

**ANTELOPE VALLEY-EAST KERN WATER AGENCY**

**COUNTY OF LOS ANGELES  
PALMDALE, CALIFORNIA**

**AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

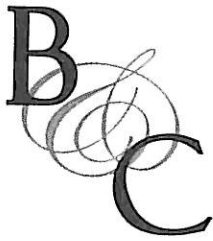
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**ANTELOPE VALLEY-EAST KERN WATER AGENCY  
JUNE 30, 2010 AND 2009**

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**FINANCIAL INFORMATION**



# BURKEY & COX EVANS BRADFORD ALDEN

ACCOUNTANCY CORPORATION

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Antelope Valley-East Kern Water Agency  
Palmdale, California

We have audited the accompanying financial statements of the Antelope Valley-East Kern Water Agency, as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of Antelope Valley-East Kern Water Agency'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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Antelope Valley-East Kern Water Agency, as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 09, 2010, on our consideration of the Antelope Valley-East Kern Water Agency'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.

**BURKEY & COX**  
**EVANS BRADFORD ALDEN**

ACCOUNTANCY CORPORATION

Antelope Valley-East Kern Water Agency

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The management's discussion and analysis and budgetary comparison information on page 3 and page 35, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions of the Antelope Valley-East Kern Water Agency's basic financial statements. The required supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The required supplementary information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Burkey & Cox*

BURKEY COX EVANS BRADFORD & ALDEN  
Certified Public Accountants

Palmdale, California  
November 09, 2010

**MANAGEMENT DISCUSSION AND ANALYSIS**

ANTELOPE VALLEY –EAST KERN WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010

As management of the Antelope Valley East Kern Water Agency, we offer the readers of the Agency Audited Financial Statements this narrative overview of the agency.

In 1962, Antelope Valley East Kern Water Agency (AVEK) signed a contract with the State to assure delivery of imported water to supplement groundwater supplies. AVEK has the third largest water entitlement and covers a land area of nearly 2,400 square miles, plus northern Los Angeles and eastern Kern, and a small portion of Ventura Counties.

AVEK service area population in 1999 through 2010 has grown approximately 25% from 247,000 to 310,000. To keep up with the water demand, AVEK is now running four water treatment facilities with 32 full time employees and roughly 150 miles of distribution main.

Six years ago started the design and construction for increasing capacity and meeting EPA's new standards. The Fiscal Year of 2010 is the completion year with upgrades to all treatment facilities. Other projects scheduled for completion this year are capacity increase of the Quartz Hill plant to 90 mgd, the intertie pipeline (SNIP) to Rosamond facility and the associated SNIP pump station.

Arranging financing for all the improvements, saved the Agencies reserves, in spring of 2007 working together with Wells Fargo commercial department the Agency was able to obtain Certificate's of Participation for \$160,000,000. In 2007, the COP has created enough interest income to offset interest expense. The finance world fell apart in 2008, fast refunding of part of the debt saved the Agency in interest as well as restructuring the debt for future years.

In 2010, the Antelope Valley is again facing drought. State Water Project allocations were as low as 5% for a few months, increasing to 50%. Agency staff found supplemental water and utilized in-lieu dry year programs, meeting deliveries of all water orders; improving our operating income for the fiscal year 2010. Water sales increased by 26%. (See audited financials revenues and expenses)

The Agency has maintained an increase in net assets (See Audited Financials) even during a shortage of water and the financial climate. The Agency is looking forward and on to the new, researching ways to save energy, water, and costs. Staff is continuing to evaluate renewable energy sources such as solar and wind. The Agency continues to develop local water banking facilities in order to stabilize local supplies.

**BASIC FINANCIAL STATEMENTS**



**ANTELOPE VALLEY-EAST KERN WATER AGENCY**  
**COMPARATIVE STATEMENTS OF NET ASSETS**  
**JUNE 30, 2010 AND JUNE 30, 2009**

<b>ASSETS</b>	<b>ENTERPRISE FUND</b>	
	<b>JUNE 30, 2010</b>	<b>JUNE 30, 2009</b>
<b>CURRENT ASSETS</b>		
Cash and Investments	\$ 173,363,040	\$ 187,640,528
Receivables, Net of Allowance for Uncollectibles:		
Taxes	6,362,316	5,853,183
Interest	564,486	1,066,642
Services	3,547,201	4,063,745
Other	60,000	102,778
Deposits and Prepaid Expenses	3,560,329	1,810,923
Total Current Assets	187,457,372	200,537,799
<b>NON-CURRENT ASSETS</b>		
Property, Plant and Equipment, Net of Accumulated Depreciation	239,069,133	214,366,005
<b>OTHER NON-CURRENT ASSETS</b>		
Cash and Investments - Restricted	265,713	3,281,461
Unamortized Bond Issuance Costs	1,949,611	1,984,854
Total Other Non-Current Assets	2,215,324	5,266,315
Total Non-Current Assets	241,284,457	219,632,320
Total Assets	428,741,829	420,170,119
 <b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	7,205,410	3,366,244
Accrued Liabilities	495,763	558,201
Current Portion of Long-Term Debt	3,231,038	3,116,038
Collections in Advance on Projects	3,842,201	550,975
Compensated Absences	459,955	655,016
Escheated Funds	42,968	42,968
Total Current Liabilities	15,277,335	8,289,442
<b>LONG-TERM LIABILITIES</b>		
Payable from Restricted Assets	5,685,672	4,876,010
Post Employment Benefit Liability	3,267,747	3,183,095
Certificates of Participation, Series 2007A-1	69,660,000	71,075,000
Certificates of Participation, Series 2008A-1	34,440,000	36,080,000
Certificates of Participation, Series 2008A-2	45,000,000	45,000,000
Total Long-Term Liabilities	158,053,419	160,214,105
Total Liabilities	173,330,754	168,503,547
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	169,409,133	143,291,005
Unrestricted	86,001,942	108,375,567
Total Net Assets	\$ 255,411,075	\$ 251,666,572

The accompanying Notes to Financial Statements are an integral part of these Statements.

