

Apple Valley Heights County Water DISTRICT
DISTRICT PROFILE SUMMARY SHEET

2999

RECEIVED
AUG 08 2005

District Contact Person(s):

Gail Hunter or Robert Fuller

LAFCO
San Bernardino County

Address:

9429 Cerra Vista St.
Apple Valley, CA 92308

E-mail Address:

Website Address:

Date of Formation:

3-19-57

Principal Act:

Water Code 30000 County Water District

Improvement District(s): YES NO

If yes, please indicate name and define area of service (include map).

Governing Body:

5 member board of directors elected within district

* Membership:

Carlos L. Hardy, II, President
Larry Hunter, Vice-President
Donald K. Fuller, Director
Glenn A. Lincoln Jr., Director
Dana P. Morse, Director

Larry Hunter - President
Dana P. Morse - Vice-President
Shirley Barra - Director
John Kunz - Director
Glenn A. Lincoln Jr. - Director

Public Meetings:

2nd Wednesday, Monthly
District office, 9429 Cerra Vista, Apple Valley

SERVICES

Currently Authorized Powers (Services):

SERVICE	FUNCTIONS
Water	retail domestic

Latent Powers (Services) -- those services authorized by the Agency's principal act, but not activated through the LAFCO process:

SERVICE	FUNCTIONS

Area Served: 1.5 Square Miles/ 860 Acres

★ Population: 650 (Outline source for figure) *taken from item II-1 of MSR*

Registered Voters: 333 As Of 5/20/05 (Date)

Services Provided Outside Agency Boundaries:

SERVICE	PROVIDED TO WHOM	DATE OF CONTRACT	SUNSET DATE
None			

Special charges for service outside boundaries:

N/A

Special policies for providing service outside boundaries:

N/A

★ Amended by Michael Turpe, LAFCO staff

SPHERE OF INFLUENCE

Established:

LAFCO Number	Resolution No./ Date Adopted	Location
★ 1336	April 11, 1973 Resolution 952	

CHANGES:

LAFCO Number	Resolution No./ Date Adopted	Type Of Change	Location-

BUDGETARY INFORMATION

	Actual 2001-02	Actual 2002-03	Actual 2003-04	Estimated 2004-05	Budgeted 2005-06
Expenditures	147,537	168,846	175,094	221,728	212,719
Capital/Fixed Assets	410,231	463,453	426,199		
Property Tax					
User Fees	32.50/bi-m	same	same	5.00/mthly	
	1500-7900/\$2.00/100			100-2000/\$2.25/100	
	8000+/\$2.50/100			2100+/\$3.25/100	

★ Amended by Michael Tuerpe, LAFCO staff

MUNICIPAL SERVICE REVIEW
Apple Valley Heights County Water District
LAFCO 2999

The following information is provided as required by Government Code Section 56430, and as requested by LAFCO.

I. Infrastructure Needs and Deficiencies:

1. Capital Improvement Plans/Studies
Apple Valley Heights County Water District has no immediate plans for major capital improvements. The district drilled a new well in 2003.
2. Water Service Plans/Studies
Not Applicable.
3. Sewer Service Plans/Studies
The District is located in a rural County area. Sewers are not required.
4. Age and Condition of Facilities
The Districts basic infrastructure was constructed in 1958. Portions of the system are 47 years old and in good condition. Pumps, motors, hydrants, buildings, and other appurtenances are between 2-25 years old. New mains are PVC pipe and pumps/motors and electrical are replaced as needed. The overall condition of the Districts distribution system is described as very good.

* 5.

- Capacity Analysis
The District has 375 parcels at this time. The current number of active meters is ~~257~~. 279.

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Apple Valley Heights County Water District
LAFCO 2999

6. Future Development

The District, through meter sales revenue will generate the funds necessary to meet the needs of the improvements. Neither loans, nor an increase in water use rates are anticipated to meet the capital improvement goals.

7. Reserve Capacity

Policy is dictated by Local and State regulations and fire prevention regulations. The District meets or exceeds those regulations for reserve water capacities.

II. Growth and Population

1. Population Information

The estimated population of the District area is 650 people.

III. Financing Opportunities and Constraints

1. Finance Plans

The District currently operates under a balanced, annually planned budget. The District's sources of revenue are: water consumption sales, water meter installation sales, monthly service fees, Standby fee charges assessed to each parcel within the District, and Bond revenue collections for debt service of the bonds purchased by the District (when the District drilled Well #2 in 1968). There is no Bond Rating. The District does not participate in any Joint financing projects. The District carries no debt, except for the bond mentioned above.

