



Date:

To: Board of Directors

From: Ed Muzik, General Manager

Prepared/

Presented by: Frank Luckino, Chief Financial Officer

Final Budget 2009-2010

Recommendation: That the Board approves Resolution 09-10 which approves the 2009-2010 fiscal budget.

Fiscal Impact: A reduction of \$700K from reserves

Alternatives: Reduction of Operating/Capital/CRP expenditures or raising rates to decrease the impact on reserves.

Background: The Board of Directors met for a budget review on June 24th to give feedback and suggestions on priorities for 2009-2010. Now Staff is presenting the final spending limits for 2009/10. The charges from the review are as follows:

- 1.) Reduction of state lobbyist from \$60K annually to \$30K annually
- 2.) Reduction of attorneys fees by \$4K to meet 08/09 budget
- 3.) Impact of the County's Workforce Development (Stimulus Funds for training) \$20K
- 4.) Changing, thru the Prop. 218 process, the recharge surcharge to CRP surcharge - \$270K

Attachments:

Hi- Desert Water District
Statement of Revenues and Expenses
Fiscal Year 2009-10
Budget

	Budget	Forecast	Budget
	2008-09	2008-09	2009-10
Operating revenues:			
Water consumption sales	\$6,025,142	\$5,460,376	\$5,921,396
Connection fees	1,113,177	1,246,302	1,308,755
Readiness to serve fees (standby)	185,000	175,391	175,000
Other revenue	<u>171,000</u>	<u>270,777</u>	<u>220,888</u>
Total operating revenues	7,494,319	7,152,846	7,626,039
Operating expenses:			
Source of supply	1,080,000	671,306	1,039,500
Pumping and water treatment	2,102,519	1,917,913	2,031,421
Transmission and distribution	1,289,925	1,490,782	1,514,260
Customer service	554,113	563,650	509,991
General and administrative	<u>2,528,684</u>	<u>2,321,909</u>	<u>2,280,635</u>
Total operating expenses	7,555,241	6,965,560	7,375,807
Operating income before depreciation	(60,922)	187,286	250,232
Less depreciation and amortization	<u>(1,250,000)</u>	<u>(1,292,466)</u>	<u>(1,292,466)</u>
Operating income / (loss)	(1,310,922)	(1,105,180)	(1,042,234)
Non-operating revenue (expense)			
Property taxes and assessments	1,230,000	1,550,513	1,033,675
Mojave Water Agency Maintenance Funds	0	0	800,000
Interest income	299,720	157,791	105,526
Recharge Surcharge - CRP Surcharge	320,400	336,524	336,320
Morongo Basin Project surcharge (note)	508,416	527,992	527,912
Lease payment – Morongo Basin Project	(473,641)	(473,991)	(473,457)
Interest expense – long-term debt	(405,759)	(423,341)	(352,388)
Other revenue / (expense)	<u>31,000</u>	<u>45,558</u>	<u>38,198</u>
Total non-operating revenues, net	<u>1,510,136</u>	<u>1,721,045</u>	<u>2,015,786</u>
Net income before capital contributions	199,214	615,865	973,553
Capital contributions			
Meter sales	105,696	(15,289)	26,424
New installations	<u>60,000</u>	<u>16,998</u>	<u>15,062</u>
Total capital contributions	<u>165,696</u>	<u>1,709</u>	<u>41,486</u>
Change in net assets	364,910	617,574	1,015,038

Attachments:

Source of Supply - Dept 100	Acct #	Budget FY2008-09	Projected 6/30/2009	Budget FY2009-010
Purch water	6090	1,080,000	671,306	1,039,500
Election Fees	9250			0
				<hr/> 1,039,500

Operations - Dept 101

Supervision	4110			
Oper wages	4200	579,616	459,481	524,714
Standby Pay	4240	0	0	0
Flood Expenses	4250	0	0	0
Overtime	4330	53,535	110,635	96,124
Retro pay	4410	0	0	0
Vacation	4610	40,745	41,666	39,218
Holiday	4620	30,000	31,267	30,000
Sick time	4630	31,653	29,982	28,802
Admin	4640	0	0	0
Jury duty	4650	0	0	0
Bereavement Lve	4660	0	93	0
Health	4700	180,635	178,013	167,285
Dental	4710	18,490	20,837	17,571
Vision	4720	2,532	2,585	2,383
Life ins	4730	2,438	5,258	1,237
LTD	4740	2,256	0	1,367
EAP	4750	529	0	526
PERS	4800	144,369	129,627	160,367
FICA	4810	56,270	51,039	54,993
Workers' comp	4820	43,071	25,160	29,787
Uniforms	4830	12,000	13,920	12,960
Oper supplies	5010	50,000	40,090	45,045
Printed forms	5011	0	0	0
computer supplies	5015	0	0	0
Small tools	5020	6,300	3,293	4,797
Furniture & fix	5030	2,000	3,637	2,819
Postage	5040	120	108	114
Fuel	5050	28,733	24,082	26,407
Chemicals	5060	26,000	6,648	16,324
Training & education	5085		0	0
Misc supplies	5090	2,500	1,999	2,250
1001 Plant F8	5501	0	0	0
TANK 26 PT #2 84 CHOLLA	5502	1,685	1,329	1,507
Telemetry PT#18 58328 S.	5503	301	153	227
Telemetry 8908 Sage	5504	194	207	200
1303 Plant L5 TANK 19	5505	1,519	1,307	1,413
56876 COBALT	5506	193	207	200
53732 UPPRE RIDGE TANK	5507	208	217	212
6955 OWS RD TP705-010283	5508	5,420	4,831	5,125
6955 OWS RDn SHOP 885-030	5509	4,390	5,057	4,723
Electric General	5510	0	0	0
Sunland/Piontwn Well #2	5512	9,983	10,654	10,318
Well #3 504 Plant F6	5513	0	0	0
5 GLF CRS Well #5	5514	0	0	0
505 Plant C6 Well #6	5515	19,057	13,777	16,417
55479 Yucca Trl Well #8	5516	66	5,918	2,992
Well #9 55865 Sunland	5517	43,078	42,980	43,029
55527 Sunland Dr Well #1	5518	2,864	4,900	3,882
Well #11 56650 Cassiaa Dr	5519	64,444	63,285	63,864
7961 Fox Trl Lower Fox	5520	9,900	10,193	10,046

Source of Supply - Dept 100	Acct #	Budget FY2008-09	Projected 6/30/2009	Budget FY2009-010
54484 Pinon Fairway Boos	5523	0	0	0
57350 Encelia Drive/Blend Fac.	5524	69,320	78,692	74,006
56125 Luna Vista Tie in	5525	0	0	0
55189 29 Palms Hwy Booste	5526	16,177	15,472	15,824
54075 Homestead Wy Boost	5527	4,941	4,855	4,898
501 Plant N3 Well #5	5528	957	1,002	980
503 Plant J5 W7 Well #7	5529	939	1,005	972
516 PLANT J5	5530	0	0	0
1801 Plant F5 Well #10	5531	0	0	0
514 Plant well #12	5532	40,115	31,502	35,808
7020 Sage Ave Well 16 & 1	5533	23,925	14,514	19,220
1114 Plant I 6 Booster #5	5534	7,950	7,483	7,717
604 Plant M5 Booster #11	5535	33,166	30,666	31,916
1304 Plant 18 Booster #12	5536	42,964	38,983	40,974
1103 Plant K6 Booster #13	5537	27,041	19,877	23,459
1309 Plant Tank 14	5538	5,046	4,630	4,838
53871 Ridge Booster	5539	3,809	3,291	3,550
Gas Costs	5540	0	0	0
Electric Wells Time Use	5541	0	0	0
57626 Crestview well #18	5542	28,174	33,869	31,021
404 Warren Vista Well 24E	5543	47,795	53,784	50,789
55694 Desert Gold	5544	7,360	7,739	7,549
57377 Crestview	5545	205	209	207
57107 Sunnyslope Dr	5546	25,272	4,162	14,717
55439 29 Palms Hwy	5547	0	0	0
55441 29 Palms Hwy	5548	0	0	0
55439 & 41 29 Palms Hwy	5549	16,979	23,806	20,393
Communications Telephone	5550	4,929	3,575	4,252
Water analysis	6010	40,000	72,504	56,252
Engr serv fee	6040	0	0	0
Oper ser fee	6050	0	0	0
Government fee	6060	15,000	8,130	11,565
Watermaster	6080	42,561	28,214	38,111
Watermaster	6081	0	0	0
Pipline fee	6091	0	0	0
Misc contracts	6200	7,500	0	3,750
Seminars/Training	6510	5,000	1,428	3,214
Meals Out of Town	6560	250	0	125
Mileage Reimb	6570	1,500	223	862
Material serv	7010	44,100	20,083	32,092
Tank inspection, cleaning & repr	7016	2,500	0	1,250
Nitrate maint	7018	10,000	1,495	5,747
Services	7030	35,000	44,810	39,905
Auto Services	7040	6,000	9,514	7,757
Auto Supplies	7050	3,000	3,392	3,196
Equip contracts	7060	3,000	1,346	2,173
Misc maintenance	7070	0	0	0
Int paid deposits	8000	0	0	0
Membership Dues	8020	1,000	165	583
Subscriptions	8030	600	0	300
Leases & rents	8040	350	249	300
Misc exp	8090	1,000	2,808	1,904
Expense Tota		2,102,519	1,917,913.35	2,031,421