**ANTELOPE VALLEY-EAST KERN WATER AGENCY  
COMPARATIVE STATEMENTS OF REVENUES AND EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**

		ENTERPRISE FUND	
		JUNE 30, 2010	JUNE 30, 2009
<b>OPERATING REVENUES</b>			
Water Sales		\$ 19,621,657	\$ 15,454,026
Irrigation Sales		444,678	483,126
Total Operating Revenues		20,066,335	15,937,152
<b>OPERATING EXPENSES</b>			
Water Purchases		7,158,632	4,835,343
Pumping		909,574	836,522
Water Treatment		3,427,621	3,614,843
Transmission and Distribution		80,641	88,621
Customer Accounts		4,974	3,770
Administration and General		3,796,837	3,708,081
Groundwater Survey		152,480	30,850
Depreciation		2,404,349	2,252,768
Total Operating Expenses		17,935,108	15,370,798
Operating Income		2,131,227	566,354
<b>NON-OPERATING REVENUES</b>			
Tax Revenues		22,441,783	27,225,346
Net Investment Earnings		3,334,714	3,680,320
Other Revenues		47,866	57,781
Capacity Charges		536,293	1,264,114
Total Non-Operating Revenues		26,360,656	32,227,561
<b>NON-OPERATING EXPENSES</b>			
State Water Contract		19,556,738	16,705,505
Interest Expense		5,155,399	5,599,730
Amortization		35,243	131,465
Total Non-Operating Expenses		24,747,380	22,436,700
Non-Operating Income		1,613,276	9,790,861
Increase (Decrease) in Net Assets		3,744,503	10,357,215
NET ASSETS - BEGINNING OF YEAR		251,666,572	241,309,357
NET ASSETS - END OF YEAR		\$ 255,411,075	\$ 251,666,572

The accompanying Notes to Financial Statements are an integral part of these Statements.

**ANTELOPE VALLEY-EAST KERN WATER AGENCY  
COMPARATIVE STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**

	ENTERPRISE FUND	
	JUNE 30, 2010	JUNE 30, 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Customers	\$ 23,952,126	\$ 15,793,366
Cash Paid for Supplies to Suppliers	(10,989,029)	(13,197,711)
Cash Paid to Employees	(2,709,469)	(2,764,361)
Net Cash Provided (Used) by Operating Activities	10,253,628	(168,706)
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Receipt of Property Taxes	21,932,650	33,190,727
Receipt of Capacity Charges and Other Revenue	584,159	1,321,895
Payment of State Water Contract	(19,556,738)	(16,705,505)
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	2,960,071	17,807,117
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of Property and Equipment (net)	(27,142,720)	(37,645,657)
Principal Repayment of Bonds Payable	(2,940,000)	(2,800,000)
Proceeds/(Payment) of Post Employment Benefit Debt (Net)	84,652	93,882
Proceeds/(Payment) of Restricted Debt and Projects	809,662	1,840,501
Net Cash Provided (Used) by Capital and Related Financing Activities	(29,188,406)	(38,511,274)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Receipt of Interest and Investment Income	3,836,870	3,699,868
Payment of Interest Expense	(5,155,399)	(5,599,730)
Net Cash Provided (Used) by Investing Activities	(1,318,529)	(1,899,862)
Net Change in Cash and Cash Equivalents	(17,293,236)	(22,772,725)
Cash and Cash Equivalents - Beginning	190,921,989	213,694,714
Cash and Cash Equivalents - Ending	\$ 173,628,753	\$ 190,921,989
<b>COMPONENTS OF CASH AND CASH EQUIVALENTS</b>		
Cash and Investments - Unrestricted	173,363,040	187,640,528
Cash and Investments - Restricted	265,713	3,281,461
Total Cash and Cash Equivalents	\$ 173,628,753	\$ 190,921,989
<b>NON CASH ACTIVITY</b>		
Capital Contributions - Donated Utility Plant	\$ 0	\$ 0

The accompanying Notes to Financial Statements are an integral part of these Statements.

**ANTELOPE VALLEY-EAST KERN WATER AGENCY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**

	<u>ENTERPRISE FUND</u>	
	<u>JUNE 30, 2010</u>	<u>JUNE 30, 2009</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 2,131,227	\$ 566,354
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	2,404,349	2,252,768
Changes in Assets - (Increase)/Decrease in:		
Services Receivable	516,544	(510,136)
Other Receivables	42,778	46,364
Deposits and Prepaid Expenses	(1,749,406)	(1,762,608)
Unamortized Bond Issuance Costs	35,243	(95,586)
Changes in Liabilities - Increase/(Decrease) in:		
Accounts Payable	3,839,166	(1,067,803)
Accrued Liabilities	(62,438)	11,037
Compensated Absences	(195,061)	35,039
Collections in Advance on Projects	3,291,226	355,865
Net Cash Provided (Used) by Operating Activities	<u>\$ 10,253,628</u>	<u>\$ (168,706)</u>

The accompanying Notes to Financial Statements are an integral part of these Statements.

**NOTES TO THE FINANCIAL STATEMENTS**

ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Antelope Valley-East Kern Water Agency's (the Agency) financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body of establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

A. Description of the Reporting Entity

The Antelope Valley-East Kern Water Agency was formed by the California Legislature in 1959 to supply local water users, as a wholesaler, with water from the State Water Project. The Agency derives its powers from the Antelope Valley-East Kern Water Agency Law, as set forth in Section 49-96 inclusive of Act 9095 of Water-Uncodified Acts of the State of California. The Agency serves portions of Los Angeles, Kern and Ventura Counties.

The Antelope Valley-East Kern Water District, for financial purposes, includes all funds relevant to the operations of the District. The Board of Directors has governance responsibilities over all activities related to the District. The District receives funding from local, county, state and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters

The Antelope Valley-East Kern Water Agency is a reporting entity which consists of the Agency as the oversight and only component unit. Oversight responsibility is determined by such criteria as financial interdependency, selection of governing authority and designation of management, budget control and ability to significantly influence operations.

