



**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2012**

IDYLLWILD WATER DISTRICT

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**IDYLLWILD WATER DISTRICT
List of Principal Officers**

BOARD OF DIRECTORS

<u>Title</u>	<u>Name</u>
President	Alan Morphett
Vice President	Warren Monroe
Director	John Cook
Director	Jim Billman
Director	Mike Freitas

ADMINISTRATION

General Manager Terry Lyons

ORGANIZATION

The Idyllwild Water District was formed on March 21, 1955 for the purpose of providing a domestic water supply to the community of Idyllwild, California under Section 30,000 of the California Water Code. Improvement District No. 1 was established by Board action on March 10, 1966 to provide sewer services within the community.



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PARTNERS

Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Kirk A. Franks, CPA
Matthew B. Wilson, CPA, MSA
Scott W. Manno, CPA
Leena Shanbhag, CPA, MST
Jay H. Zercher, CPA (Retired)
Phillip H. Waller, CPA (Retired)

MANAGERS / STAFF

Nancy O'Rafferty, CPA, MBA
Bradferd A. Welebir, CPA, MBA
Jenny Liu, CPA, MST
Katie L. Millsom, CPA
Papa Matar Thiaw, CPA, MBA
Maya S. Ivanova, CPA, MBA
Danielle E. Odgers, CPA
William C. Clayton, CPA
Peter E. Murray, CPA
Genivive Schwarzkopf, CPA
Megan Hackney, CPA
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA

MEMBERS

American Institute of
Certified Public Accountants

*PCPS The AICPA Alliance
for CPA Firms*

*Governmental Audit
Quality Center*

California Society of
Certified Public Accountants

Board of Directors
Idyllwild Water District
Idyllwild, California

Independent Auditor's Report

We have audited the accompanying basic financial statements of Idyllwild Water District for the year ended June 30, 2012, 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 audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Idyllwild Water District at June 30, 2012 and the results of its operations and cash flows for the year then ended in conformity with accounting principles accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 considered in assessing the results of our audit.

Rogers Anderson Malloy & Scott, LLP

December 10, 2012

**Idyllwild Water District
Statement of Net Assets
June 30, 2012**

	<u>Water</u>	<u>Improvement District No. 1 - Sewer</u>	<u>Total memorandum only</u>
ASSETS			
Current assets:			
Cash and investments	\$ 1,002,857	\$ 1,011,956	\$ 2,014,813
Certificates of deposit	100,000	25,000	125,000
Accounts receivable, net:			
Sales and service	13,680	12,044	25,724
Taxes and assessments	18,512	6,106	24,618
Proposition 1A receivable	23,423	8,476	31,899
Other	3,322	-	3,322
Accrued interest receivable	1,200	1,093	2,293
Inventories	66,010	1,495	67,505
Prepaid expenses	-	1,475	1,475
	<u>1,229,004</u>	<u>1,067,645</u>	<u>2,296,649</u>
Total current assets			
Noncurrent assets:			
Restricted assets:			
Restricted cash and investments	590,430	284,386	874,816
Cash with fiscal agents	231,652	-	231,652
Unamortized debt issuance costs	805	-	805
Accrued interest receivable	2,438	-	2,438
	<u>825,325</u>	<u>284,386</u>	<u>1,109,711</u>
Total restricted assets			
Capital assets:			
Property, plant and equipment, net	4,507,522	708,602	5,216,124
Construction in progress	96,049	195,509	291,558
	<u>4,603,571</u>	<u>904,111</u>	<u>5,507,682</u>
Total capital assets			
Total assets	<u>\$ 6,657,900</u>	<u>\$ 2,256,142</u>	<u>\$ 8,914,042</u>

The notes are an integral part of these financial statements.