Trans. & Distr. Construction	Department Acct #	121		
		Budget	Projected	
		FY2008-09	6/30/2009	FY2009-010
Exec salaries	4100	0	0	0
Supervision	4110	0	0	0
Oper wages	4200	359,318	365,130	393,577
Standby pay	4240	15,600	31,988	23,794
Clerical	4320	0	0	0
Overtime	4330	16,367	25,031	28,881
Retro pay	4410	0	0	0
Vacation	4610	26,143	30,905	27,770
Holiday	4620	25,227	25,572	27,362
Sick time	4630	21,018	23,247	21,856
Admin	4640	530	0	0
Jury duty	4650	58	1,955	2,053
Bereavment	4660	359	1,081	1,135
Health	4700	106,713	119,289	129,498
Dental	4710	10,387	13,778	13,259
Vision	4720	1,753	1,891	1,787
Life ins	4730	1,619	3,870	855
LTD	4740	1,498	0	945
EAP	4750	366	0	394
PERS	4800	95,861	104,668	110,836
FICA	4810	31,933	36,337	36,263
Unemploy ins	4815		0	0
Workers' comp	4820	28,599	25,160	22,604
Uniforms	4830	7,500	8,441	7,971
Oper supplies	5010	80,000	90,614	85,307
Printed forms	5011	0	654	327
computer supplies	5015	0	95	48
Small tools	5020	7,500	2,641	5,071
Furniture & fixtures	5030	2,000	2,602	2,301
Postage	5040	0	0	0
Fuel	5050	50,293	31,476	40,884
Misc supplies	5060	2,500	194	1,347
Training & education	5085		0	0
Electric	5508	0	0	0
Electric	5509	0	0	0
Telephone	5550	5,000	3,575	4,287
Govern fees	6060	3,000	418	1,709
Misc contracts	6200	0	0	0
Seminars & training	6510	500	1,030	765
Ground transportation	6530	0	106	53
Meals in Town	6550	100	91	96
Meals out of town	6560	100	0	50
Material / service	7010	35,000	200,553	200,000
Services	7030	15,000	5,130	10,065
Auto services	7040	45,000	29,760	37,380
Auto supplies	7050	8,500	7,849	8,174
Misc maint	7070	0	0	0
New Install/Serv	7075	35,000	18,937	26,968
Memb Dues	8020	400	772	586

Trans. & Distr. Construction	Department	121	Projected	
	Acct #	Budget FY2008-09	6/30/2009	FY2009-010
Leases	8040	100	0	50
Misc exp	8090	<u>1,000</u>	<u>1,180</u>	<u>1,090</u>
Expense Tota		1,041,841	1,216,019	1,277,396

Purchasing	Department	131		
		Budget	Projected	Budget
		Acct #	FY2008-09	06/30/09
Oper supplies	5010	15,000	32,000	20,000
Small tools	5020	1,200	65	600
Fuel	5050	20,000	12,207	16,000
Seminars & training	6510	1,000	0	500
Material / service	7010	900	300	600
Services	7030	0	3,232	1,600
Auto Services	7040	5,000	6,234	5,600
Auto supplies	7050	2,500	1,540	2,000
	Expense Tota	45,600	55,578	46,900

CRP	Department	141		
		Budget	Projected	Budget
		Acct #	FY2008-09	06/30/09
Exec salaries	4100	0	0	0
Supervision	4110	0	0	0
Oper wages	4200	276,903	275,427	266,843
Standby pay	4240	0	0	0
Clerical	4320	0	0	0
Overtime	4330	30,000	45,574	41,847
Retro pay	4410	0	0	0
Vacation	4610	17,268	19,438	16,253
Holiday	4620	20,972	20,171	21,180
Sick time	4630	16,281	17,637	14,955
Admin	4640	0	0	0
Jury duty	4650	0	0	0
Bereavment	4660	0	443	0
Health	4700	103,049	92,387	83,176
Dental	4710	10,220	10,148	8,381
Vision	4720	1,558	1,471	1,191
Life ins	4730	1,254	3,554	627
LTD	4740	1,160	0	693
EAP	4750	366	0	263
PERS	4800	74,256	92,867	81,280
FICA	4810	24,799	29,520	24,858
Physical	4815	0	0	0
Workers' comp	4820	22,153	25,160	15,466
Uniforms	4830	3,500	7,148	5,324
Oper supplies	5010	36,000	37,155	36,577
computer supplies	5015	0	0	0
Small tools	5020	3,000	1,128	2,064
Furniture & fix	5030	2,000	584	1,292
Postage	5040	100	0	50
Fuel	5050	47,816	33,580	40,698
Training & education	5085	0	0	0
Misc Supplies	5090	0	0	0
Telephone	5550	5,000	3,575	4,287
Government fees	6060	0	0	0
Misc contracts	6200	0	0	0
Seminars & training	6510	1,628	1,095	1,361
Travel	6550	0	0	0
Material / service	7010	12,000	7,410	9,705
Services	7030	2,000	6,258	4,129
Auto Services	7040	15,000	16,587	15,794
Auto supplies	7050	7,500	4,161	5,830
Equipment Contracts	7060	0	371	186
Leases and Rent	8040	0	0	0
Less: Amt Capitalized	8041	-540,000	-540,000	-520,863
Misc	8090	<u>6,701</u>	<u>6,334</u>	<u>6,517</u>
Expense Tota		202,484	219,185	189,964

Customer Service

	Department	181		
		Acct #	Budget	Projected
			FY2008-09	06/30/09
Exec salaries	4100	0	0	0
Oper wages	4200	233,171	226,440	215,826
Clerical	4320	0	0	0
Overtime	4330	4,982	5,369	3,447
Retro pay	4410	0	1,272	0
Vacation	4610	18,430	19,546	16,254
Holiday	4620	4,500	16,331	10,500
Sick time	4630	13,452	14,614	11,752
Admin	4640	0	0	0
Jury duty	4650	0	1,062	1,115
Bereavement leave	4660	0	0	0
Health	4700	63,216	80,132	77,825
Dental	4710	10,090	11,470	8,669
Vision	4720	1,169	1,240	993
Life ins	4730	1,036	2,412	437
LTD	4740	959	0	483
EAP	4750	244	0	219
PERS	4800	61,355	68,382	56,616
FICA	4810	19,973	21,057	18,821
Workers' comp	4820	2,000	2,516	1,771
Oper supplies	5010	3,000	1,576	2,288
Printed forms	5011	250	405	328
Computer paper	5012	0	0	0
computer supplies	5015	20,000	6,789	13,395
Computer Hardware	5016	10,000	12,503	11,251
Computer Software	5017	37,500	30,766	30,766
IT Equipment & Supplie	5018	0	0	0
Furniture & fixtures	5030	500	0	250
Postage	5040	0	51	26
Training & education	5085	500	0	1,600
Misc supplies	5090	250	44	147
DataProc services	6030	35,825	34,954	22,000
Misc. contracts	6200	10,000	0	0
Seminars & train	6500	0	3,333	1,667
Seminars & train	6510	0	0	0
Airline Tickets	6520	0	0	0
Lodging	6540	0	0	0
Meals in town	6550	0	0	0
Meals out of town	6560	0	0	0
Mileage Reimb	6570	0	0	0
Material/Serv	7010	500	0	250
Services	7030	210	333	272
Misc maintenance	7070	500	0	250
Bad debt exp	8060	0	0	0
Misc Expenses	8090	<u>500</u>	<u>1,052</u>	<u>776</u>
Expense Tot:		554,113	563,650	509,991

Accounting / Billing	Acct #	Budget	Projected	
		FY2009-10	6/30/2009	FY2009-10
Exec salaries	4100	0	0	0
Oper wages	4200	115,713	113,206	124,928
Overtime	4330	2,505	2,172	3,265
Retro pay	4410	0	0	0
Vacation	4610	10,554	14,177	9,125
Holiday	4620	8,018	7,604	8,137
Sick time	4630	6,763	7,279	6,909
Admin	4640	0	0	0
Jury duty	4650	0	0	0
Bereavement leave	4660	0	0	0
Health	4700	47,861	37,691	47,254
Dental	4710	5,458	5,362	5,687
Vision	4720	584	630	596
Life ins	4730	521	1,662	259
LTD	4740	482	0	286
EAP	4750	122	0	131
PERS	4800	30,844	34,104	33,592
FICA	4810	10,464	10,409	11,127
Workers' comp	4820	1,165	2,516	793
Uniforms	4830	0	0	0
Oper supplies	5010	700	0	350
Printed forms	5011	500	658	579
Computer paper	5012	0	0	0
computer supplies	5015	0	999	499
Small tools	5020	0	0	0
Furniture & fix	5030	3,000	3,599	3,299
Postage	5040	9,000	692	4,846
Training & education	5085		0	0
Misc supplies	5090	0	0	0
Outsource billing	6010	70,000	67,013	68,507
Acct Service Fees	6020	0	0	0
Acct Services	6070	0	0	0
Misc Contracts	6200	0	0	0
Seminars & training	6510	0	67	33
Mileage reimb.	6570	0	29	15
Material service	7010	0	0	0
Services	7030	0	0	0
Misc maintenance	7070	0	0	0
	8040	0	0	0
Bad debt exp	8060	36,000	36,000	36,000
Misc Expenses	<u>8090</u>	0	<u>0</u>	<u>0</u>
Expense Tot:		360,254	345,870	366,217

Administration	Acct #	Budget	Projected	
		FY2008-09	6/30/2009	FY2009-10
Exec salaries	4100	0	0	0
Oper wages	4200	805,448	681,554	774,796
Wage Rebate/Training	4320	0	0	-20,000
Overtime	4330	0	9,238	8,227
Retro pay	4410	0	813	0
Vacation	4610	56,331	55,805	56,367
Holiday	4620	56,331	49,000	56,367
Sick time	4630	44,746	44,309	43,157
Admin	4640	13,339	17,512	14,302
Jury duty	4650	456	0	0
Bereavement leave	4660	374	4,327	4,544
Health	4700	121,185	97,633	121,895
Dental	4710	12,865	11,486	13,503
Vision	4720	1,753	1,660	1,787
Life ins	4730	3,447	5,943	1,595
LTD	4740	3,189	0	1,763
EAP	4750	366	1,966	394
PERS	4800	204,086	207,839	206,826
FICA	4810	74,714	56,469	71,391
Unemploy ins	4815	3,450	10,580	7,015
Workers' comp	4820	8,677	3,355	5,695
Def comp	4850	0	0	
Auto allow	4860	25,200	22,800	25,200
Oper supplies	5010	20,000	43,892	31,946
Printed forms	5011	500	3,674	2,087
Computer paper	5012	0	0	0
computer supplies	5015	0	0	0
Computer hardware	5016	0	0	0
Computer software	5017	0	97	48
Furniture & fix	5030	5,000	4,347	4,674
Postage	5040	500	1,968	1,234
Fuel	5050	0	79	39
Training & education	5085	5,000	359	2,679
Misc supplies	5090	0	0	0
Janitorial services	5100	24,000	22,229	23,115
Landscape services	5110	12,000	12,583	12,292
Building maintenance	5120	0	0	0
Waste management	5130	4,800	4,626	4,713
Gas costs	5540	5,000	2,473	3,737
Gas costs	5541	0	0	0
55439 29 Palms	5547	0	0	0
55441 29 Palms	5548	0	0	0
55439 & 41	5549	0	0	0
Comm telephone	5550	35,000	33,084	36,707
Comm fax & modem	5560	2,500	0	1,250
Accounting serv	6020	30,000	31,222	30,611
DP service fees	6030	0	0	0
Engr serv fees	6040	150,000	95,179	122,590
Century Homes exp	6045	0	0	0
Wastewater environ.	6046	-426,314	-426,313	-498,105

