ALTA IRRIGATION DISTRICT

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
SEPTEMBER 30, 2017 AND 2016

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HUDSON HENDERSON & COMPANY INC.
certified public accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Alta Irrigation District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Alta Irrigation District (the District) as of and for the years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the 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 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of September 30, 2017 and 2016, and the respective changes in financial position, and, where applicable, 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 Schedule of Funding Progress – Other-Post Employment Benefits (OPEB), Schedule of Changes in the Net Pension Liability and Related Ratios, and Schedule of Contributions, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. 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 financial statements, and other knowledge we obtained during our audit of the 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules 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 supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2018, 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 Standard*s in considering the District's internal control over financial reporting and compliance.

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
February 6, 2018

ALTA IRRIGATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2017

As management of Alta Irrigation District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with information that is included within the financial statements.

Financial Highlights

- Assets and deferred outflows of the District exceeded its liabilities as of September 30, 2017 by $10,819,820. Of this amount, a deficit unrestricted net position of $1,153,524 must be subsequently funded before it may be used to meet the District's ongoing obligations to customers and creditors. As of September 30, 2016, assets and deferred outflows exceeded liabilities by $11,352,195 with a deficit unrestricted net position equaling $904,186.

- Total net position decreased by $532,375 for the year ended September 30, 2017. The primary reason for the decrease was due to a large increase in the net pension liability and higher payroll expenses due to a long water run for the year ended September 30, 2017. For the prior year, total net position decreased by $554,378.

- Actual operating revenue exceeded anticipated operating revenue by $275,156 for the year ended September 30, 2017. Actual operating expenditures were $591,636 greater than budgeted expenditures for the year. For the year ended September 30, 2016, anticipated operating revenue exceeded actual operating revenue by $69,976 and actual operating expenditures were $140,123 less than budgeted expenditures.

- During the current fiscal year, the District's capital assets decreased by a net of $286,870. The decrease was mostly attributable to depreciation expense, which is the ratable amortization of the cost of fixed assets. Depreciation amounted to $329,065 during the current year. Depreciation expense for the prior year was $348,955.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) the Statements of Net Position, 2) the Statements of Revenues, Expenses, and Changes in Net Position, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Statements of Net Position. The Statements of Net Position present information on all of the District's assets and deferred outflows as well as all of the District's liabilities and deferred inflows, with the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Statements of Revenues, Expenses, and Changes in Net Position. The Statements of Revenues, Expenses, and Changes in Net Position presents information showing how the District's net position changed during the year reported on. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expense are reported in this statement for some items that will only result in cash flow in future fiscal periods.

These financial statements include only the District itself. The District has no component units.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and proprietary funds. The District has one proprietary fund and no governmental funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information.

Financial Analysis

As noted earlier, net position may serve over a time as a useful indicator of a government's financial position. As of September 30, 2017, the District's assets and deferred outflows exceeded liabilities and deferred inflows by $10,819,820. A significant portion of the District's total net position (111 percent) reflects its net investment in capital assets. Capital assets are used to provide services to customers and they are not available for future spending.

The following represent summaries of the District's net position and changes in net position for the current and prior years:

Alta Irrigation District's Net Position

	2017	(restated) 2016	(restated) 2015
Current assets	$ 1,141,129	$ 1,104,639	$ 1,411,937
Noncurrent assets	12,192,148	12,377,839	12,694,311
Deferred outflows	451,185	131,583	9,427
Total assets and deferred outflows	13,784,462	13,614,061	14,115,675
Current liabilities	222,889	230,846	238,334
Noncurrent liabilities	2,601,601	1,962,238	1,811,158
Deferred inflows	140,152	68,782	159,610
Total liabilities and deferred inflows	2,964,642	2,261,866	2,209,102
Total net position	$10,819,820	$11,352,195	$11,906,573

Alta Irrigation District's Changes in Net Position

	2017	(restated) 2016	(restated) 2015
Operating revenue			
Assessments	$ 2,063,778	$ 2,138,251	$ 2,068,906
Water use and surcharges	323,130	-	62,708
Water sales	268,049	-	-
Total operating revenues	2,654,957	2,138,251	2,131,614
Operating expenditures			
Payroll and related expenses	2,122,279	1,670,612	1,461,039
Depreciation	329,065	348,955	348,811
General and administrative	688,909	489,976	557,143
Maintenance	188,420	267,031	222,652
Operations	220,881	108,417	12,543
Urban expenses	14,011	62,931	39,000
Total operating expenditures	3,563,565	2,947,922	2,641,188
Decrease in net position before non-operating revenue/expense	(908,608)	(809,671)	(509,574)
Net non-operating revenue over/(under) expense	376,233	255,293	90,498
Change in net position	(532,375)	(554,378)	(419,076)
Net Position, Beginning of Year	11,352,195	11,906,573	12,325,649
Net Position, End of Year	$10,819,820	$11,352,195	$11,906,573

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its business-type activities as of September 30, 2017 amounted to $11,990,975 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements and equipment. The District acquired $42,195 in capital assets during the year ended September 30, 2017 while depreciation for the year amounted to $329,065.

Debt Administration. The District's total liabilities and deferred inflows increased by $702,776 during the year ended September 30, 2017. This included a decrease of $8,456 in accounts payable and accrued expense and an increase of $639,862 in long-term debt.

Additional information on the District's capital assets can be found in Note 5 to the financial statements and more details regarding the District's debt can be found in Notes 6-8.

Economic Factors and Next Year's Budgets and Rates

The budget for the year ending September 30, 2018 projects a decrease in net position of $77,528 before capital expenditures and a deficit of $303,942 after capital expenditures. Excluding contributions of capital assets, total revenue is anticipated to increase by $359,164. Total expense, excluding capital outlay and depreciation, is expected to increase by $475,942. Assessment revenue, including water surcharge is anticipated to increase by $431,415. The budget is created using an average 4-month water run and an 8-month maintenance season. Non-operating revenue is expected to be $154,354. General and administrative expense, including payroll tax and benefits, is expected to increase by $298,898, maintenance expense is expected to increase by $13,308, operational expense is expected to increase by $170,136, and urban expense is expected to decrease by $6,400. Capital assets expenditures are expected to be $231,414.

