



**Hi-Desert Water District**  
Yucca Valley, California

**Comprehensive Annual Financial Report**

**For the Fiscal Years Ended June 30, 2014 and 2013**



## Our Mission Statement

*"To provide a safe, reliable water supply and wastewater reclamation system for the customers of the Hi-Desert Water District in an efficient and financially responsible manner"*

### **Board of Directors as of June 30, 2014**

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Roger Mayes	President	Elected	12/10 - 12/14
Robert Stadum	Vice President	Elected	12/10 - 12/14
Sheldon Hough	Director	Elected	12/12 - 12/16
Sarann Graham	Director	Elected	12/12 - 12/16
Dan Munsey	Director	Elected	12/10 - 12/14

**Hi-Desert Water District  
Ed Muzik, General Manager  
55439 29 Palms Highway  
Yucca Valley, California 92284-2503  
(760) 365-8333 – [www.hdwd.com](http://www.hdwd.com)**



**Comprehensive Annual Financial Report**

**For the Fiscal Years Ended**

**June 30, 2014 and 2013**

**HI-DESERT WATER DISTRICT**

55439 29 Palms Highway  
Yucca Valley, California 92284-2503

Prepared by:

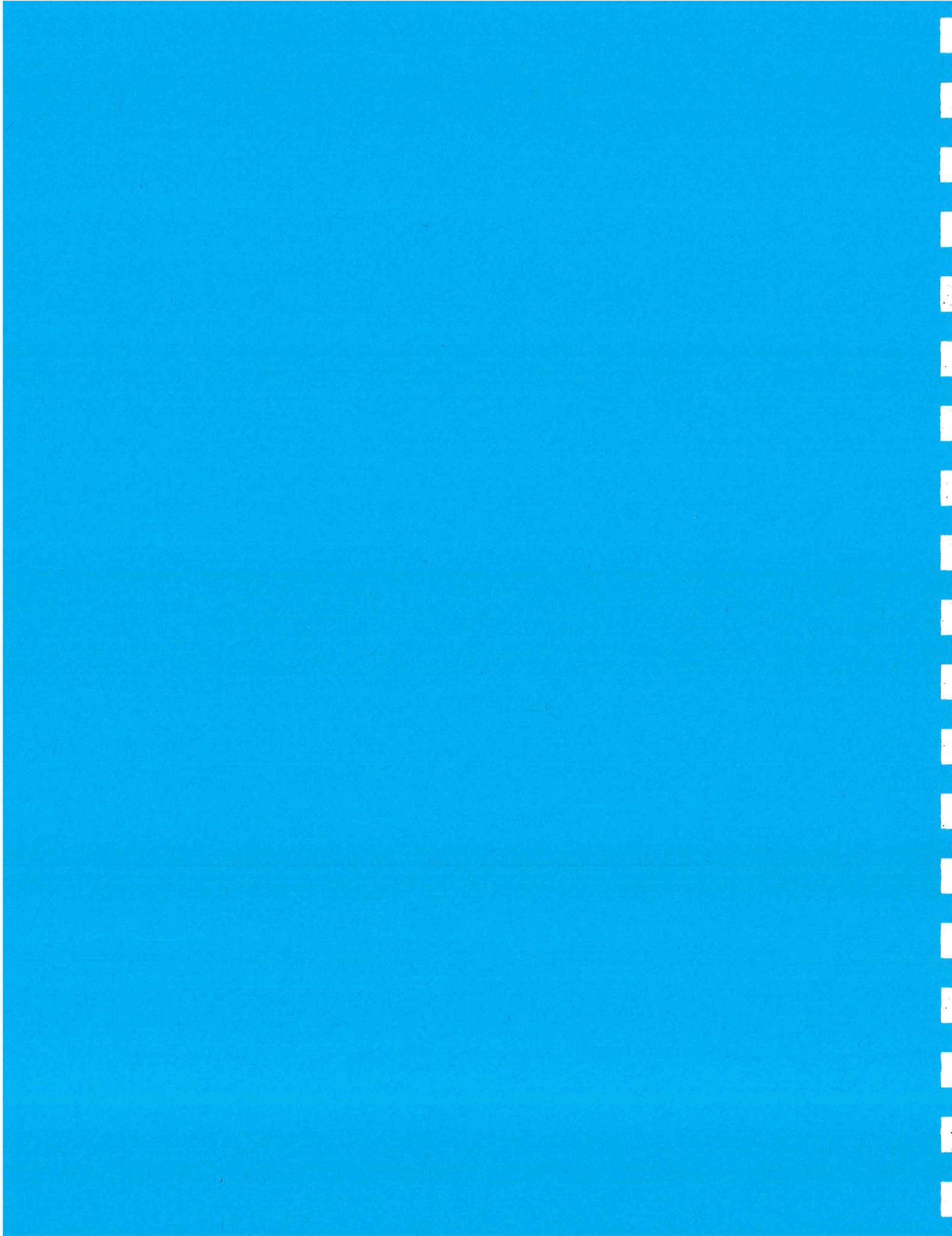
*Rochelle Clayton, Chief Financial Officer*

**Hi-Desert Water District**  
**Annual Financial Report**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Table of Contents**

	<b><u>Page No.</u></b>
Table of Contents	i
<b>Introductory Section</b>	
Letter of Transmittal	1-4
Board of Directors	5
Organizational Chart	6
GFOA Certificate of Achievement for Excellence in Financial Reporting	7
<b>Financial Section</b>	
Independent Auditor's Report	8-9
Management's Discussion and Analysis	10-14
Basic Financial Statements:	
Statements of Net Position	15
Statements of Revenues, Expenses and Changes in Net Position	16
Statements of Cash Flows	17-18
Notes to the Basic Financial Statements	19-36
Required Supplemental Information:	
Schedules of Funding Status	37
<b>Supplemental Information Section</b>	
Combining Schedule of Net Position as of June 30, 2014	38
Combining Schedule of Net Position as of June 30, 2013	39
Combining Schedule of Revenues, Expenses and Changes in Net Position For the Year Ended June 30, 2014	40
Combining Schedule of Revenues, Expenses and Changes in Net Position For the Year Ended June 30, 2013	41
<b>Statistical Information Section</b>	
Statistical Section – Table of Contents	42
Changes in Net position by Component – Last Ten Fiscal Years	43-44
Operating Revenues by Source – Last Ten Fiscal Years	45
Operating Expenses by Activity – Last Ten Fiscal Years	46
Revenue Base – Last Ten Fiscal Years	47
Revenue Rates – Last Ten Fiscal Years	48
Customers by Type – Last Ten Fiscal Years	49
Principal Customers – Current Fiscal Year and Nine Years Ago	50
Ratios of Outstanding Debt by Type – Last Ten Fiscal Years	51
Pledged-Revenue Coverage – Last Ten Fiscal Years	52
Demographic and Economic Statistics – Last Ten Fiscal Years	53
Operating and Capacity Indicators – Last Ten Fiscal Years	54
<b>Report on Internal Controls and Compliance</b>	
Independent Auditor's Report on Internal Control over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	55-56

# **Introductory Section**





December 10, 2014

Board of Directors  
Hi-Desert Water District

### **Introduction**

It is our pleasure to submit the Annual Financial Report for the Hi-Desert Water District for the fiscal years ended June 30, 2014 and 2013, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditors' Report.

### **District Structure and Leadership**

The Hi-Desert Water District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The District was formed in 1962 and is governed by a five-member Board of Directors, elected at-large from within the District's service area. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The District employs approximately thirty-five (35) regular employees organized in six departments. The District's Board of Directors meets on the first and third Wednesdays of each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District provides water service to approximately 10,148 connections within its fifty-seven (57) square mile service area, located in the eastern desert area of San Bernardino County. The District encompasses the Town of Yucca Valley in its entirety and some of the unincorporated areas of San Bernardino County, California.

### **District Services**

Residential customers represent approximately 95% of the District's customer base and consume approximately 82% of the water produced annually by the District. The District currently has a total of 13 groundwater wells with a maximum production capacity of 7,000 gallons per minute and nearly 300 miles of pipeline. In 2014 and 2013, the District purchased 1,011 and 3,215 acre-feet of State Water Project imported water from Mojave Water Agency, respectively.

### **Economic Condition and Outlook**

The District offices are located in the Town of Yucca Valley in San Bernardino County. Housing indicators are showing signs of recovery from the decrease in economic activity over the past few years in

San Bernardino and Riverside counties (Inland Empire). San Bernardino County's median home sale price increased 23% from \$154,500 in 2013 to \$190,540 in 2014. Likewise, foreclosures and short sales are decreasing. However, the economic recovery rate is slow. The overall median price of existing homes has declined 26% since January 2008, and 18% of homes sold in San Bernardino County were either a short sale or Real Estate Owned in December 2013. The median home sale price in the Town of Yucca Valley was \$120,000 in December 2013.

California's water supply is also slow to recover due to the continuing drought conditions. On January 31, 2014, the Department of Water Resources (DWR) announced a decrease to zero in California State Water Project (SWP) deliveries, which are distributed to Hi-Desert Water District through Mojave Water Agency to supplement the local supply of water. In April 2014, DWR announced an increase to 5% allocation to be taken in September 2014, based on precipitation, runoff, and water supply conditions. On May 30, 2014, DWR announced the early release of a portion of that allocation to be taken in June 2014.

For years our District has been an example in the area of conservation efforts with one of the lowest per service consumption rates in the state at an average of 105 gallons per capita a day (GPCPD), while the San Bernardino County's average is 249 GPCPD. Neighboring Riverside County was at 241 GPCPD in 2012 and Orange County was at 172 GPCPD in 2012. The water district is continuing to improve its conservation program through public education and conservation incentives.

### **Major Initiatives**

The activities of the Board and staff of the District are driven by its Mission Statement: "To provide a safe, reliable water supply and wastewater reclamation system for the customers of the Hi-Desert Water District in an efficient and financially responsible manner". The strategic goals adopted by the Board of Directors are:

1. Wastewater System for Groundwater Protection.
2. Water Resource Management.
3. Emergency and Disaster Preparedness.
4. Public Information and Communication.
5. Infrastructure Development/Maintenance.
6. Financial Management.
7. Information Systems.
8. Human Resource Management.
9. Administrative Management.

All programs and operations of the District are developed and performed to provide the highest level of services to its customers. This is summarized in its motto, "Hi-Desert Water District—Serving You Today, Planning for Tomorrow."

### **Accomplishments**

To assist the board of directors in meeting their strategic mission for our District, staff achieved the following initiatives in 2014:

1. Awarded a \$500,000 Title XVI grant from the Bureau of Reclamation for the Wastewater Treatment and Reclamation Project;
2. Surpassed 90% completion of the collection system design component of the Wastewater Treatment Project by Atkins North America;
3. After consulting the Public Advisory Committee, the Board of Directors chose the Membrane Bioreactor technology for the Treatment Plant which provides a higher quality of water to recharge the aquifer with a smaller environmental footprint;

4. Launched the Geotechnical Information Services website in coordination with Atkins North America to provide sewer lines, septic tank location, and parcel information for parcels in the phased boundaries of the Wastewater Treatment and Reclamation Project;
5. Reached 30% design of the water pipeline replacement by Atkins North America in order to replace leaky pipes in the phase I boundary of the Wastewater Treatment and Water Reclamation project;
6. Replaced 50,010 lineal feet of failing and undersized water mains, nearly a 300% increase from 17,400 lineal feet in Fiscal Year 2012-13, with new poly vinyl chloride (PVC) pipe;
7. Nearly completed construction on the District's newest production well, Well 20W, which will add 900 gallons per minute or 1.296 million gallons per day of capacity to its water system, which is expected to be completed in September of 2014;
8. Launched a radio read meter pilot program which will allow the District to detect leaks swiftly and conserve employee time;
9. Renewed Hi-Desert Water District's water conservation measures;
10. Received the Special District's Award for Transparency;
11. Continued public education for the Wastewater Treatment and Reclamation Project with weekly public outreach meetings, mailing information and meeting with property owners;
12. Launched the Wastewater Treatment and Reclamation Project website [www.protectgroundwater.org](http://www.protectgroundwater.org)
13. Released an informational video regarding the importance of the Wastewater Treatment Project;
14. Continued reduction of the District's cost of CALPERS pension by passing 75% of the employee cost to the employees with the goal of 100% by FY14-15, and using a tiered pension plan with employees hired between December 24, 2011 and December 31, 2012 belonging to a 2% at 60 plan and after December 31, 2012 belonging to a 2% at 62 plan.

### **Internal Control Structure**

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

### **Budgetary Control**

The District Board of Directors annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

### **Investment Policy**

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity and yield. District funds are invested in the State Treasurer's Local Agency Investment Fund and institutional savings and checking accounts.

### **Water Rates and District Revenues**

District policy direction ensures that all revenues from user charges and surcharges generated from District customers must support all District operations including capital project funding. Accordingly,

water rates are reviewed on an annual basis. Water rates are user charges imposed on customers for services and are the primary component of the District's revenue. Water rates are composed of a commodity (usage) charge and a fixed meter (readiness-to-serve) charge.

### **Water Conservation Programs**

The District has implemented conservation management practices since the early 1990's. In 1991, the District became a signatory to the California Department of Water Resources Urban Water Management Plan that agreed to develop and implement comprehensive conservation practices or "Best Management Practices." District staff participates in a number of community events and distributes materials to encourage water conservation. In addition to a tiered rate structure, which encourages conservation, the District offers the following conservation programs:

- Residential Water Audits
- Water Awareness Program

### **Audit and Financial Reporting**

State Law and Bond covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Charles Z. Fedak & Company, CPAs has conducted the audit of the District's financial statements. Their unqualified Independent Auditor's Report appears in the Financial Section.

### **Risk Management**

The District is a member of the Association of California Water Agencies Joint Power Insurance Authority (Authority). The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

### **Other References**

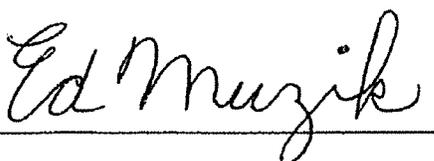
More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

### **Awards and Acknowledgements**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013. This was the seventh year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. We would also like to thank the members of the Board of Directors for their continued support in the planning and implementation of the Hi-Desert Water District's fiscal policies.

Respectfully submitted,

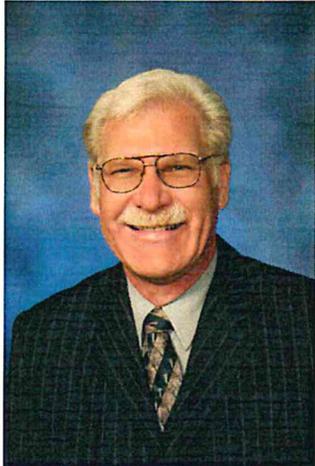


---

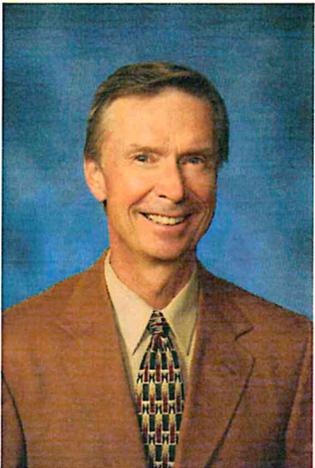
Ed Muzik, General Manager

## Board of Directors

A five member Board of Directors are elected by the Yucca Valley area to set policy and govern the District. Currently the Board of Directors are:



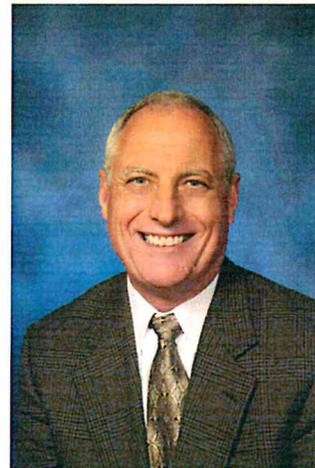
**Roger Mayes  
(President)**



**Robert Stadum  
(Vice-President)**



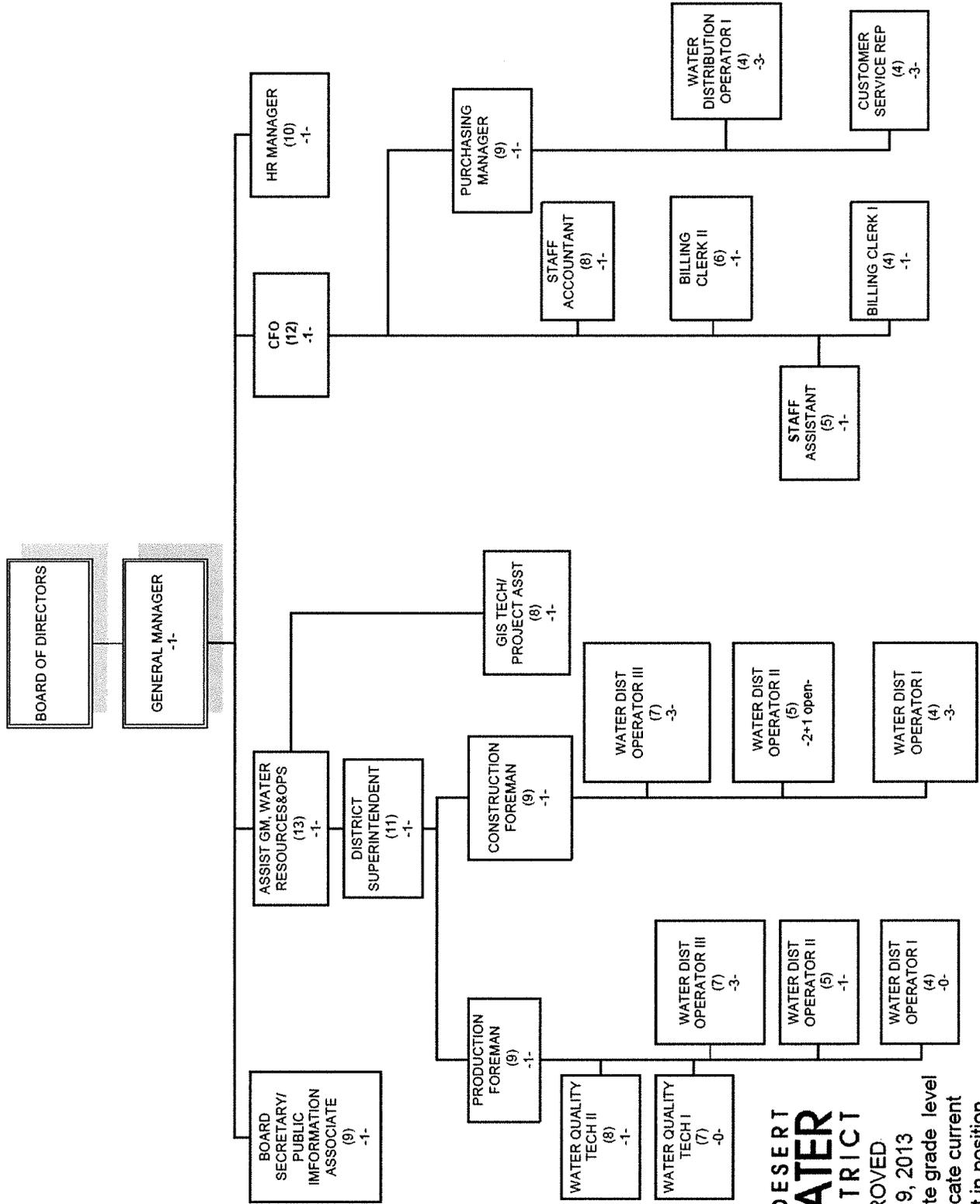
**Dan Munsey  
(Director)**



**Sheldon Hough  
(Director)**



**Sarann Graham  
(Director)**



APPROVED  
 June 19, 2013  
 # in ( ) indicate grade level  
 # in - - indicate current headcount in position



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Hi-Desert Water District  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO



# **Financial Section**





Charles Z. Fedak, CPA, MBA  
Christopher J. Brown, CPA

# Charles Z. Fedak & Company

Certified Public Accountants  
An Accountancy Corporation

6081 Orange Avenue  
Cypress, California 90630  
(714) 527-1818  
FAX (714) 527-9154  
EMAIL [czfco@czfcpa.com](mailto:czfco@czfcpa.com)  
WEB [www.czfcpa.com](http://www.czfcpa.com)

## Independent Auditor's Report

Board of Directors  
Hi-Desert Water District  
Yucca Valley, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Hi-Desert Water District (District) as of and for the years ended June 30, 2014 and 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.

#### *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, 2014 and 2013, 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.

## Independent Auditor's Report, continued

### *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 10 through 14 and the required supplementary information on page 37 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 Information***

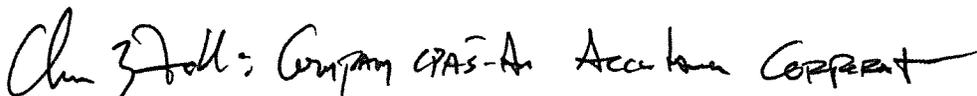
Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section on pages 1 through 7, the supplementary information of combining schedules on pages 38 through 41, and the statistical section on pages 42 through 54 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The introductory and statistical sections have 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.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated December 10, 2014, 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 55 and 56.



**Charles Z. Fedak & Company, CPAs – An Accountancy Corporation**

Cypress, California

December 10, 2014

**Hi-Desert Water District**  
*Management's Discussion and Analysis*  
**For the Fiscal Years Ended June 30, 2014 and 2013**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Hi-Desert Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2014 and 2013. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- The District's net position increased 10.59% or \$3,467,383, to \$36,207,275 in fiscal year 2014, and the District's net position increased 5.22% or \$1,625,587, to \$32,739,892 in fiscal year 2013, as a result of each year's operations.
- In 2014, the District's operating revenues exceeded its operating expenses before depreciation and amortization expense by 1.36%, or \$104,878, as the result of this year's operations. In 2013, the District's operating expenses exceeded its operating revenues before depreciation and amortization expense by 6.65%, or \$523,424 as the result of the year's operations.
- The District's net income from non-operating revenues and debt service expenses produced a positive return of \$2,239,665 and \$2,108,994 in fiscal years 2014 and 2013, respectively. The District has pledged certain non-operating property tax and surcharge revenue items to pay for the District's debt service expense and/or to be used for the District's capital improvement program.
- Capital contributions in 2014 amounted to \$2,497,998, which is comprised of grant revenues of \$1,975 and \$2,197,543 for water operations and wastewater operations, respectively, and \$298,480 from developers for meter purchases and installation fees. In 2013, capital contributions amounted to \$1,572,905 which is comprised of grant revenues of \$36,878 and \$1,357,056 for water operations and wastewater operations, respectively, and \$178,971 from developers for meter purchases and installation fees.

**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 deferred outflows, obligations to creditors (liabilities), and deferred inflows. 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.

**Hi-Desert Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**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.

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 it. One can think of the District's net position – the difference between assets and deferred outflows less liabilities and deferred inflows – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, 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 19 through 36.

**Statements of Net Position**

	Condensed Statements of Net Position				
	2014	2013	Change	2012	Change
Assets:					
Current assets	\$ 11,644,445	10,274,955	1,369,490	8,445,704	1,829,251
Non-current assets	-	-	-	182,506	(182,506)
Capital assets, net	<u>33,665,456</u>	<u>32,282,595</u>	<u>1,382,861</u>	<u>31,935,113</u>	<u>347,482</u>
<b>Total assets</b>	<u>45,309,901</u>	<u>42,557,550</u>	<u>2,752,351</u>	<u>40,563,323</u>	<u>1,994,227</u>
Liabilities:					
Current liabilities	2,099,578	2,367,962	(268,384)	1,818,237	549,725
Non-current liabilities	<u>7,003,048</u>	<u>7,449,696</u>	<u>(446,648)</u>	<u>7,630,781</u>	<u>(181,085)</u>
<b>Total liabilities</b>	<u>9,102,626</u>	<u>9,817,658</u>	<u>(715,032)</u>	<u>9,449,018</u>	<u>368,640</u>
Net position:					
Net investment in capital assets	28,185,434	26,627,116	1,558,318	25,599,745	1,027,371
Unrestricted	<u>8,021,841</u>	<u>6,112,776</u>	<u>1,909,065</u>	<u>5,514,560</u>	<u>598,216</u>
<b>Total net position</b>	<u>\$ 36,207,275</u>	<u>32,739,892</u>	<u>3,467,383</u>	<u>31,114,305</u>	<u>1,625,587</u>

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 \$36,207,275 and \$32,739,892 as of June 30, 2014 and 2013, respectively.

By far the largest portion of the District's net position (77.8% and 81.3% as of June 30, 2014 and 2013, respectively) 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 2014 and 2013, the District showed a positive balance in its unrestricted net position of \$8,021,841 and \$6,112,776, respectively, which may be utilized in future years.

**Hi-Desert Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Statement of Revenues, Expenses and Changes in Net Position**

**Condensed Statements of Revenues, Expenses and Changes in Net Position**

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>2012</u>	<u>Change</u>
Operations:					
Operating revenues	\$ 7,809,632	7,875,823	(66,191)	7,654,560	221,263
Operating expenses	<u>7,704,754</u>	<u>8,399,247</u>	<u>(694,493)</u>	<u>7,153,393</u>	<u>1,245,854</u>
Operating income (loss) before depreciation and amortization	<u>104,878</u>	<u>(523,424)</u>	<u>628,302</u>	<u>501,167</u>	<u>(1,024,591)</u>
Depreciation	(1,375,158)	(1,350,382)	(24,776)	(1,372,467)	22,085
Amortization	<u>-</u>	<u>(182,506)</u>	<u>182,506</u>	<u>(21,192)</u>	<u>(161,314)</u>
<b>Operating loss</b>	<u>(1,270,280)</u>	<u>(2,056,312)</u>	<u>786,032</u>	<u>(892,492)</u>	<u>(1,163,820)</u>
Non-operating revenue(expenses):					
Property taxes	1,338,163	1,354,043	(15,880)	1,292,775	61,268
Interest earnings	53,148	11,846	41,302	14,148	(2,302)
Capital surcharge	1,019,310	1,013,458	5,852	893,895	119,563
Morongo Basin Project surcharge	532,424	528,887	3,537	517,716	11,171
Lease payment – Morongo Basin Project	(480,021)	(513,073)	33,052	(524,958)	11,885
CalPERS Side-Fund expense	-	-	-	(1,062,304)	1,062,304
Interest expense – long-term debt	(257,853)	(284,330)	26,477	(243,280)	(41,050)
Bond issuance costs	(2,131)	(110,078)	107,947	-	(110,078)
Other non-operating revenues(expenses), net	<u>36,625</u>	<u>108,241</u>	<u>(71,616)</u>	<u>40,379</u>	<u>67,862</u>
Total non-operating revenues, net	<u>2,239,665</u>	<u>2,108,994</u>	<u>130,671</u>	<u>928,371</u>	<u>1,180,623</u>
<b>Net income before capital contributions</b>	<u>969,385</u>	<u>52,682</u>	<u>916,703</u>	<u>35,879</u>	<u>16,803</u>
Capital contributions	<u>2,497,998</u>	<u>1,572,905</u>	<u>925,093</u>	<u>687,323</u>	<u>885,582</u>
<b>Change in net position</b>	<u>3,467,383</u>	<u>1,625,587</u>	<u>1,841,796</u>	<u>723,202</u>	<u>902,385</u>
<b>Net position – beginning of year</b>	<u>32,739,892</u>	<u>31,114,305</u>	<u>1,625,587</u>	<u>30,391,103</u>	<u>723,202</u>
<b>Net position – end of year</b>	<u>\$ 36,207,275</u>	<u>32,739,892</u>	<u>3,467,383</u>	<u>31,114,305</u>	<u>1,625,587</u>

**Fiscal Year 2014**

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal year. In the case of the District, net position increased by \$3,467,383 during the fiscal year ended June 30, 2014. Net income before capital contributions of \$969,385 and capital contributions of \$2,497,998 were the two sources of the net change in the District's net position.

Operating revenues decreased by \$66,191 in the fiscal year primarily due to a decrease in water sales of \$84,232. Operating expenses decreased by \$694,493, primarily due to a decrease of \$991,350 in source of supply expenses, which were offset by an increase of \$375,582 in wastewater operations.

The District's non-operating revenues, such as property taxes, surcharge or surcharge recovery revenues are pledged to pay down the District's debt service expenses and for the District's capital improvement program. Non-operating revenues net of non-operating expenses increased by \$130,671 in 2014, primarily due to the increase in interest earnings of \$41,302 and a decrease in bond issuance cost expenses of \$107,947.

In addition, the District received \$2,497,998 in capital contributions which is comprised of grant revenues of \$1,975 and \$2,197,543 for water operations and wastewater operations, respectively, and \$298,480 from developers for meter purchases and installation fees.

**Hi-Desert Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Condensed Statement of Revenues, Expenses and Changes in Net Position, continued**

**Fiscal Year 2013**

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal year. In the case of the District, net position increased by \$1,625,587 during the fiscal year ended June 30, 2013. Net income before capital contributions of \$52,682 and capital contributions of \$1,572,905 were the two sources of the net change in the District's net position.

Operating revenues increased by \$221,263 in the fiscal year due to an increase in water sales of \$205,225, readiness-to-serve fees of \$42,358 which were offset by a decrease of \$26,320 in other charges. Operating expenses increased by \$1,245,854, due primarily to increases of \$913,950 in source of supply expenses and \$840,049 in wastewater operations which were offset by decreases of \$277,942 in customer account expenses, \$143,151 in general and administrative expenses, and \$95,548 in pumping and water treatment expenses. In 2013, net income from operations decreased by \$1,024,591, or 204.44% from 2012.

The District's non-operating revenues, such as property taxes, surcharge or surcharge recovery revenues are pledged to pay down the District's debt service expenses and for the District's capital improvement program. Non-operating revenues, net of non-operating expenses increased by \$1,180,623 in 2013, due primarily to the prior year accrual of pension related expenses of \$1,062,304 which occurred as a one-time expense and an increase of \$119,563 in capital surcharge revenue, offset by an increase in bond issuance cost expenses of \$110,078.

In addition, the District received \$1,572,905 in capital contributions which is comprised of grant revenues of \$36,878 and \$1,357,056 for water and wastewater operations, respectively, and \$178,971 from developers for meter purchases and installation fees.

**Capital Asset Administration**

Changes in capital assets in 2014 were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance 2014</u>
Capital assets:				
Non-depreciable assets	\$ 4,234,320	2,758,019	(1,809,508)	5,182,831
Depreciable assets	54,473,403	1,809,508	-	56,282,911
Accumulated depreciation	<u>(26,425,128)</u>	<u>(1,375,158)</u>	<u>-</u>	<u>(27,800,286)</u>
Total capital assets	<u>\$ 32,282,595</u>	<u>3,192,369</u>	<u>(1,809,508)</u>	<u>33,665,456</u>

Changes in capital assets in 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance 2013</u>
Capital assets:				
Non-depreciable assets	\$ 3,996,936	1,553,831	(1,316,447)	4,234,320
Depreciable assets	53,012,923	1,460,480	-	54,473,403
Accumulated depreciation	<u>(25,074,746)</u>	<u>(1,350,382)</u>	<u>-</u>	<u>(26,425,128)</u>
Total capital assets	<u>\$ 31,935,113</u>	<u>1,663,929</u>	<u>(1,316,447)</u>	<u>32,282,595</u>

At the end of fiscal year 2014 and 2013, the District's investment in capital assets amounted to \$33,665,456 and \$32,282,595 (net of accumulated depreciation), respectively. This investment in capital assets includes land, easements, transmission and distribution systems, wells, tanks, reservoirs, pumps, buildings and structures, equipment, vehicles and construction-in-process, etc. Major depreciable capital asset additions during fiscal year 2014, include additions to the transmission and distribution system mains, reservoirs and tanks, wells, buildings and structures, office furniture and equipment, tools and equipment, and vehicles.

**Hi-Desert Water District**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Capital Asset Administration, continued**

Major depreciable capital asset additions during fiscal year 2013 include additions to the transmission and distribution system mains, reservoirs and tanks, wells, and buildings and structures. See further detailed information in Note 4.