**Idyllwild Water District
Statement of Net Assets
June 30, 2012**

	Water	Improvement District No. 1 - Sewer	Total memorandum only
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 13,387	\$ 4,517	\$ 17,904
Payroll taxes payable	744	249	993
Customer deposits	600	-	600
Compensated absences payable	38,207	12,736	50,943
Total current liabilities	52,938	17,502	70,440
Payable from restricted assets:			
Current portion of long-term debt	120,000	-	120,000
Accrued interest payable	1,225	-	1,225
Total payable from restricted assets	121,225	-	121,225
Noncurrent liabilities:			
OPEB obligation	303,737	101,246	404,983
Certificates of participation	124,783	-	124,783
Total noncurrent liabilities	428,520	101,246	529,766
Total liabilities	602,683	118,748	721,431
NET ASSETS			
Invested in capital assets, net of related debt	4,358,368	904,111	5,262,479
Restricted for:			
Debt service/covenants	365,995	-	365,995
Deferred maintenance and other	459,330	284,386	743,716
Unrestricted	871,524	948,897	1,820,421
Total net assets	\$ 6,055,217	\$ 2,137,394	\$ 8,192,611

The notes are an integral part of these financial statements.

Idyllwild Water District
Statement of Revenues, Expenses and Changes in Net Assets
For the year ended June 30, 2012

	Water	Improvement District No. 1 - Sewer	Total memorandum only
OPERATING REVENUES			
Water sales - residential	\$ 524,659	\$ -	\$ 524,659
Water sales - commercial	298,516	-	298,516
Water sales - sewer district	2,468	-	2,468
Sewer service fees - residential	-	106,799	106,799
Sewer service fees - commercial	-	213,397	213,397
Service fees and other	11,286	2,650	13,936
	<u>836,929</u>	<u>322,846</u>	<u>1,159,775</u>
OPERATING EXPENSES			
Source of supply	205,661	-	205,661
Transmission and distribution	119,786	-	119,786
Pumping	14,383	-	14,383
Water treatment	123,646	-	123,646
Customer accounts	102,648	-	102,648
Sewage collection	-	9,350	9,350
Sewage treatment	-	137,866	137,866
Sewage disposal	-	48,392	48,392
Other operating	122,127	36,735	158,862
General and administrative	571,082	180,802	751,884
	<u>1,259,333</u>	<u>413,145</u>	<u>1,672,478</u>
Total operating expenses	<u>1,259,333</u>	<u>413,145</u>	<u>1,672,478</u>
Operating income (loss)	<u>(422,404)</u>	<u>(90,299)</u>	<u>(512,703)</u>
NONOPERATING REVENUES			
Investment income	19,273	4,150	23,423
Property taxes -1%	252,203	92,472	344,675
Standby fees	21,900	6,300	28,200
	<u>293,376</u>	<u>102,922</u>	<u>396,298</u>
Total nonoperating revenues	<u>293,376</u>	<u>102,922</u>	<u>396,298</u>

The notes are an integral part of these financial statements.

Idyllwild Water District
Statement of Revenues, Expenses and Changes in Net Assets
For the year ended June 30, 2012

	<u>Water</u>	<u>Improvement District No. 1 - Sewer</u>	<u>Total memorandum only</u>
NONOPERATING EXPENSES			
Interest	18,971	-	18,971
Agency debt and county services	<u>1,400</u>	<u>82</u>	<u>1,482</u>
Total nonoperating expenses	<u>20,371</u>	<u>82</u>	<u>20,453</u>
Change in net assets	(149,399)	12,541	(136,858)
Net assets, beginning of year	<u>6,204,616</u>	<u>2,124,853</u>	<u>8,329,469</u>
Net assets, end of year	<u>\$ 6,055,217</u>	<u>\$ 2,137,394</u>	<u>\$ 8,192,611</u>

The notes are an integral part of these financial statements.

