



Hi-Desert Water District
Yucca Valley, California

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2011 and 2010



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, 2011

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Sarann Graham	President	Elected	12/08 - 12/12
Roger Mayes	Vice President	Elected	12/10 - 12/14
Dan Munsey	Director	Elected	12/10 - 12/14
Robert Stadum	Director	Elected	12/08 - 12/12
Sheldon Hough	Director	Elected	12/10 - 12/14

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



Comprehensive Annual Financial Report

For the Fiscal Years Ended

June 30, 2011 and 2010

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
For the Fiscal Years Ended June 30, 2011 and 2010

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Introductory Section



December 7, 2011

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, 2011 and 2010, 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 thirty-five (35) regular employees organized in six departments. The District's Board of Directors meets on the first and third Wednesdays of each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District provides water service to approximately 9,998 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 2011 and 2010, the District purchased from Mojave Water Agency 4,668 and 2,599 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 76% 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. Wastewater System for Groundwater Protection.
2. Water Resource Management.
3. Emergency and Disaster Preparedness.
4. Public Information and Communication.
5. Infrastructure Development/Maintenance.
6. Financial Management.
7. Information Systems.
8. Human Resource Management.
9. Administrative Management.

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

Accomplishments

To assist the board of directors in meeting their strategic mission for our District, staff achieved the following initiatives in 2011:

1. Submitted a grant request from Proposition 84 for the Wastewater Treatment and Reclamation Project and later accrued \$3 million from our \$4 million request.
2. Replaced 37,400 lineal feet of main line pipe.
3. Completed the Lower Ridge Reservoir which added 220,000 gallons of storage (old tank 30,000 storage vs. new tank 250,000 storage).
4. Through public education, the District released the individual cost of the construction and maintenance of the Wastewater Treatment and Reclamation Project.

Accomplishments, continued

5. Purchased 4,668 acre feet of State water with consumption at 3,126 acre feet and 1,542 acre feet of water place into storage.
6. Awarded a Safety and Sanitary Improvements and Rehabilitation contract to Superior Tank Solutions to upgrade our existing reservoirs.
7. Reduced operating expenses (excluding state water purchases) by \$420,302 to offset the loss of revenue.

Internal Control Structure

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

Budgetary Control

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

Investment Policy

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

Water Rates and District Revenues

District policy direction ensures that all revenues from user charges and surcharges generated from District customers must support all District operations including capital project funding. Accordingly, water rates are reviewed on an annual basis. Water rates are user charges imposed on customers for services and are the primary component of the District's revenue. Water rates are composed of a commodity (usage) charge and a fixed meter (readiness-to-serve) charge.

Water Conservation Programs

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

- Residential Water Audits
- Water Awareness Program

Audit and Financial Reporting

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

Risk Management

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

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 auto-pay 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, 2010. This was the fourth 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:



**Sarann Graham
(President)**



**Roger Mayes
(Vice-President)**



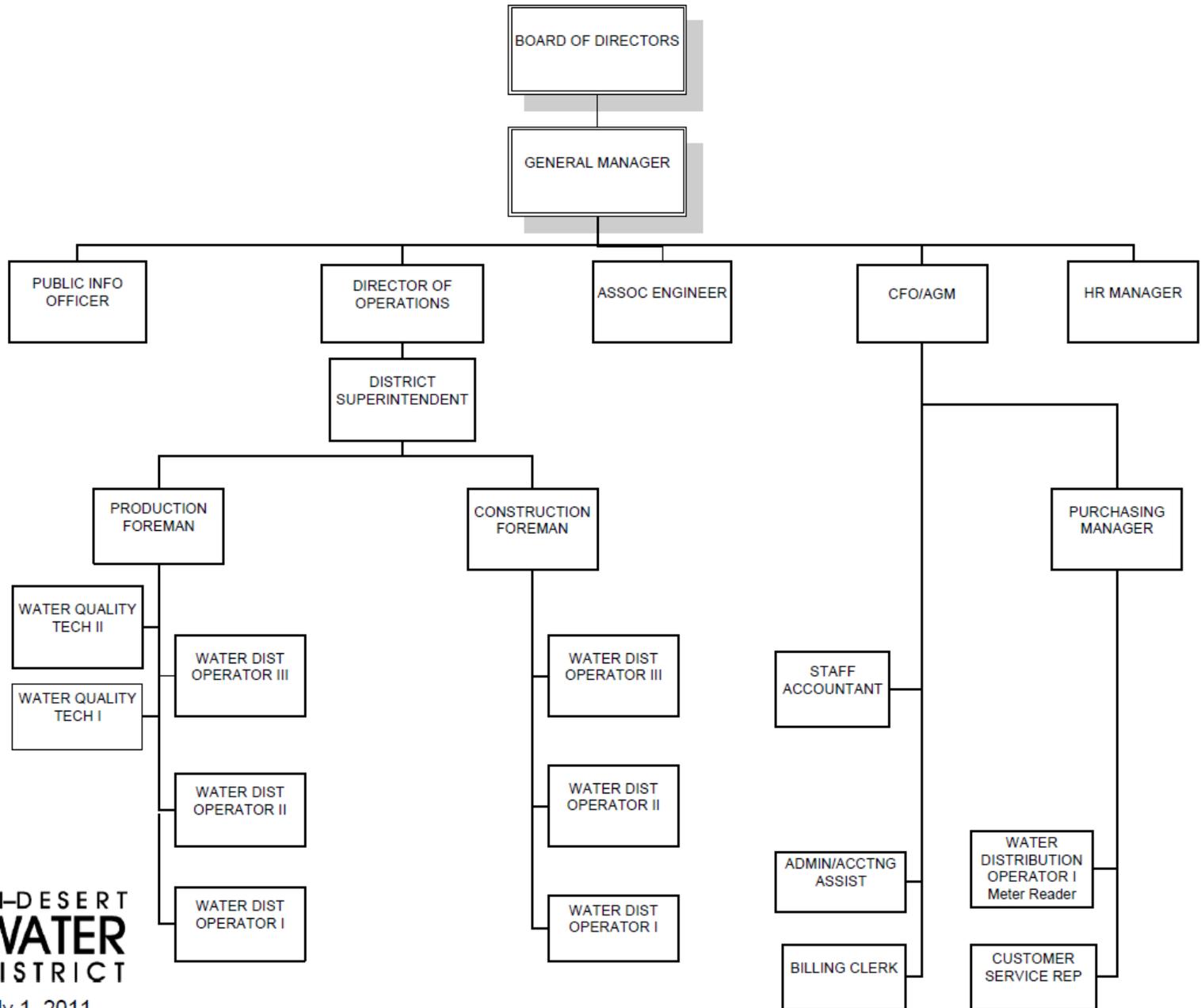
**Dan Munsey
(Director)**



**Robert Stadum
(Director)**



**Sheldon Hough
(Director)**



**HI-DESERT
WATER
DISTRICT**

July 1, 2011

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, 2010

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.



Linda C. Davison

President

Jeffrey R. Emer

Executive Director



Financial Section



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

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

We have audited the accompanying financial statements of the Hi-Desert Water District (District) as of and for the fiscal years ended June 30, 2011 and 2010, 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; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatements. 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, 2011 and 2010, 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 December 7, 2011, 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. This report can be found on page 58.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 14 and the required supplementary information page 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Independent Auditor's Report, continued

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The introductory section on pages 1 through 4, the supplementary information of combining schedules on pages 41 through 44, and the statistical section on pages 45 through 57 are presented for purposes of additional analysis and are not required parts of the basic financial statements. The supplementary information of combining schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Charles Z. Fedak: Company CPAs - An Accountancy Corporation

Charles Z. Fedak and Company, CPA's – An Accountancy Corporation
Cypress, California
December 7, 2011

Hi-Desert Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010

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, 2011 and 2010. 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 decreased 0.28% or \$84,233 to \$30,391,103 in fiscal year 2011 and increased 5.21% or \$1,508,918 to \$30,475,336 in fiscal year 2010 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 2011 by 7.56% or \$551,063 as the result of the year's operations. The District's operating expenses exceeded its operating revenues before depreciation and amortization expense in fiscal year 2009 by 6.12% or \$436,629 as the result of the year's operations.
- The District's net income from non-operating revenues and debt service expenses produced a positive return of \$1,684,183 and \$2,838,997 in fiscal years 2011 and 2010, 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 2011 amounted to \$218,433 which is comprised of grant revenues of \$143,538 and \$29,410 for water operations and wastewater operations, respectively, and \$45,485 from developers for meter purchases and installation fees. In 2010, capital contributions were \$540,298 which is comprised of grant revenues of \$164,816 and \$340,633 for water operations and wastewater operations, respectively, and \$34,849 from developers for meter purchases and installation fees.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net 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.

Hi-Desert Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010

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.

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 19 through 39.

Statements of Net Assets

Condensed Statements of Net Assets					
	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>2009</u>	<u>Change</u>
Assets:					
Current assets	\$ 7,028,648	7,654,301	(625,653)	8,009,190	(354,889)
Non-current assets	203,698	224,890	(21,192)	246,082	(21,192)
Capital assets, net	31,807,977	31,625,407	182,570	31,241,113	384,294
Total assets	<u>39,040,323</u>	<u>39,504,598</u>	<u>(464,275)</u>	<u>39,496,385</u>	<u>8,213</u>
Liabilities:					
Current liabilities	1,411,817	1,689,792	(277,975)	2,062,699	(372,908)
Non-current liabilities	7,237,403	7,339,471	(102,068)	8,467,268	(1,127,798)
Total liabilities	<u>8,649,220</u>	<u>9,029,262</u>	<u>(380,042)</u>	<u>10,529,967</u>	<u>(1,500,705)</u>
Net assets:					
Invested in capital assets, net of related debt	24,993,182	24,348,361	644,821	22,214,518	2,133,843
Unrestricted	5,397,921	6,126,975	(729,054)	6,751,900	(624,925)
Total net assets	<u>30,391,103</u>	<u>30,475,336</u>	<u>(84,233)</u>	<u>28,966,418</u>	<u>1,508,918</u>
Total liabilities and net assets	<u>\$ 39,040,323</u>	<u>39,504,598</u>	<u>(464,275)</u>	<u>39,496,385</u>	<u>8,213</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 \$30,391,103 and \$30,475,336 as of June 30, 2011 and 2010, respectively.

By far the largest portion of the District's net assets (82% as of June 30, 2011 and 80% as of June 30, 2010) 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 2011 and 2010, the District showed a positive balance in its unrestricted net assets of \$5,397,921 and \$6,126,975, respectively, which may be utilized in future years.