**Debt Administration**

Changes in long-term debt amounts for 2014 were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Principal Payments/ Amortization</u>	<u>Balance 2014</u>
Long-term debt:				
Bonds payable	\$ 5,110,000	-	(130,000)	4,980,000
Unamortized premium on bonds payable	545,479	-	(45,457)	500,022
Total long-term debt	<u>\$ 5,655,479</u>	<u>-</u>	<u>(175,457)</u>	<u>5,480,022</u>

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

	<u>Balance 2012</u>	<u>Additions</u>	<u>Principal Payments/ Amortization</u>	<u>Balance 2013</u>
Long-term debt:				
Loans payable	\$ 2,769,768	-	(2,769,768)	-
Bonds payable	2,695,000	5,110,000	(2,695,000)	5,110,000
Notes payable	870,600	-	(870,600)	-
Unamortized premium on bonds payable	545,479	-	-	545,479
Total long-term debt	<u>\$ 6,880,847</u>	<u>5,110,000</u>	<u>(6,335,368)</u>	<u>5,655,479</u>

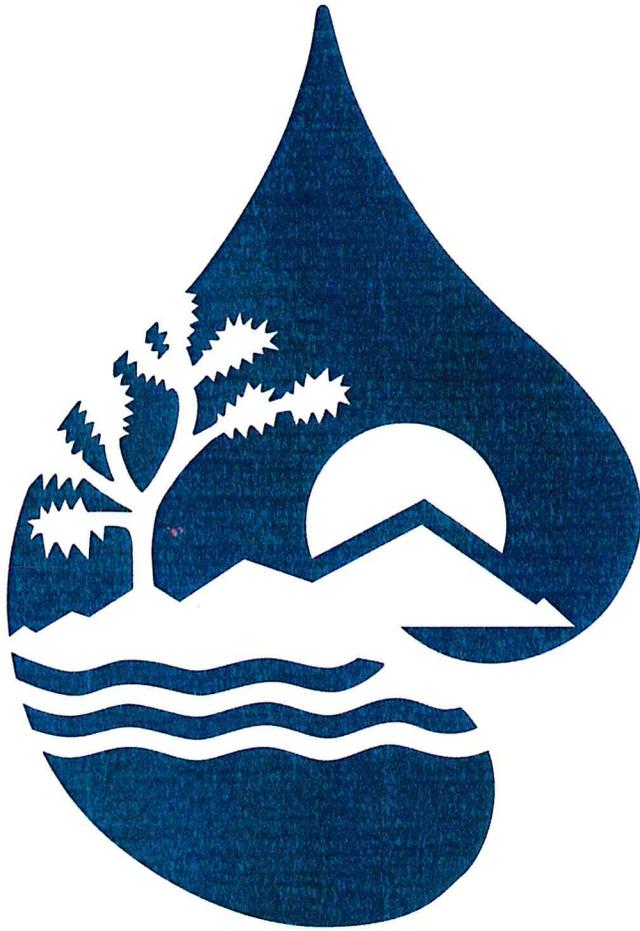
In 2014, long-term debt decreased by \$175,457, due to the principal payment of \$130,000 and the amortization in the amount of \$45,457, related to the premium on bonds payable. In 2013, bond issuance increased long-term debt by \$5,110,000, while principal payments decreased long-term debt by \$6,335,368, primarily due to the defeasance of existing debt from 2012 through the 2013 bond issuance. See further detailed information in Note 7.

**Conditions Affecting Current Financial Position**

Management is unaware of any conditions that would have a significant impact on the District's financial position, net position, or operating results in future periods.

**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 55439 29 Palms Highway, Yucca Valley, California 92284-2503.



# **Basic Financial Statements**

**Hi-Desert Water District**  
**Statements of Net Position**  
**June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Current assets:</b>		
Cash and cash equivalents (note 2)	\$ 8,555,601	7,421,000
Accrued interest receivable	2,397	2,632
Accounts receivable – water sales and services, net (note 3)	907,798	808,305
Accounts receivable – other	971,755	521,120
Property taxes receivable	44,323	45,931
Materials and supplies inventory	330,986	652,410
Prepaid lease payment	720,225	720,170
Prepaid expenses and other deposits	111,360	103,387
Total current assets	11,644,445	10,274,955
<b>Non-current assets:</b>		
Capital assets – not being depreciated (note 4)	5,182,831	4,234,320
Depreciable capital assets, net (note 4)	28,482,625	28,048,275
Total non-current assets	33,665,456	32,282,595
<b>Total assets</b>	45,309,901	42,557,550
 <b>Current liabilities:</b>		
Accounts payable and accrued expenses	951,697	1,351,208
Deposits and unearned revenue	758,383	745,815
Accrued interest on long-term debt	57,283	14,416
Long-term liabilities – due within one year:		
Compensated absences (note 5)	61,846	60,361
Pension related debt (note 6)	75,369	66,162
Bonds payable (note 7)	195,000	130,000
Total current liabilities	2,099,578	2,367,962
<b>Non-current liabilities:</b>		
Long-term liabilities – due in more than one year:		
Compensated absences (note 5)	185,539	181,082
Other post employment benefits payable (note 8)	669,534	804,813
Pension related debt (note 6)	862,953	938,322
Bonds payable, net (note 7)	5,285,022	5,525,479
Total non-current liabilities	7,003,048	7,449,696
<b>Total liabilities</b>	9,102,626	9,817,658
<b>Net position: (note 11)</b>		
Net investment in capital assets	28,185,434	26,627,116
Unrestricted	8,021,841	6,112,776
<b>Total net position</b>	\$ 36,207,275	32,739,892

See accompanying notes to the basic financial statements

**Hi-Desert Water District**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

	<u>2014</u>	<u>2013</u>
<b>Operating revenues:</b>		
Water consumption sales	\$ 5,768,153	5,852,385
Readiness-to-serve fees	1,738,905	1,721,526
Other charges	302,574	301,912
Total operating revenues	<u>7,809,632</u>	<u>7,875,823</u>
<b>Operating expenses:</b>		
Source of supply	454,950	1,446,300
Pumping and water treatment	1,536,227	1,469,160
Transmission and distribution	983,161	933,629
Customer accounts	231,935	273,606
Wastewater operations	2,299,821	1,924,239
General and administrative	2,198,660	2,352,313
Total operating expenses	<u>7,704,754</u>	<u>8,399,247</u>
Operating income (loss) before depreciation and amortization	104,878	(523,424)
Depreciation	(1,375,158)	(1,350,382)
Amortization	-	(182,506)
<b>Operating loss</b>	<u>(1,270,280)</u>	<u>(2,056,312)</u>
<b>Non-operating revenue(expenses):</b>		
Property taxes	1,338,163	1,354,043
Interest earnings	53,148	11,846
Capital surcharge	1,019,310	1,013,458
Morongo Basin Project surcharge	532,424	528,887
Lease payment – Morongo Basin Project	(480,021)	(513,073)
Interest expense – long-term debt	(257,853)	(284,330)
Bond issuance costs	(2,131)	(110,078)
Other non-operating revenues, net	36,625	108,241
Total non-operating revenues, net	<u>2,239,665</u>	<u>2,108,994</u>
<b>Net income before capital contributions</b>	<u>969,385</u>	<u>52,682</u>
<b>Capital contributions:</b>		
Grant revenue	2,199,518	1,393,934
Meter sales and installations	298,480	178,971
Total capital contributions	<u>2,497,998</u>	<u>1,572,905</u>
<b>Change in net position</b>	3,467,383	1,625,587
<b>Net position – beginning of year</b>	<u>32,739,892</u>	<u>31,114,305</u>
<b>Net position – end of year</b>	<u>\$ 36,207,275</u>	<u>32,739,892</u>

See accompanying notes to the basic financial statements

**Hi-Desert Water District**  
**Statements of Cash Flows**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 7,710,139	7,832,767
Cash paid to employees for salaries and wages	(2,576,434)	(2,480,101)
Cash paid to vendors and suppliers for materials and services	(5,781,784)	(5,473,730)
Net cash used by operating activities	(648,079)	(121,064)
Cash flows from non-capital financing activities:		
Proceeds from property taxes	1,339,771	1,407,497
Proceeds from non-operating revenues, net	36,625	108,241
Payments on CalPERS side fund	(66,162)	(57,820)
Interest paid on CalPERS side fund	(70,311)	(74,790)
Net cash provided by non-capital financing activities	1,239,923	1,383,128
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,758,019)	(1,697,864)
Proceeds from capital grants	2,199,518	1,393,934
Proceeds from meter sales and installations	298,480	178,971
Principal paid on long-term debt	(130,000)	(6,335,368)
Interest paid on long-term debt	(144,675)	(294,140)
Proceeds from bond issuance	-	5,655,479
Issuance costs paid for bond issuance	(2,131)	(110,078)
Proceeds from Department of Water Resources Reach II surcharge	1,019,310	1,013,458
Proceeds from Morongo Basin Project surcharge	532,424	528,887
Lease payment – Morongo Basin Project	(480,076)	(513,902)
Net cash provided by (used in) capital and related financing activities	534,831	(180,623)
Cash flows from investing activities:		
Interest earnings	7,926	13,051
Net cash provided by investing activities	7,926	13,051
<b>Net increase in cash and cash equivalents</b>	<b>1,134,601</b>	<b>1,094,492</b>
Cash and cash equivalents – beginning of year	7,421,000	6,326,508
Cash and cash equivalents – end of year	<b>\$ 8,555,601</b>	<b>7,421,000</b>

Continued on next page

See accompanying notes to the basic financial statements

**Hi-Desert Water District**  
**Statements of Cash Flows, continued**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ <u>(1,270,280)</u>	<u>(2,056,312)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	1,375,158	1,350,382
Amortization	-	182,506
Changes in assets and liabilities:		
(Increase)Decrease in assets:		
Accounts receivable – water sales and services, net	(99,493)	(43,056)
Accounts receivable – other	(450,635)	(395,192)
Materials and supplies inventory	321,424	(298,286)
Prepaid expenses and other deposits	(7,973)	(52,055)
Increase(Decrease) in liabilities:		
Accounts payable and accrued expenses	(399,511)	924,133
Deposits and unearned revenue	12,568	419,645
Compensated absences	5,942	18,441
Other post employment benefits payable	<u>(135,279)</u>	<u>(171,270)</u>
Total adjustments	<u>622,201</u>	<u>1,935,248</u>
Net cash used by operating activities	\$ <u><u>(648,079)</u></u>	<u><u>(121,064)</u></u>
Non-cash investing, capital and financing transactions:		
Change in fair-market value of funds deposited with LAIF	\$ <u><u>(2,787)</u></u>	<u><u>(1,184)</u></u>

See accompanying notes to the basic financial statements

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Note 1 – Reporting Entity and Summary of Significant Accounting Policies**

**A. Organization and Operations of the Reporting Entity**

The Hi-Desert Water District (District) was formed on December 14, 1962, and provides potable water and water services to a population of over 25,000 within a 57-square mile area between the cities of Joshua Tree and Morongo Valley within the County of San Bernardino. The District is governed by a five-member Board of Directors who serves overlapping four-year terms.

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 of No. 14). 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.

The Hi-Desert Improvement Corporation (HDIC) was incorporated on February 13, 1981. The HDIC is a California nonprofit public benefit corporation formed to assist the Hi-Desert Water District (District) by acquiring, constructing, operating and maintaining facilities, equipment, or other property needed by the District and leasing or selling such property to the District and as such has no employees or other operations. Although the HDIC is legally separate, it is included as a blended component unit of the District, as it is in substance part of the District's operations. At June 30, 2013, the 1982 Lease Revenue Bonds issued through the HDIC were defeased through the issuance of the 2013 Revenue Refund Bonds.

The Warren Valley Basin (Basin) provides a groundwater supply for the community of Yucca Valley in the County of San Bernardino. Concerned about the significant increase in groundwater overdraft in the Basin, the District filed a complaint for adjudication of the groundwater in 1976. In 1977, the Superior Court for the County of San Bernardino issued its judgment for adjudication. In the adjudication, the Court recognized the need to issue groundwater rights in excess of the Basin's safe yield so that the local economy could support the cost of a solution to the overdraft problem. To administer the provisions of the adjudication judgment, the Court appointed the District as the Warren Valley Basin Watermaster (WVBW) for the Basin and ordered that the WVBW to formulate a plan and program for management of the Basin's resources. Although the WVBW is legally separate, it is included as a blended component unit of the District, as it is in substance part of the District's operations as it is governed by the same Board of Directors. No separate financial statements are prepared for the HDIC and/or WVBW.

**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, water purchases and wastewater related charges, 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. Non-operating revenues, such as grant funding and investment income, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Note 1 – Summary of Significant Accounting Policies, continued**

**C. Financial Reporting**

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

**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 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 maturities of three months or less at the time of purchase to be cash equivalents.

**3. Investments and Investment Policy**

The District has adopted an investment policy directing the Chief Financial Officer 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.

**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. Property Taxes and Assessments**

The County of San Bernardino Assessor's Office assesses all real and personal property within the County each year. The County of San Bernardino Tax Collector's Offices bills and collects the District's share of property taxes and assessments. The County of San Bernardino Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the County of San Bernardino, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Note 1 – Summary of Significant Accounting Policies, continued**

**D. Assets, Liabilities, and Net Position**

**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 first-in first-out 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. 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 mains – 15 to 40 years
- Reservoirs and tanks – 10 to 45 years
- Wells – 10 to 30 years
- Meter service installations – 7 to 10 years
- Recharge site #3 – 40 years
- Recharge ponds – 3 to 40 years
- Nitrate removal plant – 40 years
- Reach II pipeline – 40 years
- Pumps – 12 to 20 years
- Boosters – 20 to 25 years
- Hydrants – 25 to 40 years
- Blending facility – 40 years
- Buildings and structures – 5 to 30 years
- Office furniture and equipment – 5 to 10 years
- Tools and equipment – 5 years
- Vehicles – 4 years

**9. Compensated Absences**

The District's policy is to permit employees to accumulate paid time off (PTO) in lieu of vacation and sick leave. No employee is allowed to accrue PTO in excess of: four hundred forty-eight (448) for years one (1) through five (5); five hundred twenty-eight (528) for years six (6) through ten (10); six hundred eight (608) for years eleven (11) through fifteen (15); six hundred seventy-two (672) for years sixteen (16) and greater. Payment of unused PTO shall not reduce the accrual balance to less than eighty (80) hours.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Note 1 – Summary of Significant Accounting Policies, continued**

**D. Assets, Liabilities, and Net Position**

**11. Net Position**

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

- *Net Investment in Capital Assets Component of Net Position*– This component of net position consists of capital assets, net of accumulated depreciation, and reduced by any debt outstanding against the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt is included in this component of net position.
- *Restricted Component of Net Position* – This component of net position consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- *Unrestricted Component of Net Position* – This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

**12. Water Sales**

Water sales are billed on a monthly cyclical basis and recognize the respective revenues when they are earned.

**13. 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.

**14. Capital Grants**

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a capital or operating grant receivable on the statement of net position and as capital grant contribution or operating grant revenue, as appropriate, on the statement of revenues, expenses and changes in net position.

**15. Budgetary Policies**

The District adopts an 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. Reclassifications**

The District has reclassified certain prior year information to conform to current year presentations of the basic financials statements.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Note 2 – Cash and Cash Equivalents**

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

	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$ 8,555,601	7,421,000

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

	<b>2014</b>	<b>2013</b>
Cash on hand	\$ 1,700	1,700
Deposits held with financial institutions	4,207,321	3,080,636
Deposits held with California Local Agency Investment Fund (LAIF)	4,346,580	4,338,664
<b>Total</b>	<b>\$ 8,555,601</b>	<b>7,421,000</b>

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

	<b>2014</b>	<b>2013</b>
Deposits held with the California Local Agency Investment Fund (LAIF)	232 days	278 days

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

The table below 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.

<b>Authorized Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum Percentage Of Portfolio</b>	<b>Maximum Investment in One Issuer</b>
U.S. Treasury obligations	5 years	None	None
Federal agency and bank obligations	5 years	None	None
Certificates-of-deposit (negotiable or placed)	5 years	30%	10%
Commercial paper (prime)	270 days	10%	10%
Money market mutual funds	N/A	20%	None
State and local bonds, notes and warrants	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

***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: 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 District's 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.

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).

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Note 2 – Cash and Cash Equivalents, continued**

***Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District’s investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing 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; however, LAIF is not rated.

***Concentration of Credit Risk***

The District’s investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District’s deposit portfolio with governmental agencies, LAIF, is 51% and 58% as of June 30, 2014 and 2013, respectively, of the District’s total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 5% or more of the District’s total investments.