IV. Cost Avoidance Opportunities

1. Other public water distribution systems located in the area would not benefit this District by sharing costs, administrative functions, or distributions costs. Physical topographical boundaries are prohibitive to merging with other systems. Guarantees for equal tax apportionment, standardized land owner fees and rate structures would have to be established to provide equal service, or at least the same level of service, already in place for one, as opposed to the other entity joined with.
2. Joint Agency Practices
No Joint Agency practices.
3. Rely on Other Agencies
The District currently employs the use of outside contractors to complete major repairs and install meters. The administrative functions of the District are carried out by the District Secretary. Day to day maintenance and minor repairs are completed by the General Manager and the Maintenance person. The District does not receive grants.
4. Growth Management Strategies
Supply conservation as well as a conservative approach to revenue spending has been paramount to a successful operation of this District. There is no current annexation policy. This District's annexation policy is guided by the future need to annex and not the desire to annex. If annexation of additional

land were necessary, the District would seek the guidance and follow the procedures set for by LAFCO.

5. Level of Service

The Apple Valley Heights County Water District has always met or exceeded the service requirements of our customers. The District provides open communications and open operations with its property owners. The District prides itself in its exemplary service to customers.

*6. Per Unit Costs

The current cost per unit is a tiered rate (100-2000 cubic feet, @ \$2.25/100, & 2100 + cubic feet, @ \$3.25/100). There is a monthly service charge of \$5.00 per month for all installed meters. The Standby charge of \$25.00 per acre of land owned is billed annually. The District has compared rate structure and fees charged with other water purveyors in the High Desert. The District rates are in line with most and not excessive.

*V. Rate Restructuring

The District restructured the rates in ~~June 2004~~. When the need arises, the District will respond to increasing its water use rate.

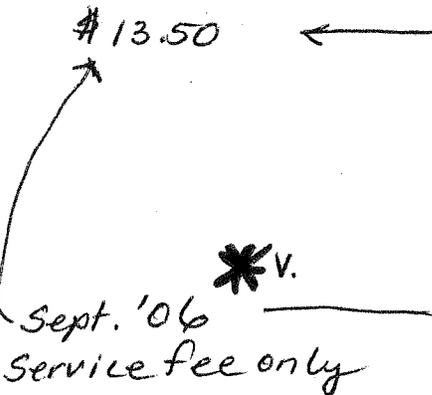
VI. This District shares no facilities and does not foresee sharing, due to geographic differences from other entities. Duplication of facilities does not exist.

VII. Government Structure Options

1. Agency recommendation.
Not applicable.

\$13.50

Sept. '06
Service fee only



2. Hurdles to Consolidation
 - a. A geographic difference to other entities for infrastructure connection, and/or operations, is economically prohibitive.
 - b. Overall economic operations and fiscal demands would be higher.
 - c. Lack of local management would hinder currently efficient operations and create diminished customer service.

3. Recommended Options
Due to the current solid economic health, efficient operations, and concentration of effort in customer service and delivery systems, the District does not, nor will seek consolidation options, or reorganization. The District's Board of Directors and a majority or 80% of our customers reject any form of consolidation.

VIII. Evaluation of Management Efficiencies

1. Training Opportunities:
Operations employees receive training in all aspects of District operations when necessary.
2. Staffing Levels
The District has 2 full-time employees, and two part-time employees.
3. The Districts water distribution system is run by a radio-telemetry system.

4. Budget

The District currently operates under an annual budget that runs from July, 1 through June 30. Board members are paid a monthly director fee for their attendance to the board meeting. Educational seminars directly related to District concerns are paid for by the district. The public is informed of the annual budget evaluation and adoption. The District is independently audited annually.

5. Joint Powers Agreements

Joint Powers Insurance Authority/Risk Sharing Pool.

