

West Valley Water District
Comprehensive Annual Financial Report
For the Fiscal Years Ended June 30, 2012 and 2011



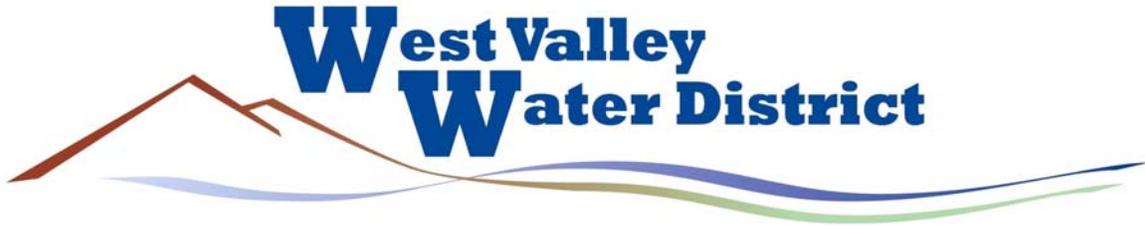
Our Mission Statement

“To provide a reliable, safe drinking water supply to meet our customers’ present and future needs at a reasonable cost and to promote water-use efficiency and conservation”

West Valley Water District Board of Directors as of June 30, 2012

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Earl Tillman, Jr.	President	Elected	12/11 - 11/15
Betty Gosney	Vice President	Elected	12/11 - 11/15
Alan G. Dyer	Director	Elected	12/11 - 11/15
Donald D. Olinger	Director	Elected	12/09 - 11/13
Jackie Cox	Director	Elected	12/09 - 11/13

**West Valley Water District
Anthony W. Araiza, General Manager
855 W. Baseline Road
Rialto, California 92376
(909) 875-1804 – www.wvwd.org**



Comprehensive Annual Financial Report

For the Fiscal Years Ended

June 30, 2012 and 2011

WEST VALLEY WATER DISTRICT

855 W. Baseline Road
Rialto, California 92376

Prepared by:

Deborah L. Sousa, C.C.M.T., Treasurer

**West Valley Water District
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Introductory Section



January 25, 2013

Board of Directors
West Valley Water District

Introduction

It is our pleasure to submit the Comprehensive Annual Financial Report for the West Valley Water District for the fiscal years ended June 30, 2012 and 2011, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

This report is organized into four sections: (1) Introductory (2) Financial (3) Supplemental Information and (4) Statistical. The Introductory section offers general information about the District's organization and current District activities and reports on a summary of significant financial results. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis of the District's basic financial statements, and the District's audited basic financial statements with accompanying notes. The Supplemental Information section includes schedules for purposes of additional analysis. The Statistical section presents un-audited ten-year historical financial, demographic and statistical information pertinent to the District's operations.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditor's Report.

District Structure and Leadership

The West Valley Water District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The District was formed in 1952 and is governed by a five-member Board of Directors, elected at-large from within the District's service area. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The District employs approximately 53 regular employees organized in 19 departments. The District's Board of Directors meets on the first and third Thursdays of each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District provides water service to approximately 19,000 customers within its thirty-one (31) square-mile service area, located in Southwestern San Bernardino County with a small area of Northwestern Riverside County. The District encompasses one half of the City of Rialto, portions of Bloomington, Colton, Fontana, Jurupa Valley, and some of the unincorporated areas of San Bernardino County, California.

District Services

Residential customers represent approximately 93% of the District's customer base and consume approximately 72% of the water produced annually by the District. The District currently has a total of 20 groundwater wells with a maximum production capacity of 26,254 gallons per minute.

Economic Condition and Outlook

The District's office is located in the City of Rialto in San Bernardino County. San Bernardino and Riverside counties (Inland Empire) have witnessed a decrease in economic activity due to continuing recessionary pressures and high unemployment rate.

The District's source of water production comes from various supplies that include: 1) local water from several groundwater basins, 2) surface water from Lytle Creek in the San Bernardino Mountains, and 3) the California State Water Project – Silverwood Lake. With the detection of perchlorate and other contaminants in the areas groundwater supplies, the District shut down affected wells and installed treatment systems to reduce the amount of contaminants. Treated water from these sources exceeds minimum State and Federal water quality standards. Recently, the District has teamed up with the City of Rialto to construct a state-approved biological treatment process "bio-remediation" that employs naturally occurring micro-organisms to remove perchlorate and other contaminants in the basins drinking water supplies as well as reduce the need for waste handling and disposal in a cost effective manner. West Valley Water District considers this to be the first major step in a regional undertaking that will ultimately restore the region's groundwater resources.

California's water supply continues to be a concern due to projected population increases, past years of drought, the State's aging water infrastructure, and various protected endangered species near our water supplies. This concern has increased awareness for water conservation and more efficient irrigation methods. The District is continuing to improve its water conservation program through public education and conservation incentives.

Major Initiatives

The activities of the Board and staff of the District are driven by its Mission Statement: "To provide a reliable, safe drinking water supply to meet our customers' present and future needs at a reasonable cost and to promote water-use efficiency and conservation". The strategic goals adopted by the Board of Directors are:

1. We know that we exist to serve the water needs of our customers. We are committed to treating every customer with dignity, respect and courtesy. We take the initiative to develop customer services, systems and programs that are designed for the benefit, education and convenience of our customers and their families.
2. To preserve district water rights, explore new sources and optimize ground and surface water production.
3. To provide the financial conditions necessary to secure the components needed for ongoing effectiveness and industry excellence. We will facilitate the vision by superior financial planning and resourcefulness in a manner consistent with managing the public's funds to ensure financial stability and to demonstrate responsible stewardship.
4. Designing and implementing an effective human resource strategy for developing staff that reflects the reality that strong and growing individuals are essential to achieving our vision. Broader than training, this strategy is designed to meet each staff wherever they are in their development and to assist them in achieving their next growth steps.
5. To continually keep our technology, our business processes and our management systems at optimum levels of effectiveness.

Major Initiatives, continued

6. To nurture strategic alliances with local and regional partners in the water industry community of the Inland Empire as well as several State and Federal organizations.
7. To promote efficient use of water and to implement a conservation program of educational information and other incentives that encourage wise use of water.

All programs and operations of the District are developed and performed to provide the highest level of services to its customers.

Accomplishments

To assist the board of directors in meeting their strategic mission for our District, staff achieved the following initiatives in fiscal year 2012:

1. In 2010, California public health officials awarded \$10 million in grant funds to West Valley Water District for the construction of the unique and innovative Bioremediation groundwater treatment project. Construction of the facility is on schedule with an expected completion date in 2013.
2. For the first time ever, West Valley Water District received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for our 2011 Comprehensive Annual Financial Report; one of the best practices for local governments seeking to provide greater transparency and ease of understanding in financial reporting.
3. Our Human Resources Department is coordinating with other departments and outside consultants to provide monthly training sessions for employees who hold supervisor positions, and quarterly training sessions for all District employees.
4. The District has established an (information technology) I. T. Stability Committee which meets monthly to coordinate upgrades, identify and resolve technical issues, and plan for the future needs of the District.
5. Most of the executive staff serves on state or regional boards including the Association of California Water Agencies, the San Bernardino County Special Districts Association, Upper Santa Ana Water Resources Authority, Basin Technical Advisory Committee, Emergency Response Network of the Inland Empire, and the California Society of Municipal Finance Officers.

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The District Board of Directors annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the “prudent person” standards. The objective of the Investment Policy is safety, liquidity and yield. District funds are invested in the State Treasurer’s Local Agency Investment Fund and institutional savings and checking accounts.

Water Rates and District Revenues

In January 2012, the District implemented the last scheduled incremental rate increase of 10%. Due to increasing costs, the District commissioned an updated rate study which was completed in 2012. The District is currently preparing for mailing the Proposition 218 notices recommending five 15% rate increases each January 1, starting January 1, 2013. Water rates are composed of a commodity (usage) charge and a fixed meter (readiness-to-serve) charge.

Water Conservation Programs

West Valley Water District has always been committed to conservation; however, over the past couple of years, the District has adopted new programs that can help everyone become more efficient in their water usage. As part of the new rate study, the District is recommending a tiered rate structure which will provide a financial incentive to conserve water usage.

Audit and Financial Reporting

State Law and Bond covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Charles Z. Fedak & Company, CPAs has conducted the audit of the District’s financial statements. Their unqualified Independent Auditor’s Report appears in the Financial Section.

Risk Management

The District is a member of the Association of California Water Agencies Joint Power Insurance Authority (Authority). The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

Technological Advance in Customer Service

The District continues to make significant improvements to its Customer Service Department, which has improved customer convenience. Customers now have the option to pay their bills using their touchtone phone (the Interactive Voice Response System), at the District office, at two satellite locations, with a major credit card or on the District’s website, by automatic checking or savings account debit by enrollment in the auto-pay program, or at the drop boxes at the District office. All of these features are available in English and Spanish.

Other References

More information is contained in the Management’s Discussion and Analysis and in the Notes to the Basic Financial Statements found in the Financial Section of the report.

Independent Audit

The Government Code requires an annual audit of the District’s financial records by a Certified Public Accountant. The District selected, through a competitive process, the firm of Charles Z. Fedak & Company, CPA’s, An Accountancy Corporation, to conduct the Audit. The auditor’s report on the financial statements is included in the financial section of this report.

Awards

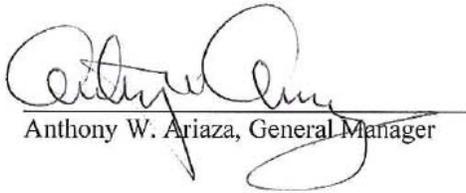
The Government Finance Officers Association of the United States and Canada’s (GFOA) awarded the *Certificate of Achievement for Excellence in Financial Reporting* to the District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. This was the District’s first year for submission for the award. To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that this CAFR meets the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for 2012.

Acknowledgements

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board of Directors for their continued support in planning and implementation of the West Valley Water District’s fiscal policies.

Respectfully submitted,



Anthony W. Ariaza, General Manager



Deborah Sousa, CFO, Treasurer

Board of Directors

A five member Board of Directors are elected by the Rialto area to set policy and govern the District.
Currently the Board of Directors are:



Earl Tillman Jr.
(President)



Betty Gosney
(Vice-President)



Jackie Cox
(Director)



Alan Dyer
(Director)



Don Olinger
(Director)

Certificate of Achievement for Excellence in Financial Reporting

Presented to

West Valley Water District
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Danison

President

Jeffrey R. Emer

Executive Director

Financial Section



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

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Independent Auditor's Report

Board of Directors
West Valley Water District
Rialto, California

We have audited the accompanying financial statements of the West Valley Water District (District) as of and for the years ended June 30, 2012 and 2011, 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; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatements. 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 West Valley Water District as of June 30, 2012 and 2011, 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 January 25, 2013, 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. This report can be found on page 63.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 17, required supplementary information on page 45 be presented to supplement the basic financial statements. Such 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 financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

Independent Auditor's Report, continued

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The introductory section on pages 1 through 8, the supplementary information on pages 46 through 49, and statistical section on pages 50 through 62 are presented for purposes of additional analysis and are not required parts of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPA's – An Accountancy Corporation
Cypress, California
January 25, 2013

West Valley Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2012 and 2011

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the West Valley Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2012 and 2011. 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

- In 2012, the District's net assets increased 7.95% or \$7,171,676 to \$97,390,489. In 2011, the District's net assets decreased 4.22% or \$3,974,420 to \$90,218,813.
- In 2012, the District had a net loss before capital contributions of \$5,259,954 which was a 33.15% or \$2,608,303 decrease in loss from 2011. In 2011, the District had a net loss before capital contributions of \$7,868,257 which was a 9.24% or \$800,911 decrease in loss from 2010.
- The District's operating revenues increased 8.37% or \$1,204,683 in 2012 due primarily to a \$1,268,729 increase in water consumption sales, a \$407,521 increase in water service charges that was offset by a \$471,567 decrease in other operating income. In 2011, the District's operating revenues increased 12.1% or \$1,548,779 due primarily to a \$789,218 increase in water consumption sales, a \$395,196 increase in water service charges, and a \$364,365 increase in other operating income.
- In 2012, the District's operating expenses before depreciation decreased 6.64% or \$1,006,031 primarily due to decreases of \$937,194 in water treatment expenses and \$777,252 in pumping expenses offset by a general increase in other operating expenses. In 2011, the District's operating expenses before depreciation increased 1.49% or \$222,321 primarily due to an increase in water treatment expenses.
- The District's non-operating revenues, net increased 4.68% or \$68,319 in 2012 primarily due to a \$154,116 increase in property tax revenue that was offset by an \$85,797 decrease in other non-operating revenues. In 2011, the District's non-operating revenues increased 13.98% or \$178,936 primarily due to a \$107,941 increase in property tax revenues and a \$70,995 increase in other non-operating revenues.
- The District's non-operating expenses, net increased 7.40% or \$102,651 in 2012 primarily due to a \$146,563 increase in other non-operating expense that was offset by a \$43,912 decrease in interest expense related to long-term debt. In 2011, the District's non-operating expenses decreased 28.30% or \$547,662 primarily due to a \$562,030 decrease in other non-operating expenses that was offset by a \$14,368 increase in interest expense related to long-term debt.
- The District's capital contributions from bioremediation, developers, one-time facility charges and grants increased 219.26% or \$8,537,793 due primarily to a \$7,693,558 increase in bioremediation grants, a \$2,105,587 increase in developer contributions that was offset by a \$907,785 decrease in facility charges and a \$353,567 decrease in capital grants. In 2011, the District's capital contributions from bioremediation, developers, one-time facility charges and grants increased 45.7% or \$1,221,211 due primarily to an increase in facility charges.

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.

**West Valley Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2012 and 2011**

Required Financial Statements, continued

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.

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 22 through 44.

West Valley Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2012 and 2011

Statements of Net Assets

	Condensed Statements of Net Assets				
	<u>2012</u>	<u>As Restated 2011</u>	<u>Change</u>	<u>As Restated 2010</u>	<u>Change</u>
Assets:					
Current assets	\$ 18,311,482	16,747,967	1,563,515	20,874,404	(4,126,437)
Non-current assets	15,529,386	9,280,667	6,248,719	7,123,746	2,156,921
Capital assets, net	<u>111,018,972</u>	<u>102,446,721</u>	<u>8,572,251</u>	<u>104,644,533</u>	<u>(2,197,812)</u>
Total assets	<u>\$ 144,859,840</u>	<u>128,475,355</u>	<u>16,384,485</u>	<u>132,642,683</u>	<u>(4,167,328)</u>
Liabilities:					
Current liabilities payable	\$ 6,454,415	5,927,007	527,408	5,743,608	183,399
Non-current liabilities	<u>41,014,936</u>	<u>32,329,535</u>	<u>8,685,401</u>	<u>32,705,742</u>	<u>(376,207)</u>
Total liabilities	<u>47,469,351</u>	<u>38,256,542</u>	<u>9,212,809</u>	<u>38,449,350</u>	<u>(192,808)</u>
Net assets:					
Invested in capital assets, net of related debt	82,823,972	73,276,721	9,547,251	74,814,533	(1,537,812)
Restricted	5,113,674	6,117,238	(1,003,564)	7,233,152	(1,115,914)
Unrestricted	<u>9,452,843</u>	<u>10,824,854</u>	<u>(1,372,011)</u>	<u>13,356,504</u>	<u>(2,531,650)</u>
Total net assets	<u>97,390,489</u>	<u>90,218,813</u>	<u>7,171,676</u>	<u>95,404,189</u>	<u>(5,185,376)</u>
Total liabilities and net assets	<u>\$ 144,859,840</u>	<u>128,475,355</u>	<u>16,384,485</u>	<u>133,853,539</u>	<u>(5,378,184)</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 \$97,390,489 and \$90,218,813 as of June 30, 2012 and 2011, respectively.

