Indian Wells Valley Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2014 and 2013

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 29 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, eleven water tanks that provide for 17.1 million gallons of storage, and seven booster stations.

Indian Wells Valley Water District

Board of Directors as of June 30, 2014

Name	Title	Elected/ Appointed	Current Term
Don J. McKernan	President	Elected	12/12-12/14
Leroy H. Corlett	Vice-President	Elected	12/12-12/16
Peter E. Brown	Director	Elected	12/10-12/14
Charles F. Cordell	Director	Elected	12/12-12/16
Donald J. Cortichiato	Director	Elected	12/12-12/16

Indian Wells Valley Water District
Donald M. Zdeba, General Manager
500 W. Ridgecrest Blvd.
Ridgecrest, California 93555
(760) 375-5086 – www.iwvwd.com

Indian Wells Valley Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2014 and 2013

Indian Wells Valley Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2014 and 2013

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Financial Section

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

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Certified Public Accountants
An Accountancy Corporation

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Independent Auditor's Report

Board of Directors
Indian Wells Valley Water District
Ridgecrest, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Indian Wells Valley Water District (District) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2014 and 2013, and the respective changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the required supplementary information on page 29 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 31 and 32.

Charles Z Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak and Company, CPAs – An Accountancy Corporation
Cypress, California
October 31, 2014

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Indian Wells Valley Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2014 and 2013. The two year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position increased 1.7%, or $635,003 to $38,718,816, in fiscal year 2014 as a result of operations. In 2013, net position increased 4.3%, or $1,568,562 to $38,083,813, as a result of operations.
- The District's operating revenues increased 0.3%, or $30,322, in fiscal year 2014 primarily due to a $38,762 increase in ready-to-serve charges. In 2013, the District's operating revenues increased 10.9%, or $1,033,761, primarily due to a $1,269,431increase in ready-to-serve charges.
- The District's operating expenses before depreciation increased 19.5%, or $1,063,522, in fiscal year 2014 primarily due to increases in pumping plant expenses of $778,802, arsenic plant expenses of $181,015, transmission and distribution expenses of $145,284, and field services expenses of $60,841, which were offset by a decrease in general and administrative expenses of $100,068. In 2013, operating expenses before depreciation decreased 0.13%, or $7,019, primarily due to decreases in engineering expenses of $113,421 and general and administrative expenses of $83,819, which were offset by increases in transmission and distribution expenses of $105,625, customer service expenses of $66,191, and field services expenses of $15,804.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

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

Financial Analysis of the District

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

Financial Analysis of the District, continued

These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. One can think of the District's net position – 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 position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 12 through 28.

Statement of Net Position

Condensed Statements of Net Position

	2014	2013	Change
Assets:			
Current assets	$ 13,378,852	13,147,999	230,853
Non-current assets	2,381,306	2,505,714	(124,408)
Capital assets, net	46,586,536	46,803,918	(217,382)
Total assets	62,346,694	62,457,631	(110,937)
Liabilities:			
Current liabilities	2,394,351	1,830,283	564,068
Non-current liabilities	21,233,527	22,543,535	(1,310,008)
Total liabilities	23,627,878	24,373,818	(745,940)
Net position:			
Net investment in capital assets	24,324,483	23,276,872	1,047,611
Restricted	1,886,241	1,936,561	(50,320)
Unrestricted	12,508,092	12,870,380	(362,288)
Total net position	38,718,816	38,083,813	635,003
Total liabilities and net position	$ 62,346,694	62,457,631	(110,937)

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by $38,718,816 and $38,083,813 as of June 30, 2014 and 2013, respectively.

By far the largest portion of the District's net position (63% as of June 30, 2014 and 61% as of June 30, 2013) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2014 and 2013, the District showed a positive balance in its unrestricted net position of $12,508,092 and $12,870,380, respectively, which may be utilized in future years. See note 11 for further information.

Statement of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2014	2013	Change
Revenue:			
Operating revenue	$ 10,520,585	10,490,263	30,322
Non-operating revenue	310,963	389,715	(78,752)
Total revenue	10,831,548	10,879,978	(48,430)
Expense:			
Operating expense	6,520,686	5,457,164	1,063,522
Depreciation	2,527,812	2,628,885	(101,073)
Non-operating expense	1,218,711	1,388,346	(169,635)
Total expense	10,267,209	9,474,395	792,814
Net income before capital	564,339	1,405,583	(841,244)
Capital contributions:	70,664	162,979	(92,315)
Change in net position	635,003	1,568,562	(933,559)
Net position, beginning of year	38,083,813	36,515,251	1,568,562
Net position, end of year	$ 38,718,816	38,083,813	635,003

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the fiscal years. In the case of the District, the District's change in net position increased by $635,003 and $1,568,562 for the fiscal years ended June 30, 2014 and 2013, respectively.

