



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

**Comprehensive Annual Financial Report**

**For the Fiscal Years Ended June 30, 2009 and 2008**



## Our Mission Statement

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

### **Hi-Desert Water District Board of Directors as of June 30, 2009**

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Sheldon Hough	President	Elected	12/05 - 12/10
Sarann Graham	Vice President	Elected	12/08 - 12/12
Robert Stadum	Director	Elected	12/08 - 12/12
Roger Mayes	Director	Elected	12/05 - 12/10
Dan Munsey	Director	Elected	12/08 - 12/10

**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, 2009 and 2008**

**HI-DESERT WATER DISTRICT**

55439 29 Palms Highway  
Yucca Valley, California 92284-2503

Prepared by:

*Frank J. Luckino, Chief Financial Officer*

**Hi-Desert Water District**  
**Annual Financial Report**  
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# **Introductory Section**





October 14, 2009

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, 2009 and 2008, 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.

This report is organized into four sections: (1) Introductory (2) Financial (3) Supplemental Information and (4) Statistical. The Introductory section offers general information about the District's organization and current District activities and reports on a summary of significant financial results. The Financial section includes the Independent Auditors' Report, Management's Discussion and Analysis of the District's basic financial statements, and the District's audited basic financial statements with accompanying notes. The Supplemental Information section includes schedules for purposes of additional analysis. The Statistical section presents un-audited ten-year historical financial, demographic and statistical information pertinent to the District's operations.

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 forty-four (44) 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 9,699 customers 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 92% 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 6,389 gallons per minute. In 2009 and 2008, the District purchased from Mojave Water Agency 2,181 and 4,270 acre-feet of imported water from the State Water Project, respectively.

## **Economic Condition and Outlook**

The District offices are located in the Town of Yucca Valley in San Bernardino County. San Bernardino and Riverside counties (Inland Empire) have witnessed a decrease in economic activity due to the downturn in property values and increased restrictions on credit.

California's water supply continues to be a concern due to projected population increases and the recent court ruling to protect the Delta Smelt. This concern has increased awareness for conservation and water efficient irrigation methods. 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 121 gallons per capita a day, with the statewide average at 192 gallons per capita a day. Almost 75% of the District customers have retrofitted their properties with low-flow toilets. The water district is continuing to improve its conservation program through public education and conservation incentives. Future water supply may also be reduced due to the current drought and the court ruling to protect Delta Smelt.

## **Major Initiatives**

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

1. To supply clean, wholesome water to the community and provide water for the future.
2. To plan, construct, operate, maintain and upgrade the water system facilities to adequately serve customer needs.
3. To utilize the District's financial resources in an effective, responsible, and prudent manner.
4. To provide quality customer service for District customers.
5. To inform, educate, and communicate with the community on the Hi-Desert Water District and water issues.
6. To develop and construct a wastewater reclamation and collection system.

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 2009:

1. Finalize the pre-design report for the Wastewater Treatment Facility and the sewer master plan.
2. The Water Enterprise Fund has collected sufficient funds thru water customers to retire the Union Bank loan thru DWR.
3. Capital Replacement Program (CRP) installed 34,755 linear feet of new water transmission and distribution mains.
4. A 2008 Customer Survey revealed an 85% satisfaction rate with the District.
5. The Wastewater Enterprise fund received \$1M appropriations from the \$20M authorization thru the United States Bureau of Reclamation (USBR).

## **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
- Graywater Rebate 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.

### **Technological Advance in Customer Service**

The District made significant changes to its customer service division, which has improved customer convenience. Customers now have the option to pay their bills at the District office, with a major credit card over the phone or on the District's website, by automatic checking or savings account debit by enrollment in the autopay program, or at one of two drop boxes at either District office.

### **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, 2008. This was the third 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:



**Robert Stadum**  
(Director)



**Sheldon Hough**  
(President)



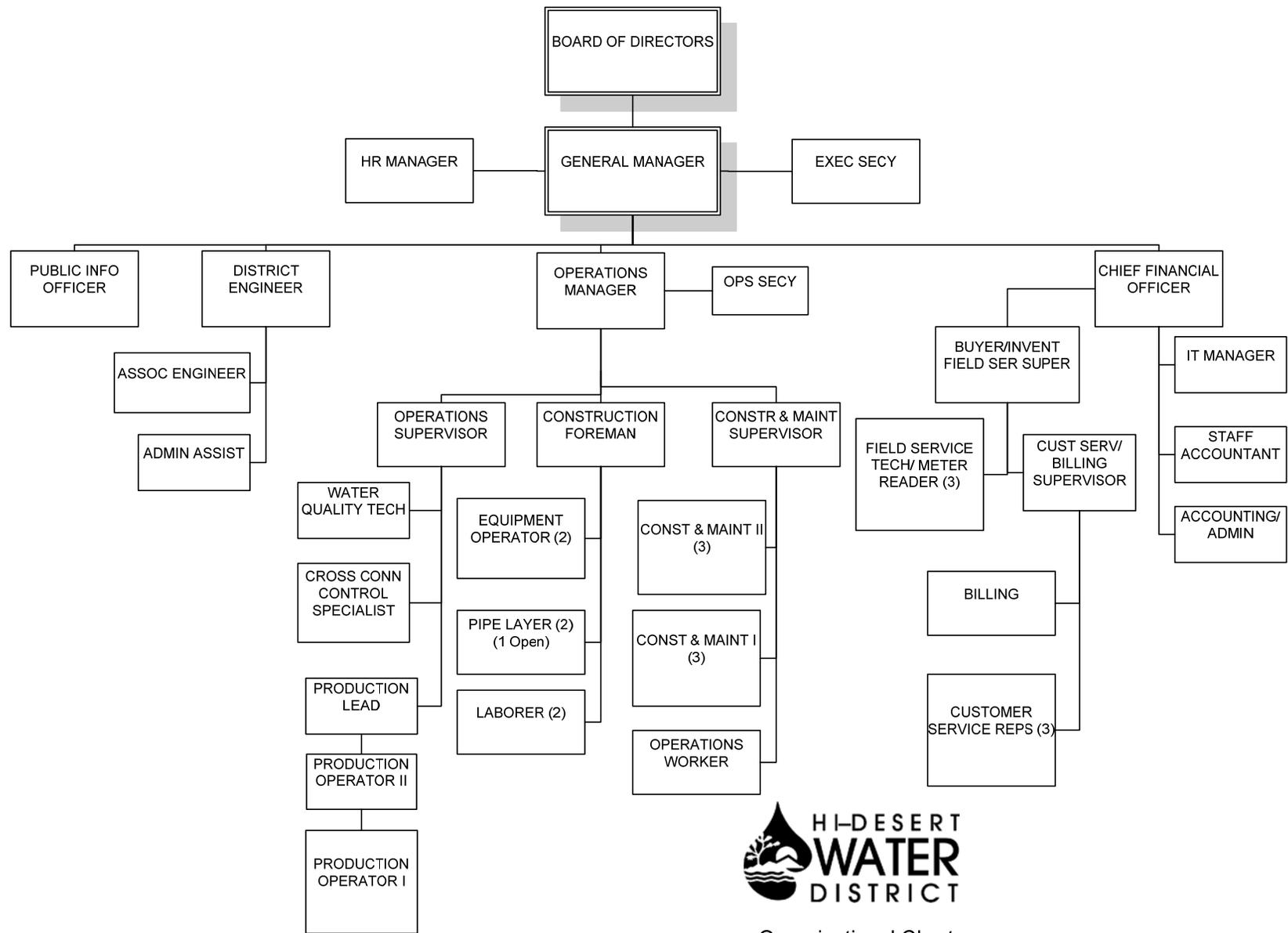
**Roger Mayes**  
(Director)



**Dan Munsey**  
(Director)



**Sarann Graham**  
(Vice-President)



Organizational Chart  
 May 27, 2009  
 Prepared by Jill Cohen

# 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, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



# **Financial Section**





Charles Z. Fedak, CPA, MBA  
Paul J. Kaymark, CPA

# Charles Z. Fedak & Company

Certified Public Accountants  
An Accountancy Corporation

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

## Independent Auditor's Report

We have audited the accompanying financial statements of the Hi-Desert Water District (District) as of and for the years ended June 30, 2009 and 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Hi-Desert Water District as of June 30, 2009 and 2008, and the respective changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 14, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplemental information section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is stated fairly in all material respects in relation to the basic financial statements taken as a whole.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying introductory section, supplemental information and statistical section are presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

October 14, 2009  
Cypress, California

*Charles Z. Fedak, CPA*  
An Accountancy Corporation



**Hi-Desert Water District**  
***Management's Discussion and Analysis***  
**For the Years Ended June 30, 2009 and 2008**

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, 2009 and 2008. 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 assets increased 1.60% or \$455,944 to \$28,966,418 in fiscal year 2009 and decreased 0.16% or \$(47,528) to \$28,510,474 in fiscal year 2008 as a result of each year's operations.
- The District's operating expenses exceeded its operating revenues before depreciation and amortization expense in fiscal year 2009 by 15.2% or (\$1,081,247) due primarily to operating expenses related to increased salaries and benefits and wastewater operational costs. The District's operating expenses exceeded its operating revenues before depreciation and amortization expense in fiscal year 2008 by 15.8% or (\$1,096,595) due primarily to a decrease in operating revenue from water sales and an increase wastewater operational costs.
- The District's net income from non-operating revenues and debt service expenses produced a positive return of \$1,941,421 and \$2,239,517 in fiscal years 2009 and 2008, 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 2009 amounted to \$1,001,108 which is comprised of \$44,053 from developers for new meter purchases and installation fees and \$957,055 in grants related to the wastewater treatment facility. In 2008, capital contributions were \$189,483 and were related to new meter purchases and installation fees from developers.

**Required Financial Statements**

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

**Financial Analysis of the District**

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

**Hi-Desert Water District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2009 and 2008**

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

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 18 through 36.

**Statement of Net Assets**

	<b>Condensed Statements of Net Assets</b>				
	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>2007</u>	<u>Change</u>
Assets:					
Current assets	\$ 8,009,190	9,661,878	(1,652,688)	10,075,066	(413,188)
Non-current assets	246,082	267,274	(21,192)	288,466	(21,192)
Capital assets, net	<u>31,241,113</u>	<u>30,173,270</u>	<u>1,067,843</u>	<u>29,350,336</u>	<u>822,934</u>
<b>Total assets</b>	<u><u>39,496,385</u></u>	<u><u>40,102,422</u></u>	<u><u>(606,037)</u></u>	<u><u>39,713,868</u></u>	<u><u>388,554</u></u>
Liabilities:					
Current liabilities	2,062,699	2,496,728	(434,029)	1,810,720	686,008
Non-current liabilities	<u>8,467,268</u>	<u>9,095,220</u>	<u>(627,952)</u>	<u>9,345,146</u>	<u>(249,926)</u>
<b>Total liabilities</b>	<u><u>10,529,967</u></u>	<u><u>11,591,948</u></u>	<u><u>(1,061,981)</u></u>	<u><u>11,155,866</u></u>	<u><u>436,082</u></u>
Net assets:					
Invested in capital assets, net of related debt	22,214,518	20,524,578	1,689,940	19,358,360	1,166,218
Unrestricted	<u>6,751,900</u>	<u>7,985,896</u>	<u>(1,233,996)</u>	<u>9,199,642</u>	<u>(1,213,746)</u>
<b>Total net assets</b>	<u><u>28,966,418</u></u>	<u><u>28,510,474</u></u>	<u><u>455,944</u></u>	<u><u>28,558,002</u></u>	<u><u>(47,528)</u></u>
<b>Total liabilities and net assets</b>	<u><u>\$ 39,496,385</u></u>	<u><u>40,102,422</u></u>	<u><u>(606,037)</u></u>	<u><u>39,713,868</u></u>	<u><u>388,554</u></u>

As noted earlier, net assets 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 \$28,966,418 and \$28,510,474 as of June 30, 2009 and 2008, respectively.

By far the largest portion of the District's net assets (78% as of June 30, 2009 and 73% as of June 30, 2008) 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 2009 and 2008, the District showed a positive balance in its unrestricted net assets of \$6,751,900 and \$7,985,896, respectively, which may be utilized in future years.