**Note 3 – Accounts Receivable – Water Sales and Services**

The balance at June 30, consists of the following:

	<b>2014</b>	<b>2013</b>
Accounts receivable – water sales and services	\$ 977,798	993,445
Allowance for uncollectible accounts	(70,000)	(185,140)
Accounts receivable – water sales, net	\$ 907,798	808,305

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Note 4 – Capital Assets**

Changes in capital assets for 2014 were as follows:

	<u>Balance 2013</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets:				
Land	\$ 1,130,089	-	-	1,130,089
Easements	337,851	-	-	337,851
Construction-in-process	<u>2,766,380</u>	<u>2,758,019</u>	<u>(1,809,508)</u>	<u>3,714,891</u>
Total non-depreciable assets	<u>4,234,320</u>	<u>2,758,019</u>	<u>(1,809,508)</u>	<u>5,182,831</u>
Depreciable assets:				
Transmission and distribution mains	24,345,166	1,393,636	-	25,738,802
Reservoirs and tanks	6,481,178	-	-	6,481,178
Wells	4,911,443	-	-	4,911,443
Meter service installations	1,201,496	-	-	1,201,496
Recharge ponds	2,000,846	-	-	2,000,846
Recharge site #3	2,459,164	-	-	2,459,164
Nitrate removal facility	2,738,124	-	-	2,738,124
Reach II pipeline	1,473,958	-	-	1,473,958
Pumps	1,043,419	-	-	1,043,419
Boosters	890,673	-	-	890,673
Hydrants	847,105	-	-	847,105
Blending facility	771,483	-	-	771,483
Buildings and structures	1,151,786	-	-	1,151,786
Office furniture and equipment	1,036,751	-	-	1,036,751
Tools and equipment	552,544	13,028	-	565,572
Vehicles	<u>2,568,267</u>	<u>402,844</u>	<u>-</u>	<u>2,971,111</u>
Total depreciable assets	<u>54,473,403</u>	<u>1,809,508</u>	<u>-</u>	<u>56,282,911</u>
Accumulated depreciation and amortization:				
Transmission and distribution mains	(8,603,683)	(588,057)	-	(9,191,740)
Reservoirs and tanks	(3,075,904)	(142,880)	-	(3,218,784)
Wells	(3,541,712)	(170,654)	-	(3,712,366)
Meters	(1,201,496)	-	-	(1,201,496)
Recharge ponds	(929,421)	(57,839)	-	(987,260)
Recharge site #3	(461,093)	(61,479)	-	(522,572)
Nitrate removal facility	(706,285)	(69,109)	-	(775,394)
Reach II pipeline	(644,857)	(36,849)	-	(681,706)
Pumps	(1,001,925)	(8,510)	-	(1,010,435)
Boosters	(828,332)	(13,382)	-	(841,714)
Hydrants	(631,438)	(24,128)	-	(655,566)
Blending facility	(163,940)	(19,287)	-	(183,227)
Buildings and structures	(681,683)	(35,885)	-	(717,568)
Office furniture and equipment	(932,296)	(41,926)	-	(974,222)
Tools and equipment	(518,528)	(8,411)	-	(526,939)
Vehicles	<u>(2,502,535)</u>	<u>(96,762)</u>	<u>-</u>	<u>(2,599,297)</u>
Total accumulated depreciation	<u>(26,425,128)</u>	<u>(1,375,158)</u>	<u>-</u>	<u>(27,800,286)</u>
Total depreciable assets, net	<u>28,048,275</u>	<u>434,350</u>	<u>-</u>	<u>28,482,625</u>
Total capital assets, net	<u>\$ 32,282,595</u>			<u>33,665,456</u>

Major depreciable capital asset additions during fiscal year 2014 include additions to the transmission and distribution system mains, reservoirs and tanks, wells, buildings and structures, office furniture and equipment, tools and equipment, and vehicles.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Note 4 – Capital Assets, continued**

Changes in capital assets for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
Non-depreciable assets:				
Land	\$ 1,130,089	-	-	1,130,089
Easements	337,851	-	-	337,851
Construction-in-process	2,528,996	1,553,831	(1,316,447)	2,766,380
Total non-depreciable assets	<u>3,996,936</u>	<u>1,553,831</u>	<u>(1,316,447)</u>	<u>4,234,320</u>
Depreciable assets:				
Transmission and distribution mains	23,384,965	960,201	-	24,345,166
Reservoirs and tanks	6,212,494	268,684	-	6,481,178
Wells	4,823,881	87,562	-	4,911,443
Meter service installations	1,201,496	-	-	1,201,496
Recharge ponds	2,000,846	-	-	2,000,846
Recharge site #3	2,459,164	-	-	2,459,164
Nitrate removal facility	2,738,124	-	-	2,738,124
Reach II pipeline	1,473,958	-	-	1,473,958
Pumps	1,043,419	-	-	1,043,419
Boosters	890,673	-	-	890,673
Hydrants	847,105	-	-	847,105
Blending facility	771,483	-	-	771,483
Buildings and structures	1,138,086	13,700	-	1,151,786
Office furniture and equipment	954,046	82,705	-	1,036,751
Tools and equipment	529,647	22,897	-	552,544
Vehicles	2,543,536	24,731	-	2,568,267
Total depreciable assets	<u>53,012,923</u>	<u>1,460,480</u>	<u>-</u>	<u>54,473,403</u>
Accumulated depreciation and amortization:				
Transmission and distribution mains	(8,042,947)	(560,736)	-	(8,603,683)
Reservoirs and tanks	(2,935,206)	(140,698)	-	(3,075,904)
Wells	(3,375,436)	(166,276)	-	(3,541,712)
Meters	(1,201,496)	-	-	(1,201,496)
Recharge ponds	(861,335)	(68,086)	-	(929,421)
Recharge site #3	(399,614)	(61,479)	-	(461,093)
Nitrate removal facility	(637,176)	(69,109)	-	(706,285)
Reach II pipeline	(608,008)	(36,849)	-	(644,857)
Pumps	(992,428)	(9,497)	-	(1,001,925)
Boosters	(802,919)	(25,413)	-	(828,332)
Hydrants	(607,273)	(24,165)	-	(631,438)
Blending facility	(144,653)	(19,287)	-	(163,940)
Buildings and structures	(646,483)	(35,200)	-	(681,683)
Office furniture and equipment	(890,080)	(42,216)	-	(932,296)
Tools and equipment	(500,824)	(17,704)	-	(518,528)
Vehicles	(2,428,868)	(73,667)	-	(2,502,535)
Total accumulated depreciation	<u>(25,074,746)</u>	<u>(1,350,382)</u>	<u>-</u>	<u>(26,425,128)</u>
Total depreciable assets, net	<u>27,938,177</u>	<u>110,098</u>	<u>-</u>	<u>28,048,275</u>
Total capital assets, net	<u>\$ 31,935,113</u>			<u>32,282,595</u>

Major depreciable capital asset additions during fiscal year 2013 include additions to the transmission and distribution system mains, reservoirs and tanks, wells, and buildings and structures.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Note 4 – Capital Assets, continued**

***Construction-In-Process***

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-process balances at June 30, 2014 are as follows:

The balance at June 30, consists of the following projects:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Wastewater treatment facility	\$ 1,735,004	1,735,004	1,735,004
Production well - site no.3	793,992	1,013,728	1,661,751
Water master plan	-	-	233,277
Various small projects under \$50,000	-	17,648	84,859
Construction-in-process	<u>\$ 2,528,996</u>	<u>2,766,380</u>	<u>3,714,891</u>

**Note 5 – Compensated Absences**

Compensated absences comprise unpaid paid time off that accrues when benefits are fully vested and are determined annually. Compensated absences turn-over each year, therefore, the compensated absence balance of the District is considered a current liability on the Statements of Net position.

The changes to compensated absences balances at June 30, were as follows:

	<u>Balance 2013</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2014</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
\$	<u>241,443</u>	<u>266,462</u>	<u>(260,520)</u>	<u>247,385</u>	<u>61,846</u>	<u>185,539</u>
	<u>Balance 2012</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2013</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
\$	<u>223,002</u>	<u>453,520</u>	<u>(435,079)</u>	<u>241,443</u>	<u>60,361</u>	<u>181,082</u>

**Note 6 – Pension Related Debt – CalPERS Side-Fund**

As of June 30, 2003, CalPERS implemented risk-pooling for the District's agent multiple-employer public employee defined benefit pension plan. As a result, the District's defined benefit pension plan with CalPERS converted from an agent multiple-employer plan to a cost sharing multiple-employer plan. This change in the type of the plan created the CalPERS Side-Fund, which CalPERS financed at a 7.75% interest rate (for fiscal year 2013 and beyond CalPERS reduced the rate to 7.50%). CalPERS actuarially calculated the amount needed to bring the District into the cost sharing multiple-employer plan on an equal basis with other governmental agencies that all had less than 100 active and retired employees combined. The reason that CalPERS switched these governmental agencies into the cost sharing multiple-employer plan was to smooth the annual costs related to the pension benefit over a longer period of time resulting in a lower cost of service to the governmental agencies.

A portion of the District's annual required contribution to CalPERS are actuarially determined and shared by all governmental agencies within the cost sharing risk pool. Also, the District is required to make systematic pay-as-you-go payments to pay-down the CalPERS Side-Fund, as well. The responsibility for paying-down the District's CalPERS Side-Fund is specific to the District and is not shared by all governmental agencies within the cost sharing risk pool. Therefore, the CalPERS Side-Fund falls under the definition of pension-related debt, as described in GASB Statement No. 27.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Note 6 – Pension Related Debt – CalPERS Side-Fund, continued**

The following long-term debt has been recorded on the District’s financial statements as the District is making systematic pay-as-you-go payments to CalPERS each payroll period. The annual repayment schedule is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 75,369	65,198	140,567
2016	85,394	59,390	144,784
2017	96,302	52,826	149,128
2018	108,163	45,438	153,601
2019-2022	573,094	88,794	661,888
Total	938,322	311,646	1,249,968
Less: current portion	(75,369)		
Long-term portion	\$ 862,953		

**Note 7 – Bonds Payable**

Changes in bonds payable for the year ended June 30, 2014, are as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Principal Payments/ Amortization</u>	<u>Balance 2014</u>
2013 Revenue Refunding bonds	\$ 5,110,000	-	(130,000)	4,980,000
Unamortized premium on 2013 Revenue Refunding bonds	545,479	-	(45,457)	500,022
Total	5,655,479	-	(175,457)	5,480,022
Less: current portion due	(130,000)			(195,000)
Long-term portion due	\$ 5,525,479			5,285,022

Changes in bonds payable for the year ended June 30, 2013, are as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Principal Payments/ Amortization</u>	<u>Balance 2013</u>
1982 Lease Revenue bonds	\$ 840,000	-	(840,000)	-
1998 Revenue Refunding bonds	1,855,000	-	(1,855,000)	-
2013 Revenue Refunding bonds	-	5,110,000	-	5,110,000
Unamortized premium on 2013 Revenue Refunding bonds	-	545,479	-	545,479
Total	2,695,000	5,110,000	(2,695,000)	5,655,479
Less: current portion due	(235,000)			(130,000)
Long-term portion due	\$ 2,460,000			5,525,479

**2013 Revenue Refunding Bonds**

On April 1, 2013, the District issued \$5,110,000 in twelve-year Water Revenue Refunding Bonds, Series 2013, (2013 Revenue Refunding Bonds) to provide funds to defease and refund the Districts following prior obligations: the 1986 California Department of Water Resources loan, the 1982 Lease Revenue bonds, the 1998 Revenue Refunding bonds, and the 1978 Farmer’s Home Loan Administration note. The bonds and interest are payable from, and are secured by a pledge of net revenues and certain funds held under the indenture.

The bonds are scheduled to mature in 2025. Interest is payable semi-annually on September 1st and March 1st each year at a rate of 2.00% while principal payments are made on March 1st each year.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Note 7 – Bonds Payable, continued**

Annual debt service requirements on the 2013 Revenue Refunding Bonds are as follows:

Year	Principal	Interest	Total
2015	\$ 390,000	171,850	561,850
2016	400,000	164,050	564,050
2017	410,000	156,050	566,050
2018	420,000	143,750	563,750
2019-2023	2,315,000	512,750	2,827,750
2024-2025	1,045,000	79,000	1,124,000
Total	4,980,000	1,227,450	6,207,450
Less: current portion	(195,000)		
Long-term portion	\$ 4,785,000		

**Note 8 – Other Post-Employment Benefits Payable**

The District provides other post-employment benefits (OPEB) to qualified employees who retire from the District and meet the District’s vesting requirements. During the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are set forth below.

***Plan Description – Eligibility***

A retired employee and dependent spouse, or spouse of a deceased employee or retiree must satisfy the following requirements in order to be eligible for post employment medical and dental benefits:

- Full time employees hired before November 15, 2000, with 10 years of continuous service with a minimum of 50 years of age.
- Full time employees hired on or after November 15, 2000, with 20 years of continuous service with a minimum of 55 years of age.
- Full time employees hired on or after May 17, 2006, is a minimum of 55 years of age with a minimum of 20 years of continuous service will receive benefits until the earlier of age 65 or until eligible for Medicare.
- Full time employees hired on or after July 1, 2009, are not eligible for post employment benefits.

If the spouse of a deceased employee or retiree remarries and becomes eligible for health benefits under his/her new spouse’s health plan, all District benefits shall be terminated.

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

	2014	2013	2012
Active plan members	26	26	34
Retirees and beneficiaries receiving benefits	19	19	18
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	45	45	52

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Note 8 – Other Post-Employment Benefits Payable, continued**

***Plan Description – Benefits***

The District offers post employment medical and dental benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the District’s medical and dental programs. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

***Funding Policy***

The District is required to contribute the Annual Required Contribution (ARC) of the Employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 2.2% of the annual covered payroll.

***Annual Cost***

For the fiscal years ended June 30, 2014 and 2013, the District’s ARC cost is \$55,997 and \$53,586, respectively. The District’s net OPEB payable obligation amounted to \$669,534 and \$804,813 for the fiscal years ended June 30, 2014 and 2013, respectively. The District contributed \$175,092 and \$207,015 in adjusted contributions for current retiree OPEB premiums for the fiscal years ended June 30, 2014 and 2013, respectively.

The balance at June 30, consists of the following:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 55,997	53,586	515,600
Interest on net OPEB obligation	8	-	14,662
Adjustment to annual required contribution	<u>(16,192)</u>	<u>(17,841)</u>	<u>(18,481)</u>
Total annual OPEB expense	39,813	35,745	511,781
Change in net OPEB payable obligation:			
Age adjusted contributions made	<u>(175,092)</u>	<u>(207,015)</u>	<u>(273,899)</u>
Total change in net OPEB payable obligation	(135,279)	(171,270)	237,882
OPEB payable – beginning of year	<u>804,813</u>	<u>976,083</u>	<u>738,201</u>
OPEB payable – end of year	<u>\$ 669,534</u>	<u>804,813</u>	<u>976,083</u>

The District’s annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2014 and the three preceding years were as follows:

<u><i>Three-Year History of Net OPEB Obligation</i></u>				
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Age Adjusted Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation Payable</u>
2014	\$ 55,997	175,092	312.68%	\$ 669,534
2013	53,586	207,015	386.32%	804,813
2012	515,600	273,899	53.12%	976,083

See the Schedule of Funding Status in the Required Supplementary Information Section on Page 37.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Note 8 – Other Post-Employment Benefits Payable, continued**

*Funded Status and Funding Progress of the Plan*

The most recent valuation (dated June 30, 2013) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$782,352. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2013, was \$2,480,101. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 31.55%.

*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, 2013
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Amortization period	closed-basis
Remaining amortization period	27 Years as of the valuation date
Asset valuation method	10 Year smoothed market
Actuarial assumptions:	
Projected salary increase	0.10%
Inflation - discount rate	3.00%
Individual salary growth	District annual COLA

**Note 9 – Deferred Compensation Savings Plan**

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. 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 CalPERS at June 30, 2014 and 2013, was \$103,178 and \$93,319, respectively. The market value of all plan assets held in trust by Lincoln Financial Services at June 30, 2014 and 2013, was \$798,999 and \$739,013, 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.

*Plan Description*

The District 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.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Note 10 – Defined Benefit Pension Plan**

CalPERS act 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 CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA 95814.

***Funding Policy and Annual Pension Cost***

***First-Tier Plan***

The contribution rate for plan members in the CalPERS 2.5% at 55 Retirement Plan is 8% of their annual covered salary. The District makes 2% of these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members.

***Second-Tier – Beginning December 24, 2011***

The contribution rate for plan members in the CalPERS 2.0% at 60 Retirement Plan is 7.0% of their annual covered wages. The District employees hired on or after December 24, 2011, contribute 7.0% 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.

***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.

***Third-Tier – Beginning January 1, 2013***

The contribution rate for plan members in the CalPERS 2.0% at 62 Retirement Plan under PEPRA is 6.50% of their annual covered wages. All District employees, including those employees hired on or after January 1, 2013, contribute 6.50% 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.

For Fiscal years 2014, 2013, and 2012, the District’s annual contributions for the CalPERS plan were equal to the Agencies required and actual contributions for each fiscal year as follows. 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.

***Three Year Funding Information:***

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>APC Percentage of Payroll</u>
2012	\$ 527,741	100%	18.825%
2013	558,804	100%	20.420%
2014	497,795	100%	21.461%

See the Schedule of Funding Status in the Required Supplementary Information Section on Page 37.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Note 10 – Defined Benefit Pension Plan, continued**

*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, 2013
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, open
Asset valuation method	Market Value
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%

**Note 11 – Net Position**

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

	<u>2014</u>	<u>2013</u>
Net investment in capital assets:		
Capital assets, net	\$ 33,665,456	32,282,595
Bonds payable – current portion	(195,000)	(130,000)
Bonds payable – non-current portion	<u>(5,285,022)</u>	<u>(5,525,479)</u>
Total net investment in capital assets	<u>28,185,434</u>	<u>26,627,116</u>
Unrestricted net position:		
Non-spendable net position:		
Materials and supplies inventory	330,986	652,410
Prepaid lease payment	720,225	720,170
Prepaid expenses and other deposits	<u>111,360</u>	<u>103,387</u>
Total non-spendable net position	1,162,571	1,475,967
Spendable net position are as follows:		
Unrestricted	<u>6,859,270</u>	<u>4,636,809</u>
Total spendable net position	<u>6,859,270</u>	<u>4,636,809</u>
Total unrestricted net position	<u>\$ 8,021,841</u>	<u>6,112,776</u>

**Note 12 – Morongo Basin Project and Surcharge**

The District is a project participant in the Mojave Water Agency's Improvement District M State Water Project (Morongo Basin Project). The Mojave Water Agency was authorized to issue \$66,500,000 of general obligation bonds to build a pipeline connection from the State Water Project's California Aqueduct in Hesperia to the Morongo Basin. The project was completed in June 1996, and to date \$51,780,000 in bonded debt has been issued to cover the costs of the construction. The District and the other project participants have agreed to pay their proportional portion of the construction, operation and financing costs for the entire project.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Note 12 – Morongo Basin Project and Surcharge, continued**

Therefore, the District is charging all of its customers a monthly surcharge to pay for the District's participation in the Morongo Basin Project. The total surcharge revenue for the years ended June 30, 2014 and 2013 was \$532,424 and \$528,887, respectively.

