

INDIAN WELLS VALLEY WATER DISTRICT

**COUNTY OF KERN
RIDGECREST, CALIFORNIA**

**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

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

**INDIAN WELLS VALLEY WATER DISTRICT
JUNE 30, 2011 AND 2010**

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FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Indian Wells Valley Water District
Ridgecrest, California

We have audited the accompanying financial statements of Indian Wells Valley Water District, as of and for the years ended June 30, 2011 and 2010, which collectively comprise the Indian Wells Valley Water District basic financial statements as listed in the table of contents. These financial statements are the responsibility of Indian Wells Valley Water District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Indian Wells Valley Water District, as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2011, on our consideration of the Indian Wells Valley Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and funded status and funding progress information on pages 3 through 7 and 35, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the Indian Wells Valley Water District's basic financial statements. The required supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The required supplementary information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Burkey Cox Evans Bradford & Alden
Certified Public Accountants

Palmdale, California
October 11, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

**INDIAN WELLS VALLEY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
as of June 30, 2011**

The Indian Wells Valley Water District offers the readers of the District's annual financial report this narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2011. Please read it in conjunction with the financial statements.

THE FINANCIAL STATEMENTS

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

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

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

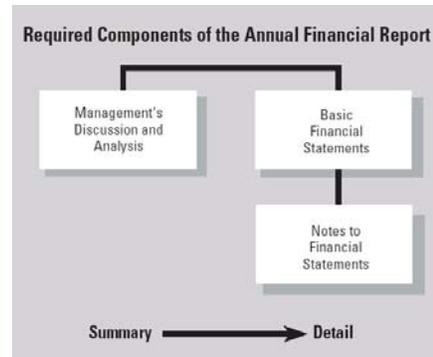
This section of Indian Wells Valley Water District's annual financial report is the "Management's Discussion and Analysis." This is where the District presents its perspective of its financial performance for the reporting period.

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

FINANCIAL HIGHLIGHTS

- The District's total assets were valued at \$62,461,710 on June 30, 2011.
- The District's total liabilities were valued at \$27,273,844 on June 30, 2011.
- The District's total net assets were valued at \$35,187,866 on June 30, 2011.
- Total net assets continued to remain stable decreasing only 1% from the prior fiscal year.
- Total revenues for the year equaled \$8,886,921, which is \$33,637 less than revenues collected in 2009-2010. Specifically, operating revenues totaled \$8,550,089, which is \$313,271 more than the prior year and is comprised of a \$549,000 increase in water sales and other operating revenues offset by a \$236,000 reduction in Capital Facilities Fees and New Service Connections.

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



Non-operating revenues (i.e. interest income and grants) totaled \$336,832, which was \$347,000 less than the amount received in 2009-2010 primarily due to a \$306,000 reduction in grant income as Prop 50 grant funds received were mainly limited to the 10% retention, and interest. Assessment income received was \$41,000 less than the prior year.

- Total expenses for the year equaled \$9,294,481. Operating expenses totaled \$7,644,303 while non-operating expenses (i.e., conservation, future sources of supply and interest on long-term debt) were \$1,650,178. 2010-2011 total expenses were \$480,174 less than in 2009-2010 primarily due to close management of expenses, deferment of some maintenance projects and the delayed accrual of depreciation expense for arsenic treatment plants.
- 2010-2011 total expenses were \$407,560 more than total revenues. The excess was financed through reserve funds.
- The District used 2009 Certificate of Participation proceeds to fund several capital improvement projects including the arsenic treatment plants, Well 34 and the D-Zone reservoir. Well 34 and the D-zone reservoir were completed in 2010-2011, and the arsenic treatment plant is expected to be accepted by the Board of Directors in FY 2011-2012. The District complied with all existing debt covenants.
- Per the requirements of GASB 45, IWVWD set up an irrevocable trust as of June 30, 2009 through the California Employers' Retiree Benefit Trust (CERBT) for other post employment benefits. As of June 30, 2011, the Trust's assets totaled \$838,075.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

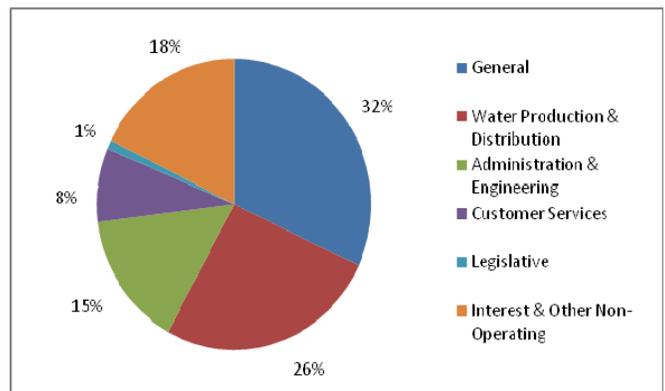
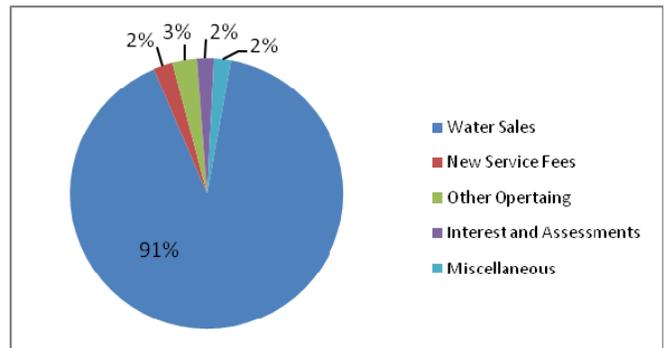
Net assets - The District's net assets totaled \$35,187,866 at June 30, 2011. Of that amount, nearly \$25.0 million is invested in Capital Assets (a.k.a. property, plant and equipment), Net of Related Debt. The vast majority of these capital assets include wells, transmission pipelines, distribution lines and appurtenances, reservoirs, field equipment and vehicles, and the district headquarters. The remaining net assets are allocated in compliance with new GASB 54 regulations as follows: \$3.0 million is for *Nonspendable* Inventory and Prepaid Expenses; \$3.4 million is *Restricted* for Debt Covenants; \$3.1 million is *Committed* for the Emergency and Capital Improvement/Replacement Reserves; \$734,000 is for *Assigned Reserves* for vehicles, computer replacement and retiree medical benefits; and \$221,000 is unrestricted.

Changes in net assets – The primary contributor to the change in 2010-2011 net assets is total expenses exceeded total revenues by \$407,560. This is an improvement over the 2009-2010 deficit when expenses exceeded revenues by \$854,097.

Total revenues were \$8.9 million and were \$34,000 less than the prior year. 91% of revenues came from water sales (see Figure 2).

The total cost of all 2010-2011 services and non-operating activities was \$9.3 million, which is \$321,000 less than those incurred in the prior year. 82 percent of these costs are operating expenses. Figure 3 presents a breakdown of the District's expenses.

Figure 2, Total IWVWD Revenues for 2011



FINANCIAL ANALYSIS OF THE WATER DISTRICT AS A WHOLE

Net assets - The components of the District's net assets, as of June 30, 2011, are detailed in Table 1.