IX. Local Accountability and Governance:

*1. Governing Body

The District membership on the governing Board of Directors is mandated public election or by appointment, according to the California Government Code. The District makes notification of Director position openings through local newspaper legal notices and posts notifications within the district boundaries. The five Board Directors represent the area District wide and not by Division. The Board of Directors meetings take place on the second Wednesday of each month at 6:00 p.m. at the district office 9429 Cerra Vista, Apple Valley, California and are open to the public. The District meets or exceeds all required provisions of the Ralph M. Brown Act. The District has one vacancy at this time, due to the sudden death of the District President in August 2005. One director was appointed on July 12, 2001, and was re-appointed in lieu of election in the November 2003 election. Three members are running for open seats in the November 2005 election. One

No openings
15 of 8-8-07.

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member was elected in November 1999 and was re-appointed in lieu of election in November 2001, two new members were appointed in 2005.

2. **Customer Feedback:**

3. **Access:**

The district has monthly regular board meetings that are open to the public. The district office is open Monday through Friday for customers to contact district personnel for problems or concerns. The General Manager and Maintenance Person are "On Call" 24 hours a day, 7 days a week.

4. The District publishes an annual water report. All budgetary and rate restructures are made public to comment on and make suggestions for improvements.

**MANDATORY FIVE YEAR
SPHERE OF INFLUENCE REVIEW**
(Government Code Section 56425)

INTRODUCTION: The questions on this form are designed to obtain data about the entity's existing sphere of influence to allow the Commission and its staff to begin to assess the mandated sphere update process. You are encouraged to include any additional information that you believe is pertinent to the process. Use additional sheets where necessary and/or include any relevant documents.

1. **NAME OF AGENCY:** Apple Valley Heights County Water District

2. Provide an identification of the entities that provide service to your agency. Please indicate whether they are public or private entities and include subsidiary districts in this description. Please include a description of City or District-governed agencies (i.e., redevelopment agency, development corporations, joint powers authorities, improvement districts, etc.):

- Edison
- Verizon
- JPIA
- Arizona Pipeline
- High Desert Underground
- Ultimate Underground

3. Provide a narrative description of anticipated alterations in the agency's current sphere of influence that should be considered in this review. This identification should include any potential development that would require a sphere of influence amendment for implementation, etc. (If additional room for response is necessary, please attach additional sheets to this form.)

4. **CITIES:** Provide an outline of negotiations with the County of San Bernardino related to any sphere change anticipated. Please include an outline of agreements on boundaries, development standards, zoning requirements, if any. This is required pursuant to Government Code Section 56425(b).

5. **CITIES:** Provide an outline of the dates for adoption and plans for update, if any, for:

General Plan Elements if adopted separately NAME	DATE OF ADOPTION/UPDATE PLANS
_____	_____
_____	_____
_____	_____
_____	_____

6. **CITIES/SPECIAL DISTRICTS:** For the services provided by the agency identify the appropriate document below and provide an outline of the date of adoption, schedule for update, copy of the document and copy of environmental document, if applicable:

Master Plan for Water Utility	None
Master Plan for Sewer Utility	None
Master Plan for Fire Service	None
Master Plan for Park Service	None
Urban Water Management Plan (with copy of certification from Department of Water Resources)	None
Other (Please name):	
_____	_____
_____	_____
_____	_____

7. **SPECIAL DISTRICTS:** Provide an outline of the following items related to the services provided by the District. This response is specifically required by Government Code Section 56425(h) et seq.

a) Provide a written statement specifying the functions and/or classes of service provided by your District.

Water - Retail

b) Provide a written description of the nature, location and extent of the functions and/or classes of service outlined above. Where the service area is less than the boundaries of the District provide a map depiction of the location.

Water-All Areas served

c) Provide a brief outline of master plans adopted for each of the services listed above including a summary of their findings and the date of their adoption. If master plans are required to be filed with a County, State or Federal agency please note the date of their acceptance. Provide a copy of the master plans with this document if not previously provided to the LAFCO staff office including a copy of the environmental determination associated with the document.

8. Provide a response to the four factors outlined in Government Code Section 56425 required for a sphere of influence review outlined as follows:

a) The present and planned land uses in the area, including agricultural and open-space lands.

Residential

b) The present and probable need for public facilities and services in the area.
Domestic Water

c) The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.

260,000 gallons

Estimated-Sufficient to meet the needs for the next ten

years

d) The existence of any social or economic communities of interest in the area.

CERTIFICATION

I hereby certify that the statements furnished above and in the attached supplements, exhibits, and documents present the date and information required for this mandatory review to the best of my ability, and that the facts, statements, and information presented herein are true and correct to the best of my knowledge and belief.

