

INDIAN WELLS VALLEY WATER DISTRICT

**COUNTY OF KERN
RIDGECREST, CALIFORNIA**

**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2012**

**Burkey Cox Evans & Bradford
Accountancy Corporation
1058 West Avenue M-14, Suite B
Palmdale, CA 93551**

**INDIAN WELLS VALLEY WATER DISTRICT
HISTORY AND ORGANIZATION
JUNE 30, 2012**

On January 24, 1955, the Ridgecrest County Water District was formed in accordance with Division 12, Section 30000-00901 of the California Water Code. The District was incorporated as a Political Corporation on February 1, 1955, and established as a California public entity with authority to construct, operate and maintain a community water works system, such as the District deems necessary and proper. In January 1970, the name was changed to Indian Wells Valley Water District to recognize that service had extended beyond the political boundaries of the City of Ridgecrest. Service is provided to nearly 12,000-metered sites.

Voters living within the District's boundaries elect five Directors to govern the District. The District has a staff of 28 employees. The District operates strictly from water rate charges and fees for services and has no revenue from taxes or federal sources. The District operates ten production wells, ten water tanks that provide for 17.1 million gallons of storage, and seven booster stations.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Donald J. Cortichiato	President	November 2012
Leroy Corlett	Vice President	November 2012
Peter E. Brown	Director	November 2014
Margaret Breeden	Director	November 2012
Don J. McKernan	Director	November 2012

GENERAL MANAGER/SECRETARY

Donald M. Zdeba

CHIEF FINANCIAL OFFICER

Jennifer L. Keep

**INDIAN WELLS VALLEY WATER DISTRICT
JUNE 30, 2012**

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FINANCIAL INFORMATION

INDEPENDENT AUDITORS' REPORT

Board of Directors
Indian Wells Valley Water District
Ridgecrest, California

We have audited the accompanying financial statements of the business-type activities of Indian Wells Valley Water District (the District), as of and for the year ended June 30, 2012, which collectively comprise the Indian Wells Valley Water District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the District's fiscal year 2011 financial statements and, in our report dated October 11, 2011, we expressed unqualified opinions on the respective financial statements of the business-type activities.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Indian Wells Valley Water District as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2012, on our consideration of the Indian Wells Valley Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and other post employment benefit plan schedule of funding progress information on page 35, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Indian Wells Valley Water District's financial statements as a whole. The schedule of revenues and expenses proprietary fund budget and actual on pages 33 through 35 is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of revenues and expenses proprietary fund budget and actual has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

BURKEY COX EVANS & BRADFORD
Accountancy Corporation

Palmdale, California
September 10, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

**INDIAN WELLS VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

The Indian Wells Valley Water District (the District) offers the readers of the District's annual financial report this narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2012. Please read it in conjunction with the financial statements.

THE FINANCIAL STATEMENTS

The District's basic financial statements consist of a single enterprise fund. Indian Wells Valley Water District operates in a manner similar to a private business enterprise. The District employs the same accrual basis of accounting the private-sector uses; however, the formats of the financial reports are presented slightly differently. Instead of a Balance Sheet, a Statement of Net Assets is used to report the District's assets and liabilities. In place of an Income Statement, a Statement of Activities accounts reports the current year's revenues and expenses.

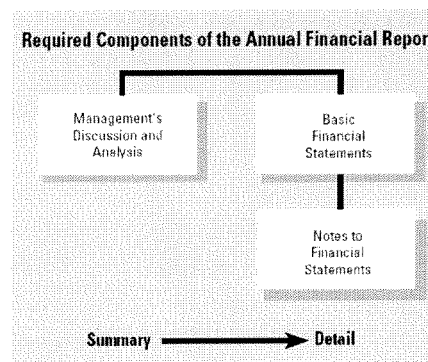
This annual report consists of three parts. Figure 1 shows how the required parts of the annual report are arranged and relate to each other. The three sections are:

- *management's discussion and analysis* (this section),
- *basic financial statements*, and
- *notes to financial statements*.

This section of Indian Wells Valley Water District's annual financial report is the "Management's Discussion and Analysis." This is where the District presents its perspective of its financial performance for the reporting period.

The "Basic Financial Statements" section focuses on the District's business activities. They are designed to provide not only a broad overview of IWVWD's finances but also short- and long-term information about the District's financial status, operations and cash flow. The statements report "Total Net Assets" and how it has changed during the period. Total Net Assets (fund equity) is the difference between total assets and total liabilities. Analyzing the various components of total net assets is one way to gauge the District's financial condition. The "Notes to Financial Statements" section explains in more detail some of the data contained in the basic financial statements. Supplemental information such as a comparative budget report, can be found on the pages following the "Notes."

Figure 1, Required Components of the District's Annual Financial Report



FINANCIAL HIGHLIGHTS

- The District's total assets were valued at \$61,618,134 on June 30, 2012.
- The District's total liabilities were valued at \$25,895,651 on June 30, 2012.
- The District's total net assets were valued at \$35,722,483 on June 30, 2012.
- Total net assets continued to remain stable increasing only 1.5% from the prior fiscal year.
- Total revenues for the year equaled \$9,857,041, which is \$970,120 more than revenues collected in 2010-2011. Specifically, operating revenues totaled \$9,590,718, which is \$1,040,629 more than the prior year and is comprised of a \$1,102,086 increase in water sales and other operating revenues offset by a \$61,457 reduction in Capital Facilities Fees and New Service Connections. Non-operating revenues (i.e. interest income and grants) totaled \$266,323, which was \$70,509 less than the amount received in 2010-2011 primarily due to a \$115,000 reduction in grant income as Prop 50 grant funds received were fully reimbursed the previous year offset by a \$45,000 increase in interest, assessment and miscellaneous income.

**INDIAN WELLS VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

FINANCIAL HIGHLIGHTS (Continued)

- Total expenses for the year equaled \$9,322,424: Operating expenses totaled \$7,975,993 while non-operating expenses (i.e., conservation, future sources of supply and interest on long-term debt) were \$1,346,431. 2011-2012 total expenses were \$27,943 more than in 2010-2011. Operating expenses were more than in the prior year by \$331,690 due to a \$721,769 increase in arsenic plant operating related depreciation costs offset by \$390,079 in expense reductions from the 25% reduction in force, elimination of certain activities and deferment of large projects. Non-operating costs decreased by \$303,747 mostly due to the reduction in conservation and alternate water expenses.
- 2011-2012 total expenses were \$534,617 less than total revenues.
- The District used 2009 Certificate of Participation proceeds to fund the remaining arsenic treatment plant construction expenses. The plant was accepted as completed by the Board of Directors in FY 2011-2012. The District complied with all existing debt covenants.
- Per the requirements of GASB 45, IWVWD set up an irrevocable trust as of June 30, 2009 through the California Employers' Retiree Benefit Trust (CERBT) for other post employment benefits. As of June 30, 2012, the Trust's assets totaled \$837,292.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - The District's net assets totaled \$35,722,483 at June 30, 2012. Of that amount, nearly \$24.0 million is invested in Capital Assets (a.k.a. property, plant and equipment), Net of Related Debt. The vast majority of these capital assets include wells, transmission pipelines, distribution lines and appurtenances, reservoirs, arsenic treatment plants, field equipment and vehicles, and the district headquarters. The remaining net assets are allocated in compliance with new GASB 54 regulations as follows: \$3.1 million is for *Nonspendable* Inventory and Prepaid Expenses; \$2.7 million is *Restricted* for Debt Covenants; \$3.3 million is *Committed* for the Emergency and Capital Improvement/Replacement Reserves; \$736,000 is for *Assigned* Reserves for vehicles, computer replacement and retiree medical benefits; and \$2 million is unrestricted.