Century Homes reimb	6047	0	0	0
Oper serv fees	6050	0	0	0
Government fees	6060	1,500	3,312	2,406
Legal fees	6070	96,000	146,823	96,000
Lobbyist	6080	132,000	118,607	47,625
Misc contracts	6200	10,000	0	12,000
Conventions	6500	7,000	2,053	4,527
Seminars & train	6510	5,000	9,629	7,314
Airline tickets	6520	3,500	2,136	2,818
Ground transp	6530	500	335	418
Lodging	6540	3,000	6,696	4,848
Meals in town	6550	1,500	4,132	2,816
Meals out of town	6560	500	508	504
Mileage reimb	6570	2,500	2,102	2,301
Tolls parking	6580	300	217	258
Material serv	7010	6,500	6,111	6,305
Services	7030	40,000	14,007	27,003
Auto Services	7040	500	170	335
Auto Supplies	7050	0	866	433
Equip contracts	7060	0	0	0
Misc maint	7070	0	0	0
P/R newsletter	7500	18,000	12,177	19,000
P/R mailings	7510	6,000	0	6,000
PI Consulting	7515	1,000	0	500
P/R Media	7520	20,500	16,329	20,000
P/R radio	7530	0	0	0
P/R Bottled Water	7535	0	0	0
Water Conservation	7540	15,000	2,000	4,000
P/R misc	7550	5,000	3,295	2,500
Water Awareness	7600	12,000	12,925	6,000
Director fees	8010	38,850	29,500	37,500
Dir P/R tax exp	8011	2,972	0	2,869
Dir Medical Bene	8012	66,612	65,727	75,028
Dir Travel & Ent	8013	21,000	26,272	23,636
Retiree's Benefits	8014	175,835	176,789	177,445
Retirees Health Reimb	8015	-55,480	-55,103	-55,824
Membership dues	8020	19,000	32,837	25,918
Subscriptions	8030	1,000	1,978	1,489
Leases & rents	8040	6,000	13,638	9,819
Deposit int exp	8051	5,000	2,026	3,513
Low inc cred prog	8070	60,000	54,869	0
Ins esp - auto	8080	60,000	70,760	78,098
Ins exp - liability	8081	17,250	17,256	20,608
Paychex Exp	8085	7,000	7,589	10,300
Standby exp	8086	6,000	2,013	4,006
Misc exp	8090	2,500	501	1,500
Bank charges	8091	459	9,830	5,145
Credit card chrg	8092	40,000	40,632	40,316
Collection fee	8094	890	325	607
Property tax exp	8095	1,800	2,386	2,093
Annexation fee	8096	<u>0</u>	<u>0</u>	<u>0</u>
Expense Tot		2,168,430	1,976,039	1,914,417

**Hi Desert Water District
 Non-Operating
 Budget Analysis
 FY 2009-2010**

				Balance @ 6/30/2009 Amount	Principal Payments	Balance @ 6/30/2010 Amount	Interest Rate
01-000-2120	Loan # 1	Note	Rural Development 77 -Loan # 01	725,600.00	-65,000.00	660,600.00	5.00%
01-000-9030							
01-000-2130	Loan # 2	Loan	DWR - SDWBL	3,301,573.80	-84,008.51	3,217,565.29	4.14%
01-000-9040					-86,119.18	3,131,446.11	
01-000-2160	Loan # 3	Bond	Improvement Corp Lease Loan #03	1,025,000.00	-60,000.00	965,000.00	5.00%
01-000-2180	Loan # 5	Bond	Revenue Refunding Bond BNY	2,315,000.00	-145,000.00	2,170,000.00	4.88%
01-000-9061							
01-000-2103	Loan # 9	Note	Town of Yucca Valley	<u>350,000.00</u>	<u>0.00</u>	<u>350,000.00</u>	4.15%
01-000-9020							
			Total	\$7,367,174	(\$440,128)	\$6,927,046	

**Hi-Desert Water District
2009-10 Revenue Analysis
11-May-09**

	Budget	Forecast	Budget	Budget 09/10	Budget 09/10
	<u>FY 2008-09</u>	<u>FY 2008-09</u>	<u>FY2010</u>	<u>vs. Forecast 08/09</u>	<u>vs. Budget 08/09</u>
Operating revenue					
Consumption revenue (1)	5,307,936	4,758,179	5,260,800	502,621	-47,136
Apartments (1)	335,170	303,662	335,041	31,379	-129
Mobile home (1)	142,002	122,324	127,694	5,370	-14,308
Irrigation (1)	<u>240,034</u>	<u>276,211</u>	<u>197,860</u>	<u>-78,351</u>	<u>-42,174</u>
Subtotal consumption revenue	6,025,142	5,460,376	5,921,396	461,020	-103,746
Connection fees (2)	1,113,177	1,246,302	1,308,755	62,453	195,578
Delinquent fees	120,000	169,983	144,992	-24,992	24,992
DWR loan recharge/CRP charge	320,400	336,524	336,320	-204	15,920
Returned checks	3,000	3,670	3,335	-335	335
Disconnect/reconnect	30,000	62,571	46,286	-16,286	16,286
New account & changes	3,000	5,550	4,275	-1,275	1,275
Turn on fee	15,000	29,002	22,001	-7,001	7,001
Standby (4)	185,000	175,391	175,000	-391	-10,000
Meter sales (5)	105,696	-15,289	45,203	60,493	-60,493
New installations	<u>60,000</u>	<u>16,998</u>	<u>38,499</u>	<u>21,501</u>	<u>-21,501</u>
Total operating revenue	7,980,415	7,491,079	8,046,062	554,983	65,647
Non-operating revenue					
Property tax (6)	1,230,000	1,550,513	1,033,675	-516,838	-196,325
Mojave Water Agency Maintenance Funds	0	0	800,000	800,000	800,000
Pipeline (8)	508,416	527,992	527,912	-80	19,496
Rental income	0	0	0	0	0
Unpaid balances	6,000	11,209	8,605	-2,605	2,605
Water bottle sales	0	162	0	-162	0
Interest income	12,000	1,803	6,902	5,098	-5,098
Interest income - LAIF (9)	290,720	155,987	98,624	-57,363	-192,096
LAIF - FMV adjustment account	-3,000	0	0	0	3,000
Other	<u>25,000</u>	<u>34,187</u>	<u>29,594</u>	<u>-4,594</u>	<u>4,594</u>
Total non-operating revenue	2,069,136	2,281,854	2,505,311	223,458	436,175
Total revenue	10,049,551	9,772,933	10,551,373	778,440	501,822

Wastewater Enterprise
Operating Expense Analysis - 2009-10 Budget

	<u>2009-10 Budget</u>
Funding	
United States Bureau of Reclamation - 25% Match	317,109
C/O Reserves	455,675
Earmarks	500,000
	<hr/>
Total Funding	1,272,784
Subtotal Allocation District Personnel	498,105
Engineering Expenditures	
Subtotal Engineering Expenditures	<hr/> 467,832
Administration	
Subtotal Administration	<hr/> 302,500
TOTAL EXPENDITURES	<hr/> 1,268,437
Net Income/(Loss)	4,347



Charles Z. Fedak, CPA, MBA
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Board of Directors
Hi-Desert Water District
Yucca Valley, California

Independent Auditor's Report

We have audited the accompanying financial statements of the Hi-Desert Water District (District) as of and for the years ended June 30, 2009 and 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. 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 audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Hi-Desert Water District as of June 30, 2009 and 2008, and the respective changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 14, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplemental information section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is stated fairly in all material respects in relation to the basic financial statements taken as a whole.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying introductory section, supplemental information and statistical section are presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

October 14, 2009
Cypress, California

Charles Z. Fedak, CPA
An Accountancy Corporation



Hi-Desert Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2009 and 2008

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Hi-Desert Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2009 and 2008. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net assets increased 1.60% or \$455,944 to \$28,966,418 in fiscal year 2009 and decreased 0.16% or \$(47,528) to \$28,510,474 in fiscal year 2008 as a result of each year's operations.
- The District's operating expenses exceeded its operating revenues before depreciation and amortization expense in fiscal year 2009 by 15.2% or (\$1,081,247) due primarily to operating expenses related to increased salaries and benefits and wastewater operational costs. The District's operating expenses exceeded its operating revenues before depreciation and amortization expense in fiscal year 2008 by 15.8% or (\$1,096,595) due primarily to a decrease in operating revenue from water sales and an increase wastewater operational costs.
- The District's net income from non-operating revenues and debt service expenses produced a positive return of \$1,941,421 and \$2,239,517 in fiscal years 2009 and 2008, respectively. The District has pledged certain non-operating property tax and surcharge revenue items to pay for the District's debt service expense and/or to be used for the District's capital improvement program.
- Capital contributions in 2009 amounted to \$1,001,108 which is comprised of \$44,053 from developers for new meter purchases and installation fees and \$957,055 in grants related to the wastewater treatment facility. In 2008, capital contributions were \$189,483 and were related to new meter purchases and installation fees from developers.

Required Financial Statements

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

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

Financial Analysis of the District

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

Hi-Desert Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2009 and 2008

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

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 18 through 36.