Table 1
Indian Wells Valley Water District
Comparative Statement of Net Assets
June 30, 2011 and 2010

	June 30, 2011	June 30, 2010
Current Assets		
Cash and Investments	\$4,365,891	\$5,210,296
Accounts & Interest Receivable	829,045	677,481
	<u>361,803</u>	<u>361,163</u>
Total Current Assets	<u>5,556,739</u>	<u>6,248,940</u>
Non-Current Assets		
Net of Accumulated Depreciation	<u>50,898,530</u>	<u>41,912,537</u>
Other Non-Current Assets		
Deposits and Prepays	143,196	144,273
Cash and Investments - Restricted	3,395,088	13,761,455
Assessment Bonds Receivable	2,208,000	2,448,000
Bond Issuance Costs, Net Accumulated Amortization	260,157	269,241
Total Other Non-Current Assets	<u>6,006,441</u>	<u>16,622,969</u>
Total Non-Current Assets	<u>56,904,971</u>	<u>58,535,506</u>
Total Assets	<u><u>\$62,461,710</u></u>	<u><u>\$64,784,446</u></u>
Current Liabilities		
Accounts, Interest & Wages Payable	\$644,560	\$1,628,821
Current Portion Long Term Debt	959,456	931,888
Customer and Sponsor Deposits	194,527	203,667
Compensated Absences	298,764	288,607
Post-Retirement Medical Benefits	0	35,418
Total Current Liabilities	<u>2,097,307</u>	<u>3,088,401</u>
Long-Term Liabilities		
Long-Term Debt, Notes, Contracts & Bonds	<u>25,176,537</u>	<u>26,136,037</u>
Total Liabilities	<u>27,273,844</u>	<u>29,224,438</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	24,762,537	14,844,612
Restricted (Nonspendable, Restricted, Committed & Assigned)	10,203,842	0
Prior Year Adjustment	35,418	0
Unrestricted	<u>186,069</u>	<u>20,715,396</u>
Total Net Assets	<u><u>\$35,187,866</u></u>	<u><u>\$35,560,008</u></u>

Total Net Assets remained stable during the fiscal period. At the end of the reporting period, nearly \$25.0 million, or 70.0 percent of the District's net assets, are invested in property, plant and equipment.

GENERAL FUND BUDGETARY HIGHLIGHTS

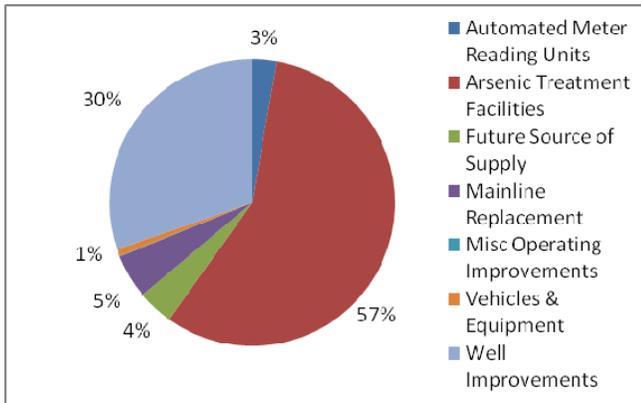
Total expenses were \$1,114,609, or 10.7%, below budget projections. This total is comprised of operating and non-operating expense activity. When evaluated separately, operating expenses were \$849,887 under budget and non-operating expenses were \$264,722 under budget. Since the arsenic plant was not completed during the year as originally expected, relative expenses (labor, benefits, maintenance, chemical and depreciation) were less than projected. Other major expense reductions

include Engineering Consultant, Maintenance of Pumping Equipment, Purchased Power, Maintenance of Reservoirs & Tanks, Maintenance of Street and Uncollectible Accounts. Alternate Water Supply expenses, which are non-operating expenses, were less than expected due to postponement of various projects.

Total revenues including water sales, capital facilities fees and interest and assessment income were less than budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Figure 4, Expenditures for Property, Plant and Equipment for 2011



Capital Assets – For the year ended June 30, 2011, IWVWD invested \$14.6 million in capital expenditures including arsenic treatment facility, well improvements, mainline replacement, the automated meter reading units and other District installations and acquisitions. See Figure 4 for a distribution of these capital expenditures.

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

Long Term Debt – During 2010-2011, the District decreased its long-term debt by \$967,350. At

year-end, IWVWD had \$26.1 million in outstanding bonds and notes as shown in Table 2. More detailed information about the District’s debt is presented in the notes to the financial statements.

Table 2
Indian Wells Valley Water District
Schedule of Long Term Debt
as of June 30, 2011

	2011	2010
Loans:		
Proposition 55, Safe Drinking Water Act Loan	\$2,646,344	\$2,832,007
Proposition 44, Water Conservation Construction Loan	64,649	105,918
Total Loans	<u>2,710,993</u>	<u>2,937,925</u>
Revenue Bonds:		
Water Revenue Refunding Bonds, Series 2003	3,770,000	4,130,000
Water Revenue Certificates of Participation, Series 2009	19,655,000	20,000,000
Total Revenue Bonds	<u>23,425,000</u>	<u>24,130,000</u>
Post Employment Benefit Payable	0	35,418
Total Long-Term Debt	<u>\$26,135,993</u>	<u>\$27,103,343</u>

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

- During FY 2010-2011, the District reduced its gallons per capita per day (GPCD) by 17% per its 10-year base period. This is a significant achievement towards a long-term goal, since the State of California’s SBx7 requires Districts to reduce GPCD by 10% by the year 2015 and by 20% by

2020. Since this level of conservation is unprecedented and far exceeded what was anticipated. From a short term perspective, it negatively impacted the year's water sales despite the higher conservation rates that took effect February 2011. The District is undertaking a Cost of Service Study in 2011-2012 to update rates to ensure financial targets, including but not limited to the required debt service ratio and positive cash flow, are met.

- In an attempt to reduce on-going costs, the Board of Directors approved a reduction in workforce in July 2011. The 2011-2012 General Fund and Capital Improvement budgets were revised in September 2011. The revised budget for the General Fund deficit decreased from -\$1.3 million to -\$1.1 million, and cash flow is now projected to be \$332,000 compared to what would have been a -\$653,000 deficit.
- Capital projects completed in 2010-2011 that were funded by the 2009 COP are the D-Zone Reservoir and Well 34. The arsenic treatment plants, also funded by the 2009 COP, have been completed at a total cost of \$14 million. The remaining 2009 COP funds, estimated at \$1 million, will be used for the Water Supply Improvement Plan environmental study and phase one implementation.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

**INDIAN WELLS VALLEY WATER DISTRICT
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2011 AND 2010**

	ASSETS	
	ENTERPRISE FUND	
	JUNE 30, 2011	JUNE 30, 2010
CURRENT ASSETS		
Cash and Investments	\$ 4,365,891	\$ 5,210,296
Accounts Receivable	829,045	666,576
Interest Receivable	0	10,905
Inventory	361,803	361,163
Total Current Assets	5,556,739	6,248,940
NON-CURRENT ASSETS		
Capital Assets, Net of Accumulated Depreciation	50,898,530	41,912,537
OTHER NON-CURRENT ASSETS		
Deposits and Prepaids	143,196	144,273
Cash and Investments - Restricted	3,395,088	13,761,455
Assessment Bonds Receivable	2,208,000	2,448,000
Bond Issuance Costs, Net of Accumulated Amortization	260,157	269,241
Total Other Non-Current Assets	6,006,441	16,622,969
Total Non-Current Assets	56,904,971	58,535,506
Total Assets	\$ 62,461,710	\$ 64,784,446

The accompanying Notes to Financial Statements are an integral part of these statements.