Changes in net assets - The primary contributor to the change in 2011-2012 net assets is total revenues exceeded total expenses by \$534,617. This is an improvement over the three previous years' budgets when expenses exceeded revenues for a total combined deficit of \$1.36 million.

Total revenues were \$9.85 million and were \$970,000 more than the prior year. 93% of revenues came from water sales (see Figure 2).

The total cost of all 2011-2012 services and non-operating activities was \$9.3 million, which is \$28,000 more than those incurred in the prior year. 86% of these costs are operating expenses. Figure 3 presents a breakdown of the District's expenses.

Figure 2, Total IWVWD Revenues for 2012

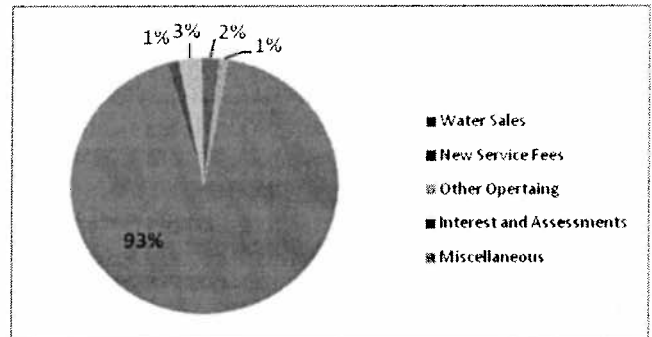
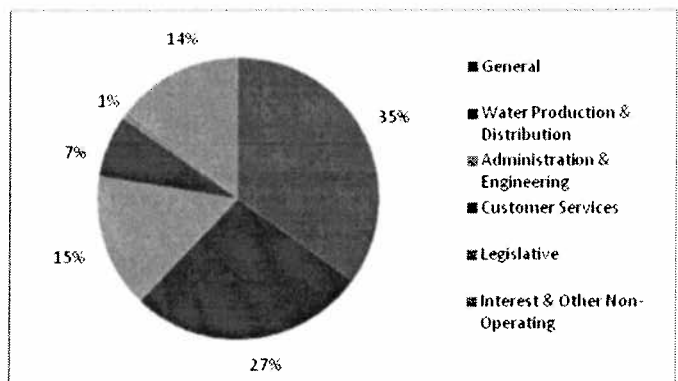


Figure 3, Total IWVWD Expenses for 2012



**INDIAN WELLS VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE WATER DISTRICT AS A WHOLE

Net assets - The components of the District's net assets, as of June 30, 2012, are detailed in Table 1.

Table 1
**Indian Wells Valley Water District
Comparative Statement of Net Assets
June 30, 2012 and 2011**

	June 30, 2012	June 30, 2011
Current Assets		
Cash and Investments	\$ 6,173,642	\$ 4,365,891
Accounts & Interest Receivable	1,016,681	829,045
Inventory	362,142	361,803
Total Current Assets	<u>7,552,465</u>	<u>5,556,739</u>
Non-Current Assets		
Net of Accumulated Depreciation	<u>48,927,663</u>	<u>50,898,530</u>
Other Non-Current Assets		
Deposits and Prepaids	142,922	143,196
Cash and Investments - Restricted	2,733,302	3,395,088
Assessment Bonds Receivable	1,971,000	2,208,000
Bond Issuance Costs, Net Accumulated Amortization	250,782	260,157
Total Other Non-Current Assets	<u>5,138,006</u>	<u>6,006,441</u>
Total Non-Current Assets	<u>54,065,669</u>	<u>56,904,971</u>
Total Assets	<u><u>\$ 61,618,134</u></u>	<u><u>\$ 62,461,710</u></u>
Current Liabilities		
Accounts, Interest & Wages Payable	\$ 377,192	\$ 644,560
Current Portion Long Term Debt	965,510	959,456
Customer and Sponsor Deposits	205,625	194,527
Compensated Absences	136,296	298,764
Post-Retirement Medical Benefits	0	0
Total Current Liabilities	<u>1,684,623</u>	<u>2,097,307</u>
Long-Term Liabilities		
Long-Term Debt, Notes, Contracts & Bonds	<u>24,211,028</u>	<u>25,176,537</u>
Total Liabilities	<u>25,895,651</u>	<u>27,273,844</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	23,751,125	24,762,537
Restricted (Nonspendable, Restricted, Committed & Assigned)	9,924,965	10,203,842
Prior Year Adjustment	0	35,418
Unrestricted	<u>2,046,393</u>	<u>186,069</u>
Total Net Assets	<u><u>\$ 35,722,483</u></u>	<u><u>\$ 35,187,866</u></u>

Total Net Assets remained stable during the fiscal period. At the end of the reporting period, nearly \$24.0 million, or 67% of the District's net assets, are invested in property, plant and equipment.

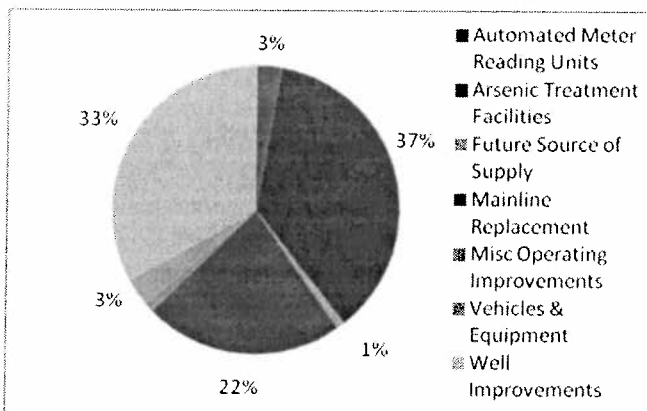
**INDIAN WELLS VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget for fiscal year 2011-2012 indicated for the fourth year in a row, the District would end in a deficit status totaling -\$1.3 million. Major factors causing this deficit trend included annual debt service for the \$20 million Certificate of Participation and increased conservation efforts. Recognizing this trend was not sustainable, the Board of Directors took prompt action to reverse the deficit and achieve long-term fiscal solvency. A fiscal recovery plan was developed for the current and out years to ensure debt service obligations would be met, that cash flow would be positive, and revenues would exceed expenses including fully funding annual depreciation expense without incurring more debt. The first action was to reduce expenses including a 25% reduction in force, elimination of certain activities that did not directly promote the production of water, and deferment of other projects. The next step was to update the 10-year capital improvements plan prioritizing projects and attempting to keep annual costs equal to or less than the annual depreciation expense. Afterward, the cost of service was reviewed and modified so a larger percentage of fixed costs and all arsenic treatment expenses including debt service would be collected from monthly fixed charges (Ready-to-Serve charge and Arsenic Compliance charge). The new rates went into effect March 2012. The result of all these actions was net income totaling \$534,617, which was a 140% turnaround over the original budget projections.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Figure 4, Expenditures for Property, Plant and Equipment for 2012



Capital Assets – For the year ended June 30, 2012, IWVWD invested \$700,000 in capital expenditures including arsenic treatment facilities, well improvements, mainline replacement, the automated meter reading units and other District installations and acquisitions. See Figure 4 for a distribution of these capital expenditures.

More information regarding the District’s changes in capital assets is presented in the notes to the financial statements.

Long Term Debt – During 2011-2012, the District decreased its long-term debt by \$959,455. At year-end, IWVWD had \$25.1 million in outstanding bonds and notes as shown in Table 2. More detailed information about the District’s debt is presented in the notes to the financial statements.

