

Apple Valley Foothill County Water DISTRICT
DISTRICT PROFILE SUMMARY SHEET

3003

District Contact Person(s): Brenda Bitonti

Address:

22545 Del Oro Road, Apple Valley, 92308

Mailing address: PO Box 974, Apple Valley, 92307

Phone: 760/247-1101, FAX 760/247-1101

E-mail Address:

avfcwd@hotmail.com



Website Address:

Water Code 30,000 et seq

Date of Formation:

July 1, 1957

Principal Act:

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:

Thomas Buchanan - President

James A Thompson, Jr. - Director

Anna Sikes - Director

Hope Lombardo - Director

Charlotte Thompson - Director

Public Meetings:

4th Wednesday of the month @ 7:00 pm

located at District office 22545 Del Oro Road

★ Amended by Michael Tuerpe, LAFCO staff

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SERVICES

Currently Authorized Powers (Services):

SERVICE	FUNCTIONS
★ Water	Domestic, retail, agricultural, replenishment: per Exhibit A

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

SERVICE	FUNCTIONS

Area Served: _____ Square Miles/ 717 Acres

Population: 550 estimate (Outline source for figure)

Registered Voters: 242 As Of 8/1/05 (Date)

Services Provided Outside Agency Boundaries:

SERVICE	PROVIDED TO WHOM	DATE OF CONTRACT	SUNSET DATE
None			

Special charges for service outside boundaries:

Special policies for providing service outside boundaries:

★ Amended by LAFCO analyst, Michael Tuerpe

SPHERE OF INFLUENCE

Established:

LAFCO Number	Resolution No./ Date Adopted	Location
1335	Amended 11, 1973 Resolution 951	

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					
Capital/Fixed Assets					
Property Tax					
User Fees					

★ Amended by Michael Tuerpe

**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 Foothill 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, Southwest Gas, Joint Powers Insurance Agency
High Desert Underground (Private), B & L Backhoe (Private)
ARM Electric (Private), Mojave Water Agency

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.)

None

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	_____
Master Plan for Sewer Utility	_____
Master Plan for Fire Service	_____
Master Plan for Park Service	_____
Urban Water Management Plan (with copy of certification from Department of Water Resources)	_____
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.

Apple Valley Foothill County Water
provides Domestic Water to ~~425~~ ²⁰⁹ metered water connections

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.

- 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.

All land in the area is designated for single

family homes

- b) The present and probable need for public facilities and services in the area.
Need larger water storage

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

Currently have a 75,000 gallon water storage tank. Tank was inspected in 2003 and was found to be in good condition. All main lines are in good condition. Water is supplied with little interruption.

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: August 12, 2005



Signature of Official

Brenda J. Bitonti

Printed Name

General Manager

Title

APPLE VALLEY FOOTHILL COUNTY WATER DISTRICT

22545 DEL ORO RD ~ PO BOX 914 ~ APPLE VALLEY, CA 92307

Phone 760/247-1101 ~ Fax 760/247-1101

President - Tom Buchanan ~ General Manager - Brenda Bitonti ~ Secretary - Catherine Heaton

August 12, 2005

3003

Municipal Service Review

I. Infrastructure Needs and Deficiencies

1. Capital Improvement Plans/Studies
 - a. The Apple Valley Foothill County Water District has plans to build approximately an additional 250,000 - 300,000 gallon water storage tank.
2. Water Service Plans/Studies
 - a. We have no information at this time
3. Sewer Service Plans/Studies

We do not supply this service to our customers
4. Age and Condition of Facilities
 - a. The District consists of two wells located at the office site at 22545 Del Oro Road.
Well #1 was originally drilled in October 1958.
Well #1 was replaced with a new pump and motor and lowered and additional 60 feet in January 2003.
Well #2 was drilled in September of 1991.
The distribution lines for the Apple Valley Foothill County Water District were installed in October of 1958 along with the Districts only water storage facility which is a 75,000 gallon tank.
5. Capacity Analysis
 - a. The District currently has a total of 202 service connections.
6. Future Development
 - a. The Apple Valley Foothill County Water District needs additional water storage.
 - b. The District intends to provide an additional storage facility of approximately 250,000 - 300,000 gallons.
 - c. It has always been the policy of the Board of Directors of the Apple Valley Foothill County Water District to pay cash for all expenditures. They are currently in the process of saving the required funds for this project.
 - d. The Board of the Apple Valley Foothill County Water District are looking at approximately 3-5 years in order to have the money saved for the additional water storage facility.
7. Reserve Capacity
 - a. Apple Valley Foothill County Water District currently does not have enough water storage space for any type of reserves.