**Hi-Desert Water District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2009 and 2008**

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

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

	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>2007</u>	<u>Change</u>
Operations:					
Operating revenues	\$ 7,118,299	6,949,058	169,241	7,217,095	(268,037)
Operating expenses	8,199,546	8,045,653	153,893	7,439,423	606,230
<b>Net income(loss) from operations</b>	<u>(1,081,247)</u>	<u>(1,096,595)</u>	<u>15,348</u>	<u>(222,328)</u>	<u>(874,267)</u>
Depreciation and amortization expense	(1,405,368)	(1,379,933)	(25,435)	(1,359,177)	(20,756)
<b>Operating loss</b>	<u>(2,486,615)</u>	<u>(2,476,528)</u>	<u>(10,087)</u>	<u>(1,581,505)</u>	<u>(895,023)</u>
Non-operations:					
Property taxes	1,568,181	1,571,117	(2,936)	1,423,132	147,985
Rental income – cellular antennas	-	4,025	(4,025)	48,149	(44,124)
Interest earnings	144,520	306,604	(162,084)	301,267	5,337
Tax revenue recovery surcharge	-	260,317	(260,317)	621,257	(360,940)
Dept. of Water Resources Reach II surcharge	336,994	332,566	4,428	331,595	971
Morongo Basin Project surcharge	527,101	531,664	(4,563)	548,322	(16,658)
Lease payment – Morongo Basin Project	(287,098)	(494,987)	207,889	(474,449)	(20,538)
Interest expense – long-term debt	(348,944)	(370,525)	21,581	(445,216)	74,691
Other non-operating revenues, net	697	98,736	(98,039)	561,897	(463,161)
<b>Net income from non-operations</b>	<u>1,941,451</u>	<u>2,239,517</u>	<u>(298,066)</u>	<u>2,915,954</u>	<u>(676,437)</u>
<b>Net income(loss) before capital contributions</b>	<u>(545,164)</u>	<u>(237,011)</u>	<u>(308,153)</u>	<u>1,334,449</u>	<u>(1,571,460)</u>
Capital contributions	1,001,108	189,483	811,625	1,019,619	(830,136)
<b>Change in net assets</b>	<u>455,944</u>	<u>(47,528)</u>	<u>503,472</u>	<u>2,354,068</u>	<u>(2,401,596)</u>
<b>Net assets, beginning of year</b>	<u>28,510,474</u>	<u>28,558,002</u>	<u>(47,528)</u>	<u>26,203,934</u>	<u>2,354,068</u>
<b>Net assets, end of year</b>	<u>\$ 28,966,418</u>	<u>28,510,474</u>	<u>455,944</u>	<u>28,558,002</u>	<u>(47,528)</u>

**Fiscal Year 2009**

The statement of revenues, expenses and changes in net assets shows how the District's net assets changed during the fiscal year. In the case of the District, net assets increased by \$455,944 during the fiscal year ended June 30, 2009. Net loss before capital contributions of (\$545,164) and capital contributions of \$1,001,108 were the two sources of the net change in the District's net assets.

Operating revenues increased by \$169,241 in the fiscal year due to an increase in readiness-to-serve fees of \$175,264. Operating expenses increased by \$153,893 due to an increase in salaries and wages, benefits, and wastewater expenses. The increase in operating revenues and an increase in operating expenses, resulted in a net loss from operations of 1.4% or \$15,348 from 2008.

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 decreased (\$298,066) due primarily to a decrease in investment earnings of (\$162,084) and a decrease in tax revenue recovery surcharge of (\$260,317) from 2008.

In addition, the District received \$1,001,108 in capital contributions which is comprised of \$44,053 from developers for new meter purchases and installation fees and \$957,055 in grants related to the wastewater treatment facility.

**Hi-Desert Water District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2009 and 2008**

**Fiscal Year 2008**

The statement of revenues, expenses and changes in net assets shows how the District's net assets changed during the fiscal year. In the case of the District, net assets decreased by (\$47,528) during the fiscal year ended June 30, 2008. Net loss before capital contributions of (\$237,011) and capital contributions of \$189,483 were the two sources of the net change in the District's net assets.

Operating revenues decreased by (\$268,037) in the fiscal year due to a decrease in water consumption sales of (\$474,458) that was offset by an increase in water service revenues of \$206,421. As a result, the decrease in operating revenues and the increase in operating expenses, net income from operations decreased by 13.6% or (\$1,096,595). Operating expenses increased by \$606,230 due to an increase in wastewater expenses.

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 decreased (\$676,437) due to a decrease of (\$360,940) increase in tax revenue recovery surcharge and a decrease of (\$463,161) in rental revenues from wireless communications providers.

In addition, the District received \$189,483 in capital contributions from developers for new meter purchases and installation fees.

**Capital Asset Administration**

Changes in capital assets in 2009 were as follows:

	<b>Balance 2008</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>Balance 2009</b>
Capital assets:				
Non-depreciable assets	\$ 3,522,940	2,452,019	(1,932,780)	4,042,179
Depreciable assets	46,141,283	1,932,780	-	48,074,063
Accumulated depreciation	<u>(19,490,953)</u>	<u>(1,384,176)</u>	<u>-</u>	<u>(20,875,129)</u>
Total capital assets	<u>\$ 30,173,270</u>	<u>3,000,623</u>	<u>(1,932,780)</u>	<u>31,241,113</u>

Changes in capital assets in 2008 were as follows:

	<b>Balance 2007</b>	<b>Additions</b>	<b>Deletions/ Transfers</b>	<b>Balance 2008</b>
Capital assets:				
Non-depreciable assets	\$ 3,684,153	2,181,675	(2,342,888)	3,522,940
Depreciable assets	43,798,395	2,342,888	-	46,141,283
Accumulated depreciation	<u>(18,132,212)</u>	<u>(1,358,741)</u>	<u>-</u>	<u>(19,490,953)</u>
Total capital assets	<u>\$ 29,350,336</u>	<u>3,165,822</u>	<u>(2,342,888)</u>	<u>30,173,270</u>

At the end of fiscal year 2009 and 2008, the District's investment in capital assets amounted to \$31,241,113 and \$30,173,270 (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 2009 includes additions to the transmission and distribution system mains, wells, recharge ponds, and engineering costs associated with future wastewater treatment facilities.

Major depreciable capital asset additions during fiscal year 2008 includes additions to the transmission and distribution system mains, pumps, tools and equipment and five new vehicles.

**Hi-Desert Water District**  
**Management's Discussion and Analysis**  
**For the Years Ended June 30, 2009 and 2008**

**Debt Administration**

Changes in long-term debt amounts for 2009 were as follows:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2009</u>
Long-term debt:				
Loans payable	\$ 4,902,577	-	(367,097)	4,535,480
Bonds payable	3,535,000	-	(195,000)	3,340,000
Notes payable	<u>1,211,115</u>	<u>-</u>	<u>(60,000)</u>	<u>1,151,115</u>
Total long-term debt	<u>\$ 9,648,692</u>	<u>-</u>	<u>(622,097)</u>	<u>9,026,595</u>

Changes in long-term debt amounts for 2008 were as follows:

	<u>Balance 2007</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2008</u>
Long-term debt:				
Loans payable	\$ 5,256,376	-	(353,799)	4,902,577
Bonds payable	3,715,000	-	(180,000)	3,535,000
Notes payable	<u>1,020,600</u>	<u>350,000</u>	<u>(159,485)</u>	<u>1,211,115</u>
Total long-term debt	<u>\$ 9,991,976</u>	<u>350,000</u>	<u>(693,284)</u>	<u>9,648,692</u>

Principal payments in 2009 decreased total long-term debt by \$622,097 from the 2008 levels. In 2008, the District received loan proceeds in the amount of \$350,000 to fund the initial phase of the District's wastewater project. Principal payments in 2008 decreased total long-term debt by \$343,284 from the 2007 levels. 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 assets, 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 Assets**  
**June 30, 2009 and 2008**

<i>Assets</i>	<b>2009</b>	<b>2008</b>
<b>Current assets:</b>		
Cash and cash equivalents (note 2)	\$ 6,081,101	7,728,836
Accrued interest receivable	20,609	53,587
Accounts receivable – water sales and services, net (note 3)	655,810	598,928
Accounts receivable – other	4,817	2,317
Property taxes receivable	227,770	281,089
Materials and supplies inventory	265,439	483,973
Prepaid lease payment	713,661	467,612
Prepaid expenses and other deposits	39,983	45,536
Total current assets	<u>8,009,190</u>	<u>9,661,878</u>
<b>Non-current assets:</b>		
Deferred charges, net (note 4)	246,082	267,274
Capital assets, net (note 6)	31,241,113	30,173,270
Total non-current assets	<u>31,487,195</u>	<u>30,440,544</u>
<b>Total assets</b>	<u>\$ 39,496,385</u>	<u>40,102,422</u>
<hr/> <b><i>Liabilities and Net Assets</i></b> <hr/>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 907,190	1,432,643
Deposits and deferred revenue	244,396	193,694
Accrued interest on long-term debt	130,773	125,409
Long-term liabilities - due within one year:		
Compensated absences (note 5)	55,253	47,878
Loans payable (note 7)	379,572	366,589
Bonds payable (note 8)	205,000	195,000
Notes payable (note 9)	140,515	135,515
Total current liabilities	<u>2,062,699</u>	<u>2,496,728</u>
<b>Non-current liabilities:</b>		
Long-term liabilities - due in more than one year:		
Compensated absences (note 5)	165,760	143,632
Loans payable (note 7)	4,155,908	4,535,988
Bonds payable (note 8)	3,135,000	3,340,000
Notes payable (note 9)	1,010,600	1,075,600
Total non-current liabilities	<u>8,467,268</u>	<u>9,095,220</u>
<b>Total liabilities</b>	<u>10,529,967</u>	<u>11,591,948</u>
<b>Net assets: (note 10)</b>		
Invested in capital assets, net of related debt	22,214,518	20,524,578
Unrestricted	6,751,900	7,985,896
<b>Total net assets</b>	<u>28,966,418</u>	<u>28,510,474</u>
<b>Total liabilities and net assets</b>	<u>\$ 39,496,385</u>	<u>40,102,422</u>

See accompanying notes to the basic financial statements

**Hi-Desert Water District**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Years Ended June 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
Operating revenues:		
Water consumption sales	\$ 5,430,238	5,445,196
Readiness-to-serve fees	1,417,866	1,242,602
Other charges	270,195	261,260
Total operating revenues	7,118,299	6,949,058
Operating expenses:		
Source of supply	807,326	1,379,445
Pumping and water treatment	1,864,326	1,776,631
Transmission and distribution	1,429,091	1,399,020
Customer accounts	165,875	400,415
Wastewater operations	1,171,407	823,947
General and administrative	2,761,521	2,266,195
Total operating expenses	8,199,546	8,045,653
Operating loss before depreciation and amortization	(1,081,247)	(1,096,595)
Depreciation and amortization	(1,405,368)	(1,379,933)
<b>Operating loss</b>	(2,486,615)	(2,476,528)
Non-operating revenue(expense)		
Property taxes	1,568,181	1,571,117
Rental income – cellular antennas	-	4,025
Interest earnings	144,520	306,604
Tax revenue recovery surcharge	-	260,317
Dept. of Water Resources Reach II surcharge	336,994	332,566
Morongo Basin Project surcharge	527,101	531,664
Lease payment – Morongo Basin Project	(287,098)	(494,987)
Interest expense – long-term debt	(348,944)	(370,525)
Other non-operating revenues, net	697	98,736
Total non-operating revenues, net	1,941,451	2,239,517
<b>Net loss before capital contributions</b>	(545,164)	(237,011)
Capital contributions:		
Grant revenue	957,055	-
Meter sales and installations	44,053	189,483
Total capital contributions	1,001,108	189,483
<b>Change in net assets</b>	455,944	(47,528)
Net assets, beginning of year	28,510,474	28,558,002
Net assets, end of year	\$ 28,966,418	28,510,474

See accompanying notes to the basic financial statements

**Hi-Desert Water District**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 7,061,417	7,087,396
Cash paid to employees for salaries and wages	(2,523,065)	(2,279,742)
Cash paid to vendors and suppliers for materials and services	(5,900,142)	(4,872,345)
Net cash used in operating activities	<u>(1,361,790)</u>	<u>(64,691)</u>
Cash flows from non-capital financing activities:		
Proceeds from property taxes	1,621,500	1,500,555
Proceeds from rental income – cellular antennas	-	4,025
Proceeds from tax revenue recovery surcharge	-	260,317
Proceeds from non-operating revenues, net	697	98,736
Net cash provided by non-capital financing activities	<u>1,622,197</u>	<u>1,863,633</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,452,019)	(2,181,675)
Proceeds from Federal Capital Grants	957,055	-
Proceeds from meter sales and installations	44,053	189,483
Principal paid on long-term debt	(622,097)	(343,284)
Interest paid on long-term debt	(343,580)	(371,352)
Proceeds from Dept. of Water Resources Reach II surcharge	336,994	332,566
Proceeds from Morongo Basin Project surcharge	527,101	531,664
Lease payment – Morongo Basin Project	(533,147)	(523,070)
Net cash used in capital and related financing activities	<u>(2,085,640)</u>	<u>(2,365,668)</u>
Cash flows from investing activities:		
Interest earnings	177,498	332,857
Net cash provided by investing activities	<u>177,498</u>	<u>332,857</u>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,647,735)</b>	<b>(233,869)</b>
Cash and cash equivalents, beginning of year	<u>7,728,836</u>	<u>7,962,705</u>
Cash and cash equivalents, end of year	<u>\$ 6,081,101</u>	<u>7,728,836</u>
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$ <u>6,081,101</u>	<u>7,728,836</u>
Total cash and cash equivalents	<u>\$ 6,081,101</u>	<u>7,728,836</u>

