

HESPERIA WATER DISTRICT  
COMPONENT UNIT FINANCIAL STATEMENTS  
WITH REPORT ON AUDIT BY  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2009



June 30, 2009

|   | <u>Page<br/>Number</u> |
|---|------------------------|
| Independent Auditors' Report  | 1                      |
| Management's Discussion and Analysis (Required Supplementary Information) | 3 - 7                  |
| Basic Financial Statements:   |                        |
| Statement of Net Assets   | 8 - 9                  |
| Statement of Revenues, Expenses, and<br>Changes in Net Assets             | 10                     |
| Statement of Cash Flows   | 11 - 12                |
| Notes to Financial Statements   | 13 - 24                |
| Required Supplementary Information:                                       |                        |
| Schedule of Funding Progress for DPHP                                     | 26                     |





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January 26, 2010

INDEPENDENT AUDITORS' REPORT

Board of Directors  
 Hesperia Water District  
 Hesperia, California

We have audited the accompanying financial statements of Hesperia Water District (a component unit of the City of Hesperia) as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These component unit financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 State Controller's Minimum Audit Requirements for California Special Districts. 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 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 opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the Hesperia Water District as of June 30, 2009, and the respective changes in financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America as well as the accounting systems prescribed by the California State Controller's Office and State Regulations Governing Special Districts.

The management's discussion and analysis and the schedule of funding progress for DPHP identified in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the management's discussion and analysis and the schedule of funding progress for DPHP, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this required supplementary information. However, we did not audit the management's discussion and analysis and the schedule of funding progress for DPHP and express no opinion on them.

*Diehl, Evans and Company, LLP*



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Hesperia Water District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2009. Please read it in conjunction with the accompanying basic financial statements.

### **FINANCIAL HIGHLIGHTS**

- The District's net assets decreased \$4.0 million from \$86.4 million to \$82.3 million or 4.6% as a result of this year's operations. This is primarily the result of growing costs to provide water service and a decline in the revenues primarily from the development portion of the non-operating revenues.
- During the year, the District's expenses exceeded revenues and contributions by \$4.0 million which reflects the decline in development activity from the 106 single family residential permits issued in FY2007-08 to the 12 issued in FY2008-09 and an increase of capital improvement expense.
- The total cost of the District's operations and capital improvements this year was \$23.0 million, an increase of 7.1% from June 2008's of \$21.5 million. This \$1.5 million change is primarily the result of the increased cost of purchased water (\$0.8 million more than FY2007-08), along with the increased cost of operating costs.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets provides information about the activities of the District as a whole and with the water and sewer functions separately. Also, it presents a longer-term view of the District's finances. The Statement of Revenues, Expenses, and Changes in Net Assets describes how these services were financed in the short term as well as what remains for future spending. The remaining statement, The Statement of Cash Flows, provides financial information about cash flow activities of the District.

### **REPORTING THE DISTRICT AS A WHOLE**

The financial statements presented herein include all the activities of the Hesperia Water District using the integrated approach as prescribed by GASB Statement No. 34.

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets reports information about the District as a whole and about its activities in a way that helps answer this question. This statement includes *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement reports the District's *net assets*. You can think of the District's net assets—the difference between assets and liabilities—as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the condition of the District's water lines, to assess the *overall health* of the District.

### **THE DISTRICT AS A WHOLE**

Our analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the District. In prior years, the District incurred debt to build some of the infrastructure. The Condensed Statement of Net Assets presents capital assets net of the debt incurred to pay for those assets.

The current year saw net assets decrease from \$86.4 million to \$82.2 million. This decrease of \$4.2 million comes from the change in net assets as recorded in the Condensed Statement of Revenues, Expenses, and Changes in Net Assets and flows through the Condensed Statement of Net Assets. The Water District continues to maintain the water and sewer infrastructure which includes water storage tanks, water pumping equipment, water transmission lines, and sewer lines, etc.

**Table 1**  
**Condensed Statement of Net Assets**

|   | 2008                 | 2009                 | Changes from 2008 to 2009 |              |
|---|----------------------|----------------------|---------------------------|--------------|
|   |                      |                      | Amount                    | Percentage   |
| Current and other assets                | \$ 20,162,420        | \$ 14,884,475        | \$ (5,277,945)            | -26.2%       |
| Capital assets                          | 87,540,369           | 92,617,855           | 5,077,486                 | 5.8%         |
| <b>Total Assets</b>                     | <u>107,702,789</u>   | <u>107,502,330</u>   | <u>(200,459)</u>          | <u>-0.2%</u> |
| Other liabilities                       | 5,419,875            | 10,266,456           | 4,846,581                 | 89.4%        |
| Long-term debt outstanding              | 15,928,998           | 14,992,821           | (936,177)                 | -5.9%        |
| <b>Total Liabilities</b>                | <u>21,348,873</u>    | <u>25,259,277</u>    | <u>3,910,404</u>          | <u>18.3%</u> |
| <b>Net Assets:</b>                      |                      |                      |                           |              |
| Invested in capital assets, net of debt | 71,858,235           | 77,907,459           | 6,049,224                 | 8.4%         |
| Restricted                              | 395,472              | 395,487              | 15                        | 0.0%         |
| Unrestricted                            | 14,100,209           | 3,940,107            | (10,160,102)              | -72.1%       |
| <b>Total Net Assets</b>                 | <u>\$ 86,353,916</u> | <u>\$ 82,243,053</u> | <u>\$ (4,110,863)</u>     | <u>-4.8%</u> |

The following is a list of explanations for the \$4.0 million decrease in net assets:

- Current and other assets – decreased \$5.3 million or 26.2% from June 30, 2008 primarily due to a significant decrease of Cash and Cash Equivalents of the District, decreasing \$10.6 million to \$1.4 million at June 30, 2009. This can be attributed to the decrease of revenue from development activity, continued replacement of 50 year old steel pipe, and the increase of costs associated to the purchase of water.
- Capital assets – increased by \$5.1 million, net of depreciation, over June 30, 2008 principally from the replacement of aged steel water lines and other infrastructure projects of the District. The majority of this increase, \$5.9 million, is shown in Construction in Progress in Table 3.
- Long-term debt outstanding – debt service activity during the fiscal year resulted in a net decrease of \$0.9 million from the June 30, 2008 total due to principal payments on outstanding debt, as shown in Table 4.
- Other liabilities – decreased \$4.9 million from June 30, 2008 primarily due to the timing of invoices paid by June 30, 2009, and the advance from Sewer Operations & Capital to Water Operations & Capital.
- Invested in capital assets, net of debt – increased by \$6.0 million, or 8.4%, over the year ended June 30, 2008; reflecting the increase in water facilities infrastructure as shown in Table 3 below.
- Unrestricted net assets – decreased by \$10.2 million or 72.1% primarily due to the results of the District's operations, reflecting the decreased development activity occurring in Hesperia since June 30, 2008.

