



Reliable resources for the Valley

Fresno, California

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2016**

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

June 30, 2016

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statements of Net Position	10
Statements of Activities	12
Fund Financial Statements:	
Balance Sheets – Governmental Fund	13
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position.....	14
Statements of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund	15
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual – Governmental Fund	17
Statements of Net Position – Proprietary Fund.....	18
Statements of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund	20
Statements of Cash Flows – Proprietary Fund	21
Notes to the Basic Financial Statements	23
Required Supplementary Information	45

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kings River Conservation District
Fresno, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Kings River Conservation District (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

677 Scott Avenue
Clovis, CA 93612
tel 559.299.9540
fax 559.299.2344

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of June 30, 2016, the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the District's 2015 financial statements, and our report dated October 27, 2015 expressed an unmodified opinion on the respective financial statements of the governmental activities, the business-type activities, and each major fund. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 3-8 and page 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Price Pange & Company

Clovis, California
October 18, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended June 30, 2016

Our discussion and analysis of the Kings River Conservation District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. This information is presented in conjunction with the audited financial statements that follow this section.

Financial Highlights

- The District's total assets from Governmental Activities decreased by \$89,463 the net result of a decrease in cash, an increase in other accounts receivable, (primarily grants), an increase in power benefit receivable and a decrease in Due To/Due From Other Funds.
- Total assets from Business-type Activities decreased by \$1,753,070 due primarily to the annual increase in accumulated depreciation and a slight increase in assets restricted for Pine Flat O&M reimbursements.
- Liabilities from Governmental Activities increased by \$888,763 due to the annual increase in the District's Net Other Post-Employment Benefits (OPEB) obligation of \$690,422, as required under GASB Statement No. 45, an increase in water rights payable of \$489,635 offset by a decrease in accounts payable. Liabilities from Business-type Activities decreased by \$1.34 million, due to a decrease in long and short-term debt of \$3.75 million, and a combined net increase of \$2.41 million in the payable to Department of Water Resources (DWR), unearned revenue, and accounts payable.
- The District recorded a decrease in net position from Governmental Activities of \$978,226. This decrease is chiefly due to an increase in liabilities, specifically water rights payable and an increase in the OPEB obligation. Net Position from Business-type Activities decreased by \$412,989 as the investment in capital assets, net of related debt, increased as the associated bonds payable decreased \$3.75 million, the year's principal payment. Unrestricted Net Position decreased primarily due to an increase in the liability due to DWR.
- District revenues from Governmental Activities included \$1,080,781 in property tax allocation. Business-type Activity revenue included \$7.1 million in electric generation revenue from the Jeff L. Taylor Pine Flat Power Plant.
- Operational costs of the Jeff L. Taylor Pine Flat (hydroelectric) Power Plant accounted for 52% of current year expenses. Governmental Activities, including General and Administrative expenses, accounted for 41% of total expenses in the current year, and River Maintenance expenses accounted for 7%.
- Total Program Revenues from Business-type Activities increased by \$973,716 due largely to an increase in the Pine Flat Power Benefit revenue. Power Benefit revenue was \$1,138,498 in FY16, about 37% of an expected average year. Precipitation in FY16 was about 120% of normal.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by GASB Statement No. 34.

The District's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two 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.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. 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, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016

The government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include general government and flood protection. The business-type activities include the power generation operations and construction.

Fund financial statements. A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other special districts, 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.

Governmental funds. The District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's projects. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds. The District maintains one enterprise fund. Proprietary funds are reported using the accrual basis of accounting. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements but provide more detail and additional information. The District uses an enterprise fund to account for its hydro-generation operations plant.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 through 48 of this report.

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, total assets exceeded liabilities by \$25.86 million at the close of the most recent fiscal year. The total net position for the District as a whole decreased by \$1.39 million from the prior year-end, which is reported as the change in net position in the statement of activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016

KINGS RIVER CONSERVATION DISTRICT'S NET POSITION

	<u>6/30/2016</u>	<u>6/30/2015</u>
Assets		
Current Assets	\$ 20,346,619	\$ 20,362,637
Restricted Assets	3,709,805	3,622,584
Capital Assets	<u>28,249,424</u>	<u>30,163,160</u>
Total Assets	<u>\$ 52,305,848</u>	<u>\$ 54,148,381</u>
Liabilities		
Long-term Debt	\$ 11,682,296	\$ 14,871,874
Other Liabilities	<u>14,766,438</u>	<u>12,028,178</u>
Total Liabilities	<u>\$ 26,448,734</u>	<u>\$ 26,900,052</u>
Net Position		
Net Investment in Capital Assets	\$ 16,154,424	\$ 14,323,160
Restricted	238,724	213,934
Unrestricted	<u>9,463,966</u>	<u>12,711,235</u>
Total Net Position	<u>\$ 25,857,114</u>	<u>\$ 27,248,329</u>

Much of the District's net position, \$16,154,424 (62%), reflects the amount by which the book value of capital assets (e.g., land, buildings, infrastructure, machinery and equipment) exceeds the related outstanding debt used to acquire those assets. The District uses these capital assets to provide services to citizens and consumers. Consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the District's net position, \$238,724 (1.0%), represents resources that are subject to external restrictions on how they may be used.

The remainder of the District's net position, \$9,463,966 (37%), is available to be used to meet the District's ongoing obligations to citizens, customers and creditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016

KINGS RIVER CONSERVATION DISTRICT'S CHANGES IN NET POSITION

	<u>6/30/2016</u>	<u>6/30/2015</u>
Revenues		
Program:		
Charges for Services	\$ 8,264,068	\$ 7,827,683
Operating Grants	1,004,562	754,230
Contributions	5,000	10,000
General:		
Property Taxes	1,080,781	1,022,465
Investment Earnings	240,482	28,579
Miscellaneous	1,424,835	994,554
Total Revenues	<u>12,019,728</u>	<u>10,637,511</u>
Expenses		
General and Administrative	5,489,021	5,739,742
River Maintenance	973,613	626,869
Pine Flat Power Project	6,948,309	6,348,248
Total Expenses	<u>13,410,943</u>	<u>12,714,859</u>
Excess (Deficiency) before Special Item and Transfers	(1,391,215)	(2,077,348)
Transfers	<u>-</u>	<u>18,593,250</u>
Change in Net Position	(1,391,215)	16,515,902
Net Position – Beginning of Year	<u>27,248,329</u>	<u>10,732,427</u>
Net Position – End of Year	<u>\$ 25,857,114</u>	<u>\$ 27,248,329</u>

Financial Analysis of the Government's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. Total assets of the governmental fund decreased from \$20.41 million at the end of the prior year to \$20.36 million at the end of the current fiscal year, a decrease of \$53,715.

Total liabilities of the governmental fund increased from \$740,055 the prior year to \$926,057 at the end of the current fiscal year. There was an increase in water rights payable resulting from the increased hydroelectric generation revenue and a decrease in accounts payable.

At the end of the current fiscal year, the District's governmental fund reported an ending fund balance of \$19.43 million, which is a decrease of \$239,717 from the prior year. Total fund balance of the General Fund consists of the following:

- Nonspendable fund balance of \$56,486, which represents prepaid expenses.
- Restricted fund balance of \$238,724. This amount represents fisheries management program reserves.
- Assigned fund balance of \$13,125,344. This represents amounts allocated to the revenue stabilization fund, Malaga Peaking Plant representations and warranties, OPEB obligations and compensated absences.
- Unassigned fund balance of \$6.01 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016

Total governmental fund revenues increased from \$4.54 million in the prior year to \$4.91 million in the current fiscal year, an increase of \$370,293. There were a number of minor year-to-year variations in revenue accounts. Property tax revenue increased slightly, there was an increase in revenue from the Kings River Water Quality Coalition as activity in the Irrigated Lands Regulatory Program ("IRLP") continued to expand and grants revenue increased as part of the normal ebb and flow of grant activity. Governmental fund expenditures decreased from \$8.26 million in the prior year to \$5.72 million in the current year, a decrease of \$2,536,495. This is mainly due to the defeasing of the general fund debt, Certificates of Participation, Series 2009A in the prior year. As a governmental fund, payments of interest and principal are reported as expenditures. Amounts expended for interest and principal in FY2015 were \$146,981 and \$2,960,000, respectively. This results in a spending decrease of \$3,106,981 compared to the previous year that together with an increase of \$570,486 in other programmatic general fund spending, primarily grants and river maintenance, represent the decrease in governmental fund expenditures.