Table 2
Indian Wells Valley Water District
Schedule of Long Term Debt
as of June 30, 2012

	2012	2011
Loans:		
Proposition 55, Safe Drinking Water Act Loan	\$2,454,619	\$2,646,344
Proposition 44, Water Conservation Construction Loan	21,919	64,649
Total Loans	2,476,538	2,710,993
Revenue Bonds:		
Water Revenue Refunding Bonds, Series 2003	3,395,000	3,770,000
Water Revenue Certificates of Participation, Series 2009	19,305,000	19,655,000
Total Revenue Bonds	22,700,000	23,425,000
Total Long-Term Debt	\$25,176,538	\$26,135,993

**INDIAN WELLS VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- General Manager Tom Mulvihill retired in May 2012 and has been replaced by Don Zdeba. Mr. Zdeba came to the District after a 30-year career at Searles Valley Minerals (SVM) in Trona, California. He had been a representative for SVM to the Indian Wells Valley Cooperative Ground Water Management Group since it was formed in 1995. Now representing IWVWD, he continues to serve as chairman for the Group as he has for the past eight years and ten of the 17 years the Group has been in existence. Among his responsibilities at SVM was the operation and maintenance of the potable water production system serving three manufacturing facilities and two co-generation plants as well the local communities through distribution to the Searles Domestic Water Company,
- The District's FY 2012-2013 budget includes added funds to resume conservation promotion efforts. The District is well on its way to meeting the State of California's SBX7-7, which requires districts to reduce GPCD by 10% by the year 2015 and by 20% by 2020. The added conservation will help meet and sustain this long-term goal.
- The Board of Directors unanimously approved refinancing its 2003 Bonds for payoff in 6.5 years vs. 8 years for an overall savings of \$250,000. Staff is currently working on finalizing this task. Additionally, the District's Prop 44 loan was paid in full July 2012.
- In May 2012, the Board of Directors approved the Water Supply Improvement Project contingent upon the availability of funds and that immediately a water quantity and water quality monitoring program be funded and established with the cooperation of private well owners within the area of impact for a reasonable amount of time. The water quantity and quality monitoring program is expected to begin this fiscal year to gather data for approximately two years.
- The Board of Directors is scheduled to have an Alternate Water Source planning meeting at the end of September 2012 in which they review and prioritize a list of alternate water source options prepared by staff and the District's consultant engineer.
- The 2009 COP Project funds have been fully expended. Planned Capital Improvement Projects are expected to be fully funded each year without added debt or using reserves.
- The City of Ridgecrest recently introduced a proposed ordinance that will require utilities to pay a trench fee for non-emergency road cuts. District staff will closely monitor the development of this ordinance as its passage may result in increased expenses.
- In November 2012, four director terms expire. Three of the directors are running for the vacant seats in addition to six other candidates.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, creditors and other interested parties with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the District's Chief Financial Officer.

BASIC FINANCIAL STATEMENTS

**INDIAN WELLS VALLEY WATER DISTRICT
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2012 WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2011**

	ASSETS	
	JUNE 30, 2012	JUNE 30, 2011
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 6,173,642	\$ 4,365,891
Accounts Receivable	1,006,324	829,045
Interest Receivable	10,357	-
Inventory	362,142	361,803
Total Current Assets	7,552,465	5,556,739
NON-CURRENT ASSETS		
Capital Assets, Net of Accumulated Depreciation	48,927,663	50,898,530
OTHER NON-CURRENT ASSETS		
Deposits and Prepaids	142,922	143,196
Cash and Cash Equivalents - Restricted	2,773,302	3,395,088
Assessment Bonds Receivable	1,971,000	2,208,000
Bond Issuance Costs, Net of Accumulated Amortization	250,782	260,157
Total Other Non-Current Assets	5,138,006	6,006,441
Total Non-Current Assets	54,065,669	56,904,971
Total Assets	\$ 61,618,134	\$ 62,461,710

See independent auditors' report and accompanying notes to financial statements.

INDIAN WELLS VALLEY WATER DISTRICT
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
JUNE 30, 2012 WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2011

LIABILITIES		<u>JUNE 30, 2012</u>	<u>JUNE 30, 2011</u>
CURRENT LIABILITIES			
Accounts Payable	\$	87,646	\$ 357,313
Accrued Wages		13,715	10,236
Interest Payable		275,831	277,011
Current Portion of Long-Term Debt		965,510	959,456
Customer and Sponsor Deposits		<u>205,625</u>	<u>194,527</u>
Total Current Liabilities		<u>1,548,327</u>	<u>1,798,543</u>
LONG-TERM LIABILITIES			
Long-Term Debt:			
Notes and Contracts Payable		2,256,028	2,710,993
Bonds Payable		21,955,000	22,465,544
Compensated Absences		<u>136,296</u>	<u>298,764</u>
Total Long-Term Liabilities		<u>24,347,324</u>	<u>25,475,301</u>
Total Liabilities		<u>25,895,651</u>	<u>27,273,844</u>
NET ASSETS			
Net Investment in Capital Assets		23,751,125	24,762,537
Restricted		9,924,965	10,203,842
Unrestricted		<u>2,046,393</u>	<u>221,487</u>
Total Net Assets		<u>35,722,483</u>	<u>35,187,866</u>
Total Liabilities and Net Assets	\$	<u><u>61,618,134</u></u>	\$ <u><u>62,461,710</u></u>

See independent auditors' report and accompanying notes to financial statements.

**INDIAN WELLS VALLEY WATER DISTRICT
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2011**

	JUNE 30, 2012	JUNE 30, 2011
OPERATING REVENUES		
Water Sales	\$ 9,184,045	\$ 8,092,890
Capital Facilities Fees	134,217	194,075
New Service Connections	5,598	7,197
Other Operating Revenues	266,858	255,927
Total Operating Revenues	9,590,718	8,550,089
OPERATING EXPENSES		
Pumping Plant	977,882	1,044,468
Arsenic Plant	402,667	158,163
Transmission and Distribution	1,159,979	1,225,655
Engineering	410,730	438,013
Customer Accounts	332,113	337,387
Field Services	335,422	424,192
Administration and General	1,596,988	1,717,266
Legislative	76,652	93,155
Depreciation	2,678,583	2,201,318
Amortization	4,977	4,686
Total Operating Expenses	7,975,993	7,644,303
Operating Income	1,614,725	905,786
NON-OPERATING REVENUES (EXPENSES)		
Interest and Assessment Income	216,211	173,755
Grant Income	-	115,165
Rental and Miscellaneous Income	50,112	47,912
Interest Expense and Service Charges	(1,193,374)	(1,213,469)
Future Source of Supply and Other Non-Operating Expenses	(153,057)	(436,709)
Non-Operating Income (Loss)	(1,080,108)	(1,313,346)
Income (Loss) Before Capital Contributions	534,617	(407,560)
Capital Contributions	-	-
Increase (Decrease) in Net Assets	534,617	(407,560)
Net Assets - Beginning of the Year	35,187,866	35,595,426
Net Assets - End of Year	\$ 35,722,483	\$ 35,187,866

See independent auditors' report and accompanying notes to financial statements.