## DISTRICT ACTIVITIES

The District's net assets decreased \$4.1 million or 4.8%. The cost of all Water District activities this year was \$23.1 million. As shown in the Condensed Statement of Revenues, Expenses, and Changes in Net Assets (Table 2), the amount paid by users of the systems was \$17.4 million, which is an increase of \$2.4 million or 15.7% from the June 30, 2008 total of \$15.1 million. The increase is attributed to the 7% water rate and a 9% sewer rate increase which became effective in November 2008. Non-operating revenues of \$1.6 million make up the remainder of the \$19.0 million total revenues.

**Table 2**  
**Condensed Statement of Revenues, Expenses, and Changes in Net Assets**

|                                      | 2008          | 2009          | Changes from 2008 to 2009 |            |
|--------------------------------------|---------------|---------------|---------------------------|------------|
|                                      |               |               | Amount                    | Percentage |
| <b>Revenues</b>                      |               |               |                           |            |
| Operating revenues:                  |               |               |                           |            |
| Charges for services                 | \$ 15,071,288 | \$ 17,439,787 | \$ 2,368,499              | 15.7%      |
| Non-operating revenues:              |               |               |                           |            |
| Property taxes                       | 368,104       | 293,773       | (74,331)                  | -20.2%     |
| Income from property and investments | 926,463       | 326,570       | (599,893)                 | -64.8%     |
| System improvement and replacement   | 3,975,273     | 555,950       | (3,419,323)               | -86.0%     |
| Other                                | 364,563       | 389,357       | 24,794                    | 6.8%       |
| Sub-total non-operating revenues     | 5,634,403     | 1,565,650     | (4,068,753)               | -72.2%     |
| Total revenues                       | 20,705,691    | 19,005,437    | (1,700,254)               | -8.2%      |
| <b>Expenses</b>                      |               |               |                           |            |
| Water                                | 19,983,848    | 21,404,975    | 1,421,127                 | 7.1%       |
| Sewer services                       | 1,535,628     | 1,711,325     | 175,697                   | 11.4%      |
| Total expenses                       | 21,519,476    | 23,116,300    | 1,596,824                 | 7.4%       |
| Income before Capital Contributions  | (813,785)     | (4,110,863)   | (3,297,078)               | -405.2%    |
| Capital Contributions                | 160,977       | -             | (160,977)                 | -100.0%    |
| Change in net assets                 | (652,808)     | (4,110,863)   | (3,458,055)               | -529.7%    |
| Net assets at July 1,                | 87,006,724    | 86,353,916    | (652,808)                 | -0.8%      |
| Net assets at June 30,               | \$ 86,353,916 | \$ 82,243,053 | \$ (4,110,863)            | -4.8%      |

The major portion of the \$1.6 million of non-operating revenues is the \$0.6 million in capital facility and capital surcharge revenues. These revenues are primarily a reflection of the development activity occurring in Hesperia and are mostly attributable to offsetting the costs of adding the customers to the system. As seen in the above table, this revenue group reflects the decrease of the development activity within the City of Hesperia which saw a decrease in single family residential permits issued from 106 in FY2007-08 to 12 for FY2008-09. Additionally, investment earnings decreased to \$0.3 million from the FY 2007-08 amount of \$0.9 million.

## CAPITAL ASSETS

The capital assets of the District are those assets that are used in the performance of the District's functions including infrastructure assets. At June 30, 2009, capital assets, net of depreciation, totaled \$92.6 million reflecting an increase of \$5.1 million net of depreciation.

**Table 3  
Capital Assets at Year-end**

|                          | Balance at<br>June 30, 2008<br>Net of<br>Accumulated<br>Depreciation | Increases            | Decreases              | Current Year<br>Depreciation | Balance at<br>June 30, 2009<br>Net of<br>Accumulated<br>Depreciation |
|--------------------------|--|----------------------|------------------------|------------------------------|--|
| Land                     | \$ 1,371,741   | \$ 1,701,678         | \$ -                   | \$ -                         | \$ 3,073,419   |
| Water rights             | 1,308,400  | 390,600              | -                      | -                            | 1,699,000  |
| Land improvements        | 307,010  | -                    | -                      | (32,817)                     | 274,193  |
| Vehicles                 | 1,346,113  | 48,220               | (121,800)              | (97,473)                     | 1,175,060  |
| Building and structures  | 2,223,262  | 231,725              | -                      | (232,523)                    | 2,222,464  |
| Machinery and equipment  | 1,068,309  | 63,561               | -                      | (178,696)                    | 953,174  |
| Infrastructure:          |  |                      |                        |                              |  |
| Water facilities         | 63,569,125   | 13,444,215           | -                      | (2,456,522)                  | 74,556,818   |
| Sewer facilities         | 3,990,408  | 504,008              | -                      | (166,350)                    | 4,328,066  |
| Construction in progress | 12,356,001   | 5,927,883            | (13,948,223)           | -                            | 4,335,661  |
|                          | <u>\$ 87,540,369</u>   | <u>\$ 22,311,890</u> | <u>\$ (14,070,023)</u> | <u>\$ (3,164,381)</u>        | <u>\$ 92,617,855</u>   |

The District has elected to use the "Basic Approach" as defined by GASB Statement No. 34 for infrastructure reporting for water lines. Using the "Basic Approach," the District will depreciate the value of the infrastructure over a forty (40) year period. As replacing of water line segments is done, the value of that work will be added and any remaining book value of the replaced segment will be reduced from the water facilities infrastructure class. The District's other capital assets are depreciated as outlined in Note 1 paragraph I.

## DEBT ADMINISTRATION

Debt issued by the Hesperia Water District is not the responsibility of the City of Hesperia, in like manner, the debt issued by the City of Hesperia is not the responsibility of the Hesperia Water District. Debt of the Hesperia Water District decreased by a net amount of \$0.9 million in FY2008-09 as a result of the normal amortization of debt. Table 4, below, presents the outstanding debt.