Hi-Desert Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>2009</u>	<u>Change</u>
Operations:					
Operating revenues	\$ 7,285,396	7,137,442	147,954	7,118,299	19,143
Operating expenses	7,836,459	7,574,071	262,388	8,199,546	(625,475)
Net income(loss) from operations	<u>(551,063)</u>	<u>(436,629)</u>	<u>(114,434)</u>	<u>(1,081,247)</u>	<u>644,618</u>
Depreciation	(1,414,594)	(1,412,556)	(2,038)	(1,384,176)	(28,380)
Amortization	(21,192)	(21,192)	-	(21,192)	-
Operating loss	<u>(1,986,849)</u>	<u>(1,870,377)</u>	<u>(116,472)</u>	<u>(2,486,615)</u>	<u>616,238</u>
Non-operations:					
Property taxes	1,317,622	1,394,480	(76,858)	1,568,181	(173,701)
Interest earnings	14,413	35,667	(21,254)	144,520	(108,853)
Capital surcharge	584,509	334,852	249,657	336,994	(2,142)
Morongo Basin Project surcharge	521,250	523,761	(2,511)	527,101	(3,340)
Lease payment – Morongo Basin Project	(527,290)	(523,984)	(3,306)	(287,098)	(236,886)
Interest expense – long-term debt	(260,680)	(296,724)	36,044	(348,944)	52,220
Mojave IDM maintenance reimbursement	-	1,308,753	(1,308,753)	-	1,308,753
Other non-operating revenues, net	34,359	62,192	(27,833)	697	61,495
Net income from non-operations	<u>1,684,183</u>	<u>2,838,997</u>	<u>(1,154,814)</u>	<u>1,941,451</u>	<u>897,546</u>
Net income(loss) before capital contributions	<u>(302,666)</u>	<u>968,620</u>	<u>(1,271,286)</u>	<u>(545,164)</u>	<u>1,513,784</u>
Capital contributions	218,433	540,298	(321,865)	1,001,108	(460,810)
Change in net assets	<u>(84,233)</u>	<u>1,508,918</u>	<u>(1,593,151)</u>	<u>455,944</u>	<u>1,052,974</u>
Net assets – beginning of year	<u>30,475,336</u>	<u>28,966,418</u>	<u>1,508,918</u>	<u>28,510,474</u>	<u>455,944</u>
Net assets – end of year	<u>\$ 30,391,103</u>	<u>30,475,336</u>	<u>(84,233)</u>	<u>28,966,418</u>	<u>1,508,918</u>

Fiscal Year 2011

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 \$84,233 during the fiscal year ended June 30, 2011. Net loss before capital contributions of \$302,666 and capital contributions of \$218,433 were the two sources of the net change in the District's net assets.

Operating revenues increased by \$147,954 in the fiscal year due to an increase in water sales of \$22,264, readiness-to-serve fees of \$86,391, and other charges of \$39,299. Operating expenses increased by \$262,388 due to increases in source of supply expenses of \$1,026,715 and customer account expenses of \$504,639 offset by decreases in pumping and water treatment expenses of \$22,641, transmission and distribution expenses of \$169,126, wastewater operations expenses of \$606,131 and general and administrative expenses of \$471,068. In 2011, net loss from operations increased by \$114,434 or 26.2% from 2010.

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 \$1,154,814 in 2011 due primarily to a decrease in Mojave Water Agency pipeline maintenance fee refund of \$1,308,753 and a decrease in property taxes of \$76,858 which was offset by an increase in capital surcharge of \$249,657.

In addition, the District received \$218,433 in capital contributions which is comprised of grant revenues of \$143,538 and \$29,410 for water and wastewater operations, respectively, and \$45,485 from developers for meter purchases and installation fees.

Hi-Desert Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010

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

Fiscal Year 2010

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 \$1,508,918 during the fiscal year ended June 30, 2010. Net income before capital contributions of \$968,620 and capital contributions of \$540,298 were the two sources of the net change in the District's net assets.

Operating revenues increased by \$19,143 in the fiscal year due to a decrease in water sales of \$53,169 that was offset by increases in readiness-to-serve fees of \$59,837, and other charges of \$12,475. Operating expenses decreased by \$625,475 due to staff reductions in addition to reduced planning and development costs associated with the Wastewater Treatment and Reclamation Project. In 2010, net income from operations increased by \$644,618 or 59.6% from 2009.

The District's non-operating revenues, such as property taxes, surcharge or surcharge recovery revenues are pledged to pay down the District's debt service expenses and for the District's capital improvement program. Non-operating revenues net of non-operating expenses increased \$897,546 due primarily to a one-time reimbursement of Mojave Water Agency pipeline maintenance fee refund of \$1,308,753 that was offset by a decrease in property taxes of \$173,701 and an increase in lease payments related to the Morongo Basin Project of \$236,886.

In addition, the District received \$540,298 in capital contributions which is comprised of grant revenues of \$164,816 and \$340,633 for water and wastewater operations, respectively, and \$34,849 from developers for meter purchases and installation fees.

Capital Asset Administration

Changes in capital assets in 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance 2011</u>
Capital assets:				
Non-depreciable assets	\$ 4,271,319	1,597,164	(1,865,212)	4,003,271
Depreciable assets	49,641,773	1,865,212	-	51,506,985
Accumulated depreciation	(22,287,685)	(1,414,594)	-	(23,702,279)
Total capital assets	<u>\$ 31,625,407</u>	<u>2,047,782</u>	<u>(1,865,212)</u>	<u>31,807,977</u>

Changes in capital assets in 2010 were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Transfers</u>	<u>Balance 2010</u>
Capital assets:				
Non-depreciable assets	\$ 4,042,179	1,796,850	(1,567,710)	4,271,319
Depreciable assets	48,074,063	1,569,120	(1,410)	49,641,773
Accumulated depreciation	(20,875,129)	(1,412,556)	-	(22,287,685)
Total capital assets	<u>\$ 31,241,113</u>	<u>1,953,414</u>	<u>(1,569,120)</u>	<u>31,625,407</u>

At the end of fiscal year 2011 and 2010, the District's investment in capital assets amounted to \$31,807,977 and \$31,625,407 (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 2011 includes additions to the transmission and distribution system mains, reservoirs and tanks, wells, buildings and structures, and vehicles.

Hi-Desert Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010

Capital Asset Administration, continued

Major depreciable capital asset additions during fiscal year 2010 includes additions to the transmission and distribution system mains, nitrate removal facility, pumps, buildings and structures, office furniture and equipment, and vehicles. See further detailed information in Note 5.

Debt Administration

Changes in long-term debt amounts for 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2011</u>
Long-term debt:				
Loans payable	\$ 3,131,446	-	(177,251)	2,954,195
Bonds payable	3,135,000	-	(215,000)	2,920,000
Notes payable	<u>1,010,600</u>	<u>-</u>	<u>(70,000)</u>	<u>940,600</u>
Total long-term debt	<u>\$ 7,277,046</u>	<u>-</u>	<u>(462,251)</u>	<u>6,814,795</u>

Changes in long-term debt amounts for 2010 were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2010</u>
Long-term debt:				
Loans payable	\$ 4,535,480	-	(1,404,034)	3,131,446
Bonds payable	3,340,000	-	(205,000)	3,135,000
Notes payable	<u>1,151,115</u>	<u>-</u>	<u>(140,515)</u>	<u>1,010,600</u>
Total long-term debt	<u>\$ 9,026,595</u>	<u>-</u>	<u>(1,749,549)</u>	<u>7,277,046</u>

Principal payments in 2011 decreased total long-term debt by \$462,251 from the 2010 levels. Principal payments in 2010 decreased total long-term debt by \$1,749,549 from the 2009 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, 2011 and 2010

<i>Assets</i>	2011	2010
Current assets:		
Cash and cash equivalents (note 2)	\$ 5,015,574	5,616,118
Accrued interest receivable	3,924	7,613
Accounts receivable – water sales and services, net (note 3)	701,508	720,289
Accounts receivable – other	58,780	200,849
Property taxes receivable	201,727	143,448
Materials and supplies inventory	292,946	234,278
Prepaid lease payment	719,303	720,152
Prepaid expenses and other deposits	34,886	11,554
Total current assets	<u>7,028,648</u>	<u>7,654,301</u>
Non-current assets:		
Deferred charges, net (note 4)	203,698	224,890
Capital assets, net (note 5)	<u>31,807,977</u>	<u>31,625,407</u>
Total non-current assets	<u>32,011,675</u>	<u>31,850,297</u>
Total assets	<u>\$ 39,040,323</u>	<u>39,504,598</u>
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 432,743	769,648
Deposits and deferred revenue	341,029	298,533
Accrued interest on long-term debt	104,090	111,058
Long-term liabilities – due within one year:		
Compensated absences (note 6)	54,590	48,363
Loans payable (note 7)	184,365	177,190
Bonds payable (note 8)	225,000	215,000
Notes payable (note 9)	70,000	70,000
Total current liabilities	<u>1,411,817</u>	<u>1,689,792</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 6)	163,772	145,088
Other post employment benefits payable (note 13)	738,201	379,527
Loans payable (note 7)	2,769,830	2,954,256
Bonds payable (note 8)	2,695,000	2,920,000
Notes payable (note 9)	870,600	940,600
Total non-current liabilities	<u>7,237,403</u>	<u>7,339,471</u>
Total liabilities	<u>8,649,220</u>	<u>9,029,262</u>
Net assets: (note 10)		
Invested in capital assets, net of related debt	24,993,182	24,348,361
Unrestricted	<u>5,397,921</u>	<u>6,126,975</u>
Total net assets	<u>30,391,103</u>	<u>30,475,336</u>
Total liabilities and net assets	<u>\$ 39,040,323</u>	<u>39,504,598</u>

See accompanying notes to the basic financial statements

Hi-Desert Water District
Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
Operating revenues:		
Water consumption sales	\$ 5,399,333	5,377,069
Readiness-to-serve fees	1,564,094	1,477,703
Other charges	321,969	282,670
Total operating revenues	7,285,396	7,137,442
Operating expenses:		
Source of supply	2,011,908	985,193
Pumping and water treatment	1,825,921	1,848,562
Transmission and distribution	1,052,585	1,221,711
Customer accounts	535,455	478,927
Wastewater operations	116,993	723,124
General and administrative	2,293,597	2,316,554
Total operating expenses	7,836,459	7,574,071
Operating loss before depreciation and amortization	(551,063)	(436,629)
Depreciation	(1,414,594)	(1,412,556)
Amortization	(21,192)	(21,192)
Operating loss	(1,986,849)	(1,870,377)
Non-operating revenue(expense)		
Property taxes	1,317,622	1,394,480
Interest earnings	14,413	35,667
Capital surcharge	584,509	334,852
Morongo Basin Project surcharge	521,250	523,761
Lease payment – Morongo Basin Project	(527,290)	(523,984)
Interest expense – long-term debt	(260,680)	(296,724)
Mojave IDM maintenance reimbursement	-	1,308,753
Other non-operating revenues, net	34,359	62,192
Total non-operating revenues, net	1,684,183	2,838,997
Net income(loss) before capital contributions	(302,666)	968,620
Capital contributions:		
Grant revenue	172,948	505,449
Meter sales and installations	45,485	34,849
Total capital contributions	218,433	540,298
Change in net assets	(84,233)	1,508,918
Net assets – beginning of year	30,475,336	28,966,418
Net assets – end of year	\$ 30,391,103	30,475,336

