primarily due to a decrease in USDA grant revenue in the current year.
- The District's total expenses increased \$110,278 or 11.2% over the course of the year's operations. The increase is primarily due to increases in pumping expenses and salaries and wages.

Overview of the Financial Statements

This annual report includes management's discussion and analysis report, the independent auditors' report, the basic financial statements of the District and selected additional information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short and long term financial information about its activities. The Statements of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statements of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Frazier Park Public Utility District

Management's Discussion and Analysis

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of this year's activities?" The Statements of Net Position, and the Statements of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and the changes in them. One can think of the District's net position - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

Net Position

To begin our analysis, a summary of the District's Statements of Net Position is presented in Table A-1.

*Table A-1
Condensed Statements of Net Position
June 30, 2017 and 2016
(000's)*

	<i>2017</i>	<i>2016</i>	<i>Dollar Change</i>	<i>Percentage Change</i>
Current Assets	\$ 830	\$ 811	\$ 19	2.3%
Restricted Assets	191	160	31	19.4%
Capital Assets	<u>5,353</u>	<u>5,475</u>	<u>(122)</u>	-2.2%
Total Assets	<u>6,374</u>	<u>6,446</u>	<u>(72)</u>	-1.1%
Current Liabilities	145	158	(13)	-8.2%
Long-Term Debt	<u>3,060</u>	<u>3,115</u>	<u>(55)</u>	-1.8%
Total Liabilities	<u>3,205</u>	<u>3,273</u>	<u>(68)</u>	-2.1%
Invested in Capital Assets	2,238	2,305	(67)	-2.9%
Restricted	191	160	31	19.4%
Unrestricted	<u>740</u>	<u>708</u>	<u>32</u>	4.5%
Total Net Position	<u>\$ 3,169</u>	<u>\$ 3,173</u>	<u>\$ (4)</u>	-0.1%

As can be seen from the table above, current and restricted assets increased and capital assets decreased in the current year. The increase in current assets is primarily due to an increase in receivables. The increase in restricted assets is primarily due to an increase in restricted cash related to deposit requirements for the District's bond debt. The decrease in capital assets is primarily due to the investment in capital assets less current year depreciation expense.

Frazier Park Public Utility District

Management's Discussion and Analysis

While the Statements of Net Position shows the change in financial position of net assets of the District, the Statements of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of these changes.

Table A-2
Condensed Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016
(000's)

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating Revenues	\$ 997	\$ 779	\$ 218	28.0%
Nonoperating Revenues, net	87	401	(314)	-78.3%
Total Revenues	<u>1,084</u>	<u>1,180</u>	<u>(96)</u>	-8.1%
Operating Expenses	<u>1,088</u>	<u>978</u>	<u>110</u>	11.2%
Change in Net Position	(4)	202	(206)	
Net Position, Beginning of Year	<u>3,173</u>	<u>2,971</u>	<u>202</u>	
Net Position, End of Year	<u>\$ 3,169</u>	<u>\$ 3,173</u>	<u>\$ (4)</u>	

As can be seen in Table A-2 above, the District's operating revenues for the year ended June 30, 2017 exceeded operating revenues for the year ended June 30, 2016, primarily due to rate increases effective January 2017. Nonoperating revenues decreased, primarily due to a decrease in USDA grant revenue in the current year compared to June 30, 2016. The District's operating expenses increased, primarily due to increases in pumping expenses and salaries and wages.

Frazier Park Public Utility District

Management's Discussion and Analysis

Budgetary Highlights

The District adopts an annual budget each year to project the expected coming year's operations. The budget includes proposed expenses and the means of financing them. The District's budget remains in effect the entire year and is not revised. A fiscal year June 30, 2017 budget comparison to actual is analyzed by management throughout the year; however it is not reported on nor shown in the financial statement section of this report.

A fiscal year June 30, 2017 budget comparison to actual is presented below in Table A-3.