Request for Information

This financial report is designed to provide a general overview of Alta Irrigation District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or request for additional financial information should be address to the Controller, Alta Irrigation District, 289 North L Street, Dinuba, California 93618.

ALTA IRRIGATION DISTRICT
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2017 AND 2016

	2017	(restated) 2016
ASSETS		
Current Assets		
Cash and investments	$ 870,486	$ 958,725
Receivables:		
Assessments receivable	43,655	39,726
Interest	1,876	1,309
Other	114,680	-
Prepaid expenses	73,211	80,510
Inventories	37,221	24,369
Total current assets	1,141,129	1,104,639
Non-Current Assets		
Long-term receivables	190,272	89,093
Deposits	10,901	10,901
Capital assets, not being depreciated	2,197,603	2,197,603
Capital assets, net of accumulated depreciation	9,793,372	10,080,242
Total non-current assets	12,192,148	12,377,839
Total Assets	13,333,277	13,482,478
DEFERRED OUTFLOWS		
Deferred pensions	451,185	131,583
LIABILITIES		
Current Liabilities		
Accounts payable	92,796	107,287
Accrued wages	32,918	31,155
Accrued compensated absences	88,111	84,514
Unearned revenues	60	235
Other accrued liabilities	4,280	3,426
Current portion of note payable	4,724	4,229
Total current liabilities	222,889	230,846
Non-Current Liabilities		
Note payable	12,907	17,235
OPEB liability	763,393	677,227
Net pension liability	1,825,301	1,267,776
Total non-current liabilities	2,601,601	1,962,238
Total Liabilities	2,824,490	2,193,084
DEFERRED INFLOWS		
Deferred pensions	140,152	68,782
NET POSITION		
Net investment in capital assets	11,973,344	12,256,381
Unrestricted	(1,153,524)	(904,186)
Total Net Position	$10,819,820	$ 11,352,195

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

ALTA IRRIGATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	(restated) 2016
OPERATING REVENUES		
Assessments	$ 1,934,450	$ 1,935,591
County collection agreement	129,328	202,660
Water use and surcharges	323,130	-
Water sales	268,049	-
Total operating revenues	2,654,957	2,138,251
OPERATING EXPENSES		
Payroll and related expenses	2,122,279	1,670,612
Depreciation	329,065	348,955
General and administrative	688,909	489,976
Maintenance	188,420	267,031
Operations	220,881	108,417
Urban expenses	14,011	62,931
Total operating expenses	3,563,565	2,947,922
Net operating income (loss)	(908,608)	(809,671)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	10,923	9,027
Gain (loss) on disposition of capital assets	-	2,626
Equipment income	40,327	15,890
Pacific Gas & Electric evaporation	16,897	27,488
Penalties and costs	9,111	6,755
Equipment lease and rents	3,850	4,000
Soil sales	-	14,124
Administrative fees	26,288	14,153
Pine Flat power	258,312	60,122
Development and administrative fees	10,906	101,603
Miscellaneous	349	226
Interest expense	(730)	(721)
Total non-operating revenues (expenses)	376,233	255,293
Change in net position	(532,375)	(554,378)
Net Position, Beginning of Year	11,352,195	11,430,035
Prior Period Adjustment	-	476,538
Net Position, Beginning of Year (Restated)	11,352,195	11,906,573
Net Position, End of Year	$ 10,819,820	$ 11,352,195

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

ALTA IRRIGATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	(restated) 2016
Cash Flows from Operating Activities:		
Cash received from assessments, water surcharges, and related activities	$ 2,434,994	$ 2,149,095
Payments to suppliers of goods and services	(1,131,411)	(868,921)
Payments to employees and employee benefit programs	(1,721,460)	(1,740,875)
Net cash and investments used by operating activities	(417,877)	(460,701)
Cash Flows from Investing Activities:		
Interest income	10,356	8,589
Rental income	3,850	4,000
Net cash and investments provided by investing activities	14,206	12,589
Cash Flows from Non-Capital Financing Activities:		
Other non-operating revenue	362,190	242,987
Net cash and investments provided by non-capital financing activities	362,190	242,987
Cash Flows from Capital and Related Financing Activities:		
Interest payments on debt borrowings	(730)	(1,244)
Proceeds from debt borrowings	-	21,464
Principal payments on debt borrowings	(3,833)	(20,158)
Acquisition of capital assets	(42,195)	(41,849)
Net cash and investments used by capital and related financing activities	(46,758)	(41,787)
Net decrease in cash and investments	(88,239)	(246,912)
Cash and investments - beginning of year	958,725	1,205,637
Cash and investments - end of year	$ 870,486	$ 958,725

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

ALTA IRRIGATION DISTRICT
STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	(restated) 2016
Reconciliation of net operating income (loss) to net cash and investments provided (used) by operating activities:		
Net operating income (loss)	$ (908,608)	$ (809,671)
Adjustments to reconcile net operating income (loss) to net cash and investments provided (used) by operating activities:		
Depreciation and amortization	329,065	348,955
Changes in operating assets and liabilities:		
Assessments receivable	(3,929)	1,853
Other receivables	(114,680)	-
Prepaid expenses	7,299	42,837
Inventories	(12,852)	16,134
Long-term receivables	(101,179)	8,821
Deposits	-	545
Accounts payable	(14,491)	(489)
Accrued wages	1,763	(17,514)
Accrued compensated absences	3,597	26,394
Unearned revenues	(175)	170
Other accrued liabilities	854	407
Accrued OPEB obligation	86,166	84,232
Net pension liability and deferred pensions	309,293	(163,375)
Total adjustments	490,731	348,970
Net cash and investments provided (used) by operating activities	$ (417,877)	$ (460,701)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Alta Irrigation District (the District) was organized under the Wright Act in 1887 and operates under the provision of the California Water Code. The District covers an area approximately 130,000 acres and distributes water to the agricultural lands in Tulare, Fresno and Kings Counties.