**Idyllwild Water District
Statement of Cash Flows
For the year ended June 30, 2012**

	Water	Improvement District No. 1 - Sewer	Total memorandum only
Cash flows from operating activities:			
Cash received from customers	\$ 848,375	\$ 324,235	\$ 1,172,610
Cash payments for services, supplies and employees	(1,035,792)	(360,791)	(1,396,583)
Net cash used for operating activities	(187,417)	(36,556)	(223,973)
Cash flows from noncapital financing activities:			
Property taxes -1% received	253,692	96,366	350,058
Other nonoperating income	21,900	6,300	28,200
Other nonoperating expenses	(1,400)	(82)	(1,482)
Net cash provided by noncapital financing activities	274,192	102,584	376,776
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(124,663)	(77,197)	(201,860)
Principal payments - certificates of participation	(110,000)	-	(110,000)
Interest and fiscal charges paid	(18,000)	-	(18,000)
Net cash used for capital and related financing activities	(252,663)	(77,197)	(329,860)
Cash flows from investing activities:			
Proceeds from investments	95,509	-	95,509
Purchase of investments	-	(53,203)	(53,203)
Interest income	19,418	4,133	23,551
Net cash provided by (used for) investing activities	114,927	(49,070)	65,857
Net (decrease) in cash and cash equivalents	(50,961)	(60,239)	(111,200)
Cash and cash equivalents, beginning of year	573,739	406,817	980,556
Cash and cash equivalents, end of year	<u>\$ 522,778</u>	<u>\$ 346,578</u>	<u>\$ 869,356</u>

The notes are an integral part of these financial statements.

**Idyllwild Water District
Statement of Cash Flows
For the year ended June 30, 2012**

	<u>Water</u>	<u>Improvement District No. 1 - Sewer</u>	<u>Total memorandum only</u>
Reconciliation of operating loss to net cash used for operating activities:			
Operating loss	\$ (422,404)	\$ (90,299)	\$ (512,703)
Adjustments to reconcile operating loss to net cash used for operating activities:			
Depreciation	190,868	37,932	228,800
(Increase) decrease in assets:			
Receivables	11,446	3,389	14,835
Prepaid expenses	22,856	650	23,506
Inventories	19	(567)	(548)
Increase (decrease) in liabilities:			
Accounts payable	(23,540)	3,260	(20,280)
OPEB obligation	90,917	30,306	121,223
Other liabilities	(57,579)	(21,227)	(78,806)
Net cash used for operating activities	<u>\$ (187,417)</u>	<u>\$ (36,556)</u>	<u>\$ (223,973)</u>
Noncash, investing, capital and financing activities:			
None			
Cash and investments are presented in the financial statements as presented below:			
Cash and cash equivalents	\$ 522,778	\$ 346,578	\$ 869,356
Investments	<u>580,079</u>	<u>690,378</u>	<u>1,270,457</u>
Total cash and investments	<u>\$ 1,102,857</u>	<u>\$ 1,036,956</u>	<u>\$ 2,139,813</u>
As presented on the Statement of Net Assets:			
Cash and investments	\$ 1,002,857	\$ 1,011,956	\$ 2,014,813
Certificates of deposit	<u>100,000</u>	<u>25,000</u>	<u>125,000</u>
Total cash and investments	<u>\$ 1,102,857</u>	<u>\$ 1,036,956</u>	<u>\$ 2,139,813</u>

The notes are an integral part of these financial statements.

Idyllwild Water District
Notes to Basic Financial Statements
June 30, 2012

Note 1: *Significant accounting policies*

Description of reporting entity

The Idyllwild Water District was formed on March 21, 1955 for the purpose of providing a domestic water supply to the community of Idyllwild, California under Section 30,000 of the California Water Code. Improvement District No. 1 was established by Board action on March 10, 1966 to provide sewer services within the community. The financial statements of the Idyllwild Water District include the financial activities of Improvement District No. 1 as an oversight component of the District. The oversight responsibility of the District arises from the fact that the two operations are related financially and have the same management and governing board.

Measurement focus and basis of accounting

The District utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, revenue and expenses are recognized on an accrual basis of accounting.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods (water) in connection with the principal ongoing operations.

The District recognizes revenue from water sales, sewer service fees and water availability fees as it is earned. Taxes and assessments are recognized as revenue based upon amounts reported to the District by the County of Riverside, net of an allowance for delinquencies.