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II. Growth and Population

1. We have an estimated population of approximately 550.

III. Financing Opportunities and Constraints

1. Finance plans for:

a. Service upgrades

Upgrades are paid for from the Capital Improvement Fund on an as needed basis. The District evaluates the system and completes any repairs and upgrades that are needed.

b. Capacity Improvements

The Apple Valley Foothill County Water District is in the process of saving funds to enlarge the water capacity for the District.

c. Revenue source

The Apple Valley Foothill County Water District uses the money that it receives from our yearly Standby Assessment that is placed on all property owners tax bills and any monies received for meter installations. All monies collected from customers water usage is used for the day to day operations of the District.

2. Bond Rating

N/A

3. Joint Financing Projects

- a. The District does not participate

4. Revenue Sources

- a. The Apple Valley Foothill County Water District receives its money from the Yearly Standby Assessment that is placed on all property owners tax bills, the sale of water meters and the sale of water to customers within the District.

- b. The Standby Assessment is charged at the maximum amount allowed which is \$30 per acre. The Apple Valley Foothill County Water District recently raised the amount charged per meter installation. The Board of Directors has been discussing the possibility of raising its water rates.

IV. Cost Avoidance Opportunities

1. Overlapping/Duplicative Services

The Apple Valley Foothill County Water District currently has only 4 employees.

1. General Manager
2. Secretary
3. Maintenance Supervisor
4. Maintenance Assistant

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2. Joint Agency Practices

N/A

3. Rely on Other Agencies

a. N/A

b. N/A

c. The Apple Valley Foothill County Water District has determined that the cost to buy, insure and upkeep any District vehicles or large equipment is too costly for the District. Therefore the Apple Valley Foothill County Water District contracts with High Desert Underground to do any distribution repairs, new service installations that may be needed.

4. Growth Management Strategies

a. The Apple Valley Foothill County Water District has no plans to incorporate any more areas into the District boundaries.

b. N/A

c. The Apple Valley Foothill County Water District encourages its customers to conserve water. We try to make the customers understand that this is a desert area and that water is not abundant.

d. Currently have no Annexation policies.

e. The Board of Directors on February 23, 2000 with Resolution #114, Restricted any Requests for Water Connections from Outside of the District Boundaries.

5. Level of Service

a. The Apple Valley Foothill County Water District strives to meet and exceed our customers needs. Being that we are such a small District and only provide the one service the District does not receive many complaints.

b. Same as above.

6. Per-Unit Service Costs

a. Please find the following rates for the Apple Valley Foothill County Water District:

No Monthly Service Charge

0-1000 cubic feet of water billed at \$17.00 per month

1001-9999 cubic feet billed at \$1.00 per 100 cubic feet

10000 and above are billed at \$2.00 per 100 cubic feet

3/4" meter is charged \$5225.00 for installation

1" meter is charged \$7384.00 for installation

\$50.00 deposit for new customers

\$30.00 reconnection fee if water is turned off for non-payment

V. Rate Restructuring

1. Rate restructuring is considered by:

b. The Apple Valley Foothill County Water District compares the rates of other water companies in the immediate area.

2. We are in the process of considering a rate change and have not come up with any specific amounts as of this time.

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VI. Opportunities for Shared Facilities

N/A

VII. Government Structure Options

N/A

VIII. Evaluation of Management Efficiencies

1. Training Opportunities

When the Board feels that a training opportunity is needed.

2. As previously stated there are only 4 employees.

- a. General Manger
- b. Secretary
- c. Maintenance Supervisor
- d. Maintenance Assistant

3. Technology

- a. The Apple Valley Foothill County Water District currently has water utility billing software.