The agreement is being treated as a 25-year operating lease since title to the pipeline connection assets will not be transferred to the District. As part of the agreement, the District is required to pre-pay its portion of the lease (debt service on the project) on June 1, for the next fiscal year.

The District's commitment under the agreement is 17.70% of the annual bonded debt service requirements (principal and interest).

The District's remaining operating lease payments are as follows:

<u>Due June 1st</u>	<u>Amount</u>
2015	\$ 480,076
2016	480,076
2017	480,076
2018	480,076
2019	480,076
2020-2023	<u>1,292,009</u>
Total	<u>\$ 3,692,389</u>

At June 30, 2014 and 2013, the District has recorded a prepaid asset on the statement of net position in the amount of \$720,225 and \$720,170, respectively, related to the Morongo Basin Project and Surcharge.

**Note 13 – 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 Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2014, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$2,000,000, combined single limit at \$2,000,000 per occurrence. The ACWA/JPIA purchased additional excess coverage layers: \$60 million 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 \$100,000 per loss includes public employee dishonesty, forgery or alteration and theft, computer fraud, plus \$500,000 excess crime coverage.
- 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 \$100 million per occurrence, subject to a \$2,500 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law purchased through the Special District Risk Management Authority (SDRMA).

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Note 13 – Risk Management, continued**

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2014, 2013, and 2012. 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, 2014, 2013, and 2012.

**Note 14 – Governmental Accounting Standards Board Statements Issued, Not Yet Effective**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2014, that has effective dates that may impact future financial presentations.

***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 the 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 the District's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 71***

In November 2013, the GASB issued Statement No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68. The impact of the implementation of this Statement to District's financial statements has not been assessed at this time.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**Note 15 – Commitments and Contingencies**

*Grant Awards*

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

*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.

**Note 16 – Subsequent Events**

Events occurring after June 30, 2014, have been evaluated for possible adjustment to the financial statements or disclosure as of December 10, 2014, which is the date the financial statements were available to be issued.



## **Required Supplementary Information**

the 1990s, the number of people in the world who are under 15 years of age is expected to increase from 1.1 billion to 1.4 billion. This increase is expected to be particularly large in the developing countries, where the population is growing rapidly.

The rapid increase in the number of children in the world is a major challenge for the world's governments and the international community. It is essential that we find ways to meet the needs of these children, particularly in the areas of education, health care, and social services.

One of the most important ways to meet the needs of children is through education. Education is essential for the development of children and for the progress of the world. It is essential that we provide quality education for all children, particularly in the developing countries.

Another important way to meet the needs of children is through health care. Health care is essential for the survival and well-being of children. It is essential that we provide quality health care for all children, particularly in the developing countries.

Finally, it is essential that we provide social services for children. Social services are essential for the development of children and for the progress of the world. It is essential that we provide quality social services for all children, particularly in the developing countries.

In conclusion, the rapid increase in the number of children in the world is a major challenge for the world's governments and the international community. It is essential that we find ways to meet the needs of these children, particularly in the areas of education, health care, and social services.

One of the most important ways to meet the needs of children is through education. Education is essential for the development of children and for the progress of the world. It is essential that we provide quality education for all children, particularly in the developing countries.

Another important way to meet the needs of children is through health care. Health care is essential for the survival and well-being of children. It is essential that we provide quality health care for all children, particularly in the developing countries.

Finally, it is essential that we provide social services for children. Social services are essential for the development of children and for the progress of the world. It is essential that we provide quality social services for all children, particularly in the developing countries.

In conclusion, the rapid increase in the number of children in the world is a major challenge for the world's governments and the international community. It is essential that we find ways to meet the needs of these children, particularly in the areas of education, health care, and social services.

One of the most important ways to meet the needs of children is through education. Education is essential for the development of children and for the progress of the world. It is essential that we provide quality education for all children, particularly in the developing countries.

Another important way to meet the needs of children is through health care. Health care is essential for the survival and well-being of children. It is essential that we provide quality health care for all children, particularly in the developing countries.

Finally, it is essential that we provide social services for children. Social services are essential for the development of children and for the progress of the world. It is essential that we provide quality social services for all children, particularly in the developing countries.

In conclusion, the rapid increase in the number of children in the world is a major challenge for the world's governments and the international community. It is essential that we find ways to meet the needs of these children, particularly in the areas of education, health care, and social services.

One of the most important ways to meet the needs of children is through education. Education is essential for the development of children and for the progress of the world. It is essential that we provide quality education for all children, particularly in the developing countries.

Another important way to meet the needs of children is through health care. Health care is essential for the survival and well-being of children. It is essential that we provide quality health care for all children, particularly in the developing countries.

**Hi-Desert Water District**  
**Schedules of Funding Status**  
**For the Fiscal Years Ended June 30, 2014 and 2013**

**1.) Defined Benefit Pension Plan**

<b>Development of the Actuarial Value of Assets Calculation in a Risk Pool</b>			
	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>
The District is part of the CalPERS Miscellaneous 2.5% at 55 yrs. Risk Pool			
1. Plan's accrued liability	\$ 12,224,123	12,745,263	13,768,572
2. Plan's side fund	(1,109,627)	(1,062,304)	(1,004,485)
3. Pool's accrued liability	2,135,350,204	2,254,622,362	2,389,797,201
4. Pool's side fund	(117,829,589)	(107,443,058)	(83,573,887)
5. Pool's actuarial value of assets (AVA) including receivables	1,724,200,585	1,837,489,422	N/A
6. Plan's actuarial value of assets (AVA) including receivables $[(1+2) / (3+4) \times 5]$	9,498,600	9,997,914	N/A
7. Pool's market value of assets (MVA) including receivables	1,543,100,350	1,545,132,565	N/A
8. Plan's market value of assets (MVA) including receivables $[(1+2) / (3+4) \times 7]$	8,500,921	8,407,179	9,726,215

Information at June 30, 2014 is not available.

**Funding History**

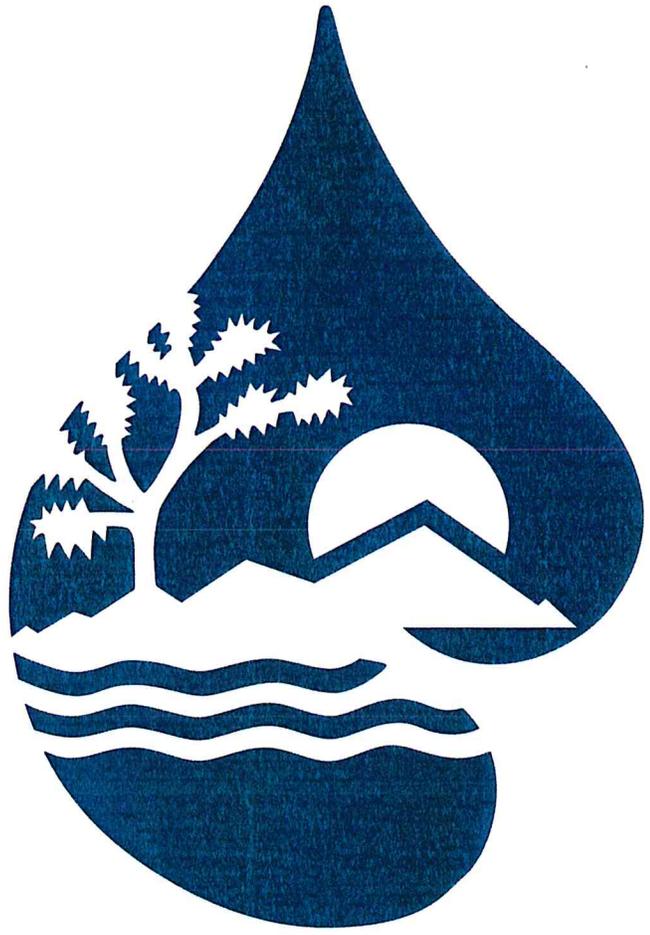
The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios, and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress 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.

<u>Actuarial Valuation Date</u>	<u>Accrued Liability (a)</u>	<u>Share of Pool's Market Value of Assets (AVA) (b)</u>	<u>Plan's Share of Pool's Unfunded Liability (a-b)</u>	<u>Funded Ratio (b/a)</u>	<u>Annual Covered Payroll</u>
June 30, 2011	\$ 12,224,123	8,500,921	3,723,202	69.5%	\$ 2,122,748
June 30, 2012	12,745,263	8,407,179	4,338,084	66.0%	2,150,943
June 30, 2013	13,768,572	9,726,215	4,042,357	70.6%	1,860,331

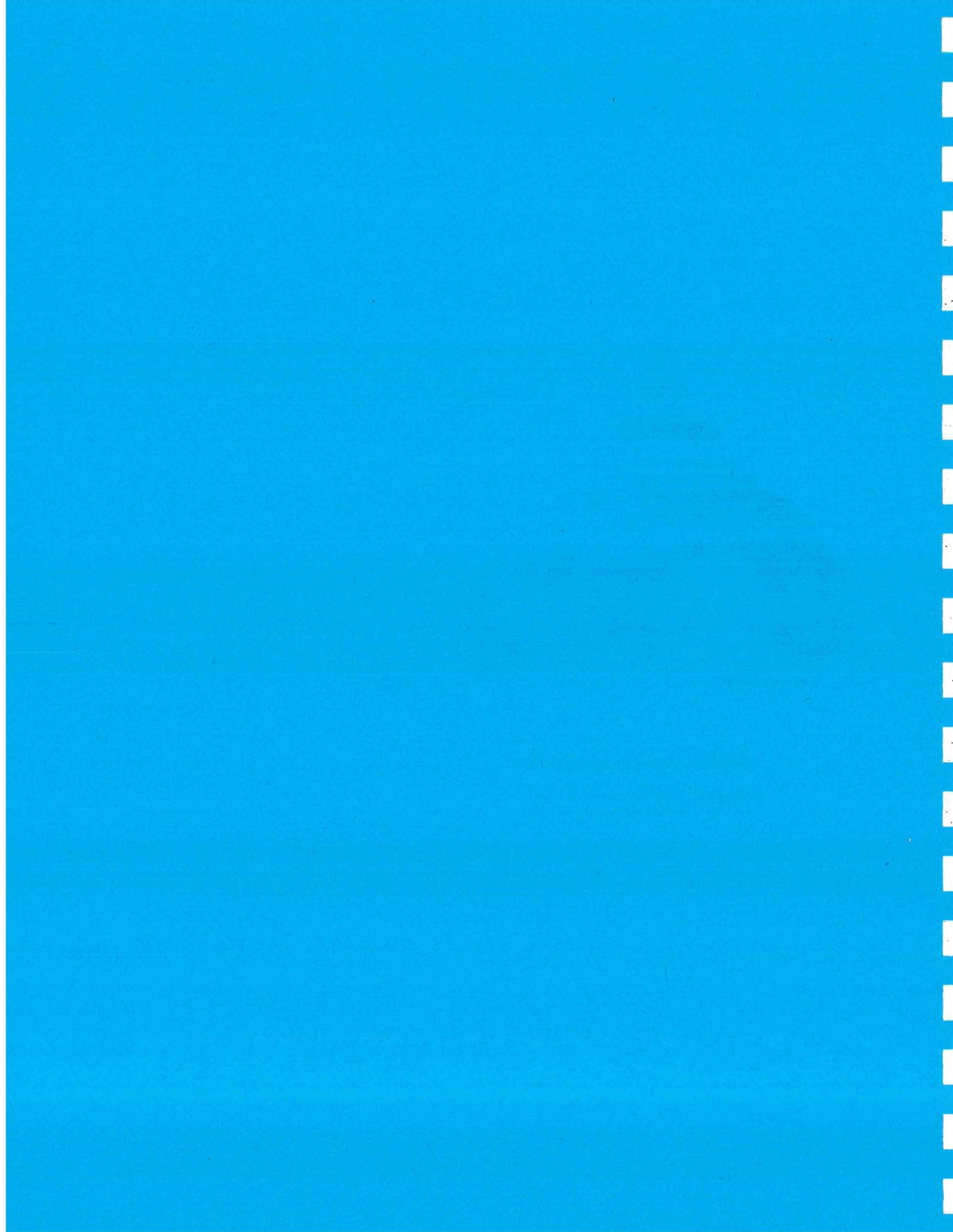
**2.) Other Post-Employment Benefits Payable**

<i>Required Supplemental Information – Schedule of Funding Progress</i>						
<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/c)</u>
6/30/2013	\$ -	782,352	782,352	0.00%	\$ 2,480,101	31.55%
6/30/2010	-	3,296,127	3,296,127	0.00%	2,444,369	134.85%

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.



## **Supplemental Information Section**



**Hi-Desert Water District**  
**Combining Schedule of Net position**  
**June 30, 2014**

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	
<b>Current assets:</b>			
Cash and cash equivalents	\$ 8,546,690	8,911	8,555,601
Accrued interest receivable	2,397	-	2,397
Accounts receivable – water sales and services, net	907,798	-	907,798
Accounts receivable – other	2,770	968,985	971,755
Property taxes receivable	44,323	-	44,323
Internal balances	4,090,970	(4,090,970)	-
Materials and supplies inventory	330,986	-	330,986
Prepaid lease payment	720,225	-	720,225
Prepaid expense and other deposits	111,360	-	111,360
Total current assets	<u>14,757,519</u>	<u>(3,113,074)</u>	<u>11,644,445</u>
<b>Non-current assets:</b>			
Capital assets – not being depreciated	3,124,540	2,058,291	5,182,831
Depreciable capital assets, net	<u>28,482,625</u>	<u>-</u>	<u>28,482,625</u>
Total non-current assets	<u>31,607,165</u>	<u>2,058,291</u>	<u>33,665,456</u>
<b>Total assets</b>	<u>46,364,684</u>	<u>(1,054,783)</u>	<u>45,309,901</u>
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	284,077	667,620	951,697
Deposits and unearned revenue	758,346	37	758,383
Accrued interest on long-term debt	57,283	-	57,283
Long-term liabilities – due within one year:			
Compensated absences	61,846	-	61,846
Pension related debt	75,369	-	75,369
Bonds payable	<u>195,000</u>	<u>-</u>	<u>195,000</u>
Total current liabilities	<u>1,431,921</u>	<u>667,657</u>	<u>2,099,578</u>
<b>Non-current liabilities</b>			
Long-term liabilities – due in more than one year:			
Compensated absences	185,539	-	185,539
Other post employment benefits	669,534	-	669,534
Pension related debt	862,953	-	862,953
Bonds payable, net	<u>5,285,022</u>	<u>-</u>	<u>5,285,022</u>
Total non-current liabilities	<u>7,003,048</u>	<u>-</u>	<u>7,003,048</u>
<b>Total liabilities</b>	<u>8,434,969</u>	<u>667,657</u>	<u>9,102,626</u>
<b>Net position:</b>			
Net investment in capital assets	26,127,143	2,058,291	28,185,434
Unrestricted	<u>11,802,572</u>	<u>(3,780,731)</u>	<u>8,021,841</u>
<b>Total net position</b>	<u>\$ 37,929,715</u>	<u>(1,722,440)</u>	<u>36,207,275</u>