**Table 4  
Outstanding Debt, at Year-end**

|                               | Principal<br>Balance at<br>June 30,2008 | Additions         | Deductions            | Principal<br>Balance at<br>June 30,2009 |
|-------------------------------|---|-------------------|-----------------------|---|
| Loans                         | \$ 554,652                              | \$ -              | \$ (365,981)          | \$ 188,671                              |
| Certificates of participation | 1,075,000                               | -                 | (40,000)              | 1,035,000                               |
| Revenue bonds                 | 15,530,000                              | -                 | (650,000)             | 14,880,000                              |
| Less: deferred amounts:       |   |                   |                       |   |
| Bond discounts                | (128,047)                               | -                 | 7,305                 | (120,742)                               |
| On refunding                  | (1,349,471)                             | -                 | 76,937                | (1,272,534)                             |
| Compensated absences          | 130,185                                 | 162,353           | (127,995)             | 164,543                                 |
| Claims payable                | 116,679                                 | 10,523            | (9,319)               | 117,883                                 |
|                               | <u>\$ 15,928,998</u>                    | <u>\$ 172,876</u> | <u>\$ (1,109,053)</u> | <u>\$ 14,992,821</u>                    |

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

During the 2007-08 fiscal year the Board approved a series of rate increases over a five year period starting with FY 2007-08. The overall water rate increase for the first three years is 7% followed by two years of 4%. The overall sewer rate increase for all five years is 7%.

The District is budgeted to use \$2.0 million of reserves in addition to the budgeted capital (water and sewer) revenues of \$0.9 million for various capital projects as outlined in the FY2009-10 Budget.

New items specifically addressed in the FY2009-10 budget were:

**Freeway Corridor:** The District has budgeted \$0.6 million to continue the plans for design and to begin construction of water and sewer infrastructure along the recently annexed I-15 freeway corridor.

**Other Water Facilities:** The District has budgeted \$2.6 million on other water distribution enhancements such as installing new pipelines, reservoir improvements, and equipping four wells.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Finance Division, at the Hesperia Water District, 9700 Seventh Avenue, Hesperia, California 92345.

**HESPERIA WATER DISTRICT**STATEMENT OF NET ASSETS  
June 30, 2009

|  | Water<br>Operations<br>& Capital | Sewer<br>Operations<br>& Capital | Total                 |
|--|----------------------------------|----------------------------------|-----------------------|
| <b>ASSETS</b>                          |                                  |                                  |                       |
| Current Assets:                        |                                  |                                  |                       |
| Cash and cash equivalents              | \$ -                             | \$ 663,373                       | \$ 663,373            |
| Receivables:                           |                                  |                                  |                       |
| Accounts, net                          | 2,902,605                        | 487,769                          | 3,390,374             |
| Accrued interest                       | 13,456                           | 18,679                           | 32,135                |
| Deposits                               | 22,284                           | 5,000                            | 27,284                |
| Inventories                            | 1,420,560                        | -                                | 1,420,560             |
| Advances to other funds                | -                                | 6,988,822                        | 6,988,822             |
| Due from other governmental agencies   | 18,750                           | 8,803                            | 27,553                |
| Restricted Assets:                     |                                  |                                  |                       |
| Cash and investments with fiscal agent | 10,305                           | -                                | 10,305                |
| Cash held for bondholders              | 383,774                          | -                                | 383,774               |
| Cash held for loan reserves            | 385,182                          | -                                | 385,182               |
| Total Current Assets                   | <u>5,156,916</u>                 | <u>8,172,446</u>                 | <u>13,329,362</u>     |
| Noncurrent Assets:                     |                                  |                                  |                       |
| Other Noncurrent Assets:               |                                  |                                  |                       |
| Prepaid expenses                       | 750,600                          | -                                | 750,600               |
| Advance to VVWRA                       | -                                | 148,449                          | 148,449               |
| Deferred charges                       | 299,627                          | -                                | 299,627               |
| Deposits                               | 324,619                          | 31,818                           | 356,437               |
| Total Other Noncurrent Assets          | <u>1,374,846</u>                 | <u>180,267</u>                   | <u>1,555,113</u>      |
| Capital Assets:                        |                                  |                                  |                       |
| Land                                   | 1,371,741                        | 1,701,678                        | 3,073,419             |
| Water rights                           | 1,699,000                        | -                                | 1,699,000             |
| Construction in progress               | 4,335,661                        | -                                | 4,335,661             |
| Land improvements                      | 790,727                          | -                                | 790,727               |
| Vehicles                               | 2,242,079                        | 75,819                           | 2,317,898             |
| Machinery and equipment                | 3,936,066                        | 265,768                          | 4,201,834             |
| Buildings and improvements             | 7,889,838                        | -                                | 7,889,838             |
| Water and sewer facilities             | 110,341,081                      | 7,137,408                        | 117,478,489           |
| Less: Accumulated depreciation         | <u>(46,121,737)</u>              | <u>(3,047,274)</u>               | <u>(49,169,011)</u>   |
| Total Capital Assets                   | <u>86,484,456</u>                | <u>6,133,399</u>                 | <u>92,617,855</u>     |
| Total Noncurrent Assets                | <u>87,859,302</u>                | <u>6,313,666</u>                 | <u>94,172,968</u>     |
| Total Assets                           | <u>\$ 93,016,218</u>             | <u>\$ 14,486,112</u>             | <u>\$ 107,502,330</u> |

See accompanying independent auditors' report and notes to basic financial statements.

**HESPERIA WATER DISTRICT**

| <b>LIABILITIES</b>  | <b>Water<br/>Operations<br/>&amp; Capital</b> | <b>Sewer<br/>Operations<br/>&amp; Capital</b> | <b>Total</b>         |
|---|---|---|----------------------|
| <b>Current Liabilities:</b>   |   |   |                      |
| Accounts payable  | \$ 1,675,345                                  | \$ 444,325                                    | \$ 2,119,670         |
| Accrued personnel costs   | 110,543                                       | 8,300   | 118,843              |
| Accrued interest payable  | 63,234  | -   | 63,234               |
| Deposits  | 516,753                                       | -   | 516,753              |
| Advances from other funds   | 6,988,822                                     | -   | 6,988,822            |
| Due to other governments  | -   | 310   | 310                  |
| Current liabilities payable from restricted<br>assets - due to bondholders        | 383,774                                       | -   | 383,774              |
| Long term debt due within one year  | 1,043,593                                     | 23,039  | 1,066,632            |
| <b>Total Current Liabilities</b>  | <b>10,782,064</b>                             | <b>475,974</b>                                | <b>11,258,038</b>    |
| <b>Noncurrent Liabilities:</b>  |   |   |                      |
| Net OPEB obligation   | 75,000  | -   | 75,000               |
| Deferred revenue  | -   | 50  | 50                   |
| Compensated absences  | 5,622   | 960   | 6,582                |
| Claims payable  | 107,359                                       | 10,523  | 117,882              |
| Revenue bonds (net of unamortized discounts<br>and deferred amounts on refunding) | 12,811,725                                    | -   | 12,811,725           |
| Certificates of participation   | 990,000                                       | -   | 990,000              |
| <b>Total Noncurrent Liabilities</b>   | <b>13,989,706</b>                             | <b>11,533</b>                                 | <b>14,001,239</b>    |
| <b>Total Liabilities</b>  | <b>24,771,770</b>                             | <b>487,507</b>                                | <b>25,259,277</b>    |
| <b>NET ASSETS</b>   |   |   |                      |
| Invested in capital assets, net of related debt                                   | 71,774,060                                    | 6,133,399                                     | 77,907,459           |
| Restricted for debt service   | 395,487                                       | -   | 395,487              |
| Unrestricted  | (3,925,099)                                   | 7,865,206                                     | 3,940,107            |
| <b>Total Net Assets</b>   | <b>\$ 68,244,448</b>                          | <b>\$ 13,998,605</b>                          | <b>\$ 82,243,053</b> |