Statement of Net Assets

	Condensed Statements of Net Assets				
	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>2007</u>	<u>Change</u>
Assets:					
Current assets	\$ 8,009,190	9,661,878	(1,652,688)	10,075,066	(413,188)
Non-current assets	246,082	267,274	(21,192)	288,466	(21,192)
Capital assets, net	<u>31,241,113</u>	<u>30,173,270</u>	<u>1,067,843</u>	<u>29,350,336</u>	<u>822,934</u>
Total assets	<u><u>39,496,385</u></u>	<u><u>40,102,422</u></u>	<u><u>(606,037)</u></u>	<u><u>39,713,868</u></u>	<u><u>388,554</u></u>
Liabilities:					
Current liabilities	2,062,699	2,496,728	(434,029)	1,810,720	686,008
Non-current liabilities	<u>8,467,268</u>	<u>9,095,220</u>	<u>(627,952)</u>	<u>9,345,146</u>	<u>(249,926)</u>
Total liabilities	<u><u>10,529,967</u></u>	<u><u>11,591,948</u></u>	<u><u>(1,061,981)</u></u>	<u><u>11,155,866</u></u>	<u><u>436,082</u></u>
Net assets:					
Invested in capital assets, net of related debt	22,214,518	20,524,578	1,689,940	19,358,360	1,166,218
Unrestricted	<u>6,751,900</u>	<u>7,985,896</u>	<u>(1,233,996)</u>	<u>9,199,642</u>	<u>(1,213,746)</u>
Total net assets	<u><u>28,966,418</u></u>	<u><u>28,510,474</u></u>	<u><u>455,944</u></u>	<u><u>28,558,002</u></u>	<u><u>(47,528)</u></u>
Total liabilities and net assets	<u><u>\$ 39,496,385</u></u>	<u><u>40,102,422</u></u>	<u><u>(606,037)</u></u>	<u><u>39,713,868</u></u>	<u><u>388,554</u></u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$28,966,418 and \$28,510,474 as of June 30, 2009 and 2008, respectively.

By far the largest portion of the District's net assets (78% as of June 30, 2009 and 73% as of June 30, 2008) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of fiscal years 2009 and 2008, the District showed a positive balance in its unrestricted net assets of \$6,751,900 and \$7,985,896, respectively, which may be utilized in future years.

Hi-Desert Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2009 and 2008

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2009	2008	Change	2007	Change
Operations:					
Operating revenues	\$ 7,118,299	6,949,058	169,241	7,217,095	(268,037)
Operating expenses	8,199,546	8,045,653	153,893	7,439,423	606,230
Net income(loss) from operations	(1,081,247)	(1,096,595)	15,348	(222,328)	(874,267)
Depreciation and amortization expense	(1,405,368)	(1,379,933)	(25,435)	(1,359,177)	(20,756)
Operating loss	(2,486,615)	(2,476,528)	(10,087)	(1,581,505)	(895,023)
Non-operations:					
Property taxes	1,568,181	1,571,117	(2,936)	1,423,132	147,985
Rental income – cellular antennas	-	4,025	(4,025)	48,149	(44,124)
Interest earnings	144,520	306,604	(162,084)	301,267	5,337
Tax revenue recovery surcharge	-	260,317	(260,317)	621,257	(360,940)
Dept. of Water Resources Reach II surcharge	336,994	332,566	4,428	331,595	971
Morongo Basin Project surcharge	527,101	531,664	(4,563)	548,322	(16,658)
Lease payment – Morongo Basin Project	(287,098)	(494,987)	207,889	(474,449)	(20,538)
Interest expense – long-term debt	(348,944)	(370,525)	21,581	(445,216)	74,691
Other non-operating revenues, net	697	98,736	(98,039)	561,897	(463,161)
Net income from non-operations	1,941,451	2,239,517	(298,066)	2,915,954	(676,437)
Net income(loss) before capital contributions	(545,164)	(237,011)	(308,153)	1,334,449	(1,571,460)
Capital contributions	1,001,108	189,483	811,625	1,019,619	(830,136)
Change in net assets	455,944	(47,528)	503,472	2,354,068	(2,401,596)
Net assets, beginning of year	28,510,474	28,558,002	(47,528)	26,203,934	2,354,068
Net assets, end of year	\$ 28,966,418	28,510,474	455,944	28,558,002	(47,528)

Fiscal Year 2009

The statement of revenues, expenses and changes in net assets shows how the District's net assets changed during the fiscal year. In the case of the District, net assets increased by \$455,944 during the fiscal year ended June 30, 2009. Net loss before capital contributions of (\$545,164) and capital contributions of \$1,001,108 were the two sources of the net change in the District's net assets.

Operating revenues increased by \$169,241 in the fiscal year due to an increase in readiness-to-serve fees of \$175,264. Operating expenses increased by \$153,893 due to an increase in salaries and wages, benefits, and wastewater expenses. The increase in operating revenues and an increase in operating expenses, resulted in a net loss from operations of 1.4% or \$15,348 from 2008.

The District's non-operating revenues, such as property taxes, surcharge or surcharge recovery revenues are pledged to pay down the District's debt service expenses and for the District's capital improvement program. Non-operating revenues net of non-operating expenses decreased (\$298,066) due primarily to a decrease in investment earnings of (\$162,084) and a decrease in tax revenue recovery surcharge of (\$260,317) from 2008.

In addition, the District received \$1,001,108 in capital contributions which is comprised of \$44,053 from developers for new meter purchases and installation fees and \$957,055 in grants related to the wastewater treatment facility.

Hi-Desert Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2009 and 2008

Fiscal Year 2008

The statement of revenues, expenses and changes in net assets shows how the District's net assets changed during the fiscal year. In the case of the District, net assets decreased by (\$47,528) during the fiscal year ended June 30, 2008. Net loss before capital contributions of (\$237,011) and capital contributions of \$189,483 were the two sources of the net change in the District's net assets.

Operating revenues decreased by (\$268,037) in the fiscal year due to a decrease in water consumption sales of (\$474,458) that was offset by an increase in water service revenues of \$206,421. As a result, the decrease in operating revenues and the increase in operating expenses, net income from operations decreased by 13.6% or (\$1,096,595). Operating expenses increased by \$606,230 due to an increase in wastewater expenses.

The District's non-operating revenues, such as property taxes, surcharge or surcharge recovery revenues are pledged to pay down the District's debt service expenses and for the District's capital improvement program. Non-operating revenues net of non-operating expenses decreased (\$676,437) due to a decrease of (\$360,940) increase in tax revenue recovery surcharge and a decrease of (\$463,161) in rental revenues from wireless communications providers.

In addition, the District received \$189,483 in capital contributions from developers for new meter purchases and installation fees.

Capital Asset Administration

Changes in capital assets in 2009 were as follows:

	Balance 2008	Additions	Deletions/ Transfers	Balance 2009
Capital assets:				
Non-depreciable assets	\$ 3,522,940	2,452,019	(1,932,780)	4,042,179
Depreciable assets	46,141,283	1,932,780	-	48,074,063
Accumulated depreciation	<u>(19,490,953)</u>	<u>(1,384,176)</u>	<u>-</u>	<u>(20,875,129)</u>
Total capital assets	<u>\$ 30,173,270</u>	<u>3,000,623</u>	<u>(1,932,780)</u>	<u>31,241,113</u>

Changes in capital assets in 2008 were as follows:

	Balance 2007	Additions	Deletions/ Transfers	Balance 2008
Capital assets:				
Non-depreciable assets	\$ 3,684,153	2,181,675	(2,342,888)	3,522,940
Depreciable assets	43,798,395	2,342,888	-	46,141,283
Accumulated depreciation	<u>(18,132,212)</u>	<u>(1,358,741)</u>	<u>-</u>	<u>(19,490,953)</u>
Total capital assets	<u>\$ 29,350,336</u>	<u>3,165,822</u>	<u>(2,342,888)</u>	<u>30,173,270</u>

At the end of fiscal year 2009 and 2008, the District's investment in capital assets amounted to \$31,241,113 and \$30,173,270 (net of accumulated depreciation), respectively. This investment in capital assets includes land, easements, transmission and distribution systems, wells, tanks, reservoirs, pumps, buildings and structures, equipment, vehicles and construction-in-process, etc. Major depreciable capital asset additions during fiscal year 2009 includes additions to the transmission and distribution system mains, wells, recharge ponds, and engineering costs associated with future wastewater treatment facilities.

Major depreciable capital asset additions during fiscal year 2008 includes additions to the transmission and distribution system mains, pumps, tools and equipment and five new vehicles.

Hi-Desert Water District
Management's Discussion and Analysis
For the Years Ended June 30, 2009 and 2008

Debt Administration

Changes in long-term debt amounts for 2009 were as follows:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2009</u>
Long-term debt:				
Loans payable	\$ 4,902,577	-	(367,097)	4,535,480
Bonds payable	3,535,000	-	(195,000)	3,340,000
Notes payable	<u>1,211,115</u>	<u>-</u>	<u>(60,000)</u>	<u>1,151,115</u>
Total long-term debt	<u>\$ 9,648,692</u>	<u>-</u>	<u>(622,097)</u>	<u>9,026,595</u>

Changes in long-term debt amounts for 2008 were as follows:

	<u>Balance 2007</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2008</u>
Long-term debt:				
Loans payable	\$ 5,256,376	-	(353,799)	4,902,577
Bonds payable	3,715,000	-	(180,000)	3,535,000
Notes payable	<u>1,020,600</u>	<u>350,000</u>	<u>(159,485)</u>	<u>1,211,115</u>
Total long-term debt	<u>\$ 9,991,976</u>	<u>350,000</u>	<u>(693,284)</u>	<u>9,648,692</u>

Principal payments in 2009 decreased total long-term debt by \$622,097 from the 2008 levels. In 2008, the District received loan proceeds in the amount of \$350,000 to fund the initial phase of the District's wastewater project. Principal payments in 2008 decreased total long-term debt by \$343,284 from the 2007 levels. See further detailed information in Note 7.