Continued on next page

See accompanying notes to the basic financial statements

**Hi-Desert Water District**  
**Statements of Cash Flows, continued**  
**For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (2,486,615)	(2,476,528)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	1,405,368	1,379,933
Changes in assets and liabilities:		
(Increase)Decrease in assets:		
Accounts receivable – water sales and services, net	(56,882)	138,338
Accounts receivable – other	(2,500)	182,894
Materials and supplies inventory	218,534	(56,225)
Prepaid expenses and other deposits	5,553	(13,296)
Increase(Decrease) in liabilities:		
Accounts payable and accrued expenses	(525,453)	765,996
Compensated absences	29,503	29,046
Deposits and deferred revenue	50,702	(14,849)
Total adjustments	<u>1,124,825</u>	<u>2,411,837</u>
Net cash used by operating activities	\$ <u>(1,361,790)</u>	<u>(64,691)</u>
Non-cash investing, capital and financing transactions:		
Change in fair-market value of funds deposited with LAIF	\$ <u>2,670</u>	<u>6,697</u>

See accompanying notes to the basic financial statements

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements**  
**June 30, 2009 and 2008**

**(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 serve 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.

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**  
**June 30, 2009 and 2008**

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

**B. Basis of Accounting and Measurement Focus**

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

**C. Financial Reporting**

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

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

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

**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 assets 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.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2009 and 2008**

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

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

**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

**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. Deferred Charges**

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

**9. Compensated Absences**

The District's policy is to permit employees to accumulate earned vacation and sick leave. No employee is allowed to accrue vacation leave in excess of two (2) full years of their particular vacation schedule. Sick leave that is not used shall accumulate during subsequent years without limitation. Sick leave cannot be converted to vacation time, but in order to reward employees who do not utilize all of their sick leave, the District will compensate employees up to fifty percent (50%) of the unused sick leave. Payment of unused sick leave shall not reduce the accrual balance to less than eighty (80) hours and the plan is voluntary.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2009 and 2008**

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

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

**10. Water Sales**

Water sales are billed on a monthly cyclical basis. Estimated unbilled water revenue through June 30 has been accrued at year-end.

**11. 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.

**12. 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

**13. 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 assets and as capital grant contribution or operating grant revenue, as appropriate, on the statement of revenues, expenses and changes in net assets.

**14. 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.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2009 and 2008**

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

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

**15. Net Assets**

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

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

**(2) Cash and Cash Equivalents**

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

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 6,081,101	7,728,836
Total	<u>\$ 6,081,101</u>	<u>7,728,836</u>

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

	<u>2009</u>	<u>2008</u>
Cash on hand	\$ 1,700	1,700
Deposits held with financial institutions	684,242	531,776
Deposits held in trust for bond trustee	247,356	246,163
Deposits held with California Local Agency Investment Fund (LAIF)	<u>5,147,803</u>	<u>6,949,197</u>
Total	<u>\$ 6,081,101</u>	<u>7,728,836</u>

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

	<u>2009</u>	<u>2008</u>
Deposits held with the California Local Agency Investment Fund (LAIF)	235 days	213 days

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2009 and 2008**

**(2) Cash and Cash Equivalents, continued**

***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. The District had deposits with bank balances of \$419,483 and \$634,009 as of June 30, 2009 and 2008, respectively. Of the bank balances, up to \$250,000 and \$100,000 at June 30, 2009 and 2008, respectively, 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).

***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.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2009 and 2008**

**(2) Cash and Cash Equivalents and Investments, continued**

***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 85% and 90% as of June 30, 2009 and 2008, 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.

**(3) Accounts Receivable – Water Sales and Services, Net**

The balance at June 30, consists of the following:		<b>2009</b>	<b>2008</b>
Accounts receivable – water sales and services	\$	711,625	641,079
Allowance for uncollectible accounts		(55,815)	(42,151)
Accounts receivable – water sales, net	\$	<u>655,810</u>	<u>598,928</u>

**(4) Deferred Charges**

Deferred charges are related to the 1998 defeasance costs of the District's 1991 Certificates of Participation and are being amortized over a twenty-three year period (remaining debt service years on the 1998 Revenue Refunding Bonds) beginning in 1998, as follows:

The balance at June 30, consists of the following:		<b>2009</b>	<b>2008</b>
Deferred charges	\$	487,194	487,194
Accumulated amortization		(241,112)	(219,920)
Deferred charges, net	\$	<u>246,082</u>	<u>267,274</u>

**(5) Compensated Absences**

Compensated absences comprise unpaid vacation leave that accrue 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 Assets.

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

<u>Balance 2008</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2009</u>	<u>Due Within One Year</u>	<u>Due in more than one year</u>
\$ 191,510	321,912	(292,409)	221,013	55,253	165,760
<u>Balance 2007</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2008</u>	<u>Due Within One Year</u>	<u>Due in more than one year</u>
\$ 162,464	162,792	(133,746)	191,510	47,878	143,632

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2009 and 2008**

**(6) Capital Assets**

Changes in capital assets for 2009 were as follows:

	<u>Balance 2008</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2009</u>
Non-depreciable assets:				
Land	\$ 1,130,089	-	-	1,130,089
Easements	337,851	-	-	337,851
Construction-in-process	<u>2,055,000</u>	<u>2,452,019</u>	<u>(1,932,780)</u>	<u>2,574,239</u>
Total non-depreciable assets	<u>3,522,940</u>	<u>2,452,019</u>	<u>(1,932,780)</u>	<u>4,042,179</u>
Depreciable assets:				
Transmission and distribution mains	18,772,273	1,480,632	-	20,252,905
Reservoirs and tanks	5,160,430	-	-	5,160,430
Wells	4,449,281	137,478	-	4,586,759
Buildings and structures	1,078,172	43,817	-	1,121,989
Office furniture and equipment	792,577	82,118	-	874,695
Tools and equipment	510,487	-	-	510,487
Vehicles	<u>2,192,566</u>	<u>86,266</u>	<u>-</u>	<u>2,278,832</u>
Total depreciable assets	<u>46,141,283</u>	<u>1,932,780</u>	<u>-</u>	<u>48,074,063</u>
Accumulated depreciation and amortization:				
Transmission and distribution mains	(6,057,572)	(454,761)	-	(6,512,333)
Reservoirs and tanks	(2,441,298)	(117,770)	-	(2,559,068)
Wells	(2,756,252)	(153,674)	-	(2,909,926)
Meters	(1,192,630)	(2,955)	-	(1,195,585)
Recharge ponds	(599,237)	(57,839)	-	(657,076)
Recharge site #3	(153,698)	(61,479)	-	(215,177)
Nitrate removal facility	(364,325)	(66,718)	-	(431,043)
Reach II pipeline	(460,612)	(36,849)	-	(497,461)
Pumps	(858,455)	(46,115)	-	(904,570)
Boosters	(639,935)	(40,706)	-	(680,641)
Hydrants	(510,555)	(24,184)	-	(534,739)
Blending facility	(67,505)	(19,287)	-	(86,792)
Buildings and structures	(498,826)	(37,174)	-	(536,000)
Office furniture and equipment	(687,620)	(65,576)	-	(753,196)
Tools and equipment	(383,338)	(35,450)	-	(418,788)
Vehicles	<u>(1,819,095)</u>	<u>(163,639)</u>	<u>-</u>	<u>(1,982,734)</u>
Total accumulated depreciation	<u>(19,490,953)</u>	<u>(1,384,176)</u>	<u>-</u>	<u>(20,875,129)</u>
Total depreciable assets, net	<u>26,650,330</u>	<u>548,604</u>	<u>(1,932,780)</u>	<u>27,198,934</u>
Total capital assets, net	<u>\$ 30,173,270</u>			<u>31,241,113</u>

Major depreciable capital asset additions during fiscal year 2009 includes additions to the transmission and distribution system mains, wells, recharge ponds, and engineering costs associated with future wastewater treatment facilities.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2009 and 2008**

**(6) Capital Assets, continued**

Changes in capital assets for 2008 were as follows:

	<u>Balance 2007</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2008</u>
Non-depreciable assets:				
Land	\$ 1,130,089	-	-	1,130,089
Easements	324,444	13,407	-	337,851
Construction-in-process	<u>2,229,620</u>	<u>2,168,268</u>	<u>(2,342,888)</u>	<u>2,055,000</u>
Total non-depreciable assets	<u>3,684,153</u>	<u>2,181,675</u>	<u>(2,342,888)</u>	<u>3,522,940</u>
Depreciable assets:				
Transmission and distribution mains	16,817,302	1,954,971	-	18,772,273
Reservoirs and tanks	5,150,201	10,229	-	5,160,430
Wells	4,449,281	-	-	4,449,281
Meter service installations	1,201,496	-	-	1,201,496
Recharge ponds	1,898,377	-	-	1,898,377
Recharge site #3	2,459,164	-	-	2,459,164
Nitrate removal facility	2,642,480	-	-	2,642,480
Reach II pipeline	1,473,958	-	-	1,473,958
Pumps	971,876	28,885	-	1,000,761
Boosters	890,672	1	-	890,673
Hydrants	847,105	-	-	847,105
Blending facility	771,483	-	-	771,483
Buildings and structures	1,078,171	1	-	1,078,172
Office furniture and equipment	761,107	31,470	-	792,577
Tools and equipment	394,670	115,817	-	510,487
Vehicles	<u>1,991,052</u>	<u>201,514</u>	<u>-</u>	<u>2,192,566</u>
Total depreciable assets	43,798,395	2,342,888	-	46,141,283
Accumulated depreciation and amortization:				
Transmission and distribution mains	(5,645,755)	(411,817)	-	(6,057,572)
Reservoirs and tanks	(2,323,832)	(117,466)	-	(2,441,298)
Wells	(2,600,683)	(155,569)	-	(2,756,252)
Meters	(1,189,675)	(2,955)	-	(1,192,630)
Recharge ponds	(551,644)	(47,593)	-	(599,237)
Recharge site #3	(92,219)	(61,479)	-	(153,698)
Nitrate removal facility	(297,607)	(66,718)	-	(364,325)
Reach II pipeline	(423,763)	(36,849)	-	(460,612)
Pumps	(810,361)	(48,094)	-	(858,455)
Boosters	(592,593)	(47,342)	-	(639,935)
Hydrants	(486,371)	(24,184)	-	(510,555)
Blending facility	(48,218)	(19,287)	-	(67,505)
Buildings and structures	(462,932)	(35,894)	-	(498,826)
Office furniture and equipment	(613,459)	(74,161)	-	(687,620)
Tools and equipment	(349,957)	(33,381)	-	(383,338)
Vehicles	<u>(1,643,143)</u>	<u>(175,952)</u>	<u>-</u>	<u>(1,819,095)</u>
Total accumulated depreciation	<u>(18,132,212)</u>	<u>(1,358,741)</u>	<u>-</u>	<u>(19,490,953)</u>
Total depreciable assets, net	<u>25,666,183</u>	<u>984,147</u>	<u>(2,342,888)</u>	<u>26,650,330</u>
Total capital assets, net	<u>\$ 29,350,336</u>			<u>30,173,270</u>

Major depreciable capital asset additions during fiscal year 2008 includes additions to the transmission and distribution system mains, pumps, tools and equipment and five new vehicles.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2009 and 2008**

**(6) 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 are as follows:

	<b>2007</b>	<b>2008</b>	<b>2009</b>
The balance at June 30, consists of the following projects:			
Wastewater treatment facility	\$ 1,305,480	1,305,480	1,735,004
Recharge site No. 6 & 7	-	34,026	-
Payment processing system	-	9,100	-
CRP project	862,676	-	-
SCADA telemetry peripherals	21,291	63,875	-
Production well - site No. 3	19,503	533,444	659,854
Well No. 24	-	23,330	-
Lower ridge reservoir	-	79,391	98,545
Front western hills	-	6,354	6,354
Chlorine injection station	-	-	74,482
Various small projects	20,670	-	-
Construction-in-process	\$ 2,229,620	2,055,000	2,574,239

**(7) Loans Payable**

Changes in loans payable for the year ended June 30, 2009 are as follows:

	<b>Balance 2008</b>	<b>Additions</b>	<b>Payments</b>	<b>Balance 2009</b>
1986 California Dept. of Water Resources loan	\$ 3,465,151	-	(163,577)	3,301,574
1996 California Dept. of Water Resources loan	1,437,426	-	(203,520)	1,233,906
Total loans payable	4,902,577			4,535,480
Less: current portion due	(366,589)			(379,572)
Long-term portion due	\$ 4,535,988			4,155,908

***1986 California Dept. of Water Resources Loan***

In 1986 the Yucca Water Company, Ltd. (Company) contracted with the California Dept. of Water Resources for a \$5,200,000 30-year loan under the 1984 California Safe Drinking Water Bond Law to assist in financing the construction of capital improvements so that the Company could comply with the California Safe Drinking Water Standards. In 1990, the District acquired the assets and liabilities of the Company and is continuing to make the debt service payments on this loan. The loan is scheduled to mature in 2024. Interest is payable semi-annually on October 1<sup>st</sup> and April 1<sup>st</sup> each year at a rate of 4.14% while principal payments are made on April 1<sup>st</sup> each year. Annual debt service requirements on the 1986 California Dept. of Water Resources Loan are as follows:

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2009 and 2008**

**(7) Loans Payable, continued**

***1986 California Dept. of Water Resources Loan, continued***

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 170,070	135,103	305,173
2011	177,190	127,983	305,173
2012	184,365	120,808	305,173
2013	192,405	112,768	305,173
2014	200,384	104,789	305,173
2015-2019	1,134,874	390,991	1,525,865
2020-2024	1,242,286	132,570	1,374,856
Total	3,301,574	<u>1,125,012</u>	<u>4,426,586</u>
Less current portion	<u>(170,070)</u>		
Long-term portion	\$ <u>3,131,504</u>		

***1996 California Dept. of Water Resources Loan and Surcharge***

In 1994 the Mojave Water Agency (Agency) contracted with the California Dept. of Water Resources for a loan under the 1988 California Water Conservation Bond Law to assist in financing the construction of the Morongo Basin Pipeline Extension (Reach I & II Extensions) and the Warren Valley Basin Recharge Project (Recharge Project). In 1996, the District requested an amendment to the contract for a partial assignment of the loan and project facilities from the Agency to the District. The amendment provided for the transfer of the Reach II Extension and the Recharge Project from the Agency to the District. The Agency will remain the owner of the Reach I Extension of the project. Also, the amendment resulted in a \$3,665,000 20-year loan to the District to pay for the acquisition of the Reach II Extension and the Recharge Project from the Agency. Therefore, the District is charging all of its customers a monthly surcharge to pay for this loan. The total surcharge revenue for the years ended June 30, 2009 and 2008 was \$336,994 and \$332,566, respectively. The loan is scheduled to mature in 2015. Principal and interest are payable semi-annually on October 1<sup>st</sup> and April 1<sup>st</sup> each year at a rate of 3.00%. Annual debt service requirements on the 1996 California Dept. of Water Resources loan are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 209,502	35,474	244,976
2011	215,834	29,142	244,976
2012	222,314	22,662	244,976
2013	229,087	15,889	244,976
2014	236,001	8,975	244,976
2015	121,168	1,828	122,996
Total	1,233,906	<u>113,970</u>	<u>1,347,876</u>
Less current portion	<u>(209,502)</u>		
Long-term portion	\$ <u>1,024,404</u>		

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2009 and 2008**

**(8) Bonds Payable**

Changes in bonds payable for the year ended June 30, 2009 are as follows:

	<b>Balance 2008</b>	<b>Additions</b>	<b>Payments</b>	<b>Balance 2009</b>
1982 Lease Revenue bonds	\$ 1,080,000	-	(55,000)	1,025,000
1998 Revenue Refunding bonds	2,455,000	-	(140,000)	2,315,000
Total bonds payable	3,535,000			3,340,000
Less: current portion due	(195,000)			(205,000)
Long-term portion due	\$ 3,340,000			3,135,000

***1982 Lease Revenue Bonds***

In 1982, the Hi-Desert Improvement Corporation (HDIC) issued \$1,867,700 in 40-year Lease Revenue Bonds to provide funds for water capital improvements for the District. The bonds and interest are payable from, and are secured by a charge and lien on, the revenues derived by the HDIC from and by the assignment of a lease and sub-lease between the District and the HDIC.

The bonds are scheduled to mature in 2022. Interest is payable semi-annually on September 1<sup>st</sup> and March 1<sup>st</sup> each year at a rate of 5.00% while principal payments are made on March 1<sup>st</sup> each year. Annual debt service requirements on the 1982 Lease Revenue Bonds are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2010	\$ 60,000	51,250	111,250
2011	60,000	48,250	108,250
2012	65,000	45,250	110,250
2013	65,000	42,000	107,000
2014	70,000	38,750	108,750
2015-2019	405,000	137,750	542,750
2020-2022	300,000	30,500	330,500
Total	1,025,000	393,750	1,418,750
Less current portion	(60,000)		
Long-term portion	\$ 965,000		

***1998 Revenue Refunding Bonds***

In 1991, the California Special Districts Association Finance Corporation (CSDAFC) issued \$3,870,000 in 30-year Certificates of Participation (COPs) at 6.8% to provide for a Facilities Lease, dated January 1, 1991, between the CSDAFC and the District. The facilities consist primarily of eight water storage tanks and the District's office building and shop on Old Woman Springs Road.

The Joshua Basin – Hi-Desert Financing Authority (Authority) was established in 1998 as a joint exercise of powers authority organized under the laws of the State of California and comprised of the Joshua Basin Water District and the Hi-Desert Water District. The Authority was formed to assist in the financing of various capital improvements and the facilities named above.

In 1998, the Authority issued \$3,590,000 in Revenue Refunding Bonds to initiate an advance refunding (defeasance) of the 1991 COPs. The net proceeds from the sale were used to purchase U.S. Treasury securities that were deposited in irrevocable escrow trust accounts with a bank acting as an independent fiscal agent to provide for all future debt service on the bonds being refunded. As a result, those bonds are considered defeased and the related liabilities have been excluded from Hi-Desert Water District's basic financial statements. At June 30, 2009 and 2008, outstanding Certificates of Participation of \$3,590,000, respectively, are considered to be defeased.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2009 and 2008**

**(8) Bonds Payable, continued**

***1998 Revenue Refunding Bonds, continued***

The Authority will lease certain facilities from the District pursuant to a Facilities Lease, dated January 1, 1998, by and between the Authority and the District, and will lease back to the District the facilities pursuant to a Lease Agreement, dated January 1, 1998, by and between the Authority and the District. The District is legally required to make lease payments in each year in consideration for the use and occupancy of the facilities from operating sources in an amount sufficient to pay the annual principal and interest requirements on the bonds.

The bonds are scheduled to mature in 2021. Interest is payable semi-annually on August 1<sup>st</sup> and February 1<sup>st</sup> each year at a rate of 3.80% to 5.00% while principal payments are made on February 1<sup>st</sup> each year.

Annual debt service requirements on the 1998 Revenue Bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 145,000	113,262	258,262
2011	155,000	106,375	261,375
2012	160,000	99,012	259,012
2013	170,000	91,413	261,413
2014	180,000	83,338	263,338
2015-2019	1,020,000	278,288	1,298,288
2020-2021	485,000	37,500	522,500
Total	2,315,000	<u>809,188</u>	<u>3,124,188</u>
Less current portion	<u>(145,000)</u>		
Long-term portion	\$ <u>2,170,000</u>		

**(9) Notes Payable**

Changes in notes payable for the year ended June 30, 2009 are as follows:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2009</u>
1978 Farmer's Home Loan Administration note	\$ 785,600	-	(60,000)	725,600
2003 Take-or-Pay Contract note	75,515	-	-	75,515
Town Yucca Valley note	350,000	-	-	350,000
Total notes payable	1,211,115			1,151,115
Less: current portion due	<u>(135,515)</u>			<u>(140,515)</u>
Long-term portion due	\$ <u>1,075,600</u>			<u>1,010,600</u>

***1978 Farmers Home Loan Administration Note***

In 1978, the Farmers Home Loan Administration contracted with the District to loan the District \$1,735,600 in 40-year Emergency Drought Relief notes to provide funds for water capital improvements for the District.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2009 and 2008**

**(9) Notes Payable, continued**

*1978 Farmers Home Loan Administration Note, continued*

The note is scheduled to mature in 2018. Interest is payable semi-annually on July 1<sup>st</sup> and January 1<sup>st</sup> each year at a rate of 5.00% while principal payments are made on January 1<sup>st</sup> each year. Annual debt service requirements on the 1978 Farmers Home Loan Administration Note are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 65,000	36,280	101,280
2011	70,000	33,030	103,030
2012	70,000	29,530	99,530
2013	75,000	26,030	101,030
2014	80,000	22,280	102,280
2015-2018	<u>365,600</u>	<u>46,620</u>	<u>412,220</u>
Total	725,600	<u>193,770</u>	<u>919,370</u>
Less current portion	<u>(65,000)</u>		
Long-term portion \$	<u>660,600</u>		

*2003 Take-or-Pay Contract Note Payable*

The District has entered into a *Take-or-Pay* contract, which requires minimum payments to be made whether or not the District can take such output. As discussed below, on July 9, 2003, the District entered into an operational services agreement with Basin Water Technologies Group, Inc. (Basin Water) whereby Basin Water would design, install and operate the District's Nitrate Removal Facility to treat water produced by District wells. The term of the agreement is for twenty years, with early termination of the agreement and purchase of the facilities constructed by Basin Water available to the District after an initial period of five years. Basin Water will convey the facilities to the District at the end of the term of the agreement for the sum of \$1.00, if the District does not terminate the agreement earlier. The District has agreed to deliver a minimum of 1,500 acre-feet per year of water for treatment and to pay a treatment fee of \$79.38 per acre-foot, which equates to approximately \$119,064 per year for capital outlay recovery (see below). The District will receive monthly billings from Basin Water for actual treatment of acre-feet supplied and an annual payment adjustment, if the District does not take the required 1,500 acre-feet.

The Nitrate Removal Facility was constructed for \$2,633,730. The District contributed \$1,530,945 to the construction of the facility and Basin Water financed the remaining \$1,102,785. Part of the Take-or-Pay contract involves the recovery by Basin Water of the \$1,102,785 in capital outlay to construct the facility. The District has the option to payoff the remaining capital outlay, financed by Basin Water, after an initial five-year period at an amortized rate of return of 9.0%. Therefore, since the Nitrate Removal Facility is an asset of the District, the District recorded as a note payable, with an interest rate of 9.0%, the capital outlay recovery portion of the Take-or-Pay contract. Annual debt services requirements on the 2003 Take-or-Pay Contract Note are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 75,515	7,066	82,581
Total	75,515	<u>7,066</u>	<u>82,581</u>
Less current portion	<u>(75,515)</u>		
Long-term portion \$	<u>-</u>		

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2009 and 2008**

**(9) Notes Payable, continued**

***2008 Town of Yucca Valley Note Payable***

In 2008, the District entered into an agreement with the Town of Yucca Valley to loan the District \$350,000 to fund Phase I of the District's wastewater treatment and collection system. Terms of the agreement call for interest to accrue daily using the PMIA Average Monthly Effective Yield as published by the State Treasurers Office (2.2% at June 30, 2009). Principal and accrued interest are payable upon maturity in 2013. Annual debt services requirements are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ -	10,422	10,422
2011	-	10,724	10,724
2012	-	11,034	11,034
2013	350,000	11,353	361,353
Total	350,000	43,533	393,533
Less current portion	-		
Long-term portion	\$ 350,000		

**(10) Net Assets**

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

	<u>2009</u>	<u>2008</u>
Net investment in capital assets:		
Capital assets, net	\$ 31,241,113	30,173,270
Loans payable – current portion	(379,572)	(366,589)
Bonds payable – current portion	(205,000)	(195,000)
Notes payable – current portion	(140,515)	(135,515)
Loans payable – non-current portion	(4,155,908)	(4,535,988)
Bonds payable – non-current portion	(3,135,000)	(3,340,000)
Notes payable – non-current portion	(1,010,600)	(1,075,600)
Total net investment in capital assets	22,214,518	20,524,578
Unrestricted net assets:		
Non-spendable net assets:		
Materials and supplies inventory	265,439	483,973
Prepaid lease payment	713,661	467,612
Prepaid expenses and other deposits	39,983	45,536
Deferred charges, net	246,082	267,274
Total non-spendable net assets	1,265,165	1,264,395
Spendable net assets are as follows:		
Unrestricted	5,486,735	6,721,501
Total spendable net assets	5,486,735	6,721,501
Total unrestricted net assets	6,751,900	7,985,896
Total net assets	\$ 28,966,418	28,510,474

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2009 and 2008**

**(11) 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. 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, 2009 and 2008 was \$527,101 and \$531,664, 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>
2010	\$ 473,991
2011	473,991
2012	473,991
2013	473,991
2014	473,991
2015-2019	2,369,955
2020-2022	<u>1,421,973</u>
Total	<u>\$ 6,161,883</u>

At June 30, 2009 and 2008, the District has recorded a prepaid asset on the statement of net assets in the amount of \$713,661 and \$467,612, respectively, related to the Morongo Basin Project and Surcharge.