B. Implementation of New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of Statement 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe the constraints imposed upon the use of the resources reported in the governmental funds. The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type and permanent fund type are clarified by the provisions in this Statement. The requirements of this Statement are effective for financial statements periods beginning after June 15, 2010, with earlier application encouraged. Fund balance reclassifications made to conform to the provisions of this Statement will be applied retroactively by restating fund balance for all prior periods presented.

C. Fund Accounting

The accounts of the Agency are organized on the basis of fund accounting. Resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled. The Agency's funds are accounted for as an enterprise fund type of the proprietary fund group.

ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

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

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Agency distinguishes 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 water sales to customers.

**D. Basis of Accounting and Measurement Focus**

The District accounts for its operation in an enterprise fund using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

An enterprise fund distinguishes 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 the District's principal ongoing operations. The principal operating revenues of the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

In accordance with GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*," the Agency has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989, for its proprietary fund financial statements, unless those pronouncements conflict with or contradict GASB pronouncements. The Agency has elected not to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989. Antelope Valley-East Kern Water Agency also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Agency has elected not to follow subsequent private-sector guidance.

**E. Classification of Revenues and Expenses**

Operating revenues are those revenues that are generated by domestic, agricultural and irrigation, and water sales, while operating expenses pertain to the furnishing of those services.

Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of supplying water services. Non-operating revenues mainly consist of property taxes, capacity charges, investment income, and miscellaneous income. Capital contributions consist of contributed capital assets and special charges that are legally restricted for capital expenditures by state law or by the Board action that established those charges. Non-operating expenses mainly consist of debt service interest and debt-related fees.

**F. Capital Assets**

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into retained earnings. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

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

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add the value of the asset or materially extend assets' lives is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation of all exhaustible property, plant and equipment used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Utility Plant	60 years
Site Improvements	20 - 30 years
Building and Improvements	25 - 50 years
Furniture and Equipment	5 - 15 years
Vehicles	10 years

**G. Budgets and Budgetary Accounting**

The Agency follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 30 the Agency submits to the Board of Directors a proposed operating and capital budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. Board Meetings are open for comments.
3. Prior to September 1 the budget is legally enacted.
4. The General Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures must be approved by the Board of Directors.
5. Formal budgetary integration is employed as a management control device during the year for the Proprietary Fund.
6. Budgets for the Proprietary Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Budgeted amounts are as originally adopted, or as amended. Individual amendments were not material in relation to the original appropriations which were amended.

**H. Deposits and Investments**

The Agency adopted GASB Statement No. 40, "Deposit and Investment Risk Disclosures," as of July 1, 2004. GASB Statement No. 40 requires governmental entities to assess categories of risk associated with their deposits and investments and disclose these risks.

The Agency adopted GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly the Agency reports its investments at fair value in the Statement of Net Assets.



ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

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

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Cash deposits are reported at carrying amount which reasonably estimates fair value.

I. Cash and Cash Equivalents

The Agency has adopted GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting". For purposes of reporting cash flows all highly liquid investments (unrestricted assets) with a maturity of three months or less are considered to be cash equivalents.

J. Inventories

The Agency does not maintain an inventory of parts and supplies. All parts and supplies are expensed upon acquisition.

K. Compensated Absences

Accumulated vacation benefits are recorded as liabilities on the books of the Agency. The Agency's policy is to record amounts as operating expenses in the period vacation leave is taken. The dollar value of such accumulations has been determined. As a result, the liabilities from such accumulated benefits were determined to be \$459,955 and \$655,016 as of June 30, 2010 and 2009.

L. Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. Property taxes are billed and collected for the Agency by Los Angeles, Kern and Ventura Counties. The Agency does not receive any property tax revenues directly; however delinquent special assessments are turned over to the County for collection with regular delinquent property tax assessment.

M. Pension Plan

The Agency has a defined contribution 401(K) and thrift pension plan covering substantially all of its employees. The pension plan is funded by making contributions to the plan equal to the amounts accrued for pension expense and voluntary employee contributions.

N. Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Agency's financial position and operations. However, comparative data have not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

O. Net Assets

The financial statements utilize a net asset presentation. Net assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted.

ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

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

Invested in Capital Assets (net of related debt) – is intended to reflect the portion of net assets that are associated with non-liquid capital assets less outstanding capital asset related debt.

Restricted Net Assets – represent net assets that have third party (statutory, bond covenant or granting agency) limitations on their use.

Unrestricted Net Assets – represent unrestricted net assets, while management may have categorized and segmented portions of various purposes, the Agency has the unrestricted authority to revisit or alter these managerial decisions.

P. 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Q. Community Facilities District

The Agency maintains a Community Facilities District (CFD 90-1) assessment district. This Community Facilities District was established under the Mello-Roos Community Facilities Act of 1982 and financed with Mello-Roos Community Facilities Act bonds. Accounting for CFD 90-1 follows the Governmental Accounting Standards Board (GASB) Statement No. 6, "Accounting and Financial Reporting for Special Assessments." GASB No. 6 states that Enterprise Funds such as that of the Agency are to account for special assessment financing debt on the books of the Agency only if one of the following conditions exists:

- 1) The Agency is not directly liable for the special assessment debt, but the debt is expected to be repaid from revenues of the Agency.
- 2) The Agency is directly liable for the special assessment debt.

Since the Agency is not directly liable for the CFD 90-1 debt and it is expected all such debt will be repaid from landowner assessments and not Agency revenues, the CFD 90-1 debt is not included in the Agency's financial statements. The Agency acts solely as an agent for the bondholders in collecting and forwarding the special assessments. Community Facilities District 90-1 Bonds outstanding at June 30, 2010 and 2009, totaled \$2,160,000.