See accompanying notes to the basic financial statements

**Hi-Desert Water District**  
**Combining Schedule of Net position**  
**June 30, 2013**

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	
<b>Current assets:</b>			
Cash and cash equivalents	\$ 7,403,317	17,683	7,421,000
Accrued interest receivable	2,632	-	2,632
Accounts receivable – water sales and services, net	808,305	-	808,305
Accounts receivable – property taxes	92,560	428,560	521,120
Accounts receivable – other	45,931	-	45,931
Internal balances	3,590,970	(3,590,970)	-
Materials and supplies inventory	652,410	-	652,410
Prepaid lease payment	720,170	-	720,170
Prepaid expense and other deposits	103,387	-	103,387
Total current assets	<u>13,419,682</u>	<u>(3,144,727)</u>	<u>10,274,955</u>
<b>Non-current assets:</b>			
Capital assets – not being depreciated	2,176,029	2,058,291	4,234,320
Depreciable capital assets, net	<u>28,048,275</u>	<u>-</u>	<u>28,048,275</u>
Total non-current assets	<u>30,224,304</u>	<u>2,058,291</u>	<u>32,282,595</u>
<b>Total assets</b>	<u>43,643,986</u>	<u>(1,086,436)</u>	<u>42,557,550</u>
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	817,482	533,726	1,351,208
Deposits and unearned revenue	745,815	-	745,815
Accrued interest on long-term debt	14,416	-	14,416
Long-term liabilities – due within one year:			
Compensated absences	60,361	-	60,361
Pension related debt	66,162	-	66,162
Bonds payable	<u>130,000</u>	<u>-</u>	<u>130,000</u>
Total current liabilities	<u>1,834,236</u>	<u>533,726</u>	<u>2,367,962</u>
<b>Non-current liabilities</b>			
Long-term liabilities – due in more than one year:			
Compensated absences	181,082	-	181,082
Other post employment benefits	804,813	-	804,813
Pension related debt	938,322	-	938,322
Bonds payable, net	<u>5,525,479</u>	<u>-</u>	<u>5,525,479</u>
Total non-current liabilities	<u>7,449,696</u>	<u>-</u>	<u>7,449,696</u>
<b>Total liabilities</b>	<u>9,283,932</u>	<u>533,726</u>	<u>9,817,658</u>
<b>Net position:</b>			
Net investment in capital assets	24,568,825	2,058,291	26,627,116
Unrestricted	<u>9,791,229</u>	<u>(3,678,453)</u>	<u>6,112,776</u>
<b>Total net position</b>	<u>\$ 34,360,054</u>	<u>(1,620,162)</u>	<u>32,739,892</u>

See accompanying notes to the basic financial statements

**Hi-Desert Water District**  
**Combining Schedule of Revenues, Expenses and Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2014**

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	
<b>Operating revenues:</b>			
Water consumption sales	\$ 5,768,153	-	5,768,153
Readiness-to-serve fees	1,738,905	-	1,738,905
Other charges	302,574	-	302,574
Total operating revenues	<u>7,809,632</u>	<u>-</u>	<u>7,809,632</u>
<b>Operating expenses:</b>			
Source of supply	454,950	-	454,950
Pumping and water treatment	1,536,227	-	1,536,227
Transmission and distribution	983,161	-	983,161
Customer accounts	231,935	-	231,935
Wastewater operations	-	2,299,821	2,299,821
General and administrative	2,198,660	-	2,198,660
Total operating expenses	<u>5,404,933</u>	<u>2,299,821</u>	<u>7,704,754</u>
Operating income (loss) before depreciation	2,404,699	(2,299,821)	104,878
Depreciation	<u>(1,375,158)</u>	<u>-</u>	<u>(1,375,158)</u>
<b>Operating loss</b>	<u>1,029,541</u>	<u>(2,299,821)</u>	<u>(1,270,280)</u>
<b>Non-operating revenue(expense):</b>			
Property taxes	1,338,163	-	1,338,163
Interest earnings	53,148	-	53,148
Capital surcharge	1,019,310	-	1,019,310
Morongo Basin Project surcharge	532,424	-	532,424
Lease payment – Morongo Basin Project	(480,021)	-	(480,021)
Interest expense – long-term debt	(257,853)	-	(257,853)
Bond issuance costs	(2,131)	-	(2,131)
Other non-operating revenues, net	36,625	-	36,625
Total non-operating revenues(expense), net	<u>2,239,665</u>	<u>-</u>	<u>2,239,665</u>
<b>Net income (loss) before capital contributions</b>	<u>3,269,206</u>	<u>(2,299,821)</u>	<u>969,385</u>
<b>Capital contributions:</b>			
Grant revenue	1,975	2,197,543	2,199,518
Meter sales and installations	298,480	-	298,480
<b>Total capital contributions</b>	<u>300,455</u>	<u>2,197,543</u>	<u>2,497,998</u>
<b>Change in net position</b>	3,569,661	(102,278)	3,467,383
<b>Net position – beginning of year</b>	<u>34,360,054</u>	<u>(1,620,162)</u>	<u>32,739,892</u>
<b>Net position – end of year</b>	<u>\$ 37,929,715</u>	<u>(1,722,440)</u>	<u>36,207,275</u>

See accompanying notes to the basic financial statements

**Hi-Desert Water District**  
**Combining Schedule of Revenues, Expenses and Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2013**

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
<b>Operating revenues:</b>			
Water consumption sales	\$ 5,852,385	-	5,852,385
Readiness-to-serve fees	1,721,526	-	1,721,526
Other charges	301,912	-	301,912
Total operating revenues	<u>7,875,823</u>	<u>-</u>	<u>7,875,823</u>
<b>Operating expenses:</b>			
Source of supply	1,446,300	-	1,446,300
Pumping and water treatment	1,469,160	-	1,469,160
Transmission and distribution	933,629	-	933,629
Customer accounts	273,606	-	273,606
Wastewater operations	-	1,924,239	1,924,239
General and administrative	2,352,313	-	2,352,313
Total operating expenses	<u>6,475,008</u>	<u>1,924,239</u>	<u>8,399,247</u>
Operating income(loss) before depreciation and amortization	1,400,815	(1,924,239)	(523,424)
Depreciation	(1,350,382)	-	(1,350,382)
Amortization	(182,506)	-	(182,506)
<b>Operating loss</b>	<u>(132,073)</u>	<u>(1,924,239)</u>	<u>(2,056,312)</u>
<b>Non-operating revenue(expense):</b>			
Property taxes	1,354,043	-	1,354,043
Interest earnings	11,846	-	11,846
Capital surcharge	1,013,458	-	1,013,458
Morongo Basin Project surcharge	528,887	-	528,887
Lease payment – Morongo Basin Project	(513,073)	-	(513,073)
Interest expense – long-term debt	(284,310)	(20)	(284,330)
Bond issuance costs	(110,078)	-	(110,078)
Other non-operating revenues, net	108,241	-	108,241
Total non-operating revenues(expense), net	<u>2,109,014</u>	<u>(20)</u>	<u>2,108,994</u>
<b>Net income(loss) before capital contributions</b>	<u>1,976,941</u>	<u>(1,924,259)</u>	<u>52,682</u>
<b>Capital contributions:</b>			
Grant revenue	36,878	1,357,056	1,393,934
Meter sales and installations	178,971	-	178,971
<b>Total capital contributions</b>	<u>215,849</u>	<u>1,357,056</u>	<u>1,572,905</u>
<b>Change in net position</b>	2,192,790	(567,203)	1,625,587
<b>Net position – beginning of year</b>	<u>32,167,264</u>	<u>(1,052,959)</u>	<u>31,114,305</u>
<b>Net position – end of year</b>	<u>\$ 34,360,054</u>	<u>(1,620,162)</u>	<u>32,739,892</u>

See accompanying notes to the basic financial statements

# **Statistical Information Section**



## **Hi-Desert Water District Statistical Section**

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

### **Table of Contents**

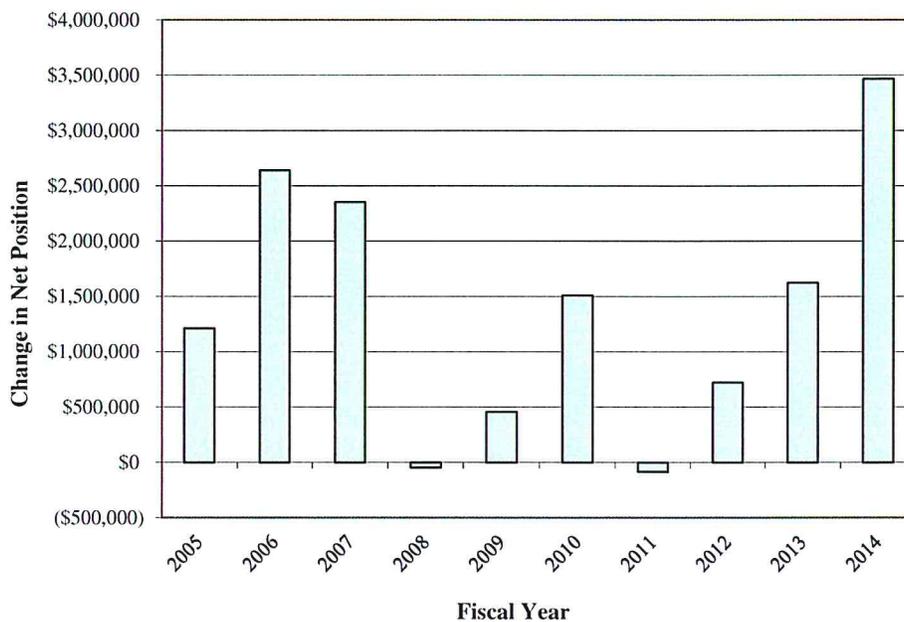
	<b><u>Page No.</u></b>
Financial Trends These schedules contain information to help the reader understand how the District's financial performance and well-being have changed over time.	47-50
Revenue Capacity These schedules contain information to help the reader assess the District's most significant own-source revenue, water sales.	51-54
Debt Capacity These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.	55-56
Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District's financial activities take place.	57-58
Operating Information This schedule contains service and infrastructure data to help the reader understand how the information in the District's financial report relates to the service the District provides.	59

**Hi-Desert Water District**  
**Changes in Net position and Net position by Component**  
**Last Ten Fiscal Years**

**Schedule 1**

	Fiscal Year				
	2005	2006	2007	2008	2009
Changes in net position:					
Operating revenues (see Schedule 2)	\$ 6,093,782	6,425,232	7,217,095	6,949,058	7,118,299
Operating expenses (see Schedule 3)	(5,817,566)	(6,246,266)	(7,439,423)	(8,045,653)	(8,199,546)
Depreciation and amortization	(1,242,872)	(1,327,810)	(1,359,177)	(1,379,933)	(1,405,368)
<b>Operating income(loss)</b>	<u>(966,656)</u>	<u>(1,148,844)</u>	<u>(1,581,505)</u>	<u>(2,476,528)</u>	<u>(2,486,615)</u>
Non-operating revenues(expenses):					
Property taxes	245,592	400,014	1,423,132	1,571,117	1,568,181
Rental income - cellular antennas	47,817	49,584	48,149	4,025	-
Investment income	140,043	245,540	301,267	306,604	144,520
Tax revenue recovery surcharge	98,473	608,050	621,257	260,317	-
Contract water delivery charge	-	547,605	-	-	-
Dept. of Water Resources Reach II surcharge	339,119	325,411	331,595	332,566	336,994
Morongo Basin Project	1,501,624	619,261	548,322	531,664	527,101
Lease payment - Morongo Basin Project	(892,393)	(665,933)	(474,449)	(494,987)	(287,098)
Interest expense	(499,214)	(470,576)	(445,216)	(370,525)	(348,944)
Bond issuance costs	-	-	-	-	-
Other revenue/(expense), net	(1) 134,113	160,120	561,897	98,736	697
Total non-operating revenues(expenses), net	<u>1,115,174</u>	<u>1,819,076</u>	<u>2,915,954</u>	<u>2,239,517</u>	<u>1,941,451</u>
<b>Net income (loss) before capital contributions</b>	148,518	670,232	1,334,449	(237,011)	(545,164)
Capital contributions	1,062,925	1,971,144	1,019,619	189,483	1,001,108
<b>Changes in net position</b>	<u>\$ 1,211,443</u>	<u>2,641,376</u>	<u>2,354,068</u>	<u>(47,528)</u>	<u>455,944</u>
Net position by component:					
Net investment in capital assets	\$ 15,771,673	19,148,873	19,646,826	20,791,852	22,214,518
Unrestricted	7,790,885	7,055,061	8,911,176	7,718,622	6,751,900
<b>Total net position</b>	<u>\$ 23,562,558</u>	<u>26,203,934</u>	<u>28,558,002</u>	<u>28,510,474</u>	<u>28,966,418</u>

Note: (1) Includes CalPERS Side-Fund expense in FY 2012.

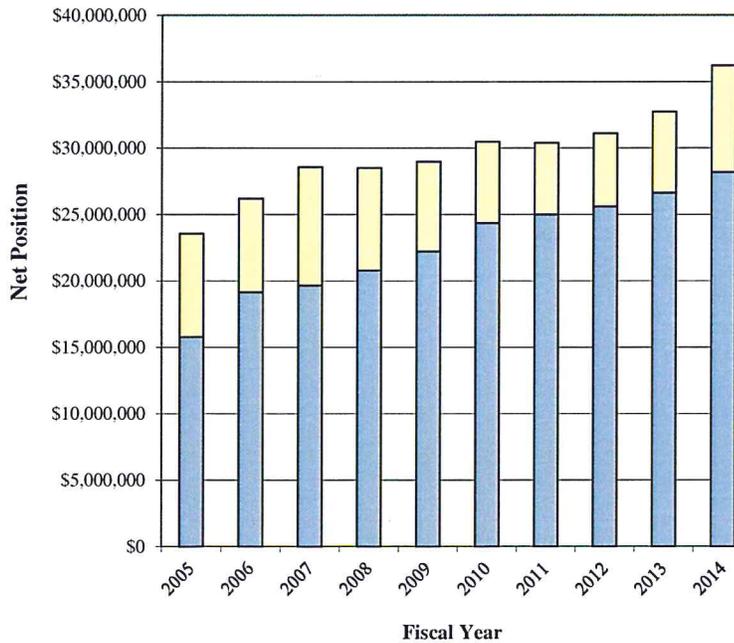


Source: Hi-Desert Water District Accounting Department

**Hi-Desert Water District**  
**Changes in Net position and Net position by Component**  
**Last Ten Fiscal Years**

Schedule 1

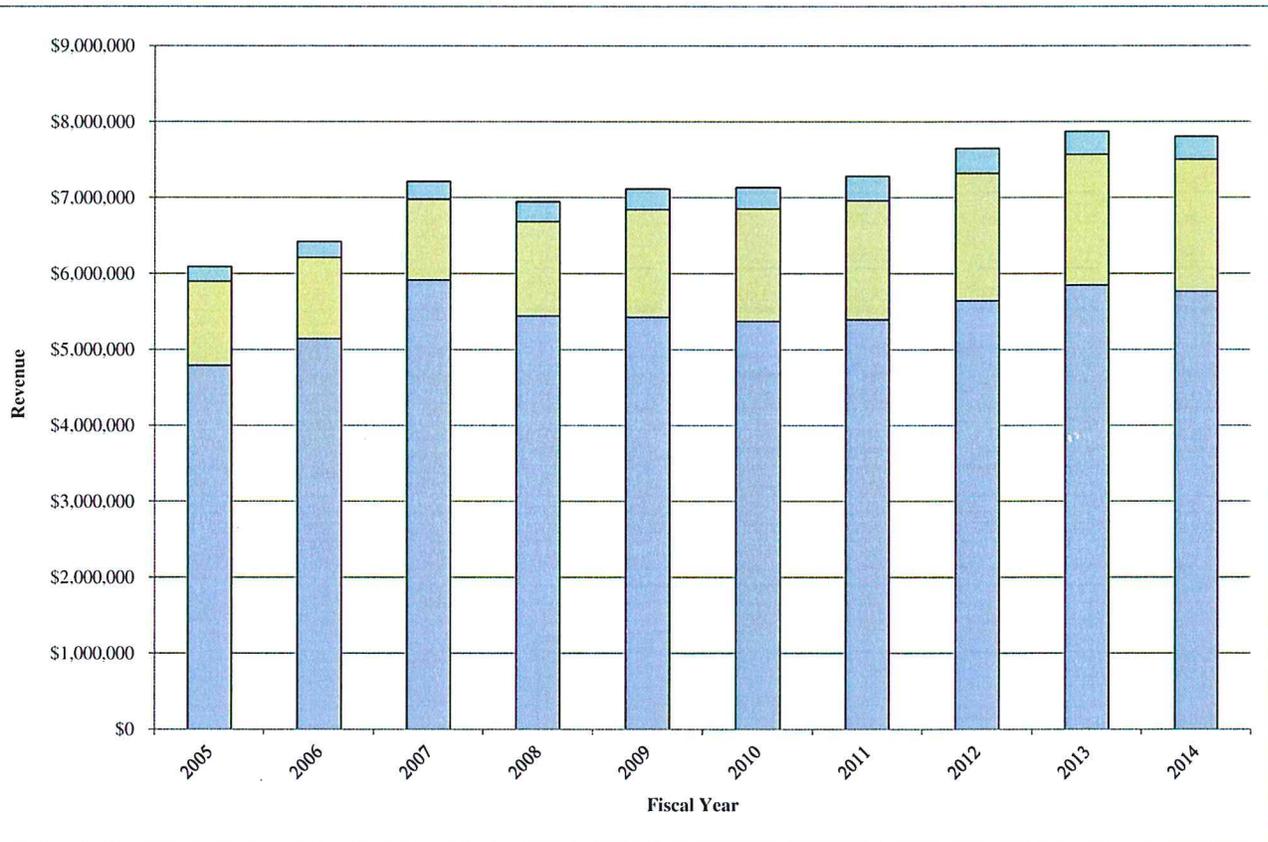
Fiscal Year				
2010	2011	2012	2013	2014
7,137,442	7,285,396	7,654,560	7,875,823	7,809,632
(7,574,071)	(7,836,459)	(7,153,393)	(8,399,247)	(7,704,754)
(1,433,748)	(1,435,786)	(1,393,659)	(1,532,888)	(1,375,158)
(1,870,377)	(1,986,849)	(892,492)	(2,056,312)	(1,270,280)
1,394,480	1,317,622	1,292,775	1,354,043	1,338,163
-	-	-	-	-
35,667	14,413	14,148	11,846	53,148
-	-	-	-	-
-	-	-	-	-
334,852	584,509	893,895	1,013,458	1,019,310
523,761	521,250	517,716	528,887	532,424
(523,984)	(527,290)	(524,958)	(513,073)	(480,021)
(296,724)	(260,680)	(243,280)	(284,330)	(257,853)
-	-	-	(110,078)	(2,131)
1,370,945	34,359	(1,021,925)	108,241	36,625
2,838,997	1,684,183	928,371	2,108,994	2,239,665
968,620	(302,666)	35,879	52,682	969,385
540,298	218,433	687,323	1,572,905	2,497,998
1,508,918	(84,233)	723,202	1,625,587	3,467,383
24,348,361	24,993,182	25,599,745	26,627,116	28,185,434
6,126,975	5,397,921	5,514,560	6,112,776	8,021,841
30,475,336	30,391,103	31,114,305	32,739,892	36,207,275