**INDIAN WELLS VALLEY WATER DISTRICT
COMPARATIVE STATEMENTS OF NET ASSETS
JUNE 30, 2011 AND 2010**

	ENTERPRISE FUND	
	JUNE 30, 2011	JUNE 30, 2010
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 357,313	\$ 1,257,817
Accrued Wages	10,236	85,440
Interest Payable	277,011	285,564
Current Portion of Long-Term Debt	959,456	931,888
Customer and Sponsor Deposits	194,527	203,667
Compensated Absences	298,764	288,607
	<u>2,097,307</u>	<u>3,052,983</u>
LONG-TERM LIABILITIES		
Long-Term Debt:		
Notes and Contracts Payable	2,710,993	2,711,037
Bonds Payable	22,465,544	23,425,000
Post Retirement Benefits	0	35,418
	<u>25,176,537</u>	<u>26,171,455</u>
Total Long-Term Liabilities	<u>25,176,537</u>	<u>26,171,455</u>
Total Liabilities	<u>27,273,844</u>	<u>29,224,438</u>
NET ASSETS		
Capital Assets, net debt	24,762,537	14,844,612
Restricted:		
Non-spendable	2,975,469	0
Restricted - Debt	3,371,472	0
Committed	3,123,127	0
Assigned	733,774	0
Unrestricted	221,487	20,715,396
	<u>24,762,537</u>	<u>14,844,612</u>
Total Net Assets	<u>\$ 35,187,866</u>	<u>\$ 35,560,008</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**INDIAN WELLS VALLEY WATER DISTRICT
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	ENTERPRISE FUND	
	JUNE 30, 2011	JUNE 30, 2010
OPERATING REVENUES		
Water Sales	\$ 8,092,890	\$ 7,593,494
Capital Facilities Fees	194,075	420,633
New Service Connections	7,197	16,661
Other Operating Revenues	255,927	206,030
Total Operating Revenues	<u>8,550,089</u>	<u>8,236,818</u>
OPERATING EXPENSES		
Pumping Plant	1,044,468	1,048,627
Arsenic Plant	50,011	19,273
Water Treatment and Analysis	108,152	108,200
Transmission and Distribution	1,225,655	1,255,901
Engineering	345,009	254,688
Customer Accounts	337,387	382,836
Field Services	424,192	463,017
Administration and General	1,810,270	2,011,030
Legislative	93,155	98,365
Depreciation	2,201,318	2,272,777
Amortization	4,686	109,832
Total Operating Expenses	<u>7,644,303</u>	<u>8,024,546</u>
Operating Income	<u>905,786</u>	<u>212,272</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest and Assessment Income	173,755	214,622
Grant Income	115,165	432,755
Rental and Miscellaneous Income	47,912	36,363
Interest Expense and Service Charges	(1,213,469)	(1,104,690)
Future Source of Supply and Other Non-Operating Expenses	<u>(436,709)</u>	<u>(645,419)</u>
Non-Operating Income (Loss)	<u>(1,313,346)</u>	<u>(1,066,369)</u>
Income (Loss) Before Capital Contributions	(407,560)	(854,097)
Capital Contributions	<u>0</u>	<u>220,740</u>
Increase (Decrease) in Net Assets	(407,560)	(633,357)
Net Assets - Beginning of the Year	35,560,008	35,787,093
Prior Period Adjustment	<u>35,418</u>	<u>406,272</u>
Net Assets - End of Year	<u>\$ 35,187,866</u>	<u>\$ 35,560,008</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**INDIAN WELLS VALLEY WATER DISTRICT
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	ENTERPRISE FUND	
	JUNE 30, 2011	JUNE 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 8,131,693	\$ 8,086,444
Cash Payments to Suppliers for Operations	(3,628,669)	(3,517,340)
Cash Payments for General and Administrative Expenses	(2,784,961)	(1,462,806)
Cash Received From (Paid For) Other	255,927	206,030
	<u>1,973,990</u>	<u>3,312,328</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Rental, Grant and Miscellaneous Income	163,077	469,120
Future Source of Supply and Other Non-Operating Expenses	(436,709)	(651,643)
	<u>(273,632)</u>	<u>(182,523)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Property and Equipment	(11,187,311)	(7,471,658)
Deposits	1,077	(588)
Bond Issuance Costs	9,084	(269,241)
Proceeds from Sale of Bonds	0	20,000,000
Principal Payments on Long-Term Debt	(936,618)	(3,288,138)
(Increase) Decrease in Restricted Investments	10,366,367	(12,617,289)
Principal Payments Received from Assessment Bonds	240,000	235,000
Contributed Utility Plant	0	220,740
	<u>(1,507,401)</u>	<u>(3,191,174)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Assessment Income Received	184,660	232,187
Interest Expense Paid	(1,222,022)	(900,715)
	<u>(1,037,362)</u>	<u>(668,528)</u>
Net Increase (Decrease) in Unrestricted Cash and Cash Equivalents	(844,405)	(729,897)
Cash and Cash Equivalents - Beginning of Year	<u>5,210,296</u>	<u>5,940,193</u>
Cash and Cash Equivalents - End of Year	<u>\$ 4,365,891</u>	<u>\$ 5,210,296</u>
FINANCIAL STATEMENT PRESENTATION		
Cash and Cash Equivalents - Unrestricted	<u>\$ 4,365,891</u>	<u>\$ 5,210,296</u>
Total Cash and Cash Equivalents	<u>\$ 4,365,891</u>	<u>\$ 5,210,296</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**INDIAN WELLS VALLEY WATER DISTRICT
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	ENTERPRISE FUND	
	JUNE 30, 2011	JUNE 30, 2010
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATIONS		
Operating Income (Loss)	\$ 905,786	\$ 212,272
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	2,201,318	2,272,777
Amortization	4,686	109,832
Changes in Assets - (Increase)/Decrease in:		
Accounts Receivable	(162,469)	55,656
Inventory	(640)	113,567
Changes In Liabilities - Increase/(Decrease) in:		
Accounts Payable	(900,504)	850,101
Accrued Wages	(75,204)	11,432
Customer and Sponsor Deposits	(9,140)	(1,193)
Compensated Absences	10,157	41,519
Post Retirement Benefits	0	(353,635)
	\$ 1,973,990	\$ 3,312,328
Net Cash Provided by Operating Activities	\$ 1,973,990	\$ 3,312,328

The accompanying Notes to Financial Statements are an integral part of these statements.

**INDIAN WELLS VALLEY WATER DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2011**

ASSETS

ASSETS	<u>Post Employment Benefit Trust Fund</u>
Cash in Trust	<u>\$ 858,111</u>
Total Assets	<u>858,111</u>

LIABILITIES

LIABILITIES	
Accounts Payable	<u>20,036</u>
Total Liabilities	<u>20,036</u>

NET ASSETS

Held in Trust for Post Employment Benefits	<u>838,075</u>
Total Net Assets	<u><u>\$ 838,075</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.

**INDIAN WELLS VALLEY WATER DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Post Employment Benefit Trust Fund</u>
ADDITIONS	
Investment Earnings	\$ 103,144
Transfer In	1,517
	<u>104,661</u>
DEDUCTIONS	
Administrative Expenses	815
Payment to Retirees	21,553
	<u>22,368</u>
Total Deductions	22,368
Change in Net Assets	82,293
Net Assets - Beginning of Year	755,782
Net Assets - End of Year	<u>\$ 838,075</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Indian Wells Valley Water District's (the District) financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body of establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Description of the Reporting Entity

The Indian Wells Valley Water District is a reporting entity which consists of the District as the oversight unit. Oversight responsibility is determined by such criteria as financial interdependency, selection of governing authority and designation of management, budget control and ability to significantly influence operations.