4. Budget

- a. The Apple Valley Foothill County Water District does not work with a Yearly Budget.
- b. All employees are salaried employees. We have no hourly employees. The General Manager and Secretary are paid mileage for use of their own vehicles. The Maintenance Supervisor receives a monthly personal vehicle use fee.
- c. N/A

- d. The Apple Valley Foothill County Water District has an Annual Audit completed by an Independent Accounting Firm. All Audits are open to public record.

5. Joint Powers Agreements

- a. N/A

IX. Local Accountability and Governances

1. Governing Body

- a. When there is a Director opening on the Board a letter is sent to the customers of the District advising them that there is an opening. All qualified applicants are reviewed by the current Board and one will be selected.

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IX. Local Accountability and Governances (continued)

- b. Their are two Sections in the District, Section 11 and Section 12, the Board tries to keep the members equal from both Sections.
 - c. The Board meets the 4th Wednesday of each month at 7:00 p.m. at the District office.
 - d. The Board of Directors and its staff comply by the Brown Act rules for all of its meetings.
 - e. There has been no contested elections in the past decade. When there has been a Board Member up for re-election there has been no one to contest, so all Board Members have been re-appointed in lieu of election
2. Customer Feedback
- a. We have not conducted any surveys.
 - b. All customer complaints are resolved to everyone's satisfaction and then the Board is made aware of any complaints and how they were handled at the next regularly scheduled meeting.
3. Access
- a. Office hours are Monday - Wednesday and Friday from 8 a.m. - 10 a.m. There is an emergency phone number that customers can call.
 - b. There are one - two newsletters that are sent out each year. Additional newsletters are sent out if there is pertinent information that the customers need.
 - c. N/A
 - d. N/A
 - e. N/A
4. Regular Progress Reports
- a. The customers are made aware of any major projects that may be coming up.
 - b/c. When a major expenditure/project is being considered customers are encouraged to attend public meetings to voice opinions and concerns.

**RESOLUTION #114 OF THE
APPLE VALLEY FOOTHILL COUNTY WATER DISTRICT**

**RESTRICTION OF REQUEST FOR WATER
CONNECTIONS FROM OUTSIDE DISTRICT BOUNDARIES**

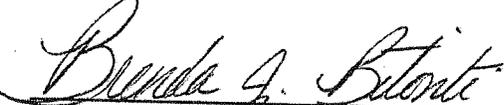
The following Resolution is to be added to the Rules and Regulations concerning Requests for Water Connections from Outside District Boundaries.

1. Beginning February 23, 2000 the Apple Valley Foothill County Water District will not allow the connections of any water from property that is not within the District Boundaries.
2. All requests for connections of water from outside of the District Boundaries of the Apple Valley Foothill County Water District will be brought before the Board of Directors of the Apple Valley Foothill County Water District for Approval or Denial.
3. A clarification of property within District Boundaries is to be any parcel of property that is currently being billed for the Annual Standby Assessment that is charged to all parcels of property that are within the Apple Valley Foothill County Water District. Any property surrounding the District that is not currently being charged the Standby Assessment from the Apple Valley Foothill County Water District is considered outside District Boundaries.

**ADOPTED, SIGNED AND APPROVED BY THE BOARD OF
DIRECTORS OF THE APPLE VALLEY FOOTHILL COUNTY WATER
DISTRICT.**

DATE: February 23, 2000


**Claude J. Hart/President
Board of Directors
Apple Valley Foothill County Water District**


**Brenda J. Bitonti/General Manager
Apple Valley Foothill County Water District**

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**APPLE VALLEY FOOTHILL
COUNTY WATER DISTRICT**

REPORT ON AUDIT

June 30, 2006 and 2005

APPLE VALLEY FOOTHILL COUNTY WATER DISTRICT

(A Special District)

June 30, 2006 and 2005

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of Apple Valley Foothill 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 auditing standards generally accepted 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 Apple Valley Foothill 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 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

