



Yucaipa Valley Water District

12770 Second Street, Yucaipa, California 92399

Annual Financial Statements

for the

Fiscal Year Ending June 30, 2012

Board of Directors

Ian Cuthbertson
Division 1

Bruce Granlund
Divisions 2

Jay Bogh
Division 3

Lonni Granlund
Division 4

Hank Wochholz
Division 5

Financial Audit Preparation Team:

Accounting & Customer Service

Vicky Elisalda, Controller

Peggy Little, Administrative Supervisor

Erin Anton, Administrative Clerk IV

Sara Onate, Administrative Clerk IV

Luis Abrego, Administrative Clerk IV

Tysa Baeumel, Administrative Clerk II

Engineering

Linda Kilday, Engineering Technician IV

Chelsie Fogus, Engineering Technician I

Inventory Control

Joan Cadiz, Purchasing Agent

Michael Murrietta, Stock Clerk



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INTRODUCTION

It is my pleasure to provide the following financial report for Yucaipa Valley Water District (“District”) for the fiscal year ended June 30, 2012. The financial report was prepared by District staff following guidelines set forth by the Governmental Accounting Standards Board.

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.

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.

This report is organized into the following sections: (1) Transmittal Letter and District Overview; (2) Management Discussion & Analysis; and (3) Audited Financial Statements. The first section provides the reader with a general overview of the District. The Management Discussion & Analysis section offers a summary of significant financial results. The Audited Financial Statements section includes the Independent Auditors’ Report.

OVERVIEW OF THE DISTRICT

The Yucaipa Valley Water District is made up of a proactive and diverse group of elected officials and employees dedicated to providing reliable water and sewer service in an efficient, cost effective manner that provides a high level of customer satisfaction. On May 1, 2002, the Board of Directors adopted the following mission statement to clearly reflect the vision and principles that guide the dedicated elected officials and employees of the District.

Yucaipa Valley Water District is committed to professionally managing the precious water, sewer and recycled water resources of the Yucaipa Valley in a reliable, efficient and cost effective manner in order to provide the finest service to our customers, both present and future.

We are entrusted to serve the public for the benefit of the community.

We believe in responsive, innovative and aggressive service, and take pride in getting the job done right the first time.

We encourage a work environment that fosters professionalism, creativity, teamwork and personal accountability.

We treat our customers and one another with fairness, dignity, respect and compassion and exhibit the utmost integrity in all we do.

We believe in enhancing the environment by following a general philosophy of eliminating waste and maximizing recycling and reuse of our natural resources.

We are committed to using the following operating principles as a guide to accomplishing our mission:

- We are proactive in our approach to issues.
- We are committed to integrity and consistently high ethical standards in all our business dealings.
- We use the strategic planning process to focus our efforts and minimize our crisis management mode.
- We make informed, rational and objective decisions.
- We aggressively pursue technological solutions to improve operations.
- We are inclusive in our decision making and delegate responsibility whenever possible.
- We design our services around customer wants and needs to the degree possible within our financial and regulatory constraints.
- We cultivate widespread commitment to common goals.

We believe our success depends on every employee knowing and sharing these values and principles

This financial report is a reflection of the District's commitment to professionally manage the precious water, sewer and recycled water resources of the Yucaipa Valley in a reliable, efficient and cost effective manner in order to provide the finest service to our customers, both present and future.

To meet the mission of the District, the Board and staff members continue to proactively focus on water quality issues, water supply issues, infrastructure deficiencies, maintenance of existing systems and compliance with increasingly stringent regulatory requirements.

Historical Background

The District was formed as part of reorganization, pursuant to the Reorganization Act of 1965, being Division I of Title 6 of the Government Code of the State of California. This reorganization consisted of the formation of the District, dissolution of the Calimesa Water District and formation of Improvement District No. 1 of the District as successor-in-interest, and dissolution of Improvement District "A" of the San Bernardino Valley Municipal Water District and the formation of Improvement District "A" of the District as successor-in-interest. On September 14, 1971, the Secretary of State of the State of California certified and declared formation of the Yucaipa Valley County Water District. The District operates under the County Water District Law, being Division 12 of the State of California Water Code (the "Act"). Although the immediate function of the District was to provide water service, the District has assumed responsibility for providing recycled water and sewer service in Yucaipa Valley.

The District is located about 70 miles east of Los Angeles and 20 miles southeast of San Bernardino in the foothills of the San Bernardino Mountains and has an estimated population of approximately 59,599. The District is situated in both San Bernardino County and Riverside County.

As of June 30, 2012, the District provided service to 12,136 water customers, 13,435 sewer customers and 65 recycled water customers.

Customer Type	Water Utility		Sewer Utility		Recycled Water Utility
	Number of Connections	Number of Units	Number of Connections	Number of Units	Number of Connections
Single Family	11,047	11,047	12,479	12,479	0
Multiple Units	520	5,251	651	7,469	0
Commercial	276	276	260	260	0
Institutional	59	62	44	53	0
Industrial	15	15	1	1	0
Irrigation	116	116	0	0	61
Fire Detectors	94	94	0	0	0
Construction	9	9	0	0	4
Total	12,136	16,870	13,435	20,262	65

Land and Land Use

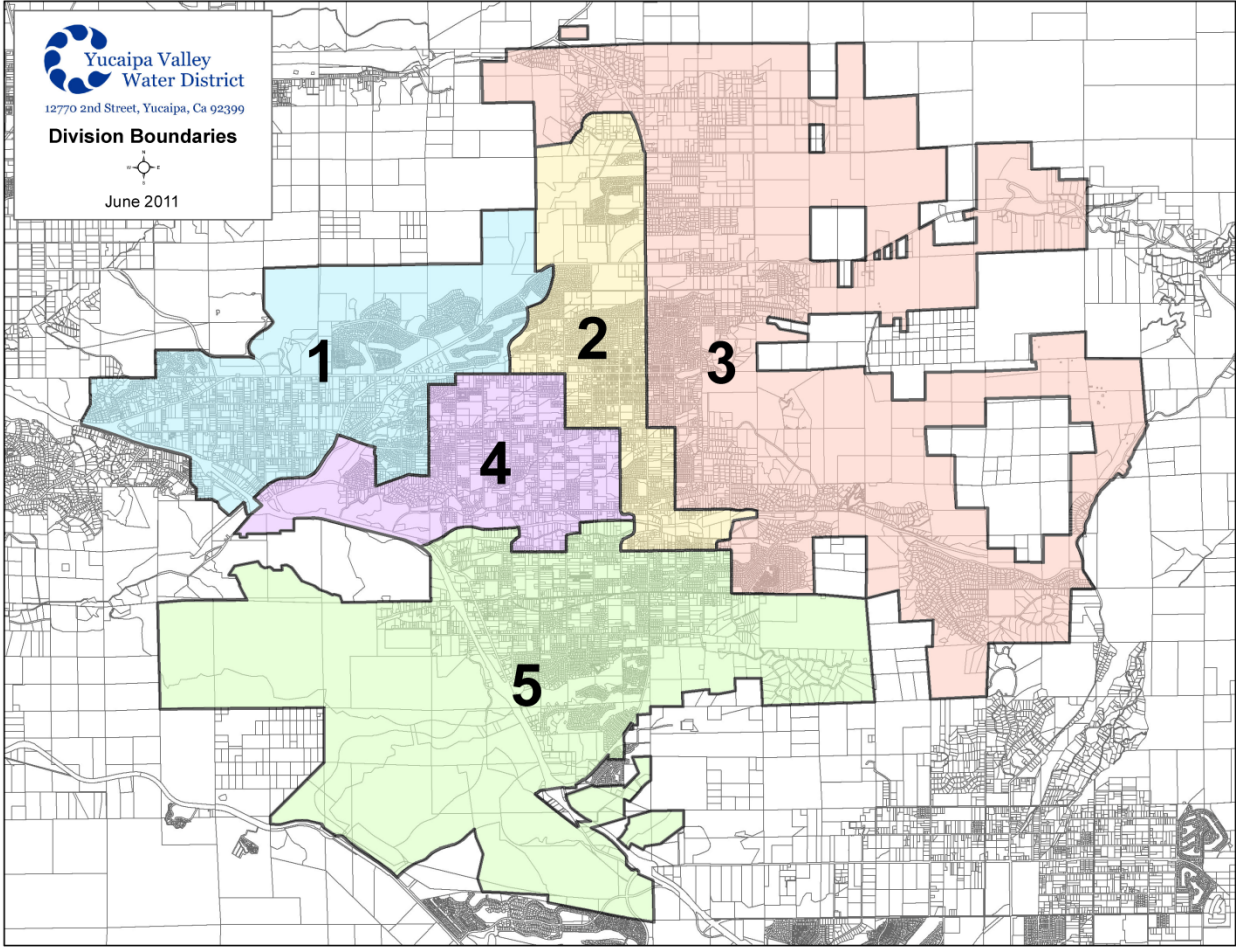
The altitude of the District rises from about 2,000 feet above sea level at the western end of the valley to about 5,000 feet at the eastern end, with average elevation of roughly 2,650 feet. The topography of the area is characterized by rolling hills separated by deeply entrenched stream beds, namely, the Yucaipa and Wilson Creeks. The District includes the incorporated cities of Yucaipa and Calimesa which are in San Bernardino and Riverside Counties respectively.