The District has the authority, with prior voter approval in accordance with Proposition 218, to fix rates and charges for commodities and services furnished. It may also, with prior voter approval, incur indebtedness and issue bonds. The District is exempt from payment of federal and state income taxes. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements, unless those pronouncements conflict with or contradict GASB pronouncements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation: The accounts of the District are organized and operated on a fund basis. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses.

All activities of the District are accounted for within one proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) 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 users charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or operating income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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 operation.

The District's operating revenues and expenses generally result from providing water related services in connection with the District's ongoing operations. The principal operating revenues of the District are assessments, water related charges, and administrative fees. Operating expenses include maintenance, transmission and distribution, general and administrative expenses, urban expenses, and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District presents comparative financial statements in the accompanying financial statements to improve financial reporting of the District. All activities of the District are reported under one major proprietary (enterprise) fund.

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the "economic resources measurement focus", the accrual basis of accounting. Under the economic measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statements of Net Position. The Statements of Revenues, Expenses, and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Investments: For purposes of the Statements of Cash Flows, the District considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash and cash investments.

All investments are stated at fair value. Fair value is the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Investments consist of deposits in the Local Agency Investment Fund, a State Investment Pool.

Accounts Receivable: Receivables arise from billings to landowners for water service charges, water use surcharges and certain improvements made to the landowners' property. Substantially all of the District's sales are to landowners located within the District's boundaries.

The District does not anticipate any material write-off of bad debts and, therefore, has not established an "allowance for bad debts" in the Statements of Net Position as of September 30, 2017 or 2016.

All assessments are considered collectible because the District obtains a lien upon all assessed property once the assessment becomes delinquent. After a five year period, the District can sell the property to recover all prior assessments, costs, penalties, and interest due the District.

Inventory: Inventory is stated at the lower of cost or market on a first-in, first-out basis.

Capital Assets: Capital assets are defined by the District as assets with estimated useful lives of more than one year. All such assets are recorded at cost or estimated historical cost. Donated assets are recorded at the estimated market value at the date donated. The District has set the capitalization threshold for reporting capital assets at $5,000. Depreciable assets are depreciated over the estimated useful lives using the straight-line method. Estimated useful lives are as follows:

Transmission and distribution plant:	20-50 years
General plant:	5-39 years

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

Compensated Absences: District employees are granted vacation, sick leave, and paid time-off benefits in varying amounts depending on the number of years of service and other factors. Vested leave is recorded as an expense and a liability of the District as the benefits accrue. Sick leave, after five years of employment and upon employment termination, is paid out at 50% of their accrued hours up to a maximum of 240 hours.

Assessments: In accordance with provisions of Division 11 of the Water Code of the State of California, an annual assessment is levied upon the land within the District to provide the funds necessary for the District to meet its financial obligations. The assessment is levied in October and becomes delinquent on December 20. The District publicizes the delinquencies and they become unredeemed assessments upon the passing of three weeks from the date of the first publication. Unredeemed assessments may be addressed by means of statutory authority under the Water Code, i.e. collector's deeds and auctions. The District may retain the property or dispose of it at a public auction to redeem delinquencies owed to it.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows and Inflows of Resources: Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* the District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the District that is applicable to a future reporting period.

In addition to liabilities, the Statements of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period.

Revenue Recognition: Irrigation revenues are recognized on the basis of cycle billings and are recorded when landowners are billed.

Deferred Compensation Plan: The District offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The District has the duty of reasonable care in the selection of investment alternatives, but neither the District nor its directors or offices have any liability for losses under the deferred compensation plan.

Retirement Pension Plan: The District is a member of the California Public Employee's Retirement System for Local Miscellaneous Members, a contributory pension plan covering qualified employees.

Non-Exchange Transactions: Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property tax increments. With the accrual basis of accounting, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed.

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

Net Position: Net position represents the residual interest in the District's assets after liabilities are deducted. The Statements of Net Position report total net position and presents it in three broad components: net investment in capital assets, restricted, and unrestricted. Net investment in capital assets includes capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Net position is restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation. All other net position is unrestricted. Amounts included as unrestricted net assets are available for designation for specific purposes established by the District's Board of Directors. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Budgeting Procedures: Each year management of the District prepares a proposed budget, which is presented to the District's Board of Directors. The annual budget is then legally enacted through adoption of a budget resolution.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments: Financial instruments include cash and cash equivalents, accounts receivables, prepaid expenses, capital assets, accounts payable and other accrued expenses, and notes payable, none of which are held for trading purposes. The fair values of all financial instruments do not differ materially from the aggregate carrying values of the financial instruments recorded in the accompanying Statements of Net Position.

Contributions in Aid of Construction: Transmission and distribution plants in service are recorded net of contributions in aid of construction. Contributions of aid of construction represent nonrefundable costs paid to the District by its customers for construction of irrigation systems. In accordance with generally accepted accounting principles, these contributions are recorded as reductions to transmission and distribution plant investments.

Governmental Accounting Standards Update: During the year ending September 30, 2017, the District implemented the following standards:

GASB Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2016.

GASB Statement No. 77 – *Tax Abatement Disclosures*. The requirements of this statement are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Plans*. The requirements of this statement are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 80 – *Blending Requirements for Certain Component Units- an amendment of GASB Statement No. 14.* The requirements of this statement are effective for reporting periods beginning after June 15, 2016.

GASB Statement No. 81 – *Irrevocable Split-Interest Agreements.* The requirements of this statement are effective for reporting periods beginning after December 15, 2016.

Released GASB Statements to be implemented in future financial statements are as follows:

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits other than Pension Plans*. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2017.

GASB Statement No. 82 – *Pension Issues- an amendment of GASB Statements No. 67, No. 68, and No. 73.* The requirements of this statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

GASB Statement No. 83 – *Certain Asset Retirement Obligations.* The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 84 – *Fiduciary Activities.* The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GASB Statement No. 85 – *Omnibus 2017.* The provisions of this statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 86 – *Certain Debt Extinguishment Issues.* The requirements of this statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 87 – *Leases.* The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

Subsequent Events: In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through February 6, 2018, which is the date the financial statements were available to be issued.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments consisted of the following as of September 30, 2017 and 2016:

	2017	2016
Unrestricted cash:		
Treasurer's general accounts:		
Money market account	$ 12,662	$ 12,798
General fund	8,660	109,474
Total Treasurer's general accounts	21,322	122,272
Payroll account	62,900	26,296
Health reimbursement account	7,299	5,939
Remote deposit checking account	222,218	246,789
Collector's petty cash	500	500
Total unrestricted cash	314,239	401,796
Investments:		
Local Agency Investment Fund (LAIF)	556,247	556,929
Total cash and investments	$ 870,486	$ 958,725

Disclosure Relating to Interest Rate Risk:
Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District's investment in LAIF is available for withdrawal on demand.