October 18, 2006

APPLE VALLEY FOOTHILL 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	\$ 193,983	\$ 184,840
Accounts receivable	24,249	23,364
Prepaid expenses	<u>3,080</u>	<u>4,839</u>
Total current assets	221,312	213,043
Non-current assets		
Capital assets, net	<u>236,691</u>	<u>229,751</u>
TOTAL ASSETS	<u>\$ 458,003</u>	<u>\$ 442,794</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 3,065	\$ 1,640
Accrued payroll taxes	903	901
Customer deposits	<u>6,100</u>	<u>5,600</u>
Total current liabilities	10,068	8,141
Long-term liabilities	<u>-</u>	<u>-</u>
Total liabilities	10,068	8,141
Net assets		
Unrestricted	<u>447,935</u>	<u>434,653</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 458,003</u>	<u>\$ 442,794</u>

See accompanying notes and auditors' report

APPLE VALLEY FOOTHILL 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	\$ 76,052	\$ 80,569
Water services	35,959	41,502
Standby charges	<u>20,467</u>	<u>21,533</u>
Total operating revenues	132,478	143,604
Operating expenses		
Source of supply	8,193	5,735
Pumping	15,754	15,898
Transmission and distribution	19,942	20,150
General and administrative	<u>67,820</u>	<u>60,955</u>
Total expenses	111,709	102,738
Depreciation	<u>12,142</u>	<u>10,733</u>
Total operating expenses	<u>123,851</u>	<u>113,471</u>
OPERATING INCOME	8,627	30,133
Non-operating revenues (expenses)		
Interest revenue	<u>4,655</u>	<u>1,909</u>
Total non-operating revenues (expenses)	<u>4,655</u>	<u>1,909</u>
INCREASE IN NET ASSETS	13,282	32,042
NET ASSETS		
Beginning, July 1	<u>434,653</u>	<u>402,611</u>
Ending, June 30	<u>\$ 447,935</u>	<u>\$ 434,653</u>

See accompanying notes and auditors' report

APPLE VALLEY JOOTHILL 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	\$ 131,593	\$ 143,744
Cash paid to suppliers	(69,168)	(69,348)
Cash paid to employees	<u>(34,200)</u>	<u>(31,867)</u>
Net cash provided by operating activities	28,225	42,529
Cash flows from capital and related financing activities		
Purchase of equipment	<u>(19,082)</u>	<u>(9,755)</u>
Net cash used in capital and related financing activities	<u>(19,082)</u>	<u>(9,755)</u>
NET CHANGE IN CASH	9,143	32,774
CASH		
Beginning, July 1	<u>184,840</u>	<u>152,066</u>
Ending, June 30	<u>\$ 193,983</u>	<u>\$ 184,840</u>
Components of cash		
Cash	<u>\$ 193,983</u>	<u>\$ 184,840</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 13,282	\$ 32,042
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	12,142	10,733
Change in assets and liabilities:		
Accounts receivable	(885)	140
Prepaid expenses	1,759	(1,966)
Accounts payable and accrued payroll taxes	1,427	830
Customer deposits	<u>500</u>	<u>750</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 28,225</u>	<u>\$ 42,529</u>

See accompanying notes and auditors' report

APPLE VALLEY FOOTHILL COUNTY WATER DISTRICT

(A Special District)

NOTES TO FINANCIAL STATEMENTS

June 30, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Apple Valley Foothill County Water District (the “District”) was formed in July 1, 1957, under the Provision of the California Water Code. Its boundaries encompass approximately 717 acres. The District is governed by the Board of Directors (five members) elected by the voters within the District for two to 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 Foothill 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 is 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 two to sixty years. Depreciation expense for the years ended June 30, 2006 and 2005 was \$12,142 and \$10,733, 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.

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.

APPLE VALLEY FOOTHILL COUNTY WATER DISTRICT

(A Special District)

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

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 \$193,983 at June 30, 2006. Bank balances before reconciling items were \$201,837 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
- 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>4,655</u>

APPLE VALLEY Foothill County Water District

(A Special District)

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

NOTE 2 – CASH AND INVESTMENTS, Continued

Investments, Continued

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>193,983</u>

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

	<u>Credit Quality Ratings</u>	<u>Fair Value</u>
Deposits	Not Rated	\$ <u>193,983</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.