DATE: 10/3/05

Larry Hunter
Signature of Official

Larry Hunter
Printed Name

Vice-President, Board of Directors
Title

APPLE VALLEY HEIGHTS COUNTY WATER DISTRICT
 EXPECTED REVENUES AND EXPENSES
 FISCAL YEAR JULY 1, 2007 TO JUNE 30, 2008

WATER SALES		\$	158,231.00
SERVICE FEES		\$	44,550.00
WATER SERVICES/OTHER		\$	2,539.00
<u>WATER STANDBY ASSESSMENT</u>		<u>\$</u>	<u>21,497.00</u>

TOTAL \$ 226,817.00

EXPECTED EXPENSES:

TRANSMISSION & DISTRIBUTION	11170	\$	15,000.00
PUMP MAINTENANCE	52200	\$	28,000.00
PUMPING POWER	52300	\$	33,000.00
SALARIES, GENERAL MANAGER & MAINTENANCE	56165	\$	43,632.00
SALARIES, SECRETARY & OFFICE HELP	56160 & 56167	\$	34,800.00
LAB FEES	52500	\$	1,400.00
WATER PURCHASES	51300	\$	15,000.00
DEPARTMENT OF HEALTH SERVICES	56170	\$	521.00
OFFICE & OTHER	56200	\$	8,000.00
RENT	56600	\$	2,100.00
DIRECTOR FEES	56810	\$	3,500.00
MILEAGE & TRAVEL	56230	\$	2,100.00
LEGAL & AUDIT	56830	\$	3,500.00
ASSOCIATION OF SPECIAL DISTRICTS	56210	\$	-
ACWA & HIGH DESERT MTN. WATER DUES	56205	\$	2,085.00
ELECTION COSTS	59400	\$	850.00
DIG ALERT	56220	\$	140.00
ENGINEER	56840	\$	3,000.00
INSURANCE & EMPLOYEE CRIME	56300 & 56820	\$	10,600.00
MEDICARE-FICA-UNEMPLOYMENT	56105 & 56110	\$	15,600.00
EQUIPMENT	12120	\$	1,000.00
EDUCATION & SEMINARS	56201	\$	500.00
1968 GENERAL OBLIGATION BOND	21100 & 59100	\$	1,040.00
<u>MISCELLANEOUS & CONTINGENCIES</u>	<u>49360</u>	<u>\$</u>	<u>1,449.00</u>

TOTAL \$ 226,817.00

APPLE VALLEY HEIGHTS COUNTY WATER DISTRICT
 EXPECTED REVENUES AND EXPENSES
 FISCAL YEAR JULY 1, 2006 TO JUNE 30, 2007

WATER SALES		\$	201,161.70
WATER SERVICES/OTHER		\$	3,400.00
WATER STANDBY ASSESSMENT		\$	21,497.44
<u>CAPITAL IMPROVEMENT-RESTRICTED FUNDS</u>		\$	<u>15,000.00</u>

TOTAL		\$	241,059.14
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EXPECTED EXPENSES:

TRANSMISSION & DISTRIBUTION	11170	\$	20,000.00
PUMP MAINTENANCE	52200	\$	32,000.00
PUMPING POWER	52300	\$	27,000.00
SALARIES, GENERAL MANAGER & MAINTENANCE	56165	\$	43,632.00
SALARIES, SECRETARY & OFFICE HELP	56160 & 56167	\$	34,800.00
LAB FEES	52500	\$	6,000.00
WATER PURCHASES	51300	\$	15,000.00
DEPARTMENT OF HEALTH SERVICES	56170	\$	521.00
OFFICE & OTHER	56200	\$	7,300.00
RENT	56600	\$	2,300.00
DIRECTOR FEES	56610	\$	3,000.00
MILEAGE & TRAVEL	56230	\$	2,500.00
LEGAL & AUDIT	56830	\$	6,500.00
ASSOCIATION OF SPECIAL DISTRICTS	56210	\$	-
ACWA & HIGH DESERT MTN. WATER DUES	56205	\$	1,825.00
ELECTION COSTS	59400	\$	-
DIG ALERT	56220	\$	140.00
ENGINEER	56840	\$	7,000.00
INSURANCE & EMPLOYEE CRIME	56300 & 56820	\$	9,200.00
MEDICARE-FICA-UNEMPLOYMENT	56105 & 56110	\$	14,500.00
EQUIPMENT	12120	\$	4,200.00
EDUCATION & SEMINARS	56201	\$	2,000.00
1968 GENERAL OBLIGATION BOND	21100 & 59100	\$	1,080.00
<u>MISCELLANEOUS & CONTINGENCIES</u>	<u>49360</u>	\$	<u>561.14</u>