The District expects that the undeveloped land within its boundaries will continue to be developed consistent with the general plans as provided by the City of Yucaipa and the City of Calimesa. The projected population of the District in the year 2030 will be approximately 94,800, which reflects build-out of the City of Calimesa and the Oak Valley development. Although approximately 49.8% of the land within the boundaries of the District is currently undeveloped, less than 1% of District water sales are to agricultural water users.

Governance and Management

The District is governed by a 5-member board of directors (the “Board”), the members of which are elected from five separate divisions of the District for staggered 4-year terms. The current Board members, the expiration dates of their terms and their occupations are set forth below.

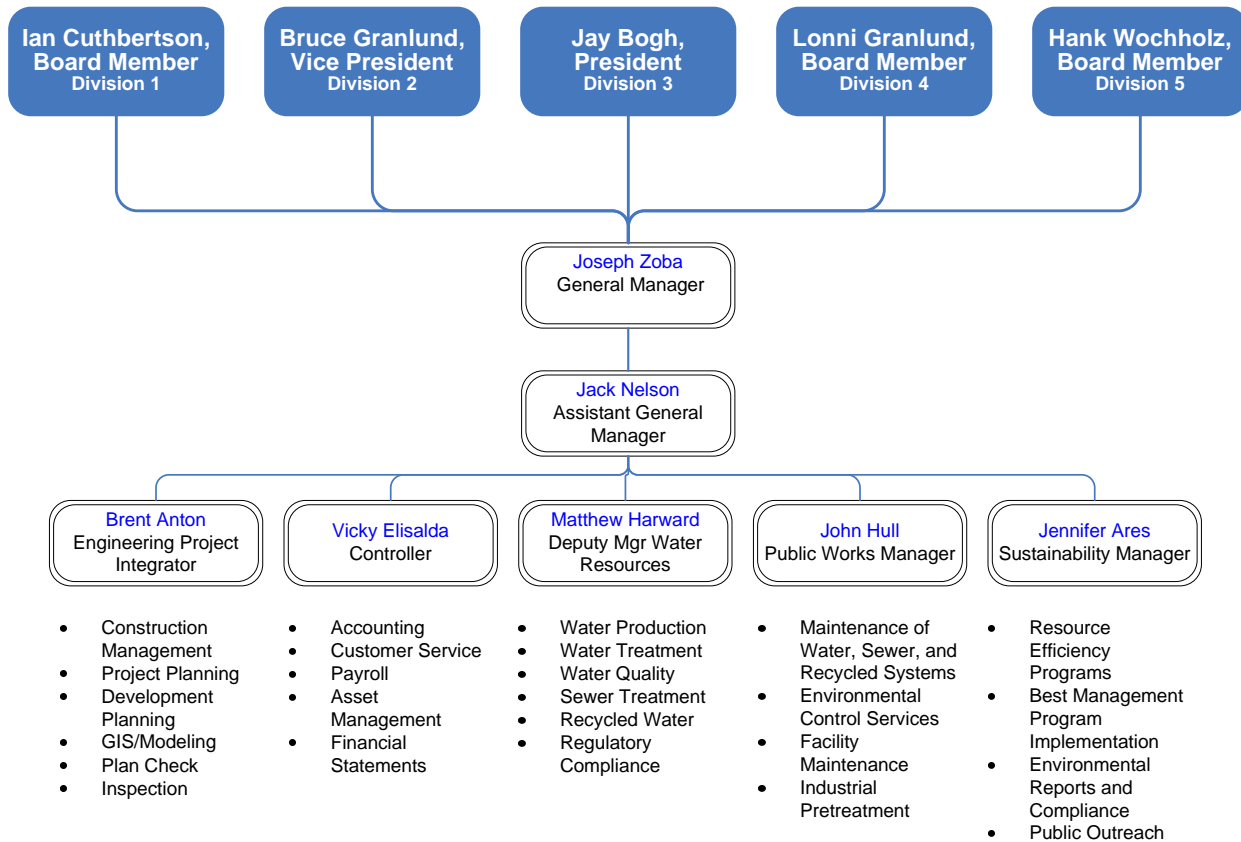
Member of the Board of Directors	Division	Initial Date of Service	Expiration of Term	Occupation
Jay Bogh, President	Three	09/07/2005	2014	Building Firm Manager
Bruce Granlund, Vice President	Two	12/23/1998	2014	Retired Senior District Attorney Investigator
Ian Cuthbertson, Director	One	12/05/2008	2012	Electrical Power Plant Manager
Henry Wochholz, Director	Five	11/03/1971	2014	Retired Bank Executive
Lonni Granlund, Director	Four	12/05/2008	2012	Property Manager/Real Estate Broker



The following individuals have served as President of the Board since the District was created in 1971.

Yucaipa Valley Water District Presidents of the Board	
October 1971 to November 1973	Harold Lockwood
December 1973 to November 1975	Hank Wochholz
December 1975 to October 1977	Geno Gasponi
November 1977 to November 1979	Eve Kraft
December 1979 to December 1983	Pete Squires
January 1984 to December 1987	Fred Childs
January 1988 to November 1989	George Sardeson
November 1989 to December 1991	Hank Wochholz
January 1992 to November 1993	David Lesser
December 1993 to December 1995	Conrad Nelson
December 1995 to December 1998	Steve Copelan
January 1999 to November 2002	Conrad Nelson
December 2002 to December 2006	Bruce Granlund
December 2006 to December 2008	Tom Shalhoub
December 2008 to Present	Jay Bogh

Day-to-day management of the District is delegated to the General Manager who works closely with an executive team who ultimately oversee all of the District’s services and functions.