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	\$ 193,983
	Two to three years	-
	Four to five years	-
	Total	<u>\$ 193,983</u>

APPLE VALLEY FOOTHILL COUNTY WATER DISTRICT

(A Special District)

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

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>	Balance <u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2006</u>
Capital assets not being depreciated:				
Land	\$ 37,449	\$ -	\$ -	\$ 37,449
Capital assets being depreciated:				
Buildings and improvements	14,874	-	-	14,874
Pumping equipment	26,680	16,182	-	42,862
Water system	146,011	-	-	146,011
Reservoirs and storage tank	10,693	-	-	10,693
Wells	176,353	-	-	176,353
Furniture and fixtures	8,596	-	-	8,596
Fire hydrants	<u>5,080</u>	<u>2,900</u>	<u>-</u>	<u>7,980</u>
Total capital assets being depreciated	<u>388,287</u>	<u>19,082</u>	<u>-</u>	<u>407,369</u>
Total capital assets	<u>\$ 425,736</u>	<u>\$ 19,082</u>	<u>\$ -</u>	<u>\$ 444,818</u>
<u>Accumulated Depreciation</u>	Balance <u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2006</u>
Buildings and improvements	\$ 12,655	\$ 535	\$ -	\$ 13,190
Pumping equipment	23,000	318	-	23,318
Water system	75,828	4,609	-	80,437
Reservoirs and storage tank	5,928	179	-	6,107
Wells	69,931	6,137	-	76,068
Furniture and fixtures	8,389	207	-	8,596
Fire hydrants	<u>254</u>	<u>157</u>	<u>-</u>	<u>411</u>
Total accumulated depreciation	<u>\$ 195,985</u>	<u>\$ 12,142</u>	<u>\$ -</u>	<u>\$ 208,127</u>
CAPITAL ASSETS, net book value	<u>\$ 229,751</u>			<u>\$ 236,691</u>

APPLE VALLEY FOOTHILL 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	\$ 37,449	\$ -	\$ -	\$ 37,449
Capital assets being depreciated:				
Buildings and improvements	14,874	-	-	14,874
Pumping equipment	26,680	-	-	26,680
Water system	136,256	9,755	-	146,011
Reservoirs and storage tank	10,693	-	-	10,693
Wells	176,353	-	-	176,353
Furniture and fixtures	8,596	-	-	8,596
Fire hydrants	<u>5,080</u>	<u>-</u>	<u>-</u>	<u>5,080</u>
Total capital assets being depreciated	<u>378,532</u>	<u>9,755</u>	<u>-</u>	<u>388,287</u>
Total capital assets	<u>\$ 415,981</u>	<u>\$ 9,755</u>	<u>\$ -</u>	<u>\$ 425,736</u>
<u>Accumulated Depreciation</u>	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
Buildings and improvements	\$ 12,119	\$ 536	\$ -	\$ 12,655
Pumping equipment	22,654	346	-	23,000
Water system	71,308	4,520	-	75,828
Reservoirs and storage tank	5,751	177	-	5,928
Wells	65,024	4,907	-	69,931
Furniture and fixtures	8,227	162	-	8,389
Fire hydrants	<u>169</u>	<u>85</u>	<u>-</u>	<u>254</u>
Total accumulated depreciation	<u>\$ 185,252</u>	<u>\$ 10,733</u>	<u>\$ -</u>	<u>\$ 195,985</u>
CAPITAL ASSETS, net book value	<u>\$ 230,729</u>			<u>\$ 229,751</u>

APPLE VALLEY FOOTHILL COUNTY WATER DISTRICT
(A Special District)

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

NOTE 4 – 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 5) for nature of participation. Settled claims have not exceeded this coverage in any of the past two fiscal years.

NOTE 5 – 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.