**(12) 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, 2009 and 2008 was \$199,302 and \$208,722, respectively. The market value of all plan assets held in trust by Lincoln Financial Services at June 30, 2009 and 2008 was \$290,538 and \$457,920, 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 assets.

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2009 and 2008**

**(13) Defined Benefit Pension Plan**

***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. 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 Agency. Copies of CalPERS annual financial report may be obtained form their executive Office: 400 P Street, Sacramento, CA, 95814.

***Funding Policy***

The contribution rate for plan members in the CalPERS 2.5% at 55 Risk Pool Retirement Plan is 8% of their annual covered salary. The Agency makes these contributions required of Agency employees on their behalf and for their account. Also, the Agency is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2009, 2008 and 2007 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2009, 2008 and 2007, the Agencies annual contribution for CalPERS and were equal to the Agencies required and actual contribution for each fiscal year as follows:

***Three Year Funding Information:***

<b>Fiscal Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>	<b>APC Percentage of Payroll</b>
2007	\$ 364,164	100%	-	14.755%
2008	438,151	100%	-	15.042%
2009	630,974	100%	-	15.082%

**(14) Post Employment Benefits**

The District provides post-employment benefits to qualified employees who meet the District's current plan requirements as follows:

All CalPERS retired employees who, at the time of retirement from the District, are fifty (50) years of age or older and have at least ten (10) continuous years of service with the District are authorized to receive medical insurance from the District's program, and the District will pay the cost of such coverage for said retired employee. Employees hired after November 15, 2000, must be fifty-five (55) years of age or older and have at least twenty (20) years of continuous service at the time of retirement from the District to be eligible for the retiree medical program. Employees hired after May 17, 2006, will only receive medical benefits until the earlier of age sixty-five (65) years or until they are eligible for Medicare. All eligible retired directors of the District who have at least twelve (12) continuous years of service with the District are authorized to receive medical insurance from the District's program, and the District will pay the cost of such coverage for said retired directors. Directors elected after January 1, 1994, are not eligible for the retiree medical benefits.

Also, all CalPERS retired employees who, at the time of retirement from the District, are sixty (60) years of age or older and have at least ten (10) years of service are authorized to receive dental, vision and life insurance from the District's programs, and the District will pay the cost of such coverage; except that Employees hired after November 15, 2000 but before September 1, 2004, must be sixty (60) years of age or older and have at least twenty (20) years of continuous service, at the time of retirement from the

**Hi-Desert Water District**  
**Notes to the Basic Financial Statements, continued**  
**June 30, 2009 and 2008**

**(14) Post Employment Benefits, continued**

District to be eligible for retiree dental, vision and life insurance programs. Employees hired after September 1, 2004, shall not be entitled to these benefits.

All eligible retired directors of the District who have at least twelve (12) continuous years of service with the District are authorized to receive dental, vision and life insurance from the District's programs and the District will pay the cost of such coverage if the insurance carrier is willing to provide coverage. Directors elected after January 1, 1994, are not eligible for the retiree medical benefits.

The District will continue the payment of health, dental, and vision benefits for spouses of deceased qualified retired District personnel and Board Members, in effect at the time of the retiree's death, provided that they have been continuously married for a period of not less than one (1) year and pursuant to the criteria stipulated by the insurance carriers until such time as said spouse either remarries or becomes employed with an employer offering comparable medical coverage as part of its employee benefit program. Any increase in premium will be the responsibility of that individual. The determination of comparability of coverage shall lie solely with the District's Board of Directors.

The District finances the plans on a pay-as-you-go basis. In 2009 and 2008, the District paid \$109,222 and \$102,173, respectively, in post-employment health care benefits, net of retiree contributions, and had 16 eligible retired employees in both June 30, 2009 and 2008.

**(15) 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, 2008, 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 \$1,000,000, combined single limit at \$1,000,000 per occurrence. The District 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, disappearance and destruction coverage's plus \$500,000 excess.
- 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 \$50 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**  
**June 30, 2009 and 2008**

**(15) 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, 2009, 2008 and 2007. 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, 2009, 2008 and 2007.

**(16) Governmental Accounting Standards Board Statements Issued, Not Yet Effective**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2008, that has effective dates that may impact future financial presentations.

***Governmental Accounting Standards Board Statement No. 45***

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local government employers. This statement is not effective for this District until the fiscal year ended June 30, 2010. This statement is expected to have a significant impact on the presentation of the District's financial statements in future years.

***Governmental Accounting Standards Board Statement No. 51***

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement is not effective for this District until the fiscal year ended June 30, 2010. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

**(17) 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.

# **Supplemental Information Section**



**Hi-Desert Water District**  
**Combining Schedule of Net Assets**  
**June 30, 2009**

<i>Assets</i>	<b>Enterprise Funds</b>		<b>Total</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	
Current assets:			
Cash and cash equivalents	\$ 5,788,907	292,194	6,081,101
Accrued interest receivable	20,609	-	20,609
Accounts receivable – water sales and services, net	655,810	-	655,810
Accounts receivable – property taxes	227,770	-	227,770
Accounts receivable – other	4,817	-	4,817
Internal balances	1,834,412	(1,834,412)	-
Materials and supplies inventory	265,439	-	265,439
Prepaid lease payment	713,661	-	713,661
Prepaid expense and other deposits	39,983	-	39,983
Total current assets	<u>9,551,408</u>	<u>(1,542,218)</u>	<u>8,009,190</u>
Non-current assets:			
Capital assets, net	29,182,822	2,058,291	31,241,113
Deferred charges, net	246,082	-	246,082
Total non-current assets	<u>29,428,904</u>	<u>2,058,291</u>	<u>31,487,195</u>
<b>Total assets</b>	<u>\$ 38,980,312</u>	<u>516,073</u>	<u>39,496,385</u>
<b><i>Liabilities and Net Assets</i></b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 743,561	163,629	907,190
Deposits and deferred revenue	244,396	-	244,396
Accrued interest on long-term debt	117,919	12,854	130,773
Long-term liabilities - due within one year:			
Compensated absences	55,253	-	55,253
Loans payable	379,572	-	379,572
Bonds payable	205,000	-	205,000
Notes payable	140,515	-	140,515
Total current liabilities	<u>1,886,216</u>	<u>176,483</u>	<u>2,062,699</u>
Non-current liabilities			
Long-term liabilities - due in more than one year:			
Compensated absences	165,760	-	165,760
Loans payable	4,155,908	-	4,155,908
Bonds payable	3,135,000	-	3,135,000
Notes payable	660,600	350,000	1,010,600
Total non-current liabilities	<u>8,117,268</u>	<u>350,000</u>	<u>8,467,268</u>
<b>Total liabilities</b>	<u>10,003,484</u>	<u>526,483</u>	<u>10,529,967</u>
Net assets:			
Invested in capital assets, net of related debt	20,506,227	1,708,291	22,214,518
Unrestricted	8,470,601	(1,718,701)	6,751,900
<b>Total net assets</b>	<u>28,976,828</u>	<u>(10,410)</u>	<u>28,966,418</u>
<b>Total liabilities and net assets</b>	<u>\$ 38,980,312</u>	<u>516,073</u>	<u>39,496,385</u>

See accompanying notes to the basic financial statements

**Hi-Desert Water District**  
**Combining Schedule of Net Assets**  
**June 30, 2008**

<i>Assets</i>	<b>Enterprise Funds</b>		<b>Total</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	
Current assets:			
Cash and cash equivalents	\$ 7,628,836	100,000	7,728,836
Accrued interest receivable	53,587	-	53,587
Accounts receivable – water sales and services, net	598,928	-	598,928
Accounts receivable – property taxes	281,089	-	281,089
Accounts receivable – other	2,317	-	2,317
Internal balances	330,964	(330,964)	-
Materials and supplies inventory	483,973	-	483,973
Prepaid lease payment	467,612	-	467,612
Prepaid expense and other deposits	45,536	-	45,536
Total current assets	<u>9,892,842</u>	<u>(230,964)</u>	<u>9,661,878</u>
Non-current assets:			
Capital assets, net	28,544,504	1,628,766	30,173,270
Deferred charges, net	267,274	-	267,274
Total non-current assets	<u>28,811,778</u>	<u>1,628,766</u>	<u>30,440,544</u>
<b>Total assets</b>	<u>\$ 38,704,620</u>	<u>1,397,802</u>	<u>40,102,422</u>
<b><i>Liabilities and Net Assets</i></b>			
Current liabilities – payable from unrestricted current assets:			
Accounts payable and accrued expenses	\$ 1,184,821	247,822	1,432,643
Deposits and deferred revenue	193,694	-	193,694
Accrued interest on long-term debt	120,569	4,840	125,409
Long-term liabilities - due within one year:			
Compensated absences	47,878	-	47,878
Loans payable	366,589	-	366,589
Bonds payable	195,000	-	195,000
Notes payable	135,515	-	135,515
Total current liabilities	<u>2,244,066</u>	<u>252,662</u>	<u>2,496,728</u>
Non-current liabilities - long-term debt:			
Long-term liabilities - due in more than one year:			
Compensated absences	143,632	-	143,632
Loans payable	4,535,988	-	4,535,988
Bonds payable	3,340,000	-	3,340,000
Notes payable	725,600	350,000	1,075,600
Total non-current liabilities	<u>8,745,220</u>	<u>350,000</u>	<u>9,095,220</u>
<b>Total liabilities</b>	<u>10,989,286</u>	<u>602,662</u>	<u>11,591,948</u>
Net assets:			
Invested in capital assets, net of related debt	19,245,812	1,278,766	20,791,852
Unrestricted	8,469,522	(483,626)	7,985,896
<b>Total net assets</b>	<u>27,715,334</u>	<u>795,140</u>	<u>28,510,474</u>
<b>Total liabilities and net assets</b>	<u>\$ 38,704,620</u>	<u>1,397,802</u>	<u>40,102,422</u>

See accompanying notes to the basic financial statements

**Hi-Desert Water District**  
**Combining Schedule of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended June 30, 2009**

	<b>Enterprise Funds</b>		<b>Total</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	
Operating revenues:			
Water consumption sales	\$ 5,430,238	-	5,430,238
Readiness-to-serve fees	1,417,866	-	1,417,866
Other charges	270,195	-	270,195
Total operating revenues	<u>7,118,299</u>	<u>-</u>	<u>7,118,299</u>
Operating expenses:			
Source of supply	807,326	-	807,326
Pumping and water treatment	1,864,326	-	1,864,326
Transmission and distribution	1,429,091	-	1,429,091
Customer accounts	165,875	-	165,875
Wastewater operations	-	1,171,407	1,171,407
General and administrative	2,761,521	-	2,761,521
Total operating expenses	<u>7,028,139</u>	<u>1,171,407</u>	<u>8,199,546</u>
Operating loss before depreciation and amortization	90,160	(1,171,407)	(1,081,247)
Depreciation and amortization	<u>(1,405,368)</u>	<u>-</u>	<u>(1,405,368)</u>
<b>Operating loss</b>	<u>(1,315,208)</u>	<u>(1,171,407)</u>	<u>(2,486,615)</u>
Non-operating revenue(expense)			
Property taxes	1,568,181	-	1,568,181
Investment earnings	144,520	-	144,520
Dept. of Water Resources Reach II surcharge	336,994	-	336,994
Morongo Basin Project surcharge	527,101	-	527,101
Lease payment – Morongo Basin Project	(287,098)	-	(287,098)
Interest expense – long-term debt	(340,930)	(8,014)	(348,944)
Other non-operating revenues, net	697	-	697
Total non-operating revenues, net	<u>1,949,465</u>	<u>(8,014)</u>	<u>1,941,451</u>
<b>Income (loss) before capital contributions</b>	<u>634,257</u>	<u>(1,179,421)</u>	<u>(545,164)</u>
Capital contributions:			
Grant revenue	583,184	373,871	957,055
Meter sales and installations	44,053	-	44,053
Total capital contributions	<u>627,237</u>	<u>373,871</u>	<u>1,001,108</u>
<b>Change in net assets</b>	<u>1,261,494</u>	<u>(805,550)</u>	<u>455,944</u>
Net assets, beginning of year	<u>27,715,334</u>	<u>795,140</u>	<u>28,510,474</u>
Net assets, end of year	<u>\$ 28,976,828</u>	<u>(10,410)</u>	<u>28,966,418</u>