Conditions Affecting Current Financial Position

Management is unaware of any conditions that would have a significant impact on the District's financial position, net assets, or operating results in future periods.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Chief Financial Officer at 55439 29 Palms Highway, Yucca Valley, California 92284-2503.



Basic Financial Statements

Hi-Desert Water District
Statements of Net Assets
June 30, 2009 and 2008

<i>Assets</i>	2009	2008
Current assets:		
Cash and cash equivalents (note 2)	\$ 6,081,101	7,728,836
Accrued interest receivable	20,609	53,587
Accounts receivable – water sales and services, net (note 3)	655,810	598,928
Accounts receivable – other	4,817	2,317
Property taxes receivable	227,770	281,089
Materials and supplies inventory	265,439	483,973
Prepaid lease payment	713,661	467,612
Prepaid expenses and other deposits	39,983	45,536
Total current assets	<u>8,009,190</u>	<u>9,661,878</u>
Non-current assets:		
Deferred charges, net (note 4)	246,082	267,274
Capital assets, net (note 6)	31,241,113	30,173,270
Total non-current assets	<u>31,487,195</u>	<u>30,440,544</u>
Total assets	<u>\$ 39,496,385</u>	<u>40,102,422</u>
<hr/> <i>Liabilities and Net Assets</i> <hr/>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 907,190	1,432,643
Deposits and deferred revenue	244,396	193,694
Accrued interest on long-term debt	130,773	125,409
Long-term liabilities - due within one year:		
Compensated absences (note 5)	55,253	47,878
Loans payable (note 7)	379,572	366,589
Bonds payable (note 8)	205,000	195,000
Notes payable (note 9)	140,515	135,515
Total current liabilities	<u>2,062,699</u>	<u>2,496,728</u>
Non-current liabilities:		
Long-term liabilities - due in more than one year:		
Compensated absences (note 5)	165,760	143,632
Loans payable (note 7)	4,155,908	4,535,988
Bonds payable (note 8)	3,135,000	3,340,000
Notes payable (note 9)	1,010,600	1,075,600
Total non-current liabilities	<u>8,467,268</u>	<u>9,095,220</u>
Total liabilities	<u>10,529,967</u>	<u>11,591,948</u>
Net assets: (note 10)		
Invested in capital assets, net of related debt	22,214,518	20,524,578
Unrestricted	6,751,900	7,985,896
Total net assets	<u>28,966,418</u>	<u>28,510,474</u>
Total liabilities and net assets	<u>\$ 39,496,385</u>	<u>40,102,422</u>

See accompanying notes to the basic financial statements

Hi-Desert Water District
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2009 and 2008

	2009	2008
Operating revenues:		
Water consumption sales	\$ 5,430,238	5,445,196
Readiness-to-serve fees	1,417,866	1,242,602
Other charges	270,195	261,260
Total operating revenues	7,118,299	6,949,058
Operating expenses:		
Source of supply	807,326	1,379,445
Pumping and water treatment	1,864,326	1,776,631
Transmission and distribution	1,429,091	1,399,020
Customer accounts	165,875	400,415
Wastewater operations	1,171,407	823,947
General and administrative	2,761,521	2,266,195
Total operating expenses	8,199,546	8,045,653
Operating loss before depreciation and amortization	(1,081,247)	(1,096,595)
Depreciation and amortization	(1,405,368)	(1,379,933)
Operating loss	(2,486,615)	(2,476,528)
Non-operating revenue(expense)		
Property taxes	1,568,181	1,571,117
Rental income – cellular antennas	-	4,025
Interest earnings	144,520	306,604
Tax revenue recovery surcharge	-	260,317
Dept. of Water Resources Reach II surcharge	336,994	332,566
Morongo Basin Project surcharge	527,101	531,664
Lease payment – Morongo Basin Project	(287,098)	(494,987)
Interest expense – long-term debt	(348,944)	(370,525)
Other non-operating revenues, net	697	98,736
Total non-operating revenues, net	1,941,451	2,239,517
Net loss before capital contributions	(545,164)	(237,011)
Capital contributions:		
Grant revenue	957,055	-
Meter sales and installations	44,053	189,483
Total capital contributions	1,001,108	189,483
Change in net assets	455,944	(47,528)
Net assets, beginning of year	28,510,474	28,558,002
Net assets, end of year	\$ 28,966,418	28,510,474

See accompanying notes to the basic financial statements

Hi-Desert Water District
Statements of Cash Flows
For the Years Ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 7,061,417	7,087,396
Cash paid to employees for salaries and wages	(2,523,065)	(2,279,742)
Cash paid to vendors and suppliers for materials and services	(5,900,142)	(4,872,345)
Net cash used in operating activities	(1,361,790)	(64,691)
Cash flows from non-capital financing activities:		
Proceeds from property taxes	1,621,500	1,500,555
Proceeds from rental income – cellular antennas	-	4,025
Proceeds from tax revenue recovery surcharge	-	260,317
Proceeds from non-operating revenues, net	697	98,736
Net cash provided by non-capital financing activities	1,622,197	1,863,633
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,452,019)	(2,181,675)
Proceeds from Federal Capital Grants	957,055	-
Proceeds from meter sales and installations	44,053	189,483
Principal paid on long-term debt	(622,097)	(343,284)
Interest paid on long-term debt	(343,580)	(371,352)
Proceeds from Dept. of Water Resources Reach II surcharge	336,994	332,566
Proceeds from Morongo Basin Project surcharge	527,101	531,664
Lease payment – Morongo Basin Project	(533,147)	(523,070)
Net cash used in capital and related financing activities	(2,085,640)	(2,365,668)
Cash flows from investing activities:		
Interest earnings	177,498	332,857
Net cash provided by investing activities	177,498	332,857
Net decrease in cash and cash equivalents	(1,647,735)	(233,869)
Cash and cash equivalents, beginning of year	7,728,836	7,962,705
Cash and cash equivalents, end of year	\$ 6,081,101	7,728,836
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$ 6,081,101	7,728,836
Total cash and cash equivalents	\$ 6,081,101	7,728,836

Continued on next page

See accompanying notes to the basic financial statements

Hi-Desert Water District
Statements of Cash Flows, continued
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (2,486,615)	(2,476,528)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	1,405,368	1,379,933
Changes in assets and liabilities:		
(Increase)Decrease in assets:		
Accounts receivable – water sales and services, net	(56,882)	138,338
Accounts receivable – other	(2,500)	182,894
Materials and supplies inventory	218,534	(56,225)
Prepaid expenses and other deposits	5,553	(13,296)
Increase(Decrease) in liabilities:		
Accounts payable and accrued expenses	(525,453)	765,996
Compensated absences	29,503	29,046
Deposits and deferred revenue	50,702	(14,849)
Total adjustments	<u>1,124,825</u>	<u>2,411,837</u>
Net cash used by operating activities	\$ <u>(1,361,790)</u>	<u>(64,691)</u>
Non-cash investing, capital and financing transactions:		
Change in fair-market value of funds deposited with LAIF	\$ <u>2,670</u>	<u>6,697</u>

See accompanying notes to the basic financial statements

Hi-Desert Water District
Notes to the Basic Financial Statements
June 30, 2009 and 2008

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Hi-Desert Water District (District) was formed on December 14, 1962 and provides potable water and water services to a population of over 25,000 within a 57-square mile area between the cities of Joshua Tree and Morongo Valley within the County of San Bernardino. The District is governed by a five-member Board of Directors who serve overlapping four-year terms.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

The Hi-Desert Improvement Corporation (HDIC) was incorporated on February 13, 1981. The HDIC is a California nonprofit public benefit corporation formed to assist the Hi-Desert Water District (District) by acquiring, constructing, operating and maintaining facilities, equipment, or other property needed by the District and leasing or selling such property to the District and as such has no employees or other operations. Although the HDIC is legally separate, it is included as a blended component unit of the District, as it is in substance part of the District's operations.

The Warren Valley Basin (Basin) provides a groundwater supply for the community of Yucca Valley in the County of San Bernardino. Concerned about the significant increase in groundwater overdraft in the Basin, the District filed a complaint for adjudication of the groundwater in 1976. In 1977, the Superior Court for the County of San Bernardino issued its judgment for adjudication. In the adjudication, the Court recognized the need to issue groundwater rights in excess of the Basin's safe yield so that the local economy could support the cost of a solution to the overdraft problem. To administer the provisions of the adjudication judgment, the Court appointed the District as the Warren Valley Basin Watermaster (WVBW) for the Basin and ordered that the WVBW to formulate a plan and program for management of the Basin's resources. Although the WVBW is legally separate, it is included as a blended component unit of the District, as it is in substance part of the District's operations as it is governed by the same Board of Directors. No separate financial statements are prepared for the HDIC and/or WVBW.

B. Basis of Accounting and Measurement Focus

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

Operating revenues and expenses, such as water sales, water purchases and wastewater related charges, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as grant funding and investment income, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
June 30, 2009 and 2008

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

B. Basis of Accounting and Measurement Focus

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

C. Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

D. Assets, Liabilities and Net Assets

1. Use of Estimates

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

2. Cash and Cash Equivalents

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

3. Investments and Investment Policy

The District has adopted an investment policy directing the Chief Financial Officer to deposit funds in financial institutions.

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

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
June 30, 2009 and 2008

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

D. Assets, Liabilities and Net Assets, continued

4. Accounts Receivable and Allowance for Uncollectible Accounts

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

5. Property Taxes and Assessments

The County of San Bernardino Assessor's Office assesses all real and personal property within the County each year. The County of San Bernardino Tax Collector's Offices bills and collects the District's share of property taxes and assessments. The County of San Bernardino Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the County of San Bernardino, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

6. Materials and Supplies Inventory

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

7. Prepaid Expenses

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

8. Deferred Charges

The deferred charges are from bond issuance costs that will be amortized using the straight-line method over the remaining life of the respective debt service.

