

**QUAIL VALLEY WATER DISTRICT**

**Financial Statements**

**Year Ended June 30, 2011**



**DALE PINER**

CERTIFIED PUBLIC ACCOUNTANT  
BAKERSFIELD, CALIFORNIA

QUAIL VALLEY WATER DISTRICT

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June 30, 2011

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**DALE PINER**  
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
QUAIL VALLEY WATER DISTRICT  
Tehachapi, California

I have audited the statements of net assets of Quail Valley Water District as of June 30, 2011 and the related statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Quail Valley Water District as of June 30, 2011 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

Management has omitted The Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

Dale Piner  
November 21, 2011  
Bakersfield, California

QUAIL VALLEY WATER DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2011

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	74,981
Accounts receivable - water sales		6,330
Current portion of water connections receivable		<u>11,000</u>
TOTAL CURRENT ASSETS		<u>92,311</u>

Property, plant & equipment, at cost		125,627
Less accumulated depreciation		<u>102,368</u>
		<u>23,259</u>

NONCURRENT ASSETS

Water connections receivable		24,822
Secured promissory note receivable		<u>35,500</u>
TOTAL NONCURRENT ASSETS		<u>60,322</u>

TOTAL ASSETS 175,892

LIABILITIES

CURRENT LIABILITIES

Accounts payable		<u>11,216</u>
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TOTAL CURRENT LIABILITIES 11,216

NET ASSETS

Invested in capital assets, net of related debt		23,259
Unrestricted		<u>141,417</u>

TOTAL NET ASSETS \$ 164,676

See Notes to the Financial Statements.

QUAIL VALLEY WATER DISTRICT

STATEMENT OF ACTIVITIES AND CHANGES  
IN NET ASSETS

Year Ended June 30, 2011

OPERATING REVENUE:

Water sales	\$	64,609
Water connection charges		<u>32,500</u>
TOTAL OPERATING REVENUE		<u>97,109</u>

OPERATING EXPENSES:

Transmission & distribution		65,079
Administration and general		38,143
Depreciation		<u>2,584</u>
TOTAL OPERATING EXPENSES		<u>105,806</u>

Operating income (loss) (8,697)

NONOPERATING REVENUES (EXPENSES):

Interest revenue		2,379
Property taxes		37,873
Theft recovery		<u>28,000</u>
Nonoperating revenues, net		<u>68,252</u>

Change in net assets 59,555

NET ASSETS-JULY 1 105,121

NET ASSETS-JUNE 30 \$ 164,676

QUAIL VALLEY WATER DISTRICT

STATEMENT OF CASH FLOWS

Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 83,422
Cash payments to suppliers for operations	(31,441)
Cash payments to employees for services	(31,988)
Cash payments for general and administrative expenses	(34,423)
Net cash provided (used) by operating activities	<u>(14,430)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property, plant & equipment	(25,843)
Interest received	2,378
Net cash provided (used) by investing activities	<u>(23,465)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Property taxes collected	37,873
Net cash provided (used) by noncapital financing activities	<u>37,873</u>

Net increase (decrease) in cash (22)

Cash beginning of year 75,003

Cash end of year \$ 74,981

RECONCILIATION OF OPERATING INCOME (LOSS) TO  
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating income (loss)	\$ (8,697)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	2,584
Increase in accounts receivable	(6,330)
Increase in connections receivable	(7,774)
Increase in theft recovery	(7,500)
Increase in accounts payable	13,287
	<u>13,287</u>
	\$ <u><u>(14,430)</u></u>

See Notes to the Financial Statements.

## QUAIL VALLEY WATER DISTRICT

Notes to the Financial Statements  
For the year ended June 30, 2011

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization and District Activities

Quail Valley Water District (District) was formed November 16, 1966. The District is a Special District organized under California Water Code Section 29532. The District encompasses an area of 15,000 acres located northeast of the City of Tehachapi in Kern County. The District was formed to obtain, develop, and deliver domestic water within the District's boundaries. The District is governed by a five member Board of Directors. Board Members are elected by landowners within District boundaries. Board Members are elected for terms of two or four years.

