Indian Wells Valley Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2013 and 2012

Charles Z. Fedak & Company
Certified Public Accountants
An Accountancy Corporation

History and Organization:

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 30 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, eleven water tanks that provide for 17.1 million gallons of storage, and seven booster stations.

Indian Wells Valley Water District

Board of Directors as of June 30, 2013

Name	Title	Elected/ Appointed	Current Term
Peter E. Brown	President	Elected	12/10-12/14
Don J. McKernan	Vice President	Elected	12/12-12/14
Charles F. Cordell	Director	Elected	12/12-12/16
Leroy H. Corlett	Director	Elected	12/12-12/16
Donald J. Cortichiato	Director	Elected	12/12-12/16

Indian Wells Valley Water District
Donald M. Zdeba, General Manager
500 W. Ridgecrest Blvd.
Ridgecrest, California 93555
(760) 375-5087 – www.iwvwd.com

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Financial Section

Charles Z. Fedak & Company
Certified Public Accountants
An Accountancy Corporation

Charles Z. Fedak, CPA, MBA
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Independent Auditor's Report

Board of Directors
Indian Wells Valley Water District
Ridgecrest, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Indian Wells Valley Water District (District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The comparative financial information as of June 30, 2012, was audited by other auditors whose report dated September 10, 2012, expressed an unmodified opinion on those basic financial statements.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2013 and 2012, and the respective changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the required supplementary information on page 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 31 and 32.

Charles Z. Fedak and Company, CPAs – An Accountancy Corporation
Cypress, California
October 31, 2013

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Indian Wells Valley Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2013 and 2012. The two year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position increased 4.3%, or $1,568,562 to $38,083,813, in fiscal year 2013 as a result of operations.
- In 2013, the District's operating revenues increased 10.9%, or $1,033,761, primarily due to a $1,269,431 increase in ready-to-serve charges.
- In 2013, the District's operating expenses before depreciation decreased only $7,019.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question.

Financial Analysis of the District, continued

These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. One can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 11 through 29.

Statement of Net Position

Condensed Statements of Net Position

	2013	2012	Change
Assets:			
Current assets	$ 13,147,999	10,564,686	2,583,313
Non-current assets	2,505,714	2,918,551	(412,837)
Capital assets, net	46,803,918	48,927,663	(2,123,745)
Total assets	62,457,631	62,410,900	46,731
Liabilities:			
Current liabilities	1,830,283	1,602,843	227,440
Non-current liabilities	22,543,535	24,292,806	(1,749,271)
Total liabilities	24,373,818	25,895,649	(1,521,831)
Net position:			
Net investment in capital assets	23,276,872	23,751,125	(474,253)
Restricted	1,936,561	2,764,487	(827,926)
Unrestricted	12,870,380	9,999,639	2,870,741
Total net position	38,083,813	36,515,251	1,568,562
Total liabilities and net position	$ 62,457,631	62,410,900	46,731

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by $38,083,813 and $36,515,251 as of June 30, 2013 and 2012, respectively.

By far the largest portion of the District's net position (61% as of June 30, 2013 and 65% as of June 30, 2012) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2013 and 2012, the District showed a positive balance in its unrestricted net position of $12,870,380 and $9,999,639, respectively, which may be utilized in future years. See note 12 for further information.

Statement of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	Change
Revenue:			
Operating revenue	$ 10,490,263	9,456,502	1,033,761
Non-operating revenue	389,715	266,323	123,392
Total revenue	10,879,978	9,722,825	1,157,153
Expense:			
Operating expense	5,457,164	5,464,183	(7,019)
Depreciation	2,628,885	2,678,583	(49,698)
Non-operating expense	1,388,346	1,198,351	189,995
Total expense	9,474,395	9,341,117	133,278
Net income before capital	1,405,583	381,708	1,023,875
Capital contributions:	162,979	134,217	28,762
Change in net position	1,568,562	515,925	1,052,637
Net position, beginning of year	36,515,251	35,999,326	515,925
Net position, end of year	$ 38,083,813	36,515,251	1,568,562

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the fiscal years. In the case of the District, the District's change in net position increased by $1,568,562 and $515,925 for the fiscal years ended June 30, 2013 and 2012, respectively.

A closer examination of the sources of changes in net position reveals that:

In 2013, the District's operating revenues increased 10.9% or $1,033,761 primarily due to a $1,269,431 increase in ready-to-serve charges.

In 2013, the District's operating expenses before depreciation decreased only $7,019.