## Hi-Desert Water District Operating Revenue by Source Last Ten Fiscal Years

Schedule 2

Fiscal Year	Water Consumption Sales	Connection Fees	Readiness-to-serve Fees	Service Assessments	Other Charges	Total Operating Revenue
2005 (1) S	4,794,647	-	1,107,823	-	191,312	6,093,782
2006	5,146,001	-	1,070,837	-	208,394	6,425,232
2007	5,919,654	-	1,063,068	-	234,373	7,217,095
2008	5,445,196	-	1,242,602	-	261,260	6,949,058
2009	5,430,238	-	1,417,866	-	270,195	7,118,299
2010	5,377,069	-	1,477,703	-	282,670	7,137,442
2011	5,399,333	-	1,564,094	-	321,969	7,285,396
2012	5,647,160	-	1,679,168	-	328,232	7,654,560
2013	5,852,385	-	1,721,526	-	301,912	7,875,823
2014	5,768,153	-	1,738,905	-	302,574	7,809,632



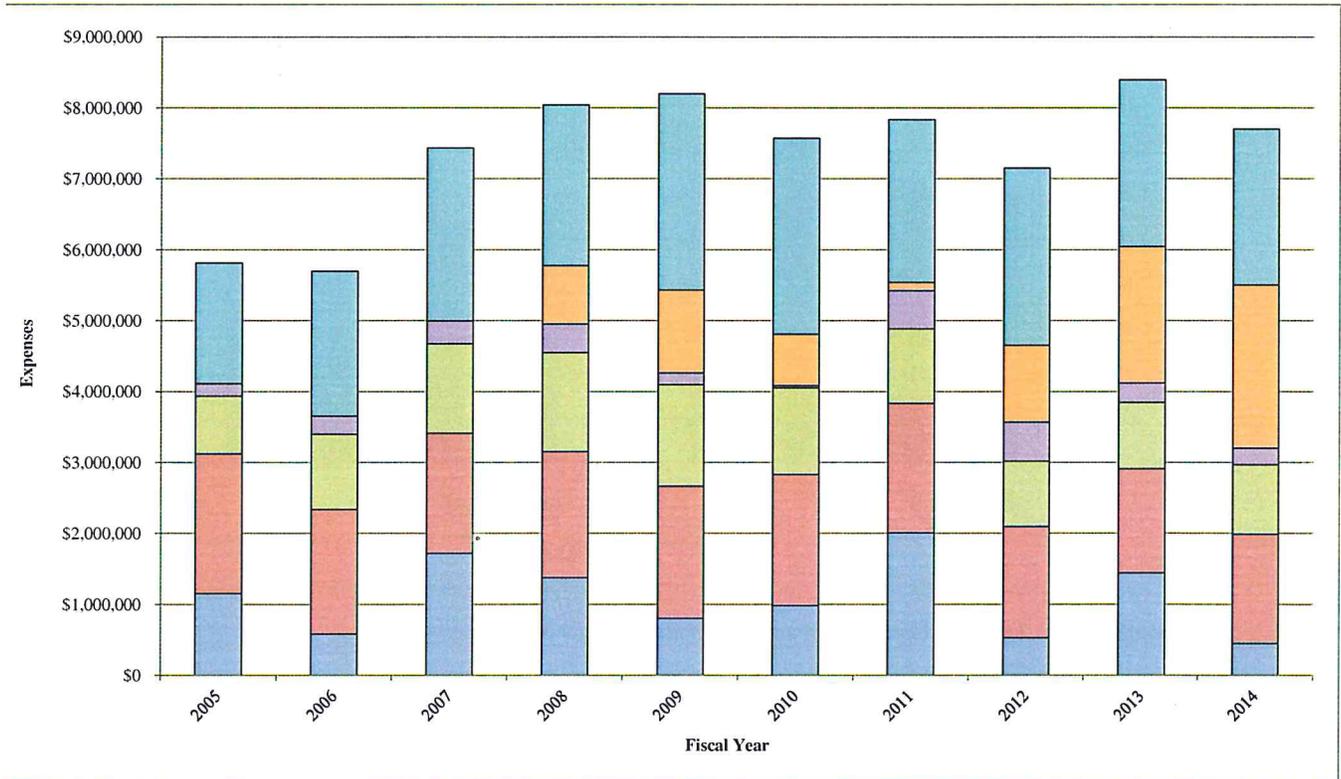
**Notes:** (1) Operating revenues were recategorized in 2005

**Source:** Hi-Desert Water District Accounting Department

## Hi-Desert Water District Operating Expense by Activity Last Ten Fiscal Years

Schedule 3

Fiscal Year	Source of Supply	Pumping and Water Treatment	Transmission and Distribution	Customer Accounts	Wastewater Operations	General and Administrative	Total Operating Expenses
2005	\$ 1,155,796	1,968,702	816,436	172,503	-	1,704,129	5,817,566
2006	587,457	1,754,028	1,061,388	255,359	-	2,040,429	5,698,661
2007	1,724,994	1,688,838	1,263,450	321,997	-	2,440,144	7,439,423
2008	1,379,445	1,776,631	1,399,020	400,415	823,947	2,266,195	8,045,653
2009	807,326	1,864,326	1,429,091	165,875	1,171,407	2,761,521	8,199,546
2010	985,193	1,848,562	1,221,711	30,816	723,124	2,764,665	7,574,071
2011	2,011,908	1,825,921	1,052,585	535,455	116,993	2,293,597	7,836,459
2012	532,350	1,564,708	925,133	551,548	1,084,190	2,495,464	7,153,393
2013	1,446,300	1,469,160	933,629	273,606	1,924,239	2,352,313	8,399,247
2014	454,950	1,536,227	983,161	231,935	2,299,821	2,198,660	7,704,754

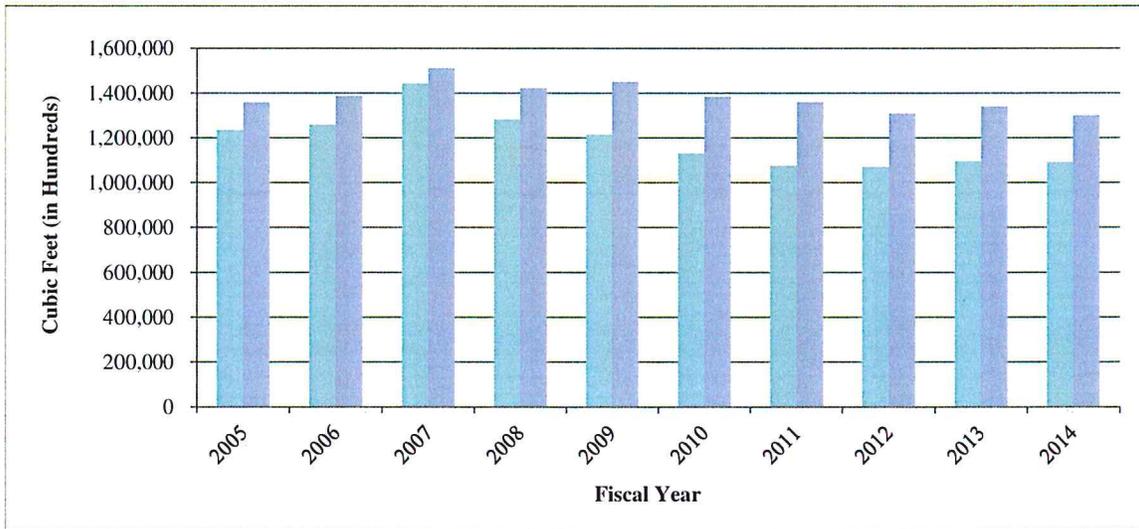


Source: Hi-Desert Water District Accounting Department

**Hi-Desert Water District  
Revenue Base  
Last Ten Fiscal Years**

**Schedule 4**

Fiscal Year	Water Sales (HCF)	Water Produced (HCF)
2005	1,234,487	1,357,679
2006	1,258,803	1,386,737
2007	1,442,794	1,511,401
2008	1,283,452	1,421,493
2009	1,215,482	1,449,610
2010	1,131,666	1,383,037
2011	1,076,856	1,359,862
2012	1,070,166	1,308,588
2013	1,095,624	1,339,394
2014	1,091,186	1,300,001



**Note:** See Schedule 2 "Operating Revenue by Source" for information regarding water revenues.

**Source:** Hi-Desert Water District Accounting Department

**Hi-Desert Water District  
Revenue Rates<sup>(1)</sup>  
Last Ten Fiscal Years**

**Schedule 5**

**Water Consumption per Hundred Cubic Feet (HCF)**

HCF Consumed		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
0-4	\$	2.64	2.80	2.80	2.97	2.97	3.18	3.40	3.59	3.59	3.59
5-10		4.11	4.35	4.35	4.61	4.61	4.97	5.30	5.69	5.69	5.69
11-28		5.06	5.25	5.25	5.57	5.57	6.01	6.41	6.89	6.89	6.89
29-40		6.61	6.80	6.80	7.21	7.21	8.04	8.56	9.08	9.08	9.08
41-53		6.61	6.80	6.80	7.21	7.21	8.04	8.56	9.08	9.08	9.08
54-65		7.46	7.60	7.60	8.06	8.06	8.04	8.56	9.08	9.08	9.08
66-78		7.46	7.60	7.60	8.06	8.06	8.04	8.56	9.08	9.08	9.08
79-over		7.46	7.60	7.60	8.06	8.06	8.04	8.56	9.08	9.08	9.08

**Connection Fees per Month**

Meter Size		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
5/8" & 3/4"	\$	7.00	7.00	7.00	10.00	10.00	10.40	11.10	11.80	11.80	11.80
1"		14.00	14.00	14.00	20.00	20.00	21.10	22.50	23.80	23.80	23.80
1 1/2"		21.00	21.00	21.00	30.00	30.00	38.90	41.50	43.80	43.80	43.80
2"		35.00	35.00	35.00	50.00	50.00	60.20	64.20	67.80	67.80	67.80
3"		77.00	77.00	77.00	110.00	110.00	117.10	124.90	131.90	131.90	131.90
4"		119.00	119.00	119.00	170.00	170.00	118.10	193.10	203.90	203.90	203.90
6"		231.00	231.00	231.00	330.00	330.00	368.80	382.70	404.10	404.10	404.10

**Pipeline Surcharge Fees per Month**

Meter Size		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
5/8" & 3/4"	\$	6.00	4.50	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
1"		12.00	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
1 1/2"		18.00	13.50	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
2"		30.00	22.50	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
3"		66.00	49.50	44.00	44.00	44.00	44.00	44.00	44.00	44.00	44.00
4"		98.00	98.00	68.00	68.00	68.00	68.00	68.00	68.00	68.00	68.00
6"		198.00	198.00	132.00	132.00	132.00	132.00	132.00	132.00	132.00	132.00

**Recharge Surcharge Fees per Month**

Meter Size		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
5/8" & 3/4"	\$	2.50	2.50	2.50	2.50	2.50	2.50	5.00	7.50	7.50	7.50
1"		5.00	5.00	5.00	5.00	5.00	5.00	10.00	15.00	15.00	15.00
1 1/2"		7.50	7.50	7.50	7.50	7.50	7.50	15.00	22.50	22.50	22.50
2"		12.50	12.50	12.50	12.50	12.50	12.50	25.00	37.50	37.50	37.50
3"		27.50	27.50	27.50	27.50	27.50	27.50	55.00	82.50	82.50	82.50
4"		42.50	42.50	42.50	42.50	42.50	42.50	85.00	127.50	127.50	127.50
6"		82.50	82.50	82.50	82.50	82.50	82.50	165.00	247.50	247.50	247.50

**Notes:**

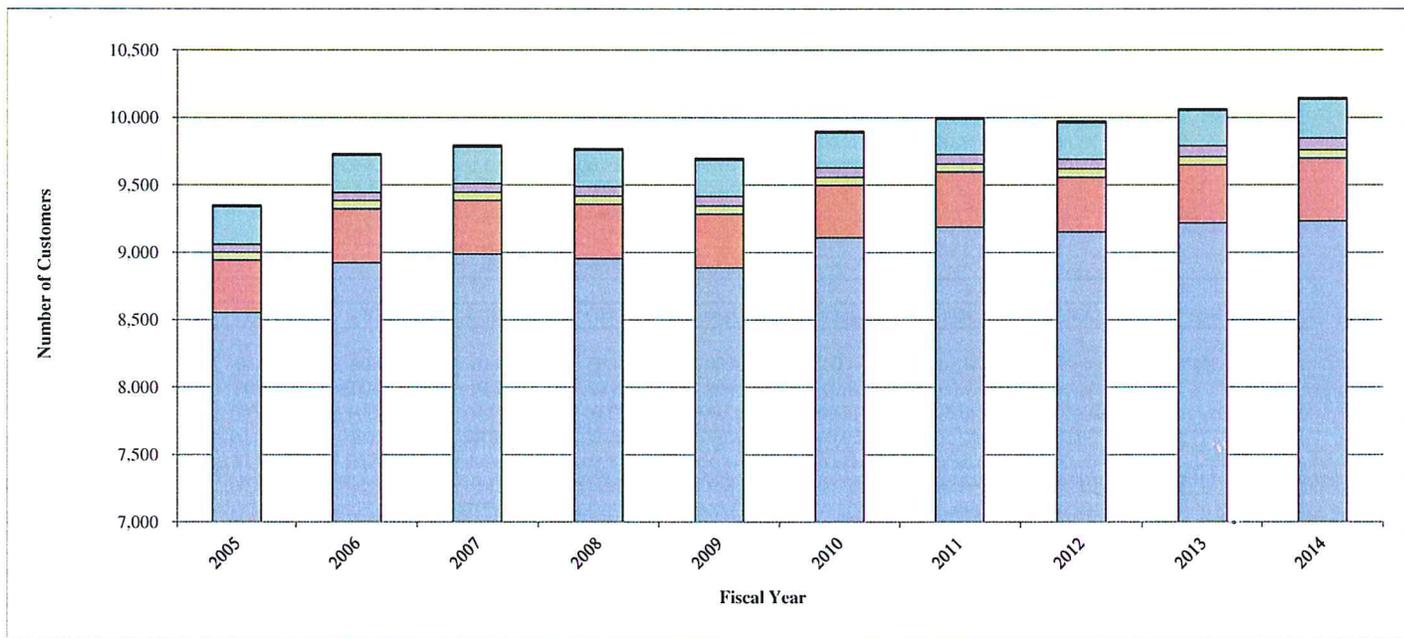
(1) Rates as of June 30, of each fiscal year.