Disclosure 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. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

NOTE 2 – CASH AND INVESTMENTS (continued)

Concentration of Credit Risk:
The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. No investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) represented 5% or more of total District investments.

Foreign Currency Risk:
Foreign currency risk is the risk of adverse affects on the fair value of an investment from changes in exchange rates involving currencies outside the United States. The District's investment policy does not allow for investments in foreign currencies.

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. None of the District's investments were subject to custodial credit risk. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair 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.

The District's deposits with financial institutions held in uncollateralized accounts are subject to custodial credit risk for deposits, including investments that were subject to custodial credit risk. The District had no deposits with financial institutions that exceeded the Federal Deposit Insurance Corporation coverage at September 30, 2017 and 2016. However, at various times during the years such amounts may be in excess of the insured limits. These excess funds would still be secured by the pledged securities in the collateral pool at 110% as noted in the paragraph above and as such are secure in that manner. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool:
The District is a voluntary participant in LAIF that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 3 – FAIR VALUE MEASUREMENTS

The District applies generally accepted accounting principles for fair value measurements of financial assets and liabilities. These accounting principles define fair value and establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques. The District uses appropriate valuation techniques to determine value based on inputs available.

When available, the District measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. The following description summarizes the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statements of Net Position.

The three levels of inputs used to measure fair value are as follows:

Level 1 – Values measured using quoted prices in active markets for identical investments. The fair value of these financial instruments and investments is based on quoted market prices or dealer quotes in active markets. The fair value of the District's investments were measured using quoted market prices in active markets.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. The District did not have any input into the fair value of Level 2 investments. The District did not have any assets reported at fair value with Level 2 inputs for the years ended September 30, 2017 and 2016.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The District did not have any assets reported at fair value with Level 3 inputs for the years ended September 30, 2017 and 2016.

The table below presents the level within the fair value hierarchy at which investments are measured at September 30, 2017 and 2016:

	Fair Value Measurements on a Recurring Basis			
September 30, 2017	Level 1	Level 2	Level 3	Total
Local Agency Investment Fund	$556,247	$ -	$ -	$556,247
Total investments	$556,247	$ -	$ -	$556,247

	Fair Value Measurements on a Recurring Basis			
September 30, 2016	Level 1	Level 2	Level 3	Total
Local Agency Investment Fund	$556,929	$ -	$ -	$556,929
Total investments	$556,929	$ -	$ -	$556,929

NOTE 4 – INVENTORIES

Inventories consisted of the following at September 30, 2017 and 2016:

	2017	2016
Gates	$ 4,999	$ 3,986
Teranap geomembrane	15,308	4,707
Algicide	8,080	-
Herbicides	1,900	10,622
Direx	1,938	-
Spreader	121	-
Shop parts	4,875	5,054
	$ 37,221	$ 24,369

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2017 was as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Capital assets not being depreciated:				
Land	$ 708,460	$ -	$ -	$ 708,460
Pine Flat Reservoir	1,489,143	-	-	1,489,143
Total capital assets not being depreciated	2,197,603	-	-	2,197,603
Capital assets being depreciated:				
Transmission and distribution plant	13,733,977	-	-	13,733,977
General plant	3,256,752	42,195	-	3,298,947
Total capital assets being depreciated	16,990,729	42,195	-	17,032,924
Less accumulated depreciation:				
Transmission and distribution plant	4,275,241	274,686	-	4,549,927
General plant	2,635,246	54,379	-	2,689,625
Total accumulated depreciation	6,910,487	329,065	-	7,239,552
Total capital assets being depreciated, net	10,080,242	(286,870)	-	9,793,372
Total capital assets, net	$ 12,277,845	$ (286,870)	$ -	$ 11,990,975

Depreciation expense for the year ended September 30, 2017, was $329,065.

NOTE 5 – CAPITAL ASSETS (continued)

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

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Capital assets not being depreciated:				
Land	$ 708,460	$ -	$ -	$ 708,460
Pine Flat Reservoir	1,489,143	-	-	1,489,143
Construction in progress	125,439	5,340	(130,779)	-
Total capital assets not being depreciated	2,323,042	5,340	(130,779)	2,197,603
Capital assets being depreciated:				
Transmission and distribution plant	13,603,198	130,779	-	13,733,977
General plant	3,220,243	36,509	-	3,256,752
Total capital assets being depreciated	16,823,441	167,288	-	16,990,729
Less accumulated depreciation:				
Transmission and distribution plant	4,000,056	275,185	-	4,275,241
General plant	2,561,476	73,770	-	2,635,246
Total accumulated depreciation	6,561,532	348,955	-	6,910,487
Total capital assets being depreciated, net	10,261,909	(181,667)	-	10,080,242
Total capital assets, net	$ 12,584,951	$ (176,327)	$ (130,779)	$ 12,277,845

Depreciation expense for the year ended September 30, 2016, was $348,955.

NOTE 6 – NOTE PAYABLE

The District entered into a note dated June 30, 2016 with Bank of the West in the original amount of $22,500. Monthly installments of $417, including interest, are due beginning July 30, 2016 and continuing until the final payment due on June 30, 2021. Interest is at a rate of 3.325% at September 30, 2017. Interest expense for the year ended September 30, 2017 was $215. The note is secured by the underlying vehicle purchased. The outstanding balance at September 30, 2017 was $17,631.