By far, the largest portion of the District's net assets (85.0% and 81.2% as of June 30, 2012 and 2011) 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 2012 and 2011, the District showed a positive balance in its unrestricted net assets of \$9,452,843 and \$10,824,854, respectively, which may be utilized in future years. See note 13 for further information.

West Valley Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2012 and 2011

Statements of Revenues, Expenses, and Changes in Net Assets

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	<u>2012</u>	<u>As Restated 2011</u>	<u>Change</u>	<u>As Restated 2010</u>	<u>Change</u>
Revenues:					
Operating revenues	\$ 15,601,438	14,396,755	1,204,683	12,847,976	1,548,779
Non-operating revenues, net	<u>1,380,206</u>	<u>1,401,624</u>	<u>(21,418)</u>	<u>1,279,514</u>	<u>122,110</u>
Total revenues	<u>16,981,644</u>	<u>15,798,379</u>	<u>1,183,265</u>	<u>14,127,490</u>	<u>1,670,889</u>
Expenses:					
Operating expenses	14,146,510	15,152,541	(1,006,031)	14,930,220	222,321
Depreciation and amortization	6,751,348	7,183,269	(431,921)	5,931,124	1,252,145
Non-operating expenses	<u>1,343,740</u>	<u>1,330,826</u>	<u>12,914</u>	<u>1,935,314</u>	<u>(604,488)</u>
Total expenses	<u>22,241,598</u>	<u>23,666,636</u>	<u>(1,425,038)</u>	<u>22,796,658</u>	<u>869,978</u>
Net loss before capital contributions	(5,259,954)	(7,868,257)	2,608,303	(8,669,168)	800,911
Capital contributions	<u>12,431,630</u>	<u>3,893,837</u>	<u>8,537,793</u>	<u>2,672,626</u>	<u>1,221,211</u>
Change in net assets	7,171,676	(3,974,420)	11,146,096	(5,996,542)	2,022,122
Net assets – beginning of year	<u>90,218,813</u>	<u>94,193,233</u>	<u>(3,974,420)</u>	<u>100,189,775</u>	<u>(5,996,542)</u>
Net assets – end of year	<u>\$ 97,390,489</u>	<u>90,218,813</u>	<u>7,171,676</u>	<u>94,193,233</u>	<u>(3,974,420)</u>

The statement of revenues, expenses, and changes of net assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets increased by \$7,171,676 and decreased by \$3,974,420 for the fiscal years ended June 30, 2012 and 2011, respectively.

A closer examination of the sources of changes in net assets reveals that:

- In 2012, the District's net assets increased 7.95% or \$7,171,676 to \$97,390,489. In 2011, the District's net assets decreased 4.22% or \$3,974,420 to \$90,218,813.
- In 2012, the District had a net loss before capital contributions of \$5,259,954 which was a 33.15% or \$2,608,303 decrease in loss from 2011. In 2011, the District had a net loss before capital contributions of \$7,868,257 which was a 9.24% or \$800,911 decrease in loss from 2010.
- The District's operating revenues increased 8.37% or \$1,204,683 in 2012 due primarily to a \$1,268,729 increase in water consumption sales, a \$407,521 increase in water service charges that was offset by a \$471,567 decrease in other operating income. In 2011, the District's operating revenues increased 12.1% or \$1,548,779 due primarily to a \$789,218 increase in water consumption sales, a \$395,196 increase in water service charges, and a \$364,365 increase in other operating income.
- In 2012, the District's operating expenses before depreciation decreased 6.64% or \$1,006,031 primarily due to decreases of \$937,194 in water treatment expenses and \$777,252 in pumping expenses offset by a general increase in other operating expenses. In 2011, the District's operating expenses before depreciation increased 1.49% or \$222,321 primarily due to an increase in water treatment expenses.
- The District's non-operating revenues, net increased 4.68% or \$68,319 in 2012 primarily due to a \$154,116 increase in property tax revenue that was offset by an \$85,797 decrease in other non-operating revenues. In 2011, the District's non-operating revenues increased 13.98% or \$178,936 primarily due to a \$107,941 increase in property tax revenues and a \$70,995 increase in other non-operating revenues.

West Valley Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2012 and 2011

Statements of Revenues, Expenses, and Changes in Net Assets, continued

- The District's non-operating expenses, net increased 7.40% or \$102,651 in 2012 primarily due to a \$146,563 increase in other non-operating expense that was offset by a \$43,912 decrease in interest expense related to long-term debt. In 2011, the District's non-operating expenses decreased 28.30% or \$547,662 primarily due to a \$562,030 decrease in other non-operating expenses that was offset by a \$14,368 increase in interest expense related to long-term debt.
- The District's capital contributions from bioremediation, developers, one-time facility charges and grants increased 219.26% or \$8,537,793 due primarily to a \$7,693,558 increase in bioremediation grants, a \$2,105,587 increase in developer contributions that was offset by a \$907,785 decrease in facility charges and a \$353,567 decrease in capital grants. In 2011, the District's capital contributions from bioremediation, developers, one-time facility charges and grants increased 45.7% or \$1,221,211 due primarily to an increase in facility charges.

Total District Revenues

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>2010</u>	<u>Change</u>
Operating revenues:					
Water consumption sales	\$ 11,019,032	9,750,303	1,268,729	8,961,085	789,218
Water service charges	3,855,757	3,448,236	407,521	3,053,040	395,196
Other operating income	726,649	1,198,216	(471,567)	833,851	364,365
Total operating revenues	<u>15,601,438</u>	<u>14,396,755</u>	<u>1,204,683</u>	<u>12,847,976</u>	<u>1,548,779</u>
Non-operating revenue:					
Property taxes	1,422,629	1,268,513	154,116	1,160,572	107,941
Interest and investment earnings	60,255	87,581	(27,326)	92,589	(5,008)
Rental income – cellular antennas	27,714	42,393	(14,679)	41,767	626
Gain on sale/disposition of capital assets	16,171	3,137	13,034	-	3,137
Other non-operating revenue	-	56,826	(56,826)	-	56,826
Total non-operating revenues	<u>1,526,769</u>	<u>1,458,450</u>	<u>68,319</u>	<u>1,294,928</u>	<u>163,522</u>
Capital contributions:					
Bioremediation	8,476,271	782,713	7,693,558	1,042,428	(259,715)
Developer contributions	3,009,147	903,560	2,105,587	1,425,049	(521,489)
Facility charges	566,910	1,474,695	(907,785)	204,769	1,269,926
Capital grants	379,302	732,869	(353,567)	380	732,489
Total capital contributions	<u>12,431,630</u>	<u>3,893,837</u>	<u>8,537,793</u>	<u>2,672,626</u>	<u>1,221,211</u>
Total revenues	<u>\$ 29,559,837</u>	<u>19,749,042</u>	<u>9,810,795</u>	<u>16,815,530</u>	<u>2,933,512</u>

In 2012 and 2011, total District revenues increased by \$9,810,795 and \$2,933,512, respectively.

West Valley Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2012 and 2011

Total District Expenses

	<u>2012</u>	<u>As Restated 2011</u>	<u>Change</u>	<u>As Restated 2010</u>	<u>Change</u>
Operating expenses:					
Source of supply	\$ 759,898	671,055	88,843	760,170	(89,115)
Pumping	3,624,258	4,401,510	(777,252)	4,356,011	45,499
Water treatment	1,388,672	2,325,866	(937,194)	1,204,436	1,121,430
Transmission and distribution	1,500,136	1,417,810	82,326	1,740,459	(322,649)
Customer accounts	2,032,390	1,923,981	108,409	2,043,316	(119,335)
Conservation	183,840	122,064	61,776	90,123	31,941
General and administrative	4,657,316	4,290,255	367,061	4,735,705	(445,450)
Depreciation expense	6,429,819	6,958,269	(528,450)	5,661,124	1,297,145
Amortization of water participation rights	321,529	225,000	96,529	270,000	(45,000)
Total operating expense	<u>20,897,858</u>	<u>22,335,810</u>	<u>(1,437,952)</u>	<u>20,861,344</u>	<u>1,474,466</u>
Non-operating expenses:					
Interest expense – long-term debt	1,295,266	1,339,178	(43,912)	1,381,636	(42,458)
Amortization of deferred charges	48,474	48,474	-	48,474	-
Loss on sale/disposition of capital assets	-	-	-	15,414	(15,414)
Other non-operating expense	146,563	-	146,563	505,204	(505,204)
Total non-operating expenses	<u>1,490,303</u>	<u>1,387,652</u>	<u>102,651</u>	<u>1,950,728</u>	<u>(563,076)</u>
Total expenses	<u>\$ 22,388,161</u>	<u>23,723,462</u>	<u>(1,335,301)</u>	<u>22,812,072</u>	<u>911,390</u>

In 2012, total District expenses decreased \$1,335,301 and in 2011, total District expenses increased by \$911,390.

Capital Asset Administration

At the end of fiscal years 2012 and 2011, the District's investment in capital assets amounted to \$111,018,972 and \$102,446,721 (net of accumulated depreciation). This investment in capital assets includes land, land rights, transmission and distribution systems, wells, tanks, reservoirs, pumps, buildings and structures, equipment, vehicles and construction-in-process, etc. In 2012 and 2011, numerous capital projects were finalized and added to capital assets. See note 3 for further capital asset information.

Changes in capital asset amounts for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2012</u>
Capital assets:				
Non-depreciable assets	\$ 11,514,194	12,469,407	(1,039,018)	22,944,583
Depreciable assets	131,921,509	3,571,681	(1,521,641)	133,971,549
Accumulated depreciation and amortization	<u>(40,988,982)</u>	<u>(6,429,819)</u>	<u>1,521,641</u>	<u>(45,897,160)</u>
Total capital assets, net	<u>\$ 102,446,721</u>	<u>9,611,269</u>	<u>(1,039,018)</u>	<u>111,018,972</u>

Changes in capital asset amounts for 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2011</u>
Capital assets:				
Non-depreciable assets	\$ 10,399,867	4,648,289	(3,533,962)	11,514,194
Depreciable assets	130,112,411	3,646,130	(1,837,032)	131,921,509
Accumulated depreciation and amortization	<u>(35,867,745)</u>	<u>(6,958,269)</u>	<u>1,837,032</u>	<u>(40,988,982)</u>
Total capital assets, net	<u>\$ 104,644,533</u>	<u>1,336,150</u>	<u>(3,533,962)</u>	<u>102,446,721</u>

**West Valley Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2012 and 2011**

Debt Administration

In 2012, long-term debt increased by \$8,399,336 due to the purchase of water rights in the amount of \$9,645,865 which was offset by District principal payments of \$1,246,529. In 2011, long-term debt decreased by \$1,105,009 due to principal payments on the District's outstanding debts. See note 8 for further long-term debt information.

Changes in long-term debt amounts for 2012 were as follows:

	Balance 2011	Additions	Principal Payments	Balance 2012
Long-term debt:				
Contracts payable	\$ -	9,645,865	(321,529)	9,324,336
Bonds payable	29,170,000	-	(925,000)	28,245,000
Total long-term debt	<u>\$ 29,170,000</u>	<u>9,645,865</u>	<u>(1,246,529)</u>	<u>37,569,336</u>

Changes in long-term debt amounts for 2011 were as follows:

	Balance 2010	Additions	Principal Payments	Balance 2011
Long-term debt:				
Contracts payable	\$ 180,009	-	(180,009)	-
Bonds payable	30,095,000	-	(925,000)	29,170,000
Total long-term debt	<u>\$ 30,275,009</u>	<u>-</u>	<u>(1,105,009)</u>	<u>29,170,000</u>

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 Treasurer at 855 W. Baseline Road, Rialto, CA 92376, by mail at P.O. Box 920, Rialto, CA 92377 or by phone (909) 875-1804.

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Basic Financial Statements

West Valley Water District
Statements of Net Assets
June 30, 2012 and 2011

<i>Assets</i>	2012	As Restated 2011
Current assets:		
Cash and cash equivalents (note 2)	\$ 6,376,561	7,497,290
Restricted – cash and cash equivalents (note 2)	5,081,814	6,083,311
Accrued interest receivable	4,238	8,565
Accrued interest – restricted	3,330	6,181
Accounts receivable – water sales and services	1,408,258	1,406,125
Property taxes receivable	14,595	21,979
Restricted – assessments receivable	185,269	216,838
Accounts receivable – grants	4,450,705	718,254
Accounts receivable – redevelopment pass-through	166,669	55,231
Materials and supplies inventory	234,092	189,751
Prepaid water	173,577	315,930
Prepaid expenses and other deposits	212,374	228,512
Total current assets	<u>18,311,482</u>	<u>16,747,967</u>
Non-current assets:		
Investments (note 2)	4,523,757	7,509,819
Water stock – Fontana Union Water Company	1,307	1,307
Tax increment pass-through receivable	698,387	739,468
Capital assets, net (note 3)	111,018,972	102,446,721
Water participation rights, net (note 4)	9,324,336	-
Deferred charges, net (note 5)	981,599	1,030,073
Total non-current assets	<u>126,548,358</u>	<u>111,727,388</u>
Total assets	<u>\$ 144,859,840</u>	<u>128,475,355</u>
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 2,606,307	1,782,164
Accrued wages and related payables	105,261	300,647
Pass-through utility user taxes payable	33,743	24,681
Customer deposits	1,130,983	1,233,465
Construction advances and deposits	633,295	1,008,534
Accrued interest payable	301,509	311,471
Long-term liabilities – due in less than one year:		
Compensated absences (note 6)	230,316	217,992
Pension related debt – current portion (note 7)	86,472	73,053
Contract payable – current portion (note 8)	321,529	-
Bonds payable – current portion (note 8)	1,005,000	975,000
Total current liabilities	<u>6,454,415</u>	<u>5,927,007</u>
Non-current liabilities:		
Deferred revenue – tax increment pass-through	698,387	739,468
Long-term liabilities – due in more than one year:		
Compensated absences (note 6)	281,497	266,435
Other post employment benefits payable (note 11)	2,853,879	2,053,794
Pension related debt (note 7)	988,366	1,074,838
Contract payable (note 8)	9,002,807	-
Bonds payable (note 8)	27,190,000	28,195,000
Total non-current liabilities	<u>41,014,936</u>	<u>32,329,535</u>
Total liabilities	<u>47,469,351</u>	<u>38,256,542</u>
Net assets: (note 12, 13)		
Invested in capital assets, net of related debt	82,823,972	73,276,721
Restricted for capital projects	5,058,581	6,061,134
Restricted for debt service	55,093	56,104
Unrestricted	9,452,843	10,824,854
Total net assets	<u>97,390,489</u>	<u>90,218,813</u>
Total liabilities and net assets	<u>\$ 144,859,840</u>	<u>128,475,355</u>

See accompanying notes to the basic financial statements

West Valley Water District
Statements of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>As Restated 2011</u>
Operating revenues:		
Water consumption sales	\$ 11,019,032	9,750,303
Water service charges	3,855,757	3,448,236
Other operating income	726,649	1,198,216
Total operating revenues	<u>15,601,438</u>	<u>14,396,755</u>
Operating expenses:		
Source of supply	759,898	671,055
Pumping	3,624,258	4,401,510
Water treatment	1,388,672	2,325,866
Transmission and distribution	1,500,136	1,417,810
Customer accounts	2,032,390	1,923,981
Conservation	183,840	122,064
General and administrative	4,657,316	4,290,255
Total operating expenses	<u>14,146,510</u>	<u>15,152,541</u>
Operating loss before depreciation and amortization	1,454,928	(755,786)
Depreciation expense	(6,429,819)	(6,958,269)
Amortization of water participation rights	(321,529)	(225,000)
Operating loss	<u>(5,296,420)</u>	<u>(7,939,055)</u>
Non-operating revenue(expense)		
Property taxes	1,422,629	1,268,513
Interest and investment earnings	60,255	87,581
Rental income – cellular antennas	27,714	42,393
Gain/(loss) on sale/disposition of capital assets	16,171	3,137
Interest expense – long-term debt	(1,295,266)	(1,339,178)
Amortization of deferred charges	(48,474)	(48,474)
Other non-operating (expense)revenue, net	(146,563)	56,826
Total non-operating revenues, net	<u>36,466</u>	<u>70,798</u>
Net loss before capital contributions	<u>(5,259,954)</u>	<u>(7,868,257)</u>
Capital contributions:		
Bioremediation	8,476,271	782,713
Developer contributions	3,009,147	903,560
Facility charges	566,910	1,474,695
Capital grants	379,302	732,869
Total capital contributions	<u>12,431,630</u>	<u>3,893,837</u>
Change in net assets	<u>7,171,676</u>	<u>(3,974,420)</u>
Net assets – beginning of year (note 13)	<u>90,218,813</u>	<u>94,193,233</u>
Net assets – end of year	<u>\$ 97,390,489</u>	<u>90,218,813</u>