See accompanying independent auditors' report and notes to basic financial statements.

**HESPERIA WATER DISTRICT**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Year Ended June 30, 2009

|   | Water<br>Operations<br>& Capital | Sewer<br>Operations<br>& Capital | Total                |
|---|----------------------------------|----------------------------------|----------------------|
| <b>OPERATING REVENUES</b>                       |                                  |                                  |                      |
| Water sales                                     | \$ 14,281,225                    | \$ -                             | \$ 14,281,225        |
| Water services                                  | 234,104                          | -                                | 234,104              |
| Sewer services                                  | -                                | 2,723,568                        | 2,723,568            |
| Other   | 200,890                          | -                                | 200,890              |
| Total Operating Revenues                        | <u>14,716,219</u>                | <u>2,723,568</u>                 | <u>17,439,787</u>    |
| <b>OPERATING EXPENSES</b>                       |                                  |                                  |                      |
| General and administrative                      | 6,089,717                        | -                                | 6,089,717            |
| Engineering                                     | 1,134,545                        | -                                | 1,134,545            |
| Production                                      | 3,152,741                        | -                                | 3,152,741            |
| Distribution                                    | 1,140,060                        | 1,502,983                        | 2,643,043            |
| Customer service                                | 2,026,828                        | -                                | 2,026,828            |
| Depreciation and amortization                   | 3,095,751                        | 208,342                          | 3,304,093            |
| Total Operating Expenses                        | <u>16,639,642</u>                | <u>1,711,325</u>                 | <u>18,350,967</u>    |
| <b>OPERATING INCOME (LOSS)</b>                  | <u>(1,923,423)</u>               | <u>1,012,243</u>                 | <u>(911,180)</u>     |
| <b>NON-OPERATING REVENUES (EXPENSES)</b>        |                                  |                                  |                      |
| Unrestricted system improvement and replacement | 555,950                          | -                                | 555,950              |
| Property taxes                                  | 291,762                          | -                                | 291,762              |
| Property taxes - debt service                   | 2,011                            | -                                | 2,011                |
| Rent income                                     | 389,357                          | -                                | 389,357              |
| Interest income                                 | 213,752                          | 112,818                          | 326,570              |
| Contributed infrastructure expense              | (3,500,508)                      | -                                | (3,500,508)          |
| Contributed equipment expense                   | (113,047)                        | -                                | (113,047)            |
| Interest expense                                | (1,151,778)                      | -                                | (1,151,778)          |
| Total Non-Operating Revenues (Expenses)         | <u>(3,312,501)</u>               | <u>112,818</u>                   | <u>(3,199,683)</u>   |
| Change In Net Assets                            | <u>(5,235,924)</u>               | <u>1,125,061</u>                 | <u>(4,110,863)</u>   |
| Net assets at beginning of year                 | <u>73,480,372</u>                | <u>12,873,544</u>                | <u>86,353,916</u>    |
| Net assets at end of year                       | <u>\$ 68,244,448</u>             | <u>\$ 13,998,605</u>             | <u>\$ 82,243,053</u> |

See accompanying independent auditors' report and notes to basic financial statements.

**HESPERIA WATER DISTRICT**

STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2009

|   | Water<br>Operations<br>& Capital | Sewer<br>Operations<br>& Capital | Total         |
|---|----------------------------------|----------------------------------|---------------|
| <b>Cash Flows from Operating Activities:</b>                          |                                  |                                  |               |
| Cash received from water and sewer customers                          | \$ 14,417,679                    | \$ 2,669,130                     | \$ 17,086,809 |
| Cash received from other operating receipts                           | 200,890                          | -                                | 200,890       |
| Cash payments for water purchases                                     | (5,184,139)                      | -                                | (5,184,139)   |
| Cash payments for sewer collection and maintenance                    | -                                | (1,285,101)                      | (1,285,101)   |
| Cash payments for services and supplies                               | (1,341,705)                      | -                                | (1,341,705)   |
| Cash payments to employees for services                               | (8,989,752)                      | -                                | (8,989,752)   |
| Net Cash Provided (Used) by Operating Activities                      | (897,027)                        | 1,384,029                        | 487,002       |
| <b>Cash Flows from Noncapital and Related Financing Activities:</b>   |                                  |                                  |               |
| Property taxes received   | 293,773                          | -                                | 293,773       |
| Net Cash Provided for Noncapital and Related Financing Activities     | 293,773                          | -                                | 293,773       |
| <b>Cash Flows from Capital and Related Financing Activities:</b>      |                                  |                                  |               |
| Acquisition and construction of capital assets                        | (9,776,336)                      | (549,066)                        | (10,325,402)  |
| Unrestricted system improvement and replacement receipts              | 555,950                          | -                                | 555,950       |
| Advances from/to other funds  | 6,988,822                        | (6,988,822)                      | -             |
| Advance to VVWRA  | -                                | (148,449)                        | (148,449)     |
| Cash received from assessments  | 41,635                           | -                                | 41,635        |
| Cash paid to bondholders  | (591,022)                        | -                                | (591,022)     |
| Interest payments on long-term debt                                   | (1,034,164)                      | -                                | (1,034,164)   |
| Principal payments on long-term debt                                  | (1,055,981)                      | -                                | (1,055,981)   |
| Net Cash Provided (Used) for Capital and Related Financing Activities | (4,871,096)                      | (7,686,337)                      | (12,557,433)  |
| <b>Cash Flows from Investing Activities:</b>                          |                                  |                                  |               |
| Rents received  | 389,357                          | -                                | 389,357       |
| Interest received   | 294,568                          | 135,621                          | 430,189       |
| Net Cash Provided by Investing Activities                             | 683,925                          | 135,621                          | 819,546       |
| Net Increase (Decrease) in Cash and Cash Equivalents                  | (4,790,425)                      | (6,166,687)                      | (10,957,112)  |
| <b>Cash and cash equivalents at beginning of year</b>                 | 5,569,686                        | 6,830,060                        | 12,399,746    |
| <b>Cash and cash equivalents at end of year</b>                       | \$ 779,261                       | \$ 663,373                       | \$ 1,442,634  |

(continued)

See accompanying independent auditors' report and notes to basic financial statements.

STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2009

|   | Water<br>Operations<br>& Capital | Sewer<br>Operations<br>& Capital | Total        |
|---|----------------------------------|----------------------------------|--------------|
| <b>Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities:</b> |                                  |                                  |              |
| Operating income (Loss)   | \$ (1,923,423)                   | \$ 1,012,243                     | \$ (911,180) |
| Adjustments to Reconcile Operating Income to<br>Net Cash Provided by Operating Activities:    |                                  |                                  |              |
| Depreciation and amortization   | 3,095,751                        | 208,342                          | 3,304,093    |
| Changes in operating assets and liabilities:  |                                  |                                  |              |
| (Increase) decrease in accounts receivable  | (97,651)                         | (93,338)                         | (190,989)    |
| (Increase) decrease in deposits   | 44,464                           | 1,310                            | 45,774       |
| (Increase) decrease in inventory  | (201,645)                        | -                                | (201,645)    |
| (Increase) decrease in due from other governments   | (5,466)                          | 37,077                           | 31,611       |
| Increase (decrease) in accounts payable   | (2,031,398)                      | 213,017                          | (1,818,381)  |
| Increase (decrease) in accrued personnel costs  | 11,231                           | 1,823                            | 13,054       |
| Increase (decrease) in customer deposits  | 104,997                          | -                                | 104,997      |
| Increase (decrease) in due to other governments   | -                                | 310                              | 310          |
| Increase (decrease) in net OPEB obligation  | 75,000                           | -                                | 75,000       |
| Increase (decrease) in compensated absences   | 31,113                           | 3,245                            | 34,358       |
| Total Adjustments   | 1,026,396                        | 371,786                          | 1,398,182    |
| Net Cash Provided (Used) by Operating Activities  | \$ (897,027)                     | \$ 1,384,029                     | \$ 487,002   |

**Noncash Capital Financing Activities:**

Capital assets consisting of infrastructure (\$3,500,508) and equipment (\$113,047) were contributed to the City of Hesperia.

See accompanying independent auditors' report and notes to basic financial statements.

June 30, 2009

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Hesperia Water District (the District) conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

## a. Description of Reporting Entity:

The District was organized pursuant to Section 30000 et seq. of the California Water Code. The District has two main areas of responsibility that are as follows:

Water Operations & Capital - The Water Division's main objective is to deliver and ensure adequate supplies of water. The water is to meet all drinking water quality regulations and to maintain District Facilities to ensure unobstructed flows during water runoff.

Sewer Operations & Capital - The Sewer Division's main objective is to transmit and ensure continuous unobstructed flows of sewage to the regional plant.

The District is an integral part of the reporting entity of the City of Hesperia (the City). The accounts of the District have been included within the scope of the basic financial statements of the City because the City Council has financial accountability over the operations of the District. Only the accounts of the District are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Hesperia.

## b. Basic Financial Statements:

The basic financial statements are comprised of the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, the Statement of Cash Flows and the Notes to Basic Financial Statements.

## c. Basis of Presentation:

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

The District has elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements. The District has opted not to apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989.

See accompanying independent auditors' report.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

## d. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the “economic resources measurement focus”, and the “accrual basis of accounting”. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

The District distinguishes operating revenues and expenses from those revenues and expenses that are nonoperating. Operating revenues are those revenues that are generated by water sales and sewer services while operating expenses pertain directly to the furnishing of those sales and services. Nonoperating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of supplying water and sewer services.

## e. Net Assets:

In the Statement of Net Assets, net assets are classified in the following categories:

- Invested in capital assets, net of related debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.
- Restricted net assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets”.

## f. Inventories:

Inventories consist of materials and supplies that are valued at cost and are recorded as expenses on a first-in, first-out basis when consumed.

## g. Compensated Absences:

A liability is recorded for unused vacation and similar compensatory leave balances since the employees’ entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

Vacation pay is payable to employees at the time vacation is taken or upon termination of employment. Normally, an employee can not accrue more than 160 hours during a one year accrual period.

Sick leave is payable when an employee is unable to work because of illness. Upon termination, any unused sick leave will not be paid.

See accompanying independent auditors’ report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

h. Unbilled Services:

Unbilled water revenue of the enterprise fund is recognized as earned when the water is consumed.

i. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires 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.

j. Property Taxes:

Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent of county-wide assessed valuations. This levy is allocated pursuant to state law to the appropriate units of local government.

Property tax revenue is recognized in the fiscal year in which they have been levied.

The property tax calendar is as follows:

|                  |   |
|------------------|---|
| Lien Date:       | January 1   |
| Levy Date:       | July 1  |
| Due Date:        | First Installment - November 10<br>Second Installment - February 10 |
| Delinquent Date: | First Installment - December 11<br>Second Installment - April 11    |

k. Cash and Investments:

Investments are stated at fair value (quoted market price or best available estimate thereof, see Note 2).

l. Capital Assets and Depreciation:

Capital Assets are stated at cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Net interest costs are capitalized on projects during the construction period. The District's capitalization policy sets the threshold for reporting capital assets at \$5,000.

Depreciation is charged using the straight-line method based on the estimated useful life of the related asset. The estimated useful life of the assets are as follows:

|                            |            |
|----------------------------|------------|
| Buildings                  | 30 years   |
| Improvements               | 20 years   |
| Machinery and equipment    | 5-30 years |
| Vehicles                   | 8 Years    |
| Water and sewer facilities | 40 years   |

See accompanying independent auditors' report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

m. Statement of Cash Flows:

For purposes of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased and all amounts invested in a cash and investment pool to be cash equivalents.

n. Claims and Judgments and Self-Insurance Program:

When it is probable that a claim liability has been incurred at year end, and the amount of the loss can be reasonably estimated, the District records the estimated loss, net of any insurance coverage under its self-insurance program. At June 30, 2009, in the opinion of the District's Attorney, the District had no material unrecorded claims which would require loss provision in the financial statements, including losses for claims which are Incurred But Not Reported (IBNR). Small dollar claims and judgments are recorded as expenses when paid.