A closer examination of the sources of changes in net position reveals that:

In 2014, the District's operating revenues increased 0.3%, or $30,322, primarily due to a $38,762 increase in ready-to-serve charges. In 2013, the District's operating revenues increased 10.9%, or $1,033,761, primarily due to a $1,269,431increase in ready-to-serve charges.

In 2014, the District's operating expenses before depreciation increased 19.5%, or 1,063,522, primarily due to increases in pumping plant expenses of $778,802, arsenic plant expenses of $181,015, transmission and distribution expenses of $145,284, and field services expenses of $60,841, which were offset by a decrease in general and administrative expenses of $100,068. In 2013, operating expenses before depreciation decreased 0.13%, or $7,019, primarily due to decreases in engineering expenses of $113,421 and general and administrative expenses of $83,819, which were offset by increases in transmission and distribution expenses of $105,625, customer service expenses of $66,191, and field services expenses of $15,804.

Capital Asset Administration

Changes in capital asset amounts for 2014 were as follows:

		Balance 2013	Additions	Transfers/ Deletions	Balance 2014
Capital assets:					
Non-depreciable assets	$	3,398,993	2,987,773	(2,003,971)	4,382,795
Depreciable assets		86,957,179	1,326,628	-	88,283,807
Accumulated depreciation		(43,552,254)	(2,527,812)	-	(46,080,066)
Total capital assets, net	$	46,803,918	1,786,589	(2,003,971)	46,586,536

Changes in capital asset amounts for 2013 were as follows:

		Balance 2012	Additions	Transfers/ Deletions	Balance 2013
Capital assets:					
Non-depreciable assets	$	3,301,250	610,683	(512,940)	3,398,993
Depreciable assets		86,549,782	407,397	-	86,957,179
Accumulated depreciation		(40,923,369)	(2,628,885)	-	(43,552,254)
Total capital assets, net	$	48,927,663	(1,610,805)	(512,940)	46,803,918

At the end of fiscal year 2014 and 2013, the District's investment in capital assets amounted to $46,586,536 and $46,803,918 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, buildings, equipment, vehicles and construction-in-process, etc. See note 5 for further information.

Debt Administration

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

		Balance 2013	Additions	Transfers/ Deletions	Balance 2014
Long-term debt:					
COPs payable	$	18,945,000	-	(370,000)	18,575,000
Loans payable		4,582,046	-	(894,993)	3,687,053
Total long-term debt	$	23,527,046	-	(1,264,993)	22,262,053

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

		Balance 2012	Additions	Transfers/ Deletions	Balance 2013
Long-term debt:					
COPs payable	$	22,700,000	-	(3,755,000)	18,945,000
Loans payable		2,476,538	2,815,000	(709,492)	4,582,046
Total long-term debt	$	25,176,538	2,815,000	(4,464,492)	23,527,046

See notes 7 and 8 for further information.

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net position or operating results based on past, present and future events.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Chief Financial Officer at 500 W. Ridgecrest Blvd, Ridgecrest, California 93555 – (760) 375-5086.

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Basic Financial Statements

Indian Wells Valley Water District
Statements of Net Position
June 30, 2014 and 2013

Assets		2014	2013
Current assets:			
Cash and cash equivalents (note 2)	$	9,671,213	9,451,166
Restricted – cash and cash equivalents (note 2)		2,138,183	2,195,330
Accrued interest receivable		8,387	8,706
Accrued interest receivable – assessment bonds receivable		162,576	-
Accounts receivable – water sales and services		647,724	751,311
Accounts receivable – other		43,019	46,361
Assessment bonds receivable – current and delinquent (note 3)		319,705	314,483
Materials and supplies inventory		341,635	351,311
Prepaid expenses and other deposits		46,410	29,331
Total current assets		13,378,852	13,147,999
Non-current assets:			
Mitigation deposit – California Department of Fish and Game		120,000	120,000
Assessment bonds receivable (note 3)		1,295,000	1,525,000
Other post-employment benefits asset (note 4)		966,306	860,714
Capital assets – not being depreciated (note 5)		4,382,795	3,398,993
Capital assets, net – being depreciated (note 5)		42,203,741	43,404,925
Total non-current assets		48,967,842	49,309,632
Total assets	$	62,346,694	62,457,631
Liabilities and Net Position			
Current liabilities:			
Accounts payable and accrued expenses	$	648,114	170,855
Accrued wages and related payables		26,241	14,342
Customer deposits and deferred revenue		256,855	247,484
Accrued interest payable		251,942	258,769
Long-term liabilities – due within one year:			
Compensated absences (note 6)		102,297	62,129
Certificates-of-participation (note 7)		380,000	370,000
Loans payable (note 8)		728,902	706,704
Total current liabilities		2,394,351	1,830,283
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 6)		80,376	93,193
Certificates-of-participation (note 7)		18,195,000	18,575,000
Loans payable (note 8)		2,958,151	3,875,342
Total non-current liabilities		21,233,527	22,543,535
Total liabilities		23,627,878	24,373,818
Net position:			
Net investment in capital assets (note 9)		24,324,483	23,276,872
Restricted for debt service (note 10)		1,886,241	1,936,561
Unrestricted (note 11)		12,508,092	12,870,380
Total net position		38,718,816	38,083,813
	$	62,346,694	62,457,631