INDIAN WELLS VALLEY WATER DISTRICT
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2011

	JUNE 30, 2012	JUNE 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 9,146,581	\$ 8,131,693
Cash Payments to Suppliers for Operations	(3,695,784)	(3,628,669)
Cash Payments for General and Administrative Expenses	(2,014,546)	(2,784,961)
Cash Received From (Paid For) Other	266,858	255,927
Net Cash Provided (Used) by Operating Activities	3,703,109	1,973,990
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Rental, Grant and Miscellaneous Income	50,112	163,079
Future Source of Supply and Other Non-Operating Expenses	(153,057)	(436,709)
Net Cash Provided (Used) by Non-capital Financing Activities	(102,945)	(273,630)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Property and Equipment	(707,716)	(11,187,311)
Deposits	274	1,077
Bond Issuance Costs	4,398	9,084
Principal Payments on Long-Term Debt	(959,455)	(936,618)
Principal Payments Received from Assessment Bonds	237,000	240,000
Net Cash Provided (Used) for Capital and Related Financing Activities	(1,425,499)	(11,873,768)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Assessment Income Received	205,854	184,660
Interest Expense Paid	(1,194,554)	(1,222,022)
Net Cash Provided (Used) by Investing Activities	(988,700)	(1,037,362)
Net Increase (Decrease) in Unrestricted Cash and Cash Equivalents	1,185,965	(11,210,770)
Cash and Cash Equivalents - Beginning of Year	7,760,979	18,971,749
Cash and Cash Equivalents - End of Year	\$ 8,946,944	\$ 7,760,979
FINANCIAL STATEMENT PRESENTATION		
Cash and Cash Equivalents - Unrestricted	\$ 6,173,642	\$ 4,365,891
Cash and Cash Equivalents - Restricted	2,773,302	3,395,088
Total Cash and Cash Equivalents	\$ 8,946,944	\$ 7,760,979

See independent auditors' report and accompanying notes to financial statements.

**INDIAN WELLS VALLEY WATER DISTRICT
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE INFORMATION AS OF JUNE 30, 2011**

	<u>JUNE 30, 2012</u>	<u>JUNE 30, 2011</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATIONS		
Operating Income (Loss)	\$ 1,614,725	\$ 905,786
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	2,678,583	2,201,318
Amortization	4,977	4,686
Changes in Assets - (Increase)/Decrease in:		
Accounts Receivable	(177,279)	(162,469)
Inventory	(339)	(640)
Changes In Liabilities - Increase/(Decrease) in:		
Accounts Payable	(269,667)	(900,504)
Accrued Wages	3,479	(75,204)
Customer and Sponsor Deposits	11,098	(9,140)
Compensated Absences	(162,468)	10,157
	<u>3,703,109</u>	<u>1,973,990</u>
Net Cash Provided by Operating Activities	<u>\$ 3,703,109</u>	<u>\$ 1,973,990</u>

See independent auditors' report and accompanying notes to financial statements.

**INDIAN WELLS VALLEY WATER DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2012**

ASSETS

ASSETS	Post Employment Benefit Trust Fund
Cash in Trust	\$ 871,084
Total Assets	871,084

LIABILITIES

LIABILITIES	
Accounts Payable	33,792
Total Liabilities	33,792

NET ASSETS

Held in Trust for Post Employment Benefits	837,292
Total Net Assets	\$ 837,292
Total Liabilities and Net Assets	\$ <u>871,084</u>

See independent auditors' report and accompanying notes to financial statements.

**INDIAN WELLS VALLEY WATER DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Post Employment Benefit Trust Fund</u>
ADDITIONS	
Investment Earnings	\$ 34,482
Total Additions	<u>34,482</u>
DEDUCTIONS	
Administrative Expenses	1,473
Payment to Retirees	<u>33,792</u>
Total Deductions	<u>35,265</u>
Change in Net Assets	(783)
Net Assets - Beginning of Year	<u>838,075</u>
Net Assets - End of Year	<u><u>\$ 837,292</u></u>

See independent auditors' report and accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Reporting Entity

The Indian Wells Valley Water District (the District) was formed for the purposes of furnishing potable water within the District. The District was formed under the provisions of the County Water Act found in Division 12 of the State of California Water Code. The District is located in Kern County and includes the communities in Ridgecrest and provides water to approximately 12,000 customers.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment to No. 14). The District is the primary governmental unit based on the foundation of a separately elected board that is elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the governing of the organization's governing body and 1) is able to impose its will on that organization, or 2) a potential exists for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The District has no blended or discretely-presented component units.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its customers on a continuing basis be financed or recovered primarily through user charges from water sales and services. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the cash flows take place.

Operating revenues, such as water sales and service fees, result from exchange transactions associated with the principal activities of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grant funds and investment income, result from non-exchange transactions, in which, the District gives or receives value without directly receiving or giving value in exchange.

C. Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses, and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Financial Reporting, continued

Under GASB 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

D. Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances or net assets, revenues and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are into be spent and the means by which spending activities are controlled. The District's accounts are organized into major and fiduciary funds as follows:

PROPRIETARY FUNDS

1. Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service. The District has only one enterprise fund which accounts for all of the activity.

FIDUCIARY FUNDS

1. Expendable Trust Funds are used to account for assets held by the District as Trustees. The District maintains one non-major expendable trust fund, Retiree Benefits Fund, which is used to provide contingency reserves for District payment of current and future retiree health and welfare benefits. Investment earnings are earned on the principal of the fund and deposited in California Employers' Retiree Benefit Trust. During the fiscal year ended June 30, 2012, investment earnings totaled \$34,482. Since the District is not directly liable for the Retiree Benefits Fund debt and it is expected all such debt will be repaid from future retiree health and welfare benefits and not District revenues, the Retiree Benefits Fund debt is not included in the District's financial statements.

E. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Pumping Plant and Transmission Lines	30 to 35 years
Buildings	30 years
Improvements	10 to 30 years
Equipment	3 to 10 years

INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

G. Deposits and Investments

The District adopted an investment policy directing management to deposit funds in financial institutions. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

H. Accounts Receivable

The District extends credit to customers in the normal course of operations. No allowance for doubtful accounts has been established since management believes that substantially all amounts are collectible.

I. Inventory

Inventory consisting of water meters and other water related items is based on a physical count at June 30, 2012, and is valued at lower of cost or market, cost being determined on an average cost basis.

J. Prepaid Expenses

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

K. Bond Issuance Costs, Net of Accumulated Amortization

The deferred charges are from bond issuance costs that will be amortized using the straight-line method over the remaining life of the respective debt service.

L. Restricted Assets

Certain assets of the District are restricted for use by ordinance or debt covenant and, accordingly, are shown as restricted assets on the accompanying statement of net assets. The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

M. Compensated Absences

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and portions of sick leave are recorded when benefits are earned. Cash payment of unused vacation is available to those qualified employees when retired or terminated. The dollar value of such accumulations determined to be \$136,296 as of June 30, 2012.

INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Special Assessment Districts

The District maintains two Assessment Districts. These Assessment Districts were established under the Municipal Improvement Act of 1913 and partially financed with 1951 Improvement Act bonds. Accounting for these Assessment Districts follows the Governmental Accounting Standards Board Statement No. 6, "Accounting and Financial Reporting for Special Assessments." GASB No. 6 states that Enterprise Funds such as that of the District are to account for special assessment financing debt on the books of the District only if one of the following conditions exists:

1. The District is directly liable for the special assessment debt.
2. The District is not directly liable for the special assessment debt, but the debt is expected to be repaid from revenues of the District.

Since the District is not directly liable for the Assessment District debt and it is expected all such debt will be repaid from landowner assessments and not District revenues, the Special Assessment debt is not included in the District's financial statements. The District acts solely as an agent for the bondholders in collecting and forwarding the special assessments. Special Assessment Bonds outstanding at June 30, 2012 totaled \$1,971,000.