***Table A-3
Budget vs. Actual Comparison
Year Ended June 30, 2017
(000's)***

	<u><i>Actual</i></u>	<u><i>Budget</i></u>	<u><i>Variance</i></u>
Operating Revenues	\$ 997	\$ 731	\$ 266
Nonoperating Revenues, net	87	72	15
Total Revenues	<u>1,084</u>	<u>803</u>	<u>281</u>
Operating Expenses	<u>1,088</u>	<u>919</u>	<u>169</u>
Change in Net Position	<u>\$ (4)</u>	<u>\$ (116)</u>	<u>\$ 112</u>

Operating revenues were above budget primarily due to water sales above budgeted amounts. Nonoperating revenues exceeded budget primarily due to the District not budgeting for grant revenues. Operating expenses for the year ended June 30, 2017 are over budget primarily due to the District not budgeting for depreciation expense.

Frazier Park Public Utility District

Management's Discussion and Analysis

Capital Assets

As of June 30, 2017, the District had invested \$5.4 million in capital assets as shown below in Table A-4.

Table A-4
Capital Assets
June 30, 2017 and 2016
(000's)

	<u>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Land	\$ 21	\$ 21	\$ -	0.0%
Construction in Progress	181	558	(377)	-67.6%
Utility Plant Building	36	36	-	0.0%
Source of Supply	897	421	476	113.1%
Pumping Plant	26	24	2	8.3%
Transmission and Distribution	7,528	7,528	-	0.0%
General Plant	568	524	44	8.4%
Office Building	115	112	3	2.7%
Capital Assets	<u>9,372</u>	<u>9,224</u>	<u>148</u>	<u>1.6%</u>
Less: Accumulated Depreciation	<u>4,019</u>	<u>3,749</u>	<u>270</u>	<u>7.2%</u>
Net Capital Assets	<u>\$ 5,353</u>	<u>\$ 5,475</u>	<u>\$ (122)</u>	<u>-2.2%</u>

This table shows an increase in “Net Capital Assets” resulting from several factors. During the year, the District purchased property and equipment totaling approximately \$213,000. During the year ended June 30, 2017, the District had depreciation expense of approximately \$335,000.

Debt Service Requirements

The District has outstanding Series 2005 A and B bonds of \$1,210,000 which were issued to finance the USDA Pipeline Rehabilitation Project. These bonds have a required payment of principal once per year beginning at \$15,000 and escalating to \$70,000 in the fiscal year ending 2046, plus semiannual interest payments.

The District has outstanding Series 2011 bonds of \$1,905,000 which were used to finance water system improvements. These bonds have a required payment of principal once per year beginning at \$30,000 and escalating to \$83,000 in fiscal year ending 2051, plus semi-annual interest payments.

Frazier Park Public Utility District

Management's Discussion and Analysis

Contacting the District Management

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Frazier Park Public Utility District, P.O. Box 1525, Frazier Park, CA 93225.

Frazier Park Public Utility District

*Statements of Net Position
June 30, 2017 and 2016*

ASSETS	2017	2016
<i>Current Assets</i>		
Cash and cash equivalents	\$ 667,324	\$ 683,748
Accounts receivable, net	113,004	75,735
Grants receivable	7,805	17,170
Inventory, material and supplies	41,530	32,223
Prepaid expenses	654	2,236
	<u>830,317</u>	<u>811,112</u>
<i>Restricted Cash and Cash Equivalents</i>	<u>190,793</u>	<u>159,857</u>
<i>Capital Assets</i>, net of accumulated depreciation	<u>5,353,135</u>	<u>5,475,025</u>
	<u>\$ 6,374,245</u>	<u>\$ 6,445,994</u>
<i>LIABILITIES AND NET POSITION</i>		
<i>Current Liabilities</i>		
Current maturities of long-term debt	\$ 55,000	\$ 55,000
Trade accounts payable and accrued expenses	90,026	103,066
	<u>145,026</u>	<u>158,066</u>
<i>Long-Term Debt</i>, less current maturities	<u>3,060,000</u>	<u>3,115,000</u>
<i>Commitments</i>		
<i>Net Position</i>		
Net investment in capital assets	2,238,135	2,305,025
Restricted	190,793	159,857
Unrestricted	740,291	708,046
	<u>3,169,219</u>	<u>3,172,928</u>
	<u>\$ 6,374,245</u>	<u>\$ 6,445,994</u>

See Notes to Financial Statements.