Capital Asset Administration

Changes in capital asset amounts for 2013 were as follows:

	Balance 2012	Additions	Transfers/ Deletions	Balance 2013
Capital assets:				
Non-depreciable assets	$ 3,301,250	610,683	(512,940)	3,398,993
Depreciable assets	86,549,782	407,397	-	86,957,179
Accumulated depreciation	(40,923,369)	(2,628,885)	-	(43,552,254)
Total capital assets, net	$ 48,927,663	(1,610,805)	(512,940)	46,803,918

Changes in capital asset amounts for 2013 were as follows:

	Balance 2011	Additions	Transfers/ Deletions	Balance 2012
Capital assets:				
Non-depreciable assets	$ 17,640,359	677,720	(15,016,829)	3,301,250
Depreciable assets	71,502,957	15,046,825	-	86,549,782
Accumulated depreciation	(38,244,786)	(2,678,583)	-	(40,923,369)
Total capital assets, net	$ 50,898,530	13,045,962	(15,016,829)	48,927,663

Capital Asset Administration, continued

At the end of fiscal year 2013 and 2012, the District's investment in capital assets amounted to $46,803,918 and $48,927,663 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, buildings, equipment, vehicles and construction-in-process, etc. See note 6 for further information.

Debt Administration

Changes in long-term debt amounts for 2013 were as follows:

		Balance 2012	Additions	Transfers/ Deletions	Balance 2013
Long-term debt:					
COPs payable	$	22,700,000	-	(3,755,000)	18,945,000
Loans payable		2,476,538	2,815,000	(709,492)	4,582,046
Total long-term debt	$	2,476,538	2,815,000	(4,464,492)	23,527,046

Changes in long-term debt amounts for 2012 were as follows:

		Balance 2011	Additions	Transfers/ Deletions	Balance 2012
Long-term debt:					
COPs payable	$	23,425,000	-	(725,000)	22,700,000
Loans payable		2,710,993	-	(234,455)	2,476,538
Total long-term debt	$	26,135,993	-	(959,455)	25,176,538

See notes 7 and 8 for further information.

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net position or operating results based on past, present and future events.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Chief Financial Officer at 500 W. Ridgecrest Blvd, Ridgecrest, California 93555 – (760) 375-5086.

Basic Financial Statements

Indian Wells Valley Water District
Statements of Net Assets
June 30, 2013 and 2012

Assets		2013	2012
Current assets:			
Cash and cash equivalents (note 2)	$	9,451,166	6,195,213
Restricted – cash and cash equivalents (note 2)		2,195,330	3,040,318
Accrued interest receivable		8,706	10,357
Accounts receivable – water sales and services		751,311	616,183
Accounts receivable – other		46,361	38,791
Assessment bonds receivable – current and delinquent (note 3)		314,483	278,760
Materials and supplies inventory		351,311	362,142
Prepaid expenses and other deposits		29,331	22,922
Total current assets		13,147,999	10,564,686
Non-current assets:			
Deferred charges, net (note 4)		-	250,782
Mitigation deposit – California Department of Fish and Game		120,000	120,000
Assessment bonds receivable (note 3)		1,525,000	1,755,000
Other post-employment benefits asset (note 5)		860,714	792,769
Capital assets – not being depreciated (note 6)		3,398,993	3,301,250
Capital assets, net – being depreciated (note 6)		43,404,925	45,626,413
Total non-current assets		49,309,632	51,846,214
Total assets	$	62,457,631	62,410,900
Liabilities and Net Position			
Current liabilities:			
Accounts payable and accrued expenses	$	170,855	87,684
Accrued wages and related payables		14,342	13,677
Customer deposits and deferred revenue		247,484	205,623
Accrued interest payable		258,769	275,831
Long-term liabilities – due within one year:			
Compensated absences (note 7)		62,129	54,518
Certificates-of-participation (note 8)		370,000	745,000
Loans payable (note 9)		706,704	220,510
Total current liabilities		1,830,283	1,602,843
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 7)		93,193	81,778
Certificates-of-participation (note 8)		18,575,000	21,955,000
Loans payable (note 9)		3,875,342	2,256,028
Total non-current liabilities		22,543,535	24,292,806
Total liabilities		24,373,818	25,895,649
Net position:			
Net investment in capital assets (note 10)		23,276,872	23,751,125
Restricted for debt service (note 11)		1,936,561	2,764,487
Unrestricted (note 12)		12,870,380	9,999,639
Total net position		38,083,813	36,515,251
	$	62,457,631	62,410,900

See accompanying notes to the basic financial statements

Indian Wells Valley Water District
Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2013 and 2012