The accounting and reporting policies of the District conform in all material respects to generally accepted accounting principles in the United States of America applicable to governmental enterprise funds.

#### Basic Financial Statements

The basic financial statements (i.e. Statement of Net Assets, Statement of Activities and Changes in Net Assets, and the Statement of Cash Flows) report information on all of the enterprise activities of the District. These basic financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) No. 34, Basic Financial Statements, Management's Discussion and Analysis for State and Local Governments and related standards. The standard provides for significant changes in terminology; recognition of contributions in the Statement of Activities and changes in Net Assets; inclusion of a Management Discussion and Analysis as required supplementary information; and other changes.

#### Reporting Entity

The District has no oversight responsibility for any other governmental entity nor is the District's operation a component unit of any other governmental entity. Therefore, the reporting entity consists only of District operations.

#### Fund Accounting

Enterprise funds are used to account for operations that are financed in a manner similar to private business enterprises: (a) where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to

QUAIL VALLEY WATER DISTRICT

Notes to the Financial Statements  
For the year ended June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of Accounting

The financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Activities and Changes in Net Assets presents increases (revenue) and decreases (expenses) in total assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The District distinguishes operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from delivery of water and associated costs to obtain the delivered water. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and reporting issued prior to December 1, 1989 are generally followed to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to some limitations. The District has elected not to follow subsequent private-sector guidance.

Establishment of Revenue

Income is, for the most part, generated from sale of water to landowners within District boundaries. The Board of Directors determines water rates.

Budget

The District does not prepare an annual operating budget. There is no legal compulsion to adopt a budget.



QUAIL VALLEY WATER DISTRICT

Notes to the Financial Statements  
For the year ended June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property, Plant & Equipment

Premises and equipment are stated at cost less accumulated depreciation. The depreciation charged is on the straight-line method over the estimated useful lives as follows:

Transmission Facilities	25 Years
Pumps	25 Years
General Equipment	4 to 15 Years

Repairs and maintenance are recorded as an expense. Renewals and betterments greater than \$1,000 are capitalized, while costs less than \$1,000 are expensed. Gains and losses on dispositions are included in net income in the year of disposition.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits with financial institutions, deposits in money market mutual funds and short-term investments with original maturities of twelve months or less from the date of acquisition. The short-term investments include the investment pooled cash with the Kern County Treasury. Investment pool deposits are carried at the District's proportionate share of the fair value of each pool's underlying portfolio.

Deposit and Investment Risk Disclosures

In accordance with GASB Statement No. 40, Deposit and Investment Disclosures (Amendment of GASB no. 3), certain disclosures are required, if applicable, for Deposits and Investment Risks in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk
- Foreign Currency Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at

QUAIL VALLEY WATER DISTRICT

Notes to the Financial Statements  
For the year ended June 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

year-end and other disclosures.

Use of Estimates

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

Concentration of Credit Risk

Credit has and will be extended, in the form of accounts receivable, to landowners and water users who are located primarily in the District's service area.

Net Assets

In the statement of net assets, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt".

NOTE 2 DEPOSITS AND INVESTMENTS

The District has the following cash and investments at June 30:

	2011
Deposits:	
Demand deposits	\$ 3,888
Investments:	
Kern County Investment Fund	71,093
Total	<u>\$ 74,981</u>

## QUAIL VALLEY WATER DISTRICT

Notes to the Financial Statements  
For the year ended June 30, 2011

### NOTE 2 DEPOSITS AND INVESTMENTS

The carrying amount of the District's deposits is \$3,888 at June 30, 2011. Bank balance at June 30, 2011 was \$6,319. Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law. Balances were fully insured and/or collateralized with securities held by the pledging financial institutions in the District's name as discussed below.