The District participates in the self-insurance program of the City of Hesperia. Information relating to the self-insurance program can be found in the notes to the basic financial statements of the City of Hesperia.

o. Accounts receivable and Allowances:

Accounts receivable are recorded at the invoiced amount. The District maintains an allowance for doubtful accounts. The allowance for doubtful accounts is based on the best estimate of the amount of probable future credit losses in existing accounts receivable. The District reviews the allowance for doubtful accounts on an annual basis. There was no allowance for doubtful accounts at 6/30/09.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS:

Cash and investments at June 30, 2009 are classified in the accompanying financial statements as follows:

STATEMENT OF NET ASSETS:

Current Assets:

|                           |            |
|---------------------------|------------|
| Cash and cash equivalents | \$ 663,373 |
|---------------------------|------------|

Restricted assets:

|  |        |
|--|--------|
| Cash and investments with fiscal agent | 10,305 |
|--|--------|

|                           |         |
|---------------------------|---------|
| Cash held for bondholders | 383,774 |
|---------------------------|---------|

|                             |         |
|-----------------------------|---------|
| Cash held for loan reserves | 385,182 |
|-----------------------------|---------|

|  |              |
|--|--------------|
| Total cash, cash equivalents and investments | \$ 1,442,634 |
|--|--------------|

See accompanying independent auditors' report.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued):

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

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District's, rather than the general provisions of the California Government Code or the District's investment policy.

| <u>Authorized Investment Type</u>       | <u>Maximum Maturity</u> | <u>Maximum Percentage Of Portfolio</u> | <u>Maximum Investment In One Issuer</u> |
|---|-------------------------|--|---|
| U.S. Treasury Obligations               | 5 years                 | 100%                                   | None                                    |
| U.S. & State or Local Agency Securities | 5 years                 | 100%                                   | None                                    |
| Banker's Acceptances                    | 180 days                | 25%                                    | 5%                                      |
| Commercial Paper                        | 270 days                | 15%                                    | None                                    |
| Negotiable Certificates of Deposit      | 5 years                 | 25%                                    | None                                    |
| Repurchase Agreements                   | 1 years                 | 20%                                    | None                                    |
| Local Agency Investment Fund (LAIF)     | N/A                     | 100%                                   | None                                    |
| Medium-Term Notes                       | 5 years                 | 30%                                    | None                                    |
| Mutual & Money Market Funds             | 90 days                 | 20%                                    | None                                    |
| Collateralized Bank Deposits            | 5 years                 | 10%                                    | None                                    |
| Investment Pools                        | N/A                     | 30%                                    | None                                    |
| Municipal Bonds                         | 5 years                 | 10%                                    | None                                    |

Investments Authorized by Debt Agreements:

Investment of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City of Hesperia's investment policy. Investments authorized for funds held by bond trustee include, U.S. Treasury Obligations, Export-Import Bank, Federal Housing Administration Debentures, Government National Mortgage Association, U.S. Maritime Administration, U.S. Agency Securities, Money Market Funds, Certificates of Deposits, Commercial Paper, Interest Bearing Demand or Time Deposits, Banker's Acceptances, Repurchase Agreements, Repurchase Agreements Collateralized, Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Municipal Obligations, any other investment approved by the credit entity. There were no limitations on the maximum amount that can be invested in one issuer, maximum percentage allowed or the maximum maturity of an investment.

Disclosures Related to Interest Rate Risk, Credit Risk, and Custodial Credit Risk:

The District's cash and investments are pooled with the City of Hesperia's cash and investments. Additional disclosures regarding \$1,442,634 in pooled investments related to interest rate risk, credit risk and custodial credit risk are available in the City of Hesperia's Comprehensive Annual Financial Report.

See accompanying independent auditors' report.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued):

Investment in State Investment Pool:

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

3. ADVANCE TO VVWRA:

The District made an advance to Victor Valley Wastewater Reclamation Authority (VVWRA) totaling \$148,449 as of June 30, 2009. The advance bears a fixed interest rate of six percent (6%) per annum. This advance is not expected to be repaid within one year.

4. CAPITAL ASSETS AND DEPRECIATION:

Capital asset activity for the year ended June 30, 2009 was as follows:

|   | Balance at<br>June 30, 2008 | Increases            | Decreases              | Balance at<br>June 30, 2009 |
|---|-----------------------------|----------------------|------------------------|-----------------------------|
| Capital assets, not being depreciated:          |                             |                      |                        |                             |
| Land  | \$ 1,371,741                | \$ 1,701,678         | \$ -                   | \$ 3,073,419                |
| Water Rights                                    | 1,308,400                   | 390,600              | -                      | 1,699,000                   |
| Construction in Progress                        | 12,356,001                  | 5,927,883            | (13,948,223)           | 4,335,661                   |
| Total capital assets,<br>not being depreciated  | <u>15,036,142</u>           | <u>8,020,161</u>     | <u>(13,948,223)</u>    | <u>9,108,080</u>            |
| Capital assets being depreciated:               |                             |                      |                        |                             |
| Land Improvements                               | 790,727                     | -                    | -                      | 790,727                     |
| Vehicles  | 2,321,178                   | 48,220               | (51,500)               | 2,317,898                   |
| Machinery and Equipment                         | 4,138,273                   | 63,561               | -                      | 4,201,834                   |
| Building and Improvements                       | 7,658,113                   | 231,725              | -                      | 7,889,838                   |
| Water facilities                                | 96,896,866                  | 13,444,215           | -                      | 110,341,081                 |
| Sewer facilities                                | 6,633,400                   | 504,008              | -                      | 7,137,408                   |
| Total capital assets,<br>being depreciated      | <u>118,438,557</u>          | <u>14,291,729</u>    | <u>(51,500)</u>        | <u>132,678,786</u>          |
| Less accumulated depreciation for:              |                             |                      |                        |                             |
| Land Improvements                               | (483,717)                   | (32,818)             | -                      | (516,535)                   |
| Vehicles  | (975,065)                   | (219,273)            | 51,500                 | (1,142,838)                 |
| Machinery and Equipment                         | (3,069,964)                 | (178,695)            | -                      | (3,248,659)                 |
| Building and Improvements                       | (5,434,851)                 | (232,524)            | -                      | (5,667,375)                 |
| Water facilities                                | (33,327,741)                | (2,456,521)          | -                      | (35,784,262)                |
| Sewer facilities                                | (2,642,992)                 | (166,350)            | -                      | (2,809,342)                 |
| Total accumulated depreciation                  | <u>(45,934,330)</u>         | <u>(3,286,181)</u>   | <u>51,500</u>          | <u>(49,169,011)</u>         |
| Total capital assets,<br>being depreciated, net | <u>72,504,227</u>           | <u>11,005,548</u>    | <u>-</u>               | <u>83,509,775</u>           |
| Total capital assets, net                       | <u>\$ 87,540,369</u>        | <u>\$ 19,025,709</u> | <u>\$ (13,948,223)</u> | <u>\$ 92,617,855</u>        |

See accompanying independent auditors' report.