NOTE 6 – NOTE PAYABLE (continued)

The annual debt service requirements to maturity are as follows:

Year Ended September 30,	Principal	Interest	Total
2018	$ 4,724	$ 669	$ 5,393
2019	4,546	432	4,978
2020	4,731	248	4,979
2021	3,630	60	3,690
	$ 17,631	$ 1,409	$ 19,040

NOTE 7 – OTHER POST-EMPLOYEMENT BENEFITS (OPEB)

Plan Description: The District implemented GASB Statement No. 45, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions*. This statement establishes uniform financial reporting standards for employers providing post-employment benefits. The provisions of this statement are applied on a prospective basis.

The District has a two-tiered post-employment health benefit plan. The first tier provides employees who have at least twelve years of service and have attained the age of fifty-five continued enrollment in the District's health insurance program until age sixty-five. Second tiered employees must have at least fifteen years of service and be age sixty to receive the same benefit.

Funding Policy:

Currently, the District funds retiree health care benefits on a pay-as-you-go basis. The retired employees may also have the District pay for 60% of their spouses' health insurance until the retired employee attains the age of 65 at which time the coverage is terminated and the retiree is placed on a medical supplemental plan paid by the District. The District has a limit of $500 per month on the District's portion of retiree health care benefits. The District recognizes expenditures for its share of the annual premiums as these benefits become due. For 2017, the District paid $60,690 for benefits for 21 participants, including spouses. For 2016, the District paid $64,122 for benefits for 18 participants, including spouses.

Annual OPEB Cost and Net OPEB Obligation:

The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer. The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 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 amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTE 7 – OTHER POST-EMPLOYEMENT BENEFITS (OPEB) (continued)

Annual OPEB Cost and Net OPEB Obligation (continued):

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 the District's net OPEB obligation to the plan:

Annual required contribution (ARC)	$ 158,931
Interest on net OPEB obligation	27,089
Adjustment to net OPEB obligation	(39,164)
Annual OPEB Cost	146,856
Contributions made by the District	(60,690)
Increase in net OPEB obligation	86,166
Net OPEB obligations, beginning of year	677,227
Net OPEB obligations, end of year	$ 763,393

The District's annual OPEB cost, the percentage of annual OPEB costs contributed to the plan, and the net OPEB obligation for the previous three (3) years were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2015	$ 149,711	49.30%	$ 592,991
9/30/2016	148,358	43.22%	677,227
9/30/2017	146,856	41.33%	763,393

Funding Status and Funding Progress:

As of July 1, 2015, the actuarial accrued liability for benefits was $1,545,630, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $811,075, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 190.6 percent.

The projection of future benefit payments of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about investment return, future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are 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 required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE 7 – OTHER POST-EMPLOYEMENT BENEFITS (OPEB) (continued)

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 perspective 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 62, or at the first subsequent year in which the member would qualify for benefits.

Marital status- Marital status of members at the calculation date was assumed to continue throughout retirement.

Healthcare cost trend rate- The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 8.0 percent initially, reduced to an ultimate rate of 5.0 percent after three years, was used.

Health insurance premiums- 2015 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate- The expected long-term inflation assumption of 4.0 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2015 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

Payroll growth rate- The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the District's short-term investment portfolio, a discount rate of 4.0 percent was used. In addition, a simplified version of 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, 2015, was thirty years.

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN

Plan Description: The District contributes to the California Public Employees' Retirement System (CalPERS), an agent multiple-employer defined benefit pension plan in which all full-time employees of the District are eligible to participate. CalPERS acts as a common investment agent for participating public entities within the State of California and is administered by the CalPERS Board of Administration according to the provisions set forth in the California Public Employees Retirement Law. 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 plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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. 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 the plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at September 30, 2017, are summarized as follows:

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% at age 60	2.0% at age 60
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	8.00%	6.24%

Contributions: Section 20814(c) of the California Public Employees' Retirement Law (PERL) 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 1st following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. 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.

Net Pension Liability: The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability for the Plan is measured as of June 30, 2016 and 2015, using an annual actuarial valuation as of June 30, 2015 and 2014 rolled forward to June 30, 2016 and 2015, respectively, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown next.

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN (continued)

Actuarial Assumptions - The total pension liabilities in the June 30, 2015 and the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date:	June 30, 2015
Measurement Date:	June 30, 2016
Actuarial Cost Method:	Entry Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate-	7.65%
Inflation-	2.75%
Payroll Growth Rate-	3.00%
Salary Increases-	Varies by entry age and service
Investment Rate of Return-	7.65%
Mortality Rate Table[1]-	Derived using CalPERS' Membership Data for all Funds

[1] The mortality table used was developed based on CalPERS' Experience Study for the period from 1997 to 2007. The table includes 5 years of projected mortality improvement using Society of Actuaries Scale AA. For more details on this table, please refer to the 2010 experience study report.

Discount Rate: The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each 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 assets. 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. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65 percent investment return assumption used in this accounting valuation is gross of administrative expenses. Administrative expenses are assumed to be 15 basis points. The prior year discount rate was 7.50 percent, shown net of the administrative expenses. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference is deemed immaterial to the agent multiple-employer plan.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as a change in methodology.

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN (continued)

Discount Rate (continued):

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, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) 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 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 geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10*	Real Return Years 11+**
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	12.00	6.83	6.95
Real Estate	11.00	4.50	5.13
Infrastructure and Forestland	3.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)
Total	100.00%		

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN (continued)

Changes in the Net Pension Liability: The changes in the Net Pension Liability are as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at September 30, 2016	$ 8,703,231	$ 7,435,455	$ 1,267,776
Changes in the year:			
Service cost	213,097	-	213,097
Interest on the total pension liability	643,022	-	643,022
Changes of benefit terms	667	-	667
Differences between expected and actual experience	(2,369)	-	(2,369)
Contributions from the employer	-	138,857	(138,857)
Contributions from employees	-	64,827	(64,827)
Net investment income	-	97,617	(97,617)
Benefit Payments, including Refunds of Employee Contributions	(593,856)	(593,856)	-
Administrative expense	-	(4,409)	4,409
Net change	260,561	(296,964)	557,525
Balance at September 30, 2017	$ 8,963,792	$ 7,138,491	$ 1,825,301

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, 2016, 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, 2015 rolled forward to June 30, 2016 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, 2015 and 2016 was as follows:

Proportion - June 30, 2015	0.04621%
Proportion - June 30, 2016	0.05254%
Change - Increase (Decrease)	0.00633%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following presents the net pension liability of the District, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

NOTE 8 – EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate (continued):

	Discount Rate - 1% (6.65%)	Current Discount Rate 7.65%	Discount Rate + 1% (8.65%)
Net Pension Liability	$ 3,032,106	$ 1,825,301	$ 827,936

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions: For the year ended September 30, 2017, the Commission recognized net pension expense of $448,150. At September 30, 2017, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ -	$ (38,653)
Adjustment due to differences in proportions	101,200	-
Differences between expected and actual experiences	3,149	-
Differences between employer's contributions and proportionate share of contributions	6,804	(101,499)
Pension contributions subsequent to measurement date	138,857	-
Net differences between projected and actual earnings	201,175	-
Total	$ 451,185	$ (140,152)

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 September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending September 30,	Amount
2018	$ 15,374
2019	17,235
2020	87,461
2021	52,107
Total	$ 172,177

NOTE 9 – MAINTENANCE/GENERAL, OPERATIONAL AND URBAN ACTIVITIES

The following is a summary of maintenance/general, operational and urban activities for the years ended September 30, 2017 and 2016:

	Maintenance/ General	Operations	Urban	2017 Total
Revenues	$ 2,063,778	$ 323,130	$ 268,049	$ 2,654,957
Expenses	(2,224,808)	(1,251,923)	(86,834)	(3,563,565)
Non-operating revenues (expenses)	376,233	-	-	376,233
Change in net position	$ 215,203	$ (928,793)	$ 181,215	$ (532,375)

	Maintenance/ General	Operations	Urban	2016 Total
Revenues	$ 2,138,251	$ -	$ -	$ 2,138,251
Expenses	(2,112,011)	(709,398)	(126,513)	(2,947,922)
Non-operating revenues (expenses)	255,293	-	-	255,293
Change in net position	$ 281,533	$ (709,398)	$ (126,513)	$ (554,378)

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Litigation and Contingencies:

Commitments and contingencies, undeterminable in amount, include normal recurring pending claims and litigation. In the opinion of management, based upon discussion with legal counsel, there is no pending litigation other than the litigation noted in the following paragraph which is likely to have a material adverse effect on the financial position of the District.

The District is involved as a defendant in litigation of a workmen's compensation claim alleging serious and willful misconduct by the District. If the employee prevails in this action of serious and willful misconduct, workmen's compensation insurance will not fund the payment of the judgement and the District will be financially responsible for payment. It is currently unknown which party will prevail or what exposure the District faces.

NOTE 11 – 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 provides coverage for these losses through commercial insurance policies.

NOTE 12 – RESTATEMENT OF PRIOR YEAR BALANCES AND PRIOR PERIOD ADJUSTMENT

The district has recorded restatements to prior year balances and a prior period adjustment to the September 30, 2016 beginning net position. The restatements and prior period adjustment were to reflect new guidance provided by CalPERS in calculating the GASB 68 adjustments. Results of the restatement were a decrease of $96,928 to deferred outflows, a decrease of $333,835 to deferred inflows, and a decrease of $239,631 to net pension liability. A $476,538 prior period adjustment to the September 30, 2016 beginning net position was also made to account for the change.

ALTA IRRIGATION DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

ALTA IRRIGATION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS – OTHER
POST-EMPLOYMENT BENEFITS (OPEB)
SEPTEMBER 30, 2017

Actuarial Valuation Date September 30,	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as Percentage of Covered Payroll
2009	$ -	$ 1,762,867	$ 1,762,867	0.00%	$ 677,474	260%
2015	$ -	$ 1,545,630	$ 1,545,630	0.00%	$ 811,075	191%

ALTA IRRIGATION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
SEPTEMBER 30, 2017

Last 10 Fiscal Years*

	2017	2016	2015
Total Pension Liability			
Service cost	$ 213,097	$ 61,149	$ 223,327
Interest on total pension liability	643,022	178,305	607,151
Change of benefit terms	667	89	-
Differences between expected and actual experience	(2,369)	4,666	-
Changes in assumptions	-	(44,153)	-
Benefit payments, including refunds of employee contributions	(593,856)	(138,429)	(345,104)
Net change in total pension liability	260,561	61,627	485,374
Total pension liability- beginning	8,703,231	8,641,604	8,156,230
Total pension liability- ending (a)	$ 8,963,792	$ 8,703,231	$ 8,641,604
Plan Fiduciary Net Position			
Contributions- employer	$ 138,857	$ 126,740	$ 208,417
Contributions- employees	64,827	63,480	105,349
Plan to plan resource movement	-	-	-
Net investment income	97,617	202,089	1,055,264
Administrative expense	(4,409)	(2,231)	-
Benefit payments	(593,856)	(138,429)	(345,104)
Net change in plan fiduciary net position	(296,964)	251,649	1,023,926
Total plan fiduciary net position- beginning	7,435,455	7,183,806	6,159,880
Total plan fiduciary net position- ending (b)	$ 7,138,491	$ 7,435,455	$ 7,183,806
Net pension liability- ending (a)-(b)	$ 1,825,301	$ 1,267,776	$ 1,457,798
Plan fiduciary net position as a percentage of the total pension liability	79.64%	85.43%	83.13%
Commission's covered-employee payroll	1,121,038	1,157,331	839,199
Net pension liability as a percentage of covered-employee payroll	162.82%	109.54%	173.71%

NOTES TO SCHEDULE:

Changes in assumptions:

The discount rate was changed from 7.5% (net of administrative expenses) to 7.65% in fiscal year 2016.

*Fiscal Year 2015 was the first year of retroactive implementation; therefore, only three available years are shown as of September 30, 2017.

ALTA IRRIGATION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CONTRIBUTIONS
SEPTEMBER 30, 2017

Last 10 Fiscal Years*	2017	2016	2015
Actuarially determined contribution	$ 138,857	$ 126,740	$ 208,417
Contributions in relation to the actuarially determined contribution	138,857	126,740	208,417
Contribution deficiency (excess)	$ -	$ -	$ -
Commission's covered-employee payroll	$ 1,121,038	$ 1,157,331	$ 839,199
Contributions as a percentage of covered-employee payroll	12.39%	10.95%	24.84%

NOTES TO SCHEDULE:

Valuation Date: June 30, 2016

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Asset valuation method	15 year smooth market
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.65%
Retirement age	Derived using CalPERS' Membership data for all funds
Mortality	Derived using CalPERS' Membership data for all funds

* Fiscal Year 2015 was the first year of retroactive implementation; therefore, only three available years are shown as of September 30, 2017.