Frazier Park Public Utility District

*Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016*

	<u>2017</u>	<u>2016</u>
<i>Operating Revenues:</i>		
Residential water sales	\$ 828,689	\$ 671,493
Business water sales	90,184	57,555
Other operating income:		
Connections	8,600	1,022
Standby assessments	10,938	9,669
Other services	59,069	39,256
	<u>997,480</u>	<u>778,995</u>
<i>Operating Expenses:</i>		
Pumping, power and maintenance	103,451	77,831
Equipment, supplies and maintenance	40,871	36,942
General and administrative	608,519	542,217
Depreciation	334,955	320,528
	<u>1,087,796</u>	<u>977,518</u>
Operating loss	<u>(90,316)</u>	<u>(198,523)</u>
<i>Nonoperating Revenues (Expenses):</i>		
Grant revenue	95,669	444,459
Interest income	128	127
Interest expense	(102,057)	(102,726)
Assessments	46,389	42,752
Other nonoperating income	34,978	21,875
Gain (loss) on sale/disposal of capital assets	11,500	(5,915)
	<u>86,607</u>	<u>400,572</u>
Change in net position	(3,709)	202,049
<i>Net Position, beginning of year</i>	<u>3,172,928</u>	<u>2,970,879</u>
<i>Net Position, end of year</i>	<u><u>\$ 3,169,219</u></u>	<u><u>\$ 3,172,928</u></u>

See Notes to Financial Statements.

Frazier Park Public Utility District

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	<i>2017</i>	<i>2016</i>
<i>Cash flows from operating activities:</i>		
Receipts from customers	\$ 958,875	\$ 772,684
Payments to suppliers for goods and services	(349,466)	(335,730)
Payments to employees and employee benefits	(423,635)	(383,809)
Payments to Board of Directors for services	(6,250)	(8,600)
Net cash provided by operating activities	179,524	44,545
<i>Cash flows from investing activities:</i>		
Interest income	128	127
<i>Cash flows from noncapital financing activities:</i>		
Receipts from assessments	46,389	42,752
Receipts from other income	34,978	21,875
Net cash provided by noncapital financing activities	81,367	64,627
<i>Cash flows from capital and related financing activities:</i>		
Receipts from grants	105,034	536,945
Principal payments on long-term debt	(55,000)	(54,000)
Purchase of capital assets	(206,160)	(432,234)
Proceeds from sale of capital assets	11,500	-
Cash paid for interest	(101,881)	(103,631)
Net cash used in capital and related financing activities	(246,507)	(52,920)
<i>Net increase in cash and cash equivalents</i>	14,512	56,379
<i>Cash and cash equivalents, beginning of year</i>	843,605	787,226
<i>Cash and cash equivalents, end of year</i>	\$ 858,117	\$ 843,605

See Notes to Financial Statements.

	<u>2017</u>	<u>2016</u>
<i>Reconciliation of operating loss to net cash provided by operating activities:</i>		
Operating loss	\$ (90,316)	\$ (198,523)
<i>Adjustments to reconcile operating loss to net cash provided by operating activities:</i>		
Depreciation	334,955	320,528
<i>Changes in operating assets and liabilities:</i>		
Accounts receivable	(37,269)	(6,311)
Inventory, material and supplies	(9,307)	-
Prepaid expenses	1,582	(1,585)
Trade accounts payable and accrued expenses	<u>(20,121)</u>	<u>(69,564)</u>
Net cash provided by operating activities	<u>\$ 179,524</u>	<u>\$ 44,545</u>
<i>Reconciliation of cash and cash equivalents:</i>		
Cash and cash equivalents	\$ 667,324	\$ 683,748
Restricted cash and cash equivalents	<u>190,793</u>	<u>159,857</u>
	<u>\$ 858,117</u>	<u>\$ 843,605</u>
<i>Supplemental disclosures of cash flow information:</i>		
<i>Noncash capital and related financing activities:</i>		
Purchase of capital assets through accounts payable	<u>\$ 6,905</u>	<u>\$ 12,384</u>