Enterprise funds. Total assets of the Pine Flat Fund at the end of the fiscal year were \$28.14 million compared to \$30.00 million in the prior year, for a decrease of \$1.86 million. The decrease in total assets resulted in part from the annual incremental increase in accumulated depreciation.

Total liabilities of the Pine Flat Fund decreased by approximately \$1.40 million, from \$23.00 million to \$21.60 million, due, in part, to the annual debt service payments that reduced the amount of bonds payable.

Pine Flat Fund electric generation revenues increased by \$1.01 million to \$7.10 million in the current fiscal year, compared to \$6.09 million in FY 2014-2015. This increase in revenues, for the most part, was from the increased generation and sale of electricity as rainfall was above average for the fiscal year and power generation increased by approximately 330% from the prior year. Generation increased from 45,013.9 MWh in FY15 to 149,802.4 MWh in FY16.

Pine Flat Fund expenses increased by \$600,061 to \$6.95 million in the current fiscal year compared to \$6.35 million last year. The increase was largely due to increases in water rights expense and charges for use of government dam due to the increases in rainfall and generation.

Government Funds Budgetary Highlights

General fund budget variances. Total budgeted expenditures in the final amended General Fund budget were \$677,219 less than in the original budget. The reductions in appropriations were made primarily to recognize grant operations that were less than expected after the original budget was approved.

Actual budget results were reviewed with the District's Board of Directors in July of 2016. Significant variations, which are reflected on page 19 of the attached financial statements, consisted of the following:

- Actual revenues were below the final budget by \$872,518 (15.08%). Property tax revenues exceeded the amounts budgeted. Grants revenue was less than budget as the grants are reimbursement based and grant expenditures were not incurred as expected.
- Total expenditures were less than the final budget by \$917,982 (13.82%). Expenses for two categories of expenses, legal fees, and professional services were above budget estimates. These cost overruns were offset by savings in salaries & benefits, weather modification, maintenance costs and grant expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016

Capital Assets

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to \$28,249,424 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, machinery and equipment, and flood control projects.

Capital Assets at Year-End

(Net of Depreciation, in Thousands)

	Governmental Activities		Business-Type Activities		Totals	
	6/30/2016	6/30/2015	6/30/2016	6/30/2015	6/30/2016	6/30/2015
Land and land rights	\$ 1,461	\$ 1,461	\$ 8	\$ 575	\$ 1,469	\$ 2,036
Buildings and structures	-	1	10,523	40,220	10,523	40,221
Penstocks and intake equipment	-	-	9,218	10,350	9,218	10,350
Turbines and generators	-	-	3,451	17,513	3,451	17,513
Equipment	188	200	978	1,608	1,166	1,808
Roads and landscaping	-	-	146	203	146	203
Kings River Channel Project costs	2,277	2,367	-	-	2,277	2,367
Total	\$ 3,926	\$ 4,029	\$ 24,324	\$ 70,469	\$ 28,250	\$ 74,498

Additional information on the District's capital assets can be found in Note 3.

Debt Administration

At the end of the current fiscal year, the District had total bonded debt outstanding of \$12,095,000. The District's long-term debt outstanding as of June 30, 2016 consisted of the following:

	Governmental Activities		Business-Type Activities		Totals	
	6/30/2016	6/30/2015	6/30/2016	6/30/2015	6/30/2016	6/30/2015
Revenue bonds	\$ -	\$ -	\$ 12,095,000	\$ 15,840,000	\$ 12,095,000	\$ 15,840,000
Revenue Certificates of Participation	-	-	-	-	-	-
Total	\$ -	\$ -	\$ 12,095,000	\$ 15,840,000	\$ 12,095,000	\$ 15,840,000

Total long-term debt decreased by \$3.745 million during the fiscal year and was the result of the annual installment payments on the Pine Flat Revenue Bonds.

Additional information on the District's long-term debt can be found in Note 6.

Requests for Information

This financial report is designed to provide citizens, taxpayers, customers, investors, 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 any questions about this report or need any additional information, contact the Deputy General Manager of Business Operations at 4886 E. Jensen Avenue, Fresno, California 93725, or phone (559) 237-5567.

BASIC FINANCIAL STATEMENTS

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

STATEMENTS OF NET POSITION
June 30, 2016
(with summarized financial information as of June 30, 2015)

	Governmental Activities	Business-Type Activities	Total	
			2016	2015
ASSETS				
Current assets:				
Cash and short-term investments	\$ 17,675,230	\$ 50	\$ 17,675,280	\$ 18,962,898
Receivables:				
Accrued interest	197	-	197	157
Due from California Department of Water Resources	1,347,143	-	1,347,143	315,024
Property taxes receivable	51,789	-	51,789	46,487
Other	866,838	-	866,838	632,266
Internal balances	122,353	(122,353)	-	-
Inventories	-	300,145	300,145	301,092
Prepaid expenses	56,486	48,741	105,227	104,713
Total current assets	20,120,036	226,583	20,346,619	20,362,637
Restricted assets:				
Fisheries Management Program	238,724	-	238,724	213,934
Interest account	-	225,142	225,142	300,042
Operation and maintenance account	-	3,245,939	3,245,939	3,108,608
Total restricted assets	238,724	3,471,081	3,709,805	3,622,584
Capital assets:				
Land and land rights	1,461,029	7,535	1,468,564	1,468,564
Buildings and structures	317,960	26,985,690	27,303,650	27,303,650
Penstocks and intake equipment	-	19,522,693	19,522,693	19,522,693
Turbines and generators	-	19,659,909	19,659,909	19,659,909
Equipment	1,156,284	9,663,805	10,820,089	10,821,817
Roads and landscaping	-	370,772	370,772	370,772
Kings River Channel Project costs	3,052,484	-	3,052,484	3,052,484
Accumulated depreciation	(2,062,224)	(51,886,513)	(53,948,737)	(52,036,729)
Total capital assets, net	3,925,533	24,323,891	28,249,424	30,163,160
Total assets	\$ 24,284,293	\$ 28,021,555	\$ 52,305,848	\$ 54,148,381

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

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

STATEMENTS OF NET POSITION
June 30, 2016
(with summarized financial information as of June 30, 2015)

	Governmental Activities	Business-Type Activities	Total	
			2016	2015
LIABILITIES				
Accounts payable	\$ 354,815	\$ 683,988	\$ 1,038,803	\$ 1,051,972
Water rights payable	509,039	-	509,039	19,404
Accrued expenses	62,202	-	62,202	179,321
Compensated absences	579,662	-	579,662	567,321
Unearned revenue	-	3,530,408	3,530,408	3,493,606
Accrued bond interest payable from restricted assets	-	225,140	225,140	300,040
Unfunded OPEB obligation	3,467,296	-	3,467,296	2,776,874
Revenue bonds payable:				
Due within one year	-	3,880,000	3,880,000	3,745,000
Due in more than one year	-	8,215,000	8,215,000	12,095,000
Due to California Department of Water Resources	-	4,941,184	4,941,184	2,671,514
	<u>4,973,014</u>	<u>21,475,720</u>	<u>26,448,734</u>	<u>26,900,052</u>
NET POSITION				
Net investment in capital assets	3,925,533	12,228,891	16,154,424	14,323,160
Restricted for:				
Other purposes	238,724	-	238,724	213,934
Unrestricted	<u>15,147,022</u>	<u>(5,683,056)</u>	<u>9,463,966</u>	<u>12,711,235</u>
	<u>\$ 19,311,279</u>	<u>\$ 6,545,835</u>	<u>\$ 25,857,114</u>	<u>\$ 27,248,329</u>