R. Changes in Accounting Policy

The Agency has adopted GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions. This statement addresses how governments should account for and report their costs and obligations related to post employment healthcare and other nonpension benefits.

**ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 2 – CASH AND INVESTMENTS**

**General**

The Agency has adopted Governmental Accounting Standards Board Statements 31 and 40 (GASB 31 and 40), which requires investments of governmental agencies to be reported at fair values. Cash and investments as of June 30, 2010 and 2009 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	June 30, 2010	June 30, 2009
Cash and Investments	\$ 173,363,040	\$ 187,640,528
Restricted Cash and Investments	265,713	3,281,461
Total Cash and Investments	\$ 173,628,753	\$ 190,921,989

Cash and investments as of June 30, 2010 and 2009, consist of the following:

	Unrestricted	Restricted	June 30, 2010 Totals	June 30, 2009 Totals
Cash on Hand	\$ 500	\$ 0	\$ 500	\$ 500
Deposit with Financial Institutions	2,464,881	105,079	\$ 2,569,960	6,816,958
Investments	170,897,659	160,634	\$ 171,058,293	184,104,531
Total Cash and Investments	\$ 173,363,040	\$ 265,713	\$ 173,628,753	\$ 190,921,989

**Investments Authorized by the California Government Code and the Agency's Investment Policy**

The table below identifies the *investment types* that are authorized for the Agency by the California Government Code. 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 Agency, rather than the general provisions of the California Government Code or the Agency's investment policy.

ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of * Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

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

**Investments Authorized by Debt Agreements**

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency investment policy. The table below identifies the *investment types* that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address *interest rate risk*, *credit risk*, and *concentration of credit risk*.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

**ANTELOPE VALLEY-EAST KERN WATER AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**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 Agency 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.

As of June 30, 2010, the Agency had the following investments:

	<u>Amount</u>	<u>Maturity Date</u>
<b>U.S. Government Agency Bonds</b>		
Federal Home Loan Bank	\$ 5,009,400	09/03/10
Federal Home Loan Bank	2,038,120	04/14/11
Farm Credit Banks Funding Corp.	3,007,500	08/17/12
Federal Home Loan Bank	5,608,735	10/05/12
Federal Home Loan Bank	5,020,300	12/14/12
Federal Home Loan Bank	5,001,550	03/22/13
Farm Credit Banks Funding Corp.	5,010,950	03/28/13
Farm Credit Banks Funding Corp.	2,504,780	06/10/13
Farm Credit Banks Funding Corp.	2,505,475	09/03/13
Federal Home Loan Bank	3,022,500	09/10/13
Farm Credit Banks Funding Corp.	5,009,400	09/16/13
Farm Credit Banks Funding Corp.	4,008,760	12/02/13
Federal Home Loan Bank	5,025,000	12/09/13
Federal Home Loan Bank	4,006,240	12/24/13
Federal Home Loan Bank	3,801,178	01/06/15
Federal Home Loan Bank	3,000,000	06/30/15
Sub-Total	<u>63,579,888</u>	
<b>US Government Money Market</b>		
Wells Fargo Treasury Money Market Unrestricted	<u>10,250,810</u>	N/A
Sub-Total Investments	<u>\$ 73,830,698</u>	

ANTELOPE VALLEY-EAST KERN WATER AGENCY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2010 AND 2009

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

	<u>Amount</u>	<u>Maturity Date</u>
Sub-Total From Previous Page	\$ 73,830,698	
<b>Corporate Bonds</b>		
Wells Fargo Advantage Prime	3,935,052	N/A
Bank One Corporation	4,017,840	08/01/10
Wachovia Bank	5,115,245	08/18/10
Wells Fargo & Co	4,738,540	10/29/10
Arden Realty LP	1,996,265	11/15/10
JP Morgan Chase & Co	4,150,280	06/16/11
Bank One Corporation	2,101,760	11/15/11
General Electric Cap Corp.	2,095,300	11/15/11
The Goldman Sachs Group Inc	2,602,075	02/14/12
General Electric Cap Corp.	5,313,700	02/15/12
FIA Card Services	5,327,300	06/15/12
Wachovia Bank	<u>3,696,910</u>	03/01/13
Total Corporate Bonds	<u>45,090,267</u>	
<b>Investment Pools</b>		
California Local Agency Investment Fund (LAIF)		
Unrestricted	51,976,694	1.5 Month
Restricted	<u>160,634</u>	Average
Total Investment Pools	<u>52,137,328</u>	
Total Investments	<u>\$ 171,058,293</u>	

ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations**

The Agency's investments (including investments held by bond trustees) include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above):

<u>Highly Sensitive Investments</u>	<u>Fair Value at Year End</u>
Mortgage Backed Securities	\$ 63,579,888
Corporate Bonds	\$ 45,090,267

**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 minimum rating required by (where applicable) the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.





**ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**Concentration of Credit Risk**

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of *total Agency investments* are as:

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>
Federal Farm Credit System	U.S. Government Mortgage - Backed Securities	\$ 22,046,865
Federal Home Loan Mortgage Corp.	U.S. Government Mortgage - Backed Securities	\$ 41,533,023
Wells Fargo Bank	Corporate Bonds	\$ 8,673,592
Wachovia	Corporate Bonds	\$ 8,812,155
General Electric Cap Corp	Corporate Bonds	\$ 7,409,000

**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 Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2010 and 2009, \$121,082,834 and \$99,843,568 of the Agency's deposits with Wells Fargo Bank exceeded Federal Depository Insurance limits (FDIC). These funds were collateralized by a pool that exceeded 110% of the total amount on deposit by the Agency. Wells Fargo Institutional Securities, LLC acted as agent and custodian of the security on behalf of Wells Fargo Bank for the U.S. Government Bond investments.