ALTA IRRIGATION DISTRICT

SUPPLEMENTARY INFORMATION

ALTA IRRIGATION DISTRICT
SCHEDULES OF PAYROLL AND RELATED EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
Wages		
General and administrative wages	$ 476,474	$ 507,699
Maintenance wages less projects	206,572	379,887
Operations wages	399,525	225,698
Spray labor	38,467	44,047
Total wages	1,121,038	1,157,331
Payroll Taxes and Employee Benefits		
Payroll taxes	69,345	80,258
Employee benefits	278,289	253,626
Employee retirement	595,890	112,679
Employee allowances	2,870	2,852
Total payroll taxes and employee benefits	946,394	449,415
Other Payroll Related Expenses		
Payroll expenses	131	1,561
Workers' compensation insurance	54,716	62,305
Total other payroll related expenses	54,847	63,866
Total Payroll and Related Expenses	$ 2,122,279	$ 1,670,612

ALTA IRRIGATION DISTRICT
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
General and Administrative Expenses		
Accounting services	$ 10,600	$ 9,950
Assessments and dues	220,459	255,459
Auto and equipment leases	6,307	7,363
Bank charges	598	943
Collector's expenses	4,599	5,096
Computer expenses	26,847	10,511
Convention expenses	7,880	5,253
Director's fees	11,147	11,560
Engineering services	27,449	23,258
Flood water rights	171,526	-
Groundwater management plan	-	978
Insurance	17,211	21,060
Janitorial and yard services	7,238	8,590
Legal expenses	75,409	36,857
Licenses, permits and testing	7,324	9,271
Medical and safety equipment	1,680	3,504
Meetings and workshops	1,932	3,675
Miscellaneous admin expenses	19,636	10,162
Miscellaneous expenses	5,657	1,104
Office and shop maintenance agreements	2,476	2,069
Office supplies	9,160	7,825
Postage	693	1,124
Publications and advertisements	2,514	6,858
Rug and coverall service	10,527	9,734
Telephone and cellular expenses	15,865	13,699
Utilities	24,175	24,073
Total General and Administrative Expenses	$ 688,909	$ 489,976

ALTA IRRIGATION DISTRICT
SCHEDULES OF MAINTENANCE EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
Materials and Supplies		
Cement pipes	$ 5	$ 201
Cement sacks	735	2,542
Gates	13,337	3,071
Herbicides	50,219	81,031
Iron and steel	1,100	457
Lumber	328	179
Meters	186	-
Miscellaneous canal maintenance	10,629	29,593
PVC pipe	1,636	-
Sand, rock and gravel	1,499	119
Ternap	-	2,776
Total materials and supplies	79,674	119,969
Repairs and Maintenance		
Autos and trucks	22,328	27,771
Machinery and equipment	12,193	12,098
Shop equipment	6,315	2,227
Rental equipment	-	1,074
Real estate and buildings	12,200	21,788
SCADA	5,971	12,612
Total repairs and maintenance	59,007	77,570
Other Maintenance Expenses		
Gasoline	28,464	39,416
Diesel - tractors	6,726	16,001
System maintenance	7,586	8,783
Oil	3,096	1,862
Miscellaneous maintenance	3,867	3,430
Total other maintenance expenses	49,739	69,492
Total Maintenance Expenses	$ 188,420	$ 267,031

ALTA IRRIGATION DISTRICT
SCHEDULES OF OPERATIONS AND URBAN EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
Operations Expenses		
Vehicle maintenance	$ 10,183	$ 8,090
Fuel - water run	59,315	28,005
Vehicle tracking	200	-
Miscellaneous - water run	8,886	1,767
Cellular - water run	4,199	3,427
Utilities	23,944	27,561
Repairs and maintenance	-	15
Drop boards - water run	3,708	2,996
Algaecides - water run	72,720	35,320
Spray program	36,373	-
Uniform service - operational	650	650
Water run answering service	703	586
Total Operations Expenses	$ 220,881	$ 108,417
Urban Expenses		
Engineering	$ -	$ 1,497
Legal expenses	-	-
SCADA system	1,361	1,691
Soil studies	5,650	2,000
Water forum	7,000	-
East Kings GSA - legislation	-	57,743
Total Urban Expenses	$ 14,011	$ 62,931

ALTA IRRIGATION DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget	Actual	Variance
OPERATING REVENUES			
Assessments	$ 1,922,727	$ 1,934,450	$ 11,723
County of Fresno	127,819	129,328	1,509
Water use and surcharges	327,300	323,130	(4,170)
County of Tulare	1,955	-	(1,955)
Water sales	-	268,049	268,049
Total operating revenues	2,379,801	2,654,957	275,156
OPERATING EXPENSES			
Payroll and related expenses	1,697,898	2,122,279	(424,381)
General and administrative	522,135	688,909	(166,774)
Maintenance	257,521	188,420	69,101
Operations	127,410	220,881	(93,471)
Urban expenses	37,900	14,011	23,889
Total operating expenses	2,642,864	3,234,500	(591,636)
Net operating income (loss)	(263,063)	(579,543)	(316,480)
NON-OPERATING REVENUES (EXPENSES)			
Interest income	7,500	10,923	3,423
Loss on disposition of capital assets	-	-	-
Equipment income	61,594	40,327	(21,267)
Pacific Gas & Electric evaporation	16,897	16,897	-
Penalties and costs	-	9,111	9,111
Equipment lease and rents	3,700	3,850	150
Soil sales	25,000	-	(25,000)
Administrative fees	10,000	26,288	16,288
Water use payment	161,416	258,312	96,896
Admin fund - restricted	10,000	-	(10,000)
Development and administrative fees	10,906	10,906	-
Miscellaneous	300	349	49
Interest expense	-	(730)	(730)
Total non-operating revenues (expenses)	307,313	376,233	68,920
Change in net position before depreciation	44,250	(203,310)	(247,560)
Depreciation	-	(329,065)	(329,065)
Change in net position	$ 44,250	$ (532,375)	$ (576,625)