See accompanying notes to the basic financial statements

**Hi-Desert Water District**  
**Combining Schedule of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended June 30, 2008**

	<b>Enterprise Funds</b>		<b>Total</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	
Operating revenues:			
Water consumption sales	\$ 5,445,196	-	5,445,196
Readiness-to-serve fees	1,242,602	-	1,242,602
Other charges	261,260	-	261,260
Total operating revenues	<u>6,949,058</u>	<u>-</u>	<u>6,949,058</u>
Operating expenses:			
Source of supply	1,379,445	-	1,379,445
Pumping and water treatment	1,776,631	-	1,776,631
Transmission and distribution	1,399,020	-	1,399,020
Customer accounts	400,415	-	400,415
Wastewater operations	-	823,947	823,947
General and administrative	2,266,195	-	2,266,195
Total operating expenses	<u>7,221,706</u>	<u>823,947</u>	<u>8,045,653</u>
Operating loss before depreciation and amortization	(272,648)	(823,947)	(1,096,595)
Depreciation and amortization	<u>(1,379,933)</u>	<u>-</u>	<u>(1,379,933)</u>
<b>Operating loss</b>	<u>(1,652,581)</u>	<u>(823,947)</u>	<u>(2,476,528)</u>
Non-operating revenue(expense)			
Property taxes	1,571,117	-	1,571,117
Rental income – cellular antennas	4,025	-	4,025
Interest earnings	306,604	-	306,604
Tax revenue recovery surcharge	260,317	-	260,317
Dept. of Water Resources Reach II surcharge	332,566	-	332,566
Morongo Basin Project surcharge	531,664	-	531,664
Lease payment – Morongo Basin Project	(494,987)	-	(494,987)
Interest expense – long-term debt	(365,685)	(4,840)	(370,525)
Other non-operating revenues, net	98,736	-	98,736
Total non-operating revenues, net	<u>2,244,357</u>	<u>(4,840)</u>	<u>2,239,517</u>
<b>Income (loss) before capital contributions</b>	<u>591,776</u>	<u>(828,787)</u>	<u>(237,011)</u>
Capital contributions:			
Meter sales and installations	189,483	-	189,483
Total capital contributions	<u>189,483</u>	<u>-</u>	<u>189,483</u>
<b>Change in net assets</b>	<u>781,259</u>	<u>(828,787)</u>	<u>(47,528)</u>
Net assets, beginning of year	<u>26,934,075</u>	<u>1,623,927</u>	<u>28,558,002</u>
Net assets, end of year	<u>\$ 27,715,334</u>	<u>795,140</u>	<u>28,510,474</u>

See accompanying notes to the basic financial statements

# **Statistical Information Section**



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

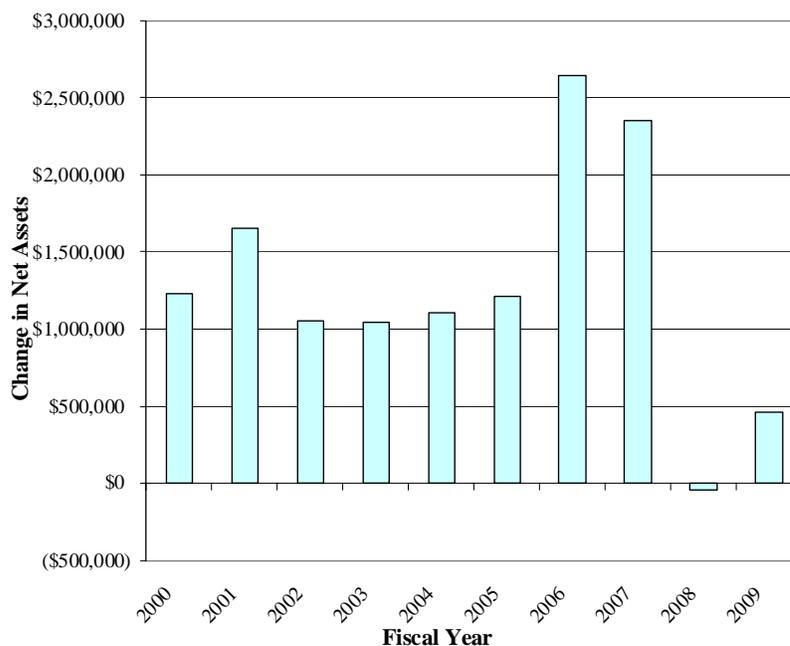
This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

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Financial Trends These schedules contain information to help the reader understand how the District's financial performance and well-being have changed over time.	42-45
Revenue Capacity These schedules contain information to help the reader assess the District's most significant own-source revenue, water sales.	46-49
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.	50-51
Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District's financial activities take place.	52
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.	53

## Hi-Desert Water District Changes in Net Assets and Net Assets by Component Last Ten Fiscal Years

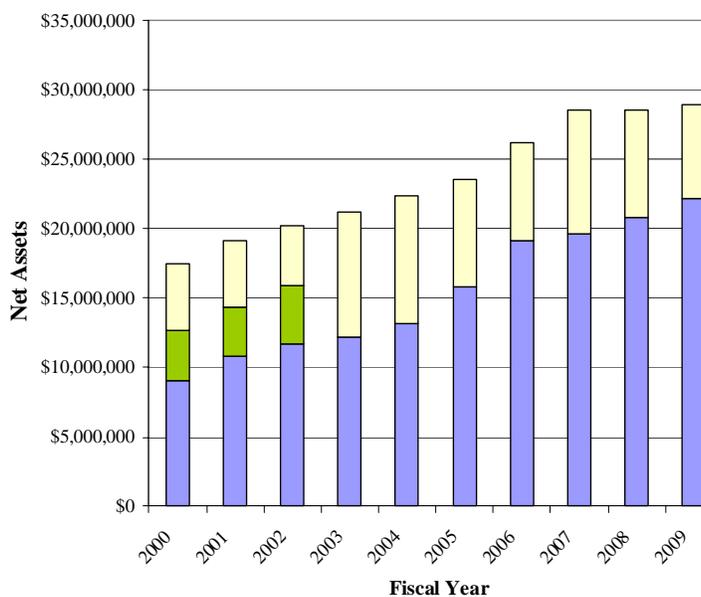
	Fiscal Year				
	2000	2001	2002	2003	2004
Changes in net assets:					
Operating revenues (see Schedule 2)	\$ 5,083,092	4,921,778	5,189,453	5,699,619	6,110,334
Operating expenses (see Schedule 3)	(3,684,059)	(4,495,143)	(4,260,475)	(4,527,353)	(4,968,356)
Depreciation and amortization	(1,118,761)	(1,163,119)	(1,139,845)	(1,169,417)	(1,215,006)
<b>Operating income(loss)</b>	<b>280,272</b>	<b>(736,484)</b>	<b>(210,867)</b>	<b>2,849</b>	<b>(73,028)</b>
Non-operating revenues(expenses)					
Property taxes	807,646	823,191	844,203	905,288	923,936
Rental income - cellular antennas	-	-	-	38,616	46,533
Investment income	411,222	463,824	235,369	145,913	101,439
Tax revenue recovery surcharge	-	-	-	-	-
Contract water delivery charge	-	-	-	-	-
Dept. of Water Resources Reach II surcharge	-	-	-	-	-
Morongo Basin Project	1,359,761	1,404,336	1,493,202	1,806,664	1,923,990
Lease payment - Morongo Basin Project	(1,367,743)	(1,365,211)	(1,366,380)	(1,367,880)	(1,365,480)
Interest expense	(573,645)	(555,956)	(545,841)	(622,952)	(607,800)
Other revenue/(expense), net	(11,968)	(42,092)	28,606	132,074	84,238
Total non-operating revenues(expenses), net	625,273	728,092	689,159	1,037,723	1,106,856
<b>Net income (loss) before capital contributions</b>	<b>905,545</b>	<b>(8,392)</b>	<b>478,292</b>	<b>1,040,572</b>	<b>1,033,828</b>
Capital contributions	320,954	1,659,799	571,690	-	71,760
<b>Changes in net assets</b>	<b>\$ 1,226,499</b>	<b>1,651,407</b>	<b>1,049,982</b>	<b>1,040,572</b>	<b>1,105,588</b>
Net assets by component:					
Invested in capital assets, net of related debt	\$ 9,094,674	10,834,868	11,674,107	12,181,660	13,202,861
Restricted	3,570,730	3,550,447	4,239,719	-	-
Unrestricted	4,838,162	4,769,658	4,291,129	9,063,867	9,148,254
<b>Total net assets</b>	<b>\$ 17,503,566</b>	<b>19,154,973</b>	<b>20,204,955</b>	<b>21,245,527</b>	<b>22,351,115</b>



Source: Hi-Desert Water District Accounting Department

## Schedule 1

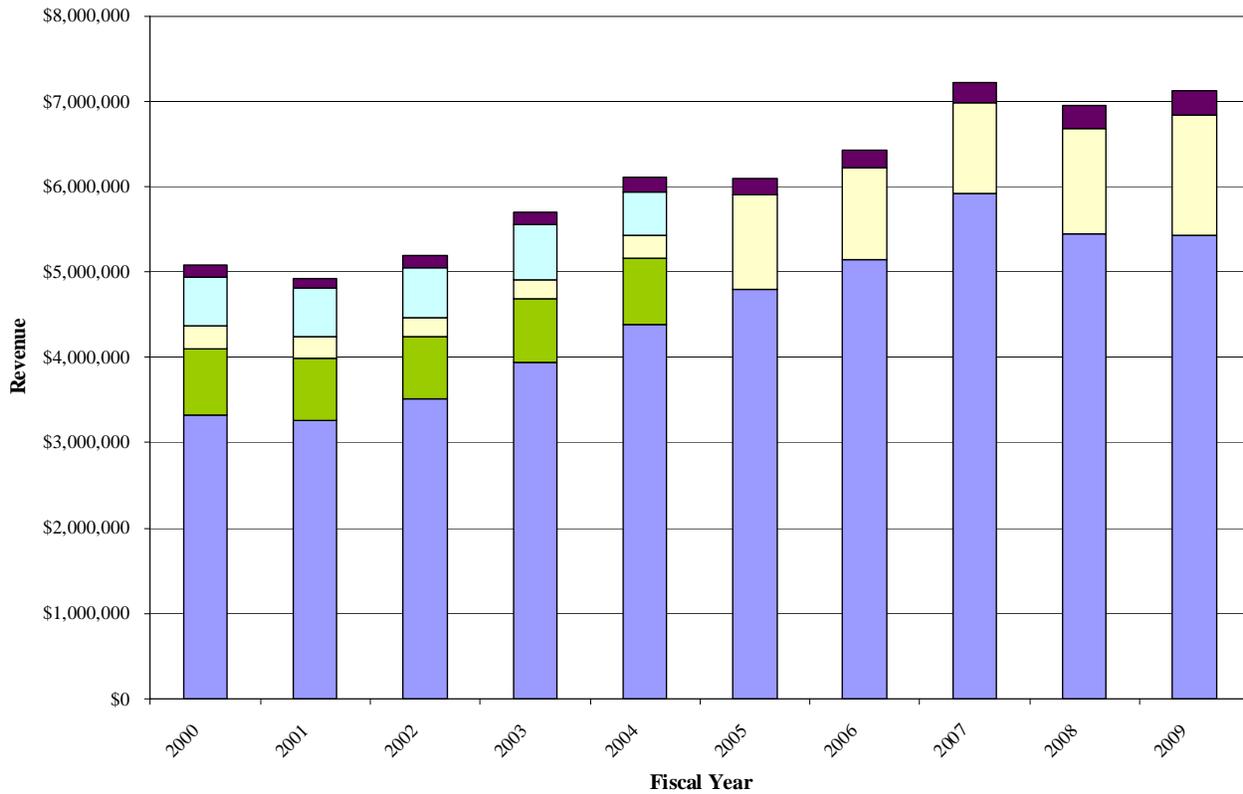
Fiscal Year				
2005	2006	2007	2008	2009
6,093,782	6,425,232	7,217,095	6,949,058	7,118,299
(5,817,566)	(6,246,266)	(7,439,423)	(8,045,653)	(8,199,546)
<u>(1,242,872)</u>	<u>(1,327,810)</u>	<u>(1,359,177)</u>	<u>(1,379,933)</u>	<u>(1,405,368)</u>
<u>(966,656)</u>	<u>(1,148,844)</u>	<u>(1,581,505)</u>	<u>(2,476,528)</u>	<u>(2,486,615)</u>
245,592	400,014	1,423,132	1,571,117	1,568,181
47,817	49,584	48,149	4,025	-
140,043	245,540	301,267	306,604	144,520
98,473	608,050	621,257	260,317	-
-	547,605	-	-	-
339,119	325,411	331,595	332,566	336,994
1,501,624	619,261	548,322	531,664	527,101
(892,393)	(665,933)	(474,449)	(494,987)	(287,098)
(499,214)	(470,576)	(445,216)	(370,525)	(348,944)
134,113	160,120	561,897	98,736	697
<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>
148,518	670,232	1,334,449	(237,011)	(545,164)
<u>1,062,925</u>	<u>1,971,144</u>	<u>1,019,619</u>	<u>189,483</u>	<u>1,001,108</u>
<u>1,211,443</u>	<u>2,641,376</u>	<u>2,354,068</u>	<u>(47,528)</u>	<u>455,944</u>
15,771,673	19,148,873	19,646,826	20,791,852	22,214,518
-	-	-	-	-
<u>7,790,885</u>	<u>7,055,061</u>	<u>8,911,176</u>	<u>7,718,622</u>	<u>6,751,900</u>
<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>