Frazier Park Public Utility District

Notes to Financial Statements

Note 1. Significant Accounting Policies

The reporting entity:

The Frazier Park Public Utility District (the District) is a Special District formed in 1939 to provide water services to the unincorporated area of Frazier Park, California. The District is governed by a Board of Directors, which oversees the operations. This Board is elected by the voters of the District.

Financial reporting:

The District utilizes a net position presentation in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources, and Net Position*. Net position is categorized as invested in capital assets, net of related debt, restricted components of net position and unrestricted components of net position. These categories are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted components of net position - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

Unrestricted components of net position - This component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Basis of accounting:

The District uses the economic resources measurement focus and accrual basis of accounting, in conformity with the uniform system of accounts prescribed for water districts by the Controller of the State of California. Revenues are recognized when earned and expenses are recorded when the liability is incurred regardless of the timing of cash payments or receipts.

Notes to Financial Statements

When the District has both unrestricted and restricted resources available for District purposes, it is the District's practice to first expend unrestricted resources as needed, subsequently utilizing restricted resources for only their intended purposes.

Fund accounting:

The District utilizes a proprietary enterprise fund category to account for its activities. Enterprise funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or, (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Other items not properly included among operating revenues are reported as nonoperating revenues. All assets and liabilities associated with an enterprise fund's activities are included on its statements of net position.

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

Budgetary procedures:

The District prepares and submits a board approved budget to the County of Kern to be used in the final County budget. Disbursements are not, in all instances, classified within the District's records as presented in the budget. The District's disbursement records are maintained to show amounts expended and receipt records are maintained to reflect revenues received.

Revenue recognition:

Income is derived primarily from the sale of water and the levy of assessments which include general administration and general project service charges.

Water and general administrative and general project service charges are established and levied by the Board of Directors for the period of July through June of each year. Service charges are reported as income to the District for the same July through June period. The general administrative and general project service charges are billed to landowners on their county property tax statements and recognized as income once the District receives the taxes from the County.

Notes to Financial Statements

Use of estimates:

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

Cash flows:

GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, states for purposes of preparing the statement of cash flow, all transactions that are not classified as capital and related financing activities, noncapital financing activities or investing activities are classified as operating activities. The adjustments to reconcile operating income to net cash provided by operating activities includes other income and expenses, which consist primarily of assessments and lease revenue.

Cash and cash equivalents:

For purposes of reporting cash flows, the District considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents also include cash on hand and amounts deposited with banks. The carrying amount of deposits is a reasonable estimate of fair value.

Deposits with banks, savings and loans and State Controller:

Cash funds deposited with various banks and savings and loans are covered by Federal depository insurance. Any excess deposits are collateralized 110% with securities held by the bank or savings and loan. Cash funds deposited with the Kern County Treasurer's office are appropriately collateralized by cash, investments and securities.

Accounts receivable:

The District extends credit in the form of accounts receivable to customers in the Frazier Park area. The customers are billed after water has been delivered. Accounts receivable are stated at the amount management expects to collect from balances outstanding at year end. Management provides for uncollectible amounts through a charge to earnings and a credit to an allowance for doubtful accounts based on its assessment of the current status of the individual accounts. Based on management's assessment, an allowance for doubtful accounts is necessary, therefore, an allowance of \$750 has been recorded as of June 30, 2017 and 2016.

Concentration of credit risk:

Credit is extended in the form of accounts receivable to landowners who are located in the District's service area.

Notes to Financial Statements

Inventory:

The District maintains an inventory of parts and supplies to be used for repairs and improvements. Inventory is stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Capital assets:

Capital assets are stated at cost. Depreciation is computed principally by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Utility plant building	10 - 40
Source of supply	14 - 25
Pumping plant	4 - 25
Transmission and distribution	10 - 50
General plant	3 - 15
Office building	39

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Expenditures for maintenance and repairs are charged against operations. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations.