See accompanying notes to the basic financial statements

Hi-Desert Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 7,304,177	7,072,963
Cash paid to employees for salaries and wages	(2,388,710)	(2,637,127)
Cash paid to vendors and suppliers for materials and services	(5,298,503)	(4,803,417)
Net cash used by operating activities	(383,036)	(367,581)
Cash flows from non-capital financing activities:		
Proceeds from property taxes	1,259,343	1,478,802
Proceeds from non-operating revenues, net	34,359	62,192
Net cash provided by non-capital financing activities	1,293,702	1,540,994
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,597,164)	(1,798,260)
Proceeds from capital grants	172,948	505,449
Proceeds from meter sales and installations	45,485	34,849
Proceeds from Mojave IDM maintenance reimbursement	-	1,308,753
Principal paid on long-term debt	(462,251)	(1,749,549)
Interest paid on long-term debt	(267,648)	(316,439)
Proceeds from Dept. of Water Resources Reach II surcharge	584,509	334,852
Proceeds from Morongo Basin Project surcharge	521,250	523,761
Lease payment – Morongo Basin Project	(526,441)	(530,475)
Net cash used in capital and related financing activities	(1,529,312)	(1,687,059)
Cash flows from investing activities:		
Interest earnings	18,102	48,663
Net cash provided by investing activities	18,102	48,663
Net decrease in cash and cash equivalents	(600,544)	(464,983)
Cash and cash equivalents – beginning of year	5,616,118	6,081,101
Cash and cash equivalents – end of year	\$ 5,015,574	5,616,118
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$ 5,015,574	5,616,118
Total cash and cash equivalents	\$ 5,015,574	5,616,118

Continued on next page

See accompanying notes to the basic financial statements

Hi-Desert Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (1,986,849)	(1,870,377)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	1,414,594	1,412,556
Amortization	21,192	21,192
Other, net	-	1,410
Changes in assets and liabilities:		
(Increase)Decrease in assets:		
Accounts receivable – water sales and services, net	18,781	(64,479)
Accounts receivable – other	142,069	(196,032)
Materials and supplies inventory	(58,668)	31,161
Prepaid expenses and other deposits	(23,332)	28,429
Increase(Decrease) in liabilities:		
Accounts payable and accrued expenses	(336,905)	(137,542)
Deposits and deferred revenue	42,496	54,137
Compensated absences	24,912	(27,563)
Other post employment benefits payable	358,674	379,527
Total adjustments	1,603,813	1,502,796
Net cash used by operating activities	\$ (383,036)	(367,581)
Non-cash investing, capital and financing transactions:		
Change in fair-market value of funds deposited with LAIF	\$ 3,147	1,346

See accompanying notes to the basic financial statements

Hi-Desert Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

(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
For the Fiscal Years Ended June 30, 2011 and 2010

(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
For the Fiscal Years Ended June 30, 2011 and 2010

(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
For the Fiscal Years Ended June 30, 2011 and 2010

(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.

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.

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

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2011 and 2010

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:

	2011	2010
Cash and cash equivalents	\$ <u>5,015,574</u>	<u>5,616,118</u>

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

	2011	2010
Cash on hand	\$ 1,700	1,700
Deposits held with financial institutions	1,702,467	521,053
Deposits held with California Local Agency Investment Fund (LAIF)	<u>3,311,407</u>	<u>5,093,365</u>
Total	\$ <u>5,015,574</u>	<u>5,616,118</u>

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

	2011	2010
Deposits held with the California Local Agency Investment Fund (LAIF)	237 days	203 days

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2011 and 2010

(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.

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the District's bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contains legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Credit Risk

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

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2011 and 2010

(2) Cash and Cash Equivalents and Investments, continued

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 66% and 91% as of June 30, 2011 and 2010, 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:	<u>2011</u>	<u>2010</u>
Accounts receivable – water sales and services	\$ 793,763	792,093
Allowance for uncollectible accounts	<u>(92,255)</u>	<u>(71,804)</u>
Accounts receivable – water sales, net	<u>\$ 701,508</u>	<u>720,289</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:	<u>2011</u>	<u>2010</u>
Deferred charges	\$ 487,194	487,194
Accumulated amortization	<u>(283,496)</u>	<u>(262,304)</u>
Deferred charges, net	<u>\$ 203,698</u>	<u>224,890</u>

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2011 and 2010

(5) Capital Assets

Changes in capital assets for 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2011</u>
Non-depreciable assets:				
Land	\$ 1,130,089	-	-	1,130,089
Easements	337,851	-	-	337,851
Construction-in-process	2,803,379	1,597,163	(1,865,211)	2,535,331
Total non-depreciable assets	<u>4,271,319</u>	<u>1,597,163</u>	<u>(1,865,211)</u>	<u>4,003,271</u>
Depreciable assets:				
Transmission and distribution mains	21,237,597	1,103,609	-	22,341,206
Reservoirs and tanks	5,160,430	692,878	-	5,853,308
Wells	4,716,001	53,568	-	4,769,569
Meter service installations	1,201,496	-	-	1,201,496
Recharge ponds	2,000,846	-	-	2,000,846
Recharge site #3	2,459,164	-	-	2,459,164
Nitrate removal facility	2,738,124	-	-	2,738,124
Reach II pipeline	1,473,958	-	-	1,473,958
Pumps	1,043,419	-	-	1,043,419
Boosters	890,673	-	-	890,673
Hydrants	847,105	-	-	847,105
Blending facility	771,483	-	-	771,483
Buildings and structures	1,128,929	9,157	-	1,138,086
Office furniture and equipment	924,525	-	-	924,525
Tools and equipment	510,487	-	-	510,487
Vehicles	2,537,536	6,000	-	2,543,536
Total depreciable assets	<u>49,641,773</u>	<u>1,865,212</u>	<u>-</u>	<u>51,506,985</u>
Accumulated depreciation and amortization:				
Transmission and distribution mains	(6,997,899)	(509,103)	-	(7,507,002)
Reservoirs and tanks	(2,676,838)	(124,195)	-	(2,801,033)
Wells	(3,062,467)	(153,787)	-	(3,216,254)
Meters	(1,198,540)	(2,956)	-	(1,201,496)
Recharge ponds	(725,162)	(68,087)	-	(793,249)
Recharge site #3	(276,656)	(61,479)	-	(338,135)
Nitrate removal facility	(498,957)	(69,110)	-	(568,067)
Reach II pipeline	(534,310)	(36,849)	-	(571,159)
Pumps	(949,056)	(30,197)	-	(979,253)
Boosters	(723,051)	(41,353)	-	(764,404)
Hydrants	(558,923)	(24,185)	-	(583,108)
Blending facility	(106,079)	(19,287)	-	(125,366)
Buildings and structures	(574,456)	(37,780)	-	(612,236)
Office furniture and equipment	(806,436)	(44,379)	-	(850,815)
Tools and equipment	(447,067)	(27,700)	-	(474,767)
Vehicles	(2,151,788)	(164,147)	-	(2,315,935)
Total accumulated depreciation	<u>(22,287,685)</u>	<u>(1,414,594)</u>	<u>-</u>	<u>(23,702,279)</u>
Total depreciable assets, net	<u>27,354,088</u>	<u>450,618</u>	<u>-</u>	<u>27,804,706</u>
Total capital assets, net	<u>\$ 31,625,407</u>			<u>31,807,977</u>

Major depreciable capital asset additions during fiscal year 2011 includes additions to the transmission and distribution system mains, reservoirs and tanks, wells, buildings and structures, and vehicles.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2011 and 2010

(5) Capital Assets, continued

Changes in capital assets for 2010 were as follows:

	<u>Balance 2009</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2010</u>
Non-depreciable assets:				
Land	\$ 1,130,089	-	-	1,130,089
Easements	337,851	-	-	337,851
Construction-in-process	2,574,239	1,796,850	(1,567,710)	2,803,379
Total non-depreciable assets	<u>4,042,179</u>	<u>1,796,850</u>	<u>(1,567,710)</u>	<u>4,271,319</u>
Depreciable assets:				
Transmission and distribution mains	20,252,905	984,692	-	21,237,597
Reservoirs and tanks	5,160,430	-	-	5,160,430
Wells	4,586,759	130,652	(1,410)	4,716,001
Meter service installations	1,201,496	-	-	1,201,496
Recharge ponds	2,000,846	-	-	2,000,846
Recharge site #3	2,459,164	-	-	2,459,164
Nitrate removal facility	2,642,480	95,644	-	2,738,124
Reach II pipeline	1,473,958	-	-	1,473,958
Pumps	1,000,761	42,658	-	1,043,419
Boosters	890,673	-	-	890,673
Hydrants	847,105	-	-	847,105
Blending facility	771,483	-	-	771,483
Buildings and structures	1,121,989	6,940	-	1,128,929
Office furniture and equipment	874,695	49,830	-	924,525
Tools and equipment	510,487	-	-	510,487
Vehicles	2,278,832	258,704	-	2,537,536
Total depreciable assets	<u>48,074,063</u>	<u>1,569,120</u>	<u>(1,410)</u>	<u>49,641,773</u>
Accumulated depreciation and amortization:				
Transmission and distribution mains	(6,512,333)	(485,566)	-	(6,997,899)
Reservoirs and tanks	(2,559,068)	(117,770)	-	(2,676,838)
Wells	(2,909,926)	(152,541)	-	(3,062,467)
Meters	(1,195,585)	(2,955)	-	(1,198,540)
Recharge ponds	(657,076)	(68,086)	-	(725,162)
Recharge site #3	(215,177)	(61,479)	-	(276,656)
Nitrate removal facility	(431,043)	(67,914)	-	(498,957)
Reach II pipeline	(497,461)	(36,849)	-	(534,310)
Pumps	(904,570)	(44,486)	-	(949,056)
Boosters	(680,641)	(42,410)	-	(723,051)
Hydrants	(534,739)	(24,184)	-	(558,923)
Blending facility	(86,792)	(19,287)	-	(106,079)
Buildings and structures	(546,173)	(28,283)	-	(574,456)
Office furniture and equipment	(767,984)	(38,452)	-	(806,436)
Tools and equipment	(393,827)	(53,240)	-	(447,067)
Vehicles	(1,982,734)	(169,054)	-	(2,151,788)
Total accumulated depreciation	<u>(20,875,129)</u>	<u>(1,412,556)</u>	<u>-</u>	<u>(22,287,685)</u>
Total depreciable assets, net	<u>27,198,934</u>	<u>156,564</u>	<u>(1,410)</u>	<u>27,354,088</u>
Total capital assets, net	<u>\$ 31,241,113</u>			<u>31,625,407</u>

Major depreciable capital asset additions during fiscal year 2010 includes additions to the transmission and distribution system mains, nitrate removal facility, pumps, buildings and structures, office furniture and equipment and vehicles.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2011 and 2010

(5) 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:

	2009	2010	2011
The balance at June 30, consists of the following projects:			
Wastewater treatment facility	\$ 1,735,004	1,735,004	1,735,004
Production well - site no.3	659,854	761,990	786,031
Lower Ridge reservoir	98,545	306,385	-
Chlorine Injection Station	74,482	-	-
Various small projects < \$50,000	6,354	-	14,296
Construction-in-process	\$ 2,574,239	2,803,379	2,535,331