See accompanying notes to the basic financial statements

West Valley Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>As Restated 2011</u>
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 15,599,305	14,249,146
Cash paid to vendors and suppliers for materials and services	(10,442,454)	(11,553,689)
Cash paid to employees for salaries and wages	<u>(2,757,962)</u>	<u>(2,489,817)</u>
Net cash provided by operating activities	<u>2,398,889</u>	<u>205,640</u>
Cash flows from non-capital financing activities:		
Proceeds from property taxes and assessments	1,461,582	1,364,993
Rental income – cellular antennas	<u>27,714</u>	<u>42,393</u>
Net cash provided by non-capital financing activities	<u>1,489,296</u>	<u>1,407,386</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(15,002,072)	(4,760,457)
Proceeds from bioremediation	4,025,566	782,713
Proceeds from capital contributions	3,009,147	903,560
Proceeds from facility charges	566,910	1,474,695
Proceeds from capital grants	379,302	14,615
Principal paid on long-term debt	(975,000)	(1,105,009)
Interest paid on long-term debt	(1,305,228)	(1,260,540)
Proceeds from the sale of capital assets	<u>16,171</u>	<u>3,137</u>
Net cash used in capital and related financing activities	<u>(9,285,204)</u>	<u>(3,947,286)</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	8,000,000	12,000,000
Purchases of investments	(4,789,700)	(14,714,628)
Interest and investment earnings	<u>64,493</u>	<u>92,102</u>
Net cash provided by(used in) investing activities	<u>3,274,793</u>	<u>(2,622,526)</u>
Net decrease in cash and cash equivalents	(2,122,226)	(4,956,786)
Cash and cash equivalents – beginning of year	<u>13,580,601</u>	<u>18,537,387</u>
Cash and cash equivalents – end of year	<u>\$ 11,458,375</u>	<u>13,580,601</u>
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$ 6,376,561	7,497,290
Restricted assets – cash and cash equivalents	<u>5,081,814</u>	<u>6,083,311</u>
Total cash and cash equivalents	<u>\$ 11,458,375</u>	<u>13,580,601</u>

Continued on next page

See accompanying notes to the basic financial statements

West Valley Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>As Restated 2011</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (5,296,420)	(7,939,055)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	6,429,819	6,958,269
Amortization of water participation rights	321,529	225,000
Other non-operating revenues(expenses), net	(146,563)	56,826
Changes in assets and liabilities:		
(Increase)Decrease in assets:		
Accounts receivable – water sales and services, net	(2,133)	(147,609)
Materials and supplies inventory	(44,341)	13,100
Prepaid water	142,353	45,000
Prepaid expenses and other deposits	16,138	(62,054)
Increase(Decrease) in liabilities:		
Accounts payable and accrued expenses	824,143	129,372
Accrued wages and related payables	(195,386)	75,796
Compensated absences	27,386	30,443
Customer deposits	(102,482)	108,119
Construction advances and deposits	(375,239)	(24,732)
Other post employment benefits payable	800,085	737,165
Total adjustments	<u>7,695,309</u>	<u>8,144,695</u>
Net cash provided by operating activities	<u>\$ 2,398,889</u>	<u>205,640</u>
Non-cash financing and investing activities:		
Unrealized gain(loss) on investments	\$ 1,308	4,522
Amortization of deferred charges	<u>(48,474)</u>	<u>(48,474)</u>
Net noncash financing and investing activities	<u>\$ (47,166)</u>	<u>(43,952)</u>

See accompanying notes to the basic financial statements

West Valley Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

Established on January 8, 1952, the West Valley Water District is located in Southwestern San Bernardino County with a small area of Northwestern Riverside County. The District's service area is approximately 31 square miles. The District uses 360 miles of water mains to provide water to approximately 19,000 customers. 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 West End Water Development, Treatment and Conservation Joint Powers Authority (Authority) was formed on April 7, 1989, pursuant to the provisions of Article I, Chapter S, Division 7, Title 1 of the California Government Code. The Authority is deemed to be a component unit of the West Valley Water District, City of Rialto and the Municipal Water Department of the City of San Bernardino. The District's portion of the Authority has been included in these financial statements using the blended method of reporting.

Assessment District No. 97-1 (Crestmore Heights Mutual Water Company) was established to provide financing for construction and improvement of the water system. The District provides administrative duties such as placing assessments on the County tax rolls and submitting payments to the trustee (Rural Development, U.S. Department of Agriculture, Farmers Home Administration) for the assessment bond holders. Accordingly, the accounts and transactions of Assessment District No. 97-1 have been combined with that of the District's financial statements.

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 customers 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 and water purchases, 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. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

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

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 a maturity of three months or less to be cash equivalents.

3. Investments and Investment Policy

The District has adopted an investment policy directing the Treasurer to deposit funds in financial institutions. Investments are to be made in the following areas:

- Securities of the U.S. government or its agencies
- Certificates-of-deposit
- CalTRUST
- State of California Local Area Investment Fund (LAIF)

Investment in CalTRUST

The Investment Trust of California, doing business as CalTRUST, is a California joint powers authority which provides California Public Agencies with investment management services for surplus funds to consolidate investment activities of its Participants and thereby reduces duplication, achieves economies of scale and carries out coherent and consolidated investment strategies through the issuance of shares of beneficial interest in investments purchased by CalTRUST. CalTRUST currently offers three accounts or series as a means for Public Agencies to invest their funds. The District participates in the CalTRUST Short-Term Fund Series.

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

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

D. Assets, Liabilities and Net Assets, continued

3. Investments and Investment Policy, continued

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

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.

4. Accounts Receivable

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. Materials and Supplies Inventory

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

6. 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.

7. Water Stock – Fontana Union Water Company

Over the years, the District has acquired stock in the Fontana Union Water Company in order to obtain water rights within the Company's service area.

8. Tax Receivable and Deferred Revenue

The District has a tax pass-through agreement with the City of Rialto; whereby, the County of San Bernardino auditor-controller is to pay a portion of the City's incremental tax receipts directly to the District for water-related improvements within the Agua Mansa redevelopment area. Over the past several years, the District has received a portion of the revenue that it is entitled to and it is unknown at this time if the District will collect the remaining amount in accordance with the agreement. As such, the revenue has been classified as deferred revenue.

9. Restricted Assets

Certain assets of the District are restricted in use by ordinance or debt covenant and, accordingly are shown as restricted assets on the accompanying statement of net assets. Revenue bond reserve funds and construction funds set aside from bond proceeds are restricted for future debt service payments and construction projects. The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

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

D. Assets, Liabilities and Net Assets, continued

10. 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:

Source of supply plant	20 years
Pumping plant	10 – 20 years
Water treatment plant	10 years
Transmission and distribution plant	15 – 60 years
General plant	5 – 20 years

11. 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.

12. Compensated Absences

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and sick leave are recorded when benefits are earned. Cash payment of unused vacation is available to those qualified employees when retired or terminated.

13. Construction Advances and Deposits

Construction advances represent deposits received in aid of construction, which are refundable if the applicable construction does not take place. Construction advances are transferred to contributed capital when the applicable construction project is completed.

14. Post Employment Retirement Benefit

The District provides certain health care benefits for all retired employees that meet eligibility requirements. The District's share of the estimated costs that will be paid after retirement is generally being accrued by charges to expense over the employee's active service periods to the date they are fully eligible for benefits.

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 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*.

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

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

D. Assets, Liabilities and Net Assets, continued

16. Water Sales

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

17. 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.

18. 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.

(2) Cash and Cash Equivalents

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

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 6,376,561	7,497,290
Restricted – cash and cash equivalents	5,081,814	6,083,311
Investments	<u>4,523,757</u>	<u>7,509,819</u>
Total cash and investments	<u>\$ 15,982,132</u>	<u>21,090,420</u>

Cash and investments as of June 30, consist of the following:

	<u>2012</u>	<u>2011</u>
Cash on hand	\$ 3,700	3,300
Deposits with financial institutions	3,605,886	2,494,027
Investments	<u>12,372,546</u>	<u>18,593,093</u>
Total cash and investments	<u>\$ 15,982,132</u>	<u>21,090,420</u>

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

	<u>2012</u>	<u>2011</u>
Deposits held with Local Agency Investment Fund (LAIF)	268 days	237 days
Deposits held with CalTrust Short Term Fund	412 days	581 days

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

(2) Cash and Investments, 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. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type*	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	3 years	50%	50%
U.S. Agency Securities	3 years	50%	50%
Negotiable Certificates of Deposit	5 years	30%	None
Local Agency Investment Fund (LAIF)	N/A	25%	\$ 40,000,000
CalTrust Short Term Fund	2 years	25%	None

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements 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	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	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 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. 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).

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

(2) Cash and Investments, continued

Custodial Credit Risk, continued

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, 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. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. Of the bank balances, up to \$250,000, held at each institution 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.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date:

Investments at June 30, 2012, consisted of the following:

<u>Investment Type</u>	<u>Total Investment</u>	<u>Remaining Maturity 12 Months Or Less</u>
U.S. Treasury Obligations	\$ 999,843	999,843
Cal Trust Short Term Fund	3,523,914	3,523,914
Local Agency Investment Fund (LAIF)	3,979,863	3,979,863
Cash with fiscal agent:		
Money Market Mutual Funds	3,868,926	3,868,926
Total	<u>\$ 12,372,546</u>	<u>12,372,546</u>

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

(2) Cash and Investments, continued

Interest Rate Risk, continued

Investments at June 30, 2011 consisted of the following:

<u>Investment Type</u>	<u>Total Investment</u>	<u>Remaining Maturity 12 Months Or Less</u>
U.S. Treasury Obligations	\$ 2,001,575	2,001,575
Government Sponsored Entity Securities	1,998,333	1,998,333
Cal Trust Short Term Fund	3,509,911	3,509,911
Local Agency Investment Fund (LAIF)	6,210,222	6,210,222
Cash with fiscal agent:		
Money Market Mutual Funds	<u>4,873,052</u>	<u>4,873,052</u>
Total	<u>\$ 18,593,093</u>	<u>18,593,093</u>

Credit Risk

Generally, 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 and CalTrust are not rated. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Credit ratings of investments and cash equivalents as of June 30, 2012, were as follows:

<u>Investment Types</u>	<u>Total Investment</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Ratings AAA to A-</u>
U.S. Treasury Obligations	\$ 999,843	A	\$ -	999,843
Cal Trust Short Term Fund	3,523,914	N/A	-	3,523,914
Local Agency Investment Fund (LAIF)	3,979,863	N/A	3,979,863	-
Cash with fiscal agent:				
Money Market Mutual Funds	<u>3,868,926</u>	<u>AAA</u>	<u>-</u>	<u>3,868,926</u>
Total	<u>\$ 12,372,546</u>		<u>\$ 3,979,863</u>	<u>8,392,683</u>

Credit ratings of investments and cash equivalents as of June 30, 2011, were as follows:

<u>Investment Types</u>	<u>Total Investment</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Ratings AAA to A-</u>
U.S. Treasury Obligations	\$ 2,001,575	AAA	\$ -	2,001,575
Government Sponsored Entity Securities	1,998,333	AAA	-	1,998,333
Cal Trust Short Term Fund	3,509,911	N/A	-	3,509,911
Local Agency Investment Fund (LAIF)	6,210,222	N/A	6,210,222	-
Cash with fiscal agent:				
Money Market Mutual Funds	<u>4,873,052</u>	<u>AAA</u>	<u>-</u>	<u>4,873,052</u>
Total	<u>\$ 18,593,093</u>		<u>\$ 6,210,222</u>	<u>12,382,871</u>

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

(2) Cash and Investments, continued

Concentration of Credit Risk

The District's investment policy does not contain 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 such as the Local Agency Investment Fund (LAIF) was 25% of the District's total depository and investment portfolio as of June 30, 2012.

(3) Capital Assets

Changes in capital assets for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2012</u>
Non-depreciable assets:				
Land and land rights	\$ 2,212,967	-	-	2,212,967
Water rights	404,949	-	-	404,949
Construction-in-process	8,896,278	12,469,407	(1,039,018)	20,326,667
Total non-depreciable assets	<u>11,514,194</u>	<u>12,469,407</u>	<u>(1,039,018)</u>	<u>22,944,583</u>
Depreciable assets:				
Source of supply plant	5,803,451	7,200	-	5,810,651
Pumping plant	9,974,950	157,006	(988,352)	9,143,604
Water treatment plant	30,625,616	-	(12,207)	30,613,409
Transmission and distribution plant	76,053,379	3,314,174	(265,956)	79,101,597
General plant	9,464,113	93,301	(255,126)	9,302,288
Total depreciable assets	<u>131,921,509</u>	<u>3,571,681</u>	<u>(1,521,641)</u>	<u>133,971,549</u>
Accumulated depreciation and amortization:				
Source of supply plant	(1,888,469)	(276,333)	-	(2,164,802)
Pumping plant	(4,115,989)	(694,408)	988,352	(3,822,045)
Water treatment plant	(8,095,044)	(2,978,155)	12,207	(11,060,992)
Transmission and distribution plant	(24,737,822)	(1,900,929)	265,956	(26,372,795)
General plant	(2,151,658)	(579,994)	255,126	(2,476,526)
Total accum depr. and amort.	<u>(40,988,982)</u>	<u>(6,429,819)</u>	<u>1,521,641</u>	<u>(45,897,160)</u>
Total depreciable assets, net	<u>90,932,527</u>	<u>(2,858,138)</u>	<u>-</u>	<u>88,074,389</u>
Total capital assets, net	<u>\$ 102,446,721</u>	<u>9,611,269</u>	<u>(1,039,018)</u>	<u>111,018,972</u>

In 2012, major capital assets additions during the year include upgrades to the District's pumping plant, water treatment plant, and the continued rehabilitation of the District's transmission and distribution systems mains and pipelines. Additions to construction-in-process relate primarily to the construction of the bioremediation plant. A major portion of the capitalized additions were constructed by the District and transferred out of construction-in-process upon completion of these various projects.

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

(3) Capital Assets, continued

Changes in capital assets for 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2011</u>
Non-depreciable assets:				
Land and land rights	\$ 1,956,733	256,234	-	2,212,967
Water rights	404,949	-	-	404,949
Construction-in-process	8,038,185	4,392,055	(3,533,962)	8,896,278
Total non-depreciable assets	<u>10,399,867</u>	<u>4,648,289</u>	<u>(3,533,962)</u>	<u>11,514,194</u>
Depreciable assets:				
Source of supply plant	5,791,348	17,053	(4,950)	5,803,451
Pumping plant	9,392,651	636,618	(54,319)	9,974,950
Water treatment plant	30,292,357	347,280	(14,021)	30,625,616
Transmission and distribution plant	75,396,287	2,294,837	(1,637,745)	76,053,379
General plant	9,239,768	350,342	(125,997)	9,464,113
Total depreciable assets	<u>130,112,411</u>	<u>3,646,130</u>	<u>(1,837,032)</u>	<u>131,921,509</u>
Accumulated depreciation and amortization:				
Source of supply plant	(1,615,880)	(277,539)	4,950	(1,888,469)
Pumping plant	(3,526,358)	(643,950)	54,319	(4,115,989)
Water treatment plant	(5,160,762)	(2,948,303)	14,021	(8,095,044)
Transmission and distribution plant	(23,886,103)	(2,489,464)	1,637,745	(24,737,822)
General plant	(1,678,642)	(599,013)	125,997	(2,151,658)
Total accum depr. and amort.	<u>(35,867,745)</u>	<u>(6,958,269)</u>	<u>1,837,032</u>	<u>(40,988,982)</u>
Total depreciable assets, net	<u>94,244,666</u>	<u>(3,312,139)</u>	<u>-</u>	<u>90,932,527</u>
Total capital assets, net	<u>\$ 104,644,533</u>	<u>1,336,150</u>	<u>(3,533,962)</u>	<u>102,446,721</u>

In 2011, major capital assets additions during the year include upgrades to the District's pumping plant, water treatment plant, and the rehabilitation of the District's transmission and distribution systems mains and pipelines. A major portion of these additions were constructed by the District and transferred out of construction-in-process upon completion of these various projects.