Note 2. Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2017 and 2016 are classified in the accompanying financial statements as follows:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 667,324	\$ 683,748
Restricted cash and cash equivalents	190,793	159,857
	<u>\$ 858,117</u>	<u>\$ 843,605</u>

Cash and cash equivalents as of June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 200	\$ 200
Deposits with financial institutions	857,917	843,405
	<u>\$ 858,117</u>	<u>\$ 843,605</u>

Notes to Financial Statements

Investments Authorized by the California Government Code and the District's Investment Policy:

The District is permitted by both Board policy and State law to invest in various authorized investments, subject to a variety of limits and controls, including State of California Investment Pool-Local Agency Investment Fund (LAIF), State of California bonds, U.S. Government Agency securities (Treasury bills and notes) and other securities (bankers' acceptances, negotiable certificates of deposit, etc.).

Custodial credit risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2017 and 2016, the District had no risk associated with custodial assets.

Disclosures relating to interest rate risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value of changes in market interest rates. The District manages its exposure to interest rate risk by not purchasing any long-term investments.

Disclosures relating to credit risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment policy does not contain policy related to limits on credit risk and the District did not have any investments at June 30, 2017 and 2016.

Notes to Financial Statements

Note 3. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents as of June 30, 2017 and 2016 are as follows:

	<i>2017</i>	<i>2016</i>
Project Fund	\$ -	\$ 514
Reserve Fund – Series 2005 Bonds	82,249	75,036
Reserve Fund – Series 2011 Bonds	42,500	34,791
Replacement Fund	66,044	49,516
	\$ 190,793	\$ 159,857

Project Fund:

The provisions of the District’s Water Revenue Bonds Series 2005 A and B and Series 2011 require the District to reserve any unused proceeds from the bond issuance for the expansion and or improvement of the District’s water system.

Reserve Fund – Series 2005 Bonds:

The provision of the District’s Water Revenue Bonds Series 2005 A and B, require the District to maintain a reserve equal to the debt service requirement for the current year. The bond agreement allows the District to accumulate the reserve at a rate of 1/10 per year.

Reserve Fund – Series 2011 Bonds:

The provision of the District’s Water Revenue Bonds Series 2011, require the District to maintain a reserve equal to the debt service requirement for the current year. The bond agreement allows the District to accumulate the reserve at a rate of 1/10 per year.

Replacement Fund:

The provisions of the District’s Water Revenue Bonds Series 2005 A and B require the District to establish a replacement fund once the reserve fund has exceeded the reserve requirement. This fund will be used for paying the costs of emergency repairs and maintenance of the water system, extending facilities and replacement of short-lived assets which have a useful life less than the maturity of the bonds.

Notes to Financial Statements

Note 4. Capital Assets

A summary of capital assets at June 30, 2017 and 2016 is as follows:

	<i>Assets at Cost</i>			
	<u><i>Balance 6/30/2016</i></u>	<u><i>Acquisitions</i></u>	<u><i>Transfers/ Retirements</i></u>	<u><i>Balance 6/30/2017</i></u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 21,453	\$ -	\$ -	\$ 21,453
Construction in progress	556,915	96,173	(472,943)	180,145
	<u>578,368</u>	<u>96,173</u>	<u>(472,943)</u>	<u>201,598</u>
 <i>Capital assets, being depreciated:</i>				
Utility plant building	35,663	-	-	35,663
Source of supply	421,909	2,464	472,943	897,316
Pumping plant	23,531	2,630	-	26,161
Transmission and distribution	7,527,801	-	-	7,527,801
General plant	524,744	109,147	(65,616)	568,275
Office building	112,425	2,651	-	115,076
	<u>8,646,073</u>	<u>116,892</u>	<u>407,327</u>	<u>9,170,292</u>
	<u>\$ 9,224,441</u>	<u>\$ 213,065</u>	<u>\$ (65,616)</u>	<u>\$ 9,371,890</u>
 <i>Accumulated Depreciation</i>				
	<u><i>Balance 6/30/2016</i></u>	<u><i>Expense</i></u>	<u><i>Transfers/ Retirements</i></u>	<u><i>Balance 6/30/2017</i></u>
Utility plant building	\$ 27,294	\$ 1,210	\$ -	\$ 28,504
Source of supply	230,918	26,097	-	257,015
Pumping plant	23,531	119	-	23,650
Transmission and distribution	3,060,083	246,921	-	3,307,004
General plant	347,873	57,894	(65,616)	340,151
Office building	59,717	2,714	-	62,431
	<u>3,749,416</u>	<u>334,955</u>	<u>(65,616)</u>	<u>4,018,755</u>