See accompanying notes to the basic financial statements

Indian Wells Valley Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and 2013

		2014	2013
Operating revenues:			
Water consumption sales	$	4,228,483	4,235,592
Ready-to-serve charges		4,331,561	4,292,799
Arsenic compliance charges		1,549,129	1,557,963
Zone charge		128,520	117,870
Other charges for services		282,892	286,039
Total operating revenues		10,520,585	10,490,263
Operating expenses:			
Pumping plant		1,755,969	977,167
Arsenic plant		583,815	402,800
Transmission and distribution		1,410,890	1,265,606
Field services		412,068	351,227
Engineering		328,313	297,311
Customer service		366,553	397,685
Legislative		77,611	79,833
General and administrative		1,585,467	1,685,535
Total operating expenses		6,520,686	5,457,164
Operating income before depreciation expense		3,999,899	5,033,099
Depreciation expense – capital recovery		(2,527,812)	(2,628,885)
Operating income		1,472,087	2,404,214
Non-operating revenue(expense):			
Special assessment 87-1 for debt service		227,334	284,062
Investment earnings		33,119	57,602
Rental revenue		19,200	19,200
Interest expense		(1,051,565)	(1,103,314)
Debt service costs		(16,546)	(750)
Amortization of deferred charges		-	(284,282)
Loss on sale of real property		(150,600)	-
Other revenue		31,310	28,851
Total non-operating, net		(907,748)	(998,631)
Net income before capital contributions		564,339	1,405,583
Capital contributions:			
Capacity facility fees		70,664	91,640
Capital contributions		-	71,339
Total capital contributions		70,664	162,979
Change in net position		635,003	1,568,562
Net position, beginning of year		38,083,813	36,515,251
Net position, end of year	$	38,718,816	38,083,813

See accompanying notes to the basic financial statements

Indian Wells Valley Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2014 and 2013

		2014	2013
Cash flows from operating activities:			
Cash receipts from customers for water sales and services	$	10,687,395	10,437,477
Cash paid to employees for salaries and wages		(1,892,625)	(1,747,998)
Cash paid to vendors and suppliers for materials and services		(4,391,693)	(3,670,577)
Net cash provided by operating activities		4,403,077	5,018,902
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(2,310,429)	(505,140)
Capital contributions		70,664	162,979
Special assessments for debt service		289,536	478,339
Issuance of debt		-	2,815,000
Purchase of refunding requirement for 2003 bonds		-	(2,499,156)
Debt issuance costs		-	(33,500)
Principal paid		(1,264,994)	(1,965,336)
Interest paid		(1,058,392)	(1,120,376)
Net cash used in capital and related financing activities		(4,273,615)	(2,667,190)
Cash flows from investing activities:			
Investment earnings		33,438	59,253
Net cash provided by investing activities		33,438	59,253
Net increase in cash and cash equivalents		162,900	2,410,965
Cash and cash equivalents, beginning of year		11,646,496	9,235,531
Cash and cash equivalents, end of year	$	11,809,396	11,646,496

Reconciliation of cash and cash equivalents to statement of financial position:

		2014	2013
Cash and cash equivalents	$	9,671,213	9,451,166
Restricted assets – cash and cash equivalents		2,138,183	2,195,330
Total cash and cash equivalents	$	11,809,396	11,646,496

Continued on next page

See accompanying notes to the basic financial statements

Indian Wells Valley Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2014 and 2013

Reconciliation of operating income to net cash provided by operating activities:

		2014	2013
Operating income	$	1,472,087	2,404,214
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		2,527,812	2,628,885
Rental revenue		19,200	19,200
Debt service costs		(16,546)	(750)
Loss on sale of real property		(150,600)	-
Other revenue		31,310	28,851
Changes in assets and liabilities:			
(Increase)decrease in assets:			
Accounts receivable – water sales and services		103,587	(135,128)
Accounts receivable – other		3,342	(7,570)
Materials and supplies inventory		9,676	10,831
Prepaid expenses and other deposits		(17,079)	(6,409)
Other post-employment benefits asset		(105,592)	(67,945)
Increase(decrease) in liabilities:			
Accounts payable and accrued expenses		477,259	83,171
Accrued wages and related payables		11,899	665
Customer deposits and deferred revenue		9,371	41,861
Compensated absences		27,351	19,026
Total adjustments		2,930,990	2,614,688
Net cash provided by operating activities	$	4,403,077	5,018,902