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

(3) 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:

The balance at June 30, consists of the following projects:

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Coyote canyon tract 16325	1,085,053	1,085,053	1,085,053
42" Intertie @ SBVMWD	1,115,558	-	-
ESTCP Bioremediation	1,505,321	1,537,613	1,537,613
Zone 3A, 30" water line	723,685	1,133,739	1,233,874
Design of 8-2 pump station	1,368,687	1,439,276	-
Bioremediation Plant	-	1,982,166	15,192,294
Various minor district projects	1,334,849	565,094	325,333
Various other developer projects	905,032	1,153,337	952,500
Total construction-in-process	<u>\$ 8,038,185</u>	<u>8,896,278</u>	<u>20,326,667</u>

(4) Water Participation Rights

In 2012, the District acquired water participation rights from the San Bernardino Valley Municipal Water District for \$9,645,865. The District is amortizing the participation rights until January 31, 2041. (See note 8 for further details)

In 1995, the District acquired water participation rights from the San Bernardino Valley Municipal Water District for \$4,545,000. The District is amortizing the participation rights until April 30, 2011. At June 30, 2011 these water participation right were paid in full.

The unamortized balance at June 30, was as follows:

The balance at June 30, consists of the following:

	<u>2012</u>	<u>2011</u>
Water participation rights	\$ 9,645,865	4,545,000
Accumulated amortization	<u>(321,529)</u>	<u>(4,545,000)</u>
	<u>\$ 9,324,336</u>	<u>-</u>

(5) Deferred Charges

The deferred charges balance relates to the issuance costs and unamortized premiums of the 2006D-2, 2004A CSCDA Water and Wastewater Bonds and 1998A ABAG Water Revenue Bonds. The balance is being amortized over the respective lives of the related debt issuances. The deferred charges net balances are as follows:

The balance at June 30, consists of the following:

	<u>2012</u>	<u>2011</u>
Deferred charges	\$ 1,260,325	1,260,325
Accumulated amortization	<u>(278,726)</u>	<u>(230,252)</u>
Deferred charges, net	<u>\$ 981,599</u>	<u>1,030,073</u>

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

(6) Compensated Absences

The District's policy is to permit employees to accumulate earned vacation and qualified sick leave. The liability for vested vacation and sick leave is recorded as an expense when earned. Upon termination or retirement, employees are entitled to receive compensation at their current base salary for all unused vacation and qualified sick leave.

<u>Balance</u> <u>2011</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2012</u>	<u>Current</u> <u>Portion</u>	<u>Long-Term</u> <u>Portion</u>
\$ 484,427	450,023	(422,637)	511,813	230,316	281,497
<u>Balance</u> <u>2010</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2011</u>	<u>Current</u> <u>Portion</u>	<u>Long-Term</u> <u>Portion</u>
\$ 453,984	385,244	(354,801)	484,427	217,992	266,435

(7) Pension Related Debt – CalPERS Side-Fund

As of June 30, 2003, CalPERS implemented risk-pooling for the District's agent multiple-employer public employee defined benefit pension plan. As a result, the District's defined benefit pension plan with CalPERS converted from an agent multiple-employer plan to a cost sharing multiple-employer plan. This change in the type of the plan created the CalPERS Side-Fund, which CalPERS financed at a 7.75% interest rate (for fiscal year 2013 and beyond CalPERS reduced the rate to 7.50%). CalPERS actuarially calculated the amount needed to bring the District into the cost sharing multiple-employer plan on an equal basis with other governmental agencies that all had less than 100 active and retired employees combined. The reason that CalPERS switched these governmental agencies into the cost sharing multiple-employer plan was to smooth the annual costs related to the pension benefit over a longer period of time resulting in a lower cost of service to the governmental agencies.

A portion of the District's annual required contribution to CalPERS are actuarially determined and shared by all governmental agencies within the cost sharing risk pool. Also, the District is required to make systematic pay-as-you-go payments to pay-down the CalPERS Side-Fund, as well. The responsibility for paying-down the District's CalPERS Side-Fund is specific to the District and is not shared by all governmental agencies within the cost sharing risk pool. Therefore, the CalPERS Side-Fund falls under the definition of pension-related debt, as described in GASB Statement No. 27.

The following long-term debt has been recorded on the District's financial statements as the District is making systematic pay-as-you-go payments to CalPERS each payroll period. The annual repayment schedule is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 86,472	73,053	159,525
2014	97,804	68,021	165,825
2015	110,297	60,503	170,800
2016	123,882	52,042	175,924
2017	138,645	42,557	181,202
2018-2020	517,738	59,141	576,879
Total	1,074,838	355,317	1,430,155
Less current portion	(86,472)		
Total non-current	\$ 988,366		

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

(8) Long-term Debt

Changes in long-term debt amounts for the year ended June 30, 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2012</u>	<u>Due within One Year</u>	<u>Long-term Portion</u>
Long-term debt:						
Contract payable	\$ -	9,645,865	(321,529)	9,324,336	321,529	9,002,807
Bonds payable						
Assessment District 97-1	235,000	-	(30,000)	205,000	35,000	170,000
Series 2006D-2	28,935,000	-	(945,000)	27,990,000	970,000	27,020,000
Total bonds	29,170,000	-	(975,000)	28,195,000	1,005,000	27,190,000
Total long-term debt	\$ 29,170,000	9,645,865	(1,296,529)	37,519,336	1,326,529	36,192,807

Changes in long-term debt amounts for the year ended June 30, 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2011</u>	<u>Due within One Year</u>	<u>Long-term Portion</u>
Long-term debt:						
Contract payable	\$ 180,009	-	(180,009)	-	-	-
Bonds payable						
Assessment District 97-1	265,000	-	(30,000)	235,000	30,000	205,000
Series 2006D-2	29,830,000	-	(895,000)	28,935,000	945,000	27,990,000
Total bonds	30,095,000	-	(925,000)	29,170,000	975,000	28,195,000
Total long-term debt	\$ 30,275,009	-	(1,105,009)	29,170,000	975,000	28,195,000

Water Participation Rights Contract Payable

In 2012, the District acquired water participation rights from the San Bernardino Valley Municipal Water District. These rights entitle the District to purchase water from the Baseline Feeder system. The payment for the rights is calculated at 5,000 acre feet at \$90 per acre foot, per year, payable in monthly installments of \$26,794, until January 31, 2041. The calculated annual amount of \$321,529 is a minimum usage fee which does not actually represent the purchase of any water. Purchased water is billed in addition to the minimum fee. Annual payments on the water participation rights are as follows:

<u>Year</u>	<u>Payment</u>
2013	\$ 321,529
2014	321,529
2015	321,529
2016	321,529
2017	321,529
2018-2022	1,607,645
2023-2027	1,607,645
2028-2032	1,607,645
2033-2037	1,607,645
2038-2041	1,286,111
Total	9,324,336
Less current portion	(321,529)
Total non-current	\$ 9,002,807

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

(8) Long-term Debt, continued

Limited Obligation Improvement Bonds Assessment District No. 97-1

Assessment District No. 97-1 (Crestmore Heights Mutual Water Company) was established to provide financing for construction and improvements of the water system. On April 16, 1998, Limited Obligation Improvement Bonds Assessment District No. 97-1 were issued through Rural Development, Farmers Home Administration for \$552,067. The payments on this indebtedness are being paid by the property owners within Assessment District No. 97-1. The bonds are being repaid in twenty annual installments with the last payment on September 1, 2017. Annual debt service requirements on the Limited Obligation Improvement Bonds Assessment District No. 97-1 are as follows:

Year	Principal	Interest	Total
2013	\$ 35,000	9,609	44,609
2014	30,000	7,944	37,944
2015	30,000	6,407	36,407
2016	35,000	4,741	39,741
2017	35,000	1,922	36,922
2018	40,000	3,972	43,972
Total	205,000	34,595	239,595
Less current portion	(35,000)		
Total non-current	\$ 170,000		

2004A CSCDA Water and Wastewater Revenue Bonds

On June 2, 2004, the District joined in a pooled financing program for California Statewide Community Development Authority (CSCDA) Water and Wastewater Bonds, Series 2004A. The District's portion of the CSCDA bonds was \$15,325,000. The bonds issued for the District were \$5,125,000 as serial bonds and \$10,200,000 as term bonds. The serial bonds carry interest rates of 3.00% to 5.00% and mature between October 1, 2005 and October 1, 2016. The term bonds were divided into three lots with \$1,800,000 paying 5.25% due on October 1, 2019, \$3,670,000 paying 5.25% due on October 1, 2024, and \$4,730,000 paying 5.00% on October 1, 2029. All term bonds are subject to mandatory redemption in prescribed amounts before the maturity dates. At October 1, 2006, the District issued \$32,365,000 of Series 2006D-2 Bonds. From the proceeds, \$14,635,000 was utilized to retire the 2004A CSCDA Water and Wastewater Revenue Bonds. As a result, the 2004A CSCDA Water and Wastewater Revenue Bonds are considered defeased and the liability for those obligations has been removed from the financial statements.

Series 2006D-2 Bonds

On October 1, 2006, the District issued \$32,365,000 in Water and Wastewater Revenue Bonds (Series 2006D-2 Bonds). The proceeds of the issue are being used to prepay the 2004A CSCDA Water and Wastewater Revenue Bonds and to finance improvements to the System, including upgrading, renovation and /or installation of booster plants, wells, reservoirs, pipelines and metering stations, water treatment facilities, including the granulated activated carbon filter for the Treatment Plant

A total of \$14,635,000 from the Series 2006D-2 Bonds was used to pay off the outstanding principal of the 2004A CSCDA Water and Wastewater Revenue Bonds. As a result, the 2004A CSCDA Water and Wastewater Revenue Bonds are considered retired and the liability for those obligations have been removed from the financial statements. The District completed the advance refunding to reduce the District's total debt service payments over the next 22 years by \$539,057 and to obtain an economic gain of approximately \$369,570.

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

(8) Long-term Debt, continued

Series 2006D-2 Bonds, continued

The Series 2006D-2 Bonds are payable solely from the net revenues of the District's water system as defined in the Series 2006D-2 Bond Indenture. The Bonds bear interest at a variable rate with principal maturities from 2007 to 2033.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 970,000	1,192,028	2,162,028
2014	1,005,000	1,153,228	2,158,228
2015	1,045,000	1,113,028	2,158,028
2016	1,090,000	1,071,228	2,161,228
2017	1,130,000	1,027,628	2,157,628
2018-2022	6,370,000	4,435,973	10,805,973
2023-2027	7,805,000	3,002,850	10,807,850
2028-2032	7,575,000	1,141,200	8,716,200
2033	1,000,000	47,025	1,047,025
Total	27,990,000	14,184,188	42,174,188
Less current portion	(970,000)		
Total non-current	\$ 27,020,000		

(9) 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 the District deferred compensation plan at June 30, 2011 and 2010 amounted to \$1,621,308 and \$1,379,281 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.

(10) 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 acts 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 from their executive Office: 400 P Street, Sacramento, CA, 95814.

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

(10) Defined Benefit Pension Plan, continued

Funding Policy

The contribution rate for plan members in the CalPERS, 2.0% at 55 Risk Pool Retirement Plan is 7% of their annual covered salary and is paid by the District. The District makes these contributions required of District employees on their behalf and for their account. Also, the District 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 2011, 2010, and 2009 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 2011, 2010, and 2009, the District's annual contributions for the CalPERS plan were equal to the Agencies required and actual contributions for each fiscal year as follows:

Three Year Trend Information:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>APC Percentage of Payroll</u>
2010	\$ 604,260	100%	13.209%
2011	652,434	100%	13.903%
2012	734,293	100%	14.629%

(11) Other Post Employment Benefits Payable

The District provides other post-employment benefits (OPEB) to qualified employees who retire from the District and meet the District's vesting requirements. During the fiscal year ended June 30, 2009, the District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are set forth below.

Plan Description – Eligibility

A retired employee and dependent spouse, or spouse of a deceased employee or retiree must satisfy the following requirements in order to be eligible for post employment medical and dental benefits:

- Employee is a minimum of 50 years of age with at least 10 years of continuous service.
- Full time employees hired on or after July 1, 2006 is a minimum of 55 years of age with a minimum of 20 years of continuous service.

If the spouse of a deceased employee or retiree remarries and becomes eligible for health benefits under his/her new spouse's health plan, all District benefits shall be terminated.

Membership in the OPEB plan consisted of the following members as of June 30:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Active plan members	60	59	53
Retirees and beneficiaries receiving benefits	15	15	22
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	<u>75</u>	<u>74</u>	<u>75</u>

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

(11) Other Post Employment Benefits Payable, continued

Plan Description – Benefits

The District offers post employment medical and dental benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the District’s medical and dental programs. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 23.9% of the annual covered payroll.

Annual Cost

For the years ended June 30, 2012 and 2011, the District’s ARC cost is \$941,216 and \$872,350, respectively. The District’s net OPEB payable obligation amounted to \$2,853,879 and \$2,053,794 for the years ended June 30, 2012 and 2011, respectively. The District contributed \$141,012 and \$136,876 in adjustment contributions for current retiree OPEB premiums for the years ended June 30, 2012 and 2011, respectively.

The balance at June 30, consists of the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 941,216	872,350	808,883
Interest on net OPEB obligation	90,409	58,300	28,238
Adjustment to annual required contribution	<u>(90,528)</u>	<u>(56,614)</u>	<u>(26,627)</u>
Total annual OPEB expense	941,097	874,036	810,494
Change in net OPEB payable obligation:			
Age adjusted contributions made	(141,012)	(136,871)	(125,060)
Contributions to irrevocable trust	<u>-</u>	<u>-</u>	<u>-</u>
Total change in net OPEB payable obligation	800,085	737,165	685,434
OPEB payable – beginning of year	<u>2,053,794</u>	<u>1,316,629</u>	<u>631,195</u>
OPEB payable – end of year	<u><u>\$ 2,853,879</u></u>	<u><u>2,053,794</u></u>	<u><u>1,316,629</u></u>

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

(11) Other Post Employment Benefits Payable, continued

Annual Cost

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2011 and the three preceding years were as follows:

<i>Three-Year History of Net OPEB Obligation</i>				
Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2012	\$ 800,085	141,012	17.62%	\$ 2,853,879
2011	737,165	136,871	18.57%	2,053,794
2010	685,434	125,064	18.25%	1,316,629

See the Schedule of Funding Status of the District's Other Post Employment Benefits Obligation in the Required Supplementary Information Section on Page 45.