## 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
2000	\$ 3,330,091	771,188	267,982	570,326	143,505	5,083,092
2001	3,267,443	717,238	253,078	577,719	106,300	4,921,778
2002	3,511,131	728,706	224,541	589,490	135,585	5,189,453
2003	3,937,352	745,347	228,668	646,129	142,123	5,699,619
2004	4,391,789	762,257	270,190	510,358	175,740	6,110,334
2005 (1)	4,794,647	-	1,107,823	-	191,312	6,093,782
2006 (1)	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



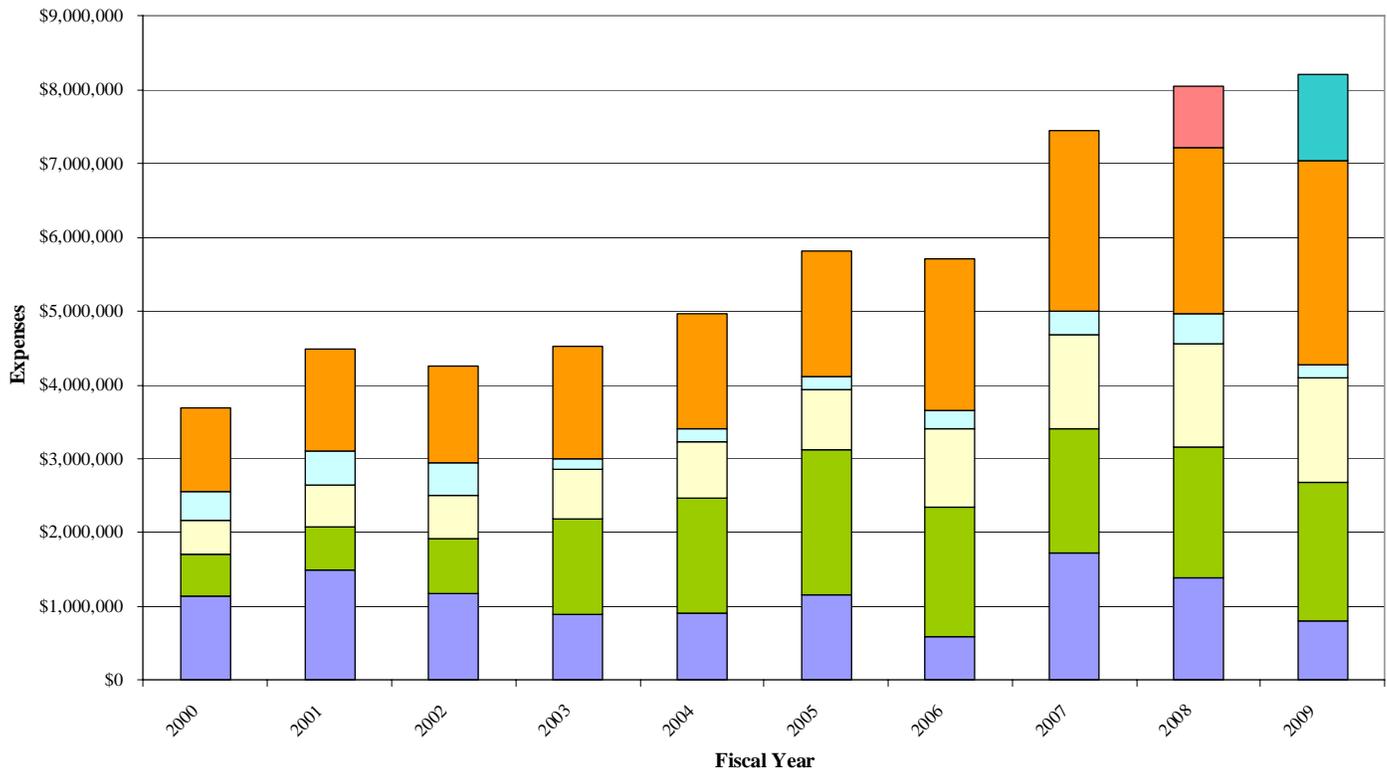
**Notes:** (1) Operating revenues were recategorized in 2005

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

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

### Schedule 3

Fiscal Year	Source of Supply	Pumping and Water Treatment	Transmission and Distribution	Customer Accounts	General and Administrative	Wastwater Operations	Total Operating Expenses
2000	\$ 1,131,350	573,950	462,070	390,899	1,125,790	-	3,684,059
2001	1,485,376	593,035	563,383	458,574	1,394,775	-	4,495,143
2002	1,167,824	745,724	597,144	440,784	1,308,999	-	4,260,475
2003	880,850	1,295,596	687,590	126,018	1,537,299	-	4,527,353
2004	909,864	1,561,586	753,612	182,237	1,561,057	-	4,968,356
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	2,266,195	823,947	8,045,653
2009	807,326	1,864,326	1,429,091	165,875	2,761,521	1,171,407	8,199,546

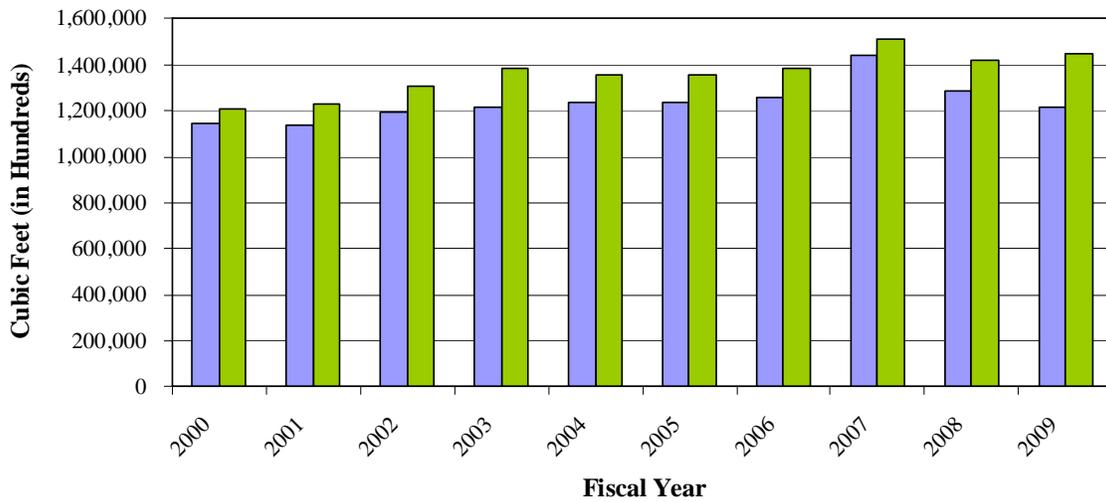


Source: Hi-Desert Water District Accounting Department

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

**Schedule 4**

<b>Fiscal Year</b>	<b>Water Sales (HCF)</b>	<b>Water Produced (HCF)</b>
2000	1,146,964	1,207,430
2001	1,137,090	1,228,136
2002	1,196,685	1,306,349
2003	1,214,607	1,381,082
2004	1,235,009	1,358,331
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



**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	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
0-4	\$ 1.55	1.55	1.55	2.00	2.32	2.64	2.80	2.80	2.97	2.97
5-10	2.55	2.55	2.55	3.15	3.63	4.11	4.35	4.35	4.61	4.61
11-28	3.85	3.85	3.85	4.30	4.68	5.06	5.25	5.25	5.57	5.57
29-40	5.00	5.00	5.00	5.85	6.23	6.61	6.80	6.80	7.21	7.21
41-53	5.35	5.35	5.35	5.85	6.23	6.61	6.80	6.80	7.21	7.21
54-65	5.70	5.70	5.70	6.90	7.18	7.46	7.60	7.60	8.06	8.06
66-78	6.05	6.05	6.05	6.90	7.18	7.46	7.60	7.60	8.06	8.06
79-over	6.70	6.70	6.70	6.90	7.18	7.46	7.60	7.60	8.06	8.06

**Service Charges per Month**

Meter Size	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
5/8" & 3/4"	\$ 7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	10.00	10.00
1"	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	20.00	20.00
1 1/2"	21.00	21.00	21.00	21.00	21.00	21.00	21.00	21.00	30.00	30.00
2"	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	50.00	50.00
3"	77.00	77.00	77.00	77.00	77.00	77.00	77.00	77.00	110.00	110.00
4"	119.00	119.00	119.00	119.00	119.00	119.00	119.00	119.00	170.00	170.00
6"	231.00	231.00	231.00	231.00	231.00	231.00	231.00	231.00	330.00	330.00

**Pipeline Surcharge Fees per Month**

Meter Size	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
5/8" & 3/4"	\$ 12.00	12.00	12.00	11.00	11.00	6.00	4.50	4.00	4.00	4.00
1"	30.00	30.00	30.00	30.00	30.00	12.00	9.00	8.00	8.00	8.00
1 1/2"	45.00	45.00	45.00	45.00	45.00	18.00	13.50	12.00	12.00	12.00
2"	75.00	75.00	75.00	75.00	75.00	30.00	22.50	20.00	20.00	20.00
3"	165.00	165.00	165.00	165.00	165.00	66.00	49.50	44.00	44.00	44.00
4"	245.00	245.00	245.00	245.00	245.00	98.00	98.00	68.00	68.00	68.00
6"	495.00	495.00	495.00	495.00	495.00	198.00	198.00	132.00	132.00	132.00

**Recharge Surcharge Fees per Month**

Meter Size	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
5/8" & 3/4"	\$ 2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
1"	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
1 1/2"	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50
2"	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50
3"	27.50	27.50	27.50	27.50	27.50	27.50	27.50	27.50	27.50	27.50
4"	42.50	42.50	42.50	42.50	42.50	42.50	42.50	42.50	42.50	42.50
6"	82.50	82.50	82.50	82.50	82.50	82.50	82.50	82.50	82.50	82.50

**Notes:**

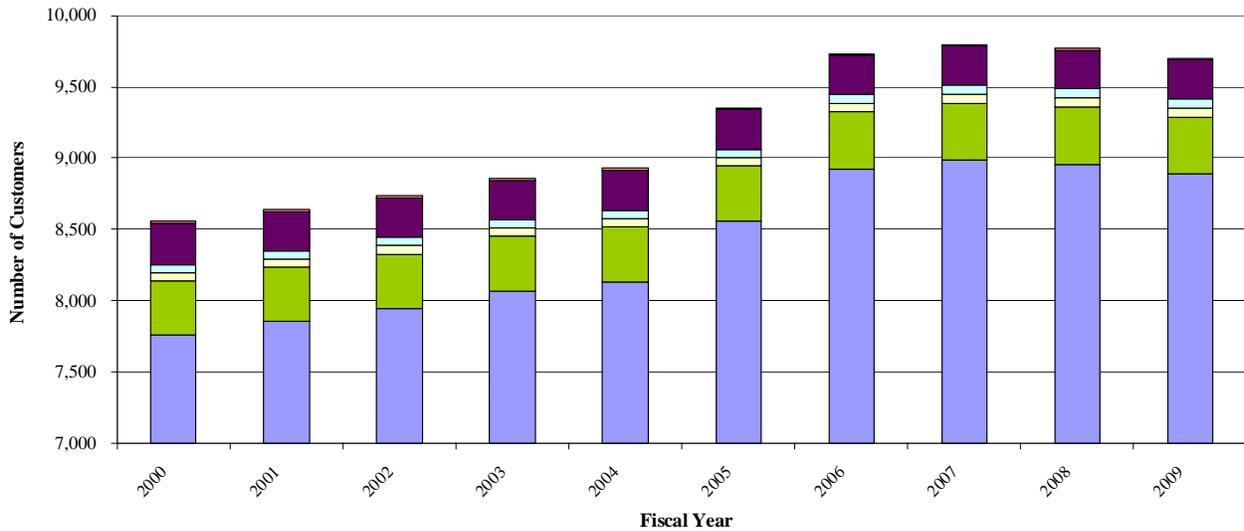
(1) Rates as of June 30 of each fiscal year.