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Indian Wells Valley Water District (District) was formed for the purposes of furnishing potable water within the District. The District was formed under the provisions of the County Water Act found in Division 12 of the State of California Water Code. The District is located in Kern County and includes the community of Ridgecrest and provides water to approximately 12,000 customers.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

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

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

D. Assets, Liabilities and Net Position

1. Use of Estimates

The preparation of the basic financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

3. Investments

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

5. Restricted Assets

Certain assets of the District are restricted for use by ordinance or debt covenant and, accordingly, are shown as restricted assets on the accompanying statement of net assets. The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

6. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipe and pipefittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using the weighted-average method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

7. Prepaid Expenses

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Transmission and distribution system – 30 to 35 years
- Structures and improvements – 10 to 30 years
- Vehicles and large equipment – 3 to 10 years
- Office furniture and equipment – 3 to 10 years

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

D. Assets, Liabilities and Net Position, continued

9. Compensated Absences

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and portions of sick leave are recorded when benefits are earned. Cash payment of unused vacation is available to those qualified employees when retired or terminated.

10. Water Sales and Services

Most water sales are billed on a monthly cyclical basis. Estimated unbilled water revenue through year-end has not been accrued as it was determined by management to have an insignificant impact on the financial statements as a whole.

11. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

12. Budgetary Policies

The District adopts a bi-annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

13. Net Position

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

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

(2) Cash and Investments

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

		2014	2013
Cash on hand	$	1,200	1,200
Deposits with financial institutions		425,207	517,649
Deposits in Local Agency Investment Fund		2,922,999	3,002,674
Deposits in Kern County Investment Pool		6,862,774	6,522,475
Deposits in money market funds		1,597,216	1,602,498
Total cash and cash equivalents	$	11,809,396	11,646,496

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

	2014	2013
Deposits in Local Agency Investment Fund	232 days	278 days
Deposits in Kern County Investment Pool	535 days	558 days

(2) Cash and Investments, continued

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

The District is legally empowered by statute and resolution to invest in money-market funds and to invest in the California State Investment Pool – Local Agency Investment Fund, and the Kern County Investment Pool. The District's investment policy identifies other investment types that are authorized for the District to invest in under the California Government Code.

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.

Investment in Kern County Investment Pool

The Kern County Treasurer's Pooled Cash Portfolio (Pool) is a pooled investment fund program governed by the Kern County Board of Supervisors, and administered by the Kern County Treasurer and Tax Collector. Investments in the Pool are highly liquid as deposits and withdrawals can be made at anytime without penalty. The Pool does not impose a maximum investment limit.

The Kern County's bank deposits are either federally insured or collateralized in accordance with the California Government Code. Pool detail may be obtained from the Kern County Treasurer and Tax Collector's website at www.kcttc.co.kern.ca.us.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to $250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

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

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.

(2) Cash and Investments, continued

Credit Risk

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

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for external investment pools) that represent 5% or more of total District's investments at June 30, 2014 and 2013, respectively.

(3) Assessment 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, 2014, are as follows:

Assessment bondss receivable consisted of the following as of June 30:

		2014	**2013**
Assessment bonds receivable – current and delinquent	$	319,705	314,483
Assessment bonds receivable		1,295,000	1,525,000
Total accounts receivable, net	$	1,614,705	1,839,483

Future Repayment Schedule

Year		**Principal**
2015	$	230,000
2016		235,000
2017		245,000
2018		255,000
2019		260,000
2020		270,000
2021		30,000
Total	$	1,525,000
Delinquent		89,705
	$	1,614,705

(4) Other Post-Employment Benefits Asset

Plan Description

The District provides post employment health care benefits to all employees who retire from the District and meet certain eligibility requirements. Retirees may enroll in any plan available through PERSD medical, dental, and vision programs. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

(4) Other Post-Employment Benefits Asset, 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 between July 1, 2007 and June 30, 2014, and $350 per month for eligible employees retiring prior to July 1, 2007.