**Investment in State Investment Pool**

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

**ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 3 – INVESTMENT EARNINGS (NET)**

Investment earnings are summarized as follows for the year ended June 30, 2010:

**Investment Earnings**

Interest and Dividends on Investments	\$	5,874,055	
Realized Gains on Investment Sold:			
Gross Proceeds		158,054,431	
Cost		160,202,536	\$ (2,148,105)

Total Investment Earnings			3,725,950
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**Unrealized Gains / (Losses)**

Unrealized Gain on Investments Sold			
Recorded in Previous Years			0
Unrealized Loss on Investments Recorded in Current Year			(391,236)

Total Unrealized Gains / (Losses)			(391,236)
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Net Investment Earnings			\$ 3,334,714
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**ANTELOPE VALLEY-EAST KERN WATER AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 4 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2010 and 2009 are shown below:

<u>Proprietary Fund</u>	Balance		Transfers	Deletions	Balance
	June 30, 2009	Additions			June 30, 2010
Land	\$ 27,938,155	\$ 0	\$ 0	\$ 0	\$ 27,938,155
Water Rights	3,522,879	0	0	0	3,522,879
Utility Plant	121,655,865	169,381	16,986,451	0	138,811,697
Furniture and Equipment	2,478,780	388,595	0	(27,745)	2,839,630
Intangible Plant	269,983	0	0	0	269,983
Construction in Progress	108,380,763	26,667,149	(16,986,451)	(117,648)	117,943,813
Totals	264,246,425	27,225,125	0	(145,393)	291,326,157
<u>Less: Accumulated Depreciation</u>					
Utility Plant	(48,245,020)	(2,230,398)	0	0	(50,475,418)
Furniture and Equipment	(1,635,400)	(173,951)	0	27,745	(1,781,606)
Totals	(49,880,420)	(2,404,349)	0	27,745	(52,257,024)
Governmental Activities					
Capital Assets - Net	\$ 214,366,005	\$ 24,820,776	\$ 0	\$ (117,648)	\$ 239,069,133

**NOTE 5 – SCHEDULE OF LONG-TERM DEBT**

	June 30, 2010			June 30, 2009
	Total Amount	Current Portion	Long-Term Portion	Total Amount
COP Series 2007 A-1	\$ 71,075,000	\$ 1,415,000	\$ 69,660,000	\$ 72,435,000
COP Series 2008 A-1	36,080,000	1,640,000	34,440,000	37,660,000
COP Series 2008 A-2	45,000,000	0	45,000,000	45,000,000
Post Employment Obligations	3,443,785	176,038	3,267,747	3,359,133
Totals	\$ 155,598,785	\$ 3,231,038	\$ 152,367,747	\$ 158,454,133

**ANTELOPE VALLEY-EAST KERN WATER AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 5 – SCHEDULE OF LONG-TERM DEBT (Continued)**

Long Term Debt – A schedule of changes in the long-term debt for the year ended June 30, 2010 is shown below:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010	Current Portion
COP Series 2007 A-1	\$ 72,435,000	\$ 0	\$ 1,360,000	\$ 71,075,000	\$ 1,415,000
COP Series 2008 A-1	37,660,000	0	1,580,000	36,080,000	1,640,000
COP Series 2008 A-2	45,000,000	0	0	45,000,000	0
Post Employment Benefits	3,359,133	143,810	59,158	3,443,785	176,038
<b>Totals of Long-Term Debt</b>	<b>\$ 158,454,133</b>	<b>\$ 143,810</b>	<b>\$ 2,999,158</b>	<b>\$ 155,598,785</b>	<b>\$ 3,231,038</b>

Annual requirements to amortize long-term debt (excluding post employment benefits) including interest are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 3,055,000	\$ 4,903,704	\$ 7,958,704
2012	3,180,000	4,780,915	7,960,915
2013	3,305,000	4,653,715	7,958,715
2014	3,435,000	4,521,515	7,956,515
2015	3,590,000	4,368,804	7,958,804
2016 -2020	20,445,000	19,343,214	39,788,214
2021 - 2025	25,515,000	14,272,152	39,787,152
2026 - 2030	31,180,000	8,926,528	40,106,528
2031 - 2035	39,645,000	4,897,249	44,542,249
2036 - 2037	18,805,000	612,821	19,417,821
	<b>\$ 152,155,000</b>	<b>\$ 71,280,617</b>	<b>\$ 223,435,617</b>

**ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 5 – SCHEDULE OF LONG-TERM DEBT (Continued)**

	June 30, 2010		
	Total Amount	Current Portion	Long-Term Portion
<u>Certificates of Participation</u>			
Original issue of \$75,000,000 Certificates of Participation 2007 A-1 bearing interest at a rate of 4.0%.	\$ 71,075,000	\$ 1,415,000	\$ 69,660,000
Original issue of \$39,150,000 Certificates of Participation 2008 A-1 bearing assumed interest rate of 4.0%.	36,080,000	1,640,000	34,440,000
Original issue of \$45,000,000 Certificates of Participation 2008 A-2 bearing interest at a rate of 5.0%.	45,000,000	0	45,000,000
<b>Totals</b>	<b>\$ 152,155,000</b>	<b>\$ 3,055,000</b>	<b>\$ 149,100,000</b>

Certificates of Participation Series 2007 A-1

In March of 2007 Antelope Valley-East Kern Water Agency issued Certificates of Participation in the amount of \$75,000,000 with interest rate of 4.0 percent. At June 30, 2010 and 2009, the principal balance outstanding of the Certificates of Participation was \$71,075,000 and \$72,435,000.