(6) 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</u> <u>2010</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2011</u>	<u>Due Within</u> <u>One Year</u>	<u>Due in More</u> <u>Than One Year</u>
\$ 193,451	261,584	(236,672)	218,363	54,590	163,773
<u>Balance</u> <u>2009</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2010</u>	<u>Due Within</u> <u>One Year</u>	<u>Due in more</u> <u>than one year</u>
\$ 221,013	294,826	(322,388)	193,451	48,363	145,088

(7) Loans Payable

Changes in loans payable for the year ended June 30, 2011 are as follows:

	<u>Balance</u> <u>2010</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>2011</u>
1986 California Dept. of Water Resources loan	\$ 3,131,446	-	(177,251)	2,954,195
Total	3,131,446	-	(177,251)	2,954,195
Less: current portion due	(177,190)			(184,365)
Long-term portion due	\$ 2,954,256			2,769,830

Changes in loans payable for the year ended June 30, 2010 are as follows:

	<u>Balance</u> <u>2009</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>2010</u>
1986 California Dept. of Water Resources loan	\$ 3,301,574	-	(170,128)	3,131,446
1996 California Dept. of Water Resources loan	1,233,906	-	(1,233,906)	-
Total	4,535,480	-	(1,404,034)	3,131,446
Less: current portion due	(379,572)			(177,190)
Long-term portion due	\$ 4,155,908			2,954,256

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2011 and 2010

(7) Loans Payable, continued

1986 California Dept. of Water Resources Loan

In 1986 the Yucca Water Company, Ltd. (Company) contracted with the California Department 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 1st and April 1st each year at a rate of 4.14% while principal payments are made on April 1st each year. Annual debt service requirements on the 1986 California Dept. of Water Resources Loan are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 184,365	120,808	305,173
2013	192,405	112,768	305,173
2014	200,384	104,789	305,173
2015	208,774	96,400	305,174
2016	217,339	87,834	305,173
2017-2021	1,231,995	293,869	1,525,864
2022-2024	718,933	45,458	764,391
Total	2,954,195	<u>861,926</u>	<u>3,816,121</u>
Less: current portion	<u>(184,365)</u>		
Long-term portion	<u>\$ 2,769,830</u>		

1996 California Dept. of Water Resources Loan and Surcharge

In 1994 the Mojave Water Agency (Agency) contracted with the California Department 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, 2011 and 2010 was \$584,509 and \$334,852, respectively. The loan is scheduled to mature in 2015. Principal and interest are payable semi-annually on October 1st and April 1st each year at a rate of 3.00%.

In 2010, the District paid off the loan to reduce the District's total debt service payments over the next five years by a present value of \$883,660 and to obtain an economic gain of \$78,496.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2011 and 2010

(8) Bonds Payable

Changes in bonds payable for the year ended June 30, 2011 are as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2011</u>
1982 Lease Revenue bonds	\$ 965,000	-	(60,000)	905,000
1998 Revenue Refunding bonds	2,170,000	-	(155,000)	2,015,000
Total	3,135,000	-	(215,000)	2,920,000
Less: current portion due	(215,000)			(225,000)
Long-term portion due	\$ 2,920,000			2,695,000

Changes in bonds payable for the year ended June 30, 2010 are as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2010</u>
1982 Lease Revenue bonds	\$ 1,025,000	-	(60,000)	965,000
1998 Revenue Refunding bonds	2,315,000	-	(145,000)	2,170,000
Total	3,340,000	-	(205,000)	3,135,000
Less: current portion due	(205,000)			(215,000)
Long-term portion due	\$ 3,135,000			2,920,000

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 1st and March 1st each year at a rate of 5.00% while principal payments are made on March 1st each year. Annual debt service requirements on the 1982 Lease Revenue Bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 65,000	45,250	110,250
2013	65,000	42,000	107,000
2014	70,000	38,750	108,750
2015	75,000	35,250	110,250
2016	75,000	31,500	106,500
2017-2021	450,000	96,250	546,250
2022	105,000	5,250	110,250
Total	905,000	294,250	1,199,250
Less: current portion	(65,000)		
Long-term portion	\$ 840,000		

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2011 and 2010

(8) Bonds Payable, continued

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, 2011 and 2010, outstanding Certificates of Participation of \$3,590,000, respectively, are considered to be defeased.

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 1st and February 1st each year at a rate of 3.80% to 5.00% while principal payments are made on February 1st 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>
2012	\$ 160,000	99,012	259,012
2013	170,000	91,413	261,413
2014	180,000	83,338	263,338
2015	185,000	74,788	259,788
2016	195,000	66,000	261,000
2017-2021	<u>1,125,000</u>	<u>175,000</u>	<u>1,300,000</u>
Total	2,015,000	<u>589,551</u>	<u>2,604,551</u>
Less: current portion	<u>(160,000)</u>		
Long-term portion \$	<u>1,855,000</u>		

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2011 and 2010

(9) Notes Payable

Changes in notes payable for the year ended June 30, 2011 are as follows:

	<u>Balance</u> <u>2010</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>2011</u>
1978 Farmer's Home Loan Administration note	\$ 660,600	-	(70,000)	590,600
Town of Yucca Valley note	350,000	-	-	350,000
Total	1,010,600	-	(70,000)	940,600
Less: current portion due	(70,000)			(70,000)
Long-term portion due	\$ 940,600			870,600

Changes in notes payable for the year ended June 30, 2010 are as follows:

	<u>Balance</u> <u>2009</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>2010</u>
1978 Farmer's Home Loan Administration note	\$ 725,600	-	(65,000)	660,600
2003 Take-or-Pay Contract note	75,515	-	(75,515)	-
Town of Yucca Valley note	350,000	-	-	350,000
Total	1,151,115	-	(140,515)	1,010,600
Less: current portion due	(140,515)			(70,000)
Long-term portion due	\$ 1,010,600			940,600

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.

The note is scheduled to mature in 2018. Interest is payable semi-annually on July 1st and January 1st each year at a rate of 5.00% while principal payments are made on January 1st 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>
2012	\$ 70,000	29,530	99,530
2013	75,000	26,030	101,030
2014	80,000	22,280	102,280
2015	85,000	18,280	103,280
2016	90,000	14,030	104,030
2017-2018	190,600	14,310	204,910
Total	590,600	124,460	715,060
Less: current portion	(70,000)		
Long-term portion	\$ 520,600		

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2011 and 2010

(9) Notes Payable, continued

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. As of June 30, 2010, the District's balance was paid in full.

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 (0.45% at June 30, 2011). 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>
2012	\$ -	11,034	11,034
2013	<u>350,000</u>	<u>11,353</u>	<u>361,353</u>
Total	350,000	<u>22,388</u>	<u>372,388</u>
Less: current portion	<u>-</u>		
Long-term portion	\$ <u>350,000</u>		

(10) 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, 2011 and 2010 was \$521,250 and \$523,761, respectively.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2011 and 2010

(10) Morongo Basin Project and Surcharge, continued

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>
2012	\$ 473,991
2013	473,991
2014	473,991
2015	473,991
2016	473,991
2017-2021	2,369,955
2022	<u>473,991</u>
Total	<u>\$ 5,213,901</u>

At June 30, 2011 and 2010, the District has recorded a prepaid asset on the statement of net assets in the amount of \$719,303 and \$720,152, respectively, related to the Morongo Basin Project and Surcharge.

(11) 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, 2011 and 2010 was \$41,613 and \$28,611, respectively. The market value of all plan assets held in trust by Lincoln Financial Services at June 30, 2011 and 2010 was \$677,773 and \$284,354, 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.

(12) 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.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2011 and 2010

(12) Defined Benefit Pension Plan, continued

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 2011, 2010 and 2009 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 2011, 2010 and 2009, 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:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2009	\$ 630,974	100%	-	15.082%
2010	596,566	100%	-	15.797%
2011	510,355	100%	-	20.650%

(13) Other Post Employment Benefits Payable

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

Plan Description – Eligibility

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

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

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

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2011 and 2010

(13) Other Post Employment Benefits Payable, continued

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Active plan members	35	35	-
Retirees and beneficiaries receiving benefits	20	19	-
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	<u>55</u>	<u>54</u>	<u>-</u>

Plan Description – Benefits

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

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 18.4% of the annual covered payroll.

Annual Cost

For the fiscal years ended June 30, 2011 and 2010, the District’s ARC cost is \$502,248 and \$501,746, respectively. The District’s net OPEB payable obligation amounted to \$738,201 and \$379,527 for the fiscal years ended June 30, 2011 and 2010, respectively. The District contributed \$133,367 and \$122,219 in adjusted contributions for current retiree OPEB premiums for the fiscal years ended June 30, 2011 and 2010, respectively.

The balance at June 30, consists of the following:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 502,248	501,746	-
Interest on net OPEB obligation	15,052	-	-
Adjustment to annual required contribution	<u>(25,259)</u>	<u>-</u>	<u>-</u>
Total annual OPEB expense	492,041	501,746	-
Change in net OPEB payable obligation:			
Age adjusted contributions made	<u>(133,367)</u>	<u>(122,219)</u>	<u>-</u>
Total change in net OPEB payable obligation	358,674	379,527	-
OPEB payable – beginning of year	<u>379,527</u>	<u>-</u>	<u>-</u>
OPEB payable – end of year	<u>\$ 738,201</u>	<u>379,527</u>	<u>-</u>

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2011 and 2010

(13) Other Post Employment Benefits Payable, continued

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2011 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2011	\$ 502,248	133,367	26.55%	\$ 738,201
2010	501,746	122,219	24.36%	379,527
2009*	-	-	0.00%	-

* The information for the preceding year is unavailable.
GASB No. 45 was implemented in fiscal year 2010.

See the Schedule of Funding Status of the District's Other Post Employment Benefits Obligation in the Required Supplementary Information Section on Page 40.

(14) Net Assets

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

	2011	2010
Net investment in capital assets:		
Capital assets, net	\$ 31,807,977	31,625,407
Loans payable – current portion	(184,365)	(177,190)
Bonds payable – current portion	(225,000)	(215,000)
Notes payable – current portion	(70,000)	(70,000)
Loans payable – non-current portion	(2,769,830)	(2,954,256)
Bonds payable – non-current portion	(2,695,000)	(2,920,000)
Notes payable – non-current portion	(870,600)	(940,600)
Total net investment in capital assets	<u>24,993,182</u>	<u>24,348,361</u>
Unrestricted net assets:		
Non-spendable net assets:		
Materials and supplies inventory	292,946	234,278
Prepaid lease payment	719,303	720,152
Prepaid expenses and other deposits	34,886	11,554
Deferred charges, net	203,698	224,890
Total non-spendable net assets	<u>1,250,833</u>	<u>1,190,874</u>
Spendable net assets are as follows:		
Unrestricted	<u>4,147,088</u>	<u>4,936,101</u>
Total spendable net assets	<u>4,147,088</u>	<u>4,936,101</u>
Total unrestricted net assets	<u>5,397,921</u>	<u>6,126,975</u>
Total net assets	<u>\$ 30,391,103</u>	<u>30,475,336</u>

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2011 and 2010

(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, 2011, 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 ACWA/JPIA purchased additional excess coverage layers: \$60 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

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

- Employee dishonesty coverage up to \$100,000 per loss includes public employee dishonesty, forgery or alteration and theft, 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 \$100 million per occurrence, subject to a \$2,500 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law purchased through the Special District Risk Management Authority (SDRMA).