Membership in the Plan

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

	2014	2013	2012
Active plan members	29	28	28
Retirees and beneficiaries receiving benefits	9	9	9
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	38	37	37

Funding Policy

As required by GASB No. 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 Asset

The following table shows the components of the District's Annual OPEB cost for the past four fiscal years ended June 30th, the amount actually contributed to the plan and the changes in the District's Net OPEB Asset:

The balance at June 30, consists of the following:	2014	2013	2012
Annual OPEB expense:			
Annual required contribution (ARC)	$ (8,034)	(13,467)	(14,544)
Interest on net OPEB obligation	-	-	-
Interest earnings on irrevocable trust balance	(161,130)	(97,177)	(1,542)
Adjustment to annual required contribution	22,395	1,338	985
Total annual OPEB expense	(146,769)	(109,306)	(15,101)
Contributions (to)from trust:			
Contributions made to irrevocable trust	-	-	-
Retiree benefit payments paid from trust	41,177	41,361	33,792
Total contributions made	41,177	41,361	33,792
Total change in net OPEB payable obligation	(105,592)	(67,945)	18,691
OPEB payable(asset) – beginning of year	(860,714)	(792,769)	(811,460)
OPEB payable(asset) – end of year	$ (966,306)	(860,714)	(792,769)

(4) Other Post-Employment Benefits Asset, continued

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, 2014 and the two preceding years are shown in the following table.

Fiscal Year Ended	Annual OPEB Cost	Retiree Benefit Payments	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
2014	$ (146,769)	41,177	-28.06%	$ (966,306)
2013	(109,306)	41,361	-28.06%	(860,714)
2012	(15,101)	33,792	-37.84%	(792,769)

The most recent valuation (dated July 1, 2011) includes an Actuarial Accrued Liability and Funded Actuarial Accrued Asset of $248,320. There is $869,638 in plan assets because the District pre-funded the plan in the California Employees' Retirement Benefit Trust (CERBT). The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2013 was $1,931,000. The ratio of the funded actuarial accrued liability to annual covered payroll was 12.86%. See Page 30 for the Schedule of Funding Progress.

Actuarial Methods and Assumptions

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

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

Valuation date	June 30, 2013
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization, closed
Remaining amortization period	26 Years as of the valuation date
Asset valuation method	15 Year smoothed market
Actuarial assumptions:	
Investment rate of return	7.61%
Projected salary increase	3.00%
Inflation - discount rate	2.80%
Healthcare - trend rate	7.50-5.00%

(5) Capital Assets

Major capital assets additions during the years include upgrades and extensions of the District's water transmission and distribution systems and equipment purchases in the following schedules:

Changes in capital assets for the year ended June 30, 2014 were as follows:

		Balance 2013	Additions/	Deletions/ Transfers	Balance 2014
Non-depreciable assets:					
Land and land rights	$	3,127,674	506,305	(870,000)	2,763,979
Construction-in-process		271,319	2,481,468	(1,133,971)	1,618,816
Total non-depreciable assets		3,398,993	2,987,773	(2,003,971)	4,382,795
Depreciable assets:					
Transmission and distribution system		51,462,625	873,568	-	52,336,193
Production and source of supply		30,066,667	184,388	-	30,251,055
General plant		5,427,887	268,672	-	5,696,559
Total depreciable assets		86,957,179	1,326,628	-	88,283,807
Accumulated depreciation:					
Depreciable assets		(43,552,254)	(2,527,812)	-	(46,080,066)
Total accumulated depreciation		(43,552,254)	(2,527,812)	-	(46,080,066)
Total depreciable assets, net		43,404,925	(1,201,184)	-	42,203,741
Total capital assets, net	$	46,803,918	1,786,589	(2,003,971)	46,586,536

Changes in capital assets for the year ended June 30, 2013 were as follows:

		Balance 2012	Additions/	Deletions/ Transfers	Balance 2013
Non-depreciable assets:					
Land and land rights	$	3,127,674	-	-	3,127,674
Construction-in-process		173,576	610,683	(512,940)	271,319
Total non-depreciable assets		3,301,250	610,683	(512,940)	3,398,993
Depreciable assets:					
Transmission and distribution system		51,245,231	217,394	-	51,462,625
Production and source of supply		29,950,178	116,489	-	30,066,667
General plant		5,354,373	73,514	-	5,427,887
Total depreciable assets		86,549,782	407,397	-	86,957,179
Accumulated depreciation:					
Depreciable assets		(40,923,369)	(2,628,885)	-	(43,552,254)
Total accumulated depreciation		(40,923,369)	(2,628,885)	-	(43,552,254)
Total depreciable assets, net		45,626,413	(2,221,488)	-	43,404,925
Total capital assets, net	$	48,927,663	(1,610,805)	(512,940)	46,803,918

(6) Compensated Absences

Changes to compensated absences for 2014, were as follows:

	Balance 2013	Earned	Taken	Balance 2014	Current Portion	Long-term Portion
$	155,322	258,242	(230,891)	182,673	102,297	80,376

Changes to compensated absences for 2013, were as follows:

	Balance 2012	Earned	Taken	Balance 2013	Current Portion	Long-term Portion
$	136,296	236,255	(217,229)	155,322	62,129	93,193

(7) Certificates of Participation

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

		Balance 2013	Additions	Payments	Balance 2014	Current Portion
Long-term debt:						
COPs payable:						
2009 Water revenue refunding bonds	$	18,945,000	-	(370,000)	18,575,000	380,000
Total COPs payable	$	18,945,000	-	(370,000)	18,575,000	380,000

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

		Balance 2012	Additions	Payments	Balance 2013	Current Portion
Long-term debt:						
COPs payable:						
2003 Water revenue refunding bonds	$	3,395,000	-	(3,395,000)	-	-
2009 Water revenue refunding bonds		19,305,000	-	(360,000)	18,945,000	370,000
Total COPs payable	$	22,700,000	-	(3,755,000)	18,945,000	370,000

2003 Water Revenue Refunding Bonds

Proceeds of the 2003 bonds were used to prepay the District's outstanding 1994 certificates-of-participation and the District's outstanding 1977 U.S. Economic Development Administration loan and pay the costs of issuance incurred in connection with the issuance of the 2003 bonds. As of June 30, 2013, the District had refunded the 2003 bonds with the issuance of the 2012 loan (See note 8)

2009 Water Revenue Refunding Bonds

Proceeds of the Series 2009 certificates-of-participation (COPs) 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 arsenic project included 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. A portion of the COPs were used to prepay the District's Series 1999A California Statewide Communities Development Authority revenue bonds, and to pay issuance costs for the COPs.

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%. Future remaining debt service payments are as follows:

(7) Certificates of Participation

2009 Water Revenue Refunding Bonds, continued

Year	Principal	Interest	Total
2015	$ 380,000	930,388	1,310,388
2016	395,000	914,887	1,309,887
2017	410,000	898,788	1,308,788
2018	425,000	879,962	1,304,962
2019	445,000	858,213	1,303,213
2020-2024	2,530,000	3,929,687	6,459,687
2025-2029	3,180,000	3,220,938	6,400,938
2030-2034	4,135,000	2,306,720	6,441,720
2035-2039	5,395,000	1,076,906	6,471,906
2040	1,280,000	33,600	1,313,600
Total	18,575,000	15,050,089	33,625,089
Current	(380,000)		
Long-term	$ 18,195,000		

(8) Loans Payable

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

	Balance 2013	Additions	Payments	Balance 2014	Current Portion
Long-term debt:					
Loans payable:					
State of California Prop 55 loan	$ 2,009,800	-	(401,811)	1,607,989	225,308
2012 loan	2,572,246	-	(493,182)	2,079,064	503,594
Total loans payable	$ 4,582,046	-	(894,993)	3,687,053	728,902

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

	Balance 2012	Additions	Payments	Balance 2013	Current Portion
Long-term debt:					
Loans payable:					
State of California Prop 44 1oan	$ 21,919	-	(21,919)	-	-
State of California Prop 55 loan	2,454,619	-	(444,819)	2,009,800	213,521
2012 loan	-	2,815,000	(242,754)	2,572,246	493,183
Total loans payable	$ 2,476,538	2,815,000	(709,492)	4,582,046	706,704

State of California Proposition 44 Loan

State of California-Water Conservation Construction Loan (Prop. 44): Payable $22,292 semi-annually including interest at 3.4375%. Loan proceeds were used to improve Ridgecrest Heights Water System- Total loan was $641,000. The remaining balance of the loan was repaid as of June 30, 2013.

(8) Loans Payable, continued

State of California Proposition 55 Loan

State of California-Safe Drinking Water Act Loan (Prop. 55): Payable $139,757 semi-annually including interest at 3.3712%. Loan proceeds to improve Ridgecrest Heights Water System-Total loan was $5,250,000. Future remaining debt service payments are as follows:

Year		Principal	Interest	Total
2015	$	225,308	54,211	279,519
2016		230,939	48,580	279,519
2017		238,972	40,547	279,519
2018		247,011	32,508	279,519
2019		255,407	24,112	279,519
2020		264,064	15,455	279,519
2021		146,288	6,436	152,724
Total		1,607,989	221,849	1,829,838
Current		(225,308)		
Long-term	$	1,382,681		

2012 Loan

Proceeds of the 2012 loan were used to prepay the District's outstanding 2003 bond and pay the costs of issuance incurred in connection with the issuance of the 2012 loan, payable $272,312 semi-annually including interest at 2.100%.