**Source:** Hi-Desert Water District Board of Directors approved rate ordinances and resolutions

# Hi-Desert Water District Customers by Type Last Ten Fiscal Years

Schedule 6

Fiscal Year	Customer Type						Total
	Residential	Commercial	Public Entities	Irrigation	Multi-Family	Parks	
2005	8,557	387	61	56	279	12	8,927
2006	8,926	399	61	59	276	12	9,352
2007	8,989	398	61	63	273	12	9,733
2008	8,957	403	61	69	268	12	9,796
2009	8,888	399	61	69	270	12	9,770
2010	9,112	387	61	69	259	12	9,699
2011	9,190	408	61	69	261	12	9,902
2012	9,155	404	63	71	271	12	9,998
2013	9,220	431	62	79	261	12	10,065
2014	9,235	464	63	86	287	13	10,148



**Note:** Number of customers as of June 30, of fiscal year.

**Source:** Hi-Desert Water District Accounting Department

**Hi-Desert Water District  
Principal Customers  
Current Fiscal Year and Nine Years Ago**

**Schedule 7**

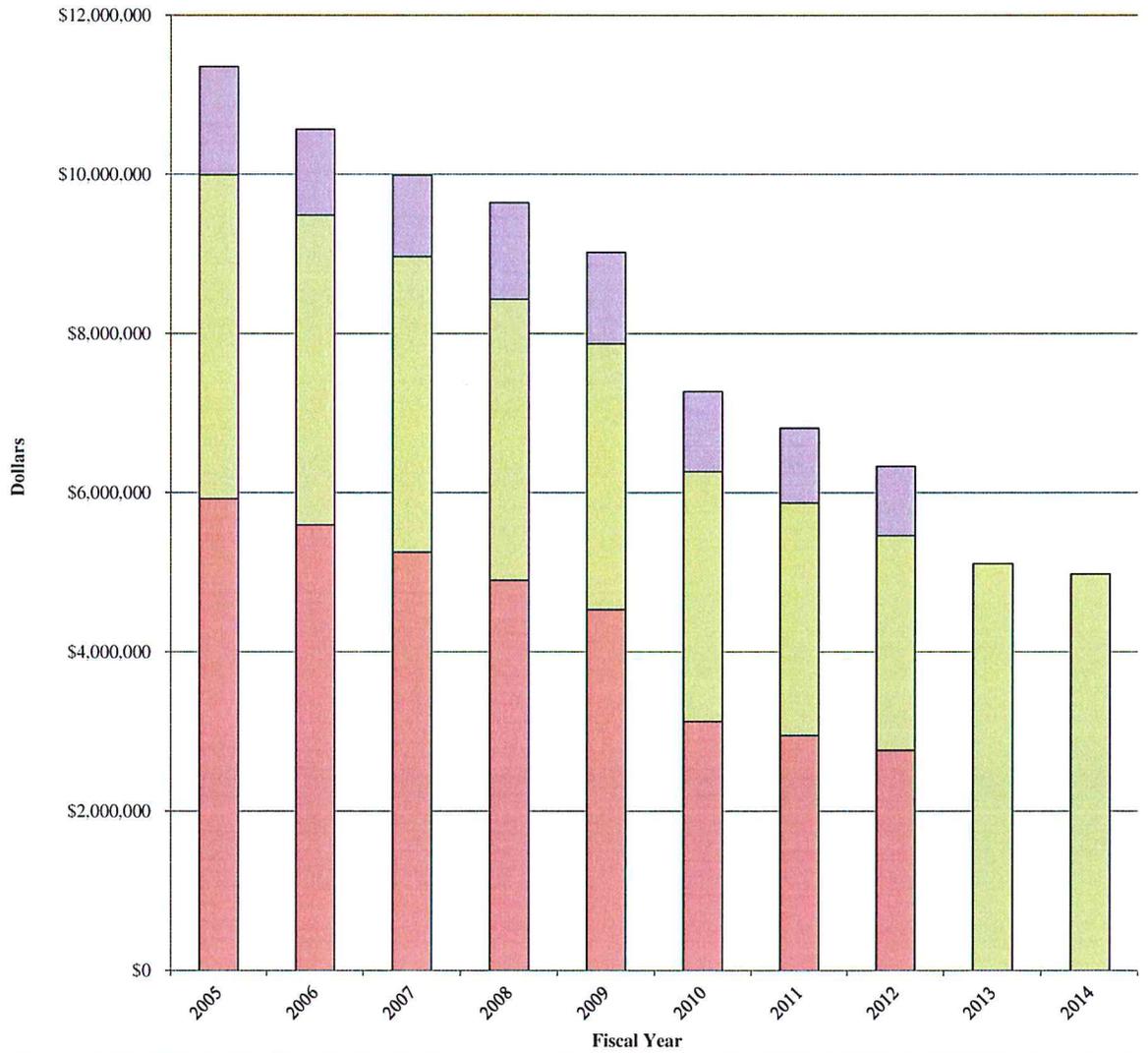
<u>Customer</u>	<u>2014</u>		<u>Customer</u>	<u>2005</u>	
	<u>Water Consumed</u>	<u>Percentage of Total</u>		<u>Water Consumed</u>	<u>Percentage of Total</u>
Morongo Unified School District	24,991	2.29%	Morongo Unified School District	21,055	1.71%
Town of Yucca Valley	19,120	1.75%	Town of Yucca Valley	14,468	1.17%
Basin Wide Foundation	12,450	1.14%	Shamrock Millco-Aztec	10,531	0.85%
Wal Mart Stores	11,234	1.03%	Country Club Mobilehome Estate	8,294	0.67%
Shamrock Millco Aztec LLC	8,922	0.82%	Apache MHP Association	7,531	0.61%
Country Club Mobilehome Estate	6,737	0.62%	Braswell Medical Consultant	4,850	0.39%
Apache MHP Association	6,535	0.60%	Tri-Valley Little League	4,537	0.37%
Vons Store # 63058	4,709	0.43%	Sky Harbor Care Center	4,148	0.34%
Tri-Valley Little League	4,685	0.43%	Vons Store # 63058	3,676	0.30%
Sky Harbor Care Center	4,584	0.42%	Desert Manor	3,673	0.30%
Total	<u>103,967</u>	<u>9.53%</u>	Total	<u>82,763</u>	<u>6.71%</u>
Total Water Consumed (HCF)	<u>1,091,186</u>	<u>100.00%</u>	Total Water Consumed (HCF)	<u>1,234,487</u>	<u>100.00%</u>

**Source:** Hi-Desert Water District Accounting Department

**Hi-Desert Water District  
Ratios of Outstanding Debt by Type  
Last Ten Fiscal Years**

**Schedule 8**

Fiscal Year	Loans Payable	Bonds Payable	Notes Payable	Total		
				Debt	Per Capita	As a Share of Personal Income
2005	\$ 5,928,816	4,070,000	1,358,835	11,357,651	575.77	2.38%
2006	5,598,503	3,895,000	1,075,600	10,569,103	514.09	2.09%
2007	5,256,376	3,715,000	1,020,600	9,991,976	506.54	2.10%
2008	4,902,577	3,535,000	1,210,515	9,648,092	459.94	1.70%
2009	4,535,480	3,340,000	1,151,115	9,026,595	425.00	1.48%
2010	3,131,446	3,135,000	1,010,600	7,277,046	357.03	1.33%
2011	2,954,195	2,920,000	940,600	6,814,795	329.22	1.62%
2012	2,769,768	2,695,000	870,600	6,335,368	302.90	1.01%
2013	-	5,110,000	-	5,110,000	242.20	0.82%
2014	-	4,980,000	-	4,980,000	236.80	0.79%



Source: Hi-Desert Water District Accounting Department

**Hi-Desert Water District  
Pledged-Revenue Coverage  
Last Ten Fiscal Years**

**Schedule 9**

Fiscal Year	Net Revenues	Operating Expenses <sup>(1)</sup>	Net Available Revenues	Debt Service			Coverage Ratio
				Principal <sup>(2)</sup>	Interest	Total	
2005	S 7,708,170	(5,817,566)	1,890,604	867,983	499,214	1,367,197	1.38
2006	8,714,884	(5,698,661)	3,016,223	788,548	470,576	1,259,124	2.40
2007	10,578,265	(7,439,423)	3,138,842	577,127	445,216	1,022,343	3.07
2008	9,559,100	(8,045,653)	1,513,447	693,284	370,525	1,063,809	1.42
2009	9,408,694	(8,199,546)	1,209,148	622,097	348,944	971,041	1.25
2010	10,273,163	(7,574,071)	2,699,092	1,749,549	296,724	2,046,273	1.32
2011	9,230,259	(7,836,459)	1,393,800	462,251	260,680	722,931	1.93
2012	8,826,211	(7,153,393)	1,672,818	479,427	243,280	722,707	7.00
2013	10,892,298	(8,399,247)	2,493,051	130,000	57,665	187,665	25.46
2014	10,789,302	(7,704,754)	3,084,548	195,000	171,850	366,850	8.41

**Notes:**

(1) Operating expenses exclude depreciation expense.

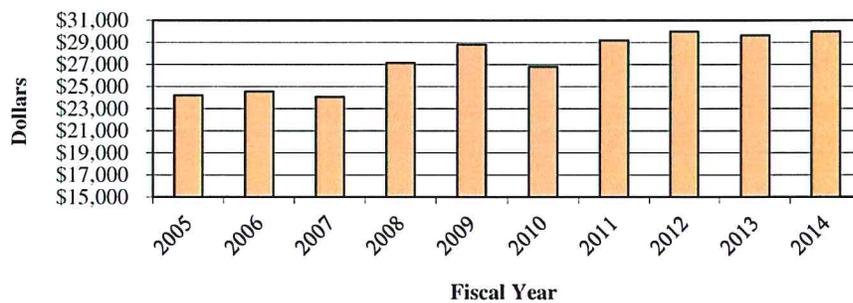
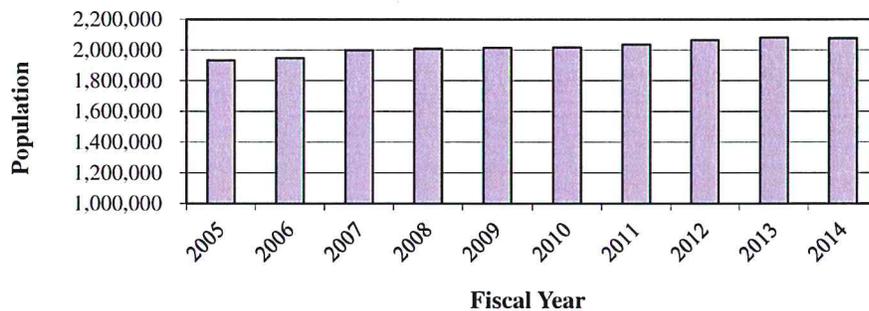
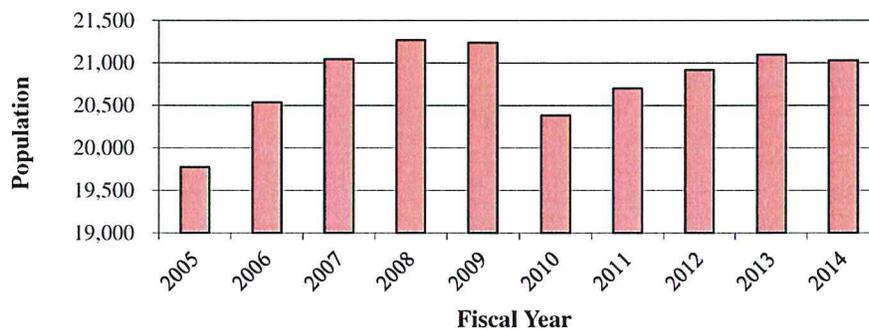
(2) Includes only normal principal payments (does not include payments as a result of refinancing of debt)

**Source:** Hi-Desert Water District Accounting Department

# Hi-Desert Water District Demographics and Economics Statistics Last Ten Fiscal Years

Schedule 10

Year	County of San Bernardino <sup>(2)</sup>				
	Yucca Valley Population <sup>(1)</sup>	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2005	19,774	5.3%	1,932,006	\$ 46,763,453	\$ 24,205
2006	20,537	5.0%	1,946,202	47,792,249	24,557
2007	21,044	5.6%	1,999,332	48,116,593	24,066
2008	21,268	8.2%	2,007,800	54,479,645	27,134
2009	21,239	13.0%	2,015,355	58,050,285	28,804
2010	20,382	13.0%	2,017,673	54,093,000	26,810
2011	20,700	16.0%	2,035,210	59,411,850	29,192
2012	20,916	16.0%	2,063,919	61,913,442	29,998
2013	21,098	12.0%	2,081,313	61,677,629	29,634
2014	21,030	10.3%	2,076,274	62,259,000	29,990



Sources: California Department of Finance and California Labor Market Info

**Notes:**

- (1) Separate data is not prepared for the District, therefore, the District has used data for the Town of Yucca Valley. A substantial portion of the District lies within the Town, and therefore, is a reasonable basis for determining the demographic and economic statistics of the District.
- (2) Only County data is updated annually. Therefore, the District has chose to use its data since the District believes that the County data is representative of the conditions and experience of the District.

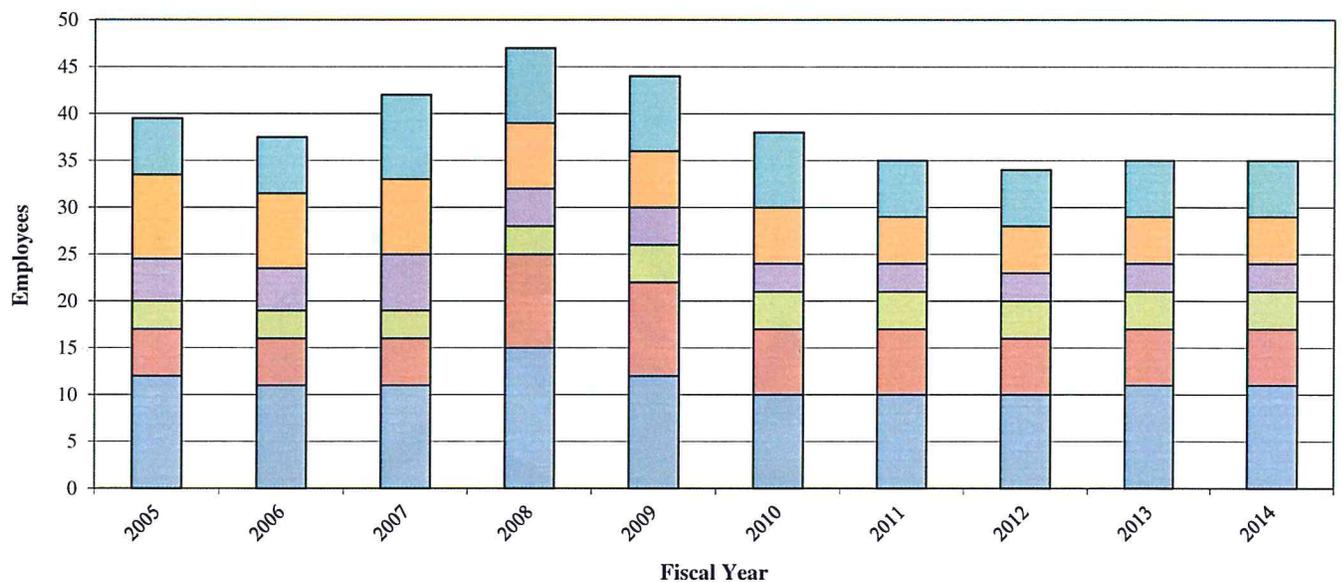
N/A - Data not available

# Hi-Desert Water District Operating and Capacity Indicators Last Ten Fiscal Years

Schedule 11

Full-time Equivalent District Employees by Department

Fiscal Year	Operations	Staff	Accounting and Billing	Customer Service	CRP	Construction & Maintenance	Total
2005	12	5	3	5	9	6	40
2006	11	5	3	5	8	6	38
2007	11	5	3	6	8	9	42
2008	15	10	3	4	7	8	47
2009	12	10	4	4	6	8	44
2010	10	7	4	3	6	8	38
2011	10	7	4	3	5	6	35
2012	10	6	4	3	5	6	34
2013	11	6	4	3	5	6	35
2014	11	6	4	3	5	6	35



Other Operating and Capacity Indicators

Fiscal Year	District Area (Square Miles)	Miles of Pipeline	Storage Tanks	Storage Capacity (MG)	Groundwater Wells	Well Capacity (MGD)	Fire Hydrants
2005	51	274	16	12.66	15	10.0	1,858
2006	57	316	16	12.90	14	10.0	1,858
2007	57	316	16	12.90	13	9.2	1,858
2008	57	316	16	12.90	13	9.2	1,858
2009	57	316	16	12.90	13	9.2	1,858
2010	57	316	16	12.90	13	9.2	1,801
2011	57	316	16	13.14	13	9.2	1,801
2012	57	296	16	12.66	11	9.2	1,801
2013	57	296	16	12.66	13	9.2	1,801
2014	57	296	16	12.66	13	9.2	1,801

MG - Millions of Gallons  
MGD - Millions of Gallons per Day

Sources: Hi-Desert Water District Operations and Accounting Departments

Note: The Fire Hydrant total is inclusive of Hydrants and Jones heads.



# **Report on Internal Controls and Compliance**





Charles Z. Fedak, CPA, MBA  
Christopher J. Brown, CPA

# Charles Z. Fedak & Company

Certified Public Accountants  
An Accountancy Corporation

6081 Orange Avenue  
Cypress, California 90630  
(714) 527-1818  
FAX (714) 527-9154  
EMAIL [czfco@czfcpa.com](mailto:czfco@czfcpa.com)  
WEB [www.czfcpa.com](http://www.czfcpa.com)

## **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  
Hi-Desert Water District  
Yucca Valley, 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 Hi-Desert Water District (District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 10, 2014.

### **Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

**Independent Auditor's 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*, 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Charles Z. Fedak & Company CPAs - An Accountancy Corporation*

**Charles Z. Fedak & Company, CPAs – An Accountancy Corporation**  
Cypress, California  
December 10, 2014