5. LONG-TERM DEBT:

Following is a summary of the changes in principal balance of long-term debt for the year ended June 30, 2009:

|                               | Principal<br>Balance at<br>June 30, 2008 | Additions  | Deductions     | Principal<br>Balance at<br>June 30, 2009 | Due<br>Within<br>One Year |
|-------------------------------|--|------------|----------------|--|---------------------------|
| Loans                         | \$ 554,652                               | \$ -       | \$ (365,981)   | \$ 188,671                               | \$ 188,671                |
| Certificates of Participation | 1,075,000                                | -          | (40,000)       | 1,035,000                                | 45,000                    |
| Total Loans                   | 1,629,652                                | -          | (405,981)      | 1,223,671                                | 233,671                   |
| Revenue Bonds                 | 15,530,000                               | -          | (650,000)      | 14,880,000                               | 675,000                   |
| Less deferred amounts:        |  |            |                |  |                           |
| Bond discounts                | (128,047)                                | -          | 7,305          | (120,742)                                | -                         |
| On refunding                  | (1,349,471)                              | -          | 76,937         | (1,272,534)                              | -                         |
| Total Revenue Bonds           | 14,052,482                               | -          | (565,758)      | 13,486,724                               | 675,000                   |
| Compensated absences          | 130,185                                  | 162,353    | (127,995)      | 164,543                                  | 157,961                   |
| Claims Payable                | 116,679                                  | 10,523     | (9,319)        | 117,883                                  | -                         |
| Total Long-term Debt          | \$ 15,928,998                            | \$ 172,876 | \$ (1,109,053) | \$ 14,992,821                            | \$ 1,066,632              |

Long-term debt at June 30, 2009 is comprised of the following issues:

Balance at  
June 30, 2009

Proposition 28 Loan from State of California:

The District has a contract with the State of California, as of May 20, 1987, for a \$5,000,000 loan (additional \$200,000 administrative fee) under the Safe Drinking Water Bond Law of 1984. These funds are to assist the District in meeting minimum safe drinking water standards for the domestic water supply. The interest rate is 4.144% per year and matures through October, 2009 with semi-annual payments of \$192,591. The loan agreement requires a reserve equal to two semi-annual payments in the amount of \$385,182. At June 30, 2009, a total of \$385,182 was held in reserve.

\$ 188,671

1992B Certificates of Participation:

The District issued 30-year Certificates of Participation on June 1, 1992, for \$1,405,000 for the Administration Facilities Acquisition Project. The issue bears interest at a rate of 9% over its remaining life and matures through the year 2022 with principal payments ranging from \$20,000 to \$125,000. The Certificates will be financed by revenues generated by the District through set rates and charges for water and sewer services.

1,035,000

See accompanying independent auditors' report.

5. LONG-TERM DEBT (Continued):

1998A Variable Rate Lease Revenue Refunding Bonds:

The District issued 28-year variable rate lease revenue refunding bonds on July 2, 1998 for \$18,040,000 to refund a 1991, \$17,675,000 Certificate of Participation issue. The 1991 Certificate of participation is considered defeased; therefore, the issue is not included in the District's financial statements. The District is legally required to make principal and interest payments from the net revenues of the District. The 1998A issue has an initial interest rate of 5.95%, and weekly variable rates thereafter until the fixed rate conversion date, with maturities through the year 2026, ranging from \$435,000 to \$1,105,000. The 1998A bonds were issued at a discount of \$180,400, which is being amortized over the life of the 1998A Bonds. The difference between the reacquisition price and the net carrying value of the 1991 Certificate of Participation, \$1,906,482 has been deferred and is being amortized over the remaining life of the Bonds as a component of interest expense. In June, 2004, the District entered into a variable-to-fixed-interest rate swap with Bank of America, N.A. The swap requires Bank of America, N.A. to pay the variable rate while fixing the District rate at 5.96%. The agreement provides up to \$10,000,000 can be fixed at 5.96%. The amount fixed with the counterparty decreases over time to \$6,910,000 at June 20, 2020. At June 30, 2006 the amount fixed was \$10,000,000.

13,530,000

1998B Variable Rate Lease Revenue Refunding Bonds:

The District issued 24-year variable rate lease revenue refunding bonds on July 2, 1998 for \$2,070,000 to refund a 1992, \$1,855,000 Certificate of Participation issue. The 1992A Certificate of Participation is considered defeased; therefore, the issue is not included in the District's financial statements. The District is legally required to make principal and interest payments from the net revenues of the District. The 1998A issue has a initial interest rate of 3.95%, and weekly variable rates thereafter until the fixed rate conversion date, with maturities through the year 2022, ranging from \$55,000 to \$130,000. The difference between the reacquisition price and the net carrying value of the 1992A Certificate of Participation, \$212,358 has been deferred and is being amortized over the remaining life of the Bonds as a component of interest expense.

1,350,000

Compensated Absences

164,543

Claims Payable

117,883

Subtotal

16,386,097

Less: Current Portion – Due Within One Year

(1,066,632)

Deferred amounts on bonds

(1,393,276)

Total Long-Term Portion of Long-Term Debt

\$13,926,189

See accompanying independent auditors' report.

5. LONG-TERM DEBT (Continued):

The annual debt service requirements by year for Loans Payable are as follows:

| Fiscal Year<br>Ending | Principal         | Interest        | Total             |
|-----------------------|-------------------|-----------------|-------------------|
| 2010                  | \$ 188,671        | \$ 3,836        | \$ 192,507        |
|                       | <u>\$ 188,671</u> | <u>\$ 3,836</u> | <u>\$ 192,507</u> |

The annual debt service requirements by year for the Certificates of Participation are as follows:

| Fiscal Year<br>Ending | Principal           | Interest          | Total               |
|-----------------------|---------------------|-------------------|---------------------|
| 2010                  | \$ 45,000           | \$ 93,150         | \$ 138,150          |
| 2011                  | 50,000              | 89,100            | 139,100             |
| 2012                  | 55,000              | 84,600            | 139,600             |
| 2013                  | 60,000              | 79,650            | 139,650             |
| 2014                  | 65,000              | 74,250            | 139,250             |
| 2015-2019             | 415,000             | 274,050           | 689,050             |
| 2020-2022             | 345,000             | 63,900            | 408,900             |
|                       | <u>\$ 1,035,000</u> | <u>\$ 758,700</u> | <u>\$ 1,793,700</u> |