**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	
2000	7,756	379	61	56	292	12	8,556
2001	7,853	380	61	56	278	12	8,640
2002	7,948	381	61	56	278	12	8,736
2003	8,069	382	61	56	278	12	8,858
2004	8,133	383	61	56	282	12	8,927
2005	8,557	387	61	56	279	12	9,352
2006	8,926	399	61	59	276	12	9,733
2007	8,989	398	61	63	273	12	9,796
2008	8,957	403	61	69	268	12	9,770
2009	8,888	399	61	69	270	12	9,699



**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**

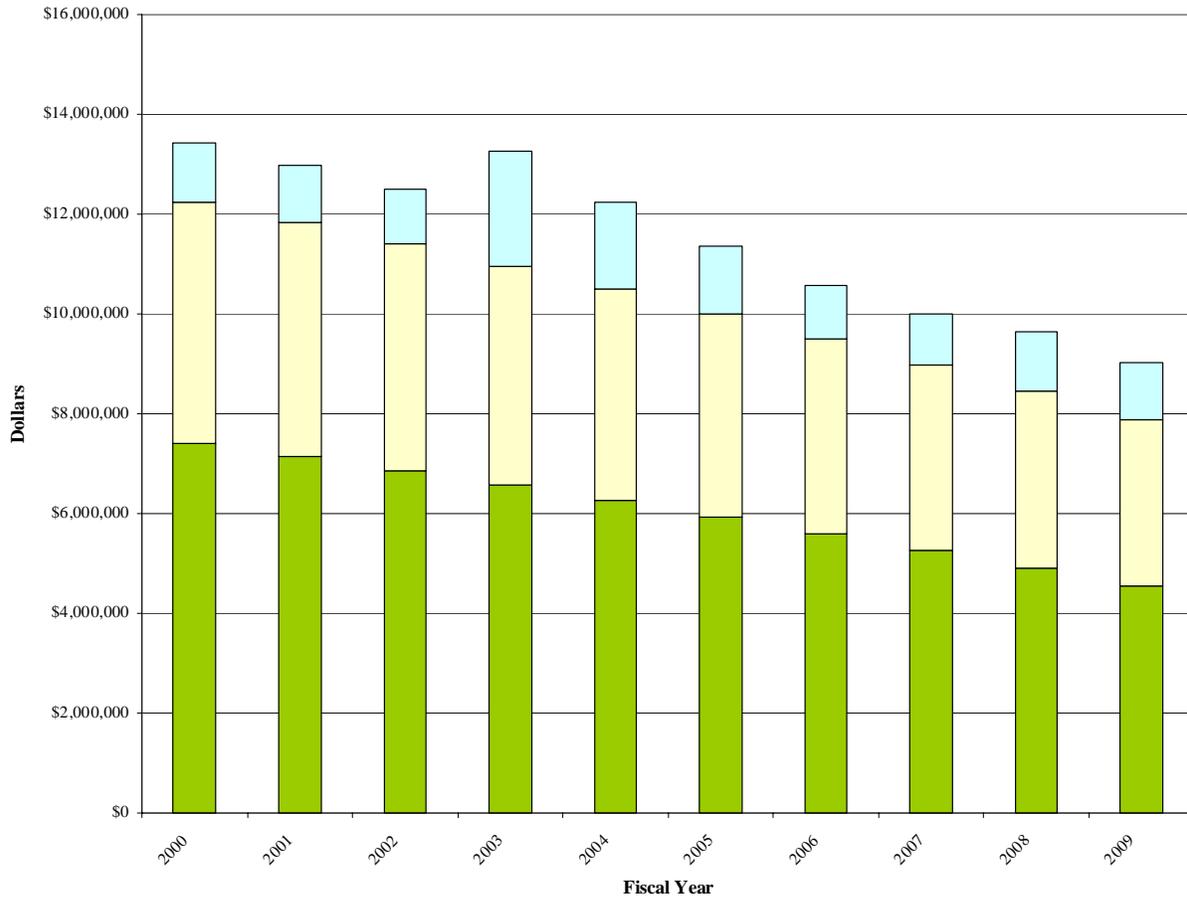
<b>Customer</b>	<b>2009</b>		<b>2000</b>	
	<b>Water Consumed</b>	<b>Percentage of Total</b>	<b>Water Consumed</b>	<b>Percentage of Total</b>
Country Club Mobilehome Estate	7,211	0.59%	6,942	0.61%
Apache MHP Association	6,761	0.56%	8,267	0.72%
Morongo Unified School District	25,136	2.07%	30,534	2.66%
Town of Yucca Valley	16,943	1.39%	14,817	1.29%
Vons Store # 63058	5,556	0.46%	3,893	0.34%
Tri-Valley Little League	14,693	1.21%	4,764	0.42%
The Home Depot 6971	2,034	0.17%	-	0.00%
Joshua Springs Calvary Chapel	2,981	0.25%	1,393	0.12%
Braswell Medical Consultant	7,456	0.61%	-	0.00%
Basin Wide Foundation	3,977	0.33%	408	0.04%
<b>Total</b>	<b>92,748</b>	<b>7.63%</b>	<b>71,018</b>	<b>6.19%</b>
<b>Total Water Consumed (HCF)</b>	<b>1,215,482</b>	<b>100.00%</b>	<b>1,146,964</b>	<b>100.00%</b>

**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	Certificates of Participation	Loans Payable	Bonds Payable	Notes Payable	Total		
					Debt	Per Capita	As a Share of Personal Income
2000	-	7,408,089	4,825,000	1,185,600	13,418,689	795.65	3.58%
2001	-	7,137,435	4,690,000	1,145,600	12,973,035	756.14	3.27%
2002	-	6,853,814	4,545,000	1,100,600	12,499,414	710.40	3.00%
2003	-	6,556,083	4,395,000	2,292,733	13,243,816	734.30	3.02%
2004	-	6,248,361	4,235,000	1,742,273	12,225,634	649.06	2.69%
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%



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		Total	Coverage Ratio
				Principal <sup>(2)</sup>	Interest		
2000	6,282,010	(3,684,059)	2,597,951	443,196	573,645	1,016,841	2.55
2001	6,205,826	(4,495,143)	1,710,683	445,654	555,956	1,001,610	1.71
2002	6,424,453	(4,260,475)	2,163,978	473,621	545,841	1,019,462	2.12
2003	7,360,294	(4,527,353)	2,832,941	513,382	622,952	1,136,334	2.49
2004	7,824,990	(4,968,356)	2,856,634	1,018,182	607,800	1,625,982	1.76
2005	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

**Notes:**

(1) Operating expenses exclude depreciation expense.

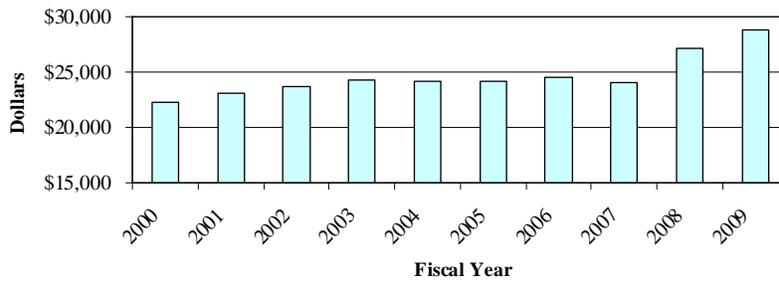
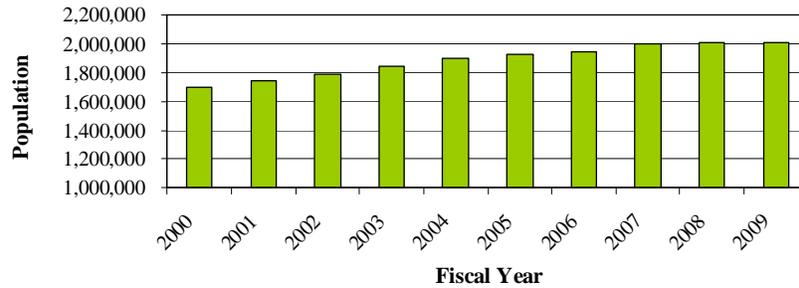
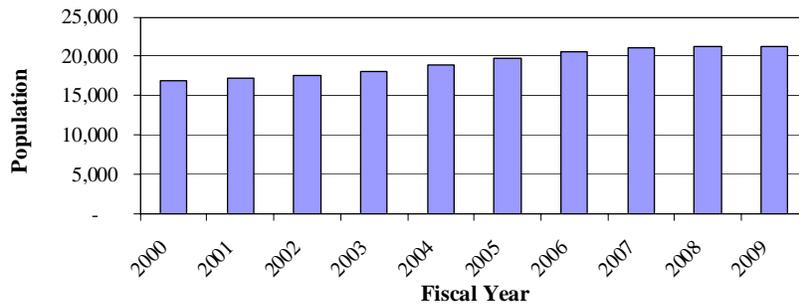
(2) Includes only normal principal payments (does not include payments as a result of refinancing of debt)

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

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

Schedule 10

County of San Bernardino <sup>(2)</sup>					
Year	Yucca Valley Population <sup>(1)</sup>	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2000	16,865	N/A	1,701,700	37,772,136	22,197
2001	17,157	N/A	1,747,822	40,431,224	23,132
2002	17,595	N/A	1,794,507	42,460,541	23,661
2003	18,036	N/A	1,842,904	44,771,823	24,294
2004	18,836	N/A	1,897,950	45,756,803	24,109
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



Sources: California Department of Finance and CaliforniaLaborMarketInfo

**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.

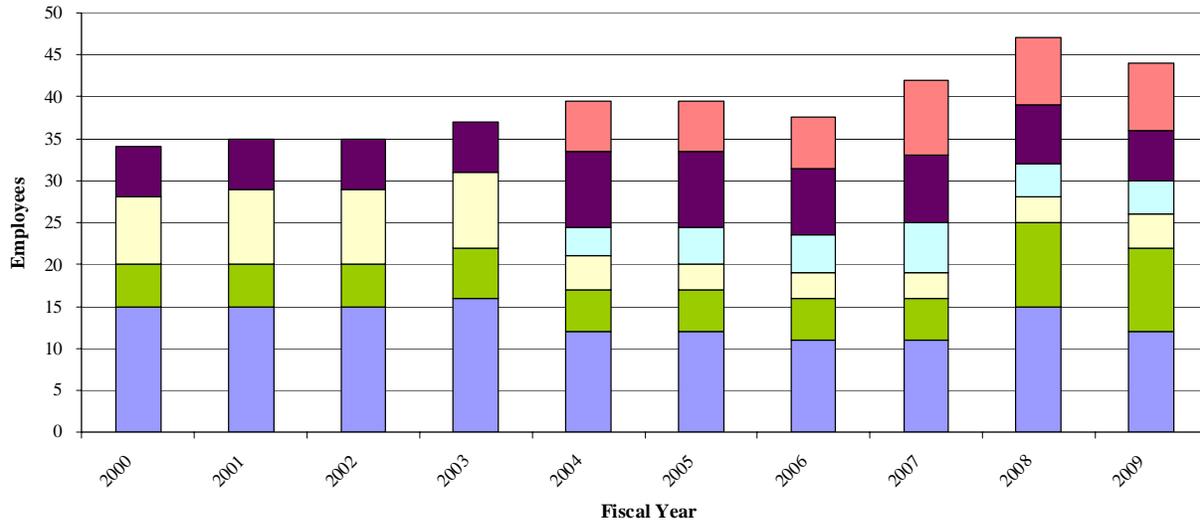
N/A - Data not available

# 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
2000	15	5	8	0	6	0	34
2001	15	5	9	0	6	0	35
2002	15	5	9	0	6	0	35
2003	16	6	9	0	6	0	37
2004	12	5	4	4	9	6	40
2005	12	5	3	4.5	9	6	39.5
2006	11	5	3	4.5	8	6	37.5
2007	11	5	3	6.0	8	9	42.0
2008	15	10	3	4	7	8	47
2009	12	10	4	4	6	8	44



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
2000	51	274	16	12.66	15	8.5	1,858
2001	51	274	16	12.66	15	8.5	1,858
2002	51	274	16	12.66	15	9.2	1,858
2003	51	274	16	12.66	15	9.2	1,858
2004	51	274	16	12.66	15	9.2	1,858
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	1,801

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  
Paul J. Kaymark, CPA

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An Accountancy Corporation

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

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

We have audited the basic financial statements of the Hi-Desert Water District (District) as of and for the year ended June 30, 2009, and have issued our report thereon dated October 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

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

October 14, 2009  
Cypress, California

*Charles Z. Fedak, CPA*  
*An Accountancy Corporation*