Funded Status and Funding Progress of the Plan

The most recent valuation (dated July 1, 2011) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$10,360,723. The covered payroll (annual payroll of active employees covered by the plan) was \$4,136,087. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 250.50%.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	July 1, 2011
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	27 Years as of the valuation date
Asset valuation method	15 Year smoothed market
Actuarial assumptions:	
Investment rate of return	2.50% – Current LAIF rating (rounded)
Projected salary increase	3.25%
Inflation - discount rate	2.06%
Individual salary growth	District annual COLA

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

(12) Net Investment in Capital Assets

Net assets of the District at June 30, are comprised of the following amounts:

	2012	As Restated 2011
Net investment in capital assets:		
Capital assets, net	\$ 111,018,972	102,446,721
Bonds payable, current	(1,005,000)	(975,000)
Bonds payable, non-current	(27,190,000)	(28,195,000)
Total net investment in capital assets	82,823,972	73,276,721
Restricted for capital projects:		
Restricted – cash and cash equivalents	5,081,814	6,083,311
Restricted – assessment receivable	185,269	216,838
Accrued interest payable	(3,502)	(4,015)
Bonds payable, current	(35,000)	(30,000)
Bonds payable, non-current	(170,000)	(205,000)
Total restricted for capital projects	5,058,581	6,061,134
Restricted for debt service:		
Restricted – cash and cash equivalents	55,093	56,104
Total restricted for debt service	55,093	56,104
Total restricted net assets	5,113,674	6,117,238
Unrestricted net assets:		
Non-spendable net assets:		
Materials and supplies inventory	234,092	189,751
Prepaid water	173,577	315,930
Prepaid expenses and other deposits	212,374	228,512
Deferred charges, net	981,599	1,030,073
Total non-spendable net assets	1,601,642	1,764,266
Spendable net assets are designated as follows:		
Unrestricted	7,851,201	9,060,588
Total spendable net assets	7,851,201	9,060,588
Total unrestricted net assets	9,452,843	10,824,854
Total net assets	\$ 97,390,489	90,218,813

(13) Adjustments to Net Assets

Pension Related Debt

During a review of the District's employee pension plan administered by CalPERS, the District determined that a Side Fund obligation specific to the District was not recorded in the District's accounts in compliance with the provisions of *Governmental Accounting Standards Board Statement No. 27*. As a result, the District has recorded a prior period adjustment to net assets in the amount of (\$1,147,891) at June 30, 2011.

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

(13) Adjustment to Net Assets, continued

Capital Assets –Bioremediation Plant Construction

In fiscal year 2012, the District determined that previously expensed costs related to the District’s Bioremediation plant construction met with the Districts policy for capitalization. As a result, the District has recorded a prior period adjustment to net assets in the amount of \$1,982,166 at June 30, 2011.

As a result, previously recorded net assets of \$89,384,538, \$95,404,189, and \$101,454,677 have been adjusted to \$90,218,813, \$94,193,233, and \$100,189,775 as of June 30, 2011, 2010, and 2009, respectively. The effect of this adjustment is summarized in the table below:

The adjustments to net assets are as follows:

Net assets at July 1, 2008, as previously stated	\$ 102,131,033
Effect of adjustment to record pension related debt	(1,264,902)
Change in net assets at June 30, 2009, as previously stated	(676,356)
Net assets at June 30, 2009, as restated	100,189,775
Effect of adjustment to record pension related debt	53,946
Change in net assets at June 30, 2010, as previously stated	(6,050,488)
Net assets at June 30, 2010, as restated	94,193,233
Effect of adjustment to record pension related debt	63,065
Effect of adjustment to record capitalized assets	1,982,166
Change in net assets at June 30, 2011, as previously stated	(6,019,651)
Net assets at June 30, 2011, as restated	\$ <u>90,218,813</u>

(14) 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, 2012, 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 JPIA purchases additional excess coverage layers: \$60 million per occurrence 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.
- 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 \$100 million per occurrence, subject to a \$2,500 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$50 million per occurrence, subject to various deductibles depending on the type of equipment.

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

(14) Risk Management, continued

- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law. Coverage is through the Special Districts Risk Management Authority.

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 year ending June 30, 2012. 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, 2012, 2011 and 2010, respectively.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2012, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard address how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 61

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity, Omnibus*. This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*. This statement is effective for financial statements for periods beginning after June 15, 2012. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 62

In December 2010, The GASB issued Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations.
2. Accounting Principles Board Opinions.
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

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

Governmental Accounting Standards Board Statement No. 62, continued

However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

Governmental Accounting Standards Board Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 64

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. This standard is designed to improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or swap counterparty's credit support provider, is replaced. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 65

In March 2012, the GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 66

In March 2012, the GASB issued Statement No. 66 – *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

West Valley Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2012 and 2011

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

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions— an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

(16) Commitments and Contingencies

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District’s replacement reserves and advances for construction. The District has committed to approximately \$11,669,272 in open construction contracts as of June 30, 2012. These include the following:

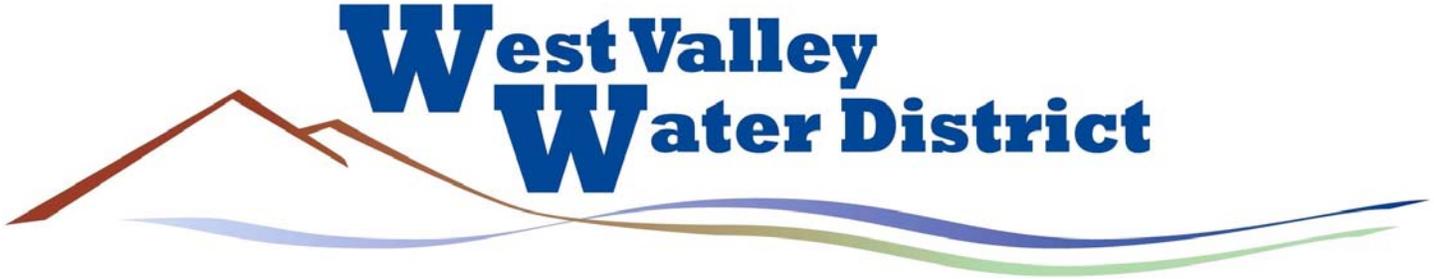
Project Name	Total Approved Contract	Construction Costs to Date	Balance to Complete
Bioremediation Plant	\$ <u>11,669,272</u>	<u>8,999,681</u>	<u>2,669,591</u>

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.

(17) Subsequent Event

Events occurring after June 30, 2012 have been evaluated for possible adjustment to the financial statements or disclosure as of January 25, 2013, which is the date the financial statements were available to be issued.



Required Supplementary Information

West Valley Water District
Schedule of Funding Status – Other Post-Employment Benefits Obligation
For the Fiscal Years Ended June 30, 2012 and 2011

Funded Status and Funding Progress of the Plan

The most recent valuation (dated July 1, 2011) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$10,360,723. The covered payroll (annual payroll of active employees covered by the plan) was \$4,136,087. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 250.50%.

Required Supplemental Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2011	-	10,360,723	10,360,723	0.00%	\$ 4,136,087	250.50%
7/1/2008	-	7,369,854	7,369,854	0.00%	3,334,696	221.01%

Supplemental Information Section

West Valley Water District
Combining Schedule of Net Assets
June 30, 2012

<i>Assets</i>	Water District	Assessment District 97-1	Total
Current assets:			
Cash and cash equivalents	\$ 6,376,561	-	6,376,561
Restricted cash and cash equivalents	5,003,488	78,326	5,081,814
Accrued interest receivable	4,238	-	4,238
Accrued interest – restricted	3,330	-	3,330
Accounts receivable – water sales and services	1,408,258	-	1,408,258
Property taxes receivable	14,595	-	14,595
Restricted – assessments receivable	-	185,269	185,269
Accounts receivable – grants	4,450,705	-	4,450,705
Accounts receivable – redevelopment pass-through	166,669	-	166,669
Materials and supplies inventory	234,092	-	234,092
Prepaid water	173,577	-	173,577
Prepaid expenses and other deposits	212,374	-	212,374
Total current assets	<u>18,047,887</u>	<u>263,595</u>	<u>18,311,482</u>
Non-current assets:			
Investments	4,523,757	-	4,523,757
Water stock – Fontana Union Water Company	1,307	-	1,307
Tax increment pass-through receivable	698,387	-	698,387
Capital assets, net	111,018,972	-	111,018,972
Water participation rights, net	9,324,336	-	9,324,336
Deferred charges, net	981,599	-	981,599
Total non-current assets	<u>126,548,358</u>	<u>-</u>	<u>126,548,358</u>
Total assets	<u>\$ 144,596,245</u>	<u>263,595</u>	<u>144,859,840</u>
<i>Liabilities and Net Assets</i>			
Current liabilities – payable from unrestricted current assets:			
Accounts payable and accrued expenses	\$ 2,606,307	-	2,606,307
Accrued wages and related payables	105,261	-	105,261
Pass-through utility user taxes payable	33,743	-	33,743
Customer deposits	1,130,983	-	1,130,983
Construction advances and deposits	633,295	-	633,295
Accrued interest payable	298,007	3,502	301,509
Long-term liabilities – due in less than one year:			
Compensated absences – current portion	230,316	-	230,316
Pension related debt – current portion	86,472	-	86,472
Contract payable – current portion	321,529	-	321,529
Bonds payable – current portion	970,000	35,000	1,005,000
Total current liabilities	<u>6,415,913</u>	<u>38,502</u>	<u>6,454,415</u>
Non-current liabilities:			
Deferred revenue – tax increment pass-through	698,387	-	698,387
Long-term liabilities – due in more than one year:			
Compensated absences	281,497	-	281,497
Other post employment benefits payable	2,853,879	-	2,853,879
Pension related debt	988,366	-	988,366
Contract payable	9,002,807	-	9,002,807
Bonds payable	27,020,000	170,000	27,190,000
Total non-current liabilities	<u>40,844,936</u>	<u>170,000</u>	<u>41,014,936</u>
Total liabilities	<u>47,260,849</u>	<u>208,502</u>	<u>47,469,351</u>
Net assets:			
Invested in capital assets, net of related debt	82,823,972	-	82,823,972
Restricted for capital projects	5,058,581	-	5,058,581
Restricted for debt service	-	55,093	55,093
Unrestricted	9,452,843	-	9,452,843
Total net assets	<u>97,335,396</u>	<u>55,093</u>	<u>97,390,489</u>
Total liabilities and net assets	<u>\$ 144,596,245</u>	<u>263,595</u>	<u>144,859,840</u>

West Valley Water District
Combining Schedule of Net Assets
June 30, 2011

<i>Assets</i>	Water District	Assessment District 97-1	Total
Current assets:			
Cash and cash equivalents	\$ 7,497,290	-	7,497,290
Restricted cash and cash equivalents	6,005,031	78,280	6,083,311
Accrued interest receivable	8,565	-	8,565
Accrued interest – restricted	6,181	-	6,181
Accounts receivable – water sales and services	1,406,125	-	1,406,125
Property taxes receivable	21,979	-	21,979
Restricted – assessments receivable	-	216,838	216,838
Accounts receivable – grants	718,254	-	718,254
Accounts receivable – redevelopment pass-through	55,231	-	55,231
Materials and supplies inventory	189,751	-	189,751
Prepaid water	315,930	-	315,930
Prepaid expenses and other deposits	228,512	-	228,512
Total current assets	<u>16,452,849</u>	<u>295,118</u>	<u>16,747,967</u>
Non-current assets:			
Investments	7,509,819	-	7,509,819
Water stock – Fontana Union Water Company	1,307	-	1,307
Tax increment pass-through receivable	739,468	-	739,468
Capital assets, net	102,446,721	-	102,446,721
Deferred charges, net	1,030,073	-	1,030,073
Total non-current assets	<u>111,727,388</u>	<u>-</u>	<u>111,727,388</u>
Total assets	<u>\$ 128,180,237</u>	<u>295,118</u>	<u>128,475,355</u>
<i>Liabilities and Net Assets</i>			
Current liabilities – payable from unrestricted current assets:			
Accounts payable and accrued expenses	\$ 1,782,164	-	1,782,164
Accrued wages and related payables	300,647	-	300,647
Pass-through utility user taxes payable	24,681	-	24,681
Customer deposits	1,233,465	-	1,233,465
Construction advances and deposits	1,008,534	-	1,008,534
Accrued interest payable	307,457	4,014	311,471
Long-term liabilities – due in less than one year:			
Compensated absences	217,992	-	217,992
Pension related debt – current portion	73,053	-	73,053
Bonds payable – current portion	945,000	30,000	975,000
Total current liabilities	<u>5,892,993</u>	<u>34,014</u>	<u>5,927,007</u>
Non-current liabilities:			
Deferred revenue – tax increment pass-through	739,468	-	739,468
Long-term liabilities – due in more than one year:			
Compensated absences	266,435	-	266,435
Other post employment benefits payable	2,053,794	-	2,053,794
Pension related debt	1,074,838	-	1,074,838
Bonds payable	27,990,000	205,000	28,195,000
Total non-current liabilities	<u>32,124,535</u>	<u>205,000</u>	<u>32,329,535</u>
Total liabilities	<u>38,017,528</u>	<u>239,014</u>	<u>38,256,542</u>
Net assets:			
Invested in capital assets, net of related debt	73,276,721	-	73,276,721
Restricted for capital projects	6,061,134	-	6,061,134
Restricted for debt service	-	56,104	56,104
Unrestricted	10,824,854	-	10,824,854
Total net assets	<u>90,162,709</u>	<u>56,104</u>	<u>90,218,813</u>
Total liabilities and net assets	<u>\$ 128,180,237</u>	<u>295,118</u>	<u>128,475,355</u>

West Valley Water District
Combining Schedule of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2012

	<u>Water District</u>	<u>Assessment District 97-1</u>	<u>Total</u>
Operating revenues:			
Water consumption sales	\$ 11,019,032	-	11,019,032
Water service charges	3,855,757	-	3,855,757
Other operating income	726,649	-	726,649
Total operating revenues	<u>15,601,438</u>	<u>-</u>	<u>15,601,438</u>
Operating expenses:			
Source of supply	759,898	-	759,898
Pumping	3,624,258	-	3,624,258
Water treatment	1,388,672	-	1,388,672
Transmission and distribution	1,500,136	-	1,500,136
Customer accounts	2,032,390	-	2,032,390
Conservation	183,840	-	183,840
General and administrative	4,657,316	-	4,657,316
Total operating expenses	<u>14,146,510</u>	<u>-</u>	<u>14,146,510</u>
Operating loss before depreciation and amortization	1,454,928	-	1,454,928
Depreciation expense	(6,429,819)	-	(6,429,819)
Amortization of water participation rights	(321,529)	-	(321,529)
Operating loss	<u>(5,296,420)</u>	<u>-</u>	<u>(5,296,420)</u>
Non-operating revenue(expense)			
Property taxes	1,422,629	-	1,422,629
Interest and investment earnings	48,926	11,329	60,255
Rental income – cellular antennas	27,714	-	27,714
Gain on sale/disposition of capital assets	16,171	-	16,171
Interest expense – long-term debt	(1,284,504)	(10,762)	(1,295,266)
Amortization of deferred charges	(48,474)	-	(48,474)
Other non-operating revenues/(expenses), net	(144,985)	(1,578)	(146,563)
Total non-operating revenues/(expenses), net	<u>37,477</u>	<u>(1,011)</u>	<u>36,466</u>
Net loss before capital contributions	<u>(5,258,943)</u>	<u>(1,011)</u>	<u>(5,259,954)</u>
Capital contributions:			
Bioremediation	8,476,271	-	8,476,271
Developer contributions	3,009,147	-	3,009,147
Facility charges	566,910	-	566,910
Capital grants	379,302	-	379,302
Capital contributions	<u>12,431,630</u>	<u>-</u>	<u>12,431,630</u>
Change in net assets	<u>7,172,687</u>	<u>(1,011)</u>	<u>7,171,676</u>
Net assets – beginning of year	<u>90,162,709</u>	<u>56,104</u>	<u>90,218,813</u>
Net assets – end of year	<u>\$ 97,335,396</u>	<u>55,093</u>	<u>97,390,489</u>

West Valley Water District
Combining Schedule of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2011