The Indian Wells Valley Water District, for financial purposes, includes all funds relevant to the operations of the District. The Board of Directors has governance responsibilities over all activities related to District. The District receives funding from local, county, state and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

B. New Accounting Pronouncements

GASB Statement No. 61 The Financial Reporting Entity; Omnibus – amendment of GASB No. 14 and No. 34 – statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Furthermore, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements."

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

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

C. Basis of Accounting and Measurement Focus

The District accounts for its operation in an enterprise fund using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customer's lot water sales and sewer services. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

In accordance with GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*," the District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989, for its proprietary fund financial statements, unless those pronouncements conflict with or contradict GASB pronouncements.

The District has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989. Indian Wells Valley Water District also has the option of following subsequent private-sector guidance. The District has elected not to follow subsequent private-sector guidance.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

1. Expendable Trust Funds are used to account for assets held by the District as Trustees. The District maintains one non-major expendable trust fund, Retiree Benefits Fund, which is used to provide contingency reserves for District payment of current and future retiree health and welfare benefits. Investment earnings are earned on the principal of the fund and deposited in California Employers' Retiree Benefit Trust. During the fiscal year ended June 30, 2011 investment earnings totaled \$103,144. Since the District is not directly liable for the Retiree Benefits Fund debt and it is expected all such debt will be repaid from future retiree health and welfare benefits and not District revenues, the Retiree Benefits Fund debt is not included in the District's financial statements.

E. Classification of Revenues and Expenses

Operating revenues are those revenues that are generated by domestic, agricultural and irrigation, and water sales, while operating expenses pertain to the furnishing of those services.

Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of supplying water services. Non-operating revenues mainly consist of property taxes, grant revenues, investment income, and miscellaneous income. Capital contributions consist of contributed capital assets and special charges that are legally restricted for capital expenditures by state law or by the Board action that established those charges. Non-operating expenses mainly consist of debt service interest and future source of supply expenses.

F. Capital Assets

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into retained earnings. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The cost of normal maintenance and repairs that do not add the value of the asset or materially extend assets' lives is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation of all exhaustible property, plant and equipment used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

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

G. Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30, the District Manager submits to the Board of Directors a proposed operating and capital budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. Board Meetings are open for comments.
3. Prior to July 1, the budget is legally enacted.
4. The District Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures must be approved by the Board of Directors.
5. Formal budgetary integration is employed as a management control device during the year for the Proprietary Funds.
6. Budgets for the Proprietary Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).
7. Budgeted amounts are as originally adopted, or as amended. Individual amendments were not material in relation to the original appropriations which were amended.

H. Deposits and Investments

The District adopted GASB Statement No. 40, "Deposit and Investment Risk Disclosures," as of July 1, 2004. GASB Statement No. 40 requires governmental entities to assess categories of risk associated with their deposits and investments and disclose these risks.

The District adopted GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the District reports its investments at fair value in the Statement of Net Assets.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Cash deposits are reported at carrying amount which reasonably estimates fair value. (See Note 2 for further discussion).

I. Inventory

Inventory is based on a physical count at June 30, 2011 and is valued at lower of cost or market, cost being determined on an average cost basis.

J. Compensated Absences

Accumulated vacation benefits and portions of sick leave are recorded as liabilities on the books of the District. The District's policy is to record amounts as operating expenses in the period vacation leave and the qualified portion of sick leave is earned and accrued. The dollar value of such accumulations has been determined. As a result, the liabilities from such accumulated benefits were determined to be \$298,764 as of June 30, 2011, and \$288,607 as of June 30, 2010.

K. Special Assessment Districts

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

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

Since the District is not directly liable for the Assessment District debt and it is expected all such debt will be repaid from landowner assessments and not District revenues, the Special Assessment debt is not included in the District's financial statements. The District acts solely as an agent for the bondholders in collecting and forwarding the special assessments. Special Assessment Bonds outstanding at June 30, 2011 totaled \$2,208,000. See further discussion at Note 6, Note 7 and Note 12.

L. Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, comparative data have not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Cash and Cash Equivalents

The District has adopted GASB Statement No. 9, “Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting”. For purposes of reporting cash flows all highly liquid investments (including restricted assets) with a maturity of three months or less are considered to be cash equivalents.

N. Use of Estimates

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

O. Net Assets

The financial statements utilize a net asset presentation. Net assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted.

Capital Assets (net debt) – is intended to reflect the portion of net assets that are associated with non-liquid capital assets less outstanding capital asset related debt.

Restricted Net Assets – represent net assets that have third party (statutory, bond covenant or granting agency) limitations on their use.

Unrestricted Net Assets – represent unrestricted net assets, while management may have categorized and segmented portions of various purposes, the District has the unrestricted authority to revisit or alter these managerial decisions.

NOTE 2 – CASH AND INVESTMENT

General

The District has adopted Governmental Accounting Standards Board Statement 31 (GASB 31) which requires investments of governmental agencies to be reported at fair value. However, investment pools, such as a state or county treasury, may report the value of short-term investments with remaining maturities of less than 90 days at amortized costs. The majority of the State Treasury investments have a remaining maturity of approximately four months, while the Kern County Treasury investments have a maturity of approximately seventeen months. In addition, GASB 31 does not apply to immaterial cost/value differences. The District has chosen to reflect investments in the State Treasury and Kern County Treasury at cost which approximates fair market value.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 2 – CASH AND INVESTMENT (Continued)

Unrestricted

The unrestricted cash and investments stated at cost consisted of the following at June 30, 2011 and June 30, 2010.

	June 30, 2011	June 30, 2010
Cash on Hand and in Banks	\$ 237,039	\$ 471,380
Pooled Investments - State of California	555,725	697,879
Pooled Investments - Kern County	3,573,127	4,041,037
Total	\$ 4,365,891	\$ 5,210,296

All cash and time deposits are entirely insured or collateralized. The California Government Code requires state banks to secure District deposits by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of the District's deposits. The District may waive collateral requirements for deposits that are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

The surplus funds of the District may be invested in any of the approved investments contained in the California Government code Sections 53600 et seq., limited further by the investment policy adopted by the District.

Restricted

The restricted cash and investments consisted of the following at June 30, 2011 and June 30, 2010:

	June 30, 2011	June 30, 2010
Cash in Banks	\$ 335,676	\$ 335,665
Pooled Investments - Kern County	283,774	280,710
BNY Western Trust Co.	2,775,638	13,145,080
Total	\$ 3,395,088	\$ 13,761,455

All restricted cash and time deposits are entirely insured or collateralized. The California Government Code requires state banks to secure District deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. The District may waive collateral requirements for deposits that are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

The surplus funds of the District may be invested in any of the approved investments contained in the California Government Code Sections 53600 et seq., limited further by the investment policy adopted by the District.

Restricted investments, stated at the lower of cost or fair value, consist of Certificates of Participation and Bond reserves in trust at BNY Western Trust Company which are restricted as they will be used for the construction of the District's South West Well Project, and Medical Retirement Benefit Fund held in trust at the Kern County Treasurer's Investment Pool. These monies were not insured as of June 30, 2011 but were backed by government securities as collateral at the financial institutions.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 2 – CASH AND INVESTMENT (Continued)

Investments Authorized by the Entity’s Investment Policy

The District’s investment policy authorizes investment in the state investment pool (LAIF) administered by the State of California, and the county investment pool administered by Kern County. The District’s investment policy does not contain any specific provisions intended to limit the District’s exposure to interest rate risk, credit risk, and concentration of credit risk.