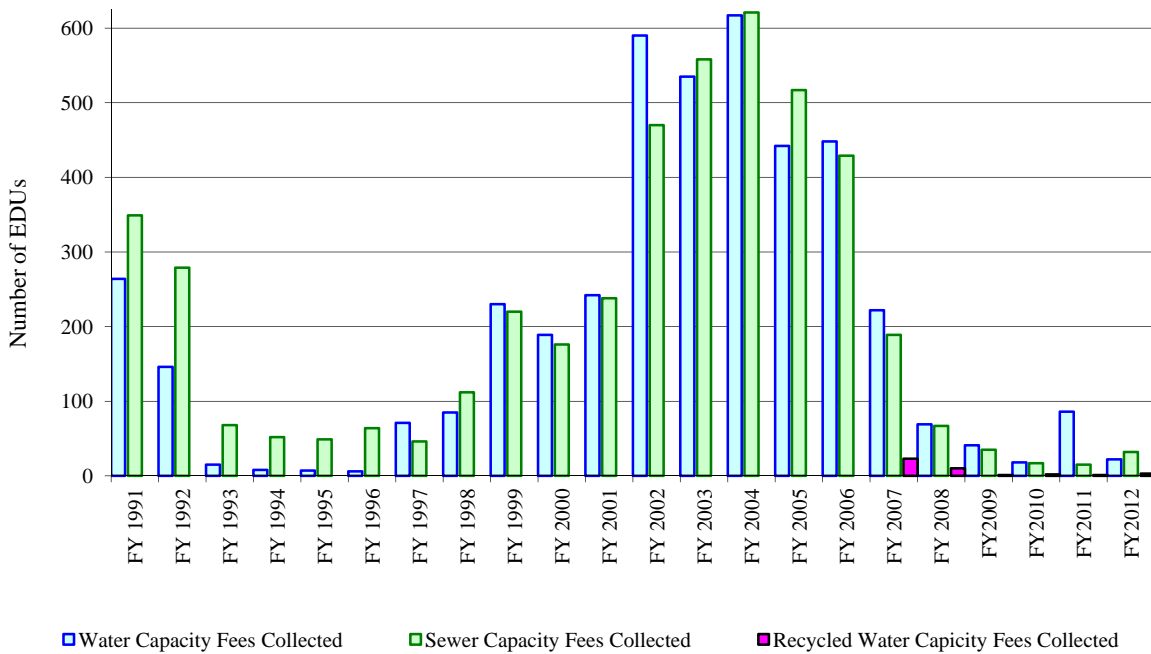


DEVELOPMENT ACTIVITY WITHIN THE DISTRICT

Facility Capacity Charges - Fiscal Year 2012

Development within the District changed this year at a pace of 22 water facility capacity charges, 32 sewer facility capacity charges, and 3 recycled water facility capacity charge. When compared to the prior year, the District received 74.4% fewer water connections, 113.3% more sewer connections and 200.0% more recycled water connections.

	Water Facility Capacity Charges	Sewer Facility Capacity Charge	Recycled Water Facility Capacity Charges
FY 2003	535	558	--
FY 2004	617	621	--
FY 2005	443	517	--
FY 2006	442	429	--
FY 2007	222	189	23
FY 2008	69	67	10
FY 2009	41	35	1
FY 2010	18	17	2
FY 2011	86	15	1
FY 2012	22	32	3



MAJOR INITIATIVES AND CONTROLS

Major Initiatives

California’s water supply continues to be a concern due to projected population increases and limited capabilities to convey water throughout the state. On August 20, 2008 the Board of Directors adopted a *Strategic Plan for a Sustainable Future - The Integration and Preservation of Resources*. The purpose of this document was to document the proactive steps taken by the Yucaipa Valley Water District to improve the social, economic and environmental sustainability of our community. These actions have included the purchase of valuable watershed properties, protection of local water supplies and management of environmental corridors. While the decisions to embark on these actions have been generally unrelated, a look back in time indicates that the District has been progressing towards a more independent, flexible and sustainable future.

"The nation behaves well if it treats the natural resources as assets which it must turn over to the next generation increased, and not impaired in value."

- Theodore Roosevelt

The proactive steps taken by the District to protect and conserve our resources have been based on the concepts that: (1) resources are not limitless and therefore need to be conserved, nurtured and renewed; and (2) resources that are used to generate short-term gains result in an inefficient and inequitable consumption of resources that are not beneficial for a long-term strategy. Both of these concepts help to

guide the District to make decisions that are conservative, careful and conscious of the role we currently play in a long-term strategy to protect the community.

The purpose of pursuing a sustainability plan is twofold. First and foremost, the sustainability plan has been designed to establish the policies and guidelines necessary to protect and preserve the natural resources entrusted to the District for our customers. It is our business to maximize the use of our limited natural resources for the long-term economic growth and expansion of the local economy. In the arid southwest, the basic fuel to create and maintain a local economy is water. Secondly, the sustainability policy has been designed to provide a means to measure performance of the organization. While performance monitoring or benchmarking is not normally associated with sustainability, this document has been created with the intention that the goals and reporting requirements are designed around performance management across a wide range of disciplines.

"Sustainable development is . . . development that meets the needs of the present without compromising the ability of further generations to meet their own needs."

- **World Commission on Environment and Development, *Our Common Future*, 1987**

With the use of this document the District is better equipped to:

- Identify the key challenges over the next five decades and assess the goals to overcome these challenges;
- Deal with the challenges of the future in a transparent manner involving stakeholders;
- Identify and manage risk in a reasonable and prudent manner with information, data and resources necessary to minimize the potential costs associated with certain scenarios; and
- Embark on a program to ensure that the generations that follow are provided with the necessary tools and resources to grow the community as the prior generation has done for us.

The implementation of this initiative will come about largely with the return of new development. However, the District has enacted additional measures for existing customers which largely involves the purchase of imported water to offset groundwater production by 15% beginning in January 2010.

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's 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 steps taken by the District are consistent with generally accepted accounting principles with monthly reporting of public documents for complete transparency and disclosure.

Investment Policy

The Board of Directors adopts an investment policy annually that conforms to state law, District ordinance and resolutions, and prudent money management. The District is extremely conservative in our approach to investing to maximize safety and protection of public funds.

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 Vavrinek, Trine, Day & Company, LLP has conducted the audit of the District's financial statements. Their unqualified Independent Auditor's Report is attached.

Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

Board of Directors
Yucaipa Valley Water District
Yucaipa, California

We have audited the accompanying financial statements of the Water, Sewer, and Recycled Water Enterprise Funds of the Yucaipa Valley Water District (the District) as of, and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water, Sewer, and Recycled Water Enterprise Funds of the Yucaipa Valley Water District as of June 30, 2012, and the respective changes in financial position and cash flows for the year 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 our report dated October 12, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Yucaipa Valley Water District's financial statements as a whole. The transmittal letter listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



Rancho Cucamonga, California
October 12, 2012

Management's Discussion & Analysis

This section of the Yucaipa Valley Water District's comprehensive annual financial report presents a discussion and analysis of the District's financial performance during the fiscal years ending June 30, 2011 and June 30, 2012. Please read it in conjunction with the transmittal letter at the front of this report and the District's basic financial statements following this section.

Yucaipa Valley Water District's financial statements consist of three enterprise funds: (W) water fund, (S) sewer fund and (R) recycled water fund.

FINANCIAL HIGHLIGHTS

Based on the financial information for the fiscal year ending on June 30, 2012, the following financial highlights are noted for the Yucaipa Valley Water District.

- The District's net assets increased 3.45% to \$182,117,498.
- The District's total revenues increased 5.77% to \$23,696,108.
- The District's total expenses decreased 2.55% to \$24,578,119.
- The capital contributions to the District totaled \$6,949,474 for the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Yucaipa Valley Water District's basic financial statements. The District's basic financial statements are comprised of two components: Financial Statements and Notes to the Financial Statements.

The District's Basic Financial Statements are comprised of the Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows.

The *Statement of Net Assets* presents information on all District assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how net assets changed during the fiscal year.

The *Statement of Cash Flows* present information about the cash receipts and cash payments of the District during the fiscal year. When used with related disclosures and information in the other financial statements, the information provided in these statements should help financial report users assess the District's ability to generate future net cash flows, its ability to meet its obligations as they come due and its need for external financing. It also provides insight into the reasons for differences between operating income and associated cash receipts and payments; and the effects on the District's financial position of its cash and its non-cash investing, capital and related financing transactions during the year.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes are included immediately following the financial statements within this report.

FINANCIAL ANALYSIS

The following table summarizes the changes between assets, liabilities and net assets as of June 30, 2012.