	<u>Water District</u>	<u>Assessment District 97-1</u>	<u>Total</u>
Operating revenues:			
Water consumption sales	\$ 9,750,303	-	9,750,303
Water service charges	3,448,236	-	3,448,236
Other operating income	1,198,216	-	1,198,216
Total operating revenues	<u>14,396,755</u>	<u>-</u>	<u>14,396,755</u>
Operating expenses:			
Source of supply	671,055	-	671,055
Pumping	4,401,510	-	4,401,510
Water treatment	2,325,866	-	2,325,866
Transmission and distribution	1,417,810	-	1,417,810
Customer accounts	1,923,981	-	1,923,981
Conservation	122,064	-	122,064
General and administrative	4,290,255	-	4,290,255
Total operating expenses	<u>15,152,541</u>	<u>-</u>	<u>15,152,541</u>
Operating loss before depreciation and amortization	(755,786)	-	(755,786)
Depreciation expense	(6,958,269)	-	(6,958,269)
Amortization of water participation rights	(225,000)	-	(225,000)
Operating loss	<u>(7,939,055)</u>	<u>-</u>	<u>(7,939,055)</u>
Non-operating revenue(expense)			
Property taxes	1,268,513	-	1,268,513
Interest and investment earnings	74,294	13,287	87,581
Rental income – cellular antennas	42,393	-	42,393
Gain on sale/disposition of capital assets	3,137	-	3,137
Interest expense – long-term debt	(1,326,878)	(12,300)	(1,339,178)
Amortization of deferred charges	(48,474)	-	(48,474)
Other non-operating revenues/(expenses), net	59,264	(2,438)	56,826
Total non-operating revenues/(expenses), net	<u>72,249</u>	<u>(1,451)</u>	<u>70,798</u>
Net loss before capital contributions	<u>(7,866,806)</u>	<u>(1,451)</u>	<u>(7,868,257)</u>
Capital contributions:			
Bioremediation	782,713	-	782,713
Developer contributions	903,560	-	903,560
Facility charges	1,474,695	-	1,474,695
Capital grants	732,869	-	732,869
Capital contributions	<u>3,893,837</u>	<u>-</u>	<u>3,893,837</u>
Change in net assets	<u>(3,972,969)</u>	<u>(1,451)</u>	<u>(3,974,420)</u>
Net assets – beginning of year	<u>94,135,678</u>	<u>57,555</u>	<u>94,193,233</u>
Net assets – end of year	<u>\$ 90,162,709</u>	<u>56,104</u>	<u>90,218,813</u>

Statistical Information Section

West Valley Water District Statistical Section

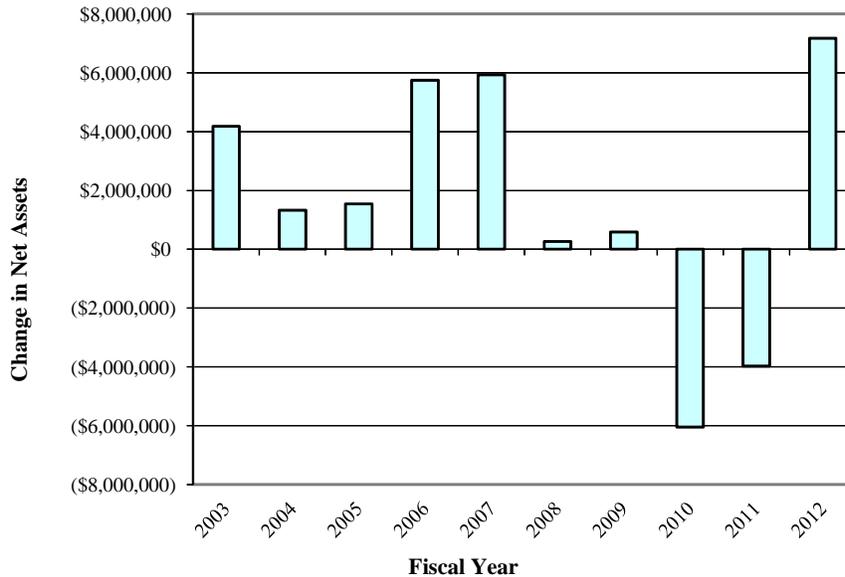
This part of the District’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District’s overall financial health.

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Financial Trends These schedules contain information to help the reader understand how the District’s financial performance and well-being have changed over time.	47-50
Revenue Capacity These schedules contain information to help the reader assess the District’s most significant own-source revenue, water sales.	51-54
Debt Capacity These schedules present information to help the reader assess the affordability of the District’s current levels of outstanding debt and the District’s ability to issue additional debt in the future.	55-56
Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the District’s financial activities take place.	57
Operating Information This schedule contains service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the service the District provides.	58

West Valley Water District Changes in Net Assets and Net Assets by Component Last Ten Fiscal Years

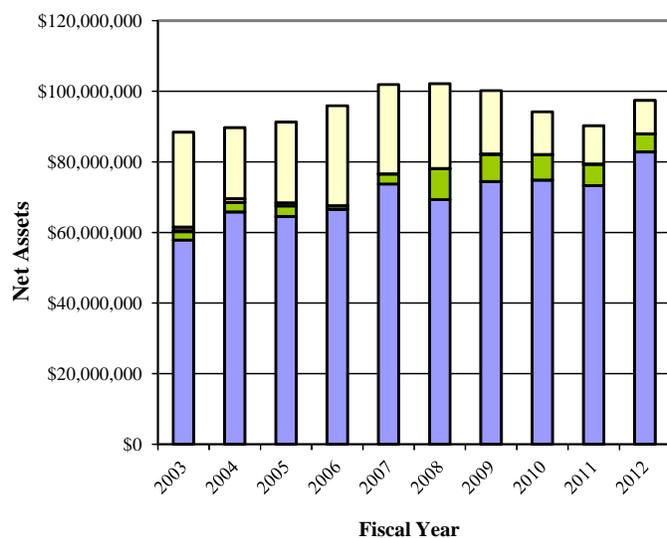
	Fiscal Year				
	2003	2004	2005	2006	2007
Changes in net assets:					
Operating revenues (see Schedule 2)	\$ 9,200,820	9,138,732	9,063,714	9,585,883	12,649,898
Operating expenses (see Schedule 3)	(7,847,547)	(8,817,095)	(8,974,988)	(9,876,734)	(11,769,102)
Depreciation and amortization	(2,349,106)	(2,396,421)	(2,497,821)	(2,673,162)	(2,884,865)
Operating income(loss)	(995,833)	(2,074,784)	(2,409,095)	(2,964,013)	(2,004,069)
Non-operating revenues(expenses)					
Property taxes	938,552	752,990	240,769	341,795	1,056,260
Interest and investment earnings	525,427	328,479	667,665	1,020,033	1,377,234
Rental income – cellular antennas	23,368	23,654	24,127	25,683	25,923
Intergovernmental revenue	751,583	643,834	526,853	-	-
Gain/(loss) on sale/disposition of capital assets	(153)	(168,303)	7,499	(6,920)	1,350
Interest expense – long term debt	(111,968)	(144,414)	(813,363)	(765,948)	(1,800,506)
Pension related debt	-	-	-	-	-
Bond issuance costs	(9,231)	(10,392)	(23,155)	-	-
Amortization of deferred charges	-	-	-	(22,848)	(36,356)
Other non-operating revenues/(expenses), net	454,165	570,068	581,959	850,206	679,361
Total non-operating revenues(expenses), net	2,571,743	1,995,916	1,212,354	1,442,001	1,303,266
Net income (loss) before capital contributions	1,575,910	(78,868)	(1,196,741)	(1,522,012)	(700,803)
Capital contributions	2,602,614	1,405,698	2,735,870	7,270,164	6,628,672
Changes in net assets	\$ 4,178,524	1,326,830	1,539,129	5,748,152	5,927,869
Net assets by component:					
Invested in capital assets, net of related debt	\$ 57,832,973	65,808,259	64,480,077	66,529,993	73,722,823
Restricted for capital projects	2,376,794	2,737,773	3,045,298	1,005,144	2,842,857
Restricted for debt service	274,821	-	-	68,148	68,908
Restricted for perchlorate treatment	1,026,456	1,004,379	877,973	-	-
Unrestricted	26,896,552	20,184,015	22,870,207	28,333,108	25,229,674
Total net assets	\$ 88,407,596	89,734,426	91,273,555	95,936,393	101,864,262



Source: West Valley Water District Accounting Department

Schedule 1

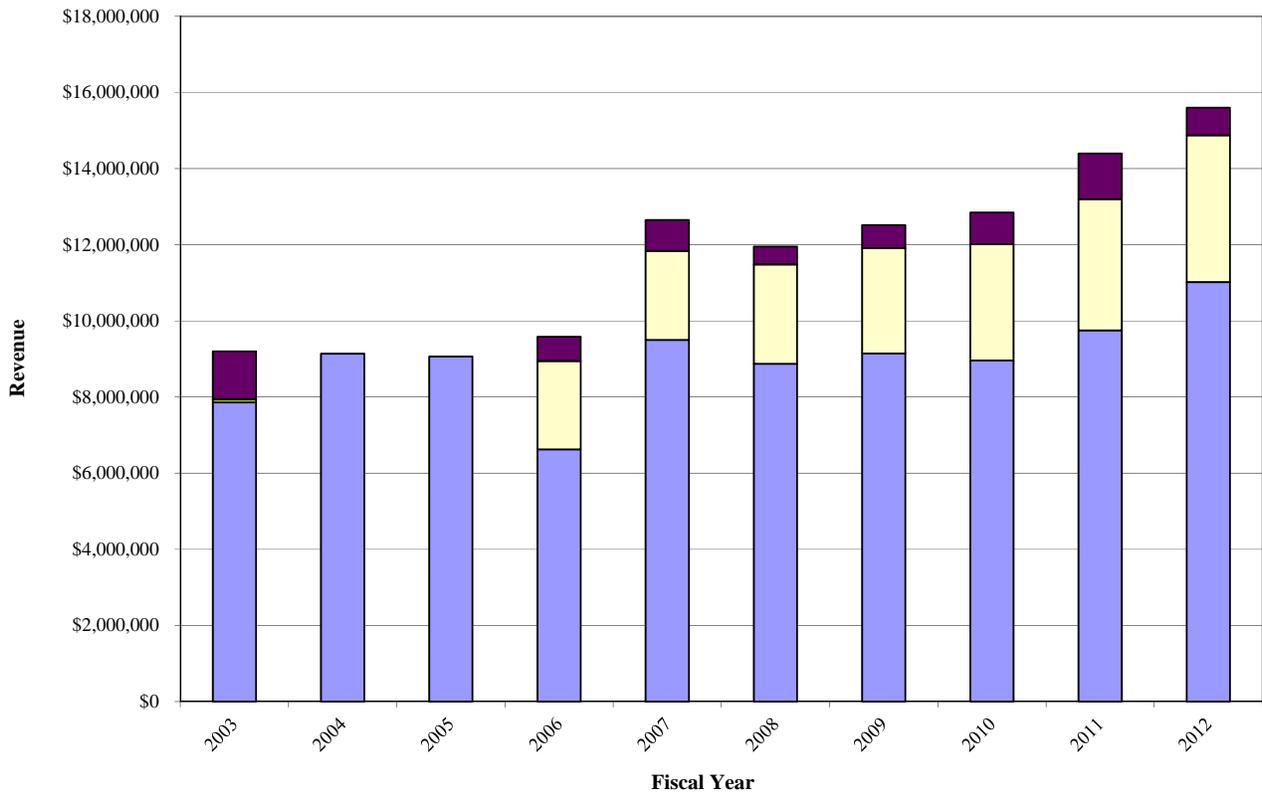
Fiscal Year				
2008	2009	As Restated 2010	As Restated 2011	2012
11,952,084	12,516,368	12,847,976	14,396,755	15,601,438
(13,143,682)	(14,239,766)	(15,076,628)	(15,152,541)	(14,146,510)
<u>(3,124,657)</u>	<u>(3,435,901)</u>	<u>(5,931,124)</u>	<u>(7,183,269)</u>	<u>(6,751,348)</u>
<u>(4,316,255)</u>	<u>(5,159,299)</u>	<u>(8,159,776)</u>	<u>(7,939,055)</u>	<u>(5,296,420)</u>
1,218,693	1,368,431	1,160,572	1,268,513	1,422,629
1,349,096	367,362	92,589	87,581	60,255
24,629	26,116	41,767	42,393	27,714
-	-	-	-	-
-	18,486	(15,414)	3,137	16,171
(1,358,255)	(1,323,745)	(1,289,174)	(1,339,178)	(1,295,266)
-	(1,264,902)	-	-	-
-	-	-	-	-
(48,474)	(48,474)	(48,474)	(48,474)	(48,474)
<u>1,066,092</u>	<u>841,471</u>	<u>(505,204)</u>	<u>56,826</u>	<u>(146,563)</u>
<u>2,251,781</u>	<u>(15,255)</u>	<u>(563,338)</u>	<u>70,798</u>	<u>36,466</u>
<u>(2,064,474)</u>	<u>(5,174,554)</u>	<u>(8,723,114)</u>	<u>(7,868,257)</u>	<u>(5,259,954)</u>
<u>2,331,245</u>	<u>3,233,296</u>	<u>2,672,626</u>	<u>3,893,837</u>	<u>12,431,630</u>
<u>266,771</u>	<u>(1,941,258)</u>	<u>(6,050,488)</u>	<u>(3,974,420)</u>	<u>7,171,676</u>
69,334,292	74,414,772	74,814,533	73,276,721	82,823,972
8,756,776	7,741,740	7,177,336	6,061,134	5,058,581
69,100	57,555	55,816	56,104	55,093
-	-	-	-	-
<u>23,970,865</u>	<u>17,975,708</u>	<u>12,145,548</u>	<u>10,824,854</u>	<u>9,452,843</u>
<u>102,131,033</u>	<u>100,189,775</u>	<u>94,193,233</u>	<u>90,218,813</u>	<u>97,390,489</u>



West Valley Water District Operating Revenue by Source Last Ten Fiscal Years

Schedule 2

Fiscal Year	Water Consumption Sales	Irrigation	Water Service Charges	Water Service Fire Prevention	Other Operating Income	Total Operating Revenue
2003	\$ 7,858,020	85,296	-	528	1,256,976	9,200,820
2004 (1)	9,138,732	-	-	-	-	9,138,732
2005	9,063,714	-	-	-	-	9,063,714
2006 (1)	6,625,716	-	2,319,087	-	641,080	9,585,883
2007	9,499,311	-	2,336,071	-	814,516	12,649,898
2008	8,872,941	-	2,609,836	-	469,307	11,952,084
2009	9,145,285	-	2,767,715	-	603,368	12,516,368
2010	8,961,085	-	3,053,040	-	833,851	12,847,976
2011	9,750,303	-	3,448,236	-	1,198,216	14,396,755
2012	11,019,032	-	3,855,757	-	726,649	15,601,438