Additionally, the District may invest idle or surplus funds in accordance with California Government Code Section 53601. The following represents permissible investments per this code section. The below identifies the investment types that are authorized for the Authority by the California Government code. The table also identifies certain provisions of the California Government Code that addresses interest rate risk, credit rate risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker’s Acceptance	180 days	None	None
Commercial Paper	180 days	None	None
Negotiable Certificates of Deposits	5 years	None	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	1 year	None	None
Medium-Term Notes	5 years	None	None
Mutual Funds	N/A	None	None
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Funds (LAIF)	N/A	None	None

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District’s investment policy. The District had no debt proceeds investments as of June 30, 2011.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of fiscal year-end, the weighted average maturity of the investments contained in the State of California (LAIF) Investment Pool is approximately three (3) months, and the weighted average maturity of the investments contained in the Kern County Investment Pool is approximately seventeen (17) months.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 2 – CASH AND INVESTMENT (Continued)

Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

	<u>Maturity Date</u>	<u>Carrying Amount</u>	<u>Fair Value Adjustment *</u>	<u>Fair Value</u>
State of California Investment Pool (LAIF) Unrestricted	3 month average	\$ 555,725	\$ 876	\$ 556,601
Kern County Investment Pool - Unrestricted	17 month average	<u>3,573,127</u>	<u>(13,878)</u>	<u>3,559,249</u>
Total Unrestricted		<u>\$ 4,128,852</u>	<u>\$ (13,002)</u>	<u>\$ 4,115,850</u>
Kern County Investment Pool - Restricted	17 month average	\$ 283,774	\$ (1,102)	\$ 282,672
BNY Western Trust Company Restricted	12 month average	<u>2,775,638</u>	<u>0</u>	<u>2,775,638</u>
Total Restricted		<u>\$ 3,059,412</u>	<u>\$ (1,102)</u>	<u>\$ 3,058,310</u>

* Due to the immaterial nature of the fair market value difference, the State of California County Investment Pool (LAIF), Kern County Investment Pool and BNY Western Trust Company balances are reflected at their carrying amount in the financial statements.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The State of California (LAIF) and Kern County Investment Pools do not have a rating provided by a nationally recognized statistical rating organization and is considered “exempt from disclosure” under GASB No. 40.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Investments in any one issuer that represent 5% or more of total investments by reporting unit are as follows:

As of June 30, 2011, \$555,725 of the cash and investments were held in the form of a nonnegotiable unrated investment in the State of California (LAIF) Investment Pool.

As of June 30, 2011, \$3,856,901 of the cash and investments were held in the form of a nonnegotiable unrated investment in the Kern County Investment Pool.

As of June 30, 2011, \$2,775,638 of the cash and investments were held in the form of a nonnegotiable unrated investment in the BNY Western Trust Company.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 2 – CASH AND INVESTMENT (Continued)

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 do 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. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2011, \$99,737 of the District's deposits with financial institutions were in excess of federal depository insurance limits but were held in collateralized accounts.

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 California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for 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 the State of California (LAIF) and Kern County Investment Pools.

Investment in External Investment Pools

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

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

Derivative Investments

The District did not directly enter into any derivative investments.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 3 – CAPITAL ASSETS AND DEPRECIATION

Capital assets activity for the year ended June 30, 2011 is presented below:

	Balance <u>July 01, 2010</u>	Additions	Transfers	Deletions	Balance <u>June 30, 2011</u>
Land Acquisition	\$ 3,127,674	\$ 0	\$ 0	\$ 0	\$ 3,127,674
Transmission and Distribution	48,751,973	1,870,701	0	0	50,622,674
General Plant	5,228,203	118,805	0	0	5,347,008
Production and Source of Supply	13,156,978	2,376,297	0	0	15,533,275
Construction in Progress	7,691,177	6,821,508	0	0	14,512,685
	<u>77,956,005</u>	<u>11,187,311</u>	<u>0</u>	<u>0</u>	<u>89,143,316</u>
Totals	77,956,005	11,187,311	0	0	89,143,316
Accumulated Depreciation	<u>(36,043,468)</u>	<u>(2,201,318)</u>	<u>0</u>	<u>0</u>	<u>(38,244,786)</u>
Net Property, Plant, and Equipment	<u>\$ 41,912,537</u>	<u>\$ 8,985,993</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 50,898,530</u>

NOTE 4 – CHANGES IN LONG-TERM DEBT

A summary of changes in long-term debt for the fiscal year ended June 30, 2011 is presented below:

	Balance <u>July 01, 2010</u>	Additions	Deletions	Balance <u>June 30, 2011</u>	Due Within <u>One Year</u>
<u>Notes and Contracts</u>					
State of California (Proposition 55)	\$ 2,832,007	\$ 0	\$ 185,663	\$ 2,646,344	\$ 191,726
State of California (Proposition 44)	105,918	0	41,269	64,649	42,730
Total Notes and Contracts	<u>2,937,925</u>	<u>0</u>	<u>226,932</u>	<u>2,710,993</u>	<u>234,456</u>
<u>Certificates of Participation and Bonds</u>					
Water Revenue Refunding Bonds - 2003	4,130,000	0	360,000	3,770,000	375,000
Water Revenue Refunding Bonds - 2009	20,000,000	0	345,000	19,655,000	350,000
Total Certificates of Participation and Bonds	<u>24,130,000</u>	<u>0</u>	<u>705,000</u>	<u>23,425,000</u>	<u>725,000</u>
<u>Employment Benefit Obligations</u>					
Post Employment Benefit Payable	<u>35,418</u>	<u>0</u>	<u>35,418</u>	<u>0</u>	<u>0</u>
Total Employment Benefit Obligations	<u>35,418</u>	<u>0</u>	<u>35,418</u>	<u>0</u>	<u>0</u>
Total Long-Term Debt	<u>\$ 27,103,343</u>	<u>\$ 0</u>	<u>\$ 967,350</u>	<u>\$ 26,135,993</u>	<u>\$ 959,456</u>

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 4 – CHANGES IN LONG-TERM DEBT (Continued)

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

<u>Year Ending June 30,</u>	<u>Notes and Contracts</u>	<u>Water Revenue Refunding Bonds</u>	<u>Water Revenue Certificate of Participation</u>	<u>Total</u>
2012	\$ 324,111	\$ 507,564	\$ 1,315,137	\$ 2,146,812
2013	301,815	504,732	1,314,487	2,121,034
2014	279,519	505,995	1,313,537	2,099,051
2015	279,519	506,629	1,310,387	2,096,535
2016	279,519	506,415	1,309,888	2,095,822
2017 - 2021	1,397,595	1,903,164	6,514,138	9,814,897
2022 - 2026	419,278	0	6,425,438	6,844,716
2027 - 2031	0	0	6,415,688	6,415,688
2032 - 2036	0	0	6,437,675	6,437,675
2037 - 2041	0	0	5,211,875	5,211,875
Total Principal and Interest	3,281,356	4,434,499	37,568,250	45,284,105
Less Interest Portion	(570,363)	(664,499)	(17,913,250)	(19,148,112)
Total Principal	<u>\$ 2,710,993</u>	<u>\$ 3,770,000</u>	<u>\$ 19,655,000</u>	<u>\$ 26,135,993</u>

Notes and Contracts

State of California - Safe Drinking Water Act Loan
(Prop. 55): Payable \$139,757 semi-annually including
interest at 3.3712%.

	<u>Total Amount</u>	<u>June 30, 2011 Current Portion</u>	<u>Long-Term Portion</u>
	\$ 2,646,344	\$ 191,726	\$ 2,454,618

State of California - Water Conservation Construction
Loan (Prop. 44): Payable \$22,292 semi-annually
including interest at 3.4375%.