APPLE VALLEY FOOLHILL 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		
Water fees	\$ 4,777	\$ 3,203
Well monitoring	<u>3,416</u>	<u>2,532</u>
Total source of supply	8,193	5,735
Pumping		
Plant power	15,754	15,898
Transmission and distribution		
Repairs and maintenance	8,184	7,918
Salaries and wages	7,676	5,913
Supplies	<u>4,082</u>	<u>6,319</u>
Total transmission and distribution	19,942	20,150
General and administrative		
Bank charges	733	816
Dues and subscriptions	2,906	1,132
Insurance expense	4,927	6,271
Licenses and permits	989	608
Meeting fees	2,990	2,805
Office supplies	3,158	3,986
Payroll tax expense	3,286	3,205
Professional fees	5,185	4,373
Repairs and maintenance	6,000	1,015
Salaries and wages	26,400	26,250
Security	384	439
Telephone	1,467	1,571
Training	620	-
Travel	6,595	6,380
Utilities	<u>2,180</u>	<u>2,104</u>
Total general and administrative	<u>67,820</u>	<u>60,955</u>
Total expenses	111,709	102,738
Depreciation	<u>12,142</u>	<u>10,733</u>
TOTAL OPERATING EXPENSES	<u>\$ 123,851</u>	<u>\$ 113,471</u>

See accompanying notes and auditors' report

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**APPLE VALLEY FOOTHILL
COUNTY WATER DISTRICT**

REPORT ON AUDIT

June 30, 2005 and 2004

APPLE VALLEY FOOTHILL COUNTY WATER DISTRICT

(A Special District)

June 30, 2005 and 2004

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of Apple Valley Foothill County Water District (a special district), as of June 30, 2005 and June 30, 2004, 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 auditing standards generally accepted 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 Apple Valley Foothill County Water District, as of June 30, 2005 and 2004, 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 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

December 15, 2005

APPLE VALLEY FOOTHILL COUNTY WATER DISTRICT

(A Special District)

STATEMENTS OF NET ASSETS

June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets		
Cash and investments	\$ 184,840	\$ 152,066
Accounts receivable	23,364	23,504
Prepaid expenses	<u>4,839</u>	<u>2,873</u>
Total current assets	213,043	178,443
Non-current assets		
Capital assets, net	<u>229,751</u>	<u>230,729</u>
TOTAL ASSETS	<u>\$ 442,794</u>	<u>\$ 409,172</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 1,640	\$ 895
Accrued payroll taxes	901	816
Customer deposits	<u>5,600</u>	<u>4,850</u>
Total current liabilities	8,141	6,561
Long-term liabilities	<u>-</u>	<u>-</u>
Total liabilities	8,141	6,561
Net assets		
Unrestricted	<u>434,653</u>	<u>402,611</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 442,794</u>	<u>\$ 409,172</u>

See accompanying notes and auditors' report

APPLE VALLEY FOOTHILL COUNTY WATER DISTRICT

(A Special District)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues		
Water sales	\$ 80,569	\$ 86,496
Water services	41,502	34,409
Standby charges	<u>21,533</u>	<u>23,074</u>
Total operating revenues	143,604	143,979
Operating expenses		
Source of supply	5,735	6,170
Pumping	15,898	14,594
Transmission and distribution	20,150	19,238
General and administrative	<u>60,955</u>	<u>55,172</u>
Total expenses	102,738	95,174
Depreciation	<u>10,733</u>	<u>11,683</u>
Total operating expenses	<u>113,471</u>	<u>106,857</u>
OPERATING INCOME	30,133	37,122
Non-operating revenues (expenses)		
Interest revenue	<u>1,909</u>	<u>1,357</u>
Total non-operating revenues (expenses)	<u>1,909</u>	<u>1,357</u>
INCREASE IN NET ASSETS	32,042	38,479
NET ASSETS		
Beginning, July 1	<u>402,611</u>	<u>364,132</u>
Ending, June 30	<u>\$ 434,653</u>	<u>\$ 402,611</u>

See accompanying notes and auditors' report

APPLE VALLEY FOOTHILL COUNTY WATER DISTRICT

(A Special District)