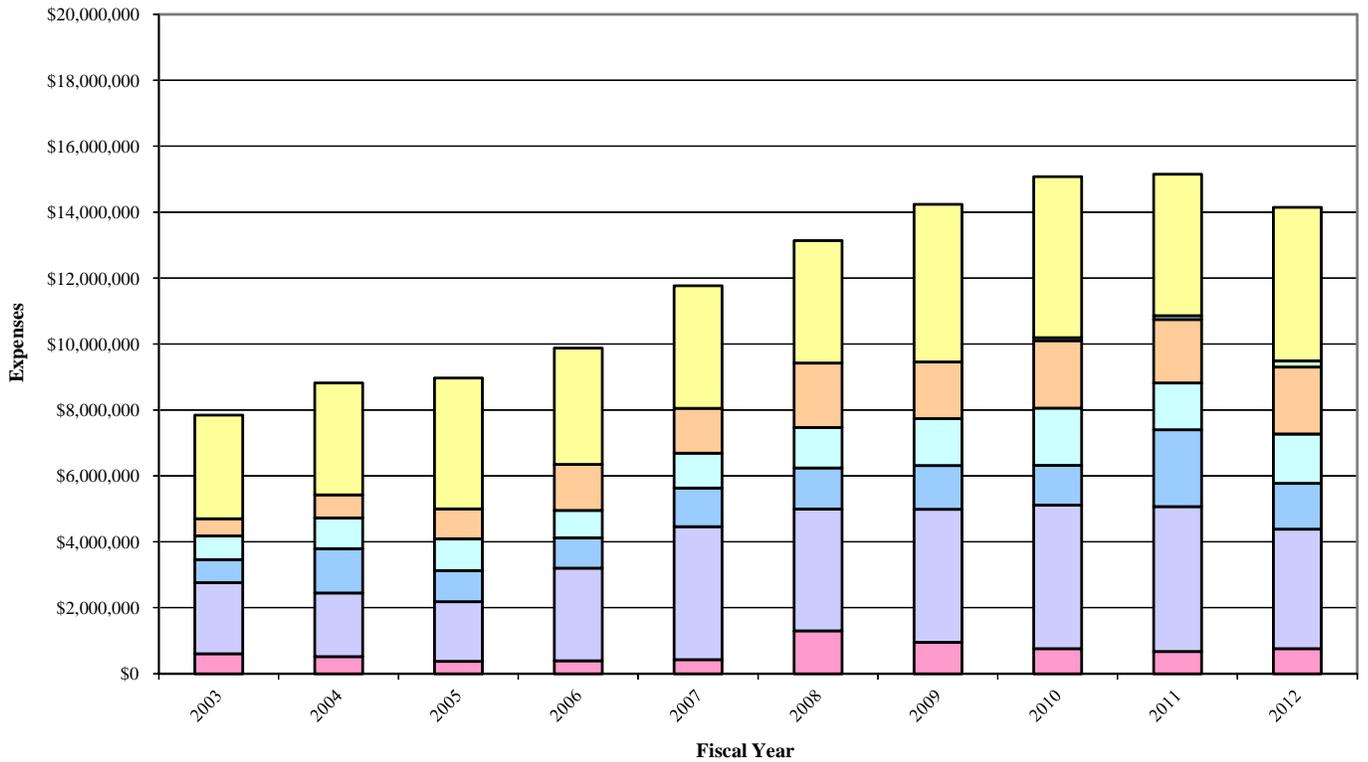
Notes: (1) Operating revenues were recategorized in 2004 and 2006

Source: West Valley Water District Accounting Department

West Valley Water District Operating Expenses by Activity Last Ten Fiscal Years

Schedule 3

Fiscal Year	Source of Supply	Pumping	Water Treatment	Transmission and Distribution	Customer Accounts	Conservation	General and Administrative	Total Operating Expenses
2003	\$ 604,506	2,160,643	701,175	714,712	524,188	-	3,142,323	7,847,547
2004	520,142	1,929,719	1,348,882	931,344	701,892	-	3,385,116	8,817,095
2005	372,775	1,812,789	944,710	967,617	902,660	-	3,974,437	8,974,988
2006	392,681	2,812,655	919,408	831,875	1,389,227	-	3,530,888	9,876,734
2007	426,103	4,036,380	1,172,713	1,061,602	1,354,056	-	3,718,248	11,769,102
2008	1,300,832	3,696,297	1,242,661	1,225,763	1,956,901	-	3,721,228	13,143,682
2009	956,940	4,030,155	1,326,083	1,426,379	1,716,249	228	4,783,732	14,239,766
2010	760,170	4,356,011	1,204,436	1,740,459	2,043,316	90,123	4,882,113	15,076,628
2011	671,055	4,401,510	2,325,866	1,417,810	1,923,981	122,064	4,290,255	15,152,541
2012	759,898	3,624,258	1,388,672	1,500,136	2,032,390	183,840	4,657,316	14,146,510

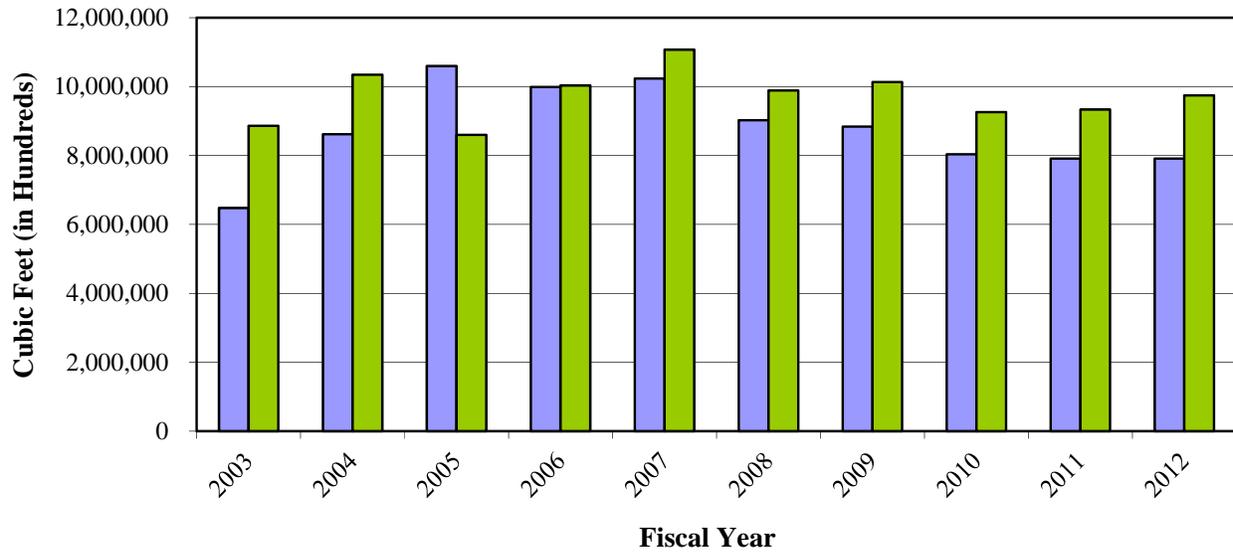


Source: West Valley Water District Accounting Department

**West Valley Water District
Revenue Base
Last Ten Fiscal Years**

Schedule 4

Fiscal Year	Water Sales (HCF)	Water Produced (HCF)
2003	6,478,010	8,860,104
2004	8,615,762	10,344,629
2005	10,595,302	8,600,486
2006	9,990,477	10,034,917
2007	10,232,514	11,070,338
2008	9,023,167	9,888,556
2009	8,838,936	10,128,571
2010	8,036,066	9,261,727
2011	7,909,036	9,337,086
2012	7,912,309	9,742,948



Note: See Schedule 2 "Operating Revenue by Source" for information regarding water revenues.

Source: West Valley Water District Accounting Department

**West Valley Water District
Revenue Rates
Last Ten Fiscal Years**

Schedule 5

Water Consumption per Hundred Cubic Feet (HCF)

Service Type	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Fire	0.80	0.80	0.80	46.00	50.00	50.00	55.00	60.50	67.00	74.00
Golf Course	0.50	0.50	0.50	0.50	0.66	0.66	0.70	0.77	0.85	0.94
Hydrant	1.15	1.15	1.30	1.50	1.63	1.63	1.80	1.98	2.18	2.40
Irrigation:										
Demand	0.40	0.40	0.40	0.40	0.50	0.50	0.55	0.61	0.68	0.75
Gravity Flow	0.40	0.40	0.40	0.40	0.50	0.50	0.55	0.61	0.68	0.75
Pressure	0.57	0.57	0.57	0.57	0.72	0.72	0.80	0.88	0.97	1.07
Water	0.80	0.80	0.80	0.80	1.00	1.00	1.10	1.21	1.34	1.48

Connection Fees Per Month

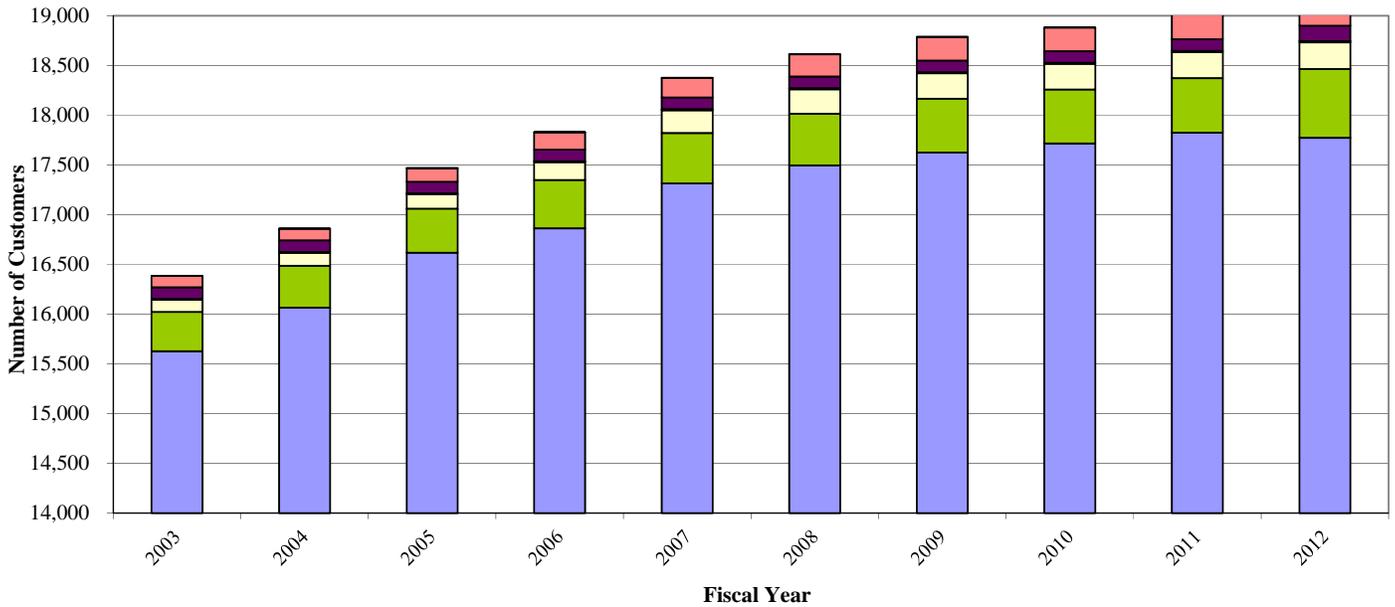
Meter Size	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Fire										
5/8" & 3/4" \$	4.50	4.50	5.00	5.00	6.25	6.25	6.88	7.57	8.33	9.17
1"	4.50	4.50	5.00	5.00	6.25	6.25	6.88	7.57	8.33	9.17
1 1/2"	6.75	6.75	7.50	7.50	9.38	9.38	10.32	11.36	12.50	13.76
2"	9.00	9.00	10.00	10.00	12.50	12.50	13.76	15.14	16.66	18.34
3"	9.00	9.00	15.00	15.00	18.75	18.75	20.64	22.71	24.99	27.51
4"	18.00	18.00	20.00	20.00	25.00	25.00	27.52	30.28	33.32	36.68
6"	27.00	27.00	30.00	30.00	37.50	37.50	41.28	45.42	49.98	55.02
8"	36.00	36.00	40.00	40.00	50.00	50.00	55.04	60.56	66.64	73.36
Golf Course										
All Sizes \$	31.50	31.50	31.50	34.75	39.38	39.38	43.32	47.66	52.43	57.68
Hydrant										
All Sizes \$	31.50	31.50	34.75	34.75	43.45	43.45	47.80	52.58	57.84	63.63
Irrigation										
All Sizes:										
Demand \$	31.50	31.50	31.50	34.75	39.38	39.38	43.32	47.66	52.43	57.68
Gravity Flow	31.50	31.50	31.50	34.75	39.38	39.38	43.32	47.66	52.43	57.68
Pressure	31.50	31.50	31.50	34.75	39.38	39.38	43.32	47.66	52.43	57.68
Water										
5/8" & 3/4" \$	7.96	7.96	7.96	7.96	9.96	9.96	10.96	12.06	13.27	14.60
1"	11.87	11.87	11.87	11.87	14.84	14.84	16.33	17.97	19.77	21.75
1 1/2"	17.51	17.51	17.51	17.51	21.90	21.90	24.09	26.50	29.15	32.07
2"	24.12	24.12	24.12	24.12	30.16	30.16	33.18	36.50	40.15	44.17
3"	35.02	35.02	35.02	35.02	43.79	43.79	48.17	52.99	58.29	64.12
4"	46.17	46.17	46.17	46.17	57.71	57.71	63.50	69.85	76.84	84.53
6"	70.05	70.05	70.05	70.05	87.56	87.56	96.33	105.97	116.57	128.23
8"	93.92	93.92	93.92	93.92	117.40	117.40	129.16	142.08	156.29	171.92

Source: West Valley Water District Board of Directors approved rate ordinances and resolutions.

West Valley Water District Customers by Type Last Ten Fiscal Years

Schedule 6

Fiscal Year	Customer Type							Total
	Residential	Commercial	Fire Service	Irrigation	Multi-Family	Parkway	Golf Course	
2003	15,627	395	123	9	116	114	1	16,385
2004	16,066	420	129	10	117	117	1	16,860
2005	16,618	442	144	10	117	136	1	17,468
2006	16,862	486	179	10	117	174	1	17,829
2007	17,315	505	230	11	117	197	1	18,376
2008	17,495	519	247	11	117	223	1	18,613
2009	17,624	541	257	11	117	235	1	18,786
2010	17,715	543	257	11	117	238	1	18,882
2011	17,824	549	262	12	117	253	1	19,018
2012 (1)	17,773	692	267	13	155	287	-	19,187



Notes: Number of customers as of June 30, of fiscal year.

(1) As a result of the 2012 rate study, certain accounts were reclassified to other types.