Year		Principal	Interest	Total
2015	$	503,594	41,030	544,624
2016		514,225	30,399	544,624
2017		525,080	19,544	544,624
2018		536,165	8,460	544,625
Total		2,079,064	99,433	2,178,497
Current		(503,594)		
Long-term	$	1,575,470		

(9) Net Investment in Capital Assets

Calculation of net investment in capital assets as of June 30, were as follows:		2014	2013
Capital assets:			
Capital assets – not being depreciated	$	4,382,795	3,398,993
Capital assets, net – being depreciated		42,203,741	43,404,925
Current:			
Certificates-of-participation		(380,000)	(370,000)
Loans payable		(728,902)	(706,704)
Non-current:			
Certificates-of-participation		(18,195,000)	(18,575,000)
Loans payable		(2,958,151)	(3,875,342)
Total net investment in capital assets	$	24,324,483	23,276,872

(10) Restricted Net Position

Calculation of restricted net position as of June 30, was as follows:		2014	2013
Restricted – cash and cash equivalents	$	2,138,183	2,195,330
Accrued interest payable		(251,942)	(258,769)
Total restricted net position	$	1,886,241	1,936,561

(11) Unrestricted Net Position

Unrestricted net position as of June 30, were categorized as follows:		2014	2013
Non-spendable net position:			
Materials and supplies inventory	$	341,635	351,311
Prepaid expenses and other deposits		46,410	29,331
Mitigation deposit – California Department of Fish and Game		120,000	120,000
Assessment bonds receivable		1,295,000	1,525,000
Other post-employment benefits asset		966,306	860,714
Total non-spendable net position		2,769,351	2,886,356
Spendable net position are designated as follows:			
Capital replacement reserve		6,492,494	6,656,016
Rate stabilization reserve		3,246,247	3,328,008
Total spendable net position		9,738,741	9,984,024
Total unrestricted net position	$	12,508,092	12,870,380

(12) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in two 457 Deferred Compensation Programs (Programs). The purpose of these Programs is to provide deferred compensation for public employees that elect to participate in the Programs. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by Mutual of America at June 30, 2014 and 2013 was $1,559,719 and $1,247,936, respectively.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net position.

(13) Defined Benefit Pension Plan

Plan Description

The Agency contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS 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 state statute and the Agency. Copies of CalPERS annual financial report may be obtained form their executive Office: 400 P Street, Sacramento, CA 95814.

Funding Policy

The contribution rate for plan members in the CalPERS, 2.0% at 60 Risk Pool Retirement Plan is 7% of their annual covered salary and is paid by the members. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2014, 2013 and 2012, as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

California Public Employees Pension Reform Act of 2013

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013.

Key components of the legislation are as follows:

- Establishes PEPRA which will apply to all public employers and public pension plans on and after January 1, 2013 (Except specific exemptions);
- Establishes new retirement tiers/benefits for new public employees;
- Prohibits certain cash payments from being counted as compensation; and
- Increases retirement age for all new public employees.

Second-Tier – Beginning January 1, 2013

The contribution rate for plan members in the CalPERS 2.0% at 62 Retirement Plan under PEPRA is 6.25% of their annual covered wages. District employees contribute 6.25% of their annual covered wages to their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The employer and member contribution rate is 6.25% for a combined rate of 12.50% which will be in effect until June 30, 2015.

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

Three Years CalPERS Funding Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	APC Percentage of Payroll
2011-2012	92,565	100%	-	0.000%
2012-2013	124,376	100%	-	4.959%
2013-2014	125,634	100%	-	5.055%

See Page 29 for the Schedule of Funding Status.

(13) Defined Benefit Pension Plan

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2013
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, closed
Asset valuation method	Market value
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increase	3.30% to 14.20% depending on age, service, and type of emplyment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of emplyment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

(14) Debt Without District Commitment

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.

(14) Debt Without District Commitment, continued

Assessment District No. 87-1

The District acquired the private water company known as Ridgecrest Heights Water System during the 1988 fiscal year. In order to finance the construction of the estimated $6,741,000 of required improvements the District formed 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. Future repayments on the Assessment District Bonds are as follows:

Year	Principal	Interest	Total
2015	$ 230,000	47,534	277,534
2016	235,000	39,696	274,696
2017	245,000	31,605	276,605
2018	255,000	23,177	278,177
2019	260,000	14,496	274,496
2020	270,000	5,562	275,562
2021	30,000	506	30,506
Total	$ 1,525,000	162,576	1,687,576

Assessment District No. 91-1

Assessment District 91-1 consists of approximately 300 acres of land subdivided into 133 residential lots contiguous to the southwesterly boundary of the City of Ridgecrest, California. The District formed 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 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, 2013, Assessment District 91-1 held cash in the Kern County Treasury of $114,832. These funds are available for District expenses/improvements with the appropriate Board action/approvals.