Statement of Net Assets				
	2012	2011	Change	% Change
Assets				
Current assets - W	\$ 10,217,467	\$ 9,584,145	\$ 633,322	6.6%
Current assets - S	4,401,362	8,218,383	(3,817,021)	-46.4%
Current assets - R	851,757	581,691	270,066	46.4%
Net capital assets - W	104,103,515	106,425,418	(2,321,903)	-2.2%
Net capital assets - S	127,850,302	120,162,933	7,687,369	6.4%
Net capital assets - R	22,279,121	19,692,813	2,586,308	13.1%
Other assets - W	3,488,452	3,549,898	(61,446)	-1.7%
Total Assets	<u>273,191,976</u>	<u>268,215,281</u>	<u>4,976,695</u>	<u>1.9%</u>
Liabilities				
Current liabilities - W	3,181,824	3,363,713	(181,889)	-5.4%
Current liabilities - S	4,949,710	4,350,998	598,712	13.8%
Current liabilities - R	3,215,507	1,803,337	1,412,170	78.3%
Long term liabilities - W	39,439,814	40,401,255	(961,441)	-2.4%
Long term liabilities - S	40,287,623	42,245,943	(1,958,320)	-4.6%
Long term liabilities - R	-	-	-	0.0%
Total Liabilities	<u>91,074,478</u>	<u>92,165,246</u>	<u>(1,090,768)</u>	<u>-1.2%</u>
Net Assets				
Net Invested in capital assets,				
Net of related debt - W	64,656,310	66,077,886	(1,421,576)	-2.2%
Net of related debt - S	85,897,112	76,301,960	9,595,152	12.6%
Net of related debt - R	22,279,121	19,692,813	2,586,308	13.1%
Restricted - W	4,121,263	4,413,656	(292,393)	-6.6%
Restricted - S	1,082,808	1,197,870	(115,062)	-9.6%
Restricted - R	184,444	156,079	28,365	18.2%
Unrestricted - W	6,410,223	5,302,951	1,107,272	20.9%
Unrestricted - S	34,411	4,284,545	(4,250,134)	-99.2%
Unrestricted - R	(2,548,194)	(1,377,725)	(1,170,469)	85.0%
Total Net Assets	<u>182,117,498</u>	<u>176,050,035</u>	<u>6,067,463</u>	<u>3.4%</u>
Total Liabilities and Net Assets	<u>\$ 273,191,976</u>	<u>\$ 268,215,281</u>	<u>\$ 4,976,695</u>	<u>1.9%</u>

As can be seen from the table above, net assets increased from \$176,050,035 in fiscal year 2011 to \$182,117,498 in fiscal year 2012, an increase of \$6,067,463. The decrease in the sewer fund current assets is attributed to cash expenditures submitted on the June 5, SRF draw #3 and received on July 23. The increase in recycled current assets is attributed to grants receivable. The increase to capital assets, net is attributed to construction in progress of the Yucaipa Valley Regional Brineline Project in the sewer and recycled funds. The liabilities decreased by debt service payments.

The 13.8% increase in sewer and 78.3% recycled current liabilities is attributed the accrued accounts payable for the Yucaipa Valley Regional Brineline Project. The 8.8% increase in sewer long term liabilities is attributed to the SRF 2010 loan proceeds received. Additional information on the District's SRF 2010 loan can be found in Note 6 of this report.

The following table summarizes changes in net assets as of June 30, 2012.

Statement of Revenues, Expenses and Changes in Net Assets

	2012	2011	Change	% Change
Operating Revenues				
Water Services	\$ 9,498,351	\$ 8,786,848	\$ 711,503	8.1%
Sewer Services	10,389,205	10,127,736	261,469	2.6%
Recycled Services	369,881	303,952	65,929	21.7%
Interfund Services Provided	733,170	593,310	139,860	23.6%
Other Revenue	1,080	14,760	(13,680)	-92.7%
Total Operating Revenues	20,991,687	19,826,606	1,165,081	5.9%
Non-Operating Revenues				
Interest Income	14,818	8,273	6,545	79.1%
Property Taxes	2,490,104	2,477,843	12,261	0.5%
Other Income	199,499	91,441	108,058	118.2%
Total Non-Operating Revenues	2,704,421	2,577,557	126,864	4.9%
Total Revenues	23,696,108	22,404,163	1,291,945	5.8%
Operating Expenses				
Salaries & Benefits - W	3,135,815	3,210,093	(74,278)	-2.3%
Salaries & Benefits - S	2,502,335	2,562,871	(60,536)	-2.4%
Salaries & Benefits - R	7,039	96,508	(89,469)	-92.7%
Operating Expenses - W	3,892,681	3,843,625	49,056	1.3%
Operating Expenses - S	4,135,683	4,033,677	102,006	2.5%
Operating Expenses - R	47,376	384,683	(337,307)	-87.7%
Water Purchases - W	933,923	805,035	128,888	16.0%
Water Purchases - R	-	160,749	(160,749)	-100.0%
Depreciation & Amortization - W	3,225,314	3,270,302	(44,988)	-1.4%
Depreciation & Amortization - S	3,241,599	3,231,559	10,040	0.3%
Depreciation & Amortization - R	473,694	473,042	652	0.1%
Total Operating Expenses	21,595,459	22,072,144	(476,685)	-2.2%
Non-Operating Expenses				
Loss on Asset Disposal	30	57,163	(57,133)	-99.9%
Other Expenses	6,454	36,086	(29,632)	-82.1%
Interest Expense - Water	1,997,044	2,031,324	(34,280)	-1.7%
Interest Expense - Sewer	979,132	1,024,707	(45,575)	-4.4%
Total Non-Operating Expenses	2,982,660	3,149,280	(166,620)	-5.3%
Total Expenses	24,578,119	25,221,424	(643,305)	-2.6%

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>% Change</u>
Income (Loss) Before Contributions - W	(944,717)	(1,647,207)	702,490	-42.6%
Income (Loss) Before Contributions - S	208,959	(365,703)	574,662	-157.1%
Income (Loss) Before Contributions - R	(146,253)	(804,351)	658,098	-81.8%
Total Income (Loss) Before Contributions	<u>(882,011)</u>	<u>(2,817,261)</u>	<u>1,935,250</u>	<u>-68.7%</u>
Contributions				
Capital Contributions - W	338,020	2,571,313	(2,233,293)	-86.9%
Capital Contributions - S	5,020,997	4,318,937	702,060	16.3%
Capital Contributions - R	1,590,457	359,974	1,230,483	341.8%
	<u>6,949,474</u>	<u>7,250,224</u>	<u>(300,750)</u>	<u>271.2%</u>
Change in Net Assets - W	(606,697)	924,106	(1,530,803)	-165.7%
Change in Net Assets - S	5,229,956	3,953,234	1,276,722	32.3%
Change in Net Assets - R	1,444,204	(444,377)	1,888,581	-425.0%
Beginning Net Assets	<u>176,050,035</u>	<u>171,617,072</u>	<u>4,432,963</u>	<u>2.6%</u>
Ending Net Assets	<u>\$ 182,117,498</u>	<u>\$ 176,050,035</u>	<u>\$ 6,067,463</u>	<u>3.4%</u>

The Statement of Revenues, Expenses and Changes in Net Assets provides the nature and source of these changes. As can be seen in the preceding table, net loss before capital contributions of \$882,011 and capital contributions of \$6,949,474 were the source of the increase in net assets of \$6,067,463 in fiscal year 2012.

The \$643,305 decrease in expenses was due primarily to decreased salary & benefits, reduced recycled water purchases and overall reduction in recycled water expenses.

The increase in capital contributions includes \$587,856 facility capacity fees, \$147,334 infrastructure contributions and \$6,211,189 in sewer and non-potable grants toward the Yucaipa Valley Regional Brineline Project and the District's non-potable water system.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

At the end of fiscal year 2012, the District had invested \$254,232,938 in a broad range of infrastructure as shown below.