Notes to Financial Statements

<i>Assets at Cost</i>				
	<i>Balance</i>	<i>Acquisitions</i>	<i>Transfers/ Retirements</i>	<i>Balance</i>
	<i>6/30/2015</i>	<i>6/30/2015</i>	<i>6/30/2015</i>	<i>6/30/2016</i>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 21,453	\$ -	\$ -	\$ 21,453
Construction in progress	112,297	444,618	-	556,915
	133,750	444,618	-	578,368
 <i>Capital assets, being depreciated:</i>				
Utility plant building	35,663	-	-	35,663
Source of supply	421,909	-	-	421,909
Pumping plant	102,786	-	(79,255)	23,531
Transmission and distribution	7,527,801	-	-	7,527,801
General plant	544,800	-	(20,056)	524,744
Office building	112,425	-	-	112,425
	8,745,384	-	(99,311)	8,646,073
	\$ 8,879,134	\$ 444,618	\$ (99,311)	\$ 9,224,441
 <i>Accumulated Depreciation</i>				
	<i>Balance</i>	<i>Expense</i>	<i>Transfers/ Retirements</i>	<i>Balance</i>
	<i>6/30/2015</i>	<i>6/30/2015</i>	<i>6/30/2015</i>	<i>6/30/2016</i>
Utility plant building	\$ 26,081	\$ 1,213	\$ -	\$ 27,294
Source of supply	215,810	15,108	-	230,918
Pumping plant	96,274	598	(73,341)	23,531
Transmission and distribution	2,813,161	246,922	-	3,060,083
General plant	313,955	53,973	(20,055)	347,873
Office building	57,003	2,714	-	59,717
	\$ 3,522,284	\$ 320,528	\$ (93,396)	\$ 3,749,416

Notes to Financial Statements

Note 5. Long-Term Debt

The District has pledged future revenues associated with any revenue generating activity, net of all operating costs, to repay \$1,400,000 in water revenue bonds issued in December 2005 and \$2,100,000 in water revenue bonds issued during May 2011. Proceeds from the bonds provided financing for the improvement and expansion of the District's current water delivery system. The bonds are payable solely from all revenues and are payable through the fiscal year ending 2051. Annual principal and interest payments on the bonds are expected to require less than 25% of water sales revenue each fiscal year. The remaining balance on these bonds as of June 30, 2017 and 2016 are as follows:

	<i>Current Maturities</i>	<i>2017</i>	<i>2016</i>
Bond holders, Water Revenue			
Bond Series 2005 A, 4.25%, secured by net revenues, interest payable semiannually on April 15 and October 15 of each year, commencing October 15, 2006, bonds maturing on or after October 15, 2006, final payment October 15, 2045	\$ 15,000	\$ 865,000	\$ 880,000
Bond holders, Water Revenue			
Bond Series 2005 B, 4.125%, secured by net revenues, interest payable semiannually on April 15 and October 15 of each year, commencing October 15, 2006, bonds maturing on or after October 15, 2006, final payment October 15, 2045	5,000	345,000	350,000
Bond holders, Water Revenue			
Bond Series 2011, 2.625%, secured by net revenues, interest payable semiannually on April 15 and October 15 of each year, commencing October 15, 2011, bonds maturing on or after October 15, 2012, final payment October 15, 2050	35,000	1,905,000	1,940,000
	\$ 55,000	\$ 3,115,000	\$ 3,170,000