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Cash received from customers	\$ 143,744	\$ 134,487
Cash paid to suppliers	(69,348)	(55,941)
Cash paid to employees	<u>(31,867)</u>	<u>(29,690)</u>
Net cash provided by operating activities	42,529	48,856
Cash flows from capital and related financing activities		
Purchase of equipment	<u>(9,755)</u>	<u>(31,914)</u>
Net cash used in capital and related financing activities	<u>(9,755)</u>	<u>(31,914)</u>
NET CHANGE IN CASH	32,774	16,942
CASH		
Beginning, July 1	<u>152,066</u>	<u>135,124</u>
Ending, June 30	<u>\$ 184,840</u>	<u>\$ 152,066</u>
Components of cash		
Cash	<u>\$ 184,840</u>	<u>\$ 152,066</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 32,042	\$ 38,479
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	10,733	11,683
Change in assets and liabilities:		
Accounts receivable	140	(9,492)
Prepaid expenses	(1,966)	532
Construction in progress	-	13,128
Accounts payable and accrued payroll taxes	830	(2,547)
Customer deposits	<u>750</u>	<u>(2,927)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 42,529</u>	<u>\$ 48,856</u>

See accompanying notes and auditors' report

APPLE VALLEY FOOTHILL COUNTY WATER DISTRICT

(A Special District)

NOTES TO FINANCIAL STATEMENTS

June 30, 2005 and 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Apple Valley Foothill County Water District (the “District”) was formed in July 1, 1957, under the Provision of the California Water Code. Its boundaries encompass approximately 717 acres. The District is governed by the Board of Directors (five members) elected by the voters within the District for two to 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 FOOTHILL COUNTY WATER DISTRICT

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2005 and 2004

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 two to sixty years. Depreciation expense for the years ended June 30, 2005 and 2004 was \$10,733 and \$11,683, 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.

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.

APPLE VALLEY FOOTHILL COUNTY WATER DISTRICT

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2005 and 2004

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 \$184,840 at June 30, 2005. Bank balances before reconciling items were \$189,112 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
- 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, 2005</u>
Interest income	\$ <u>1,909</u>

APPLE VALLEY FOOTHILL COUNTY WATER DISTRICT

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2005 and 2004

NOTE 2 – CASH AND INVESTMENTS, Continued

Investments, Continued

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, 2005:

	<u>Business-Type Activities</u>
Cash and investments	\$ <u>184,840</u>

At June 30, 2005, the District had the following deposits:

	<u>Credit Quality Ratings</u>	<u>Fair Value</u>
Deposits	Not Rated	\$ <u>184,840</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.

Summary of Investments to Maturity

The fair value of investments held by maturity at June 30, 2005 is shown below:

Maturity:	Current to one year	\$ 184,840
	Two to three years	-
	Four to five years	-
	Total	\$ <u>184,840</u>

APPLE VALLEY FOOTHILL COUNTY WATER DISTRICT

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2005 and 2004

NOTE 3 – CAPITAL ASSETS

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	\$ 37,449	\$ -	\$ -	\$ 37,449
Capital assets being depreciated:				
Buildings and improvements	14,874	-	-	14,874
Pumping equipment	26,680	-	-	26,680
Water system	136,256	9,755	-	146,011
Reservoirs and storage tank	10,693	-	-	10,693
Wells	176,353	-	-	176,353
Furniture and fixtures	8,596	-	-	8,596
Fire hydrants	<u>5,080</u>	<u>-</u>	<u>-</u>	<u>5,080</u>
Total capital assets being depreciated	<u>378,532</u>	<u>9,755</u>	<u>-</u>	<u>388,287</u>
Total capital assets	<u>\$ 415,981</u>	<u>\$ 9,755</u>	<u>\$ -</u>	<u>\$ 425,736</u>
<u>Accumulated Depreciation</u>	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
Buildings and improvements	\$ 12,119	\$ 536	\$ -	\$ 12,655
Pumping equipment	22,654	346	-	23,000
Water system	71,308	4,520	-	75,828
Reservoirs and storage tank	5,751	177	-	5,928
Wells	65,024	4,907	-	69,931
Furniture and fixtures	8,227	162	-	8,389
Fire hydrants	<u>169</u>	<u>85</u>	<u>-</u>	<u>254</u>
Total accumulated depreciation	<u>\$ 185,252</u>	<u>\$ 10,733</u>	<u>\$ -</u>	<u>\$ 195,985</u>
CAPITAL ASSETS, net book value	<u>\$ 230,729</u>			<u>\$ 229,751</u>