Statement of Capital Assets				
	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>% Change</u>
Non-Depreciable Assets				
Land & Easements	\$ 5,366,459	\$ 5,350,688	\$ 15,771	0.29%
Water Rights	4,577,141	4,557,431	19,710	0.43%
Construction in Progress	<u>24,538,934</u>	<u>11,231,313</u>	<u>13,307,621</u>	<u>118.49%</u>
Total Non-Depreciable Assets	<u>34,482,534</u>	<u>21,139,432</u>	<u>13,343,102</u>	<u>63.12%</u>
Depreciable Assets				
Structures & Improvements	290,421,200	252,905,377	37,515,823	14.83%
Equipment	<u>5,699,734</u>	<u>41,891,257</u>	<u>(36,191,523)</u>	<u>-86.39%</u>
Total Depreciable Assets	<u>296,120,934</u>	<u>294,796,634</u>	<u>1,324,300</u>	<u>0.45%</u>
Less Accumulated Depreciation	<u>(76,370,530)</u>	<u>(69,654,902)</u>	<u>(6,715,628)</u>	<u>9.64%</u>
Net Depreciable Assets	<u>219,750,404</u>	<u>225,141,732</u>	<u>(5,391,328)</u>	<u>-2.39%</u>
Total Capital Assets, Net	<u>\$ 254,232,938</u>	<u>\$ 246,281,164</u>	<u>\$ 7,951,774</u>	<u>3.23%</u>

As of June 30, 2012, construction in progress increased \$13,307,621, primarily in the sewer and recycled funds for construction of the Yucaipa Valley Regional Brineline Project and the District's non-potable water system.

Additional information on the District's capital assets can be found in Note 3 of this report.

Long-term obligations, including current portion totaled \$88,588,609 as of June 30, 2012, and \$85,757,405 as of June 30, 2011. The long-term obligations were comprised of compensated absences, water fund revenue bonds and sewer fund state revolving fund loans for the 2006 WRWRF plant expansion and the 2010 brineline project.

Statement of Liabilities

	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>% Change</u>
Long Term Obligations:				
Compensated Absences	\$ 718,524	\$ 725,884	\$ (7,360)	-1.01%
Certificates of Participation - Water	39,009,293	39,968,124	(958,831)	-2.40%
State Revolving Fund Loan - Sewer	45,674,302	41,953,190	3,721,112	8.87%
Total Long Term Obligations	<u>85,402,119</u>	<u>82,647,198</u>	<u>2,754,921</u>	<u>3.33%</u>
Current Portion of Obligations:				
Compensated Absences	277,920	282,424	(4,504)	-1.59%
Certificates of Participation - Water	955,000	920,000	35,000	3.80%
State Revolving Fund Loan - Sewer	1,953,570	1,907,783	45,787	2.40%
Total Current Obligations	<u>3,186,490</u>	<u>3,110,207</u>	<u>76,283</u>	<u>2.45%</u>
Total Obligations	88,588,609	85,757,405	2,831,204	3.30%
Other Current Liabilities	<u>8,160,551</u>	<u>6,407,841</u>	<u>1,752,710</u>	<u>27.35%</u>
Total Liabilities	<u>\$ 96,749,160</u>	<u>\$ 92,165,246</u>	<u>\$ 4,583,914</u>	<u>4.97%</u>

During the year, the District's water fund Certificates of Participation long term debt decreased \$958,831 with the normal debt service payment. The sewer fund State Revolving Fund Loans long term debt increased \$3,721,112 which is primarily attributed to the normal debt payment of the 2006 loan and increased draws received for the 2010 loan.

Additional information on the District's long-term obligations can be found in Note 7 and 8 of this report.

Requests for Information

This financial report is designed to provide a general overview of the financial position of the Yucaipa Valley Water District for all those with an interest in the government's finances.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Vicky Elisalda, Controller at 12770 Second Street, Yucaipa, California 92399.

Financial Statements

YUCAIPA VALLEY WATER DISTRICT

STATEMENT OF NET ASSETS PROPRIETARY FUNDS JUNE 30, 2012

	Enterprise Funds			
	Water	Sewer	Recycled Water	Total
ASSETS				
Current Assets:				
Cash and investments (Note 2)	\$ 2,745,038	\$ 262,704		\$ 3,007,742
Accounts receivable, net	1,555,499	1,447,396	\$ 82,977	3,085,872
Due from other funds	2,640,348			2,640,348
Taxes and assessments receivable	79,870			79,870
Grants receivable	1,281	1,608,393	584,336	2,194,010
Interest receivable	4,365	61		4,426
Inventory	711,149			711,149
Prepayments and deposits	627,133			627,133
Restricted investments (Note 2)	1,852,784	1,082,808	184,444	3,120,036
Total Current Assets	10,217,467	4,401,362	851,757	15,470,586
Noncurrent Assets:				
Capital assets, net (Note 3)	104,103,515	127,850,302	22,279,121	254,232,938
Deferred pension	37,845			37,845
Restricted investments (Note 2)	2,933,519			2,933,519
Certificates of participation issuance costs, net (Note 4)	517,088			517,088
Total Noncurrent Assets	107,591,967	127,850,302	22,279,121	257,721,390
TOTAL ASSETS	117,809,434	132,251,664	23,130,878	273,191,976
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	279,254	1,274,594	575,159	2,129,007
Retentions payable	7,582			7,582
Due to other funds			2,640,348	2,640,348
Customer deposits	112,655			112,655
Developer/construction deposits	1,007,803	747,151		1,754,954
Accrued interest payable	665,040	850,965		1,516,005
Current portion of long-term liabilities:				
Compensated absences (Note 7)	154,490	123,430		277,920
Certificates of participation (Note 4)	955,000			955,000
State Revolving Fund Loan (Note 5)		1,953,570		1,953,570
Total Current Liabilities	3,181,824	4,949,710	3,215,507	11,347,041
Long-term Liabilities:				
Compensated absences (Note 7)	430,521	288,003		718,524
Certificates of participation (Note 4)	39,009,293			39,009,293
State Revolving Fund Loan (Note 5 and 6)		39,999,620		39,999,620
Total Long-Term Liabilities	39,439,814	40,287,623	-	79,727,437
TOTAL LIABILITIES	42,621,638	45,237,333	3,215,507	91,074,478
NET ASSETS				
Invested in capital assets, net of related debt	64,656,310	85,897,112	22,279,121	172,832,543
Restricted for:				
Debt service	2,268,479			2,268,479
Capital projects	1,852,784	1,082,808	184,444	3,120,036
Unrestricted	6,410,223	34,411	(2,548,194)	3,896,440
TOTAL NET ASSETS	\$ 75,187,796	\$ 87,014,331	\$ 19,915,371	\$ 182,117,498

The accompanying notes are an integral part of these financial statements.

YUCAIPA VALLEY WATER DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012**

	Enterprise Funds			Total
	Water	Sewer	Recycled Water	
OPERATING REVENUES				
Charges for current services	\$ 9,498,351	\$ 10,389,205	\$ 369,881	\$ 20,257,437
Interfund services provided	733,170			733,170
Other revenue		1,080		1,080
Total Operating Revenues	10,231,521	10,390,285	369,881	20,991,687
OPERATING EXPENSES				
Salaries and employee benefits	3,135,815	2,502,335	7,039	5,645,189
Electrical power	1,345,028	742,285		2,087,313
Water purchases	933,923			933,923
Administrative services	348,270	937,717	19,755	1,305,742
Operating supplies	211,307	554,002		765,309
Maintenance and repairs	902,635	672,537	7,546	1,582,718
Depreciation and amortization	3,225,314	3,241,599	473,694	6,940,607
Insurance	113,943	113,290		227,233
Professional fees	290,883	706,836	20,075	1,017,794
Other	680,615	409,016		1,089,631
Total Operating Expenses	11,187,733	9,879,617	528,109	21,595,459
Operating Income (Loss)	(956,212)	510,668	(158,228)	(603,772)
NON-OPERATING REVENUES (EXPENSES)				
Interest income	8,766	5,977	75	14,818
Property taxes	1,970,404	509,000	10,700	2,490,104
Other income	35,853	162,446	1,200	199,499
Loss on disposal of assets	(30)			(30)
Other expenses	(6,454)			(6,454)
Interest expense	(1,997,044)	(979,132)		(2,976,176)
Total Non-Operating Revenues (Expenses)	11,495	(301,709)	11,975	(278,239)
Income (Loss) Before Contributions	(944,717)	208,959	(146,253)	(882,011)
CONTRIBUTIONS				
Capital contributions	338,020	5,020,997	1,590,457	6,949,474
Total Contributions	338,020	5,020,997	1,590,457	6,949,474
Change in Net Assets	(606,697)	5,229,956	1,444,204	6,067,463
Net Assets, Beginning of Year	75,794,493	81,784,375	18,471,167	176,050,035
Net Assets, End of Year	\$ 75,187,796	\$ 87,014,331	\$ 19,915,371	\$ 182,117,498

The accompanying notes are an integral part of these financial statements.