The annual requirements to amortize the Certificates of Participation Series 2007 A-1 outstanding as of June 30, 2010 are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 1,415,000	\$ 3,132,188	\$ 4,547,188
2012	1,470,000	3,075,588	4,545,588
2013	1,530,000	3,016,788	4,546,788
2014	1,590,000	2,955,588	4,545,588
2015	1,670,000	2,876,088	4,546,088
2016 - 2020	9,610,000	13,119,238	22,729,238
2021 - 2025	11,960,000	10,769,088	22,729,088
2026 - 2030	14,905,000	7,822,400	22,727,400
2031 - 2035	18,395,000	4,335,513	22,730,513
2036 - 2037	8,530,000	563,719	9,093,719
	<b>\$ 71,075,000</b>	<b>\$ 51,666,198</b>	<b>\$ 122,741,198</b>

**ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 5 – SCHEDULE OF LONG-TERM DEBT (Continued)**

**Certificates of Participation Series 2009 A-1**

In May of 2009 Antelope Valley-East Kern Water Agency issued Certificates of Participation in the amount of \$39,150,000 with an interest rate of 4.0 percent. At June 30, 2010 and 2009, the principal balance outstanding of the Certificates of Participation was \$36,080,000 and \$37,660,000.

The annual requirements to amortize the Certificates of Participation Series 2009 A-1 outstanding as of June 30, 2010 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,640,000	\$ 1,555,881	\$ 3,195,881
2012	1,710,000	1,490,281	3,200,281
2013	1,775,000	1,421,881	3,196,881
2014	1,845,000	1,350,881	3,195,881
2015	1,920,000	1,277,081	3,197,081
2016 - 2020	10,835,000	5,148,156	15,983,156
2021 - 2025	13,555,000	2,427,244	15,982,244
2026 - 2030	2,800,000	122,500	2,922,500
	<u>\$ 36,080,000</u>	<u>\$ 14,793,905</u>	<u>\$ 50,873,905</u>

**ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 5 – SCHEDULE OF LONG-TERM DEBT (Continued)**

Certificates of Participation Series 2009 A-2

In May of 2009 Antelope Valley-East Kern Water Agency issued Certificates of Participation in the amount of \$45,000,000 with interest rate initially calculated using a weekly rate (variable rate). At June 30, 2010, the principal balance outstanding of the Certificates of Participation was \$45,000,000.

The schedule below assumes an interest ranging from 4.0 percent to 5.0 percent.

The annual requirements to amortize the Certificates of Participation Series 2009 A-2 outstanding as of June 30, 2010 are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 0	\$ 215,635	\$ 215,635
2012	0	215,046	215,046
2013	0	215,046	215,046
2014	0	215,046	215,046
2015	0	215,635	215,635
2016 - 2020	0	1,075,820	1,075,820
2021 - 2025	0	1,075,820	1,075,820
2026 - 2030	13,475,000	981,628	14,456,628
2031 - 2035	21,250,000	561,736	21,811,736
2036 - 2037	10,275,000	49,102	10,324,102
	<u>\$ 45,000,000</u>	<u>\$ 4,820,514</u>	<u>\$ 49,820,514</u>

**NOTE 6 – CONTRIBUTED CAPITAL**

Donated Utility Plant

The Agency has consistently maintained a policy which requires the user to contribute (dedicate) plant/ equipment to the Agency. Under this policy an individual or developer bears the cost of installing all lines needed to service the individual or developer facility with water. The individual or developer then dedicates the plant/equipment to the Agency and from that time on, it is the Agency's responsibility to maintain this plant/equipment. The total contributed plant/equipment during the 2009 and 2010 fiscal years were \$0.

As discussed in Note 1, the Agency adopted GASB Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transaction*. This statement requires governments to recognize capital contributions to proprietary funds as revenues and not contributed capital.

ANTELOPE VALLEY-EAST KERN WATER AGENCY  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2010 AND 2009

**NOTE 7 – LIABILITIES PAYABLE FROM RESTRICTED ASSETS**

Certain assets of the Agency have been restricted for customer deposits and CFD debt which is not considered an obligation of the Agency. The earnings from the assets are credited respectively to the customer deposits, deferred compensation, and the CFD accounts. These assets consist of cash and investment in State Treasurer's Investment Pool (See Note 2) restricted as follows:

	2010	2009
Customer Deposits	\$ 0	\$ 8,500
CFD Funds Held for Debt Repayment	110,263	5,628
Total	\$ 110,263	\$ 14,128

**NOTE 8 – COMMITMENTS/LEASES**

The Agency has entered into operating leases for equipment as of June 30, 2010 that require payments extending for a period longer than twelve months. Future payments as of June 30, 2010 are as follows:

Year Ending June 30,	Amount
2011	\$ 5,184
2012	5,184
2013	381
Total	\$ 10,749

The Agency has not entered into any capital leases which provide for title to pass to the Agency upon expiration of the lease term.

**NOTE 9 – COMMUNITY FACILITIES DISTRICT BOND ISSUES (CFD 90-1)**

	Original Issue	Outstanding June 30, 2010	Outstanding June 30, 2009
Special Tax Bonds			
Community Facilities District No. 90-1	\$ 13,800,000	\$ 8,145,000	\$ 8,170,000

There are two outstanding Community Facilities District bond issues – Special Tax Bonds – 1990 Series A and 1991 Series A. The Special Tax Bonds were issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, to finance the acquisition and construction of certain public waterworks improvements, together with appurtenant work, to serve property located within the Community Facilities District No. 90-1 (Acton area). The bonds are payable from the proceeds of an annual special tax to be levied and collected from property within the



**ANTELOPE VALLEY-EAST KERN WATER AGENCY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**NOTE 9 – COMMUNITY FACILITIES DISTRICT BOND ISSUES (CFD 90-1) (Continued)**

District. Under terms of the Community Facilities District bonds, the Agency has custody of certain property tax funds, to be used for district interest and principal bond payments. The Agency is only acting as agent for the property owners in collecting special tax assessments, forwarding the collections to bondholders and initiating foreclosure proceedings, if appropriate.

As discussed in Note 1, the Agency has no obligation beyond the balances in the designated agency fund for any delinquent assessment district bond payments. If delinquencies occur beyond the amounts held in the reserve funds created from bond proceeds, the Agency has no duty to pay the delinquency out of any available funds of the Agency. Neither the faith, credit nor taxing power of the Agency is pledged to the payment of the bonds: and, therefore, the bonded indebtedness is not shown in the financial statements of the Agency.