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, 2011, 2010 and 2009. 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, 2011, 2010 and 2009.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2011, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 60

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

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2011 and 2010

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

Governmental Accounting Standards Board Statement No. 61

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

Governmental Accounting Standards Board Statement No. 63

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

Governmental Accounting Standards Board Statement No. 64

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

(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.

(18) Subsequent Event

Events occurring after June 30, 2011 have been evaluated for possible adjustment to the financial statements or disclosure as of December 7, 2011, which is the date the financial statements were available to be issued.

Required Supplementary Information

Hi-Desert Water District
Schedule of Funding Status – Other Post-Employment Benefits Obligation
For the Fiscal Years Ended June 30, 2011 and 2010

Other Post Employment Benefits Payable

Funded Status and Funding Progress of the Plan

The most recent valuation (dated June 14, 2010) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$3,296,127. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2011 was \$2,729,874. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 141.07%.

Required Supplemental Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/14/2010	\$ -	3,296,127	3,296,127	0.00%	\$ 2,336,561	141.07%

Actuarial Methods and Assumptions

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

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

Valuation date	June 30, 2010
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	29 Years as of the valuation date
Asset valuation method	10 Year smoothed market
Actuarial assumptions:	
Projected salary increase	0.10%
Inflation - discount rate	3.00%
Individual salary growth	District annual COLA



Supplemental Information Section

Hi-Desert Water District
Combining Schedule of Net Assets
June 30, 2011

<i>Assets</i>	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Current assets:			
Cash and cash equivalents	\$ 4,907,072	108,502	5,015,574
Accrued interest receivable	3,924	-	3,924
Accounts receivable – water sales and services, net	701,508	-	701,508
Accounts receivable – property taxes	58,780	-	58,780
Accounts receivable – other	201,727	-	201,727
Internal balances	2,249,016	(2,249,016)	-
Materials and supplies inventory	292,946	-	292,946
Prepaid lease payment	719,303	-	719,303
Prepaid expense and other deposits	34,886	-	34,886
Total current assets	<u>9,169,162</u>	<u>(2,140,514)</u>	<u>7,028,648</u>
Non-current assets:			
Deferred charges, net	203,698	-	203,698
Capital assets, net	<u>29,749,686</u>	<u>2,058,291</u>	<u>31,807,977</u>
Total non-current assets	<u>29,953,384</u>	<u>2,058,291</u>	<u>32,011,675</u>
Total assets	<u>\$ 39,122,546</u>	<u>(82,223)</u>	<u>39,040,323</u>
<i>Liabilities and Net Assets</i>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 397,337	35,406	432,743
Deposits and deferred revenue	341,029	-	341,029
Accrued interest on long-term debt	87,027	17,063	104,090
Long-term liabilities – due within one year:			
Compensated absences	54,590	-	54,590
Loans payable	184,365	-	184,365
Bonds payable	225,000	-	225,000
Notes payable	<u>70,000</u>	<u>-</u>	<u>70,000</u>
Total current liabilities	<u>1,359,348</u>	<u>52,469</u>	<u>1,411,817</u>
Non-current liabilities			
Long-term liabilities – due in more than one year:			
Compensated absences	163,772	-	163,772
Other post employment benefits	738,201	-	738,201
Loans payable	2,769,830	-	2,769,830
Bonds payable	2,695,000	-	2,695,000
Notes payable	<u>520,600</u>	<u>350,000</u>	<u>870,600</u>
Total non-current liabilities	<u>6,887,403</u>	<u>350,000</u>	<u>7,237,403</u>
Total liabilities	<u>8,246,751</u>	<u>402,469</u>	<u>8,649,220</u>
Net assets:			
Invested in capital assets, net of related debt	23,284,891	1,708,291	24,993,182
Unrestricted	<u>7,590,904</u>	<u>(2,192,983)</u>	<u>5,397,921</u>
Total net assets	<u>30,875,795</u>	<u>(484,692)</u>	<u>30,391,103</u>
Total liabilities and net assets	<u>\$ 39,122,546</u>	<u>(82,223)</u>	<u>39,040,323</u>

See accompanying notes to the basic financial statements

Hi-Desert Water District
Combining Schedule of Net Assets
June 30, 2010

<i>Assets</i>	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Current assets:			
Cash and cash equivalents	\$ 5,589,092	27,026	5,616,118
Accrued interest receivable	7,613	-	7,613
Accounts receivable – water sales and services, net	720,289	-	720,289
Accounts receivable – property taxes	200,849	-	200,849
Accounts receivable – other	39,638	103,810	143,448
Internal balances	2,109,412	(2,109,412)	-
Materials and supplies inventory	234,278	-	234,278
Prepaid lease payment	720,152	-	720,152
Prepaid expense and other deposits	11,554	-	11,554
Total current assets	<u>9,632,877</u>	<u>(1,978,576)</u>	<u>7,654,301</u>
Non-current assets:			
Deferred charges, net	224,890	-	224,890
Capital assets, net	29,567,116	2,058,291	31,625,407
Total non-current assets	<u>29,792,006</u>	<u>2,058,291</u>	<u>31,850,297</u>
Total assets	<u>\$ 39,424,883</u>	<u>79,715</u>	<u>39,504,598</u>
<i>Liabilities and Net Assets</i>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 659,886	109,762	769,648
Deposits and deferred revenue	298,533	-	298,533
Accrued interest on long-term debt	95,806	15,252	111,058
Long-term liabilities – due within one year:			
Compensated absences	48,363	-	48,363
Loans payable	177,190	-	177,190
Bonds payable	215,000	-	215,000
Notes payable	70,000	-	70,000
Total current liabilities	<u>1,564,778</u>	<u>125,014</u>	<u>1,689,792</u>
Non-current liabilities			
Long-term liabilities – due in more than one year:			
Compensated absences	145,088	-	145,088
Other post employment benefits	379,527	-	379,527
Loans payable	2,954,256	-	2,954,256
Bonds payable	2,920,000	-	2,920,000
Notes payable	590,600	350,000	940,600
Total non-current liabilities	<u>6,989,471</u>	<u>350,000</u>	<u>7,339,471</u>
Total liabilities	<u>8,554,248</u>	<u>475,014</u>	<u>9,029,262</u>
Net assets:			
Invested in capital assets, net of related debt	22,640,070	1,708,291	24,348,361
Unrestricted	8,230,565	(2,103,590)	6,126,975
Total net assets	<u>30,870,635</u>	<u>(395,299)</u>	<u>30,475,336</u>
Total liabilities and net assets	<u>\$ 39,424,883</u>	<u>79,715</u>	<u>39,504,598</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 Fiscal Year Ended June 30, 2011

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Operating revenues:			
Water consumption sales	\$ 5,399,333	-	5,399,333
Readiness-to-serve fees	1,564,094	-	1,564,094
Other charges	321,969	-	321,969
Total operating revenues	<u>7,285,396</u>	<u>-</u>	<u>7,285,396</u>
Operating expenses:			
Source of supply	2,011,908	-	2,011,908
Pumping and water treatment	1,825,921	-	1,825,921
Transmission and distribution	1,052,585	-	1,052,585
Customer accounts	535,455	-	535,455
Wastewater operations	-	116,993	116,993
General and administrative	2,293,597	-	2,293,597
Total operating expenses	<u>7,719,466</u>	<u>116,993</u>	<u>7,836,459</u>
Operating income(loss) before depreciation and amortization	(434,070)	(116,993)	(551,063)
Depreciation	(1,414,594)	-	(1,414,594)
Amortization	(21,192)	-	(21,192)
Operating loss	<u>(1,869,856)</u>	<u>(116,993)</u>	<u>(1,986,849)</u>
Non-operating revenue(expense)			
Property taxes	1,317,622	-	1,317,622
Interest earnings	14,413	-	14,413
Capital surcharge	584,509	-	584,509
Morongo Basin Project surcharge	521,250	-	521,250
Lease payment – Morongo Basin Project	(527,290)	-	(527,290)
Interest expense – long-term debt	(258,869)	(1,811)	(260,680)
Mojave IDM maintenance reimbursement	-	-	-
Other non-operating revenues, net	34,359	-	34,359
Total non-operating revenues, net	<u>1,685,994</u>	<u>(1,811)</u>	<u>1,684,183</u>
Income(loss) before capital contributions	<u>(183,862)</u>	<u>(118,804)</u>	<u>(302,666)</u>
Capital contributions:			
Grant revenue	143,537	29,411	172,948
Meter sales and installations	45,485	-	45,485
Total capital contributions	<u>189,022</u>	<u>29,411</u>	<u>218,433</u>
Change in net assets	<u>5,160</u>	<u>(89,393)</u>	<u>(84,233)</u>
Net assets – beginning of year	<u>30,870,635</u>	<u>(395,299)</u>	<u>30,475,336</u>
Net assets – end of year	<u>\$ 30,875,795</u>	<u>(484,692)</u>	<u>30,391,103</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 Fiscal Year Ended June 30, 2010

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Operating revenues:			
Water consumption sales	\$ 5,377,069	-	5,377,069
Readiness-to-serve fees	1,477,703	-	1,477,703
Other charges	282,670	-	282,670
Total operating revenues	<u>7,137,442</u>	<u>-</u>	<u>7,137,442</u>
Operating expenses:			
Source of supply	985,193	-	985,193
Pumping and water treatment	1,848,562	-	1,848,562
Transmission and distribution	1,221,711	-	1,221,711
Customer accounts	478,927	-	478,927
Wastewater operations	-	723,124	723,124
General and administrative	2,316,554	-	2,316,554
Total operating expenses	<u>6,850,947</u>	<u>723,124</u>	<u>7,574,071</u>
Operating income(loss) before depreciation and amortization	286,495	(723,124)	(436,629)
Depreciation	(1,412,556)	-	(1,412,556)
Amortization	(21,192)	-	(21,192)
Operating loss	<u>(1,147,253)</u>	<u>(723,124)</u>	<u>(1,870,377)</u>
Non-operating revenue(expense)			
Property taxes	1,394,480	-	1,394,480
Interest earnings	35,667	-	35,667
Capital surcharge	334,852	-	334,852
Morongo Basin Project surcharge	523,761	-	523,761
Lease payment – Morongo Basin Project	(523,984)	-	(523,984)
Interest expense – long-term debt	(294,326)	(2,398)	(296,724)
Mojave IDM maintenance reimbursement	1,308,753	-	1,308,753
Other non-operating revenues, net	62,192	-	62,192
Total non-operating revenues, net	<u>2,841,395</u>	<u>(2,398)</u>	<u>2,838,997</u>
Income(loss) before capital contributions	<u>1,694,142</u>	<u>(725,522)</u>	<u>968,620</u>
Capital contributions:			
Grant revenue	164,816	340,633	505,449
Meter sales and installations	34,849	-	34,849
Total capital contributions	<u>199,665</u>	<u>340,633</u>	<u>540,298</u>
Change in net assets	<u>1,893,807</u>	<u>(384,889)</u>	<u>1,508,918</u>
Net assets – beginning of year	<u>28,976,828</u>	<u>(10,410)</u>	<u>28,966,418</u>
Net assets – end of year	<u>\$ 30,870,635</u>	<u>(395,299)</u>	<u>30,475,336</u>