YUCAIPA VALLEY WATER DISTRICT

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise Funds			
	Water	Sewer	Recycled Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 9,736,800	\$ 9,122,775	\$ 350,157	\$ 19,209,732
Receipts (payments) from interfund services provided	733,170	(733,170)		
Payments to suppliers	(5,125,366)	(2,852,174)	423,254	(7,554,286)
Employment related payments	(3,103,049)	(2,509,120)	(7,039)	(5,619,208)
Net Cash Provided by/(Used for) Operating Activities	2,241,555	3,028,311	766,372	6,036,238
CASH FLOWS FROM CAPITAL AND AND RELATED FINANCING ACTIVITIES				
Capital contributions	245,101	5,019,058	1,646,811	6,910,970
Cash paid for capital assets	(786,095)	(10,927,029)	(3,338,333)	(15,051,457)
Principal paid on capital debt	(920,000)	(1,907,783)		(2,827,783)
Interest paid on capital debt	(2,012,375)	(974,511)		(2,986,886)
Net Cash Used for Capital and Related Financing Activities	(3,473,369)	(8,790,265)	(1,691,522)	(13,955,156)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Property taxes received	1,970,404	509,000	10,700	2,490,104
Interfund receipts/(payments)	(1,790,944)	849,404	941,540	
Other receipts	50,293	162,446	1,200	213,939
Net Cash Provided/(Used) by Non-Capital Financing Activities	229,753	1,520,850	953,440	2,704,043
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	5,049	6,306	75	11,430
Net Cash Provided by Investing Activities	5,049	6,306	75	11,430
Net Increase/(Decrease) in Cash and Cash Equivalents	(997,012)	(4,234,798)	28,365	(5,203,445)
Balances, Beginning of Year	8,528,353	5,580,310	156,079	14,264,742
Balances, End of Year	\$ 7,531,341	\$ 1,345,512	\$ 184,444	\$ 9,061,297
Reconciliation to Statement of Net Assets:				
Cash and investments	\$ 2,745,038	\$ 262,704		\$ 3,007,742
Restricted cash and investments - Current	1,852,784	1,082,808	\$ 184,444	3,120,036
Restricted cash and investments - Non-current	2,933,519			2,933,519
Total Cash and Investments	\$ 7,531,341	\$ 1,345,512	\$ 184,444	\$ 9,061,297

The accompanying notes are an integral part of these financial statements.

YUCAIPA VALLEY WATER DISTRICT

STATEMENT OF CASH FLOWS, Continued PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2012

	Enterprise Funds			
	Water	Sewer	Recycled Water	Total
RECONCILIATION OF OPERATING Income (Loss) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (loss)	\$ (956,212)	\$ 510,668	\$ (158,228)	\$ (603,772)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	3,225,314	3,241,599	473,694	6,940,607
Change in assets and liabilities:				
Receivables, net	(90,366)	(95,926)	(19,724)	(206,016)
Grants receivable	229,658	(1,171,584)		(941,926)
Compensated absences	(5,079)	(6,785)		(11,864)
Deferred pension	37,845			37,845
Prepayments and deposits	17,569			17,569
Developer and customer deposits	99,157			99,157
Inventories	(13,331)			(13,331)
Accounts and other payables (non-capital)	(303,000)	550,339	470,630	717,969
Net Cash Provided by (Used for) Operating Activities	<u>\$ 2,241,555</u>	<u>\$ 3,028,311</u>	<u>\$ 766,372</u>	<u>\$ 6,036,238</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Contributed capital assets	\$ 92,919	\$ (1,939)	\$ 56,354	\$ 147,334

The accompanying notes are an integral part of these financial statements.

YUCAIPA VALLEY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Yucaipa Valley Water District (the District) is a special-purpose government district providing water distribution and sewer collection and treatment for consumers within its service area. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. Basis of Presentation

Fund Financial Statements - The District solely operates as a Special-Purpose Government which means it is only engaged in business-type activities, accordingly activities are reported in proprietary funds.

The District has the following major proprietary funds:

- Water – This fund accounts for the activities of the District's water supply system.
- Sewer – This fund accounts for the activities of the District's sewage treatment plant, pumping stations, and collection systems.
- Recycled Water – This fund accounts for the activities of the District's recycled water supply system.

C. Basis of Accounting

Proprietary fund financial statements are reported using the *economic resources measurement focus* and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes apply. Property taxes are collected for the District by the Counties of San Bernardino and Riverside. Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses include the costs of sales and services, the costs of employee benefits, maintenance of capital assets, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

All funds of the District follow private-sector guidance including Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The District has the option of following subsequent private-sector guidance. The District has elected not to follow subsequent private-sector guidance.

YUCAIPA VALLEY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *(Continued)*

D. Capital Assets

Capital assets purchased or constructed are carried at cost. Constructed costs include labor, materials and construction period interest expense (net of interest income, where applicable). Capitalization threshold is \$5,000. Contributed assets are stated at estimated fair market value at the time received by the District. Depreciation is calculated on the straight-line method over the following estimated useful lives of the assets:

Structures and improvements	10 – 50 years
Equipment	4 – 10 years

E. Restricted Investments

Various resources of the District are limited as to their use by law or by bond covenants and are classified on the balance sheet as restricted investments. Undisbursed bond proceeds are restricted for repayment of the bonds and project costs. Also, fees imposed on new real estate development are restricted by law for the construction of capital improvements which benefit the development projects.

F. Inventory

Inventory is stated at the lower of cost, using the average cost method, or market.

G. Cash and Cash Equivalents

All cash and investments are held in the District's cash management pool. Therefore, for purposes of the statement of cash flows, the District considers the entire pooled cash and investment balance to be cash and cash equivalents.

H. Investments

The District utilizes quoted market prices to estimate fair value.

I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Uncollectible Accounts

The District provides an allowance for doubtful accounts for all accounts deemed uncollectible. As of June 30, 2012, this allowance was estimated at \$24,000 in the Water Fund and \$20,000 in the Sewer Fund.

YUCAIPA VALLEY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (*Continued*)

K. Credit/Market Risk

The District provides water and sewer services to local residential and commercial customers. As part of normal operating practices, credit is granted to local customers, on an unsecured basis.

L. Use of Restricted Resources

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

M. New Accounting Pronouncements

Effective in Future Fiscal Years

GASB Statement No. 60 - In November of 2010, the GASB issued Statement 60, *Accounting and Financial Reporting for Service Concession Agreements*. This Statement provides guidance on reporting and disclosure of service concession agreements. This statement is effective as of July 1, 2012. The District has not determined the effect on the financial statements.

GASB Statement No. 61 - In November of 2010, the GASB issued Statement 61, *The Financial Reporting Entity Omnibus*. This Statement will update existing standards pertaining to financial reporting for which significant issues have been identified in practice. This statement effective as of July 1, 2012. The District has not determined the effect on the financial statements.

GASB Statement No. 62 – In December 2010, GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates FASB and AICPA pronouncements into the GASB's authoritative literature containing certain accounting and financial reporting guidance. This statement is effective as of July 1, 2012. The District has not determined the effect on the financial statements.

GASB Statement No. 63 – In June 2011, GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of resources, and Net Position*. This statement provides financial reporting guidance on deferred outflows of resources and deferred inflows of resources. This statement is not effective until July 1, 2012. The District has not determined the effect on the financial statements.

YUCAIPA VALLEY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

M. New Accounting Pronouncements, (Continued)

GASB Statement No. 65 – In March 2012, GASB issued Statement 65 *Items Previously Reported as Assets and Liabilities*. This Statement provides guidance on proper classification of certain items previously reported as assets and liabilities as deferred outflows or inflows of resources. This Statement also provides guidance on recognition of certain items that were previously reported as assets and liabilities as outflows or inflows of resources. This statement is effective as of July 1, 2013. The District has not determined the effect on the financial statements.