Because the Agency is not obligated in any manner on the outstanding bonds and because the Agency is not benefiting from any of the new construction, the tax funds have been accounted for on a trust accounting basis.

**CFD 90-1 Special Tax Bond – 1990 Series A**

On January 1, 1991, the Agency issued \$8,340,000 of Community Facilities District 90-1 Special Tax Bonds. The principal balance matures annually each September 1 through 2021 and bears interest at variable rates which range from 6.85% to 8.60%. As of June 30, 2010 and 2009, \$4,960,000 and \$4,975,000 of the bonds remained outstanding.

**CFD 90-1 Special Tax Bond – 1991 Series A**

On April 1, 1991, the Agency issued an additional \$5,460,000 of Community Facilities District 90-1 Special Tax Bonds. The principal balance matures annually each September 1 through 2021 and bears interest at variable rates which range from 6.10% to 8.60%. As of June 30, 2010 and 2009, \$3,185,000 and \$3,195,000 of the bonds remained outstanding.

**NOTE 10 – RETIREMENT PLANS**

**Profit Sharing / 401(K) Pension Plan**

The Agency provides pension benefits for all its full-time employees by sponsoring a 401(K) and Thrift Defined Contribution Plan maintained by the trustee, Fidelity Management Trust Company. The employees may elect to have a portion of their compensation, not to exceed 50%, contributed to the Plan on a before-tax basis pursuant to Internal Revenue Code Section 401(K). The Agency's contribution rate is fixed at 10% of the employee's base compensation.

**Current Year Information**

The Agency's total payroll in the 2009/2010 fiscal year was \$2,362,631. The total contribution to the plan was based on a compensation of \$2,362,631 and \$2,529,514 for the years ended June 30, 2010 and 2009. Total contributions made by the Agency to the plan and reflected as expense for the year ended June 30, 2010 and 2009 were \$236,263 and \$252,951 and elective employee contributions for the year ended June 30, 2010 and 2009 were \$166,853 and \$213,358.

**ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 11 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

Plan Description

In addition to the pension benefits described in Note 10, the Agency provides postretirement health care benefits, in accordance with Agency policy, to all employees who retire from the Agency and meet certain eligibility requirements.

Eligibility for Agency-paid Benefits

To be eligible to retiree health benefits, an employee must retire from the Agency on or after the age 55 and who have completed at least 10 years of service; employees who complete 10 or more years of service and separate from the Agency due to permanent disability; former directors who served in office after January 1, 1981, who were first elected prior to January 1, 1995, and who have completed at least 12 years of service. Currently four retirees meet these eligibility requirements. Expenditures for post retirement health care benefits are expensed as paid, and during the fiscal year ended June 30, 2010 and 2009, a total of \$59,158 and \$49,928 was paid for these benefits.

Funding Policy

Effective 2009 the Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 45. In accordance with GASB 45 an actuary will determine the Agency's Annual Required Contributions (ARC) at least once every two fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost for one year, and (2) a component for amortization of the total Unfunded Actuarial Accrued Liability (UAAL) over a period not to exceed 30 years.

GASB 45 does not require pre-funding of OPEB benefits. However, the District has elected not to establish an irrevocable trust at this time.

Annual OPEB Cost and Net OPEB Obligation/(Asset)

The following table shows the components of the District's Annual OPEB cost for the fiscal year ended June 30, 2010, the amount actually contributed to the plan and the changes in the District's Net OPEB Obligation/ (Asset):

	<u>June 30, 2010</u>
Annual Required Contributions	\$ 143,810
Interest on Net OPEB Obligation/(Asset)	0
Adjustment to Annual Required Contributions	<u>0</u>
Annual OPEB cost (expense)	143,810
Contributions made	<u>(59,158)</u>
Increase in Net OPEB Obligation/(Asset)	84,652
Net OPEB Obligation/(Asset) - Beginning of Year	<u>3,359,133</u>
Net OPEB Obligation/(Asset) - End of Year	<u>\$ 3,443,785</u>

**ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 11 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)**

The District's Annual OPEB Cost, the Percentage of Annual OPEB Cost Contributed to the plan, and the Net OPEB Obligation/ (Asset) for the fiscal year ended June 30, 2010 are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation/ (Asset)</u>
6/30/2009	\$143,810	\$49,928	34.72%	\$3,359,133
6/30/2010	\$143,810	\$59,158	41.14%	\$3,443,785

**Funded Status and Funding Progress**

The funded status of the plan as of June 30, 2010, the end of the first year of GASB 45 applicability, was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Projected Unit Credit Actuarial Accrued Liability</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
February 1, 2008	\$ 0	\$ 3,246,786	\$ 3,246,786	0.00%	\$ 2,746,420	118.22%

Actuarial valuations of an ongoing plan involve estimates of the value 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 the Annual Required Contributions of the Agency are subject to continual revision as actual results are compared with past expectations and new estimate are made about the future. The schedule of funding progress, as presented shows where the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Because the fiscal year ended June 30, 2009 was the year of implementation of GASB No. 45, only two years are presented in the schedule at this time. In future years, required three year trend analysis will be presented.

**Actuarial Method and Assumptions**

**Actuarial Cost Method:** Entry Age Normal. The allocation of OPEB cost is based on years of service. We used the level percentage of payroll method to allocate OPEB cost over years of service.

Entry age is based on the average age at hire for eligible employees. The attribution period is determined as the difference between the average retirement age and the average age at hire. The present value of future benefits and present value of future normal costs are determined on an employee by employee basis and then aggregated.

To the extent that different benefit formulas apply to different employees of the same class, the normal cost is based on the benefit plan applicable to the most recently hired employees (including future hires if a new benefit formula has been agreed to and communicated to employees).

ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

**NOTE 11 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)**

Amortization Methods: the level percentage of payroll method to allocate amortization cost by year, a 30 year amortization period. Because there has not been a previous valuation to comply with GASB 45, it was not necessary at this time for AVEK Water Agency to make an election with respect to whether to use an “open” or “closed” amortization period; or whether to use different amortization periods for different sources of the UAAL.