64,649	42,730	21,919
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Total Notes and Contracts

<u>\$ 2,710,993</u>	<u>\$ 234,456</u>	<u>\$ 2,476,537</u>
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Water Revenue Bonds

Water Revenue Certificates of Participation, Series 2009:
Payable in semi-annual installments based on a 30 year
amortization with interest ranging from 2.00% to 5.25%.

\$ 19,655,000	\$ 350,000	\$ 19,305,000
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Water Revenue Refunding Bonds, Series 2003: Payable
in semi-annual installments based on a 16 year
amortization with interest ranging from 2.00% to 4.00%.

<u>3,770,000</u>	<u>375,000</u>	<u>3,395,000</u>
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Total Water Revenue Bonds

<u>23,425,000</u>	<u>725,000</u>	<u>22,700,000</u>
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Total Long-Term Debt

<u>\$ 26,135,993</u>	<u>\$ 959,456</u>	<u>\$ 25,176,537</u>
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**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 4 – CHANGES IN LONG-TERM DEBT (Continued)

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

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

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

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

Water Revenue Refunding Bonds, Series 2003

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

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

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

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

Water Revenue Certificates of Participation, Series 2009

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

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

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 5 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2011, expenditures exceeded the revised budget estimates in individual funds as follows:

	<u>Excess Expenditures</u>
Transmission and Distribution	
Supervision, Labor and Benefits	\$ 149,788
Administration and General	
Supervision, Labor and Benefits	\$ 6,102
Vehicles	\$ 627
Travel and Conventions	\$ 233
Maintenance and Security	\$ 333
Office and Shop Utilities	\$ 1,525
Telephone	\$ 1,436
Insurance	\$ 2,734
Retirement Medical Benefits	\$ 2,448
Computer and Equipment Maintenance	\$ 1,612
Other Expenses	
Interest Expense and Service Charges	\$ 52,469

NOTE 6 – CONTRIBUTED CAPITAL

Utility Plant

The District has consistently maintained a “new service” policy, which requires the users to contribute (dedicate) their transmission lines to the District. Under this policy an individual or developer bears the cost of installing all lines needed to service his facility with water. The individual or developer then dedicates these lines to the District and from that time on, it is the District’s responsibility to maintain and replace these lines. There was no contributed utility plant during the year ended June 30, 2011 and \$220,740 contributed utility plant during the year ended June 30, 2010.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 6 – CONTRIBUTED CAPITAL (Continued)

Special Assessments

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

87-1: The District acquired the private water company known as Ridgecrest Heights Water System during the 1987-88 fiscal year. In order to finance the construction of the estimated \$6,741,000 of required improvements the District confirmed Assessment District 87-1 on June 14, 1989. The District holds the Assessment District Bonds and did not sell them on the open market. Bond principal and interest revenues will be used to repay loans received to finance construction from the State of California (Note 4).

91-1: Assessment District 91-1 consists of approximately 300 gross acres of land subdivided into 133 residential lots contiguous to the southwesterly boundary of the City of Ridgecrest, California. The District confirmed Assessment District 91-1 on January 15, 1992 for the design and construction of a domestic water system for the property within the assessment district. The cost of this construction was estimated at \$1,508,000. Total assessments confirmed were \$1,508,000 and \$237,551 was collected during the cash collection period which ended February 15, 1992. The remaining unpaid assessments of \$1,270,449 were bonded and these limited obligation improvement bonds were sold on July 13, 1992. The District, on August 23, 2001, approved resolution 01-05 under the California Streets and Highways Code Section 8771, 8772 and 8773, that the terms and conditions of the bond repayment schedule be modified as of June 30, 2008. The outstanding bonds and interest due to the bond holder were paid under the modified payment schedule as of June 30, 2011 Assessment District held cash in the Kern County Treasury of \$113,268. These funds are available for District expenses/improvements with the appropriate Board action/approvals.

NOTE 7 – ASSESSMENT DISTRICT BONDS RECEIVABLE

The District has elected to hold the AD 87-1 Assessment District Bonds rather than sell them on the open market. Since the District has “invested” in these bonds they are entitled to receive all revenue relating to the Assessment District Bonds. The assessment bonds receivable payment schedules at June 30, 2011 are as follows:

Year Ending June 30,	AD 87-1 Bonds Held
2012	\$ 250,000
2013	216,000
2014	230,000
2015	230,000
2016	235,000
2017 - 2020	<u>1,047,000</u>
Total Bond Principal Receivable	<u>\$ 2,208,000</u>

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 8 – COMMITMENTS / LEASES

Operating Leases

The District has not entered into leases for rights of way, real property, equipment or buildings as of June 30, 2011, which requires payments extending for a period longer than twelve months.

Capital Leases

The District has not entered into any capital leases which provide for title to pass to the District upon expiration of the lease term.

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS

Plan Description

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

Funding Policy

Participants are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute at an actuarially determined rate of 2% for the fiscal year ended June 30, 2011. The contribution requirements of plan members and the District are established and may be amended by PERS.

Annual Pension Costs

For fiscal year ended June 30, 2011, the District's annual pension cost of \$81,779 for PERS was equal to the District's required and actual contribution. The required contribution was determined as part of the June 30, 2009, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) (b) projected annual salary increases of 3.25% to 14.45% (depending on age, service and type of employment), and (c) both (a) and (b) include an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). As of June 30, 2011, PERS had no underfunded actuarial liability.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS (Continued)

Five-Year Trend Information for PERS - Indian Wells Valley Water District					
Fiscal Year	Annual Pension Cost	Overfunding Offset	Percentage of Annual Pension Cost Contributed	Net Pension Obligation	
6/30/07	\$ 99,237	\$ (99,237)	100%	\$	0
6/30/08	\$ 111,772	\$ (111,772)	100%	\$	0
6/30/09	\$ 126,244	\$ (126,244)	100%	\$	0
6/30/10	\$ 69,812	\$ (69,812)	100%	\$	0
6/30/11	\$ 81,779	\$ (81,779)	100%	\$	0

Total PERS covered salary of the District was \$2,272,269 for the fiscal year ended June 30, 2011, and employee contributions totaled \$159,926 for the fiscal year ended June 30, 2011.

Required Supplementary Information - Indian Wells Valley Water District						
Actuarial Valuation Date	Actuarial Asset Value	Entry Age Normal Accrued Liability	Unfunded Liability (Excess Assets)	Funded Ratio	Annual Covered Payroll	Unfunded Liability as % of Covered Payroll
6/30/98	\$ 3,711,952	\$ 2,619,603	\$ (1,092,349)	141.7%	\$ 1,141,899	(95.7) %
6/30/99	\$ 4,261,149	\$ 2,861,137	\$ (1,400,012)	148.9%	\$ 1,101,300	(127.1) %
6/30/00	\$ 4,896,433	\$ 3,293,905	\$ (1,602,528)	148.7%	\$ 1,193,171	(134.3) %
6/30/01	\$ 5,094,388	\$ 3,436,702	\$ (1,657,686)	148.2%	\$ 1,107,430	(149.7) %
6/30/02	\$ 4,849,921	\$ 3,789,507	\$ (1,060,414)	128.0%	\$ 1,206,698	(87.9) %
6/30/03	\$ 4,847,970	\$ 4,854,258	\$ 6,288	99.9%	\$ 1,312,163	0.4 %
6/30/04	\$ 4,922,709	\$ 5,031,615	\$ 108,906	97.8%	\$ 1,531,669	6.0 %
6/30/05	\$ 4,128,934	\$ 4,371,090	\$ 242,156	94.5%	\$ 1,729,683	14.0 %
6/30/06	\$ 4,722,613	\$ 4,966,947	\$ 244,334	95.1%	\$ 1,949,119	12.5 %
6/30/07	\$ 5,348,704	\$ 5,565,255	\$ 216,551	96.1%	\$ 2,100,108	10.3 %
6/30/08	\$ 5,470,655	\$ 5,676,800	\$ 206,145	96.4%	\$ 2,151,977	9.6 %
6/30/09	\$ 2,483,519	\$ 2,613,033	\$ 129,514	95.0%	\$ 2,479,060	5.2 %
6/30/10	Not Available					

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

In addition to the pension benefits described in Note 9, the District provides post retirement health care benefits to all employees who retire from the District and meet certain eligibility requirements. These coverages are covered through CalPERS.