O. Use of Estimates

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

P. Net Assets

The financial statements utilize a net asset presentation. Net assets are categorized as follows:

- Net Investment in Capital Assets – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets.
- Restricted Net Assets – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

Q. Water Sales

Most water sales are billed on a monthly cyclical basis. Estimated unbilled water revenue through year-end has not been accrued as it was determined by management to have an insignificant impact on the financial statements as a whole.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Reclassification

The District has reclassified certain prior year information to conform to current year presentation.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

Cash and Cash Equivalents	\$	6,173,642
Cash and Cash Equivalents - Restricted		<u>2,773,302</u>
Total	\$	<u><u>8,946,944</u></u>

The unrestricted cash and investments consisted of the following at June 30, 2012:

Cash on Hand and in Banks	\$	288,827
Pooled Investments - State of California		2,063,420
Pooled Investments - Kern County		<u>3,821,395</u>
Total	\$	<u><u>6,173,642</u></u>

The restricted cash and investments consisted of the following at June 30, 2012:

Cash in Banks	\$	335,688
Pooled Investments - Kern County		286,087
BNY Western Trust Co.		<u>2,151,527</u>
Total	\$	<u><u>2,773,302</u></u>

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

The following table identifies the investment types that are authorized by the District in accordance with the California Government Code or the District's investment policy, where more restrictive. The table also identifies certain provisions of the California Government Code or the District's investment policy, where more restrictive that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investments Authorized by the California Government Code and the District’s Investment Policy (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio *</u>	<u>Maximum Investment in One Issuer</u>
State and Local Agency Bonds	5 years	100%	None
U.S. Treasury Notes	5 years **	100%	None
Federal Agency Obligations	5 years **	100%	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	40%	10%
Non-negotiable Certificates of Deposit	1 year	30%	None
Negotiable Certificates of Deposit	5 years	30%	None
Medium-Term Notes	5 years	30%	None
Repurchase Agreements	30 days	100%	None
Money Market Funds	N/A	20%	None
California Local Agency Investment Fund(LAIF)	N/A	100%	10%

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions

** Except when authorized by the District’s legislative body in accordance with Government Code Section

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. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government’s indirect investment in securities through the use of mutual funds or government investment pools such as the State of California (LAIF) and Kern County Investment Pools.

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. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District’s name.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investment in External Investment Pools

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

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

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. One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date.

Investments at June 30, 2012, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 months or less</u>	<u>13 to 36 months</u>	<u>37-60 months</u>
Cash on Hand and in Banks	\$ 288,827	\$ 288,827	\$ -	\$ -
Pooled Investments - State of California	2,063,420	1,582,643	466,333	14,444
Pooled Investments - Kern County	3,821,395	2,113,231	1,096,740	611,423
Cash in Banks	335,688	335,688	-	-
Pooled Investments - Kern County	286,087	158,206	82,107	45,774
BNY Western Trust Co.	2,151,527	2,151,527	-	-
Total	<u>\$ 8,946,944</u>	<u>\$ 6,630,123</u>	<u>\$ 1,645,180</u>	<u>\$ 671,641</u>

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by, where applicable, the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Credit Risk (Continued)

Credit ratings as of June 30, 2012, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt from Disclosure</u>	<u>Ratings AAA</u>
Cash on Hand and in Banks	\$ 288,827	N/A	\$ 288,827	-
Pooled Investments - State of California	2,063,420	N/A	2,063,420	-
Pooled Investments - Kern County	3,821,395	N/A	3,821,395	-
Cash in Banks	335,688	N/A	335,688	-
Pooled Investments - Kern County	286,087	N/A	286,087	-
BNY Western Trust Co.	2,151,527	N/A	2,151,527	-
Total	<u>\$ 8,946,944</u>		<u>\$ 8,946,944</u>	

NOTE 3 – BOND ISSUANCE COSTS, NET OF ACCUMULATED AMORTIZATION

The balance consists of the following issuance costs, net:

Bond Issuance Cost 2009 COP	\$ 119,853
Bond Discount 2009 COP	<u>130,929</u>
Total	<u>\$ 250,782</u>

NOTE 4 – CAPITAL ASSETS

Changes in capital assets for the year were as follows:

	<u>Balance July 01, 2011</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 2012</u>
Non-depreciable Assets:				
Land Acquisition	\$ 3,127,674	\$ -	\$ -	\$ 3,127,674
Construction in Progress	14,512,685	677,720	(15,016,829)	173,576
Total Non-depreciable Assets	<u>17,640,359</u>	<u>677,720</u>	<u>(15,016,829)</u>	<u>3,301,250</u>
Depreciable Assets:				
Transmission and Distribution	50,622,674	622,557	-	51,245,231
General Plant	5,347,008	7,365	-	5,354,373
Production and Source of Supply	15,533,275	14,416,903	-	29,950,178
Total Depreciable Assets	<u>71,502,957</u>	<u>15,046,825</u>	<u>-</u>	<u>86,549,782</u>
Accumulated Depreciation	(38,244,786)	(2,678,583)	-	(40,923,369)
Total Depreciable Assets, Net	<u>33,258,171</u>	<u>12,368,242</u>	<u>-</u>	<u>45,626,413</u>
Total Capital Assets, Net	<u>\$ 50,898,530</u>	<u>\$ 13,045,962</u>	<u>\$ (15,016,829)</u>	<u>\$ 48,927,663</u>

INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 5 – LONG-TERM DEBT

Changes in long-term debt for the fiscal year ended June 30, 2012, were as follows:

	<u>Balance</u> <u>July 01, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2012</u>
<u>Notes and Contracts</u>				
State of California (Proposition 55)	\$ 2,646,344	\$ -	\$ (191,725)	\$ 2,454,619
State of California (Proposition 44)	64,649	-	(42,730)	21,919
Total Notes and Contracts	<u>2,710,993</u>	<u>-</u>	<u>(234,455)</u>	<u>2,476,538</u>
<u>Certificates of Participation and Bonds</u>				
Water Revenue Refunding Bonds - 2003	3,770,000	-	(375,000)	3,395,000
Water Revenue Refunding Bonds - 2009	19,655,000	-	(350,000)	19,305,000
Total Certificates of Participation and Bonds	<u>23,425,000</u>	<u>-</u>	<u>(725,000)</u>	<u>22,700,000</u>
Total Long-Term Debt	\$ 26,135,993	<u>\$ -</u>	<u>\$ (959,455)</u>	\$ 25,176,538
Less Current Portion	<u>(959,455)</u>			<u>(965,510)</u>
Non-Current Portion	<u>\$ 25,176,538</u>			<u>\$ 24,211,028</u>

Annual requirements to amortize long-term debt including interest are as follows:

<u>Year Ending June 30,</u>	<u>Notes and</u> <u>Contracts</u>	<u>Water Revenue</u> <u>Refunding</u> <u>Bonds</u>	<u>Water Revenue</u> <u>Certificate</u> <u>of Participation</u>	<u>Total</u>
2013	\$ 301,815	\$ 504,733	\$ 1,314,487	\$ 2,121,035
2014	279,519	505,995	1,313,537	2,099,051
2015	279,519	506,629	1,310,387	2,096,535
2016	279,519	506,415	1,309,888	2,095,822
2017	279,519	505,224	1,308,788	2,093,531
2018 - 2022	1,397,595	1,397,939	6,497,313	9,292,847
2023 - 2027	139,760	-	6,414,188	6,553,948
2028 - 2032	-	-	6,423,922	6,423,922
2033 - 2037	-	-	6,437,391	6,437,391
2038 - 2040	-	-	3,923,212	3,923,212
Total Principal and Interest	<u>2,957,246</u>	<u>3,926,935</u>	<u>36,253,113</u>	<u>43,137,294</u>
Less Interest Portion	<u>(480,708)</u>	<u>(531,935)</u>	<u>(16,948,113)</u>	<u>(17,960,756)</u>
Total Principal	<u>\$ 2,476,538</u>	<u>\$ 3,395,000</u>	<u>\$ 19,305,000</u>	<u>\$ 25,176,538</u>