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

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2016
(with summarized financial information for the year ended June 30, 2015)

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u> <u>Primary Government</u>			
	<u>Expenses</u>	<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>Type</u> <u>Activities</u>	<u>Total</u>	
							<u>2016</u>	<u>2015</u>
Primary government:								
Governmental activities:								
General and administrative	\$ 5,489,021	\$ 1,159,626	\$ 1,004,562	\$ 5,000	\$ (3,319,833)	\$ -	\$ (3,319,833)	\$ (3,278,555)
River maintenance	973,613	-	-	-	(973,613)	-	(973,613)	(626,869)
Business-type activities:								
Pine Flat Power Project	<u>6,948,309</u>	<u>7,104,442</u>	-	-	-	156,133	156,133	<u>(217,522)</u>
Total primary government	<u>\$ 13,410,943</u>	<u>\$ 8,264,068</u>	<u>\$ 1,004,562</u>	<u>\$ 5,000</u>	<u>\$ (4,293,446)</u>	<u>\$ 156,133</u>	<u>\$ (4,137,313)</u>	<u>\$ (4,122,946)</u>
General revenues:								
Taxes:								
Property taxes					\$ 1,080,781	\$ -	\$ 1,080,781	\$ 1,022,465
Unrestricted investment earnings					240,355	127	240,482	28,579
Miscellaneous					1,424,835	-	1,424,835	994,554
Transfers					569,249	(569,249)	-	18,593,250
Total general revenues					<u>3,315,220</u>	<u>(569,122)</u>	<u>2,746,098</u>	<u>20,638,848</u>
Changes in net position					(978,226)	(412,989)	(1,391,215)	16,515,902
Net position - beginning					<u>20,289,505</u>	<u>6,958,824</u>	<u>27,248,329</u>	<u>10,732,427</u>
Net position - ending					<u>\$ 19,311,279</u>	<u>\$ 6,545,835</u>	<u>\$ 25,857,114</u>	<u>\$ 27,248,329</u>

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

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

BALANCE SHEETS – GOVERNMENTAL FUND
June 30, 2016
(with comparative financial information as of June 30, 2015)

	2016	2015
ASSETS		
Cash and short-term investments	\$ 17,675,230	\$ 18,962,848
Receivables:		
Accrued interest	197	157
Due from Enterprise Funds	122,353	183,498
Due from California Department of Water Resources	1,347,143	315,024
Property taxes receivable	51,789	46,487
Other	866,838	632,264
Prepaid expenses	56,486	58,263
Restricted assets:		
Fisheries Management Program	238,724	213,934
Total assets	\$ 20,358,760	\$ 20,412,475
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 354,816	\$ 541,330
Water rights payable	509,039	19,404
Accrued expenses	62,202	179,321
Total liabilities	926,057	740,055
Fund balance:		
Nonspendable	56,486	58,263
Restricted	238,724	213,934
Assigned	13,125,344	3,143,157
Unassigned	6,012,149	16,257,066
Total fund balance	19,432,703	19,672,420
Total liabilities and fund balance	\$ 20,358,760	\$ 20,412,475

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

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE
SHEET TO THE STATEMENT OF NET POSITION
June 30, 2016**

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance for governmental funds	\$ 19,432,703
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,925,533
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(3,467,296)
Compensated absences are not due and payable with current financial resources and, therefore, are not reported in governmental funds.	<u>(579,661)</u>
Net position of governmental activities	<u>\$ 19,311,279</u>

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended June 30, 2016
(with comparative financial information for the year ended June 30, 2015)

	2016	2015
REVENUES		
Property taxes	\$ 1,080,781	\$ 1,022,465
Investment earnings	240,355	28,579
Grants revenue	1,004,562	754,230
General and administrative charges to Enterprise Funds	1,159,626	1,696,957
Other	1,427,586	1,040,386
Total revenues	4,912,910	4,542,617
EXPENDITURES		
Current:		
General and administrative	4,781,868	4,584,421
River maintenance	910,008	563,469
Capital outlay	30,000	3,500
Debt Service:		
Principal	-	2,960,000
Interest expense	-	146,981
Total expenditures	5,721,876	8,258,371
Excess (deficiency) of revenues over (under) expenditures	(808,966)	(3,715,754)
OTHER FINANCING SOURCES (USES)		
Transfers in from Enterprise Funds	569,249	18,764,303
Bond defeasance costs	-	(357,756)
Total other financing sources (uses)	569,249	18,406,547
Net changes in fund balance	(239,717)	14,690,793
Fund balance - beginning	19,672,420	4,981,627
Fund balance - ending	\$ 19,432,703	\$ 19,672,420

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

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balance - total governmental funds	\$ (239,717)
 Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of \$67,995 exceeded capital outlays of \$32,249 in the current period.	 (35,746)
 Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
OPEB obligation	(690,422)
Compensated absences	<u>(12,341)</u>
 Total changes in net position of governmental activities	 <u>\$ (978,226)</u>

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GOVERNMENTAL FUND
For the Year Ended June 30, 2016

	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Property taxes	\$ 975,000	\$ 975,000	\$ 1,080,781	\$ 105,781
Investment earnings	200,000	200,000	240,355	40,355
Grants revenue	2,482,271	1,786,743	1,004,562	(782,181)
General and administrative charges to Enterprise Funds	1,581,399	1,577,861	1,159,626	(418,235)
Other	1,100,899	1,245,824	1,427,586	181,762
Total revenues	6,339,569	5,785,428	4,912,910	(872,518)
Expenditures:				
Current:				
Salaries and wages	1,933,865	1,980,004	1,969,373	(10,631)
Directors' fees	42,000	42,000	41,395	(605)
Payroll taxes and benefits	958,180	963,037	909,982	(53,055)
Pension plan	248,086	248,086	231,385	(16,701)
Legal fees	38,500	58,500	90,167	31,667
Accounting services	22,500	22,500	22,500	-
Other services	407,283	1,084,655	1,150,132	65,477
Engineering services	1,500,000	750,000	144,695	(605,305)
Weather modification	325,485	325,485	297,494	(27,991)
Insurance	129,955	116,575	88,836	(27,739)
Maintenance of structures	281,980	381,980	339,863	(42,117)
Maintenance of equipment	60,480	60,480	56,657	(3,823)
Office expense	129,475	135,496	115,864	(19,632)
Rents and leases	86,900	97,400	88,349	(9,051)
Transportation and travel	103,480	103,480	89,197	(14,283)
Contributions to other agencies	879,450	200,750	19,891	(180,859)
Miscellaneous	26,420	39,340	36,096	(3,244)
Capital outlay	142,948	30,000	30,000	-
Total expenditures	7,316,987	6,639,768	5,721,876	(917,892)
Excess (deficiency) of revenues over (under) expenditures	(977,418)	(854,340)	(808,966)	45,374
Other financing sources (uses):				
Transfers in from Enterprise Funds	-	-	569,249	569,249
Total other financing sources (uses)	-	-	569,249	569,249
Revenues and other sources over (under) expenditures and other uses	\$ (977,418)	\$ (854,340)	\$ (239,717)	\$ 614,623

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

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

STATEMENTS OF NET POSITION
PROPRIETARY FUND
June 30, 2016
(with summarized financial information as of June 30, 2015)