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

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

Eligibility for District-paid Benefits

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

Funding Policy

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

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

Annual OPEB Cost and Net OPEB Obligation/(Asset)

The following table shows the components of the District’s Annual OPEB cost for the fiscal year ended June 30, 2011, the amount actually contributed to the plan and the changes in the District’s Net OPEB Obligation/ (Asset):

	<u>June 30, 2011</u>
Annual Required Contributions	\$ (1,517)
Interest on Net OPEB Obligation/(Asset)	(103,144)
Adjustment to Annual Required Contributions	20,851
Annual OPEB cost (expense)	(83,810)
Contributions made	1,517
Increase in Net OPEB Obligation/(Asset)	(82,293)
Net OPEB Obligation/(Asset) - Beginning of Year	(755,782)
Net OPEB Obligation/(Asset) - End of Year	\$ (838,075)

The District’s Annual OPEB Cost, the Percentage of Annual OPEB Cost Contributed to the plan, and the Net OPEB Obligation/ (Asset) for the fiscal year ended June 30, 2011 and 2010 are shown in the following table. Only two year’s information is available since FY 2010 was the Authority’s initial year of implementation for GASB Statement No. 45.

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/ (Asset) 06/30/10	Net OPEB Obligation/ (Asset) 06/30/11
06/30/11	\$(83,810)	\$ (1,517)	1.81%	\$ (755,782)	\$ (838,075)

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

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

Actuarial Methods and Assumptions

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

The plan's most recent actuarial valuation was performed as of July 1, 2010. In that valuation, the Annual Required Contribution (ARC) method was used. The actuarial assumptions included a 7.75% discount rate. Since the District's contribution is a fixed dollar amount, a 1% increase in the healthcare trend rate for each year would not materially impact the annual required contribution. GASB 45 requires that implicit rate subsidies be considered in the valuation of medical costs. The District in a community-rated health plan and is exempt from valuing this rate subsidy.

NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES

There are various claims and legal actions pending against the District for which no provision has been made in the financial statements. In the opinion of the District attorneys and other district officials, liabilities arising from these claims and legal actions, if any, will not be significant.

The District has entered into various construction commitments. Such contracts include contracts for improvements to district facilities related to general government capital projects. Several of these contracts were in progress but not completed as of June 30, 2011. This District has sufficient funds available to cover these commitments.

NOTE 12 – ASSESSMENT DISTRICT / CONTINGENCIES

Assessments to be Collected

As discussed in Note 1, the District has accounted for Assessment District activity in accordance with GASB No. 6. This statement requires assessment district bonds be not shown as a liability of the District if the District has no liability for payment should landowners default on their assessment payments. Since Indian Wells Valley Water District has no liability for the assessment district bonds, these bonds are not shown as a liability of the District. The District is only functioning as an agent for the property owners by collecting assessments, forwarding collections to bondholders and beginning foreclosures if required. Total assessments outstanding at June 30, 2011 are as follows:

	<u>AD #87-1</u>
Remaining Assessment Bond Principal	
Outstanding to be Collected.	\$ 2,208,000
Remaining Assessment Bond Interest	
Outstanding to be Collected.	286,584
Total Due and to be Collected	\$ <u><u>2,494,584</u></u>

**INDIAN WELLS VALLEY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 12 – ASSESSMENT DISTRICT / CONTINGENCIES (Continued)

Assessment Bond Debt

The District maintains an assessment district financed with 1915 Improvement Act Bonds. As discussed above, the District is not directly liable for the Assessment District debt and it is intended that all such debt will be repaid from landowner assessments and not District revenues. The Special Assessment Debt is not included in the District's financial statements. The District acts solely as an agent for the bondholders in collecting and forwarding the special assessments. Special Assessment Bonds outstanding at June 30, 2011 totaled \$2,208,000.

Delinquent Assessments: AD #87-1

The total amount delinquent as of June 30, 2011, was approximately 2.52% (\$62,760) for AD #87-1.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to write off the post retirement benefits liability. This prior period adjustment increased June 30, 2011 net assets by \$35,418.

NOTE 14 – COMPLIANCE AND ACCOUNTABILITY

A. Finance-Related Legal and Contractual Provisions.

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

B. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year-end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

NOTE 15 – SUBSEQUENT EVENTS

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

REQUIRED SUPPLEMENTARY INFORMATION

**INDIAN WELLS VALLEY WATER DISTRICT
OTHER POST EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2011 AND 2010**

The funded status of the plan as of June 30, 2011, the end of the first year of GASB 45 applicability, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Projected Unit Credit Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2008	\$ 0	\$ 464,036	\$ 464,036	0.00%	\$ 2,205,887	21.04%
July 1, 2010	\$ (695,922)	\$ 523,985	\$ (171,937)	-132.81%	\$ 2,032,000	-8.46%

Actuarial valuations of an ongoing plan involve estimates of the value reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding status of the plan the Annual Required Contributions of the District are subject to continual revision as actual results are compared with past expectations and new estimate are made about the future. The schedule of funding progress, as presented shows where the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Because the fiscal year ended June 30, 2010 is the year of implementation of GASB No. 45, only two years are presented in the schedule at this time. In future years, required three year trend analysis will be presented.

OTHER SUPPLEMENTARY INFORMATION

**INDIAN WELLS VALLEY WATER DISTRICT
HISTORY, ORGANIZATION AND BOARD OF DIRECTORS
JUNE 30, 2011 AND 2010**

HISTORY AND ORGANIZATION

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

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

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Harold Manning	President	November 2014
Peggy Breeden	Vice President	November 2012
Peter Brown	Director	November 2014
Leroy Corlett	Director	November 2012
Donald J. Cortichiato	Director	November 2012

GENERAL MANAGER/SECRETARY

Thomas F. Mulvihill

CHIEF FINANCIAL OFFICER

Jennifer L. Keep

**INDIAN WELLS VALLEY WATER DISTRICT
STATEMENT OF REVENUES AND EXPENSES
PROPRIETARY FUND - BUDGET AND ACTUAL
FOR THE YEARS ENDED JUNE 30, 2011**