See accompanying notes to the basic financial statements

Statistical Information Section

Hi-Desert Water District Statistical Section

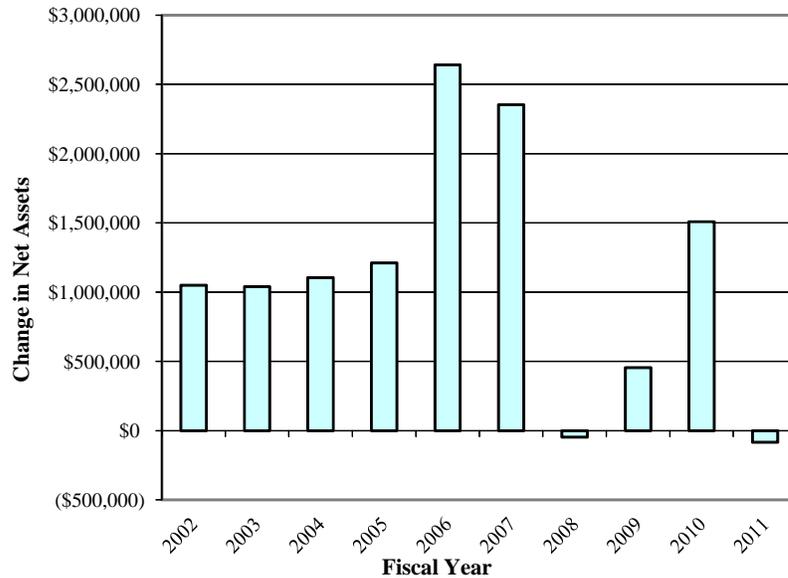
This part of the District’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District’s overall financial health.

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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.	46-49
Revenue Capacity These schedules contain information to help the reader assess the District’s most significant own-source revenue, water sales.	50-53
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.	54-55
Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District’s financial activities take place.	56
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.	57

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

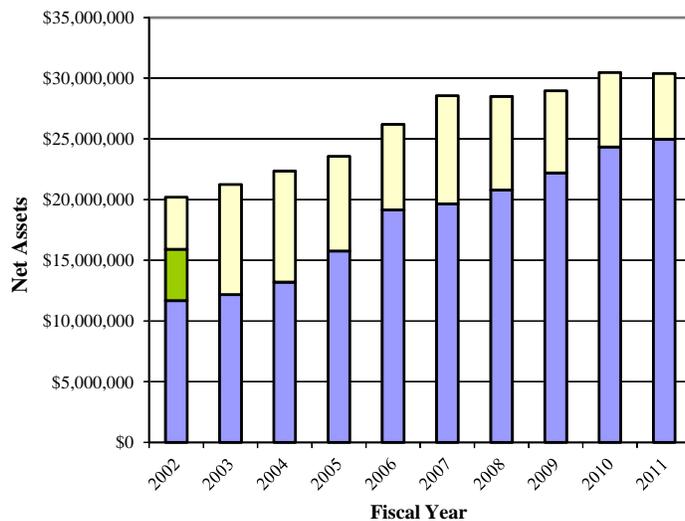
	Fiscal Year				
	2002	2003	2004	2005	2006
Changes in net assets:					
Operating revenues (see Schedule 2)	\$ 5,189,453	5,699,619	6,110,334	6,093,782	6,425,232
Operating expenses (see Schedule 3)	(4,260,475)	(4,527,353)	(4,968,356)	(5,817,566)	(6,246,266)
Depreciation and amortization	(1,139,845)	(1,169,417)	(1,215,006)	(1,242,872)	(1,327,810)
Operating income(loss)	(210,867)	2,849	(73,028)	(966,656)	(1,148,844)
Non-operating revenues(expenses):					
Property taxes	844,203	905,288	923,936	245,592	400,014
Rental income - cellular antennas	-	38,616	46,533	47,817	49,584
Investment income	235,369	145,913	101,439	140,043	245,540
Tax revenue recovery surcharge	-	-	-	98,473	608,050
Contract water delivery charge	-	-	-	-	547,605
Dept. of Water Resources Reach II surcharge	-	-	-	339,119	325,411
Morongo Basin Project	1,493,202	1,806,664	1,923,990	1,501,624	619,261
Lease payment - Morongo Basin Project	(1,366,380)	(1,367,880)	(1,365,480)	(892,393)	(665,933)
Interest expense	(545,841)	(622,952)	(607,800)	(499,214)	(470,576)
Other revenue/(expense), net	28,606	132,074	84,238	134,113	160,120
Total non-operating revenues(expenses), net	689,159	1,037,723	1,106,856	1,115,174	1,819,076
Net income (loss) before capital contributions	478,292	1,040,572	1,033,828	148,518	670,232
Capital contributions	571,690	-	71,760	1,062,925	1,971,144
Changes in net assets	\$ 1,049,982	1,040,572	1,105,588	1,211,443	2,641,376
Net assets by component:					
Invested in capital assets, net of related debt	\$ 11,674,107	12,181,660	13,202,861	15,771,673	19,148,873
Restricted	4,239,719	-	-	-	-
Unrestricted	4,291,129	9,063,867	9,148,254	7,790,885	7,055,061
Total net assets	\$ 20,204,955	21,245,527	22,351,115	23,562,558	26,203,934



Source: Hi-Desert Water District Accounting Department

Schedule 1

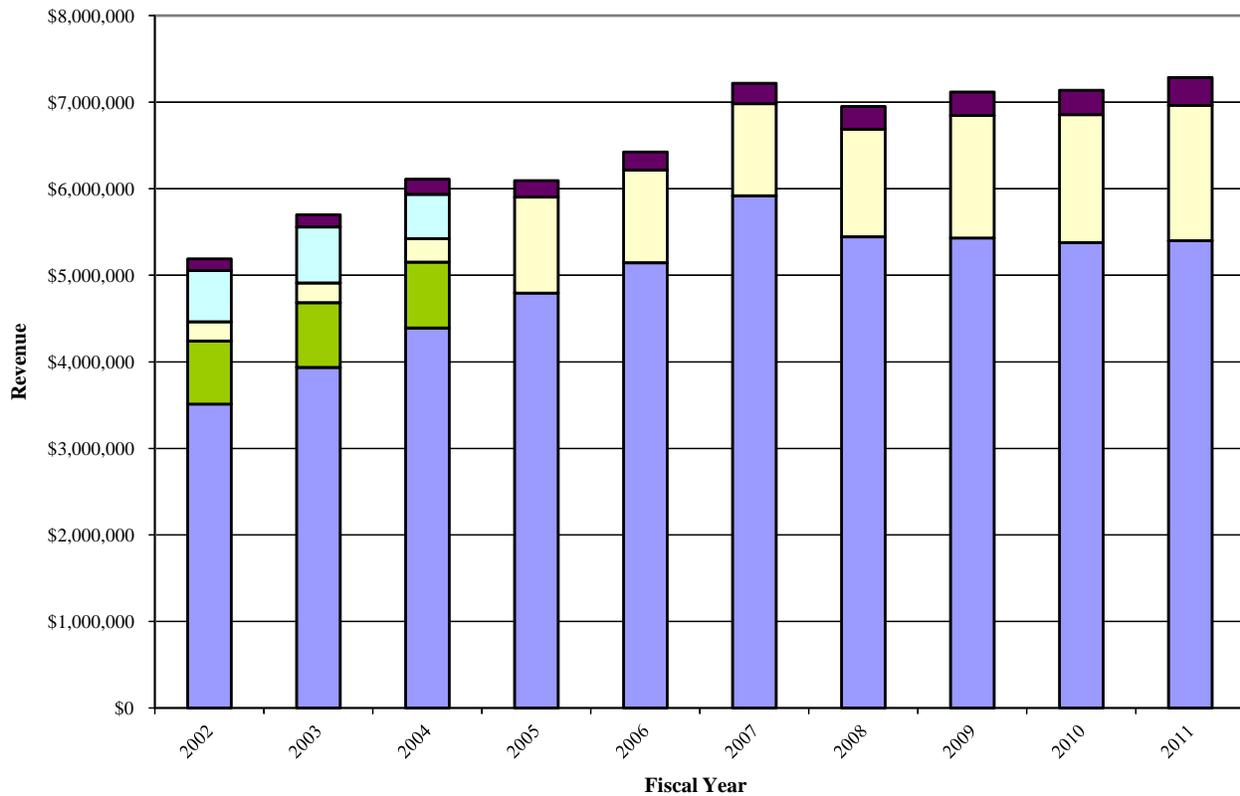
Fiscal Year				
2007	2008	2009	2010	2011
7,217,095	6,949,058	7,118,299	7,137,442	7,285,396
(7,439,423)	(8,045,653)	(8,199,546)	(7,574,071)	(7,836,459)
<u>(1,359,177)</u>	<u>(1,379,933)</u>	<u>(1,405,368)</u>	<u>(1,433,748)</u>	<u>(1,435,786)</u>
<u>(1,581,505)</u>	<u>(2,476,528)</u>	<u>(2,486,615)</u>	<u>(1,870,377)</u>	<u>(1,986,849)</u>
1,423,132	1,571,117	1,568,181	1,394,480	1,317,622
48,149	4,025	-	-	-
301,267	306,604	144,520	35,667	14,413
621,257	260,317	-	-	-
-	-	-	-	-
331,595	332,566	336,994	334,852	584,509
548,322	531,664	527,101	523,761	521,250
(474,449)	(494,987)	(287,098)	(523,984)	(527,290)
(445,216)	(370,525)	(348,944)	(296,724)	(260,680)
561,897	98,736	697	1,370,945	34,359
<u>2,915,954</u>	<u>2,239,517</u>	<u>1,941,451</u>	<u>2,838,997</u>	<u>1,684,183</u>
1,334,449	(237,011)	(545,164)	968,620	(302,666)
<u>1,019,619</u>	<u>189,483</u>	<u>1,001,108</u>	<u>540,298</u>	<u>218,433</u>
<u>2,354,068</u>	<u>(47,528)</u>	<u>455,944</u>	<u>1,508,918</u>	<u>(84,233)</u>
19,646,826	20,791,852	22,214,518	24,348,361	24,993,182
-	-	-	-	-
<u>8,911,176</u>	<u>7,718,622</u>	<u>6,751,900</u>	<u>6,126,975</u>	<u>5,397,921</u>
<u>28,558,002</u>	<u>28,510,474</u>	<u>28,966,418</u>	<u>30,475,336</u>	<u>30,391,103</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
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	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	(1) 5,919,654	-	1,063,068	-	234,373	7,217,095
2008	5,445,196	-	1,242,602	-	261,260	6,949,058
2009	5,430,238	-	1,417,866	-	270,195	7,118,299
2010	5,377,069	-	1,477,703	-	282,670	7,137,442
2011	5,399,333	-	1,564,094	-	321,969	7,285,396