	Pine Flat Power Project	
	2016	2015
ASSETS		
Current assets:		
Cash and short-term investments	\$ 50	\$ 50
Inventories	300,145	301,092
Prepaid expenses	48,741	46,450
Total current assets	348,936	347,592
Noncurrent assets:		
Restricted assets:		
Interest account	225,142	300,042
Operation and maintenance account	3,245,939	3,108,608
Total restricted assets	3,471,081	3,408,650
Capital assets:		
Land and land rights	7,535	7,535
Buildings and structures	26,985,690	26,985,690
Penstocks and intake equipment	19,522,693	19,522,693
Turbines and generators	19,659,909	19,659,909
Equipment	9,663,805	9,670,608
Roads	370,772	370,772
Accumulated depreciation	(51,886,513)	(50,015,326)
Total capital assets, net	24,323,891	26,201,881
Total noncurrent assets	27,794,972	29,610,531
Total assets	\$ 28,143,908	\$ 29,958,123

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

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

STATEMENTS OF NET POSITION
PROPRIETARY FUND
June 30, 2016
(with summarized financial information as of June 30, 2015)

	Pine Flat Power Project	2016	2015
LIABILITIES			
Current liabilities:			
Accounts payable	\$	683,988	\$ 510,641
Unearned revenue		3,530,408	3,493,606
Accrued bond interest payable from restricted assets		225,140	300,040
Due to General Fund		122,353	183,498
Revenue bonds payable		3,880,000	3,745,000
Total current liabilities		8,441,889	8,232,785
Noncurrent liabilities:			
Revenue bonds payable		8,215,000	12,095,000
Due to California Department of Water Resources		4,941,184	2,671,514
Total noncurrent liabilities		13,156,184	14,766,514
Total liabilities		21,598,073	22,999,299
NET POSITION			
Net investment in capital assets		12,228,891	10,361,881
Unrestricted		(5,683,056)	(3,403,057)
Total net position	\$	6,545,835	\$ 6,958,824

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

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2016
(with summarized financial information for the year ended June 30, 2015)

	Pine Flat Power Project	
	<u>2016</u>	<u>2015</u>
ELECTRIC GENERATION REVENUES	\$ 7,104,442	\$ 6,094,378
Operating Expenses:		
Operation and maintenance	3,498,921	3,337,620
Regulatory agency fees	476,969	271,987
Water rights expense	569,249	171,053
Depreciation	<u>1,877,990</u>	<u>1,895,508</u>
Total operating expenses	<u>6,423,129</u>	<u>5,676,168</u>
Operating income (loss)	<u>681,313</u>	<u>418,210</u>
Nonoperating Revenues (Expenses):		
Investment earnings	127	-
Other revenues	-	516
Interest and other charges	<u>(525,180)</u>	<u>(672,080)</u>
Total nonoperating revenue (expenses)	<u>(525,053)</u>	<u>(671,564)</u>
Net income (loss) before transfers	156,260	(253,354)
Transfers to general fund	<u>(569,249)</u>	<u>(171,053)</u>
Changes in net position	(412,989)	(424,407)
Net position - beginning	<u>6,958,824</u>	<u>7,383,231</u>
Net position - ending	<u>\$ 6,545,835</u>	<u>\$ 6,958,824</u>

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

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2016
(with summarized financial information for the year ended June 30, 2015)

	Pine Flat Power Project	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 9,410,914	\$ 8,494,197
Cash paid for goods and services	<u>(4,373,136)</u>	<u>(3,976,901)</u>
Net cash provided by (used in) operating activities	<u>5,037,778</u>	<u>4,517,296</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from (to) other funds	<u>(630,394)</u>	<u>(140,816)</u>
Net cash provided by (used in) noncapital financing activities	<u>(630,394)</u>	<u>(140,816)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	-	(6,102)
Principal paid on bond maturities and equipment contracts	(3,745,000)	(3,600,000)
Interest paid on bond maturities and equipment contracts	(600,080)	(744,080)
Other receipts	<u>-</u>	<u>516</u>
Net cash provided by (used in) capital and related financing activities	<u>(4,345,080)</u>	<u>(4,349,666)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	<u>127</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>127</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	62,431	26,814
Cash and cash equivalents at beginning of year	<u>3,408,700</u>	<u>3,381,886</u>
Cash and cash equivalents at end of year	<u>\$ 3,471,131</u>	<u>\$ 3,408,700</u>

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

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

STATEMENTS OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2016
(with summarized financial information for the year ended June 30, 2015)

	Pine Flat Power Project	
	2016	2015
	<hr/>	<hr/>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 681,313	\$ 418,210
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,877,990	1,895,508
(Gain) loss on disposal of equipment	-	36,346
Changes in assets and liabilities:		
Increase in due to/from Department of Water Resources	2,269,670	2,248,013
(Increase) decrease in inventories	947	(14,142)
(Increase) decrease in prepaid expenses	(2,291)	3,315
Increase (decrease) in accounts payable	173,347	(185,412)
Increase (decrease) in unearned revenue	<u>36,802</u>	<u>115,458</u>
Total adjustments	<u>4,356,465</u>	<u>4,099,086</u>
Net cash provided by (used in) operating activities	<u>\$ 5,037,778</u>	<u>\$ 4,517,296</u>

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES

Organization

The Kings River Conservation District (the “District”), a political subdivision of the State of California and generally referred to as a “special district”, was created in 1951 following the adoption of the Kings River Conservation District Act (the “Act”) by the California Legislature. The District’s boundaries cover approximately 1.2 million acres which includes the service area of the Kings River throughout Fresno, Kings and Tulare counties. The District’s primary purpose under the Act is to provide various services, including the acquisition, construction, maintenance and operation of works and property for the purpose of storage, conservation and distribution of water; the development, distribution and sale of electric power; and the drainage, reclamation and protection of land within the District’s service area. The District operates under the Kings River Conservation District Act and is governed by an elected seven-member Board of Directors (“Board”).

The District owns and operates the Jeff L. Taylor Pine Flat Power Plant located on the Kings River at Pine Flat Dam in Fresno County. This hydro-electric power plant has a rated capacity of 165 megawatts. The operations of the power plant are accounted for in an Enterprise Fund.

Electricity generated at the Pine Flat Power Plant is produced under contract with the State Water Project (SWP) contractors through the State of California, Department of Water Resources. Accounts receivable are unsecured. The District’s business is subject to uncontrollable factors such as weather, including drought.

This report includes all the funds for which the District’s Board has oversight responsibility. This oversight responsibility includes, but is not limited to, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

In evaluating the District as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the District may be financially accountable and, as such, should be included within the District’s financial statements. The District (the primary government) is financially accountable if it appoints a voting majority of the organization’s governing board and (1) it is able to impose its will on the organization, or (2) there is a potential for the organization to provide specific financial burden on the District. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Based on these criteria, the District has one component unit. The Kings River Conservation District Public Financing Corporation (“Corporation”) was formed in August 2004, at the direction of the District, pursuant to the Nonprofit Public Benefit Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporation Code). The Corporation was formed primarily for the purpose of providing assistance to the District in the financing, refinancing, acquiring, constructing and rehabilitating of facilities, land and equipment, and in the sale or leasing of facilities, land and equipment for the use, benefit and enjoyment of the public served by the District and any other purpose incidental thereto. The Board of Directors of the District serves as the Board of Directors of the Corporation.

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Basis of Presentation

Management's Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

Government-Wide Statements: The statement of net position and the statement of activities display information about the District. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds. Separate statements for each fund category—*governmental and proprietary*—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental fund:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The District reports the following major proprietary fund:

Pine Flat Power Project Fund: This fund accounts for the operations of the Pine Flat Power Plant on a fee-for-service basis in a manner similar to commercial enterprises.

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

All business-type activities and enterprise funds of the District follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Assets, Liabilities and Net Position

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Enterprise Fund considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents reported in the statement of cash flows for the Enterprise Fund includes cash and short-term investments of \$3,471,131 at June 30, 2016.