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

In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Accounting, enterprise funds have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board 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 the GASB.

Classification of liabilities

Certain liabilities which are currently payable have been classified as noncurrent because they will be funded from restricted assets.

Materials inventory

Inventory consists primarily of supplies used in the maintenance of plant and equipment and is valued at weighted average cost using the first in/first out (FIFO) method.

Idyllwild Water District
Notes to Basic Financial Statements
June 30, 2012

Note 1: *Significant accounting policies, continued*

Capital assets and depreciation

Acquisitions of property, plant and equipment of \$300 or more with a useful life of greater than two years are recorded at cost. Contributed assets are recorded at their fair value at the date of contribution. Self-constructed assets are recorded at the amount of direct labor and materials.

Depreciation is provided on the straight-line method over the following estimated useful lives:

<u>Water District</u>	<u>Years</u>
Source of supply	15 -100
Pumping plant	7 - 50
Treatment plant	25 - 40
Transmission and distribution	40 - 60
General plant	3 - 40
<u>Improvement District No.1</u>	<u>Years</u>
Subsurface lines	20 - 40
Sewage treatment facilities	5 - 40
Sewage disposal facilities	12 - 100
General plant	4 - 20

Depreciation for the year ended June 30, 2012 was \$190,868 and \$37,932 for the Water District and Improvement District, respectively.

Cash and cash equivalents

For purposes of the statement of cash flows, the District considers all investments purchases with a maturity of three months or less to be cash equivalents.

Budgetary accounting

The District prepares and adopts budgets for both the Water and Improvement District, but does not present budgetary information because it is not legally required to adopt and adhere to a budget. All budgets are adopted on a basis consistent with generally accepted accounting principles.

Use of estimates

The preparation of these financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the statements. Actual results could differ from those estimates.

Idyllwild Water District
Notes to Basic Financial Statements
June 30, 2012

Note 2: Capital assets

The investment in capital assets at June 30, 2012 consists of the following:

	Beginning balance	Additions	Deletions	Ending balance
Water District				
Capital assets not being depreciated:				
Construction in progress	\$ 73,306	\$ 31,235	\$ (8,492)	\$ 96,049
Land and land improvements	365,543	-	-	365,543
Total capital assets not being depreciated	438,849	31,235	(8,492)	461,592
Capital assets being depreciated:				
Source of supply	1,327,990	38,163	-	1,366,153
Pumping plant	96,770	392	-	97,162
Treatment plant	651,321	39,681	-	691,002
Transmission and distribution	4,722,523	10,729	-	4,733,252
General plant	984,041	12,953	-	996,994
Total capital assets being depreciated	7,782,645	101,918	-	7,884,563
Less accumulated depreciation	(3,551,716)	(190,868)	-	(3,742,584)
Net capital assets being depreciated	4,230,929	(88,950)	-	4,141,979
Net capital assets	<u>\$ 4,669,778</u>	<u>\$ (57,715)</u>	<u>\$ (8,492)</u>	<u>\$ 4,603,571</u>
Improvement District No. 1				
Capital assets not being depreciated:				
Construction in progress	\$ 149,964	\$ 45,545	\$ -	\$ 195,509
Land	25,966	-	-	25,966
Total capital assets not being depreciated	175,930	45,545	-	221,475
Capital assets being depreciated:				
Subsurface lines	926,136	-	-	926,136
Sewage treatment facilities	1,109,174	-	-	1,109,174
Sewage disposal facilities	313,328	-	-	313,328
General plant	167,795	31,653	-	199,448
Total capital assets being depreciated	2,516,433	31,653	-	2,548,086
Less accumulated depreciation	(1,827,518)	(37,932)	-	(1,865,450)
Net capital assets being depreciated	688,915	(6,279)	-	682,636
Net capital assets	<u>\$ 864,845</u>	<u>\$ 39,266</u>	<u>\$ -</u>	<u>\$ 904,111</u>