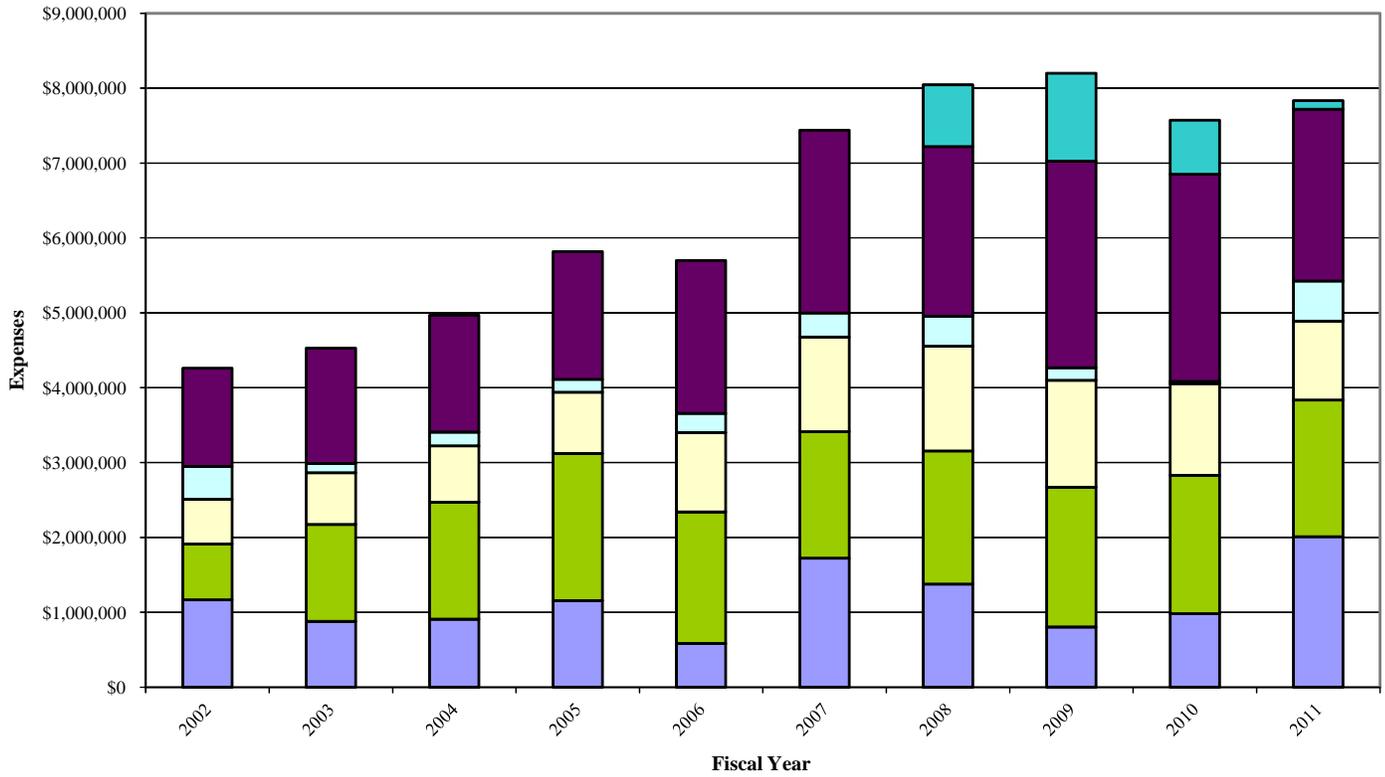
Notes: (1) Operating revenues were recategorized in 2005

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
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
2010	985,193	1,848,562	1,221,711	30,816	2,764,665	723,124	7,574,071
2011	2,011,908	1,825,921	1,052,585	535,455	2,293,597	116,993	7,836,459

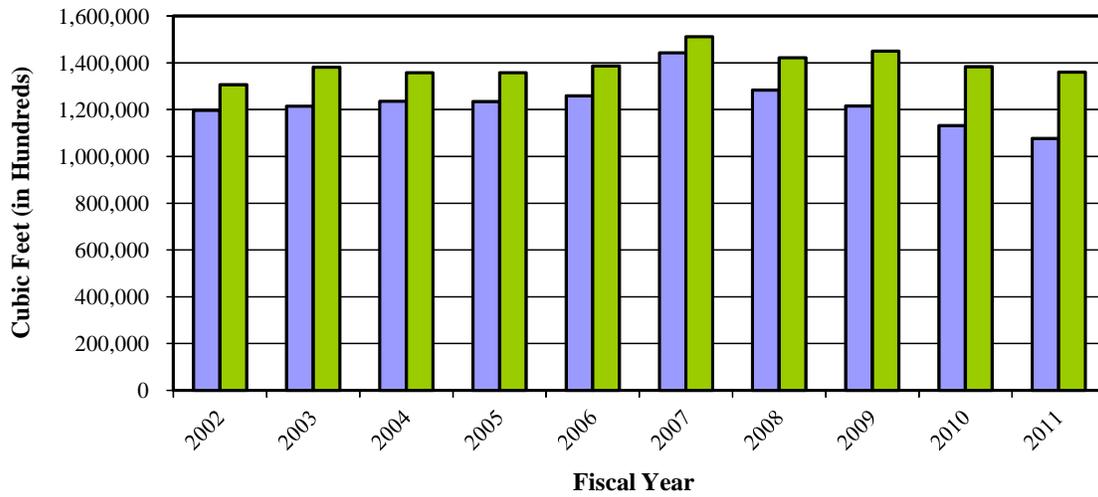


Source: Hi-Desert Water District Accounting Department

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

Schedule 4

Fiscal Year	Water Sales (HCF)	Water Produced (HCF)
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
2010	1,131,666	1,383,037
2011	1,076,856	1,359,862



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⁽¹⁾
Last Ten Fiscal Years**

Schedule 5

Water Consumption per Hundred Cubic Feet (HCF)

HCF Consumed	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
0-4	\$ 1.55	2.00	2.32	2.64	2.80	2.80	2.97	2.97	3.18	3.40
5-10	2.55	3.15	3.63	4.11	4.35	4.35	4.61	4.61	4.97	5.30
11-28	3.85	4.30	4.68	5.06	5.25	5.25	5.57	5.57	6.01	6.41
29-40	5.00	5.85	6.23	6.61	6.80	6.80	7.21	7.21	8.04	8.56
41-53	5.35	5.85	6.23	6.61	6.80	6.80	7.21	7.21	8.04	8.56
54-65	5.70	6.90	7.18	7.46	7.60	7.60	8.06	8.06	8.04	8.56
66-78	6.05	6.90	7.18	7.46	7.60	7.60	8.06	8.06	8.04	8.56
79-over	6.70	6.90	7.18	7.46	7.60	7.60	8.06	8.06	8.04	8.56

Connection Fees per Month

Meter Size	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
5/8" & 3/4"	\$ 7.00	7.00	7.00	7.00	7.00	7.00	10.00	10.00	10.40	11.10
1"	14.00	14.00	14.00	14.00	14.00	14.00	20.00	20.00	21.10	22.50
1 1/2"	21.00	21.00	21.00	21.00	21.00	21.00	30.00	30.00	38.90	41.50
2"	35.00	35.00	35.00	35.00	35.00	35.00	50.00	50.00	60.20	64.20
3"	77.00	77.00	77.00	77.00	77.00	77.00	110.00	110.00	117.10	124.90
4"	119.00	119.00	119.00	119.00	119.00	119.00	170.00	170.00	118.10	193.10
6"	231.00	231.00	231.00	231.00	231.00	231.00	330.00	330.00	368.80	382.70

Pipeline Surcharge Fees per Month

Meter Size	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
5/8" & 3/4"	\$ 12.00	11.00	11.00	6.00	4.50	4.00	4.00	4.00	4.00	4.00
1"	30.00	30.00	30.00	12.00	9.00	8.00	8.00	8.00	8.00	8.00
1 1/2"	45.00	45.00	45.00	18.00	13.50	12.00	12.00	12.00	12.00	12.00
2"	75.00	75.00	75.00	30.00	22.50	20.00	20.00	20.00	20.00	20.00
3"	165.00	165.00	165.00	66.00	49.50	44.00	44.00	44.00	44.00	44.00
4"	245.00	245.00	245.00	98.00	98.00	68.00	68.00	68.00	68.00	68.00
6"	495.00	495.00	495.00	198.00	198.00	132.00	132.00	132.00	132.00	132.00

Recharge Surcharge Fees per Month

Meter Size	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
5/8" & 3/4"	\$ 2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	5.00
1"	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	10.00
1 1/2"	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	15.00
2"	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	25.00
3"	27.50	27.50	27.50	27.50	27.50	27.50	27.50	27.50	27.50	55.00
4"	42.50	42.50	42.50	42.50	42.50	42.50	42.50	42.50	42.50	85.00
6"	82.50	82.50	82.50	82.50	82.50	82.50	82.50	82.50	82.50	165.00

Notes:

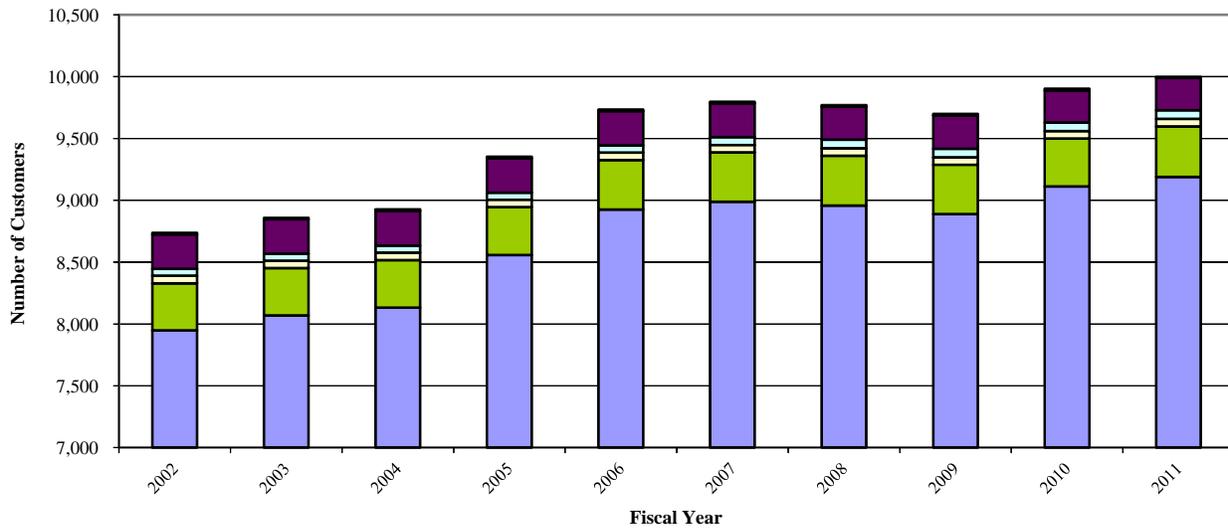
(1) Rates as of June 30, of each fiscal year.