Property Tax Calendar

The District receives a share of the ad valorem property tax levied and collected by the counties in the District's service area, which is remitted to the District throughout the year. Property taxes are levied as of July 1, using a lien date of March 1, and are payable by property owners in two equal installments which are due by November 1 and February 1, respectively. The District recognizes revenues from property taxes when the revenues are earned and available. Revenues are considered available when they are collected in the reporting period or collection is expected soon enough after the period end to be used to pay liabilities of the reporting period.

Use of Estimates

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

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Electric Generation Revenues

The District entered into the Pine Flat Power Sale Contract (“Contract”) with the California Department of Water Resources (“Department”) in 1979. Under the provisions of the Contract, the Department is required to purchase all electric energy produced by the Pine Flat Power Plant at a rate sufficient to cover the cost of producing the energy, plus the operation and maintenance and debt service costs of the plant until the year 2037. The Contract may be extended should minimum energy deliveries, as defined, not be met.

Generally, the District is reimbursed by the Department for operation and maintenance costs of the Pine Flat Power Plant as they are incurred. The District is also reimbursed for depreciation expense on capital assets, which were financed through the issuance of revenue bonds, as the bonds mature, and for all debt service costs, including amortization of deferred bond issue costs and costs associated with bond in-substance defeasance. Reimbursements for such expenses are received in periods different from those in which the related expenses are incurred. Revenues representing reimbursement of these expenses are accrued as the related expenses are incurred and any differences between revenues accrued and reimbursements received from the Department are accounted for as an amount due to or from the Department. Amounts received from the Department under the Contract are classified as electric generation revenues.

Capital asset acquisitions subsequent to the original bond issuance are reimbursed by the Department in full at the time of acquisition.

Major Customers

All of the Pine Flat Power Project Enterprise Fund’s power sales revenue is generated by power sales to the California Department of Water Resources.

Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. Self-constructed assets are recorded at the amount of direct labor, material and interest costs incurred.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and structures	30-53 years
Penstocks and intake equipment	53 years
Turbines and generators	30-35 years
Equipment	3-35 years
Roads and landscaping	15-53 years

Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated vacation and sick leave balances. Compensated absences, in the amount of \$579,662 for 2016, are reported with accrued expenses. The liability has been calculated using the vesting method, in which vacation and sick leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES (Continued)

Budgetary Information

An annual nonappropriated budget, which establishes the total spending authority for the General Fund, is adopted by the Board just prior to the beginning of the District's fiscal year. Budgetary control is exercised at the fund level. The Board may authorize amendments to the budget during the year as deemed necessary. Budgeted amounts are reported as amended. The budgetary basis of accounting is consistent with generally accepted accounting principles applicable to the District's financial statements.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposit and Investment Balances

The following is a reconciliation of the District's deposit and investment balances as of June 30, 2016:

Cash on hand	\$ 325
Bank deposits	696,263
Investments	<u>20,688,497</u>
Total	<u>\$ 21,385,085</u>
	Government- Wide Statement of Net Position
	<hr/>
Cash and short-term investments	\$ 17,675,280
Restricted assets	<u>3,709,805</u>
Total	<u>\$ 21,385,085</u>

Investments Authorized

The District strives to maintain the level of investment of idle funds as near to 100% as possible and operates its pooled idle cash investments under the Prudent Investor Standard. This affords a broad spectrum of investment opportunities so long as the investment is deemed prudent and is permissible under currently effective legislation of the State of California and other imposed legal restrictions. Permitted investments are identified in Section 53635 of the Government Code of California. Criteria for selecting investments and the absolute order of priority are safety, liquidity and yield. The primary basic premise underlying the District's investment policy is to insure the safety of principal and to provide funds when needed. A high dollar yield on investments, though important, ranks third in the priority of investment strategy.

Investment maturities are selected to anticipate cash needs, thereby obviating the need for forced liquidation and the accompanying loss of interest income.

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Investments Authorized (Continued)

The District operates its investment program with many Federal, State and self-imposed constraints. It does not buy stocks; it does not speculate; it does not deal in futures, options or security loan agreements. Longer term investments (over one year) are generally limited to maturities of five years or less.

To maximize investment income, the District uses all available, economically feasible investment aids. Economic conditions and various money markets are monitored in order to assess the probable course of interest rates.

External Investment Pools

The District participates in two external investment pools, as defined by Government Accounting Standards Board (GASB) Statement No. 31. The Local Agency Investment Fund (L.A.I.F.), managed by the State of California Treasurer, and is not registered with the Securities and Exchange Commission. These funds are pooled with those of other agencies in the State and invested in accordance with State guidelines. The value of the District's shares in the LAIF that may be withdrawn is determined on an amortized cost basis, which may be different from the fair value of the District's position in the pool. The District's portion of the June 30, 2016 balance was \$145,143. A breakdown of the investments included in the balance is not available for the balance sheet date.

The District maintains cash deposits with the Fresno County Auditor-Controller/Treasurer and voluntarily participates in the common investment pool of the County. The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio. The balance available for withdrawal is based on the accounting records maintained by the County Treasurer and is recorded on the amortized cost basis. Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required. In accordance with applicable state laws, the Fresno County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2016, the Fresno County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles. The District's portion of the June 30, 2016 balance was \$16,092,548.

The District maintains cash deposits with CalTRUST and voluntarily participates in the common investment pool. The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by CalTRUST for the entire portfolio. The balance available for withdrawal is based on the accounting records maintained by CalTRUST and is recorded on the amortized cost basis. Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pool does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required. In accordance with applicable state laws, all CalTRUST accounts comply with the limits and restrictions placed on agency investments by the California Government Code; no leverage is permitted in any of the CalTRUST accounts. The District's portion of the June 30, 2016 balance was \$979,721.

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. All of the District's investments had a remaining maturity of 12 months or less as of June 30, 2016.

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

Credit Rate 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. Presented below is the actual rating as of year-end for each investment type:

<u>Investment Type</u>		<u>Exempt</u>	<u>AAf</u>	<u>AAAm</u>	<u>A-1</u>	<u>Not Rated</u>
State investment pool	\$ 145,143	\$ -	\$ -	\$ -	\$ -	\$ 145,143
County investment pool	16,092,548	-	-	-	-	16,092,548
Local government investment pool	979,721	-	979,721	-	-	-
Held by bond trustee:						
Money market funds	<u>3,471,085</u>	<u>-</u>	<u>-</u>	<u>3,245,943</u>	<u>-</u>	<u>225,142</u>
Total	<u>\$ 20,688,497</u>	<u>\$ -</u>	<u>\$ 979,721</u>	<u>\$ 3,245,943</u>	<u>\$ -</u>	<u>\$ 16,462,833</u>

Concentration of Credit Rate 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. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>% of Total Investments</u>
BNY Western Trust Company	Money market funds	\$ 3,471,082	17%

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 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 market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)

GASB Statement No. 40 requires that the following disclosures be made with respect to custodial credit risks relating to deposits and investments:

Cash Deposits

As of June 30, 2016, the carrying amount of the District's bank deposits was \$696,263 and the respective bank balances totaled \$724,676. The Federal Depository Insurance Corporation (FDIC) insures cash balances held at financial institutions of up to \$250,000. At June 30, 2016, \$474,676 of the bank balance exceeded amounts covered by FDIC.

Investments

As of June 30, 2016, there were no investments that were required to be identified by GASB Statement No. 40 with respect to custodial credit risk.