Idyllwild Water District
Notes to Basic Financial Statements
June 30, 2012

Note 3: Cash and investments

Cash and investments are displayed on the financial statements at June 30, 2012 as follows:

	Water	Improvement District No. 1
Current assets:		
Cash and investments	\$ 1,002,857	\$ 1,011,956
Certificate of deposit	100,000	25,000
Restricted:		
Cash and investments	590,430	284,386
Cash with fiscal agents	231,652	-
	\$ 1,924,939	\$ 1,321,342

Cash and investments were comprised of the following at June 30, 2012:

	Water	Improvement District No. 1
Current assets:		
Cash and cash equivalents	\$ 522,778	\$ 346,578
Investments	580,079	690,378
Restricted:		
Investments	822,082	284,386
	\$ 1,924,939	\$ 1,321,342

Cash and investments as of June 30, 2012 consisted of the following:

	Water	Improvement District No. 1
Deposits with financial institutions	\$ 56,278	\$ 18,759
Cash on hand	275	-
Investments	1,868,386	1,302,583
	\$ 1,924,939	\$ 1,321,342

The District is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. Each participant may invest up to \$50,000,000. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest. Also, LAIF is overseen by the Local Agency Investment Advisory Board which consists of five members, in accordance with State statute. LAIF is not currently rated by any rating agency.

Idyllwild Water District
Notes to Basic Financial Statements
June 30, 2012

Note 3: Cash and investments, continued

Investments authorized by the California Government Code and the Districts' Investment Policy

The table on the next page identifies the investment types that are authorized by the California Government Code (or the Districts' investment policies, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Districts' 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 trustees that are governed by the provisions of debt agreements, rather than the general provisions of the California Government Code or the Districts' investment policies.

Authorized investment type	Maximum percentage of portfolio	Maximum investment in one issuer
United States (US) Treasury obligations	50%	Not applicable
US government sponsored Enterprise securities	50%	Not applicable
California state warrants or notes	100%	Not applicable
Local Agency Investment Fund	67%	50,000,000
Money market mutual funds	25%	25%
Time certificate of deposit	50%	50%
Bankers acceptances	40%	30%
Commercial paper	25%	10%
Corporate medium term notes	30%	30%
Purchase agreements	20%	20%
Collateralized mortgage obligation and asset backed securities	20%	20%

Investments authorized by debt agreements

Investments of debt proceeds held by trustees (fiscal agents) are governed by provisions of the debt agreements, rather than the provisions of the California Government Code or the Districts' investment policies. The table below identifies the investment types that are authorized for investments held by trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration risk.

Authorized investment type	Maximum maturity	Maximum percentage of portfolio	Maximum investment in one issuer
United States (US) Treasury obligations	No limit	No limit	No limit
Federal Housing Administration debt	No limit	No limit	No limit
US Government sponsored securities	No limit	No limit	No limit
Local Agency Investment Fund	No limit	No limit	50,000,000
Money market mutual funds (with specific ratings)	No limit	No limit	No limit
Bank time deposits and savings accounts	No limit	No limit	No limit
State obligations or political subdivisions	No limit	No limit	No limit
Investment agreements	No limit	No limit	No limit
Purchase agreements	No limit	No limit	No limit

Idyllwild Water District
Notes to Basic Financial Statements
June 30, 2012

Note 3: Cash and investments, continued

Investment maturities at June 30, 2012 were as follows:

Investment type	Fair value	Remaining maturity	
		12 months or less	13 to 60 months
<i>Water District</i>			
Local Agency Investment Fund	\$ 1,070,509	\$ 1,070,509	\$ -
Certificates of deposit	100,000	100,000	-
Public funds money market	142,207	142,207	-
Western Asset Liquid Reserve	324,018	324,018	-
Held by fiscal agent:			
General Re Financial Products Corp	231,500	231,500	-
Federated Treasury Obligation	152	152	-
Total investments - Water District	\$ 1,868,386	\$ 1,868,386	\$ -
<i>Improvement District No. 1</i>			
Local Agency Investment Fund	\$ 949,764	\$ 949,764	\$ -
Certificates of deposit	25,000	25,000	-
Public funds money market	99,986	99,986	-
Western Asset Liquid Reserve	227,833	227,833	-
Total investments - Improvement District No. 1	\$ 1,302,583	\$ 1,302,583	\$ -

Interest rate risk

The District has adopted an investment policy which limits the weighted average maturity of the Districts' investments to one year as a means of managing their exposure to fair value losses arising from increasing interest rates.