GASB Statement No. 66 - In March 2012, GASB issued Statement 66 *Technical Corrections—2012—an Amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to resolve 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*. This statement is effective as of July 1, 2013. The District has not determined the effect on the financial statements.

GASB Statement No. 67 – In June 2012, GASB issued Statement 67, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 25*. This statement establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This Statement also addresses accounting and financial reporting for the activities of pension plans that are administered through trusts. This Statement is effective as of July 1, 2013. The District has not determined the effect on the financial statements.

GASB Statement No. 68 – In June 2012, GASB issued Statement 67, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This Statement is effective as of July 1, 2014. The District has not determined the effect on the financial statements.

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 – CASH AND INVESTMENTS

Cash and investments are classified as the accompanying financial statements as follows:

Cash and investments	\$ 3,007,742
Restricted investments - Current	3,120,036
Restricted investments - Non-current	2,933,519
Total Cash and Investments	\$ 9,061,297

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

Petty cash	\$ 800
Cash	784,295
Investments	8,276,202
Total Cash and Investments	\$ 9,061,297

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

The table below identifies the investment types that are authorized for the Yucaipa Valley Water District by the California Government Code and the District's policy, where more restrictive. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Yucaipa Valley Water District, rather than the general provisions of the California Government Code.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Money Market Mutual Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by the bond trustee is governed by provisions of the debt agreement, 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 the debt agreement that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Credit Rating
U.S. Treasury Obligations	5 years	N/A
U.S. Agency Securities	5 years	AAA
Banker's Acceptances	180 days	A
Commercial Paper	270 days	A
Repurchase Agreements	5 years	None
Negotiable Certificates of Deposit	5 years	None
Money Market Mutual Funds	N/A	AAA
Local Agency Obligations	5 years	None

Disclosures Relating to 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 Yucaipa Valley Water 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 is maturing or coming close to maturity evenly over time as necessary to provide the 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:

Investment Type	Fair Value	Maturity 12 Months or Less
LAIF	\$ 4,841,703	\$ 4,841,703
U.S. Treasury Bills	500,915	500,915
Money Market Funds	65	65
2004A Certificates of Participation Proceeds:		
Money Market Funds	2,933,519	2,933,519
Total	<u>\$ 8,276,202</u>	<u>\$ 8,276,202</u>

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Disclosures Relating to 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. Presented below is the rating as of year end for each investment type:

	Fair Value	Rating at June 30, 2012
LAIF	\$ 4,841,703	Unrated
U.S. Treasury Bills	500,915	AA+
Money Market Funds	65	AAA
2004A Certificates of Participation Proceeds:		
Money Market Funds	2,933,519	AAA
Total	<u>\$ 8,276,202</u>	

Concentration of Credit Risk

The investment policy of the Yucaipa Valley Water District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Other than the District's investment in U.S. Treasuries, LAIF, and money market funds, no single issuer represents five percent or more of total District investments.

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. The California Government Code and the Yucaipa Valley Water 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 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

As of June 30, 2012, all of the District's deposits with financial institutions were composed of non-interest bearing deposits. Non-interest bearing deposits are fully insured in accordance with FDIC guidelines.

YUCAIPA VALLEY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Investment in State Investment Pool

The Yucaipa Valley Water District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Yucaipa Valley Water District's investment in this pool is reported in the accompanying financial statements, at amounts based upon the Yucaipa Valley Water 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.

LAIF is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee comprised of California State officials and various participants provide oversight to the management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer's office. The District is a voluntary participant in the investment pool.

NOTE 3 – CAPITAL ASSETS

The following tables summarize capital asset activity during 2011-2012:

Water Fund	Balance June 30, 2011	Increases	Decreases	Reclassification	Balance June 30, 2012
Capital assets not being depreciated:					
Land and easements	\$ 4,095,335	\$ 15,771			\$ 4,111,106
Water rights	432,941				432,941
Construction in progress	748,565	762,007	\$ (1,219,359)		291,213
Total capital assets not being depreciated	5,276,841	777,778	(1,219,359)		4,835,260
Capital assets being depreciated:					
Structures and improvements	93,781,721	1,298,067	(30)	\$ 30,430,635	125,510,393
Equipment	34,684,781	23,451	(29,781)	(30,430,635)	4,247,816
Total capital assets being depreciated	128,466,502	1,321,518	(29,811)		129,758,209
Less accumulated depreciation for:					
Structures and improvements	(13,826,070)	(3,074,551)	54,442	(9,987,357)	(16,846,179)
Equipment	(13,491,855)	(181,701)	29,781	9,987,357	(13,643,775)
Total accumulated depreciation	(27,317,925)	(3,256,252)	84,223		(30,489,954)
Total capital assets being depreciated, net	101,148,577	(1,934,734)	54,412		99,268,255
Water Fund capital assets, net	\$ 106,425,418	\$ (1,156,956)	\$ (1,164,947)	\$ -	\$ 104,103,515

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 – CAPITAL ASSETS, (Continued)

Sewer Fund	Balance June 30, 2011	Increases	Decreases	Reclassification	Balance June 30, 2012
Capital assets not being depreciated:					
Land and easements	\$ 1,255,353				\$ 1,255,353
Water rights	4,124,490	\$ 19,710			4,144,200
Construction in progress	7,003,183	10,801,092	\$ (3,559)		17,800,716
Total capital assets not being depreciated	12,383,026	10,820,802	(3,559)		23,200,269
Capital assets being depreciated:					
Structures and improvements	146,018,725	52,896			146,071,621
Equipment	1,564,782	58,829	(171,693)		1,451,918
Total capital assets being depreciated	147,583,507	111,725	(171,693)		147,523,539
Less accumulated depreciation for:					
Structures and improvements	(38,596,683)	(3,166,830)		\$ 17,484	(41,746,029)
Equipment	(1,206,917)	(74,769)	171,693	(17,484)	(1,127,477)
Total accumulated depreciation	(39,803,600)	(3,241,599)	171,693		(42,873,506)
Total capital assets being depreciated, net	107,779,907	(3,129,874)			104,650,033
Sewer Fund capital assets, net	\$ 120,162,933	\$ 7,690,928	\$ (3,559)	\$ -	\$ 127,850,302

Recycled Water	Balance June 30, 2011	Increases	Decreases	Reclassification	Balance June 30, 2012
Capital assets not being depreciated					
Construction in progress	\$ 3,479,564	\$ 3,050,072	\$ (82,631)		\$ 6,447,005
Total capital assets not being depreciated	3,479,564	3,050,072	(82,631)		6,447,005
Capital assets being depreciated:					
Structures and improvements	13,104,931	91,061		\$ 5,643,194	18,839,186
Equipment	5,641,694	1,500		(5,643,194)	-
Total capital assets being depreciated	18,746,625	92,561			18,839,186
Less accumulated depreciation for:					
Structures and improvements	(1,900,207)	(473,694)		(633,169)	(3,007,070)
Equipment	(633,169)			633,169	-
Total accumulated depreciation	(2,533,376)	(473,694)			(3,007,070)
Total capital assets being depreciated, net	16,213,249	(381,133)			15,832,116
Recycled Water Fund capital assets, net	\$ 19,692,813	\$ 2,668,939	\$ (82,631)	\$ -	\$ 22,279,121

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 – CERTIFICATES OF PARTICIPATION PAYABLE

In June 2004, the District sold certificates of participation in the amount of \$45,730,000 to finance the acquisition of facilities for the District Water System. Proceeds were also used, to fund the deposit to the reserve fund and to pay delivery costs of the certificates. Certificates began maturing on September 1, 2005 with semi-annual interest payments due March 1 and September 1 at various interest rates from 2.00 to 5.25 percent. Principal payments are due annually September 1 at various amounts from \$770,000 to \$2,860,000. The final principal payment of the certificates is scheduled for September 1, 2034. Issuance costs of \$705,119 were capitalized and are being amortized over the life of the certificates. Amortization expense for the 2011-2012 fiscal year was \$23,504. See Note 9 for revenues pledged.