NOTE 3 – CAPITAL ASSETS

A summary of capital asset activity for governmental activities for the year ended June 30, 2016 is as follows:

	Balances June 30, 2015	Acquisitions	Dispositions	Balances June 30, 2016
Governmental Activities:				
Non-depreciable assets:				
Land and land rights	\$ 1,461,029	\$ -	\$ -	\$ 1,461,029
	<u>1,461,029</u>	<u>-</u>	<u>-</u>	<u>1,461,029</u>
Depreciable assets:				
Buildings and structures	317,960	-	-	317,960
Equipment	1,151,209	32,249	(27,174)	1,156,284
Kings River Channel Project costs	3,052,484	-	-	3,052,484
	<u>4,521,653</u>	<u>32,249</u>	<u>(27,174)</u>	<u>4,526,728</u>
Total capital assets	<u>5,982,682</u>	<u>32,249</u>	<u>(27,174)</u>	<u>5,987,757</u>
Less accumulated depreciation for:				
Buildings and structures	317,464	30	-	317,494
Equipment	973,434	22,308	(27,174)	968,568
Kings River Channel Project costs	730,505	45,657	-	776,162
Total accumulated depreciation	<u>2,021,403</u>	<u>67,995</u>	<u>(27,174)</u>	<u>2,062,224</u>
Governmental activity capital assets, net	<u>\$ 3,961,279</u>	<u>\$ (35,746)</u>	<u>\$ -</u>	<u>\$ 3,925,533</u>

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 – CAPITAL ASSETS (Continued)

A summary of capital asset activity for business-type activities for the year ended June 30, 2016 is as follows:

	Balances June 30, 2015	Acquisitions	Dispositions	Balances June 30, 2016
Business-Type Activities:				
Non-depreciable assets:				
Land and land rights	\$ 7,535	\$ -	\$ -	\$ 7,535
	<u>7,535</u>	<u>-</u>	<u>-</u>	<u>7,535</u>
Depreciable assets:				
Buildings and structures	26,985,690	-	-	26,985,690
Penstocks and intake equipment	19,522,693	-	-	19,522,693
Turbines and generators	19,659,909	-	-	19,659,909
Equipment	9,670,608	-	(6,803)	9,663,805
Roads and landscaping	370,772	-	-	370,772
	<u>76,209,672</u>	<u>-</u>	<u>(6,803)</u>	<u>76,202,869</u>
Total capital assets	<u>76,217,207</u>	<u>-</u>	<u>(6,803)</u>	<u>76,210,404</u>
Less accumulated depreciation for:				
Buildings and structures	15,941,477	521,036	-	16,462,513
Penstocks and intake equipment	9,844,735	460,396	-	10,305,131
Turbines and generators	15,598,451	610,326	-	16,208,777
Equipment	8,413,048	279,236	(6,803)	8,685,481
Roads and landscaping	217,615	6,996	-	224,611
	<u>50,015,326</u>	<u>1,877,990</u>	<u>(6,803)</u>	<u>51,886,513</u>
Total accumulated depreciation	<u>50,015,326</u>	<u>1,877,990</u>	<u>(6,803)</u>	<u>51,886,513</u>
Business-type activities capital assets, net	<u>\$ 26,201,881</u>	<u>\$ (1,877,990)</u>	<u>\$ -</u>	<u>\$ 24,323,891</u>

Depreciation expense was charged to the following functions on the statement of activities:

Governmental Activities:	
General and Administrative	\$ 4,390
River Maintenance	63,605
Business-Type Activities:	
Pine Flat Power Project	<u>1,877,990</u>
Total	<u>\$ 1,945,985</u>

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 – DUE FROM CALIFORNIA DEPARTMENT OF WATER RESOURCES

Amounts due from the Department represent reimbursements in connection with the Contract and are collected over the life of the bond issues. The amount included in accounts receivable of the General Fund, \$1,347,143 in 2016, represents amounts to which the District is entitled for the sale of power delivered to the Department. Amounts due to the Department from the Enterprise Fund, \$4,941,184 in 2016, represent reimbursements to be paid to the Department for depreciation expense on capital assets, amortization of bond issuance costs, costs associated with the bond in-substance defeasance which were financed through revenue bonds in excess of bond principal requirements, and certain other operating expenses.

NOTE 5 – RESTRICTED ASSETS

Restricted assets are comprised of accrued interest receivable and cash deposits and short-term investments held by a trustee in different accounts aggregated by their restricted use. Such assets are restricted for debt service on the Enterprise Fund revenue bonds (see Note 6), for the normal operation and maintenance of the Pine Flat Power Plant. The revenue bond indenture agreements limit the investment of the restricted assets to time or demand deposits of federal government obligations.

Restricted assets consist of the following at June 30, 2016:

	<u>Market Value</u>
General Fund Fisheries Management Program:	
Cash is held in the District's general checking account and is included with the bank balances described in Note 2.	\$ 238,724
Pine Flat Power Project Enterprise Fund:	
Cash is held by a trustee and is included with the investment balances described in Note 2.	3,471,081
	\$ 3,709,805

NOTE 6 – LONG-TERM DEBT

The changes in long-term debt for the year ended June 30, 2016 consisted of the following:

	<u>June 30, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2016</u>	<u>Due Within One Year</u>
<u>Business-Type Activities:</u>					
Pine Flat Enterprise Fund:					
Revenue Bonds:					
Series "G" - serial (2.00% - 4.00%)	\$ 15,840,000	\$ -	\$ (3,745,000)	\$ 12,095,000	\$ 3,880,000
Total Business-Type Activities					
Long-Term Debt	\$ 15,840,000	\$ -	\$ (3,745,000)	\$ 12,095,000	\$ 3,880,000

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 – LONG-TERM DEBT (Continued)

Future principal and interest obligations on Series “G” revenue bonds payable are as follows at June 30, 2016:

Fiscal Year-End	Principal	Interest	Total
2017	\$ 3,880,000	\$ 450,280	\$ 4,330,280
2018	4,025,000	295,080	4,320,080
2019	<u>4,190,000</u>	<u>134,080</u>	<u>4,324,080</u>
	<u>\$ 12,095,000</u>	<u>\$ 879,440</u>	<u>\$ 12,974,440</u>

General Fund Certificates of Participation

In June 2009, the District issued \$3,595,000 in Revenue Certificates of Participation at rates of 3.00% to 5.25%, to retire the District’s short-term debt. The net proceeds of the certificates were used to retire the District’s Commercial Paper Certificates, Series A (Tax-Exempt), to establish a debt service reserve fund, an acquisition fund, and pay the costs of issuance of the certificates.

In 2015 the District defeased the 2009A Certificates of Participation by placing cash in irrevocable escrow accounts held and managed by bank trustees, and invested in U.S. Treasury obligations, the principal and interest on which would provide amounts sufficient to pay the principal and interest on the defeased bonds in accordance with the schedule of remaining payments due. Accordingly, the escrow account and the defeased bonds are not included in the District’s financial statements. On June 30, 2016, \$2,665,000 of certificates of participation outstanding are considered defeased.

Pine Flat Fund Revenue Bonds

The District previously issued \$70,000,000 aggregate principal amount of Pine Flat Power Revenue Bonds, Series A and Series B (the “Original Bonds”) to finance the construction of the Pine Flat Power Plant. The District subsequently paid or refunded all of the Original Bonds with proceeds of various series of refunding bonds (Series C-F). In January 2010, the District issued \$32,860,000 of Pine Flat Power Revenue Refunding Bonds, Series G, at rates of 2.0% - 4.0% to advance refund the remaining portion of the outstanding Series E bonds (\$38,480,000) with interest rates from 3.9% - 4.63%. Also in January 2010, the District defeased the remaining Series F Bonds from moneys deposited in the debt service reserve fund. The only outstanding Pine Flat Bonds during the fiscal year ended June 30, 2016, were the Series G Bonds. The aggregate principal amount of Pine Flat Power Revenue Refunding Bonds, Series G outstanding as of June 30, 2016 was \$12,095,000.

The bond discounts were expensed as incurred, in accordance with GASB Statement No. 65. The District has established an interest account and a bond reserve account in connection with its revenue bonds payable (see Note 5). Such monies are held in trust and are restricted in use for servicing the revenue bonds. The interest account is to provide sufficient monies to pay accrued interest, which is payable semi-annually, and principal when due on the revenue bonds.