Custodial credit risk

Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code requires that a financial institute secure deposits made by state and local governmental units by pledging securities in an individual 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 pool must equal at least 110% of the total amount deposited by public agencies.

California law also allows financial institutions to secure the Districts' deposits by pledging first trust deed mortgage notes, having a value of 150% of the secured public deposits. At June 30, 2012, the Districts' deposits (bank balances) were insured by the Federal Depository Insurance Corporation or collateralized as required under California law.

GASB statement No. 40 requires the following disclosure be made with respect to custodial credit risk relating to deposits and investments; at June 30, 2012 \$-0- of the Districts' combined deposits with financial institutions were in excess of Federal depository insurance limits.

Idyllwild Water District
Notes to Basic Financial Statements
June 30, 2012

Note 3: Cash and investments, continued

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. State law limits investments in certain investments in commercial paper, corporate bonds and mutual funds to the top two ratings issued by nationally recognized statistical rating organizations. The Districts' investment policies further limit investments in Money Market Mutual Funds to funds that carry the highest rating of at least two of the three largest national rating organizations.

<u>Investment type</u>	<u>Amount</u>	<u>Minimum legal rating</u>	<u>Rating</u>	<u>Not rated</u>
<i>Water District</i>				
Local Agency Investment Fund	\$ 1,070,509	NA	NA	\$ 1,070,509
Certificates of deposit	100,000	None	NA	100,000
Public funds money market	142,207	None		142,207
Western Asset Liquid Reserve	324,018	None	AAA	-
Held by fiscal agent:				
General Re Financial Products Corp	231,500	None		231,500
Federated Treasury Obligation	152	None	AAA	-
Total investments - Water District	<u>\$ 1,868,386</u>			<u>\$ 1,544,216</u>
<i>Improvement District No. 1</i>				
Local Agency Investment Fund	\$ 949,764	NA		\$ 949,764
Certificates of deposit	25,000	None		25,000
Public funds money market	99,986	None		99,986
Western Asset Liquid Reserve	227,833	None	AAA	-
Total investments - Improvement District No. 1	<u>\$ 1,302,583</u>			<u>\$ 1,074,750</u>

Concentration of credit risk

During the fiscal year, the District held investments in the following in any one issuer that represented 5% or more of the District's total investment portfolio. Investments issued or explicitly guaranteed by the US government as well as mutual funds, external investment pools and other pooled assets are exempt from disclosure.

General Re Financial Products Corp	\$ 231,500
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Idyllwild Water District
Notes to Basic Financial Statements
June 30, 2012

Note 4: Property tax calendar

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien date	March 1
Levy date	July 1 through June 30
Due date	November 1 – First installment March 1 – Second installment
Delinquent date	December 10 – First installment April 10 – Second installment

Note 5: Restricted assets

Restricted assets were provided by and are to be used for the following:

<u>Funding source</u>	<u>Use</u>	<u>Water</u>	<u>Improvement District No. 1</u>
Certificate of participation proceeds and interest earned	Reserves and debt service	\$ 362,752	\$ -
Certificate of participation unamortized debt issuance costs	Debt service	805	-
Excess of revenues over expenses	Debt service	<u>2,438</u>	<u>-</u>
	Restricted for debt service/covenants	<u>365,995</u>	<u>-</u>
Excess of revenues over expenses	Deferred maintenance	367,830	253,886
Excess of revenues over expenses	Compensated absences liability	<u>91,500</u>	<u>30,500</u>
	Restricted for deferred maintenance and other	<u>459,330</u>	<u>284,386</u>
Total restricted assets		<u>\$ 825,325</u>	<u>\$ 284,386</u>

Note 6: Long-term debt

Certificate of participation

On March 20, 1997 the California Special Districts Association Finance Corporation (CSDAFC) issued a certificate of participation, the proceeds of which have been used to refund previously outstanding certificates (1989 Series C and 1991 Series I) which were used for the construction and acquisition of District facilities and equipment which is leased to the District by CSDAFC. The refunded certificates are collateralized by the facilities and equipment leases with the related assets becoming the property of the District upon termination of the leases and retirement of the certificates.