9. Compensated Absences

The District's policy is to permit employees to accumulate earned vacation and sick leave. No employee is allowed to accrue vacation leave in excess of two (2) full years of their particular vacation schedule. Sick leave that is not used shall accumulate during subsequent years without limitation. Sick leave cannot be converted to vacation time, but in order to reward employees who do not utilize all of their sick leave, the District will compensate employees up to fifty percent (50%) of the unused sick leave. Payment of unused sick leave shall not reduce the accrual balance to less than eighty (80) hours and the plan is voluntary.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
June 30, 2009 and 2008

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

D. Assets, Liabilities and Net Assets, continued

10. Water Sales

Water sales are billed on a monthly cyclical basis. Estimated unbilled water revenue through June 30 has been accrued at year-end.

11. Capital Contributions

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

12. Capital Assets

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

- Transmission and distribution mains – 15 to 40 years
- Reservoirs and tanks – 10 to 45 years
- Wells – 10 to 30 years
- Meter service installations – 7 to 10 years
- Recharge site #3 – 40 years
- Recharge ponds – 3 to 40 years
- Nitrate removal plant – 40 years
- Reach II pipeline – 40 years
- Pumps – 12 to 20 years
- Boosters – 20 to 25 years
- Hydrants – 25 to 40 years
- Blending facility – 40 years
- Buildings and structures – 5 to 30 years
- Office furniture and equipment – 5 to 10 years
- Tools and equipment – 5 years
- Vehicles – 4 years

13. Capital Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a capital or operating grant receivable on the statement of net assets and as capital grant contribution or operating grant revenue, as appropriate, on the statement of revenues, expenses and changes in net assets.

14. Budgetary Policies

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

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
June 30, 2009 and 2008

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

D. Assets, Liabilities and Net Assets, continued

15. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

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

(2) Cash and Cash Equivalents

Cash and cash equivalents as of June 30, are classified in the accompanying financial statements as follows:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 6,081,101	7,728,836
Total	<u>\$ 6,081,101</u>	<u>7,728,836</u>

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

	<u>2009</u>	<u>2008</u>
Cash on hand	\$ 1,700	1,700
Deposits held with financial institutions	684,242	531,776
Deposits held in trust for bond trustee	247,356	246,163
Deposits held with California Local Agency Investment Fund (LAIF)	5,147,803	6,949,197
Total	<u>\$ 6,081,101</u>	<u>7,728,836</u>

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

	<u>2009</u>	<u>2008</u>
Deposits held with the California Local Agency Investment Fund (LAIF)	235 days	213 days

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
June 30, 2009 and 2008

(2) Cash and Cash Equivalents, continued

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

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	None	None
Federal agency and bank obligations	5 years	None	None
Certificates-of-deposit (negotiable or placed)	5 years	30%	10%
Commercial paper (prime)	270 days	10%	10%
Money market mutual funds	N/A	20%	None
State and local bonds, notes and warrants	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. The District had deposits with bank balances of \$419,483 and \$634,009 as of June 30, 2009 and 2008, respectively. Of the bank balances, up to \$250,000 and \$100,000 at June 30, 2009 and 2008, respectively, is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
June 30, 2009 and 2008

(2) Cash and Cash Equivalents and Investments, continued

Credit Risk

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

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's deposit portfolio with governmental agencies, LAIF, is 85% and 90% as of June 30, 2009 and 2008, respectively, of the District's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 5% or more of the District's total investments.

(3) Accounts Receivable – Water Sales and Services, Net

The balance at June 30, consists of the following:		2009	2008
Accounts receivable – water sales and services	\$	711,625	641,079
Allowance for uncollectible accounts		(55,815)	(42,151)
Accounts receivable – water sales, net	\$	<u>655,810</u>	<u>598,928</u>

(4) Deferred Charges

Deferred charges are related to the 1998 defeasance costs of the District's 1991 Certificates of Participation and are being amortized over a twenty-three year period (remaining debt service years on the 1998 Revenue Refunding Bonds) beginning in 1998, as follows:

The balance at June 30, consists of the following:		2009	2008
Deferred charges	\$	487,194	487,194
Accumulated amortization		(241,112)	(219,920)
Deferred charges, net	\$	<u>246,082</u>	<u>267,274</u>

(5) Compensated Absences

Compensated absences comprise unpaid vacation leave that accrue when benefits are fully vested and are determined annually. Compensated absences turn-over each year, therefore, the compensated absence balance of the District is considered a current liability on the Statements of Net Assets.

The changes to compensated absences balances at June 30, were as follows:

<u>Balance 2008</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2009</u>	<u>Due Within One Year</u>	<u>Due in more than one year</u>
\$ 191,510	321,912	(292,409)	221,013	55,253	165,760
<u>Balance 2007</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2008</u>	<u>Due Within One Year</u>	<u>Due in more than one year</u>
\$ 162,464	162,792	(133,746)	191,510	47,878	143,632

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
June 30, 2009 and 2008

(6) Capital Assets

Changes in capital assets for 2009 were as follows:

	<u>Balance 2008</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2009</u>
Non-depreciable assets:				
Land	\$ 1,130,089	-	-	1,130,089
Easements	337,851	-	-	337,851
Construction-in-process	2,055,000	2,452,019	(1,932,780)	2,574,239
Total non-depreciable assets	<u>3,522,940</u>	<u>2,452,019</u>	<u>(1,932,780)</u>	<u>4,042,179</u>
Depreciable assets:				
Transmission and distribution mains	18,772,273	1,480,632	-	20,252,905
Reservoirs and tanks	5,160,430	-	-	5,160,430
Wells	4,449,281	137,478	-	4,586,759
Buildings and structures	1,078,172	43,817	-	1,121,989
Office furniture and equipment	792,577	82,118	-	874,695
Tools and equipment	510,487	-	-	510,487
Vehicles	2,192,566	86,266	-	2,278,832
Total depreciable assets	<u>46,141,283</u>	<u>1,932,780</u>	<u>-</u>	<u>48,074,063</u>
Accumulated depreciation and amortization:				
Transmission and distribution mains	(6,057,572)	(454,761)	-	(6,512,333)
Reservoirs and tanks	(2,441,298)	(117,770)	-	(2,559,068)
Wells	(2,756,252)	(153,674)	-	(2,909,926)
Meters	(1,192,630)	(2,955)	-	(1,195,585)
Recharge ponds	(599,237)	(57,839)	-	(657,076)
Recharge site #3	(153,698)	(61,479)	-	(215,177)
Nitrate removal facility	(364,325)	(66,718)	-	(431,043)
Reach II pipeline	(460,612)	(36,849)	-	(497,461)
Pumps	(858,455)	(46,115)	-	(904,570)
Boosters	(639,935)	(40,706)	-	(680,641)
Hydrants	(510,555)	(24,184)	-	(534,739)
Blending facility	(67,505)	(19,287)	-	(86,792)
Buildings and structures	(498,826)	(37,174)	-	(536,000)
Office furniture and equipment	(687,620)	(65,576)	-	(753,196)
Tools and equipment	(383,338)	(35,450)	-	(418,788)
Vehicles	(1,819,095)	(163,639)	-	(1,982,734)
Total accumulated depreciation	<u>(19,490,953)</u>	<u>(1,384,176)</u>	<u>-</u>	<u>(20,875,129)</u>
Total depreciable assets, net	<u>26,650,330</u>	<u>548,604</u>	<u>(1,932,780)</u>	<u>27,198,934</u>
Total capital assets, net	<u>\$ 30,173,270</u>			<u>31,241,113</u>

Major depreciable capital asset additions during fiscal year 2009 includes additions to the transmission and distribution system mains, wells, recharge ponds, and engineering costs associated with future wastewater treatment facilities.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
June 30, 2009 and 2008

(6) Capital Assets, continued

Changes in capital assets for 2008 were as follows:

	<u>Balance 2007</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2008</u>
Non-depreciable assets:				
Land	\$ 1,130,089	-	-	1,130,089
Easements	324,444	13,407	-	337,851
Construction-in-process	<u>2,229,620</u>	<u>2,168,268</u>	<u>(2,342,888)</u>	<u>2,055,000</u>
Total non-depreciable assets	<u>3,684,153</u>	<u>2,181,675</u>	<u>(2,342,888)</u>	<u>3,522,940</u>
Depreciable assets:				
Transmission and distribution mains	16,817,302	1,954,971	-	18,772,273
Reservoirs and tanks	5,150,201	10,229	-	5,160,430
Wells	4,449,281	-	-	4,449,281
Meter service installations	1,201,496	-	-	1,201,496
Recharge ponds	1,898,377	-	-	1,898,377
Recharge site #3	2,459,164	-	-	2,459,164
Nitrate removal facility	2,642,480	-	-	2,642,480
Reach II pipeline	1,473,958	-	-	1,473,958
Pumps	971,876	28,885	-	1,000,761
Boosters	890,672	1	-	890,673
Hydrants	847,105	-	-	847,105
Blending facility	771,483	-	-	771,483
Buildings and structures	1,078,171	1	-	1,078,172
Office furniture and equipment	761,107	31,470	-	792,577
Tools and equipment	394,670	115,817	-	510,487
Vehicles	<u>1,991,052</u>	<u>201,514</u>	<u>-</u>	<u>2,192,566</u>
Total depreciable assets	43,798,395	2,342,888	-	46,141,283
Accumulated depreciation and amortization:				
Transmission and distribution mains	(5,645,755)	(411,817)	-	(6,057,572)
Reservoirs and tanks	(2,323,832)	(117,466)	-	(2,441,298)
Wells	(2,600,683)	(155,569)	-	(2,756,252)
Meters	(1,189,675)	(2,955)	-	(1,192,630)
Recharge ponds	(551,644)	(47,593)	-	(599,237)
Recharge site #3	(92,219)	(61,479)	-	(153,698)
Nitrate removal facility	(297,607)	(66,718)	-	(364,325)
Reach II pipeline	(423,763)	(36,849)	-	(460,612)
Pumps	(810,361)	(48,094)	-	(858,455)
Boosters	(592,593)	(47,342)	-	(639,935)
Hydrants	(486,371)	(24,184)	-	(510,555)
Blending facility	(48,218)	(19,287)	-	(67,505)
Buildings and structures	(462,932)	(35,894)	-	(498,826)
Office furniture and equipment	(613,459)	(74,161)	-	(687,620)
Tools and equipment	(349,957)	(33,381)	-	(383,338)
Vehicles	<u>(1,643,143)</u>	<u>(175,952)</u>	<u>-</u>	<u>(1,819,095)</u>
Total accumulated depreciation	<u>(18,132,212)</u>	<u>(1,358,741)</u>	<u>-</u>	<u>(19,490,953)</u>
Total depreciable assets, net	<u>25,666,183</u>	<u>984,147</u>	<u>(2,342,888)</u>	<u>26,650,330</u>
Total capital assets, net	<u>\$ 29,350,336</u>			<u>30,173,270</u>