In accordance with the bond resolutions, the District may not sell, lease or otherwise dispose of the assets of the Pine Flat Power Project Enterprise Fund. Also, certain revenues representing future payments by the Department for purposes of satisfying debt service requirements on the bonds have been pledged as collateral for the bonds. Such payments to the District for debt service are not dependent on the delivery of energy.

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 – LONG-TERM DEBT (Continued)

Interest Expense

Total interest expense for the year ended June 30, 2016 was \$525,180, all of which was recorded in the Pine Flat Enterprise Fund.

NOTE 7 – INTERFUND BALANCES AND ACTIVITY

Balance Due to/from Other Funds

Balances due to/from other funds at June 30, 2016 consist of the following:

Due to the General Fund from the Pine Flat Power Project Enterprise Fund for overhead charges overbilled by the General Fund to the Pine Flat Fund	\$ 122,353
Summary of balance due from other funds, Balance Sheet-Governmental Funds	\$ 122,353

Transfers to/from Other Funds

The Pine Flat Enterprise Fund made operating transfers to the General Fund of \$569,249 and \$171,053 during the years ended June 30, 2016 and 2015, respectively.

NOTE 8 – CLASSIFICATIONS OF NET POSITION AND FUND BALANCES

Government-Wide Financial Statements

In the government-wide financial statements, net positions are classified in the following categories:

Net Investment in Capital Assets

This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position

This amount is restricted by external creditors, grantors, contributors, or law or regulations of other governments.

Unrestricted Net Position

This amount is all net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

The District considers restricted net position to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted net position is available.

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – CLASSIFICATIONS OF NET POSITION AND FUND BALANCES (Continued)

Fund Financial Statements

The District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in fiscal year 2010-11. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance

Amounts cannot be spent either because they are in nonspendable form (such as inventory or prepaid expense) or because they are legally or contractually required to be maintained intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance

Amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.

Committed Fund Balance

Amounts that can be used only for specific purposes determined by a formal action of Board of Directors. Board of Directors is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors. The District did not have any committed resources as of June 30, 2016.

Assigned Fund Balance

Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the Board of Directors may assign amounts for specific purposes.

Unassigned Fund Balance

Amounts that is available for any purpose. Positive amounts are reported only in the general fund.

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – CLASSIFICATIONS OF NET POSITION AND FUND BALANCES (Continued)

Fund Financial Statements (Continued)

The details of the fund balances are presented below:

	<u>6/30/2016</u>	<u>6/30/2015</u>
Nonspendable:		
Prepaid expenses	\$ 56,486	\$ 58,263
Total nonspendable	<u>56,486</u>	<u>58,263</u>
Restricted for:		
Fisheries management program	<u>238,724</u>	<u>213,934</u>
Total restricted	<u>238,724</u>	<u>213,934</u>
Assigned to:		
Revenue stabilization fund	4,550,344	3,143,157
Other post-employment benefits	2,500,000	-
Malaga contract warranty risk	5,000,000	-
Malaga power purchase agreement risk	500,000	-
Compensated absences	<u>575,000</u>	<u>-</u>
Total assigned	<u>13,125,344</u>	<u>3,143,157</u>
Unassigned	<u>6,012,149</u>	<u>16,257,066</u>
Total fund balance	<u>\$ 19,432,703</u>	<u>\$ 19,672,420</u>

When an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the District considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 – PENSION PLAN

The District provides retirement savings opportunities for all its full-time employees through: 1) a defined contribution plan administered by the District; 2) a 457 Deferred Compensation Plan (457 Plan) administered by ICMA Retirement Corporation (ICMA); and 3) a Union Pension Plan administered by the Stationary Engineers Local 39 Pension Trust Fund.

- 1) The Pension Plan is a defined contribution plan, and benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate during the first plan quarter after the completion of six months of service and the attainment of at least 20 ½ years of age. The plan requires that participating employees contribute up to 9% of their base salary each quarter with a matching contribution by the District.
- 2) The 457 Plan is a tax-deferred defined contribution plan, and benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate immediately in the employee contribution, but the District does not match the employee's contribution until after the completion of six months of service. There is no minimum contribution amount, but the District's match and the employee's contributions together cannot exceed the annual allowable contribution limits set forth by the IRS Code.
- 3) The combination of matching contributions by the District to the Pension Plan or the 457 Plan cannot exceed 9% of the employee's base annual salary. The District's contributions for each employee (and earnings allocated to the employee's account) are fully vested after five years of continuous service. District contributions and related plan earnings forfeited by employees who leave employment prior to being fully vested are used to reduce the District's current period contribution requirement.
- 4) The Union Pension Plan became available to represented Flood Maintenance Unit Employees on July 1, 2006. The District contributes \$1.76 per hour for all straight-time hours worked or paid for during the year ended June 30, 2016. The Flood Maintenance Unit employees agreed to voluntarily decline participation in the defined contribution plan. Represented Flood Maintenance Unit employees may contribute to the 457 Plan subject to the contribution limits set forth by the IRS Code, but there is no employer match of contributions from represented Flood Maintenance Unit employees.

The District's total payroll for the year ended June 30, 2016 was approximately \$3,370,138. The District's matching contributions to the plans were calculated using the base salaries of participating employees, which aggregated approximately \$3,279,734 for the year ended June 30, 2016. The District and the participating employees each made contributions to the plans of approximately \$231,385 for the year ended June 30, 2016.

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 10 – JOINT POWERS INSURANCE AUTHORITY

The District is a member of the Association of California Water Agencies – Joint Powers Insurance Authority (“ACWA/JPIA”) whose members have pooled funds to self-insure for general liability, property claims and workers’ compensation claims. Insurance premiums are based on the District’s respective payroll and loss history or insured values. Retrospective premium adjustments are determined by the ACWA/JPIA based on the cost of claims against a member during applicable policy years.

As of September 30, 2015, the ACWA/JPIA reported assets totaling \$194,775,717. The ACWA/JPIA financial statements were audited by other auditors, whose report dated April 28, 2016, expressed an unmodified opinion on those statements. Separate financial statements are available from the ACWA/JPIA. A summary of those financial statements as of September 30, 2015, and for the year then ended is as follows:

Total assets	\$ 194,775,717
Total liabilities	113,620,777
Deferred inflows	<u>846,155</u>
Net position	<u>\$ 80,308,785</u>
Revenues	\$ 160,400,697
Expenses	<u>164,195,428</u>
Change in net position	<u>\$ (3,794,731)</u>

The District has coverage against claims up to a limit of \$60 million for comprehensive general, auto liability, and public officials’ liability. Should the District discontinue its participation in ACWA/JPIA, the District could be liable for additional premiums for certain periods in the event ACWA/JPIA becomes underfunded.

Additionally, the District has separate policies with different carriers with per occurrence limits of insurance for Pine Flat of \$140,000,000.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

In 1999, the District entered into an agreement with the Kings River Water Association (“KRWA”) and the California Department of Fish and Game (“CDFG”) to provide funds to design, install, operate and maintain selected physical improvements to the Kings River below the Pine Flat Dam, which will enhance fish and wildlife resources. The agreement required the District and KRWA to collectively provide \$100,000 per year for ten years commencing in May of 1999. CDFG contributed \$700,000 over the same ten-year period.

On June 26, 2009, the District and KRWA signed a ten-year extension of the agreement with CDFG under terms similar to the original agreement. The District and KRWA have agreed to extend the funding obligation of \$100,000 per year through May 2019. CDFG has agreed to fund up to \$2 million over the combined 20-year period covered by the two agreements. The new agreement maintains the program’s planning and improvement development work while continuing a doubling of minimum river releases, a reservoir temperature control pool of 100,000 acre-feet (10% of Pine flat Lake’s capacity) and financial support from the partnering agencies. The District’s unspent funds related to this program as of June 30, 2016 were \$238,724.