The State of California Government Code authorize investments in obligations of the U.S. Treasury, its agencies and instrumentalities, commercial paper, bankers' acceptances, repurchase agreements and the State of California Local Agency Investment Fund. Under the California Government Code, a financial institution is required to secure deposits in excess of \$100,000 made by state or local government units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. Cash funds deposited with banks and credit unions are insured by Federal depository insurance. Any excess deposits are collateralized 110% with securities held by the bank in the District's name. This Code states the collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, the collateral for cash deposits is considered to be held in the District's name.

#### Investments:

Under the provisions of Section 53601 of the California Government Code, the following investments are authorized:

- Securities of the U.S. Government, or its agencies
- Time Deposits
- Bankers Acceptances
- Repurchase Agreements
- Commercial Paper
- Local Agency Investment Fund

As of June 30, 2011, the District had \$71,093 invested with the Kern County Investment Fund. The Kern County Investment fund fair value factor of .994250399 was used to calculate the fair value of the investments.

QUAIL VALLEY WATER DISTRICT

Notes to the Financial Statements  
For the year ended June 30, 2011

NOTE 3 PROPERTY, PLANT & EQUIPMENT

Land, structures and improvements, and machinery and equipment are stated at cost.

	Balance <u>6/30/2010</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	Balance <u>6/30/2011</u>
Transmission & Facilities	\$ 49,084	\$ 25,843	\$ -	\$ 74,927
Pumps	30,393	-	-	30,393
General Equipment	<u>20,307</u>	<u>-</u>	<u>-</u>	<u>20,307</u>
	<u>\$ 99,784</u>	<u>\$ 25,843</u>	<u>\$ -</u>	<u>\$125,627</u>

NOTE 4 RELATED PARTY TRANSACTIONS

The District is governed by a five member Board of Directors. All of whom are landowners or water users personally or for companies they are employed by. The District is provided office space by two members of the Board. Currently the District is not paying any rent for this office space to these Board members. The value of the office space is, approximately, \$6,000 per annum. Two members of the Board of Directors perform services for the District. These two board members perform routine maintenance and assist the District in monthly reading of meters. One of these Board members is paid as an employee the other Board member is compensated as an independent contractor. The District hires a Board member to perform system maintenance. This member is compensated for his time and the use of equipment on an hourly basis.

NOTE 5 WATER CONNECTIONS RECEIVABLE

The District requires new water user to pay a connection fee. The connection fee is charged to reimburse the District to bring water to the user and a water development fee. The water connection fees range from \$6,500 to \$14,000 per connection. The District will allow new water users to pay the fee over a 5 year period with an interest rate of 10% per annum. In accordance with State of California Water Code these amounts attach to the land as a secured lien. For the year ended June 30, 2011 the District established three new water users. At June 30, 2011 the District had twelve water users financing their water connection fees with the District.

QUAIL VALLEY WATER DISTRICT

Notes to the Financial Statements  
For the year ended June 30, 2011

NOTE 6 SECURED PROMISSORY NOTE RECEIVABLE

During the years ended June 30, 2010 and 2011 a former office worker embezzled \$49,500 of District assets. During 2010 this embezzlement was discovered. The former office worker and heirs have agreed to repay \$35,500 of the stolen funds. The parties have agreed to create a secured promissory note with a one-time payment due no later than December 31, 2012. Interest is accruing at 7%. The note is secured by real property located within Kern County California.

NOTE 7 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage of, and destruction of assets; errors and omissions; job-related illnesses or injuries to employees; and natural disasters. The District purchases commercial insurance for its exposure to risk other than those under the workers' compensation laws.

NOTE 8 COMMITMENTS AND CONTINGENCIES

Water Supply:

The major source of water supply to the District is the local aquifer. The District is 100% dependent upon pumping of groundwater as its water supply for delivery to its customers. The annual water supply and ability to pump is determined by the rain and snowfall within the local water drainage system. Currently the District does not purchase water for storage or delivery.