Idyllwild Water District
Notes to Basic Financial Statements
June 30, 2012

Note 6: Long-term debt, continued

The lease payments approximated the debt service requirements of the refunded certificates. Due to the nature of the leases and related certificates and pursuant to Government Accounting Statement 1, these transactions were accounted for as though the District financed the construction and acquisition of such assets directly.

The proceeds of the 1997 Series EE have been deposited into an irrevocable escrow account created for the benefit of the owners of the refunded certificates. The monies deposited into the escrow account are invested by the escrow agent in federal securities in an amount sufficient, together with investment earnings thereon, to pay all principal, interest and prepayment premium if any, with respect to the District's refunded certificates upon prepayment or maturity thereof.

Details of the 1997 Series EE Certificate of Participation outstanding at June 30, 2012 are as follows:

<u>Water District</u>	<u>Years of maturity</u>	<u>Rate of interest</u>	<u>Outstanding balance</u>
1997 - Series EE	1998 - 2013	4.10% - 6.00%	\$ 245,000
Less: Unamortized discount			<u>(217)</u>
Balance at June 30, 2012			244,783
Less: Current portion			<u>(120,000)</u>
Long-term portion			<u><u>\$ 124,783</u></u>

Debt service requirements of long-term debt are as follows:

<u>Fiscal year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 120,000	\$ 11,100	\$ 131,100
2014	<u>125,000</u>	<u>3,750</u>	<u>128,750</u>
Totals	<u><u>\$ 245,000</u></u>	<u><u>\$ 14,850</u></u>	<u><u>\$ 259,850</u></u>

Note 7: Compensated absences payable

Vested or accumulated vacation leave is recognized as an expense and liability as the benefits accrue to the employees. Pursuant to GASB Statement No. 16, *Accounting for Compensated Absences*, only the vested portion of sick pay benefits are recognized as a liability.

Idyllwild Water District
Notes to Basic Financial Statements
June 30, 2012

Note 8: *Employees' retirement plan – defined contribution*

All permanent employees are covered under the Idyllwild Water District Money Purchase Pension Plan (the Plan) administered by the District through Aetna Pension acting as trustee. The Plan is fully funded by a contribution rate of 21.5% of eligible salaries and wages made entirely by the District. The activities related to the Plan, presented at market value, are as follows:

Balance, July 1, 2011	\$	848,705
District contributions		96,116
Distributions		-
Withdrawals		(2,644)
Forfeitures		(10,624)
Earnings, net of fees		<u>21,725</u>
Balance, June 30, 2012	\$	<u>953,278</u>

District employees are also covered under Social Security, funded equally by the District and the employee or as prescribed by applicable laws.

Note 9: *Inter-District transactions*

During fiscal year ended June 30, 2012, the Idyllwild Water District billed Improvement District No. 1 for water used by its sewage treatment plant. The amount billed totaled \$2,408 for the year ended June 30, 2012.

Note 10: *Proposition 1A borrowing by the State of California*

Under the Proposition 1A and as a part of the 2009-10 budget package California state legislature on July 28, 2009, the state borrowed 8% of the amount of property tax revenue, including property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to the cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2012. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of these borrowings pertaining to the Water District and Improvement District No. 1 were \$23,423 and \$8,476, respectively.

These borrowings by the State of California were recognized as a receivable in the accompanying financial statements. Under the accrual basis of accounting used by the District, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10).