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 – SEGMENT REPORTING

The District issued revenue bonds to finance the construction of the Pine Flat Power Plant. These bonds were advance refunded in 2010, as discussed in Note 6. The activities of the Pine Flat Power Plant are accounted for in a single fund. The bonds are secured by revenues from activities conducted by the Pine Flat Power Plant. Summary financial information for the Pine Flat Power Plant is presented below:

CONDENSED STATEMENT OF NET POSITION

Assets:

Current assets – restricted	\$ 3,471,081
Other current assets	348,936
Capital assets	<u>24,323,891</u>
Total assets	<u>28,143,908</u>

Liabilities:

Current liabilities	8,441,889
Noncurrent liabilities	<u>13,156,184</u>
Total liabilities	<u>21,598,073</u>

Net position:

Net investment in capital assets	12,228,891
Unrestricted	<u>(5,683,056)</u>
Total net position	<u>\$ 6,545,835</u>

**CONDENSED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**

Operating revenues	\$ 7,104,442
Depreciation expense	(1,877,990)
Other operating expenses	<u>(4,545,139)</u>
Operating income (loss)	681,313
Nonoperating revenues (expenses):	
Investment income	127
Interest expense	(525,180)
Transfers out	<u>(569,249)</u>
Change in net position	(412,989)
Beginning net position	<u>6,958,824</u>
Ending net position	<u>\$ 6,545,835</u>

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 12 – SEGMENT REPORTING (Continued)

CONDENSED STATEMENT OF CASH FLOWS

Net cash provided (used) by:	
Operating activities	\$ 5,037,778
Noncapital financing activities	(630,394)
Capital and related financing activities	(4,345,080)
Investing activities	<u>127</u>
Net increase (decrease)	62,431
Beginning cash and cash equivalents	<u>3,408,700</u>
Ending cash and cash equivalents	<u>\$ 3,471,131</u>

NOTE 13 – EXCESS EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2016, expenditures exceeded appropriations in the following categories:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
Current:	
Legal fees	\$ 31,667
Other services	65,477

These negative variances were reviewed and accounted for with the Board of Directors at year-end.

NOTE 14 – POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

Plan Description. The Kings River Conservation District Retired Employees Healthcare Plan is a single-employer defined benefit healthcare plan administered by the District. The District provides medical, dental, and vision insurance benefits to eligible retirees, their spouses and dependents. To earn this benefit, employees must have reached the age of sixty years with ten years of service to the District; or have reached the age of fifty-five years with twenty-five years of service and become permanently disabled. The District also provides benefits for directors who had taken office prior to January 1, 1995 and completed twelve years of service. The District provides coverage for surviving family members of an enrollee who dies while covered under the plan. Coverage for the enrolled family members then continues until any one of a specific set of circumstances occurs. The Retiree Health Plan does not issue a financial report.

Funding Policy. The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2016, the District contributed \$83,441 to the plan, the entire amount for current premiums. Plan members receiving benefits contributed \$14,617, or approximately 15% of the total premiums, through their required contribution of one-half of the dependent cost for health insurance coverage. Dental and vision insurance benefits are 100% paid by the District for retirees and their dependents.

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 14 – POST RETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)

Annual OPEB Cost and Net OPEB Obligation. The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the projected unit credit (PUC) cost method. Under the Projected Unit Credit method, the actuarial present value of each employee's future retiree health benefit claims costs is allocated over a portion of the employee's employment, the "attribution period". The attribution period for this group begins with the employee's date of employment and ends with the date on which the employee is expected to retire. Accrued Liability for active employees is the portion of benefit liability attributed to service years to date. Normal Cost is the amount of benefit liability attributed to the current employment year. Normal Cost for retired employees is zero. Initial Actuarial Accrued Liability as of the date GASB Statement No. 45 is adopted is amortized as a component of the Annual Required Contribution (ARC). The amortization method is level dollar amortized over a 30-year period. Gains and losses arise from experience and contribution deficiencies and excess contributions in relation to each year's ARC under GASB Statement No. 45. The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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 Retiree Health Plan:

Annual required contribution	\$ 635,019
Interest on net OPEB obligation	138,844
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	773,863
Contribution made	<u>(83,441)</u>
Increase in net OPEB obligation	690,422
Net OPEB obligation - beginning of year	<u>2,776,874</u>
Net OPEB obligation - end of year	<u>\$ 3,467,296</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2014, 2015 and 2016 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation
6/30/2014	\$ 544,309	19.4%	\$ 2,125,741
6/30/2015	\$ 741,306	12.2%	\$ 2,776,874
6/30/2016	\$ 773,863	10.8%	\$ 3,467,296

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 14 – POST RETIREMENT BENEFITS OTHER THAN PENSIONS (Continued)

Funded Status and Funding Progress. As of June 30, 2016, the actuarial accrued liability for benefits was \$5,626,505, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$3,350,244 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 167.9%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the 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 multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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. Actuarial assumptions come in part from the professional judgment of the Actuary, working within the scope of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

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 65.

Marital status—Percent of married members at the calculation date was assumed to be 60% and continue throughout retirement.

Mortality—Life expectancies were based on the 1994 Group Annuity Mortality tables for males and females.

Turnover—Non-group-specific age-based turnover data from GASB Statement No. 45 was used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate—A rate of 8.0% initially, reduced to an ultimate rate of 5.0% 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 3.0% is consistent with changes in the Consumer Price Index for all Urban Consumers (CPI-U) 1999 – 2008 from the United States Department of Labor, Bureau of Labor Statistics.

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% was used. The remaining amortization period at June 30, 2016 was thirty years.

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 15 – PRONOUNCEMENTS

(1) New Accounting Pronouncements Adopted

Governmental Accounting Standards Board Statement No. 72

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement was adopted by the District during the current fiscal year.

Governmental Accounting Standards Board Statement No. 76

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this statement were considered but had no effect on the District’s current fiscal year.

Governmental Accounting Standards Board Statement No. 79

In December 2015, GASB issued Statement No. 70, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The requirements of this statement were considered but had no effect on the District’s current fiscal year.

Governmental Accounting Standards Board Statement No. 82

In March 2016, GASB issued Statement No. 82, *Pension Issues—an Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement was adopted by the District during the current fiscal year. The effects of the adoption of this statement included a change in the manner covered payroll is reported in the following required supplementary schedules: Proportionate Share of Net Pension Liability (Asset) and Schedule of Contributions. The requirements of this statement were considered but had no effect on the District’s current fiscal year.

KINGS RIVER CONSERVATION DISTRICT
Fresno, California

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 15 – PRONOUNCEMENTS (Continued)

(2) New Accounting Pronouncements Not Yet Adopted

Governmental Accounting Standards Board Statement No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (*other* postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The requirements of this statement are effective for the District's fiscal year ending June 30, 2018.

Governmental Accounting Standards Board Statement No. 77

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. The requirements of this statement are effective for the District's fiscal year ending June 30, 2017.

Governmental Accounting Standards Board Statement No. 80

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The requirements of this statement are effective for the District's fiscal year ending June 30, 2017.

Governmental Accounting Standards Board Statement No. 81

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement are effective for the District's fiscal year ending June 30, 2018, and should be applied retroactively.

NOTE 16 – SUBSEQUENT EVENTS

The management of the District has reviewed the result of operations for the period of time from its year-end June 30, 2016 through October 18, 2016, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

**KINGS RIVER CONSERVATION DISTRICT
Fresno, California**

**REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016**

**Schedule of Funding Progress
for the Retiree Health Plan**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Simplified Entry Age (b)	Unfunded ALL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a) / c)
6/30/2012	\$ -	\$ 3,532,202	\$ 3,532,202	0.0%	\$ 4,041,169	87.4%
6/30/2015	\$ -	\$ 5,626,505	\$ 5,626,505	0.0%	\$ 3,958,133	142.2%