	2010-2011 ORIGINAL BUDGET	2010-2011 REVISED BUDGET	2010-2011 ACTUAL	OVER (UNDER) REVISED BUDGET	2011-2012 BUDGET
REVENUES					
WATER SALES					
Residential	\$ 6,877,000	\$ 6,601,900	\$ 6,045,324	\$ (556,576)	\$ 5,400,000
Commercial	1,184,000	1,148,000	1,101,118	(46,882)	990,000
Other	951,000	912,000	946,448	34,448	1,664,000
Total Water Sales	<u>9,012,000</u>	<u>8,661,900</u>	<u>8,092,890</u>	<u>(569,010)</u>	<u>8,054,000</u>
OTHER OPERATING REVENUES					
Capital Facilities Fees	323,000	323,000	194,075	(128,925)	202,000
New Service Connections	8,000	8,000	7,197	(803)	9,000
Other	220,800	256,000	255,927	(73)	248,000
Total Other Operating Revenues	<u>551,800</u>	<u>587,000</u>	<u>457,199</u>	<u>(129,801)</u>	<u>459,000</u>
OTHER REVENUES					
Interest and Assessment Income	243,000	209,500	173,755	(35,745)	192,500
Grant Income	115,200	115,200	115,165	(35)	0
Rent and Miscellaneous	37,000	37,000	47,912	10,912	24,200
Total Other Revenues	<u>395,200</u>	<u>361,700</u>	<u>336,832</u>	<u>(24,868)</u>	<u>216,700</u>
Total Revenues	<u>9,959,000</u>	<u>9,610,600</u>	<u>8,886,921</u>	<u>(723,679)</u>	<u>8,729,700</u>
OPERATING EXPENSES					
Pumping Plant:					
Labor and Benefits	388,370	393,770	374,871	(18,899)	208,000
Maintenance	224,600	228,600	82,676	(145,924)	135,000
Power	681,600	681,600	582,568	(99,032)	564,000
Permits	4,500	4,500	4,353	(147)	6,000
Total Pumping Plant	<u>1,299,070</u>	<u>1,308,470</u>	<u>1,044,468</u>	<u>(264,002)</u>	<u>913,000</u>
Arsenic Plant:					
Labor and Benefits and Maintenance	162,000	162,000	50,011	(111,989)	632,000
Total Arsenic Plant	<u>162,000</u>	<u>162,000</u>	<u>50,011</u>	<u>(111,989)</u>	<u>632,000</u>
Water Treatment and Analysis:					
Labor and Benefits and Maintenance	119,800	119,800	108,152	(11,648)	0
Total Water Treatment and Analysis	<u>119,800</u>	<u>119,800</u>	<u>108,152</u>	<u>(11,648)</u>	<u>0</u>

**INDIAN WELLS VALLEY WATER DISTRICT
STATEMENT OF REVENUES AND EXPENSES
PROPRIETARY FUND - BUDGET AND ACTUAL
FOR THE YEARS ENDED JUNE 30, 2011**

	2010-2011 ORIGINAL BUDGET	2010-2011 REVISED BUDGET	2010-2011 ACTUAL	OVER (UNDER) REVISED BUDGET	2011-2012 BUDGET
OPERATING EXPENSES (Continued)					
Transmission and Distribution:					
Supervision, Labor and Benefits	\$ 680,180	\$ 703,880	\$ 853,668	\$ 149,788	\$ 665,000
Maintenance and Other	479,500	524,500	371,987	(152,513)	621,000
Total Transmission and Distribution	<u>1,159,680</u>	<u>1,228,380</u>	<u>1,225,655</u>	<u>(2,725)</u>	<u>1,286,000</u>
Engineering:					
Labor and Benefits and Maintenance	312,950	377,750	345,009	(32,741)	524,000
Total Engineering	<u>312,950</u>	<u>377,750</u>	<u>345,009</u>	<u>(32,741)</u>	<u>524,000</u>
Customer Accounts:					
Supervision, Labor and Benefits	231,500	226,500	213,747	(12,753)	247,000
Uncollectible Accounts	65,000	65,000	37,286	(27,714)	38,000
Printing, Postage and Supplies	86,140	105,640	86,354	(19,286)	89,600
Total Customer Accounts	<u>382,640</u>	<u>397,140</u>	<u>337,387</u>	<u>(59,753)</u>	<u>374,600</u>
Field Services:					
Supervision, Labor and Benefits	308,100	326,300	308,067	(18,233)	342,000
Vehicles	28,000	28,000	24,129	(3,871)	23,000
Maintenance of Water Meters	121,000	112,350	91,996	(20,354)	44,000
Total Field Services	<u>457,100</u>	<u>466,650</u>	<u>424,192</u>	<u>(42,458)</u>	<u>409,000</u>
Administration and General:					
Supervision, Labor and Benefits	1,032,900	1,042,800	1,048,902	6,102	1,078,000
Vehicles	5,500	5,500	6,127	627	6,000
Office Expense	31,000	31,000	21,386	(9,614)	14,000
Memberships and Subscriptions	36,000	36,000	31,854	(4,146)	24,000
Travel and Conventions	24,500	25,500	25,733	233	5,000
Maintenance and Security	21,400	21,400	21,733	333	19,000
Office and Shop Utilities	46,000	46,000	47,525	1,525	48,000
Telephone	32,500	32,500	33,936	1,436	23,000
Insurance	88,000	95,750	98,484	2,734	101,000
Employee Training and Subsistence	32,700	34,700	25,065	(9,635)	33,000
Outside Services and Consultants	392,500	394,400	301,585	(92,815)	168,000
Retirement Medical Benefits	0	0	2,448	2,448	0
Computer and Equipment Maintenance	58,000	66,650	68,262	1,612	40,500
Miscellaneous	91,800	94,800	77,230	(17,570)	66,700
Total Administration and General	<u>1,892,800</u>	<u>1,927,000</u>	<u>1,810,270</u>	<u>(116,730)</u>	<u>1,626,200</u>

**INDIAN WELLS VALLEY WATER DISTRICT
STATEMENT OF REVENUES AND EXPENSES
PROPRIETARY FUND - BUDGET AND ACTUAL
FOR THE YEARS ENDED JUNE 30, 2011**

	2010-2011 ORIGINAL BUDGET	2010-2011 REVISED BUDGET	2010-2011 ACTUAL	OVER (UNDER) REVISED BUDGET	2011-2012 BUDGET
OPERATING EXPENSES (Continued)					
Legislative:					
Director Fees and Other	\$ 106,700	\$ 98,000	\$ 93,155	\$ (4,845)	\$ 81,200
Total Legislative	<u>106,700</u>	<u>98,000</u>	<u>93,155</u>	<u>(4,845)</u>	<u>81,200</u>
Depreciation and Amortization	<u>2,409,000</u>	<u>2,409,000</u>	<u>2,206,004</u>	<u>(202,996)</u>	<u>2,724,000</u>
OTHER EXPENSES					
Interest Expense and Service Charges	1,156,300	1,161,000	1,213,469	52,469	1,205,500
Miscellaneous Expense	108,200	113,300	105,729	(7,571)	103,600
Conservation Expense	207,400	220,000	183,381	(36,619)	152,600
Alternate Water Supply	230,400	420,600	147,599	(273,001)	29,500
Total Other Expenses	<u>1,702,300</u>	<u>1,914,900</u>	<u>1,650,178</u>	<u>(264,722)</u>	<u>1,491,200</u>
Total Expenses	<u>10,004,040</u>	<u>10,409,090</u>	<u>9,294,481</u>	<u>(1,114,609)</u>	<u>10,061,200</u>
Net Income	<u>\$ (45,040)</u>	<u>\$ (798,490)</u>	<u>\$ (407,560)</u>	<u>\$ 390,930</u>	<u>\$ (1,331,500)</u>

OTHER INDEPENDENT AUDITOR'S REPORT

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

Board of Directors
Indian Wells Valley Water District
Ridgecrest, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Indian Wells Valley Water District, as of and for the year ended June 30, 2011 and 2010, which collectively comprise the Indian Wells Valley Water District's basic financial statements and have issued our report thereon dated October 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Indian Wells Valley Water District
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We noted certain matters that we reported to management of Indian Wells Valley Water District, in a separate letter dated October 11, 2011.

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

BURKEY COX EVANS BRADFORD & ALDEN
Certified Public Accountants

Palmdale, California
October 11, 2011