TOTAL		\$	241,059.14
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**APPLE VALLEY HEIGHTS
COUNTY WATER DISTRICT**

REPORT ON AUDIT

June 30, 2006 and 2005

APPLE VALLEY HEIGHTS COUNTY WATER DISTRICT

(A Special District)

June 30, 2006 and 2005

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Apple Valley Heights County Water District
Apple Valley, California

We have audited the accompanying basic financial statements of Apple Valley Heights County Water District (a special district), as of June 30, 2006 and June 30, 2005, respectively, as listed in the table of contents and for the years then ended. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the State Controller's Minimum Audit Requirement 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 financial statements referred to above present fairly, in all material respects, the financial position of the Apple Valley Heights County Water District, as of June 30, 2006 and 2005, and the results of its operations, changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

As discussed in Note 1 to the financial statements, the District adopted the provisions of Government Accounting Standards Board Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*". The District has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information shown on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

November 11, 2006

APPLE VALLEY HEIGHTS COUNTY WATER DISTRICT

(A Special District)

STATEMENTS OF NET ASSETS

June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets		
Cash and investments	\$ 98,446	\$ 49,316
Restricted cash	39,105	10,958
Accounts receivable	15,124	21,713
Prepaid expenses	<u>5,723</u>	<u>5,037</u>
Total current assets	158,398	87,024
Non-current assets		
Capital assets, net	389,342	412,420
Construction in progress	<u>2,100</u>	<u>-</u>
Total non-current assets	<u>391,442</u>	<u>412,420</u>
TOTAL ASSETS	<u>\$ 549,840</u>	<u>\$ 499,444</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 11,690	\$ 10,539
Customer deposits	-	1,625
Deferred revenue	8,137	10,094
Bond payable, current portion	<u>1,000</u>	<u>1,000</u>
Total current liabilities	20,827	23,258
Long-term liabilities		
Bond payable	<u>1,000</u>	<u>2,000</u>
Total liabilities	<u>21,827</u>	<u>25,258</u>
Net assets		
Contributions in aid of construction	462,941	462,941
Restricted for capital improvements	39,105	10,958
Unrestricted	<u>25,967</u>	<u>287</u>
Total net assets	<u>528,013</u>	<u>474,186</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 549,840</u>	<u>\$ 499,444</u>

See accompanying notes and auditors' report

APPLE VALLEY HEIGHTS COUNTY WATER DISTRICT

(A Special District)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues		
Water sales	\$ 129,580	\$ 127,721
Water services	66,080	55,286
Standby charges	<u>21,300</u>	<u>22,245</u>
Total operating revenues	216,960	205,252
Operating expenses		
Source of supply	9,733	37,432
Pumping	29,032	22,124
Transmission and distribution	87,045	67,271
General and administrative	<u>69,160</u>	<u>69,873</u>
Total expenses	194,970	196,700
Depreciation	<u>23,078</u>	<u>24,799</u>
Total operating expenses	<u>218,048</u>	<u>221,499</u>
OPERATING LOSS	(1,088)	(16,247)
Non-operating revenues (expenses)		
Interest income	570	180
Miscellaneous	54,465	1,470
Interest expense	<u>(120)</u>	<u>(160)</u>
Total non-operating revenues (expenses)	<u>54,915</u>	<u>1,490</u>
INCREASE (DECREASE) IN NET ASSETS	53,827	(14,757)
NET ASSETS		
Beginning, July 1	<u>11,245</u>	<u>26,002</u>
Ending, June 30	<u>\$ 65,072</u>	<u>\$ 11,245</u>

See accompanying notes and auditors' report

APPLE VALLEY HEIGHTS COUNTY WATER DISTRICT

(A Special District)