Major depreciable capital asset additions during fiscal year 2008 includes additions to the transmission and distribution system mains, pumps, tools and equipment and five new vehicles.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
June 30, 2009 and 2008

(6) Capital Assets, continued

Construction-In-Process

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-process balances at June 30 are as follows:

	2007	2008	2009
The balance at June 30, consists of the following projects:			
Wastewater treatment facility	\$ 1,305,480	1,305,480	1,735,004
Recharge site No. 6 & 7	-	34,026	-
Payment processing system	-	9,100	-
CRP project	862,676	-	-
SCADA telemetry peripherals	21,291	63,875	-
Production well - site No. 3	19,503	533,444	659,854
Well No. 24	-	23,330	-
Lower ridge reservoir	-	79,391	98,545
Front western hills	-	6,354	6,354
Chlorine injection station	-	-	74,482
Various small projects	20,670	-	-
Construction-in-process	\$ 2,229,620	2,055,000	2,574,239

(7) Loans Payable

Changes in loans payable for the year ended June 30, 2009 are as follows:

	Balance 2008	Additions	Payments	Balance 2009
1986 California Dept. of Water Resources loan	\$ 3,465,151	-	(163,577)	3,301,574
1996 California Dept. of Water Resources loan	1,437,426	-	(203,520)	1,233,906
Total loans payable	4,902,577			4,535,480
Less: current portion due	(366,589)			(379,572)
Long-term portion due	\$ 4,535,988			4,155,908

1986 California Dept. of Water Resources Loan

In 1986 the Yucca Water Company, Ltd. (Company) contracted with the California Dept. of Water Resources for a \$5,200,000 30-year loan under the 1984 California Safe Drinking Water Bond Law to assist in financing the construction of capital improvements so that the Company could comply with the California Safe Drinking Water Standards. In 1990, the District acquired the assets and liabilities of the Company and is continuing to make the debt service payments on this loan. The loan is scheduled to mature in 2024. Interest is payable semi-annually on October 1st and April 1st each year at a rate of 4.14% while principal payments are made on April 1st each year. Annual debt service requirements on the 1986 California Dept. of Water Resources Loan are as follows:

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
June 30, 2009 and 2008

(7) Loans Payable, continued

1986 California Dept. of Water Resources Loan, continued

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 170,070	135,103	305,173
2011	177,190	127,983	305,173
2012	184,365	120,808	305,173
2013	192,405	112,768	305,173
2014	200,384	104,789	305,173
2015-2019	1,134,874	390,991	1,525,865
2020-2024	1,242,286	132,570	1,374,856
Total	3,301,574	<u>1,125,012</u>	<u>4,426,586</u>
Less current portion	<u>(170,070)</u>		
Long-term portion	\$ <u>3,131,504</u>		

1996 California Dept. of Water Resources Loan and Surcharge

In 1994 the Mojave Water Agency (Agency) contracted with the California Dept. of Water Resources for a loan under the 1988 California Water Conservation Bond Law to assist in financing the construction of the Morongo Basin Pipeline Extension (Reach I & II Extensions) and the Warren Valley Basin Recharge Project (Recharge Project). In 1996, the District requested an amendment to the contract for a partial assignment of the loan and project facilities from the Agency to the District. The amendment provided for the transfer of the Reach II Extension and the Recharge Project from the Agency to the District. The Agency will remain the owner of the Reach I Extension of the project. Also, the amendment resulted in a \$3,665,000 20-year loan to the District to pay for the acquisition of the Reach II Extension and the Recharge Project from the Agency. Therefore, the District is charging all of its customers a monthly surcharge to pay for this loan. The total surcharge revenue for the years ended June 30, 2009 and 2008 was \$336,994 and \$332,566, respectively. The loan is scheduled to mature in 2015. Principal and interest are payable semi-annually on October 1st and April 1st each year at a rate of 3.00%. Annual debt service requirements on the 1996 California Dept. of Water Resources loan are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 209,502	35,474	244,976
2011	215,834	29,142	244,976
2012	222,314	22,662	244,976
2013	229,087	15,889	244,976
2014	236,001	8,975	244,976
2015	121,168	1,828	122,996
Total	1,233,906	<u>113,970</u>	<u>1,347,876</u>
Less current portion	<u>(209,502)</u>		
Long-term portion	\$ <u>1,024,404</u>		

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
June 30, 2009 and 2008

(8) Bonds Payable

Changes in bonds payable for the year ended June 30, 2009 are as follows:

	Balance 2008	Additions	Payments	Balance 2009
1982 Lease Revenue bonds	\$ 1,080,000	-	(55,000)	1,025,000
1998 Revenue Refunding bonds	2,455,000	-	(140,000)	2,315,000
Total bonds payable	3,535,000			3,340,000
Less: current portion due	(195,000)			(205,000)
Long-term portion due	\$ 3,340,000			3,135,000

1982 Lease Revenue Bonds

In 1982, the Hi-Desert Improvement Corporation (HDIC) issued \$1,867,700 in 40-year Lease Revenue Bonds to provide funds for water capital improvements for the District. The bonds and interest are payable from, and are secured by a charge and lien on, the revenues derived by the HDIC from and by the assignment of a lease and sub-lease between the District and the HDIC.

The bonds are scheduled to mature in 2022. Interest is payable semi-annually on September 1st and March 1st each year at a rate of 5.00% while principal payments are made on March 1st each year. Annual debt service requirements on the 1982 Lease Revenue Bonds are as follows:

	Principal	Interest	Total
2010	\$ 60,000	51,250	111,250
2011	60,000	48,250	108,250
2012	65,000	45,250	110,250
2013	65,000	42,000	107,000
2014	70,000	38,750	108,750
2015-2019	405,000	137,750	542,750
2020-2022	300,000	30,500	330,500
Total	1,025,000	393,750	1,418,750
Less current portion	(60,000)		
Long-term portion	\$ 965,000		

1998 Revenue Refunding Bonds

In 1991, the California Special Districts Association Finance Corporation (CSDAFC) issued \$3,870,000 in 30-year Certificates of Participation (COPs) at 6.8% to provide for a Facilities Lease, dated January 1, 1991, between the CSDAFC and the District. The facilities consist primarily of eight water storage tanks and the District's office building and shop on Old Woman Springs Road.

The Joshua Basin – Hi-Desert Financing Authority (Authority) was established in 1998 as a joint exercise of powers authority organized under the laws of the State of California and comprised of the Joshua Basin Water District and the Hi-Desert Water District. The Authority was formed to assist in the financing of various capital improvements and the facilities named above.

In 1998, the Authority issued \$3,590,000 in Revenue Refunding Bonds to initiate an advance refunding (defeasance) of the 1991 COPs. The net proceeds from the sale were used to purchase U.S. Treasury securities that were deposited in irrevocable escrow trust accounts with a bank acting as an independent fiscal agent to provide for all future debt service on the bonds being refunded. As a result, those bonds are considered defeased and the related liabilities have been excluded from Hi-Desert Water District's basic financial statements. At June 30, 2009 and 2008, outstanding Certificates of Participation of \$3,590,000, respectively, are considered to be defeased.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
June 30, 2009 and 2008

(8) Bonds Payable, continued

1998 Revenue Refunding Bonds, continued

The Authority will lease certain facilities from the District pursuant to a Facilities Lease, dated January 1, 1998, by and between the Authority and the District, and will lease back to the District the facilities pursuant to a Lease Agreement, dated January 1, 1998, by and between the Authority and the District. The District is legally required to make lease payments in each year in consideration for the use and occupancy of the facilities from operating sources in an amount sufficient to pay the annual principal and interest requirements on the bonds.

The bonds are scheduled to mature in 2021. Interest is payable semi-annually on August 1st and February 1st each year at a rate of 3.80% to 5.00% while principal payments are made on February 1st each year.

Annual debt service requirements on the 1998 Revenue Bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 145,000	113,262	258,262
2011	155,000	106,375	261,375
2012	160,000	99,012	259,012
2013	170,000	91,413	261,413
2014	180,000	83,338	263,338
2015-2019	1,020,000	278,288	1,298,288
2020-2021	485,000	37,500	522,500
Total	2,315,000	<u>809,188</u>	<u>3,124,188</u>
Less current portion	<u>(145,000)</u>		
Long-term portion	\$ <u>2,170,000</u>		

(9) Notes Payable

Changes in notes payable for the year ended June 30, 2009 are as follows:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2009</u>
1978 Farmer's Home Loan Administration note	\$ 785,600	-	(60,000)	725,600
2003 Take-or-Pay Contract note	75,515	-	-	75,515
Town Yucca Valley note	350,000	-	-	350,000
Total notes payable	1,211,115			1,151,115
Less: current portion due	<u>(135,515)</u>			<u>(140,515)</u>
Long-term portion due	\$ <u>1,075,600</u>			<u>1,010,600</u>

1978 Farmers Home Loan Administration Note

In 1978, the Farmers Home Loan Administration contracted with the District to loan the District \$1,735,600 in 40-year Emergency Drought Relief notes to provide funds for water capital improvements for the District.