		2013	2012
Operating revenues:			
Water consumption sales	$	4,235,592	4,569,444
Ready-to-serve charges		4,292,799	3,023,368
Arsenic compliance charges		1,557,963	1,480,743
Zone charge		117,870	110,490
Other charges for services		286,039	272,457
Total operating revenues		10,490,263	9,456,502
Operating expenses:			
Pumping plant		977,167	977,881
Arsenic plant		402,800	402,666
Transmission and distribution		1,265,606	1,159,981
Field services		351,227	335,423
Engineering		297,311	410,732
Customer service		397,685	331,494
Legislative		79,833	76,652
General and administrative		1,685,535	1,769,354
Total operating expenses		5,457,164	5,464,183
Operating income before depreciation expense		5,033,099	3,992,319
Depreciation expense – capital recovery		(2,628,885)	(2,678,583)
Operating income		2,404,214	1,313,736
Non-operating revenue(expense):			
Special assessment 87-1 for debt service		284,062	159,556
Investment earnings		57,602	56,654
Rental revenue		19,200	19,200
Interest expense		(1,103,314)	(1,186,168)
Debt service costs		(750)	(2,808)
Amortization of deferred charges		(284,282)	(9,375)
Other revenue		28,851	30,913
Total non-operating, net		(998,631)	(932,028)
Net income before capital contributions		1,405,583	381,708
Capital contributions:			
Capacity facility fees		91,640	134,217
Capital contributions		71,339	-
Total capital contributions		162,979	134,217
Change in net position		1,568,562	515,925
Net position, beginning of year		36,515,251	35,187,866
Prior period adjustment (note 13)		-	811,460
Net position, end of year	$	38,083,813	36,515,251

See accompanying notes to the basic financial statements

Indian Wells Valley Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2013 and 2012

		2013	2012
Cash flows from operating activities:			
Cash receipts from customers for water sales and services	$	10,437,477	9,691,782
Cash paid to employees for salaries and wages		(1,747,998)	(1,819,483)
Cash paid to vendors and suppliers for materials and services		(3,670,577)	(4,057,538)
Net cash provided by operating activities		5,018,902	3,814,761
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(505,140)	(707,716)
Capital contributions		162,979	134,217
Special assessments for debt service		478,339	333,796
Issuance of debt		2,815,000	-
Purchase of refunding requirement for 2003 bonds		(2,499,156)	-
Debt issuance costs		(33,500)	-
Principal paid		(1,965,336)	(959,455)
Interest paid		(1,120,376)	(1,187,348)
Net cash used in capital and related financing activities		(2,667,190)	(2,386,506)
Cash flows from investing activities:			
Investment earnings		59,253	46,297
Net cash provided by investing activities		59,253	46,297
Net increase in cash and cash equivalents		2,410,965	1,474,552
Cash and cash equivalents, beginning of year		9,235,531	7,760,979
Cash and cash equivalents, end of year	$	11,646,496	9,235,531

Reconciliation of cash and cash equivalents to statement of financial position:

		2013	2012
Cash and cash equivalents	$	9,451,166	6,195,213
Restricted assets – cash and cash equivalents		2,195,330	3,040,318
Total cash and cash equivalents	$	11,646,496	9,235,531

Continued on next page

See accompanying notes to the basic financial statements

Indian Wells Valley Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2013 and 2012

Reconciliation of operating income to net cash provided by operating activities:

	2013	2012
Operating income	$ 2,404,214	1,313,736
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,628,885	2,678,583
Rental revenue	19,200	19,200
Debt service costs	(750)	(2,808)
Other revenue	28,851	30,913
Changes in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable – water sales and services	(135,128)	212,862
Accounts receivable – other	(7,570)	(38,791)
Materials and supplies inventory	10,831	(339)
Prepaid expenses and other deposits	(6,409)	274
Other post-employment benefits asset	(67,945)	18,691
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	83,171	(269,629)
Accrued wages and related payables	665	3,441
Customer deposits and deferred revenue	41,861	11,096
Compensated absences	19,026	(162,468)
Total adjustments	2,614,688	2,501,025
Net cash provided by operating activities	$ 5,018,902	3,814,761

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Indian Wells Valley Water District (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 community of 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. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. 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 organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

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 service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding. 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 related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

The District's basic financial statements are prepared in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting, including GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Revenues are recognized when earned, and costs and expenses are recognized when incurred.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* effective for financial statements for periods beginning after December 15, 2011. The District implemented this new pronouncement in the current year. The effect of the implementation of this statement to the District is limited to renaming of ***Net Assets*** to ***Net Position***.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Position

1. Use of Estimates

The preparation of the basic financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

2. 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.

3. Investments

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.

4. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

5. 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.

6. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipe and pipefittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using the weighted-average method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

7. 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.

8. Deferred Charges

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. As of June 30, 2013, the District implemented GASB No. 65, which considers deferred charges as current-year charges and, therefore ,the balance was fully amortized to zero.

9. Comparative Data

Selected information regarding the prior year has been included in the accompanying financial statements. The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Position, continued

10. 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:

- Transmission and distribution system – 30 to 35 years
- Structures and improvements – 10 to 30 years
- Vehicles and large equipment – 3 to 10 years
- Office furniture and equipment – 3 to 10 years

11. 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.

12. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Investment in Capital Assets, Net of Related Debt** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net Position** – This component of net position consists of constraints placed on net position 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 Position –** This component of net position consists of net position that do not meet the definition of *restricted* or *investment in capital assets, net of related debt.*

13. Water Sales and Services

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.

14. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

15. Budgetary Policies

The District adopts a bi-annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

16. Reclassification

The District has reclassified certain prior year information to conform to current year presentations as well as conforming to the implementation of GASB No. 63 and 65.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

E. Implementation of New Accounting Pronouncements

For the year ended June 30, 2013, the District implemented the following Governmental Accounting Standards Board pronouncements:

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangement*s. This statement addresses how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into. There were no Concession Arrangements entered into by the District.

Governmental Accounting Standards Board Statement No. 61

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity, Omnibus.* This statement 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*.

Governmental Accounting Standards Board Statement No. 62

In December 2010, The GASB issued Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the ***FASB & AICPA pronouncements***. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that statement for enterprise funds and business-type activities to apply post-November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989, FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

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 statement 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***.

Governmental Accounting Standards Board Statement No. 65

In March 2012, 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.

(2) Cash and Investments

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

		2013	2012
Cash on hand	$	1,200	1,200
Deposits with financial institutions		517,648	623,315
Deposits in Local Agency Investment Fund		3,002,674	2,063,420
Deposits in Kern County Investment Pool		6,522,475	4,396,069
Deposits in money market funds		1,602,498	2,151,527
Total cash and cash equivalents	$	11,646,495	9,235,531

As of June 30, the District's authorized deposits had the following maturities:

	2013	2012
Deposits in Local Agency Investment Fund	278 days	270 days
Deposits in Kern County Investment Pool	558 days	568 days

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

The District is legally empowered by statute and resolution to invest in money-market funds and to invest in the California State Investment Pool – Local Agency Investment Fund, and the Kern County Investment Pool. The District's investment policy identifies other investment types that are authorized for the District to invest in under the California Government Code.

Investment in State Investment Pool

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.

Investment in Kern County Investment Pool

The Kern County Treasurer's Pooled Cash Portfolio (Pool) is a pooled investment fund program governed by the Kern County Board of Supervisors, and administered by the Kern County Treasurer and Tax Collector. Investments in the Pool are highly liquid as deposits and withdrawals can be made at anytime without penalty. The Pool does not impose a maximum investment limit.

The Kern County's bank deposits are either federally insured or collateralized in accordance with the California Government Code. Pool detail may be obtained from the Kern County Treasurer and Tax Collector's website at www.kcttc.co.kern.ca.us.

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 California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits.

(2) Cash and Investments, continued

Custodial Credit Risk, continued

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. Of the bank balances, up to $250,000 held at each institution were 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.

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 Code and the District's investment policy contains legal and policy requirements that would limit the exposure to custodial credit risk for investments. 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 LAIF and the Pool).

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.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for external investment pools) that represent 5% or more of total District's investments at June 30, 2013 and 2012, respectively.

(3) Assessment 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, 2013, are as follows:

Assessment bonds receivable consisted of the following as of June 30:

		2013	2012
Assessment bonds receivable – current and delinquent	$	314,483	278,760
Assessment bonds receivable		1,525,000	1,755,000
Total accounts receivable, net	$	1,839,483	2,033,760

(3) Assessment Bonds Receivable, continued

Future Repayment Schedule

Year		Principal
2014	$	230,000
2015		230,000
2016		235,000
2017		245,000
2018		255,000
2019		260,000
2020		270,000
2021		30,000
Total	$	1,755,000
Delinquent		84,483
	$	1,839,483

(4) Deferred Charges

The balance consists of the following issuance costs, net:		2013		2012
2009 bond issuance costs	$	-		250,782
Total	$	-	*	250,782

* Per the implementation of GASB No. 65 in fiscal year 2013 - Deferred charges have been amortized to a $0 balance

(5) Other Post-Employment Benefits Asset

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 between July 1, 2007 and June 30, 2013, and $350 per month for eligible employees retiring prior to July 1, 2007.

Membership in the Plan

Membership in the OPEB plan consisted of the following members as of June 30:

	2013	2012	2011
Active plan members	28	26	36
Retirees and beneficiaries receiving benefits	9	9	5
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	37	35	41

(5) Other Post-Employment Benefits Asset, continued

Funding Policy

As required by GASB No. 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 Asset

The following table shows the components of the District's Annual OPEB cost for the past four fiscal years ended June 30th, the amount actually contributed to the plan and the changes in the District's Net OPEB Asset:

The balance at June 30, consists of the following:		2013	2012	2011	2010
Annual OPEB expense:					
Annual required contribution (ARC)	$	(13,467)	(14,544)	1,517	56,494
Interest on net OPEB obligation		-	-	-	-
Interest earnings on irrevocable trust balance		(97,177)	(1,542)	(173,539)	(94,729)
Adjustment to annual required contribution		1,338	985	1,030	688
Total annual OPEB expense		(109,306)	(15,101)	(170,992)	(37,547)
Contributions (to)from trust:					
Contributions made to irrevocable trust		-	-	-	(601,881)
Retiree benefit payments paid from trust		41,361	33,792	20,036	(21,076)
Total contributions made		41,361	33,792	20,036	(622,957)
Total change in net OPEB payable obligation		(67,945)	18,691	(150,956)	(660,504)
OPEB payable(asset) – beginning of year		(792,769)	(811,460)	(660,504)	-
OPEB payable(asset) – end of year	$	(860,714)	(792,769)	(811,460)	(660,504)

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, 2013 and the two preceding year are shown in the following table.

Three-Year History of Net OPEB Obligation

Fiscal Year Ended		Annual OPEB Cost	Contributions Made to Trust	Retiree Benefit Payments	Percentage of Annual OPEB Cost Contributed		Net OPEB Asset
2013	$	(109,306)	-	41,361	-37.84%	$	(860,714)
2012		(15,101)	-	33,792	-223.77%		(792,769)
2011		(170,992)	-	20,036	-11.72%		(811,460)

(5) Other Post-Employment Benefits Asset, continued

The most recent valuation (dated July 1, 2011) includes an Actuarial Accrued Liability and Funded Actuarial Accrued Asset of $328,998. There is $848,394 in plan assets because the District pre-funded the plan in the California Employees' Retirement Benefit Trust (CERBT). The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2011 was $1,952,000. The ratio of the funded actuarial accrued liability to annual covered payroll was 16.85%. See Page 30 for the Schedule of Funding Progress.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2011
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization, open
Remaining amortization period	28 Years as of the valuation date
Asset valuation method	15 Year smoothed market
Actuarial assumptions:	
Investment rate of return	7.61%
Projected salary increase	2.00%
Inflation - discount rate	1.00%

(6) Capital Assets

Major capital assets additions during the years include upgrades and extensions of the District's water transmission and distribution systems and equipment purchases in the following schedules:

Changes in capital assets for the year ended June 30, 2013 were as follows:

		Balance 2012	Additions/	Deletions/ Transfers	Balance 2013
Non-depreciable assets:					
Land and land rights	$	3,127,674	-	-	3,127,674
Construction-in-process		173,576	610,683	(512,940)	271,319
Total non-depreciable assets		3,301,250	610,683	(512,940)	3,398,993
Depreciable assets:					
Transmission and distribution system		51,245,231	217,394	-	51,462,625
Production and source of supply		29,950,178	116,489	-	30,066,667
General plant		5,354,373	73,514	-	5,427,887
Total depreciable assets		86,549,782	407,397	-	86,957,179
Accumulated depreciation:					
Depreciable assets		(40,923,369)	(2,628,885)	-	(43,552,254)
Total accumulated depreciation		(40,923,369)	(2,628,885)	-	(43,552,254)
Total depreciable assets, net		45,626,413	(2,221,488)	-	43,404,925
Total capital assets, net	$	48,927,663	(1,610,805)	(512,940)	46,803,918

Changes in capital assets for the year ended June 30, 2012 were as follows:

		Balance 2011	Additions/	Deletions/ Transfers	Balance 2012
Non-depreciable assets:					
Land and land rights	$	3,127,674	-	-	3,127,674
Construction-in-process		14,512,685	677,720	(15,016,829)	173,576
Total non-depreciable assets		17,640,359	677,720	(15,016,829)	3,301,250
Depreciable assets:					
Transmission and distribution system		50,622,674	622,557	-	51,245,231
Production and source of supply		15,533,275	14,416,903	-	29,950,178
General plant		5,347,008	7,365	-	5,354,373
Total depreciable assets		71,502,957	15,046,825	-	86,549,782
Accumulated depreciation:					
Depreciable assets		(38,244,786)	(2,678,583)	-	(40,923,369)
Total accumulated depreciation		(38,244,786)	(2,678,583)	-	(40,923,369)
Total depreciable assets, net		33,258,171	12,368,242	-	45,626,413
Total capital assets, net	$	50,898,530	13,045,962	(15,016,829)	48,927,663

(7) Compensated Absences

Changes to compensated absences for 2013, were as follows:

Balance 2012	Earned	Taken	Balance 2013	Current Portion	Long-term Portion
$ 136,296	86,255	(67,229)	155,322	62,129	93,193

Changes to compensated absences for 2012, were as follows:

Balance 2011	Earned	Taken	Balance 2012	Current Portion	Long-term Portion
$ 298,764	87,542	(250,010)	136,296	54,518	81,778

(8) Certificates of Participation

Changes in long-term debt amounts for the year were as follows:

	Balance 2012	Additions	Payments	Balance 2013	Current Portion
Long-term debt:					
COPs payable:					
2003 Water revenue refunding bonds	$ 3,395,000	-	(3,395,000)	-	-
2009 Water revenue refunding bonds	19,305,000	-	(360,000)	18,945,000	370,000
Total COPs payable	$ 22,700,000	-	(3,755,000)	18,945,000	370,000

Changes in long-term debt amounts for the year were as follows:

	Balance 2011	Additions	Payments	Balance 2012	Current Portion
Long-term debt:					
COPs payable:					
2003 Water revenue refunding bonds	$ 3,770,000	-	(375,000)	3,395,000	385,000
2009 Water revenue refunding bonds	19,655,000	-	(350,000)	19,305,000	360,000
Total COPs payable	$ 23,425,000	-	(725,000)	22,700,000	745,000

2003 Water Revenue Refunding Bonds

Proceeds of the 2003 bonds were used to prepay the District's outstanding 1994 certificates-of-participation and the District's outstanding 1977 U.S. Economic Development Administration loan and pay the costs of issuance incurred in connection with the issuance of the 2003 bonds. As of June 30, 2013, the District had refunded the 2003 bonds with the issuance of the 2012 loan.

2009 Water Revenue Refunding Bonds

Proceeds of the Series 2009 certificates-of-participation (COPs) 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 arsenic project included 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. A portion of the COPs were used to prepay the District's Series 1999A California Statewide Communities Development Authority revenue bonds, and to pay issuance costs for the COPs.

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%. Future remaining debt service payments are as follows:

(8) Certificates of Participation

2009 Water Revenue Refunding Bonds, continued

Year		Principal	Interest	Total
2014	$	370,000	943,537	1,313,537
2015		380,000	930,388	1,310,388
2016		395,000	914,887	1,309,887
2017		410,000	898,788	1,308,788
2018		425,000	879,962	1,304,962
2019-2023		2,425,000	4,053,563	6,478,563
2024-2028		3,030,000	3,376,187	6,406,187
2029-2033		3,920,000	2,511,352	6,431,352
2034-2038		5,100,000	1,352,400	6,452,400
2039-2040		2,490,000	132,562	2,622,562
Total		18,945,000	15,993,626	34,938,626
Current		(370,000)		
Long-term	$	18,575,000		

(9) Loans Payable

Changes in long-term debt amounts for the year were as follows:

		Balance 2012	Additions	Payments	Balance 2013	Current Portion
Long-term debt:						
Loans payable:						
State of California Prop 44 1oan	$	21,919	-	(21,919)	-	-
State of California Prop 55 loan		2,454,619	-	(444,819)	2,009,800	213,521
2012 loan		-	2,815,000	(242,754)	2,572,246	493,183
Total loans payable	$	2,476,538	2,815,000	(709,492)	4,582,046	706,704

Changes in long-term debt amounts for the year were as follows:

		Balance 2011	Additions	Payments	Balance 2012	Current Portion
Long-term debt:						
Loans payable:						
State of California Prop 44 1oan	$	64,649	-	(42,730)	21,919	21,919
State of California Prop 55 loan		2,646,344	-	(191,725)	2,454,619	198,591
2012 loan		-	-	-	-	-
Total loans payable	$	2,710,993	-	(234,455)	2,476,538	220,510

State of California Proposition 44 Loan

State of California-Water Conservation Construction Loan (Prop. 44): Payable $22,292 semi-annually including interest at 3.4375%. Loan proceeds were used to improve Ridgecrest Heights Water System-Total loan was $641,000. The remaining balance of the loan was repaid as of June 30, 2013.

State of California Proposition 55 Loan

State of California-Safe Drinking Water Act Loan (Prop. 55): Payable $139,757 semi-annually including interest at 3.3712%. Loan proceeds to improve Ridgecrest Heights Water System-Total loan was $5,250,000. Future remaining debt service payments are as follows:

(9) Loans Payable, continued

State of California Proposition 55 Loan, continued

Year		Principal	Interest	Total
2014	$	213,521	65,998	279,519
2015		220,802	58,717	279,519
2016		228,207	51,312	279,519
2017		236,157	43,362	279,519
2018		244,095	35,424	279,519
2019		252,393	27,126	279,519
2020		260,940	18,579	279,519
2021		269,866	9,653	279,519
2022		83,819	1,417	85,236
Total		2,009,800	311,588	2,321,388
Current		(213,521)		
Long-term	$	1,796,279		

2012 Loan

Proceeds of the 2012 loan were used to prepay the District's outstanding 2003 bond and pay the costs of issuance incurred in connection with the issuance of the 2012 loan, payable $272,312 semi-annually including interest at 2.100%.