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 – LONG-TERM DEBT (Continued)

	Current Portion	Long-Term Portion	Total Amount
<u>Notes and Contracts</u>			
State of California - Safe Drinking Water Act Loan (Prop. 55): Payable \$139,757 semi-annually including interest at 3.3712%.	\$ 198,591	\$ 2,256,028	\$ 2,454,619
State of California - Water Conservation Construction Loan (Prop. 44): Payable \$22,292 semi-annually including interest at 3.4375%.	21,919	0	21,919
Total Notes and Contracts	\$ 220,510	\$ 2,256,028	\$ 2,476,538
<u>Water Revenue Bonds</u>			
Water Revenue Certificates of Participation, Series 2009: Payable in semi-annual installments based on a 30 year amortization with interest ranging from 2.00% to 5.25%.	\$ 360,000	\$ 18,945,000	\$ 19,305,000
Water Revenue Refunding Bonds, Series 2003: Payable in semi-annual installments based on a 16 year amortization with interest ranging from 2.00% to 4.00%.	385,000	3,010,000	3,395,000
Total Water Revenue Bonds	745,000	21,955,000	22,700,000
Total Long-Term Debt	\$ 965,510	\$ 24,211,028	\$ 25,176,538

State of California - Safe Drinking Water Act Loan (Proposition 55)

Loan proceeds to improve Ridgecrest Heights Water System - Total loan was \$5,250,000.

State of California - Water Conservation Construction Loan (Proposition 44)

Loan proceeds to improve Ridgecrest Heights Water System - Total loan was \$641,000.

Water Revenue Refunding Bonds, Series 2003

Proceeds of the Series 2003 Bonds were used to prepay the District's outstanding 1994 Certificates of Participation (California Special Districts Finance Program) Series X (the "1994 Certificates") and the District's outstanding 1977 U.S. Economic Development Administration Loan (the "1977 EDA Loan") and pay costs of issuance incurred in connection with the issuance of the Series 2003 Bonds. The District issued the 1994 Certificates to prepay an earlier issuance of Certificates of Participation in 1989. The District obtained the 1977 EDA Loan to finance capital improvements related to drought impact mitigation.

The District entered into an escrow agreement with BNY Western Trust Company, as the escrow bank (the "Escrow Agent") with respect to the outstanding 1994 Certificates to be prepaid. Under the escrow agreement, a portion of the bond proceeds will be used to establish an escrow fund to the 1994 Certificates. These funds were held in trust by the Escrow Agent until December 1, 2003 when the 1994 Certificates were prepaid. Refunding securities held in trust in the escrow fund, including subsequent investment there from, were in amounts sufficient to prepay the 1994 Certificates on December 1, 2003.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 – LONG-TERM DEBT (Continued)

Water Revenue Refunding Bonds, Series 2003 (Continued)

Moneys and government securities deposited into the escrow fund were not available to pay principal and interest of the Series 2003 Bonds.

The 1977 EDA Loan was prepaid pursuant to a pay-off letter and a cashier's check payable to the U.S. Economic Development Administration in the amount sufficient to prepay the 1977 EDA Loan.

Water Revenue Certificates of Participation, Series 2009

Proceeds of the Series 2009 Certificates of Participation were used to finance arsenic treatment facilities and expansion of the District's existing water system to create operating redundancy and enhance fire flow. The capital projects are scheduled to be completed between 2010 and 2012. The arsenic project includes construction of arsenic treatment facilities with related pipelines for water mixing and distribution to comply with Federal and State arsenic standards. The water supply improvements include upgrading two of the existing well pumps and constructing one new reservoir with related pipelines. The total cost of the improvements is estimated at \$15.1 million.

A portion of the Certificate of Participation will also be used to prepay the District's Series 1999A California Statewide Communities Development Authority Revenue Bonds, and to pay issuance costs for the Certificates.

NOTE 6 – NET ASSETS

Calculation of net assets as of June 30, were as follows:

Net Investment in Capital Assets:	
Non-depreciable Assets	\$ 3,301,250
Depreciable Capital Assets, Net	45,626,413
Current:	
Notes and Contracts	(220,510)
Certificates of Participation and Bonds	(745,000)
Non-current:	
Notes and Contracts	(2,256,028)
Certificates of Participation and Bonds	(21,955,000)
Total Net Investment in Capital Assets	<u>23,751,125</u>
Restricted:	
Non-spendable	3,124,203
Restricted - Debt	2,742,974
Committed	3,321,701
Assigned	736,087
Total Restricted	<u>9,924,965</u>
Unrestricted	<u>2,046,393</u>
Total Net Assets	<u>\$ 35,722,483</u>

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7 – CONTRIBUTED CAPITAL

Utility Plant

The District has consistently maintained a “new service” policy, which requires the users to contribute (dedicate) their transmission lines to the District. Under this policy an individual or developer bears the cost of installing all lines needed to service his facility with water. The individual or developer then dedicates these lines to the District and from that time on, it is the District’s responsibility to maintain and replace these lines. There was no contributed utility plant during the year ended June 30, 2012.

Special Assessments

As discussed in Note 1, the District is not directly liable for special assessment debt therefore these bonds are not reflected on the financial statements of the District. All bond proceeds from Special Assessments which were available for construction costs have been recorded as contributed capital. This accounting is in accordance with Governmental Accounting Standards Board (GASB) Statement No. 6. A summary of the Special Assessments providing contributed capital to the District follows:

87-1: The District acquired the private water company known as Ridgecrest Heights Water System during the 1987-88 fiscal year. In order to finance the construction of the estimated \$6,741,000 of required improvements the District confirmed Assessment District 87-1 on June 14, 1989. The District holds the Assessment District Bonds and did not sell them on the open market. Bond principal and interest revenues will be used to repay loans received to finance construction from the State of California.

91-1: Assessment District 91-1 consists of approximately 300 gross acres of land subdivided into 133 residential lots contiguous to the southwesterly boundary of the City of Ridgecrest, California. The District confirmed Assessment District 91-1 on January 15, 1992 for the design and construction of a domestic water system for the property within the assessment district. The cost of this construction was estimated at \$1,508,000. Total assessments confirmed were \$1,508,000 and \$237,551 was collected during the cash collection period which ended February 15, 1992. The remaining unpaid assessments of \$1,270,449 were bonded and these limited obligation improvement bonds were sold on July 13, 1992. The District, on August 23, 2001, approved resolution 01-05 under the California Streets and Highways Code Section 8771, 8772 and 8773, that the terms and conditions of the bond repayment schedule be modified as of June 30, 2008. The outstanding bonds and interest due to the bond holder were paid under the modified payment schedule. As of June 30, 2012, Assessment District 91-1 held cash in the Kern County Treasury of \$114,191. These funds are available for District expenses/improvements with the appropriate Board action/approvals.