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Cash received from customers	\$ 276,057	\$ 215,718
Cash paid to suppliers	(122,214)	(139,025)
Cash paid to employees	<u>(73,466)</u>	<u>(64,721)</u>
Net cash provided by operating activities	80,377	11,972
Cash flows from capital and related financing activities		
Principal payments on bond	(1,000)	(1,000)
Purchase of equipment	<u>(2,100)</u>	<u>(11,020)</u>
Net cash used in capital and related financing activities	<u>(3,100)</u>	<u>(12,020)</u>
NET CHANGE IN CASH	77,277	(48)
CASH		
Beginning, July 1	<u>60,274</u>	<u>60,322</u>
Ending, June 30	<u>\$ 137,551</u>	<u>\$ 60,274</u>
Components of cash		
Cash	\$ 98,446	\$ 49,316
Restricted cash	<u>39,105</u>	<u>10,958</u>
Total cash	<u>\$ 137,551</u>	<u>\$ 60,274</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating income (loss)	\$ 53,827	\$ (14,757)
Adjustments:		
Depreciation	23,078	24,799
Change in assets and liabilities:		
Accounts receivable	6,589	8,867
Prepaid expenses	(686)	(210)
Accounts payable and accrued expenses	1,151	(8,081)
Customer deposits	(1,625)	1,225
Deferred revenue	<u>(1,957)</u>	<u>129</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 80,377</u>	<u>\$ 11,972</u>

See accompanying notes and auditors' report

APPLE VALLEY HEIGHTS COUNTY WATER DISTRICT

(A Special District)

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Apple Valley Heights County Water District (the "District") was formed January 17, 1957, under the Provision of the California Water Code. Its boundaries encompass approximately 960 acres. The District is governed by the Board of Directors (five members) elected by the voters within the District for four year terms. The District provides water to customers within its boundaries.

Fund Accounting

The accounts of the District are organized on the basis of fund accounting. Resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled. The District's funds are accounted for as an enterprise fund type of the proprietary fund group.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with water sales to customers.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund is accounted for on a flow of economic resources measurement focus. This measurement focus emphasizes the determination of net income. The accrual basis of accounting is used for the enterprise fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Pursuant to GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*", all Financial Accounting Standards Board (FASB) statements and authoritative pronouncements issued before November 30, 1989 are applied to proprietary operations unless they conflict with GASB pronouncements. The District has elected not to apply FASB statements issued subsequent to November 30, 1989.

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*". Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components: (1) invested in capital assets, net of related debt; (2) restricted; and (3) unrestricted. These classifications are defined as follows:

- (1) *Invested in capital assets, net of related debt*: This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction,

APPLE VALLEY HEIGHTS COUNTY WATER DISTRICT

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Accounting, Continued

or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

- (2) *Restricted*: This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- (3) *Unrestricted net assets*: This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Budgets and Budgetary Accounting

The Board of Directors does not operate under any legal budgeting constraints.

Cash

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash, including restricted assets. Cash in banks is considered to be cash.

Accounts Receivable

The District considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

Prepaid Expenses

Expenses for insurance or other operating costs extending to future accounting periods have been recorded as prepaid expenses.

Capital Assets

Capital assets are stated at cost. Depreciation is provided on a straight-line basis over the estimated useful lives which range from three to fifty years. Depreciation expense for the years ended June 30, 2006 and 2005 was \$23,078 and \$24,799, respectively. It is the policy of the District to capitalize property, plant and equipment with a cost of \$1,000 or more.

Compensated Absences

The District has no requirement for retirement or compensated absences.

Revenue Recognition

Operating revenues are defined as revenues realized by the District in support of its water related activities.

Deferred Revenue

Deferred revenue represents advanced collections on water services which is determined and invoiced in the month of May for service in the following year. These collections have not been earned as of June 30.

APPLE VALLEY HEIGHTS COUNTY WATER DISTRICT

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Use of Estimates

The preparation of 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 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.

NOTE 2 – CASH AND INVESTMENTS

The District maintains a cash and investment pool that is available for all funds. Each fund type balance in the pool is reflected on the combined balance sheet as cash and investments. The District apportions interest earnings to all funds based on their monthly cash balances.

Cash Deposits

The carrying amounts of the District's cash deposits were \$137,551 at June 30, 2006. Bank balances before reconciling items were \$157,812 at that date, the total amount of which was collateralized or insured with securities held by pledging financial institutions in the District's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the District's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the District's name.