Year		Principal	Interest	Total
2014	$	493,183	51,441	544,624
2015		503,594	41,030	544,624
2016		514,225	30,399	544,624
2017		525,080	19,544	544,624
2018		536,164	8,460	544,624
Total		2,572,246	150,874	2,723,120
Current		(493,183)		
Long-term	$	2,079,063		

(10) Net Investment in Capital Assets

Calculation of net investment in capital assets as of June 30, were as follows:		2013	2012
Capital assets:			
Capital assets – not being depreciated	$	3,398,993	3,301,250
Capital assets, net – being depreciated		43,404,925	45,626,413
Current:			
Certificates-of-participation		(370,000)	(745,000)
Loans payable		(706,704)	(220,510)
Non-current:			
Certificates-of-participation		(18,575,000)	(21,955,000)
Loans payable		(3,875,342)	(2,256,028)
Total net investment in capital assets	$	23,276,872	23,751,125

(11) Restricted Net Position

Calculation of restricted net position as of June 30, was as follows:		2013	2012
Restricted – cash and cash equivalents	$	2,195,330	3,040,318
Accrued interest payable		(258,769)	(275,831)
Total restricted net position	$	1,936,561	2,764,487

(12) Unrestricted Net Position

Unrestricted net position as of June 30, were categorized as follows:		2013	2012
Non-spendable net position:			
Materials and supplies inventory	$	351,311	362,142
Prepaid expenses and other deposits		29,331	22,922
Deferred charges, net		-	250,782
Mitigation deposit – California Department of Fish and Game		120,000	120,000
Assessment bonds receivable		1,525,000	1,755,000
Other post-employment benefits asset		860,714	792,769
Total non-spendable net position		2,886,356	3,303,615
Spendable net position are designated as follows:			
Capital replacement reserve		6,656,016	4,464,016
Rate stabilization reserve		3,328,008	2,232,008
Total spendable net position		9,984,024	6,696,024
Total unrestricted net position	$	12,870,380	9,999,639

(13) Prior Period Adjustment

In fiscal year 2010, the District deposited $601,881 into the California Employees' Retirement Benefit Trust (CERBT) to prefund the District's other post-employment benefits (OPEB) obligation. By prefunding the District's OPEB obligation, the District held an OPEB asset on its statement of financial position instead of an OPEB obligation (liability). However, in prior years, the District was accounting for this OPEB asset within a fiduciary fund to the District's financial statements. GASB Statement No. 45 requires that any prefunding within the District's prescribed irrevocable trust fund (CERBT) be accounted for as an OPEB asset on the statement of net position and not within a fiduciary fund.

For comparative purposes on the statement of financial position, we adjusted the fiscal year 2012 balances as follows:

Description		Amount
Net position – June 30, 2011	$	35,187,866
OPEB asset		811,460
Net position – June 30, 2011 – as restated	$	35,999,326
Change in net position – June 30, 2012	$	534,616
Total change in net OPEB payable obligation		(18,691)
Change in net position – June 30, 2012 – as restated	$	515,925

(14) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in two 457 Deferred Compensation Programs (Programs). The purpose of these Programs is to provide deferred compensation for public employees that elect to participate in the Programs. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by Mutual of America at June 30, 2013 and 2012 was $1,247,936 and $1,081,946, respectively.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net position.

(15) Defined Benefit Pension Plan

Plan Description

The Agency contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS 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 Agency. Copies of CalPERS annual financial report may be obtained form their executive Office: 400 P Street, Sacramento, CA 95814.

Funding Policy

The contribution rate for plan members in the CalPERS, 2.0% at 60 Risk Pool Retirement Plan is 7% of their annual covered salary and is paid by the members. 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 costs (APC) percentage of payroll for fiscal years 2013, 2012 and 2011, 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 CalPERS.

California Public Employees Pension Reform Act of 2013

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013.

Key components of the legislation are as follows:

- Establishes PEPRA which will apply to all public employers and public pension plans on and after January 1, 2013 (Except specific exemptions);
- Establishes new retirement tiers/benefits for new public employees;
- Prohibits certain cash payments from being counted as compensation; and
- Increases retirement age for all new public employees.

(15) Defined Benefit Pension Plan

Second-Tier – Beginning January 1, 2013

The contribution rate for plan members in the CalPERS 2.0% at 62 Retirement Plan under PEPRA is 6.25% of their annual covered wages. District employees contribute 6.25% of their annual covered wages to their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The employer and member contribution rate is 6.25% for a combined rate of 12.50% which will be in effect until June 30, 2015.

For fiscal years 2013, 2012 and 2011, the District's annual contributions for the CalPERS plan were equal to the District's required and actual contributions for each fiscal year as follows:

Three Years CalPERS Funding Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	APC Percentage of Payroll
2010-2011	$ 81,779	100%	-	3.599%
2011-2012	92,565	100%	-	4.904%
2012-2013	130,261	100%	-	4.959%

See Page 30 for the Schedule of Funding Status.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods, and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2011
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, open
Average remaining amortization period	9 years as of the valuation date
Asset valuation method	15 year smoothed market
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increase	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

(16) Debt Without District Commitment

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.