NOTE 8 – ASSESSMENT DISTRICT BONDS RECEIVABLE

The District has elected to hold the AD 87-1 Assessment District Bonds rather than sell them on the open market. Since the District has “invested” in these bonds they are entitled to receive all revenue relating to the Assessment District Bonds. The assessment bonds receivable payment schedules at June 30, 2012 are as follows:

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 8 – ASSESSMENT DISTRICT BONDS RECEIVABLE (Continued)

<u>Year Ending June 30,</u>	<u>AD 87-1 Bonds Held</u>
2013	\$ 216,000
2014	230,000
2015	230,000
2016	235,000
2017	245,000
2018 - 2020	815,000
Total Bond Principal Receivable	<u>\$ 1,971,000</u>

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS

Plan Description

The District contributes to the California Public Employees Retirement System (PERS), an cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of the PERS annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

The contribution rate for plan members in the PERS 2.0% at 60 Risk Pool Retirement Plan is 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension cost (APC) percentage of payroll for fiscal year 2012 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by PERS. For fiscal years 2012, 2011, 2010, 2009, and 2008, the District's annual contributions for the PERS plan were equal to the District's required and actual contributions for each fiscal year as follows:

<u>Five-Year Trend Information for PERS - Indian Wells Valley Water District</u>				
<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Overfunding Offset</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/08	\$ 111,772	\$ (111,772)	100%	\$ 0
6/30/09	\$ 126,244	\$ (126,244)	100%	\$ 0
6/30/10	\$ 69,812	\$ (69,812)	100%	\$ 0
6/30/11	\$ 81,779	\$ (81,779)	100%	\$ 0
6/30/12	\$ 92,565	\$ (92,565)	100%	\$ 0

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

The District provides post employment health care benefits to all employees who retire from the District and meet certain eligibility requirements. Retirees may enroll in any plan available through PERSD medical, dental, and vision programs. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

Eligibility for District-paid Benefits

To be eligible for retiree health benefits, an employee must retire from the District on or after age 55 with at least 15 years of District service. The District's contribution is \$400 per month for eligible employees retiring on or after July 1, 2007 and \$350 per month for eligible employees retiring prior to July 1, 2007.

Funding Policy

As required by GASB 45, an actuary will determine the District's Annual Required Contributions (ARC) at least once every two fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost for one year, and (2) a component for amortization of the total Unfunded Actuarial Accrued Liability (UAAL) over a period not to exceed 30 years.

GASB 45 does not require pre-funding of OPEB benefits. However, the District has elected to establish an irrevocable trust at this time.

Annual OPEB Cost and Net OPEB Obligation/(Asset)

The following table shows the components of the District's Annual OPEB cost for the fiscal year ended June 30, 2012, the amount actually contributed to the plan and the changes in the District's Net OPEB Obligation/ (Asset):

	<u>June 30, 2012</u>
Annual Required Contributions	\$ 0
Interest on Net OPEB Obligation/(Asset)	(34,482)
Adjustment to Annual Required Contributions	35,265
Annual OPEB cost (expense)	783
Contributions made	0
Increase in Net OPEB Obligation/(Asset)	783
Net OPEB Obligation/(Asset) - Beginning of Year	(838,075)
Net OPEB Obligation/(Asset) - End of Year	\$ (837,292)

The District's Annual OPEB Cost, the Percentage of Annual OPEB Cost Contributed to the plan, and the Net OPEB Obligation/ (Asset) for the fiscal year ended June 30, 2012 and the two preceding year are shown in the following table.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset) Beginning	Net OPEB Obligation/ (Asset) End
06/30/10	\$ (56,494)	\$ (21,076)	37.31%	\$ (720,364)	\$ (755,782)
06/30/11	\$ (83,810)	\$ (1,517)	1.81%	\$ (755,782)	\$ (838,075)
06/30/12	\$ 783	\$ -	0.00%	\$ (838,075)	\$ (837,292)

Actuarial Methods and Assumptions

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

The plan's most recent actuarial valuation was performed as of June 30, 2011. In that valuation, the Projected Unit Credit with service pro-rate method was used. The actuarial assumptions included a 7.61% discount rate. Since the District's contribution is a fixed dollar amount, a 1% increase in the healthcare trend rate for each year would not materially impact the annual required contribution. The District is a community-rated health plan and is exempt from valuing this rate subsidy.

NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes that there are no legal matters that will materially affect its financial condition.

The District has a variety of agreements with private parties relating to the installation, improvement, or modification of water facilities and distribution systems within its service area.

NOTE 12 – ASSESSMENT DISTRICT / CONTINGENCIES

Assessments to be Collected

As discussed in Note 1, the District has accounted for Assessment District activity in accordance with GASB No. 6. This statement requires assessment district bonds be not shown as a liability of the District if the District has no liability for payment should landowners default on their assessment payments. Since Indian Wells Valley Water District has no liability for the assessment district bonds, these bonds are not shown as a liability of the District. The District is only functioning as an agent for the property owners by collecting assessments, forwarding collections to bondholders and beginning foreclosures if required. Total assessments outstanding at June 30, 2012 are as follows:

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

	<u>AD #87-1</u>
Remaining Assessment Bond Principal Outstanding to be Collected	\$ 1,971,000
Remaining Assessment Bond Interest Outstanding to be Collected	280,671
Total Due and to be Collected	\$ 2,251,671

NOTE 12 – ASSESSMENT DISTRICT / CONTINGENCIES (Continued)

Assessment Bond Debt

The District maintains an assessment district financed with 1915 Improvement Act Bonds. As discussed above, the District is not directly liable for the Assessment District debt and it is intended that all such debt will be repaid from landowner assessments and not District revenues. The Special Assessment Debt is not included in the District's financial statements. The District acts solely as an agent for the bondholders in collecting and forwarding the special assessments. Special Assessment Bonds outstanding at June 30, 2012, totaled \$1,971,000.

Delinquent Assessments: AD #87-1

The total amount delinquent as of June 30, 2012, was approximately 3.75% (\$84,484) for AD #87-1.

NOTE 13 – GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS ISSUED, NOT YET EFFECTIVE

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2012, that have effective dates that may impact future financial presentation.

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 61

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity, Omnibus*. This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments*. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this statement to the District's financial statements has not been assessed at this time.

INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 13 – GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS ISSUED, NOT YET EFFECTIVE (Continued)

Governmental Accounting Standards Board Statement No. 64

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. This standard is designed to improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or swap counterparty's credit support provider is replaced. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 65

The GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for financial statements for periods beginning after December 15, 2012. The impact of the implementation of this statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 66

The GASB issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statement No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for financial statements for periods beginning after December 15, 2012. The impact of the implementation of this statement to the District's financial statements has not been assessed at this time.

NOTE 14– SUBSEQUENT EVENTS

The District had no reportable subsequent events as of the date of the auditors' report, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**INDIAN WELLS VALLEY WATER DISTRICT
OTHER POST EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2012**

The funded status of the plan as of June 30, 2012, the end of the first year of GASB 45 applicability, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Projected Unit Credit Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2009	\$ 0	\$ 464,036	\$ 464,036	0.0%	\$ 2,205,887	21.0%
July 1, 2010	\$ (695,922)	\$ 523,985	\$ (171,937)	-132.8%	\$ 2,032,000	-8.5%
July 1, 2011	\$ (848,394)	\$ 519,396	\$ (328,998)	-163.3%	\$ 1,952,000	-16.9%

Actuarial valuations of an ongoing plan involve estimates of the value 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 funding status of the plan the Annual Required Contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimate are made about the future. The schedule of funding progress, as presented shows where the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

OTHER SUPPLEMENTARY INFORMATION

**INDIAN WELLS VALLEY WATER DISTRICT
STATEMENT OF REVENUES AND EXPENSES
PROPRIETARY FUND - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012**