The annual debt service requirements by year for Revenue Bonds are as follows:

| Fiscal Year<br>Ending | Principal            | Interest            | Total                |
|-----------------------|----------------------|---------------------|----------------------|
| 2010                  | \$ 675,000           | \$ 796,347          | \$ 1,471,347         |
| 2011                  | 705,000              | 761,732             | 1,466,732            |
| 2012                  | 730,000              | 725,602             | 1,455,602            |
| 2013                  | 760,000              | 688,222             | 1,448,222            |
| 2014                  | 790,000              | 649,247             | 1,439,247            |
| 2015-2019             | 4,435,000            | 2,606,469           | 7,041,469            |
| 2020-2024             | 5,115,000            | 1,381,707           | 6,496,707            |
| 2025-2026             | 1,670,000            | 174,213             | 1,844,213            |
|                       | <u>\$ 14,880,000</u> | <u>\$ 7,783,539</u> | <u>\$ 22,663,539</u> |

6. PENSION PLAN OBLIGATIONS:

Plan Description:

The District's employees participate in the Miscellaneous 2.7% at 55 Risk Pool (Plan) of the California Public Employees' Retirement System (PERS). This plan is cost-sharing, multiple-employer defined benefit pension plan administered by PERS. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with PERS and adopts those benefits through local ordinance. Copies of PERS' annual financial report may be obtained from the PERS Executive Office: 400 P Street, Sacramento, CA 95814.

Funding Policy:

Participants are required to contribute 8% of their annual covered salary. The District made the contributions required of District employees on their behalf and for their account. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution for this year into the plan for the fiscal year ended June 30, 2009 was 8.218%, of their annual covered payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by PERS. The District's employer contribution for the last three fiscal years, which were equal to the required contribution each year were \$443,818, \$280,499 and \$158,971 for the years ended June 30, 2009, 2008 and 2007 respectively. PERS does not provide individual plan trend information for risk pools.

7. OTHER POST EMPLOYMENT BENEFITS:

Plan Description:

The District's defined benefit postemployment healthcare plan, (DHP), provides medical benefits to eligible retired District employees and beneficiaries. DHP is part of the Public Agency portion of the California Employers' Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. DHP selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy:

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. DHP members receiving benefits contribute based on their selected plan options. The District makes all contributions of the plan members.

7. OTHER POST EMPLOYMENT BENEFITS (Continued):

Annual OPEB Cost and Net OPEB Obligation/Asset:

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate is 2.7% of the annual covered payroll.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation/asset:

|  |                         |
|--|-------------------------|
| Annual Required Contribution (ARC)               | \$ 79,000               |
| Interest on net OPEB asset                       | -                       |
| Adjustment to Annual Required Contribution (ARC) | -                       |
| Annual OPEB cost (expense)                       | <u>79,000</u>           |
| Contributions made                               | <u>(4,000)</u>          |
| Increase in net OPEB asset                       | 75,000                  |
| Net OPEB obligation - beginning of year          | -                       |
| Net OPEB obligation - end of year                | <u><u>\$ 75,000</u></u> |

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 years 2009, 2008 and 2007 were as follows:

| THREE-YEAR TREND INFORMATION FOR CERBT |                        |                                     |                     |
|--|------------------------|-------------------------------------|---------------------|
| Fiscal Year                            | Annual OPEB Cost (AOC) | Percentage of OPEB Cost Contributed | Net OPEB Obligation |
| 6/30/2009                              | \$ 79,000              | 5.1%                                | \$ 75,000           |
| 6/30/2008                              | *                      | *                                   | *                   |
| 6/30/2007                              | *                      | *                                   | *                   |

\*The information for the two preceding years is unavailable. GASB 45 was implemented prospectively in fiscal year 2009.

Funded Status and Funding Progress:

The funded status of the plan as of June 30, 2008, the most recent actuarial valuation date, was as follows:

|   |                  |
|---|------------------|
| Actuarial Accrued Liability (AAL)                 | \$ 383,000       |
| Actuarial Value of Plan Assets                    | <u>-</u>         |
| Unfunded Actuarial Accrued Liability (UAAL)       | 383,000          |
| Funded Ratio (Actuarial Value of Plan Assets/AAL) | 0.0%             |
| Covered Payroll (Active Members)                  | <u>2,861,500</u> |
| UAAL as a Percentage of Covered Payroll           | 13.4%            |

See accompanying independent auditors' report.

7. OTHER POST EMPLOYMENT BENEFITS (Continued)

Funded Status and Funding Progress (Continued):

Actuarial valuations of an ongoing plan involve estimates of the value of 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 funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

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 the 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 employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

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

|                               |  |
|-------------------------------|--|
| Valuation Date                | June 30, 2008                          |
| Actuarial Cost Method         | Entry Age Normal Cost Method           |
| Amortization Method           | Level Percent of Payroll               |
| Remaining Amortization Period | 30 Years as of the Valuation Date      |
| Asset Valuation method        | 15 Year Smoothed Market                |
| Actuarial Assumptions:        |  |
| Investment Rate of Return     | 4.25% (Net of Administrative Expenses) |
| Projected Salary Increase     | 3.25%                                  |
| Inflation                     | 3.00%                                  |
| PEMHCA Minimum Growth         | 4.50%                                  |
| Individual Salary Growth      | CalPERS 1997-2002 Experience Study     |

**REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Funding Progress for DPHP

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(A) | Actuarial<br>Accrued<br>Liability<br>(AAL) Entry<br>Age<br>(B) | Unfunded<br>(Over Funded)<br>AAL<br>(UAAL)<br>(B - A) | Funded<br>Ratio<br>(A / B) | Covered<br>Payroll<br>( C ) | UAAL as a<br>% of<br>Covered<br>Payroll<br>(B - A / C) |
|--------------------------------|--|--|---|----------------------------|-----------------------------|--|
| 6/30/2008:                     |  |  |   |                            |                             |  |
| Water                          | \$ -                                   | \$ 383,000   | \$ 383,000  | 0.0%                       | \$ 2,861,500                | 13.4%  |
| Total                          | \$ -                                   | \$ 383,000   | \$ 383,000  | 0.0%                       | \$ 2,861,500                | 13.4%  |
| 6/30/2007:                     |  |  |   |                            |                             |  |
| Water                          | *                                      | *  | *   | *                          | *                           | *  |
| Total                          | *                                      | *  | *   | *                          | *                           | *  |

\*GASB 45 was implemented prospectively in fiscal year 2009. The information for the two preceding years is unavailable.