Notes to Financial Statements

The following is a summary of the long-term debt transactions for the years ended June 30, 2017 and 2016:

	<i>Payable 6/30/16</i>	<i>Debt Issued (Retired)</i>	<i>Payable 6/30/17</i>
Bond Series 2005 A	\$ 880,000	\$ (15,000)	\$ 865,000
Bond Series 2005 B	350,000	(5,000)	345,000
Bond Series 2011	1,940,000	(35,000)	1,905,000
	\$ 3,170,000	\$ (55,000)	\$ 3,115,000
	<i>Payable 6/30/15</i>	<i>Debt Issued (Retired)</i>	<i>Payable 6/30/16</i>
Bond Series 2005 A	\$ 895,000	\$ (15,000)	\$ 880,000
Bond Series 2005 B	355,000	(5,000)	350,000
Bond Series 2011	1,974,000	(34,000)	1,940,000
	\$ 3,224,000	\$ (54,000)	\$ 3,170,000

The following annual requirement to amortize all debt outstanding is based on the entire principal balance of bonds as of June 30, 2017:

<i>Years Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total Debt Service</i>
2018	\$ 55,000	\$ 99,752	\$ 154,752
2019	56,000	97,970	153,970
2020	57,000	96,163	153,163
2021	63,000	94,179	157,179
2022	64,000	92,107	156,107
2023-2027	368,000	425,451	793,451
2028-2032	422,000	359,931	781,931
2033-2037	500,000	283,613	783,613
2038-2042	583,000	191,513	774,513
2043-2047	627,000	84,727	711,727
2048-2051	320,000	15,313	335,313
	\$ 3,115,000	\$ 1,840,719	\$ 4,955,719

Notes to Financial Statements

Note 6. Grant Revenue

The District has qualified for a \$500,000 grant from the United States Department of Agriculture (USDA) to be used for a new well project and a \$202,000 grant from the California State Water Resources Control Board (CSWRCB) to be used in planning the annexation of nearby land parcels. Per the terms of the agreements, the District is to submit claims for reimbursements related to project costs. The District will be reimbursed if costs are approved and funds are available. During the years ended June 30, 2017 and 2016 the District received \$-0- and \$469,598, respectively, of grant funds and recognized revenues of \$-0- and \$408,559, respectively, from the USDA. During the years ended June 30, 2017 and 2016 the District received \$105,034 and \$67,347, respectively, of grant funds and recognized revenues of \$95,669 and \$35,900, respectively, from the CSWRCB. As of June 30, 2017 and 2016 the District had \$7,805 and \$17,170, respectively, in grants receivable related to project costs.

Note 7. Retirement Plan

The District adopted the Frazier Park Public Utility District 401(k) Plan (the Plan) for eligible employees as of January 1, 2016. Employees become eligible after two months of service. Eligible employees may contribute up to the IRS statutory limit of their annual compensation for the years ended June 30, 2017 and June 30, 2016. The District can make matching contributions to the Plan at its discretion. Participating employees fully vest in District contributions over a period of 6 years. The District made no contributions to the Plan for the years ended June 30, 2017 and 2016.

Note 8. Commitments

Self-insurance:

The District is a member of the Association of California Water Agencies, Joint Powers Insurance Authority (JPIA). JPIA is a group of California Water Districts who have pooled funds to provide self-insurance coverage as follows:

	<i>Limits per Occurrence</i>	
	<i>JPIA Self-Insurance</i>	<i>Excess Insurance</i>
General, automobile and public officials liability	\$ 5,000,000	\$ 55,000,000
Buildings, fixed equipment, personal property, and licensed vehicles	\$ 100,000	\$ 150,000,000
Fidelity coverage	\$ 100,000	\$ -0-
Public official bond, per director	\$ -0-	\$10,000-\$200,000

