

**QUAIL VALLEY WATER DISTRICT**

**Financial Statements**

**Year Ended June 30, 2012**



**DALE PINER**

CERTIFIED PUBLIC ACCOUNTANT

BAKERSFIELD, CALIFORNIA

QUAIL VALLEY WATER DISTRICT

INDEX TO REPORT

June 30, 2012

	<u>PAGE</u>
<b>Independent Auditor's Report</b>	1
<b>Financial Statements</b>	
Statement of Net Assets	2
Statement of Activities and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to the Financial Statements	5-12



**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, 2012 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, 2012 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  
October 29, 2012  
Bakersfield, California

QUAIL VALLEY WATER DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2012

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	55,241
Accounts receivable - water sales		2,881
Current portion of water connections receivable		6,500
Secured promissory note receivable		<u>35,500</u>
TOTAL CURRENT ASSETS		<u>100,122</u>

Property, plant & equipment, at cost		146,357
Less accumulated depreciation		<u>107,025</u>
		<u>39,332</u>

NONCURRENT ASSETS

Water connections receivable		18,360
TOTAL ASSETS		<u>157,814</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable		<u>12,814</u>
TOTAL CURRENT LIABILITIES		<u>12,814</u>

NET ASSETS

Invested in capital assets, net of related debt		39,332
Unrestricted		<u>105,668</u>
TOTAL NET ASSETS	\$	<u>145,000</u>

QUAIL VALLEY WATER DISTRICT

STATEMENT OF ACTIVITIES AND CHANGES  
IN NET ASSETS

Year Ended June 30, 2012

OPERATING REVENUE:

Water sales	\$	55,027
Water connection charges		<u>450</u>
TOTAL OPERATING REVENUE		<u>55,477</u>

OPERATING EXPENSES:

Transmission & distribution		77,438
Administration and general		32,654
Depreciation		<u>4,657</u>
TOTAL OPERATING EXPENSES		<u>114,749</u>

Operating income (loss) (59,272)

NONOPERATING REVENUES (EXPENSES):

Interest revenue		1,863
Property taxes		<u>37,733</u>
Nonoperating revenues, net		<u>39,596</u>

Change in net assets (19,676)

NET ASSETS-JULY 1 164,676

NET ASSETS-JUNE 30 \$ 145,000

QUAIL VALLEY WATER DISTRICT

STATEMENT OF CASH FLOWS

Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 57,398
Cash payments to suppliers for operations	(23,861)
Cash payments to employees for services	(39,489)
Cash payments for general and administrative expenses	<u>(32,654)</u>
Net cash provided (used) by operating activities	<u>(38,606)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property, plant & equipment	(20,730)
Interest received	<u>1,863</u>
Net cash provided (used) by investing activities	<u>(18,867)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Property taxes collected	<u>37,733</u>
Net cash provided (used) by noncapital financing activities	<u>37,733</u>
Net increase (decrease) in cash	(19,740)
Cash beginning of year	<u>74,981</u>
Cash end of year	\$ <u><u>55,241</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (59,272)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	4,657
Decrease in accounts receivable	3,449
Decrease in connections receivable	10,962
Increase in accounts payable	<u>1,598</u>
	\$ <u><u>(38,606)</u></u>

See independent auditor's report and notes to the financial statements.

# QUAIL VALLEY WATER DISTRICT

## Notes to the Financial Statements For the year ended June 30, 2012

### 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.

#### Basis of Presentation

The District reports its activities as an enterprise fund. An enterprise type fund is a Proprietary type fund 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 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

# QUAIL VALLEY WATER DISTRICT

## Notes to the Financial Statements For the year ended June 30, 2012

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

#### Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are prepared using the economic resource measurement focus and the accrual basis of accounting. Under the economic measurement focus 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 net assets. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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.

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 and deliver water. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

#### Operating Revenues and Expenses

Operating revenues, such as charges for services (water sales and service fees or connection fees) result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party received and gives up essentially equal values. Nonoperating revenues, such as sale of assets



QUAIL VALLEY WATER DISTRICT

Notes to the Financial Statements  
For the year ended June 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

and investment income, result from nonexchange transactions or ancillary activities in which the District gives (receives) value without directly receiving (giving) equal value in exchange.

Operating expenses include the cost of sales and service, administrative expense and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

Establishment of Revenue

Income is, for the most part, generated from sale of water to landowners within District boundaries. Additional revenues are generated if new water connections are built and installed for customers. 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.

Capital Assets

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

QUAIL VALLEY WATER DISTRICT

Notes to the Financial Statements  
For the year ended June 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 year-end and other disclosures.

Property Taxes

County property taxes attach as an enforceable lien on property as of March 1. Taxes are levied on July 1 and are due and payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of Kern bills and collects the taxes as a part of the 1% countywide property tax levy and subsequently distributes a portion of the levy to the District. Property taxes are recognized as revenue when they are appropriated to the District by Kern County. Proper allowances are made for estimated uncollectible accounts.

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.

QUAIL VALLEY WATER DISTRICT

Notes to the Financial Statements  
For the year ended June 30, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Concentration of Credit Risk

Credit has and will be extended, in the form of accounts receivable and service connection fees 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:

	2012
Deposits:	
Demand deposits	\$ 926
Investments:	
Kern County Investment Fund	<u>54,315</u>
Total	<u>\$ 55,241</u>

The carrying amount of the District's deposits is \$926 at June 30, 2012. Bank balance at June 30, 2012 was \$2,609. 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.

## QUAIL VALLEY WATER DISTRICT

Notes to the Financial Statements  
For the year ended June 30, 2012

### NOTE 2 DEPOSITS AND INVESTMENTS

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, 2012, the District had \$54,315 invested with the Kern County Investment Fund. The Kern County Investment fund fair value factor of .99563679 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, 2012

NOTE 3 PROPERTY, PLANT & EQUIPMENT

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

	Balance <u>6/30/2011</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	Balance <u>6/30/2012</u>
Transmission & Facilities	\$ 74,927	\$ 20,730	\$ -	\$ 95,657
Pumps	30,393	-	-	30,393
General Equipment	<u>20,307</u>	<u>-</u>	<u>-</u>	<u>20,307</u>
	<u>\$ 125,627</u>	<u>\$ 20,730</u>	<u>\$ -</u>	<u>\$146,357</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. No new water users were connected for the year ended June 30, 2012. At June 30, 2012 the District had six 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, 2012

#### 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 2011 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. During July 2012 a payment of \$10,000 was received from the estate of the former employee. Based upon the current status of the estate's liquidation, it is anticipated the full amount of the note receivable will be satisfied within the next six months.

#### 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 does not purchase 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.

#### NOTE 9 SUBSEQUENT EVENT

On October 1, 2012 the District was notified by the California Department of Public Health that its application for a Safe Drinking Water Grant was approved. The grant will provide a maximum funding of \$498,532 for the development and improvement of the District's water system. It is anticipated that the approved water improvements will commence during 2013.