Assessment District No. 87-1

The District acquired the private water company known as Ridgecrest Heights Water System during the 1988 fiscal year. In order to finance the construction of the estimated $6,741,000 of required improvements the District formed 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. Future repayments on the Assessment District Bonds are as follows:

Year		Principal	Interest	Total
2014	$	230,000	55,288	285,288
2015		230,000	47,534	277,534
2016		235,000	39,696	274,696
2017		245,000	31,605	276,605
2018		255,000	23,177	278,177
2019		260,000	14,496	274,496
2020		270,000	5,562	275,562
2021		30,000	506	30,506
Total	$	1,755,000	217,864	1,972,864

Assessment District No. 91-1

Assessment District 91-1 consists of approximately 300 acres of land subdivided into 133 residential lots contiguous to the southwesterly boundary of the City of Ridgecrest, California. The District formed 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 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, 2013, Assessment District 91-1 held cash in the Kern County Treasury of $114,832. These funds are available for District expenses/improvements with the appropriate Board action/approvals.

(17) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2013, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $2,500,000, combined single limit at $2,500,000 per occurrence. The District purchased additional excess coverage layers: $10,000,000 for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to $400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of $750 million per occurrence, subject to a $2,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to $100 million per occurrence, subject to a $1,000 deductible per occurrence.
- Public officials personal liability up to $500,000 each occurrence, with an annual aggregate of $100,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of $500 per claim.
- Workers' compensation insurance up to $100 million per occurrence and Employer's Liability Coverage up to $5 million.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal year 2013, 2012, and 2011. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2013, 2012, and 2011.

(18) Commitments and Contingencies

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water and wastewater facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and capital contributions.

Litigation

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 the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(19) Subsequent Events

Events occurring after June 30, 2013, have been evaluated for possible adjustment to the financial statements or disclosure as of October 31, 2013, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

(20) Governmental Accounting Standards Board Statements

Newly Issued Accounting Pronouncements, But Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2013, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 66

In March 2012, the GASB issued Statement No. 66 – *Technical Corrections—2013—an amendment of GASB Statements 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.* The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations.* The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 70

In April 2013, the GASB issued Statement No. 70 – *Accounting and Financial Reporting for Non-exchange Guarantees.* Provisions of this Statement require that governments that extend non-exchange financial guarantees to recognize a liability when qualitative factors and historic data, if any, indicate that it is more likely than not that the government will be required to make a payments on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

Required Supplementary Information

Indian Wells Valley Water District
Schedule of Funding Status
For the Fiscal Years Ended June 30, 2013 and 2012

(1) Defined Benefit Pension Plan

Development of the Actuarial Value of Assets Calculation in a Risk Pool

The District is part of the CalPERS Miscellaneous 2.0% at 60 yrs. Risk Pool		June 30, 2011	June 30, 2012	June 30, 2013
1. Plan's accrued liability	$	9,177,086	-	-
2. Plan's side fund		194,338	-	-
3. Pool's accrued liability		682,375,804	-	-
4. Pool's side fund		1,499,824	-	-
5. Pool's actuarial value of assets (AVA) including receivables		638,237,247	-	-
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]		8,759,726	-	-
7. Pool's market value of assets (MVA) including receivables		572,006,330	-	-
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]		7,838,434	-	-

Funding History

The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan in the risk pool.

Actuarial Valuation Date		Actuarial Accrued Liability (a)	Actuarial Value of Assets (AVA) (b)	Market Value of Assets (MVA) (c)	Funded Ratio AVA (b/a)	MVA (c/a)		Annual Covered Payroll
June 30, 2011	$	9,177,086	8,759,726	7,838,434	95.45%	85.41%	$	2,274,463
June 30, 2012	*	-	-	-	0.00%	0.00%		-
June 30, 2013	*	-	-	-	0.00%	0.00%		-

* CalPERS has not provided the information for these periods as of the date of the audit report.

(2) Other Post Employment Benefits

Actuarial Valuation Date		Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	$	-	464,036	464,036	0.00%	$	2,205,887	21.04%
July 1, 2010		695,922	523,985	(171,937)	132.81%	$	2,032,000	-8.46%
July 1, 2011		848,394	519,396	(328,998)	163.34%	$	1,952,000	-16.85%

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2014, based on the year ending June 30, 2013.

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Report on Internal Controls and Compliance

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Independent Auditor's Report on Internal Controls 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Indian Wells Valley Water District (District) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated October 31, 2013.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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*.

Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards, (continued)*

Purpose of this Report

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

Charles Z. Fedak & Company, CPA's - An Accountancy Corporation
Cypress, California
October 31, 2013