Notes to Financial Statements

The District is in a group that has a \$1,000 retention level (deductible) per occurrence for property damage due to theft and natural causes. Property includes buildings, personal property, fixed equipment, mobile equipment, licensed vehicles, turbines, generators and transformers. For licensed vehicles, the deductible is \$500. For mechanical damages to turbines, generators and transformers, the deductible ranges from \$25,000 to \$50,000. The auto and general liability program has no deductible. For fidelity coverage, the deductible is \$1,000. Claims over the retention levels are insured by the group up to the self-insurance limits (see above) and by policies purchased by JPIA from Allied World Assurance Co. (Allied Public Risk), Evanston Insurance Company, Great American Insurance Co. of New York, General Security Indemnity Co. of Arizona and Endurance Risk Solutions Assurance Company for the excess.

JPIA bills the District a deposit premium at the beginning of each policy year, which is placed in a reserve fund to cover the self-insurance portion of any claim. Settlements and/or expenses related to claims during the year are charged against the reserve. If the balance of the reserve at the end of the year is deemed too low in relation to the amount of outstanding claims, the District is retrospectively billed for additional premiums. When the claims are fully settled, any amounts remaining in the reserve are refunded to the District.

Supplementary Information

Frazier Park Public Utility District

History and Organization

June 30, 2017

The District was established on February 20, 1939, as provided by the Public Utility District Act Statutes of 1921, and is now under authority of Public Utility Code Section 15,501 et. seq. The District is located in the most southern portion of Kern County covering Frazier Mountain Park. The Monte Vista Mutual Water Company was annexed to the District during the 1962-1963 fiscal year and consisted of 115 lots and an uninhabited area.

The District may supply various services to its residents but at present is engaged only in the water supply function. The District is governed by its own Board of Directors (five) elected at general district elections for a term of four years.

Voters of the District, on May 25, 1965, approved a resolution providing for the issuance of \$600,000 principal amount of "Frazier Park Public Utility District 1965 Water Bonds", which were general obligation bonds. Provision was made in the resolution for the collection of an annual tax sufficient to pay the principal and interest on bonds as they became due. Additionally, the Board of Directors resolved and agreed to establish rates and charges for water furnished by the water system of the District to produce sufficient annual net revenues at least equal to the amount of principal and interest on the bonds as they became due.

The proceeds of the bond issuance were used for the acquisition, construction and completion of water system improvements. The proceeds were received and construction began during the 1965 - 1966 fiscal year. The final funds were expended during the 1972 - 1973 fiscal year.

Frazier Park Public Utility District

*Schedule of Rates
June 30, 2017*

The schedule of annual rates, effective January 1, 2017 by resolution adopted by the Board of Directors, is as follows:

	<u>Monthly Service Charge</u>	<u>New Connection Fee</u>
Residential		
3/4" meter	\$ 55.00	\$ 8,000
1" meter	\$ 92.00	\$ 9,000
Business		
1" meter	\$ 92.00	\$ 10,000
1 1/2" meter	\$ 183.00	\$ 11,000
2" meter	\$ 293.00	\$ 12,000
6" meter	\$ 1,832.00	\$ 14,000

Customers are billed a fee ranging from \$35-50 for their request to shut off or turn on water service.

Customers are billed a fee of \$100 for reconnection due to non-payment shut off.

Customers are charged for a 48-hour shut off notice posting a fee of \$25 per occurrence.

Customers are billed on a monthly basis and are charged an additional "Consumption Fee" of \$2.60 per 1,000 gallons of water used.

Frazier Park Public Utility District

*Schedules of General and Administrative Expenses
Years Ended June 30, 2017 and 2016*

	<u>2017</u>	<u>2016</u>
Employee wages and benefits	\$ 426,150	\$ 386,500
Professional fees	56,267	64,984
Office supplies and expenses	105,319	70,792
Dues, fees and other	14,533	11,341
Director fees	6,250	8,600
	<u>\$ 608,519</u>	<u>\$ 542,217</u>