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
June 30, 2009 and 2008

(9) Notes Payable, continued

1978 Farmers Home Loan Administration Note, continued

The note is scheduled to mature in 2018. Interest is payable semi-annually on July 1st and January 1st each year at a rate of 5.00% while principal payments are made on January 1st each year. Annual debt service requirements on the 1978 Farmers Home Loan Administration Note are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 65,000	36,280	101,280
2011	70,000	33,030	103,030
2012	70,000	29,530	99,530
2013	75,000	26,030	101,030
2014	80,000	22,280	102,280
2015-2018	<u>365,600</u>	<u>46,620</u>	<u>412,220</u>
Total	725,600	<u>193,770</u>	<u>919,370</u>
Less current portion	<u>(65,000)</u>		
Long-term portion \$	<u>660,600</u>		

2003 Take-or-Pay Contract Note Payable

The District has entered into a *Take-or-Pay* contract, which requires minimum payments to be made whether or not the District can take such output. As discussed below, on July 9, 2003, the District entered into an operational services agreement with Basin Water Technologies Group, Inc. (Basin Water) whereby Basin Water would design, install and operate the District's Nitrate Removal Facility to treat water produced by District wells. The term of the agreement is for twenty years, with early termination of the agreement and purchase of the facilities constructed by Basin Water available to the District after an initial period of five years. Basin Water will convey the facilities to the District at the end of the term of the agreement for the sum of \$1.00, if the District does not terminate the agreement earlier. The District has agreed to deliver a minimum of 1,500 acre-feet per year of water for treatment and to pay a treatment fee of \$79.38 per acre-foot, which equates to approximately \$119,064 per year for capital outlay recovery (see below). The District will receive monthly billings from Basin Water for actual treatment of acre-feet supplied and an annual payment adjustment, if the District does not take the required 1,500 acre-feet.

The Nitrate Removal Facility was constructed for \$2,633,730. The District contributed \$1,530,945 to the construction of the facility and Basin Water financed the remaining \$1,102,785. Part of the Take-or-Pay contract involves the recovery by Basin Water of the \$1,102,785 in capital outlay to construct the facility. The District has the option to payoff the remaining capital outlay, financed by Basin Water, after an initial five-year period at an amortized rate of return of 9.0%. Therefore, since the Nitrate Removal Facility is an asset of the District, the District recorded as a note payable, with an interest rate of 9.0%, the capital outlay recovery portion of the Take-or-Pay contract. Annual debt services requirements on the 2003 Take-or-Pay Contract Note are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 75,515	7,066	82,581
Total	75,515	<u>7,066</u>	<u>82,581</u>
Less current portion	<u>(75,515)</u>		
Long-term portion \$	<u>-</u>		

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
June 30, 2009 and 2008

(9) Notes Payable, continued

2008 Town of Yucca Valley Note Payable

In 2008, the District entered into an agreement with the Town of Yucca Valley to loan the District \$350,000 to fund Phase I of the District's wastewater treatment and collection system. Terms of the agreement call for interest to accrue daily using the PMIA Average Monthly Effective Yield as published by the State Treasurers Office (2.2% at June 30, 2009). Principal and accrued interest are payable upon maturity in 2013. Annual debt services requirements are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ -	10,422	10,422
2011	-	10,724	10,724
2012	-	11,034	11,034
2013	350,000	11,353	361,353
Total	350,000	43,533	393,533
Less current portion	-		
Long-term portion	\$ 350,000		

(10) Net Assets

Calculation of net assets as of June 30, were as follows:

	<u>2009</u>	<u>2008</u>
Net investment in capital assets:		
Capital assets, net	\$ 31,241,113	30,173,270
Loans payable – current portion	(379,572)	(366,589)
Bonds payable – current portion	(205,000)	(195,000)
Notes payable – current portion	(140,515)	(135,515)
Loans payable – non-current portion	(4,155,908)	(4,535,988)
Bonds payable – non-current portion	(3,135,000)	(3,340,000)
Notes payable – non-current portion	(1,010,600)	(1,075,600)
Total net investment in capital assets	22,214,518	20,524,578
Unrestricted net assets:		
Non-spendable net assets:		
Materials and supplies inventory	265,439	483,973
Prepaid lease payment	713,661	467,612
Prepaid expenses and other deposits	39,983	45,536
Deferred charges, net	246,082	267,274
Total non-spendable net assets	1,265,165	1,264,395
Spendable net assets are as follows:		
Unrestricted	5,486,735	6,721,501
Total spendable net assets	5,486,735	6,721,501
Total unrestricted net assets	6,751,900	7,985,896
Total net assets	\$ 28,966,418	28,510,474

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
June 30, 2009 and 2008

(11) Morongo Basin Project and Surcharge

The District is a project participant in the Mojave Water Agency's Improvement District M State Water Project (Morongo Basin Project). The Mojave Water Agency was authorized to issue \$66,500,000 of general obligation bonds to build a pipeline connection from the State Water Project's California Aqueduct in Hesperia to the Morongo Basin. The project was completed in June 1996, and to date \$51,780,000 in bonded debt has been issued to cover the costs of the construction. The District and the other project participants have agreed to pay their proportional portion of the construction, operation and financing costs for the entire project. Therefore, the District is charging all of its customers a monthly surcharge to pay for the District's participation in the Morongo Basin Project. The total surcharge revenue for the years ended June 30, 2009 and 2008 was \$527,101 and \$531,664, respectively.

The agreement is being treated as a 25-year operating lease since title to the pipeline connection assets will not be transferred to the District. As part of the agreement, the District is required to pre-pay its portion of the lease (debt service on the project) on June 1, for the next fiscal year. The District's commitment under the agreement is 17.70% of the annual bonded debt service requirements (principal and interest). The District's remaining operating lease payments are as follows:

<u>Due June 1st</u>	<u>Amount</u>
2010	\$ 473,991
2011	473,991
2012	473,991
2013	473,991
2014	473,991
2015-2019	2,369,955
2020-2022	<u>1,421,973</u>
Total	<u>\$ 6,161,883</u>

At June 30, 2009 and 2008, the District has recorded a prepaid asset on the statement of net assets in the amount of \$713,661 and \$467,612, respectively, related to the Morongo Basin Project and Surcharge.

(12) Deferred Compensation Savings Plan

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by CalPERS at June 30, 2009 and 2008 was \$199,302 and \$208,722, respectively. The market value of all plan assets held in trust by Lincoln Financial Services at June 30, 2009 and 2008 was \$290,538 and \$457,920, respectively.

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

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
June 30, 2009 and 2008

(13) Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS act as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the Agency. Copies of CalPERS annual financial report may be obtained form their executive Office: 400 P Street, Sacramento, CA, 95814.

Funding Policy

The contribution rate for plan members in the CalPERS 2.5% at 55 Risk Pool Retirement Plan is 8% of their annual covered salary. The Agency makes these contributions required of Agency employees on their behalf and for their account. Also, the Agency is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2009, 2008 and 2007 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2009, 2008 and 2007, the Agencies annual contribution for CalPERS and were equal to the Agencies required and actual contribution for each fiscal year as follows:

Three Year Funding Information:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	APC Percentage of Payroll
2007	\$ 364,164	100%	-	14.755%
2008	438,151	100%	-	15.042%
2009	630,974	100%	-	15.082%

(14) Post Employment Benefits

The District provides post-employment benefits to qualified employees who meet the District's current plan requirements as follows:

All CalPERS retired employees who, at the time of retirement from the District, are fifty (50) years of age or older and have at least ten (10) continuous years of service with the District are authorized to receive medical insurance from the District's program, and the District will pay the cost of such coverage for said retired employee. Employees hired after November 15, 2000, must be fifty-five (55) years of age or older and have at least twenty (20) years of continuous service at the time of retirement from the District to be eligible for the retiree medical program. Employees hired after May 17, 2006, will only receive medical benefits until the earlier of age sixty-five (65) years or until they are eligible for Medicare. All eligible retired directors of the District who have at least twelve (12) continuous years of service with the District are authorized to receive medical insurance from the District's program, and the District will pay the cost of such coverage for said retired directors. Directors elected after January 1, 1994, are not eligible for the retiree medical benefits.

Also, all CalPERS retired employees who, at the time of retirement from the District, are sixty (60) years of age or older and have at least ten (10) years of service are authorized to receive dental, vision and life insurance from the District's programs, and the District will pay the cost of such coverage; except that Employees hired after November 15, 2000 but before September 1, 2004, must be sixty (60) years of age or older and have at least twenty (20) years of continuous service, at the time of retirement from the

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
June 30, 2009 and 2008

(14) Post Employment Benefits, continued

District to be eligible for retiree dental, vision and life insurance programs. Employees hired after September 1, 2004, shall not be entitled to these benefits.

All eligible retired directors of the District who have at least twelve (12) continuous years of service with the District are authorized to receive dental, vision and life insurance from the District's programs and the District will pay the cost of such coverage if the insurance carrier is willing to provide coverage. Directors elected after January 1, 1994, are not eligible for the retiree medical benefits.

The District will continue the payment of health, dental, and vision benefits for spouses of deceased qualified retired District personnel and Board Members, in effect at the time of the retiree's death, provided that they have been continuously married for a period of not less than one (1) year and pursuant to the criteria stipulated by the insurance carriers until such time as said spouse either remarries or becomes employed with an employer offering comparable medical coverage as part of its employee benefit program. Any increase in premium will be the responsibility of that individual. The determination of comparability of coverage shall lie solely with the District's Board of Directors.

The District finances the plans on a pay-as-you-go basis. In 2009 and 2008, the District paid \$109,222 and \$102,173, respectively, in post-employment health care benefits, net of retiree contributions, and had 16 eligible retired employees in both June 30, 2009 and 2008.

(15) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2008, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$1,000,000, combined single limit at \$1,000,000 per occurrence. The District purchased additional excess coverage layers: \$60 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

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

- Employee dishonesty coverage up to \$100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's plus \$500,000 excess.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$50 million per occurrence, subject to a \$2,500 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$100 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law purchased through the Special District Risk Management Authority (SDRMA).

Hi-Desert Water District
Notes to the Basic Financial Statements, continued
June 30, 2009 and 2008

(15) Risk Management, continued

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2009, 2008 and 2007. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2009, 2008 and 2007.

(16) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2008, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 45

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local government employers. This statement is not effective for this District until the fiscal year ended June 30, 2010. This statement is expected to have a significant impact on the presentation of the District's financial statements in future years.

Governmental Accounting Standards Board Statement No. 51

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement is not effective for this District until the fiscal year ended June 30, 2010. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

(17) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Litigation

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