Idyllwild Water District
Notes to Basic Financial Statements
June 30, 2012

Note 11: Postemployment benefits other than pensions

Plan description

The Idyllwild Water District administers a single-employer benefit healthcare plan (the Plan). The Plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Districts' group health insurance plans, which covers both active and retired District members. Benefit provisions are established and can be amended by the Districts' Board of Directors. The Plan does not issue a publicly available financial report.

Funding policy

Contribution requirements are set by the Districts' Board of Directors. The District contributes 100 percent of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2012, the District contributed \$25,018 to the plans. The District is funding the Plan on a pay-as-you go basis.

Annual OPEB cost and net OPEB obligation

The Districts' annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Districts' annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Districts' net OPEB obligation to the Plan:

Annual required contribution	\$	151,920
Interest on net OPEB obligation		11,350
Adjustment to annual required contribution		(17,029)
Annual OPEB cost (expense)		146,241
Contributions made		(25,018)
Increase in net OPEB obligation		121,223
Net OPEB obligation, beginning of year		283,760
Net OPEB obligation, end of year	\$	404,983

The Districts' annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2012:

Fiscal year ended	Annual OPEB cost	Percentage of OPEB cost contributed	Net OPEB obligation
June 30, 2010	\$ 76,636	33.27%	\$ 158,897
June 30, 2011	152,668	18.21%	283,760
June 30, 2012	146,241	17.11%	404,983

Idyllwild Water District
Notes to Basic Financial Statements
June 30, 2012

Note 11: Postemployment benefits other than pensions, continued

Funded status and funding progress

The funded status of the Plan as of June 30, 2012, was as follows:

Actuarial accrued liability (AAL)	\$ 2,577,048
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,577,048</u>
Funded ratio (actuarial value of plan assets/AAL)	-
Covered payroll (active plan members)	\$ 524,369
UAAL as a percentage of covered payroll	491.46%

Funded status and funding progress

As of June 30, 2012, the actuarial accrued liability for benefits was \$2,577,048, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$524,369, and the ratio of the underfunded actuarial accrued liability to the covered payroll was 491 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used was the entry age method in the June 30, 2010 valuation. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis.

The plan currently has fewer than 100 participants and thus meets the requirements of the alternative measurement method. The District has elected to use this method of valuation. The source or basis of all significant assumptions or methods are discussed in the following section of this note.

Idyllwild Water District
Notes to Basic Financial Statements
June 30, 2012

Note 11: *Postemployment benefits other than pensions, continued*

The following simplifying assumptions were made:

Retirement age for active employees

Retirement age for active members is assumed to be when a member attains Medicare eligibility age. However, if a member will not qualify for OPEB benefits at the age of Medicare eligibility, the year of retirement is assumed to be the year OPEB benefit qualifications have been met. Under current policy, a member must have been employed by the District for 10 years and have attained the age of 55 to qualify for OPEB benefits.

Marital status

Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality

Life expectancies were based on the "Life Expectancy Table" from the National Vital Statistics Reports Volume 58, Number 21, dated June 28, 2010. The 2006 United States Life Tables for Males and Females were used.

Turnover

Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rates

The expected rate of increase in healthcare insurance premiums were based on projections of the Association of California Water Agencies for medical, dental and vision coverages and projected to increase annually at a rate of 7 to 8 percent.

Health insurance premiums

2011 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate

The expected long-term inflation assumption of 4 percent was used.

Payroll growth rate

The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the Districts' short-term investment portfolio, a discount rate of 4 percent was used. In addition, a simplified version of the entry age actuarial cost method was used.

Idyllwild Water District
Required Supplementary Information – Schedule of Funding Progress
for the Retiree Health Plan (OPEB)
June 30, 2012

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll [(b-a)/c]
06/30/09	\$ -	\$ 743,356	\$ 743,356	0.0%	\$ 491,363	151%
06/30/10	-	765,613	765,613	0.0%	526,400	145%
06/30/11	-	2,577,048	2,577,048	0.0%	524,369	491%