	2011-2012 ORIGINAL BUDGET	2011-2012 REVISED BUDGET	2011-2012 ACTUAL	OVER (UNDER) REVISED BUDGET	2012-2013 BUDGET
REVENUES					
WATER SALES					
Residential	\$ 5,400,000	\$ 5,400,000	\$ 6,208,118	\$ 808,118	\$ 6,770,000
Commercial	990,000	1,030,000	1,287,493	257,493	1,290,000
Other	1,664,000	1,679,000	1,688,434	9,434	1,794,000
Total Water Sales	<u>8,054,000</u>	<u>8,109,000</u>	<u>9,184,045</u>	<u>1,075,045</u>	<u>9,854,000</u>
OTHER OPERATING REVENUES					
Capital Facilities Fees	202,000	100,000	134,217	34,217	81,000
New Service Connections	9,000	9,000	5,598	(3,402)	4,000
Other	248,000	248,000	266,858	18,858	264,000
Total Other Operating Revenues	<u>459,000</u>	<u>357,000</u>	<u>406,673</u>	<u>49,673</u>	<u>349,000</u>
OTHER REVENUES					
Interest and Assessment Income	192,500	118,500	216,211	97,711	100,000
Grant Income	-	-	-	-	-
Rent and Miscellaneous	24,200	43,200	50,112	6,912	44,000
Total Other Revenues	<u>216,700</u>	<u>161,700</u>	<u>266,323</u>	<u>104,623</u>	<u>144,000</u>
Total Revenues	<u>8,729,700</u>	<u>8,627,700</u>	<u>9,857,041</u>	<u>1,229,341</u>	<u>10,347,000</u>
OPERATING EXPENSES					
Pumping Plant:					
Labor and Benefits	210,000	208,500	256,029	47,529	224,000
Maintenance	77,000	138,000	163,427	25,427	649,500
Power	564,000	564,000	496,634	(67,366)	566,000
Permits	6,000	6,000	4,353	(1,647)	6,000
Other	56,000	68,000	57,439	(10,561)	64,900
Total Pumping Plant	<u>913,000</u>	<u>984,500</u>	<u>977,882</u>	<u>(6,618)</u>	<u>1,510,400</u>
Arsenic Plant:					
Labor and Benefits	214,000	221,000	153,988	(67,012)	219,000
Maintenance	22,000	22,000	13,374	(8,626)	22,000
Power	53,000	75,000	71,645	(3,355)	91,000
Other	343,000	342,500	163,660	(178,840)	352,000
Total Arsenic Plant	<u>632,000</u>	<u>660,500</u>	<u>402,667</u>	<u>(257,833)</u>	<u>684,000</u>

See independent auditors' report.

**INDIAN WELLS VALLEY WATER DISTRICT
STATEMENT OF REVENUES AND EXPENSES
PROPRIETARY FUND - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012**

	2011-2012 ORIGINAL BUDGET	2011-2012 REVISED BUDGET	2011-2012 ACTUAL	OVER (UNDER) REVISED BUDGET	2012-2013 BUDGET
OPERATING EXPENSES (Continued)					
Transmission and Distribution:					
Supervision, Labor and Benefits	\$ 676,000	\$ 670,500	\$ 673,165	\$ 2,665	\$ 711,000
Maintenance and Other	610,000	650,800	486,814	(163,986)	565,500
Total Transmission and Distribution	<u>1,286,000</u>	<u>1,321,300</u>	<u>1,159,979</u>	<u>(161,321)</u>	<u>1,276,500</u>
Engineering:					
Supervision, Labor and Benefits	371,000	267,200	268,050	850	200,200
Maintenance and Other	73,000	68,100	51,379	(16,721)	57,100
Consulting	80,000	100,000	91,301	(8,699)	80,000
Total Engineering	<u>524,000</u>	<u>435,300</u>	<u>410,730</u>	<u>(24,570)</u>	<u>337,300</u>
Customer Accounts:					
Supervision, Labor and Benefits	247,000	216,000	214,266	(1,734)	268,500
Uncollectible Accounts	38,000	38,000	47,177	9,177	40,000
Printing, Postage and Supplies	89,600	73,600	70,670	(2,930)	77,100
Total Customer Accounts	<u>374,600</u>	<u>327,600</u>	<u>332,113</u>	<u>4,513</u>	<u>385,600</u>
Field Services:					
Supervision, Labor and Benefits	343,000	270,000	264,158	(5,842)	295,000
Vehicles	23,000	23,000	16,977	(6,023)	22,000
Maintenance of Water Meters	43,000	45,100	54,287	9,187	62,500
Total Field Services	<u>409,000</u>	<u>338,100</u>	<u>335,422</u>	<u>(2,678)</u>	<u>379,500</u>
Administration and General:					
Supervision, Labor and Benefits	1,111,000	1,139,275	1,104,675	(34,600)	1,050,500
Vehicles	6,000	6,000	4,933	(1,067)	7,000
Office Expense	16,500	15,500	12,897	(2,603)	14,500
Memberships and Subscriptions	24,000	31,000	24,831	(6,169)	32,000
Travel and Conventions	5,000	5,000	4,513	(487)	12,000
Maintenance and Security	50,500	51,500	58,416	6,916	59,000
Office and Shop Utilities	48,000	47,000	43,264	(3,736)	44,000
Telephone	30,000	29,500	30,349	849	31,300
Insurance	104,000	104,000	104,007	7	104,500
Employee Training and Subsistence	4,200	4,200	35,956	31,756	1,500
Outside Services and Consultants	178,000	154,000	154,000	0	139,500
Retirement Medical Benefits	0	0	0	0	0
Computer and Equipment Maintenance	38,000	41,000	0	(41,000)	42,000
Miscellaneous	11,000	11,000	19,147	8,147	11,000
Total Administration and General	<u>1,626,200</u>	<u>1,638,975</u>	<u>1,596,988</u>	<u>(41,987)</u>	<u>1,548,800</u>

See independent auditors' report.

**INDIAN WELLS VALLEY WATER DISTRICT
STATEMENT OF REVENUES AND EXPENSES
PROPRIETARY FUND - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012**

	2011-2012 ORIGINAL BUDGET	2011-2012 REVISED BUDGET	2011-2012 ACTUAL	OVER (UNDER) REVISED BUDGET	2012-2013 BUDGET
OPERATING EXPENSES (Continued)					
Legislative:					
Director Fees and Other	\$ 81,200	\$ 79,700	\$ 76,652	\$ (3,048)	\$ 98,300
Total Legislative	<u>81,200</u>	<u>79,700</u>	<u>76,652</u>	<u>(3,048)</u>	<u>98,300</u>
Depreciation and Amortization	<u>2,728,400</u>	<u>2,491,400</u>	<u>2,683,560</u>	<u>192,160</u>	<u>2,721,400</u>
OTHER EXPENSES					
Interest Expense and Service Charges	1,201,100	1,201,100	1,193,374	(7,726)	1,163,200
Miscellaneous Expense	285,700	192,300	153,057	(39,243)	166,500
Total Other Expenses	<u>1,486,800</u>	<u>1,393,400</u>	<u>1,346,431</u>	<u>(46,969)</u>	<u>1,329,700</u>
Total Expenses	<u>10,061,200</u>	<u>9,670,775</u>	<u>9,322,424</u>	<u>(348,351)</u>	<u>10,271,500</u>
Net Income	<u>\$ (1,331,500)</u>	<u>\$ (1,043,075)</u>	<u>\$ 534,617</u>	<u>\$ 1,577,692</u>	<u>\$ 75,500</u>

See independent auditors' report.

OTHER INDEPENDENT AUDITORS' REPORT

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

Board of Directors
Indian Wells Valley Water District
Ridgecrest, California

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of Indian Wells Valley Water District (the District), as of and for the year ended June 30, 2012, which collectively comprise the Indian Wells Valley Water District's basic financial statements and have issued our report thereon dated September 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Indian Wells Valley Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Indian Wells Valley Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Indian Wells Valley Water District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, others within the organization, and Board of Directors, others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

BURKEY COX EVANS & BRADFORD
Accountancy Corporation

Palmdale, California
September 10, 2012