Maturities of certificates of participation payable are as follows:

Fiscal Year Ending	2004 Water System Revenue Certificates of Participation, Series 2004A		
	Principal	Interest	Total
2013	\$ 955,000	\$ 1,976,025	\$ 2,931,025
2014	995,000	1,937,025	2,932,025
2015	1,035,000	1,896,425	2,931,425
2016	1,080,000	1,848,725	2,928,725
2017	1,140,000	1,793,225	2,933,225
2018-2022	6,675,000	7,984,019	14,659,019
2023-2027	8,675,000	5,980,031	14,655,031
2028-2032	11,160,000	3,835,375	14,995,375
2033-2035	8,165,000	282,500	8,447,500
Total	<u>\$ 39,880,000</u>	<u>\$ 27,533,350</u>	<u>\$ 67,413,350</u>

NOTE 5 – STATE REVOLVING FUND LOAN - 2006

In August 2006, the District entered into a loan agreement with the State of California Water Resources Control Board to provide funding for the expansion and modification of the Henry N. Wochholz Wastewater Treatment Plant. The maximum amount of \$44,748,356 has been drawn. The loan accrues interest at a rate of 2.4 percent annually. Principal and interest payments are due in 20 annual installments. The first payment occurred on September 10, 2009. The District has pledged all revenues and amounts legally available to repay the loan.

Fiscal Year Ending	2006 State Revolving Fund Loan		
	Principal	Interest	Total
2013	\$ 1,953,570	\$ 970,099	\$ 2,923,669
2014	2,000,455	923,214	2,923,669
2015	2,048,466	875,202	2,923,668
2016	2,097,629	826,039	2,923,668
2017	2,147,973	775,696	2,923,669
2018-2022	11,538,327	3,080,017	14,618,344
2023-2027	12,991,001	1,627,343	14,618,344
2028-2029	5,643,374	203,964	5,847,338
Total	<u>\$ 40,420,795</u>	<u>\$ 9,281,574</u>	<u>\$ 49,702,369</u>

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 – STATE REVOLVING FUND LOAN - 2010

In June 2010, the District entered into a loan agreement with the State of California Water Resources Control Board (SWRCB) to provide the funding for the construction of the Regional Brineline Extension Project. Funds are drawn on the agreement as work is completed up to a maximum amount of \$9,752,100 plus interest during the period of construction. The loan accrues interest at a rate of 2.7 percent annually. Principal and interest payments are due in 20 annual installments. In accordance with Amendment No. 1 of the loan agreement, the first payment is due December 31, 2013. As of June 30, 2012 the District had drawn funds totaling \$1,532,395. Additionally, deferred interest of \$72,227 was included in the principal balance outstanding as of June 30, 2012. The District has pledged all revenues and amounts legally available to repay the loan. Annual principal and interest payments will be determined upon project completion and final draws.

NOTE 7 – COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned but unused vacation, sick leave and comp time, a portion of which will be paid to employees upon separation from the District. At June 30, 2012, total accruals for Water, Sewer and Recycled Water funds amount to \$585,011, \$411,433 and \$0 respectively. The District estimated, based on historical trends, that approximately \$154,490, \$123,430, and \$0 of the Water, Sewer, and Recycled Water balances, respectively, will come due during fiscal year 2012-2013.

NOTE 8 – CHANGES IN LONG-TERM LIABILITIES

The following table summarizes changes in long-term liabilities balances for the fiscal year ended June 30, 2012:

	Balance June 30, 2011	Additions	Repayments	Balance June 30, 2012	Amount Due in 2012-13
2004 Certificates of Participation	\$ 40,800,000		\$ (920,000)	\$ 39,880,000	\$ 955,000
Unamortized premium	88,124		(3,831)	84,293	
Total Certificates of Participation	<u>40,888,124</u>		<u>(923,831)</u>	<u>39,964,293</u>	<u>955,000</u>
State Revolving Fund Loan - 2006	42,328,578		(1,907,783)	40,420,795	1,953,570
State Revolving Fund Loan - 2010	1,532,395			1,532,395	
Compensated absences	<u>1,008,308</u>		<u>(11,864)</u>	<u>996,444</u>	<u>277,920</u>
Total Long-term Liabilities	<u>\$ 85,757,405</u>	<u>\$ -</u>	<u>\$ (2,843,478)</u>	<u>\$ 82,913,927</u>	<u>\$ 3,186,490</u>

YUCAIPA VALLEY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 9 – REVENUE PLEDGED

The District has pledged future water fund revenues, net of specified operating expenses, to repay \$45,730,000 in water system certificates of participation (COP) issued in June 2004 as disclosed in Note 4. Net revenues are defined in the COP documents as operating income, less specified operating expenses, plus specified non operating income. Proceeds from the COPs provided financing for the construction of the Yucaipa Valley Regional Water Filtration Facility (YVRWFF). The COPs are payable through 2035. Net revenues are anticipated to equal at least 110 percent of annual principal and interest payments. The total principal and interest remaining to be paid on the COPs is \$67,413,350. Principal and interest paid for the current year and total customer net revenues were \$2,932,375 and \$4,519,780, respectively.

For the 2006 and 2010 State revolving loans, the District has pledged all revenues and amounts legally available to repay the loans.

NOTE 10 – DEFINED BENEFIT PENSION PLAN

Plan Description

The District's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. State statutes, within the Public Employees' Retirement Law, establish benefit provisions and other requirements. The Board of Directors selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. Benefit provisions selected may be amended or modified by the District's Board of Directors. The CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office – 400 P Street, Sacramento, California, 95814.

Funding Policy

A contribution of 7 percent of annual covered salary is required for each active plan member. The District makes the contribution required of District employees on their behalf and for their account. Additionally, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for FY 2011-2012 was 13.510 percent of annual covered payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established on an actuarially determined basis and may be amended by CalPERS.

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 10 – DEFINED BENEFIT PENSION PLAN, (Continued)

Annual Pension Cost

For the fiscal year ended June 30, 2012, the District's annual pension cost of \$497,301 was equal to the District's required contributions.

Three Year Trend Information for the Plans

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	\$ 470,257	100%	\$ -
6/30/2011	\$ 484,425	100%	\$ -
6/30/2012	\$ 497,301	100%	\$ -

The funded status of the pooled plan may be obtained from CalPERS.

NOTE 11 – COMMITMENTS

The District has entered into an agreement with the San Bernardino Valley Municipal Water District which allocates a pipeline capacity discharge right in the Santa Ana Regional Interceptor for the transmission of industrial wastewater. The District's rights under the agreement are contingent upon the construction and completion of the interceptor pipeline. Under the terms of the agreement, the District is required to make annual payments of \$19,710 through 2012. These payments are recorded as increases to capital assets in the wastewater fund.

The District has entered into contracts for various services and projects that will require payments in future fiscal years. The contract amounts and remaining commitments as of June 30, 2012, are summarized below:

Description	Contract Amounts	Remaining Commitment
General operating contracts	\$ 985,799	\$ 122,002
Sewer fund projects	17,381,722	6,520,558
Recycled Water fund projects	10,008,440	5,142,496
Other Funds	79,000	28,529
Total	<u>\$ 28,454,961</u>	<u>\$ 11,813,585</u>

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 12 – INTERFUND ACTIVITY

Interfund Services Provided

The Sewer fund reimburses the Water fund for the expenses related to administration, accounting and general services. The reimbursement is reflected in the statement of revenues, expenses and changes in net assets as the revenue "Interfund services provided" in the Water Fund and as the expense "Administrative services" in the Sewer fund. The amount reimbursed for these services was \$733,170 as of June 30, 2012.

Interfund Borrowing

As of June 30, 2012, the District’s Recycled Water fund had borrowed \$2,640,348 from the Water fund to cover its deficit cash position.

NOTE 13 – 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. During the year ended June 30, 2012, the District purchased insurance through various commercial carriers to cover these risks up to its blanket limit of \$102,971,583. The District has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

NOTE 14 – PROPERTY TAXES

Under California law, property taxes are assessed and collected by the counties up to 1 percent of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to entities based on complex formulas. The property tax calendar is as follows:

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