ALTA IRRIGATION DISTRICT
SCHEDULE OF PAYROLL AND RELATED EXPENSES –
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget	Actual	Variance
Wages			
General and administrative wages	$ 437,237	$ 476,474	$ (39,237)
Maintenance wages	280,969	206,572	74,397
Operations wages	271,465	399,525	(128,060)
Spray labor	45,000	38,467	6,533
Total wages	1,034,671	1,121,038	(86,367)
Payroll Taxes and Employee Benefits			
Payroll taxes	64,076	69,345	(5,269)
Employee benefits	298,305	278,289	20,016
Employee retirement	206,362	595,890	(389,528)
Employee allowances	2,888	2,870	18
Total payroll taxes and employee benefits	571,631	946,394	(374,763)
Other Payroll Related Expenses			
Payroll expenses	-	131	(131)
Workers' compensation insurance	91,596	54,716	36,880
Total other payroll related expenses	91,596	54,847	36,749
Total Payroll and Related Expenses	$ 1,697,898	$ 2,122,279	$ (424,381)

ALTA IRRIGATION DISTRICT
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES –
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget	Actual	Variance
General and Administrative Expenses			
Accounting services	$ 8,800	$ 10,600	$ (1,800)
Assessments and dues	236,363	220,459	15,904
Auto and equipment leases	11,792	6,307	5,485
Bank charges	930	598	332
Collector's expense	6,700	4,599	2,101
Computer expenses	12,800	26,847	(14,047)
Convention expenses	10,500	7,880	2,620
Director's fees	12,543	11,147	1,396
Engineering services	18,000	27,449	(9,449)
Flood water rights	-	171,526	(171,526)
Groundwater management plan	500	-	500
Insurance	53,500	17,211	36,289
Janitorial and yard services	9,280	7,238	2,042
Legal expenses	36,500	75,409	(38,909)
Licenses, permits and testing	6,470	7,324	(854)
Medical and safety equipment	4,900	1,680	3,220
Meetings and workshops	2,850	1,932	918
Miscellaneous admin expenses	22,227	19,636	2,591
Miscellaneous expenses	2,850	5,657	(2,807)
Office and shop maintenance agreements	2,010	2,476	(466)
Office supplies	8,400	9,160	(760)
Postage	2,300	693	1,607
Publications and advertisements	2,850	2,514	336
Rug and coverall service	9,360	10,527	(1,167)
Telephone and cellular expenses	16,500	15,865	635
Utilities	23,210	24,175	(965)
Total General and Administrative Expenses	$ 522,135	$ 688,909	$ (166,774)

ALTA IRRIGATION DISTRICT
SCHEDULE OF MAINTENANCE EXPENSES –
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget	Actual	Variance
Materials and Supplies			
Cement pipes	$ 1,000	$ 5	$ 995
Cement sacks	5,000	735	4,265
Gates	12,500	13,337	(837)
Herbicides	78,219	50,219	28,000
Iron and steel	5,000	1,100	3,900
Lumber	1,000	328	672
Meters	-	186	(186)
Miscellaneous canal maintenance	1,000	10,629	(9,629)
PVC pipe	5,000	1,636	3,364
Sand, rock and gravel	1,500	1,499	1
Ternap	5,500	-	5,500
Total materials and supplies	115,719	79,674	36,045
Repairs and Maintenance			
Autos and trucks	24,962	22,328	2,634
Machinery and equipment	17,190	12,193	4,997
Shop equipment	1,500	6,315	(4,815)
Spray truck tracking	1,400	-	1,400
Rental equipment	10,000	-	10,000
Real estate and buildings	1,000	12,200	(11,200)
SCADA	500	5,971	(5,471)
Total repairs and maintenance	56,552	59,007	(2,455)
Other Maintenance Expenses			
Gasoline	49,000	28,464	20,536
Diesel - tractors	22,750	6,726	16,024
System maintenance	7,000	7,586	(586)
Oil	3,500	3,096	404
Miscellaneous maintenance	3,000	3,867	(867)
Total other maintenance expenses	85,250	49,739	35,511
Total Maintenance Expenses	$ 257,521	$ 188,420	$ 69,101

ALTA IRRIGATION DISTRICT
SCHEDULE OF OPERATIONS AND URBAN EXPENSES –
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Budget	Actual	Variance
Operations Expenses			
Vehicle maintenance	$ 3,040	$ 10,183	$ (7,143)
Fuel - water run	30,800	59,315	(28,515)
Vehicle tracking	2,750	200	2,550
Miscellaneous - water run	3,000	8,886	(5,886)
Cellular - water run	4,000	4,199	(199)
Utilities	21,400	23,944	(2,544)
Repairs and maintenance	2,500	-	2,500
Drop boards - water run	3,000	3,708	(708)
Algaecides - water run	45,300	72,720	(27,420)
Spray program	-	36,373	(36,373)
Uniform service - operational	800	650	150
Water run answering service	500	703	(203)
Calibration meters	4,128	-	4,128
Acceptable measurement	6,192	-	6,192
Total Operations Expenses	$ 127,410	$ 220,881	$ (93,471)
Urban Expenses			
Engineering	1,500	-	1,500
Legal expenses	500	-	500
SCADA system	1,000	1,361	(361)
Soil studies	2,000	5,650	(3,650)
Water forum	7,000	7,000	-
Miscellaneous admin travel/meetings	500	-	500
PGE for banking ponds	21,400	-	21,400
Harder Pond management	1,000	-	1,000
East Kings GSA - legislation	3,000	-	3,000
Total Urban Expenses	$ 37,900	$ 14,011	$ 23,889

HUDSON HENDERSON & COMPANY INC.
certified public accountants

INDEPENDENT AUDITORS' 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*

To the Board of Directors
Alta Irrigation District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Alta Irrigation District (the District), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated February 6, 2018.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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 District'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.

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
February 6, 2018