(15) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2013, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $2,500,000, combined single limit at $2,500,000 per occurrence. The District purchased additional excess coverage layers: $10,000,000 for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

(15) Risk Management, continued

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

- Employee dishonesty coverage up to $400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of $750 million per occurrence, subject to a $2,000 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to $100 million per occurrence, subject to a $1,000 deductible per occurrence.
- Public officials personal liability up to $500,000 each occurrence, with an annual aggregate of $100,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of $500 per claim.
- Workers' compensation insurance up to $100 million per occurrence and Employer's Liability Coverage up to $5 million.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal year 2013, 2012, and 2011. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2013, 2012, and 2011.

(16) Governmental Accounting Standards Board Statements

Newly Issued Accounting Pronouncements, But Not Yet Effective

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

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the Authority's financial statements has not been assessed at this time.

(16) Governmental Accounting Standards Board Statements

Newly Issued Accounting Pronouncements, But Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 – Government Combinations and Disposals of Government Operations. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to the Authority's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 71

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

(17) Commitments and Contingencies

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water and wastewater facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and capital contributions.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(18) Subsequent Events

Events occurring after June 30, 2014, have been evaluated for possible adjustment to the financial statements or disclosure as of October 31, 2014, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

Indian Wells Valley Water District
Schedule of Funding Status
For the Fiscal Years Ended June 30, 2014 and 2013

(1) Defined Benefit Pension Plan – First Tier – Classic

Development of the Actuarial Value of Assets Calculation in a Risk Pool				
The District is part of the CalPERS Miscellaneous 2.0% at 60 yrs. Risk Pool		**June 30, 2011**	**June 30, 2012**	**June 30, 2013**
1. Plan's accrued liability	$	9,177,086	9,601,458	9,858,500
2. Plan's side fund		194,338	136,601	71,770
3. Pool's accrued liability		682,375,804	736,231,913	798,282,602
4. Pool's side fund		1,499,824	2,948,645	N/A
5. Pool's actuarial value of assets (AVA) including receivables		639,237,247	701,224,211	N/A
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]		8,759,726	9,238,017	N/A
7. Pool's market value of assets (MVA) including receivables		572,006,330	589,970,009	N/A
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]		7,838,434	7,772,340	8,372,851

Funding History

The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan in the risk pool.

Actuarial Valuation Date		Actuarial Accrued Liability (a)	Share of Pool's Market Value of Assets (MVA) (b)	Plan Share of Pool's Unfunded Liability (a) - (b)	Funded Ratio MVA (b/a)		Annual Covered Payroll
June 30, 2011	$	9,177,086	7,838,434	1,338,652	85.41%	$	2,274,463
June 30, 2012		9,601,458	7,772,340	1,829,118	80.95%		1,690,993
June 30, 2013		9,858,500	8,372,851	1,485,649	84.93%		1,782,453

(2) Defined Benefit Pension Plan – Second Tier – PEPRA

Development of the Actuarial Value of Assets Calculation in a Risk Pool				
The District is part of the CalPERS 2.0% at 62 yrs. Risk Pool under PEPRA		**June 30, 2011**	**June 30, 2012**	**June 30, 2013**
1. Plan's accrued liability	$	N/A	N/A	1,891
2. Plan's side fund		N/A	N/A	N/A
3. Pool's accrued liability		N/A	N/A	1,063,294
4. Pool's side fund		N/A	N/A	N/A
5. Pool's actuarial value of assets (AVA) including receivables		N/A	N/A	N/A
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]		N/A	N/A	N/A
7. Pool's market value of assets (MVA) including receivables		N/A	N/A	N/A
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]		N/A	N/A	2,537

Actuarial Valuation Date		Actuarial Accrued Liability (a)	Share of Pool's Market Value of Assets (MVA) (b)	Plan Share of Pool's Unfunded Liability (a) - (b)	Funded Ratio MVA (b/a)		Annual Covered Payroll
June 30, 2011	*	N/A	N/A	N/A	N/A		N/A
June 30, 2012	*	N/A	N/A	N/A	N/A		N/A
June 30, 2013	$	1,891	2,537	(646)	134.16%	$	69,014

* PEPRA Tier (Tier 2) became effective January 1, 2013.

Indian Wells Valley Water District
Schedule of Funding Status
For the Fiscal Years Ended June 30, 2014 and 2013

(3) Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	$ -	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%
July 1, 2011	848,394	519,396	(328,998)	163.34%	1,952,000	-16.85%
July 1, 2013	869,638	621,318	(248,320)	139.97%	1,931,000	-12.86%

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2017, based on the year ending June 30, 2016.

Report on Internal Controls and Compliance

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

Board of Directors
Indian Wells Valley Water District
Ridgecrest, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Indian Wells Valley Water District (District) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Charles Z. Fedak & Company, CPAs - An Accountancy Corporation
Cypress, California
October 31, 2014