The market value of the pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the District's deposits. The District may waive collateral requirements for cash deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

The District follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

Investments

Under the provisions of the District's investment policy, and in accordance with California Government Code, the following investments were authorized:

- Securities issued by the U.S. Treasury
- Securities issued and fully guaranteed as to payment by an agency of the U.S. Government
- Banker's Acceptances
- Non-negotiable certificates of deposit
- Repurchase Agreements
- California Local Agency Investment Fund (State Pool)
- Corporate medium-term notes

APPLE VALLEY HEIGHTS COUNTY WATER DISTRICT

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2006 and 2005

NOTE 2 – CASH AND INVESTMENTS, Continued

Investments, Continued

- Mortgage-backed securities
- Diversified Management Companies, as defined by Section 23701m of the Revenue Taxation Code

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value using the aggregate method in all funds, resulting in the following investment income in all funds:

	<u>June 30, 2006</u>
Interest income	\$ <u>570</u>

The District's portfolio value fluctuates in an inverse relationship to any change in interest rates. Accordingly, if interest rates have risen, the portfolio value will have declined. If interest rates have fallen, the portfolio value will have risen.

In accordance with GASB Statement No. 31, the portfolio for year-end reporting purposes is treated as if it were all sold. Therefore, fund balance must reflect the portfolio's change in value. These portfolio value changes are unrealized unless sold. The District's policy is to buy and hold investments until their maturity dates.

Summary of Cash and Investments

The following is a summary of pooled cash and investments at June 30, 2006:

	<u>Business-Type Activities</u>
Cash and investments	\$ <u>137,551</u>

At June 30, 2006, the District had the following deposits:

	<u>Credit Quality Ratings</u>	<u>Fair Value</u>
Deposits	Not Rated	\$ <u>137,551</u>

Risk Disclosures

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits the District's investment portfolio to maturities not to exceed five years at time of purchase.

Credit Risk. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the District's policy to limit its investments in these investment types to the top rating issued by NRSROs, including raters Standard & Poor's, Fitch Ratings, and Moody's Investors Service.

APPLE VALLEY HEIGHTS COUNTY WATER DISTRICT

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2006 and 2005

NOTE 2 – CASH AND INVESTMENTS, Continued

Summary of Investments to Maturity

The fair value of investments held by maturity at June 30, 2006 is shown below:

Maturity:	Current to one year	\$	137,551
	Two to three years		-
	Four to five years		-
	Total	<u>\$</u>	<u>137,551</u>

NOTE 3 – CAPITAL ASSETS

The detail of capital assets and the changes for the year ended June 30, 2006 are as follows:

<u>Assets at Cost</u>	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
Capital assets not being depreciated:				
Land	\$ 4,873	\$ -	\$ -	\$ 4,873
Capital assets being depreciated:				
Transmission and distribution	358,641	-	-	358,641
Equipment	17,547	-	-	17,547
Water tank and pumping	<u>465,047</u>	<u>-</u>	<u>-</u>	<u>465,047</u>
Total capital assets being depreciated	<u>841,235</u>	<u>-</u>	<u>-</u>	<u>841,235</u>
Total capital assets	<u>\$ 846,108</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 846,108</u>
 <u>Accumulated Depreciation</u>				
Transmission and distribution	\$ 200,442	\$ 8,239	\$ -	\$ 208,681
Equipment	13,704	255	-	13,959
Water tank and pumping	<u>219,542</u>	<u>14,584</u>	<u>-</u>	<u>234,126</u>
Total accumulated depreciation	<u>\$ 433,688</u>	<u>\$ 23,078</u>	<u>\$ -</u>	<u>\$ 456,766</u>
 CAPITAL ASSETS, net book value	<u>\$ 412,420</u>			<u>\$ 389,342</u>

APPLE VALLEY HEIGHTS COUNTY WATER DISTRICT

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2006 and 2005

NOTE 3 – CAPITAL ASSETS, Continued

The detail of capital assets and the changes for the year ended June 30, 2005 are as follows:

<u>Assets at Cost</u>	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
Capital assets not being depreciated:				
Land	\$ 4,873	\$ -	\$ -	\$ 4,873
Capital assets being depreciated:				
Wells and pumps	18,851	-	(18,851)	-
Transmission and distribution	350,314	8,327	-	358,641
Equipment	16,709	2,693	(1,855)	17,547
Water tank and pumping	<u>465,047</u>	<u>-</u>	<u>-</u>	<u>465,047</u>
Total capital assets being depreciated	<u>850,921</u>	<u>11,020</u>	<u>(20,706)</u>	<u>841,235</u>
Total capital assets	<u>\$ 855,794</u>	<u>\$ 11,020</u>	<u>\$ (20,706)</u>	<u>\$ 846,108</u>
<u>Accumulated Depreciation</u>				
Wells and pumps	\$ 18,851	\$ -	\$ (18,851)	\$ -
Transmission and distribution	192,118	8,324	-	200,442
Equipment	14,334	1,225	(1,855)	13,704
Water tank and pumping	<u>204,292</u>	<u>15,250</u>	<u>-</u>	<u>219,542</u>
Total accumulated depreciation	<u>\$ 429,595</u>	<u>\$ 24,799</u>	<u>\$ (20,706)</u>	<u>\$ 433,688</u>
CAPITAL ASSETS, net book value	<u>\$ 426,199</u>			<u>\$ 412,420</u>

NOTE 4 – LONG-TERM DEBT

Bonded Debt

The District has outstanding bonded debt with a balance of \$2,000 and \$3,000 for years ended June 30, 2006 and 2005, respectively. This bond was issued in the amount of \$38,000 on July 1, 1968 with an interest rate of 4% and a maturity date of July 1, 2008. Principal payments are due July 1 in the amount of \$1,000.

As of June 30, 2006, the annual maturities for the following years are as follows:

2007	\$ 1,000
2008	<u>1,000</u>
	2,000
Current portion	<u>(1,000)</u>
Long-term portion	<u>\$ 1,000</u>

APPLE VALLEY HEIGHTS COUNTY WATER DISTRICT

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2006 and 2005

NOTE 5 – RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets, and injuries to employees. The District mitigates these risks through internal control procedures, physical security of assets, and safety training of employees. Additionally, the District maintains liability and property insurance through participation in the Joint Powers Authority, Association of California Water Agencies Joint Power Insurance Authority (ACWA/JPIA). See the Joint Power Agreement (Note 6) for nature of participation. Settled claims have not exceeded this coverage in any of the past two fiscal years.

NOTE 6 – JOINT POWERS INSURANCE AUTHORITY

The District participates in a Joint Powers Agreement (JPA): the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA). ACWA/JPIA is a self-insured association of independent water agencies. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA is governed by a board, consisting of a representative from each district. The JPA Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the governing board. The insurance group arranges for and provides property and liability insurance for its members. The District pays a premium commensurate with the level of coverage requested.

Member districts share surpluses and deficits proportionately to their participation in the JPA.

The JPA is independently accountable for its fiscal matters. The insurance group maintains its own accounting records. Budgets are not subject to any approval other than that of the governing board. The accounts and records of ACWA/JPIA are audited by an independent certified public accounting firm.

NOTE 7 – ASSESSMENT DISTRICT #90-1

On July 2, 1990, the District issued improvement bonds under the 1915 Improvement Bond Act in the amount of \$336,027. The bonds are secured by assessments on the privately owned property of Assessment District #90-1. The bonds are due to be paid between 1993 and 2005 with interest at 6.25% to 7.4%. The bond proceeds were received by the District as a contribution in aid of construction and used for water system improvements. In addition, there was \$166,088 cash collected from property owners.

SUPPLEMENTARY INFORMATION

APPLE VALLEY HEIGHTS COUNTY WATER DISTRICT

(A Special District)

SCHEDULE OF OPERATING EXPENSES

For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Source of supply		
Purchased water	\$ 9,733	\$ 37,432
Pumping		
Plant power	29,032	22,124
Transmission and distribution		
Lab fees	789	1,870
Repairs and maintenance	42,727	29,871
Salaries and wages	<u>43,529</u>	<u>35,530</u>
Total transmission and distribution	87,045	67,271
General and administrative		
Directors' fees	2,500	2,300
Dues and subscriptions	1,825	1,785
Education	213	1,793
Engineering	3,557	2,971
Insurance expense	7,353	11,826
Miscellaneous	1,365	912
Office supplies	8,080	10,411
Payroll taxes	6,113	7,562
Professional fees	3,751	4,204
Rent	2,117	2,100
Salaries and wages	30,686	22,428
Travel	<u>1,600</u>	<u>1,581</u>
Total general and administrative	<u>69,160</u>	<u>69,873</u>
Total expenses	194,970	196,700
Depreciation	<u>23,078</u>	<u>24,799</u>
TOTAL OPERATING EXPENSES	<u>\$ 218,048</u>	<u>\$ 221,499</u>

See accompanying notes and auditors' report