Source: West Valley Water District Accounting Department

**West Valley Water District
Principal Customers
Current Fiscal Year and Nine Years Ago**

Schedule 7

<u>Customer</u>	<u>2012</u>		<u>2003</u>	
	<u>Water Consumed</u>	<u>Percentage of Total</u>	<u>Water Consumed</u>	<u>Percentage of Total</u>
Rialto Unified School District	247,575	3.13%	190,107	2.93%
Robertson's Ready Mix	192,172	2.43%	222,322 (1)	3.43%
City of Rialto	162,857	2.06%	131,816	2.03%
Colton Unified School District	138,071	1.75%	131,234	2.03%
City of Fontana	113,895	1.44%	29,737	0.46%
Lenar Homes	96,109	1.21%	-	0.00%
Target Corporation	92,615	1.17%	2,501	0.04%
El Rancho Verde Golf Course	69,260	0.88%	- (2)	0.00%
My Montecito III	61,856	0.78%	104,554	1.61%
Telco Food Products, Inc.	54,188	0.68%	25,709	0.40%
Total	<u>1,228,598</u>	<u>15.53%</u>	<u>837,980</u>	<u>12.94%</u>
Total Water Consumed (HCF)	<u>7,912,309</u>	<u>100.00%</u>	<u>6,478,010</u>	<u>100.00%</u>

Notes:

(1) The District's current billing and accounting software system was implemented in 2004. Details related to a 516,732 ccf cumulative adjustment to the customers account are not available. As a result, the adjustment was not included in the 2003 usage

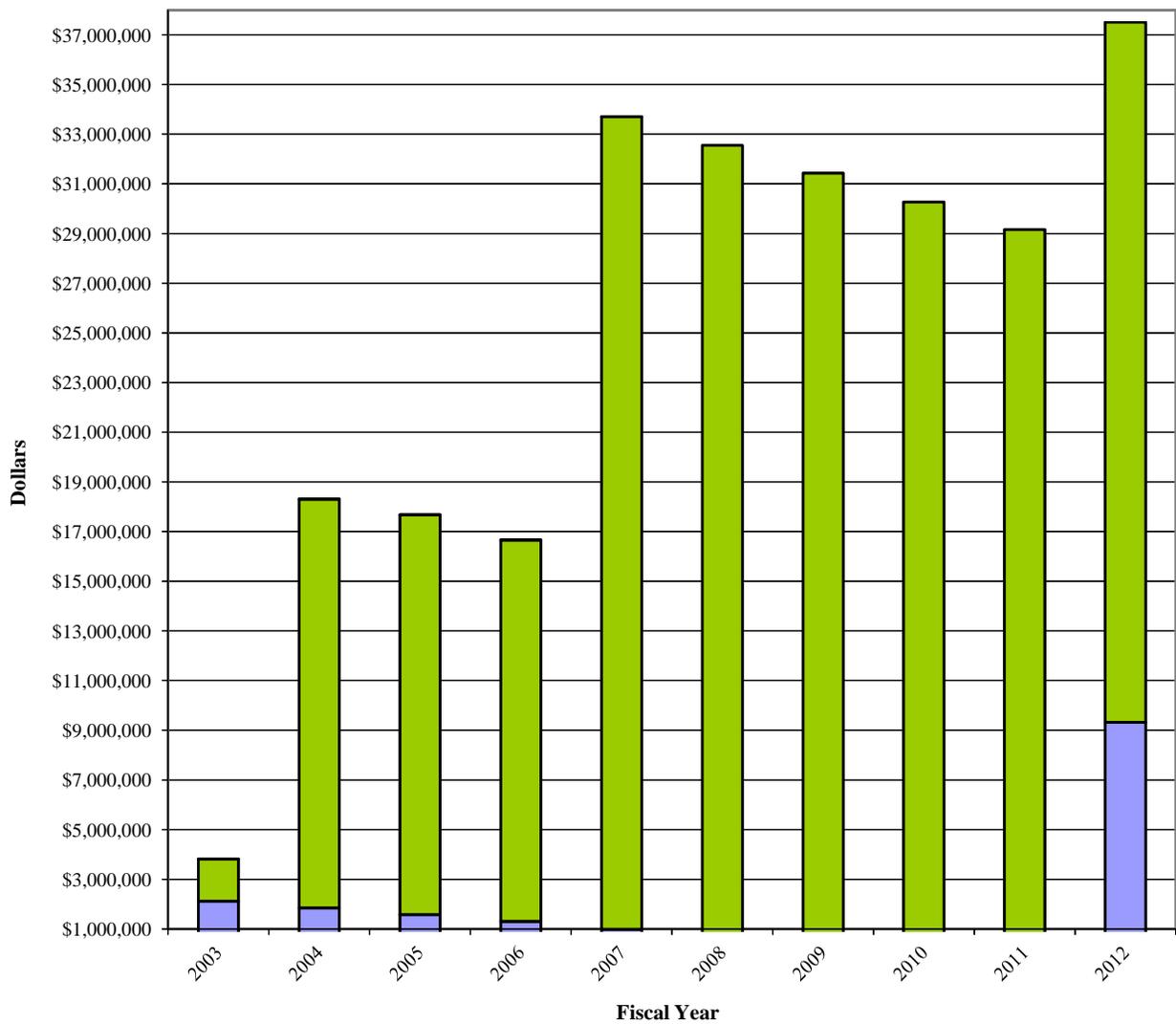
(2) El Rancho Verde Golf Course had a different owner in 2003, and was called El Rancho Verde Royal. The water consumed in 2003 was 195,907.

Source: West Valley Water District Accounting Department

**West Valley Water District
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years**

Schedule 8

Fiscal Year	Contract Payable	Bonds Payable	Loan Payable	Total		
				Debt	Per Capita	As a Share of Personal Income
2003	2,115,000	1,690,000	9,396	3,814,396	39.39	0.16%
2004	1,845,000	16,460,000	7,458	18,312,458	186.24	0.70%
2005	1,575,000	16,100,000	5,436	17,680,436	178.47	0.65%
2006	1,305,000	15,355,000	4,395	16,664,395	168.58	0.62%
2007	990,000	32,710,000	1,143	33,701,143	341.92	1.19%
2008	720,004	31,835,000	-	32,555,004	328.50	1.09%
2009	450,009	30,985,000	-	31,435,009	314.79	1.06%
2010	180,009	30,095,000	-	30,275,009	301.96	1.13%
2011	-	29,170,000	-	29,170,000	290.94	1.12%
2012	9,324,336	28,195,000	-	37,519,336	372.93	1.24%



Notes:

(1) 2012 Personal Income per Capita figure was not available. The 2011 figure was used as an estimate for 2012 since the amount is similar to prior years.

Source: West Valley Water District Accounting Department

**West Valley Water District
Pledged-Revenue Coverage
Last Ten Fiscal Years**

Schedule 9

Fiscal Year	Net Revenues	Operating Expenses ⁽¹⁾	Net Available Revenues	Debt Service		Total	Coverage Ratio
				Principal ⁽²⁾	Interest		
2003	\$ 11,457,757	(8,817,095)	2,640,662	826,941	67,982	894,923	2.95
2004	11,105,087	(8,974,988)	2,130,099	632,022	667,462	1,299,484	1.64
2005	11,793,832	(9,876,734)	1,917,098	992,107	772,943	1,765,050	1.09
2006	15,788,676	(11,769,102)	4,019,574	648,262	752,131	1,400,393	2.87
2007	15,610,594	(13,143,682)	2,466,912	1,146,143	1,274,061	2,420,204	1.02
2008	15,138,234	(14,239,766)	898,468	1,120,000	1,348,787	2,468,787	0.36
2009	13,622,286	(14,531,043)	(908,757)	1,160,000	1,314,378	2,474,378	(0.37)
2010	14,142,904	(14,391,194)	(248,290)	1,105,009	1,278,441	2,383,450	(0.10)
2011	15,855,205	(15,843,330)	11,875	1,296,529	1,241,103	2,537,632	0.00
2012	17,128,207	(14,836,728)	2,291,479	1,326,529	1,349,370	2,675,899	0.86

Notes:

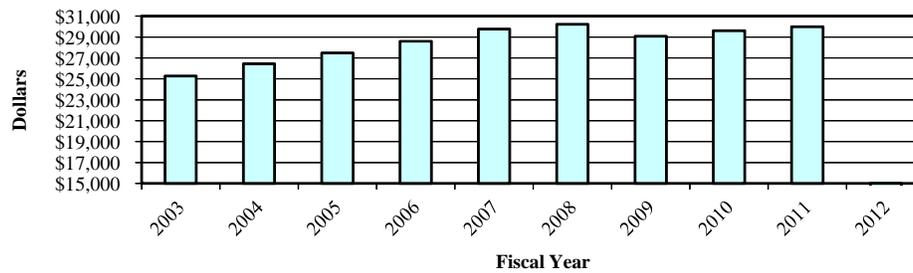
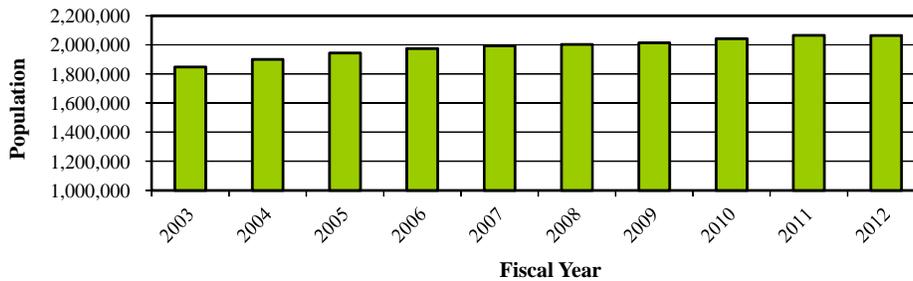
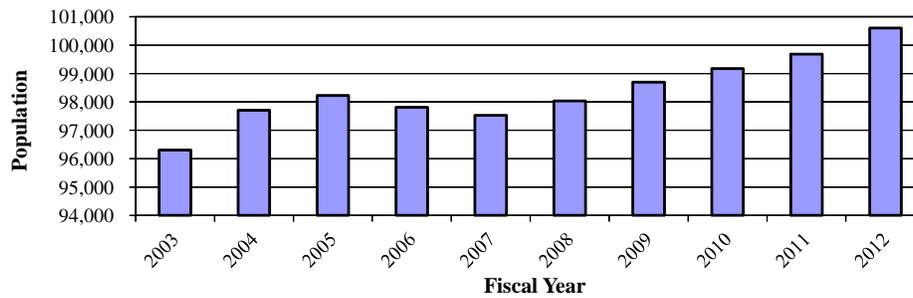
- (1) Operating expenses exclude depreciation expense and other post employment benefit expenses.
- (2) Includes only normal principal payments (does not include payments as a result of refinancing of debt).

Source: West Valley Water District Accounting Department

West Valley Water District Demographics and Economics Statistics Last Ten Fiscal Years

Schedule 10

Year	Unemployment Rate	City of Rialto Population ⁽¹⁾	County of San Bernardino ⁽²⁾			
			Unemployment Rate	Population	Personal Income (thousands of dollars)	Personal Income per Capita
2003	8.2%	96,302	6.3%	1,847,860	46,703,092	25,274
2004	7.5%	97,704	5.8%	1,899,689	50,217,879	26,435
2005	6.8%	98,224	5.2%	1,943,934	53,420,562	27,481
2006	6.3%	97,813	4.8%	1,974,140	56,475,057	28,607
2007	7.3%	97,525	5.6%	1,992,161	59,296,141	29,765
2008	10.3%	98,030	7.9%	2,003,735	60,552,997	30,220
2009	16.5%	98,698	13.0%	2,013,960	58,549,659	29,072
2010	18.1%	99,171	14.2%	2,042,027	60,463,094	29,609
2011	16.4%	99,686	12.9%	2,065,377	61,957,654	29,998
2012	14.3%*	100,606	11.1%	2,063,919	N/A	N/A



Sources:

- www.labormarketinfo.edd.ca.gov
- www.dof.ca.gov/research/demographic/reports/estimates/e-4/2001-10/view.php
- www.bea.gov/regional/bearfacts

Notes:

- (1) Separate data is not prepared for the District, therefore, the District has used data for the City of Rialto. A substantial portion of the District lies within the Town, and therefore, is a reasonable basis for determining the demographic and economic statistics of the District.
- (2) Only County data is updated annually. Therefore, the District has chose to use its data since the District believes that the County data is representative of the conditions and experience of the District.

N/A - Not Available

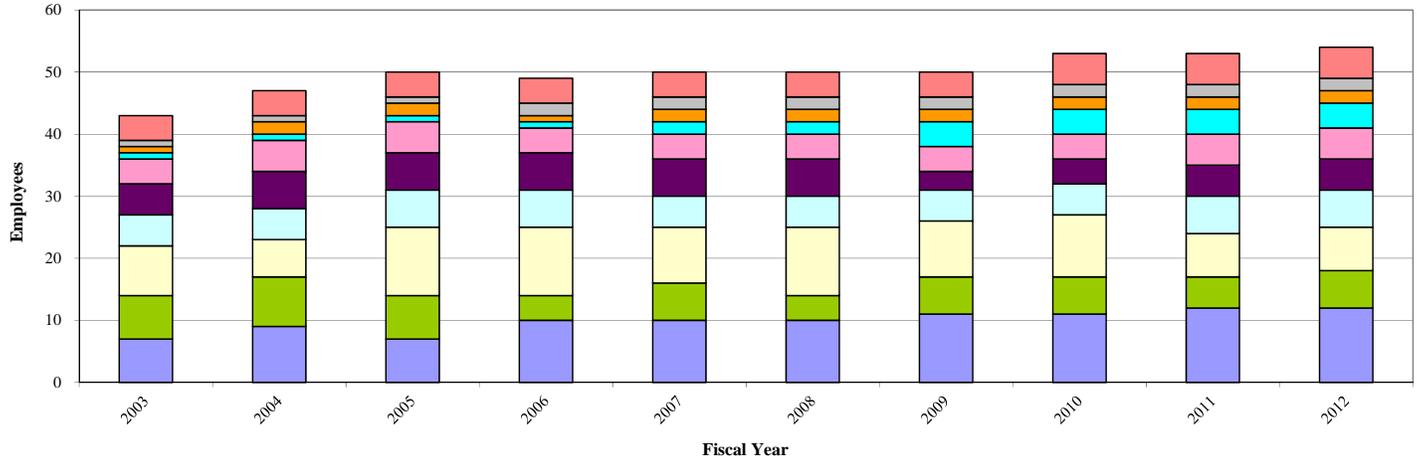
* Data provided as of 9/2012

West Valley Water District Operating and Capacity Indicators Last Ten Fiscal Years

Schedule 11

Full-time Equivalent District Employees by Department

Fiscal Year	Production	Maintenance	Meters	Administration	Customer Service	Accounting	Billing	IT	Human Resources	Engineering	Total
2003	7	7	8	5	5	4	1	1	1	4	43
2004	9	8	6	5	6	5	1	2	1	4	47
2005	7	7	11	6	6	5	1	2	1	4	50
2006	10	4	11	6	6	4	1	1	2	4	49
2007	10	6	9	5	6	4	2	2	2	4	50
2008	10	4	11	5	6	4	2	2	2	4	50
2009	11	6	9	5	3	4	4	2	2	4	50
2010	11	6	10	5	4	4	4	2	2	5	53
2011	12	5	7	6	5	5	4	2	2	5	53
2012	12	6	7	6	5	5	4	2	2	5	54



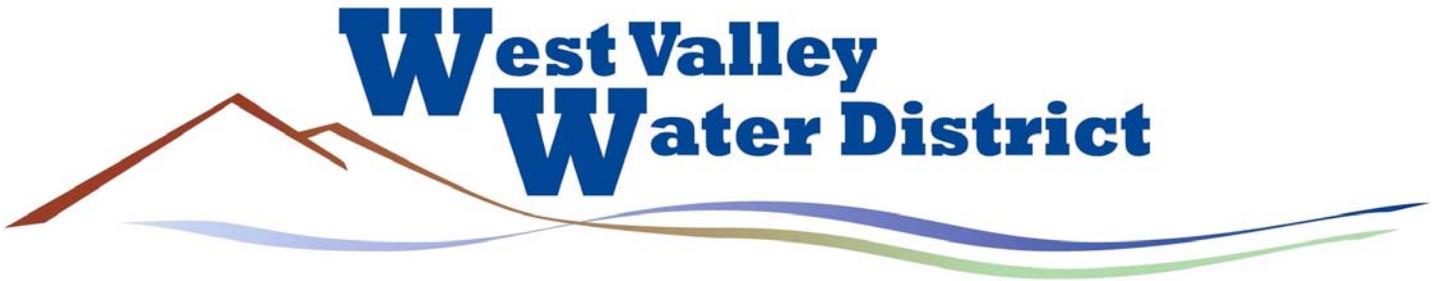
Other Operating and Capacity Indicators

Fiscal Year	District Area (Square Miles)	Miles of Pipeline	Storage Tanks	Storage Capacity (MG)	Groundwater Wells	Well Capacity (MGD)	Fire Hydrants
2003	29.7	316	24	66.6	21	45.0	2,040
2004	29.7	332	24	66.6	21	41.0	2,040
2005	29.7	349	24	66.6	19	38.0	2,040
2006	29.7	354	24	66.6	20	46.0	2,040
2007	30.7	355	24	66.6	19	43.0	2,040
2008	30.7	361	26	73.6	19	41.0	2,040
2009	30.7	362	26	73.6	20	42.0	2,040
2010	31.0	365	26	73.6	17	43.0	2,040
2011	31.0	366	26	73.6	17	38.0	2,040
2012	31.0	366	26	73.6	17	35.0	2,040

MG - Millions of Gallons
MGD - Millions of Gallons per Day

Sources: West Valley Water District Operations and Accounting Departments

Note: The Fire Hydrant total is inclusive of Hydrants and Jones heads.



Report on Internal Controls and Compliance



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

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Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
West Valley Water District
Rialto, California

We have audited the basic financial statements of the West Valley Water District (District) as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated January 25, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPA's - An Accountancy Corporation
Cypress, California
January 25, 2013