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	
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
2010	9,112	387	61	69	259	14	9,902
2011	9,190	408	61	69	261	9	9,998



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

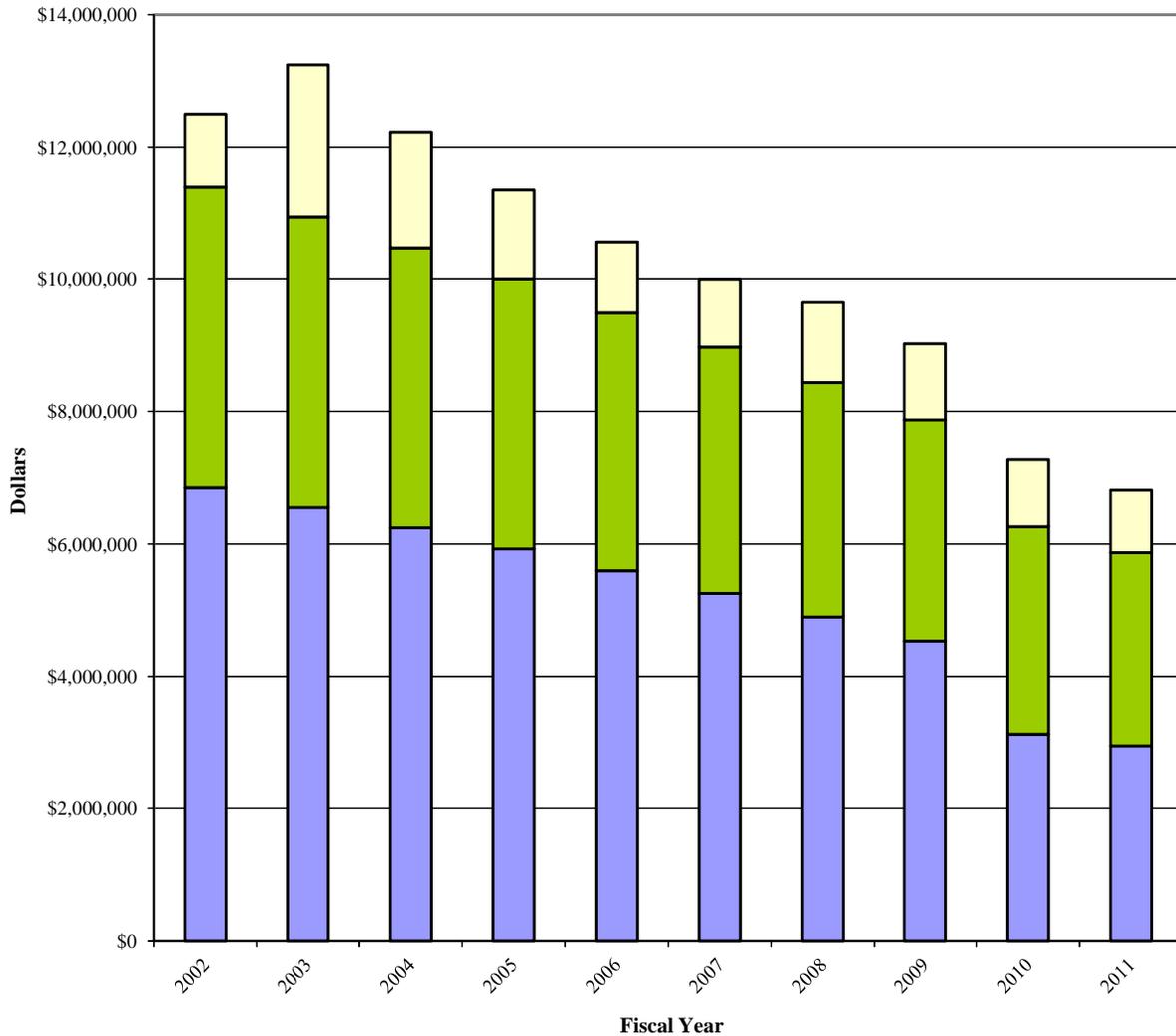
Customer	2011		2002	
	Water Consumed	Percentage of Total	Water Consumed	Percentage of Total
Schools (12)	24,204	2.25%	24,531	2.05%
Mobile Home Parks (4)	24,093	2.24%	29,093	2.43%
Parks (6)	18,105	1.68%	22,279	1.86%
Medical (4)	10,852	1.01%	11,700	0.98%
Grocery (4)	10,210	0.95%	6,851	0.57%
Hotels (3)	6,254	0.58%	3,432	0.29%
Restraunts (5)	7,094	0.66%	5,112	0.43%
Churches (4)	1,426	0.13%	1,834	0.15%
Total	102,238	9.49%	104,832	8.76%
Total Water Consumed (HCF)	1,076,856	100.00%	1,196,685	100.00%

Source: Hi-Desert Water District Accounting Department

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

Schedule 8

Fiscal Year	Loans Payable	Bonds Payable	Notes Payable	Total		
				Debt	Per Capita	As a Share of Personal Income
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%
2010	3,131,446	3,135,000	1,010,600	7,277,046	357.03	1.33%
2011	2,954,195	2,920,000	940,600	6,814,795	329.22	1.62%



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 ⁽¹⁾	Net Available Revenues	Debt Service		Total	Coverage Ratio
				Principal ⁽²⁾	Interest		
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
2010	10,273,163	(7,574,071)	2,699,092	1,749,549	296,724	2,046,273	1.32
2011	9,230,259	(7,836,459)	1,393,800	462,251	296,724	260,680	5.35

Notes:

(1) Operating expenses exclude depreciation expense.

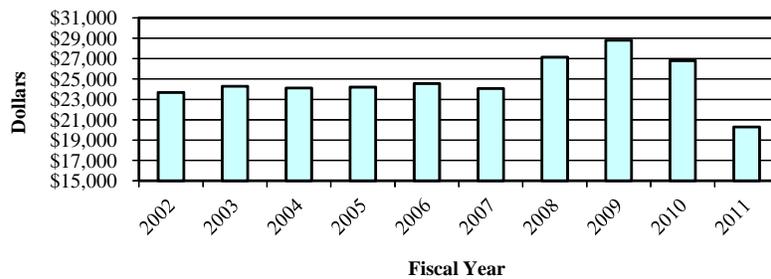
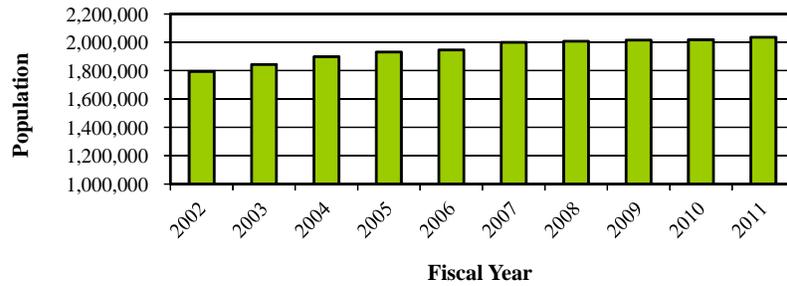
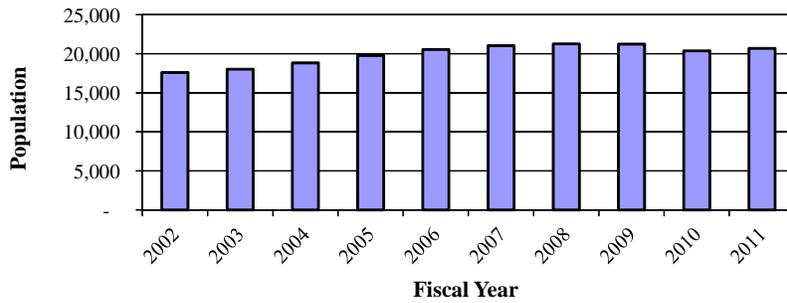
(2) Includes only normal principal payments (does not include payments as a result of refinancing of debt)

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 ⁽²⁾					
Year	Yucca Valley Population ⁽¹⁾	Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
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
2010	20,382	13.0%	2,017,673	54,093,000	26,810
2011	20,700	16.0%	2,035,210	41,296,446	20,291



Sources: California Department of Finance and California Labor Market Info

Notes:

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

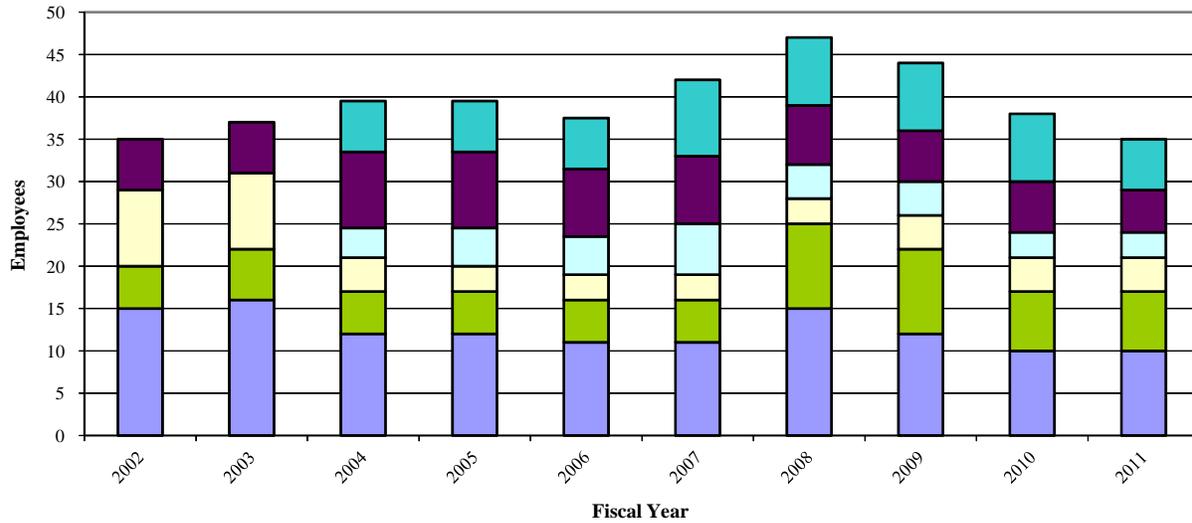
N/A - Data not available

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

Schedule 11

Full-time Equivalent District Employees by Department

Fiscal Year	Operations	Staff	Accounting and Billing	Customer Service	CRP	Construction & Maintenance	Total
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	5	9	6	40
2006	11	5	3	4.5	8	6	37.5
2007	11	5	3	6	8	9	42
2008	15	10	3	4	7	8	47
2009	12	10	4	4	6	8	44
2010	10	7	4	3	6	8	38
2011	10	7	4	3	5	6	35



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
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	1,858
2010	57	316	16	12.90	13	9.2	1,801
2011	57	316	16	13.14	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



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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 years ended June 30, 2011 and 2010, and have issued our report thereon dated December 7, 2011. 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.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak and Company, CPA’s – An Accountancy Corporation
 Cypress, California
 December 7, 2011