APPLE VALLEY FOOTHILL COUNTY WATER DISTRICT

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2005 and 2004

NOTE 3 – CAPITAL ASSETS, Continued

The detail of capital assets and the changes for the year ended June 30, 2004 are as follows:

<u>Assets at Cost</u>	<u>Balance June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
Capital assets not being depreciated:				
Land	\$ 37,449	\$ -	\$ -	\$ 37,449
Capital assets being depreciated:				
Buildings and improvements	14,874	-	-	14,874
Pumping equipment	26,680	-	-	26,680
Water system	136,256	-	-	136,256
Reservoirs and storage tank	10,693	-	-	10,693
Wells	144,439	31,914	-	176,353
Furniture and fixtures	8,596	-	-	8,596
Fire hydrants	<u>5,080</u>	<u>-</u>	<u>-</u>	<u>5,080</u>
Total capital assets being depreciated	<u>346,618</u>	<u>31,914</u>	<u>-</u>	<u>378,532</u>
Total capital assets	<u>\$ 384,067</u>	<u>\$ 31,914</u>	<u>\$ -</u>	<u>\$ 415,981</u>
<u>Accumulated Depreciation</u>	<u>Balance June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2004</u>
Buildings and improvements	\$ 11,583	\$ 536	\$ -	\$ 12,119
Pumping equipment	22,360	294	-	22,654
Water system	67,737	3,571	-	71,308
Reservoirs and storage tank	5,572	179	-	5,751
Wells	58,566	6,458	-	65,024
Furniture and fixtures	7,666	561	-	8,227
Fire hydrants	<u>85</u>	<u>84</u>	<u>-</u>	<u>169</u>
Total accumulated depreciation	<u>\$ 173,569</u>	<u>\$ 11,683</u>	<u>\$ -</u>	<u>\$ 185,252</u>
CAPITAL ASSETS, net book value	<u>\$ 210,498</u>			<u>\$ 230,729</u>

APPLE VALLEY FOOTHILL COUNTY WATER DISTRICT

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2005 and 2004

NOTE 4 – 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 5) for nature of participation. Settled claims have not exceeded this coverage in any of the past two fiscal years.

NOTE 5 – 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.

SUPPLEMENTARY INFORMATION

APPLE VALLEY FOOTHILL COUNTY WATER DISTRICT

(A Special District)

SCHEDULE OF OPERATING EXPENSES

For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Source of supply		
Water fees	\$ 3,203	\$ 2,984
Well monitoring	<u>2,532</u>	<u>3,186</u>
Total source of supply	5,735	6,170
Pumping		
Plant power	15,898	14,594
Transmission and distribution		
Repairs and maintenance	7,918	9,118
Salaries and wages	5,913	5,030
Supplies	<u>6,319</u>	<u>5,090</u>
Total transmission and distribution	20,150	19,238
General and administrative		
Bank charges	816	802
Dues and subscriptions	1,132	1,394
Insurance expense	6,271	4,735
Licenses and permits	608	766
Meeting fees	2,805	2,955
Office supplies	3,986	3,986
Payroll tax expense	3,205	2,684
Professional fees	4,373	2,930
Repairs and maintenance	1,015	130
Salaries and wages	26,250	24,600
Security	439	384
Telephone	1,571	1,623
Training	-	376
Travel	6,380	5,895
Utilities	<u>2,104</u>	<u>1,912</u>
Total general and administrative	<u>60,955</u>	<u>55,172</u>
Total expenses	102,738	95,174
Depreciation	<u>10,733</u>	<u>11,683</u>
TOTAL OPERATING EXPENSES	<u>\$ 113,471</u>	<u>\$ 106,857</u>

See accompanying notes and auditors' report