Substantive Plan: as required under GASB 45, we based the valuation on the substantive plan. The formulation of the substantive plan was based on a review of written plan documents as well as historical information provided by AVEK Water Agency regarding practices with respect to employer and employee contributions and other relevant factors as described below:

Economic assumptions are set under the guidance of Actuarial Standard of Practice 27 (ASOP 27). Among other things, ASOP 27 provides that economic assumptions should reflect a consistent underlying rate of general inflation. For that reason, we show our assumed long-term inflation rate below.

Inflation: assumed 3% per year.

Investment Return/Discount Rate: Assumed 5% per year. This is based on assumed long-term return on plan assets or employer assets, as appropriate. The “Building Block Method” as described in ASOP 27 Paragraph 3.6.2. The assessment of long-term returns for employer assets is based on long-term historical returns for surplus funds invested pursuant to California Government Code Sections 53601 et seq.

Trend: Assumed 4% per year. The long-term trend assumption is based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. Trend increases in excess of general inflation result in dramatic increases in unemployment, the number of uninsured and the number of underinsured. These effects are nearing a tipping point which will inevitably result in fundamental changes in health care finance and/or delivery which will bring increases in health care costs more closely in line with general inflation. We do not believe it is reasonable to project historical trend vs. inflation differences several decades into the future.

Payroll Increase: Assumed 3% per year. This assumption applies only to the extent that either or both of the normal cost and/or UAAL amortization use the level percentage of payroll method. For purposes of applying the level percentage of payroll method, payroll increase must not assume any increases in staff or merit increases.

Actuarial Asset Valuation: The asset values were provided by AVEK Water Agency. Because there has not been a previous valuation to comply with GASB 45, it was not necessary at this time for AVEK Water Agency to make an election with respect to whether to use an asset smoothing formula and, if so, what smoothing method to use.

**ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 12 – STATE WATER SUPPLY CONTRACT**

On August 3, 1962, the Agency entered into a water supply contract with the State of California Department of Water Resources (DWR) to pay for a share of the State's construction, operation, and maintenance of facilities for the storage and conveyance of water (facilities commonly referred to as the California Aqueduct). This agreement provides for yearly payments to the DWR for 75 years. Cumulative payments made pursuant to the contract through June 30, 2010 are as follows:

Total amounts paid on State water supply contract through June 30, 2009	\$ 329,133,595
Amount paid during the fiscal year ended June 30, 2010	<u>19,556,738</u>
Total amounts paid on State water supply contract through June 30, 2010	<u>\$ 348,690,333</u>

**NOTE 13 – COMMITMENTS AND CONTINGENT LIABILITIES**

There are various claims and legal actions pending against the Agency for which no provision has been made in the financial statements. In the opinion of the Agency attorneys and other Agency officials, liabilities arising from these claims and legal actions, if any, will not be significant.

The Agency has entered into various construction commitments. Such contracts include contracts for additions and improvements to facilities. Several of these contracts were in progress but not completed as of June 30, 2010 and 2009. The total contractual commitments outstanding as of June 30, 2010 and 2009, aggregated approximately \$2,798,000 and \$23,235,000. The Agency has sufficient funds available to cover these commitments.

**Self-Insurance**

The Agency's insurance coverage consists of both self-insured programs and policies maintained with the ACWA/Joint Powers Insurance Authority (see Note 14).

**Mello-Roos Negotiations / Litigation**

As discussed in Note 9, the Agency maintains Community Facilities District 90-1, which was financed with Mello-Roos Bonds. Since the Agency is not directly liable for the CFD 90-1 debt and it is expected all such debt will be repaid from landowner assessments and not Agency revenues, the CFD 90-1 debt is not included in the Agency's financial statements. The Agency acts solely as an agent for the bondholders in collecting and forwarding the special assessments.

Economic conditions surrounding the Agency's service area have changed significantly since the issue of the Mello-Roos Bonds in 1990-91. Appraised property values have declined and residential and commercial construction are substantially below levels originally projected. These factors have contributed to a condition where the CFD negotiated an agreement in fiscal year 2001 with the bondholders (three separate bondholders hold 100% of the total outstanding bonds) to defease \$390,000 of the September 1, 2000 and September 1, 2001 outstanding bonds. In addition, the bondholders agreed to waive principal and interest payments due to them in exchange for the CFD not to levy a tax on a portion of the parcels until September 1, 2003.

While, as discussed above, the Agency is not directly liable for the Mello-Roos Bonds, the nonpayment of this debt and the potential foreclosure by the bondholders on the landowners will have a detrimental impact on the CFD finances. In addition, resolution of this situation could draw the Agency into significant litigation. Any potential adverse impact on the Agency's future financial statements as a result of these conditions cannot be estimated at this time.

**ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 14 – JOINT POWERS AGREEMENT (ACWA/JPIA)**

The Agency participates in a Joint Powers Agreement (JPA): the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA). The relationship between the Agency and the JPA is such that the JPA is not a component unit of the Agency for financial reporting purposes.

The JPA is governed by a board, consisting of a representative from each district. The JPA Board controls the operations, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the governing board. The insurance group arranges for and provides property and liability insurance for its members. The Agency pays a premium commensurate with the level of coverage requested.

Members of the JPA share surpluses and deficits proportionately to their participation in the JPA.

The JPA is independently accountable for its fiscal matters. The insurance group maintains its own accounting records. Budgets are not subject to any approval other than that of the governing board.

Below is the condensed financial information of the JPA for the years ended September 30:

	<u>ACWA/JPIA</u>			
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total Assets	\$ 124,067,027	\$ 117,864,564	\$ 111,476,713	\$ 102,216,230
Total Liabilities	\$ 83,993,363	\$ 79,504,265	\$ 79,950,846	\$ 73,348,877
Net Assets	40,073,664	38,360,299	31,525,867	28,867,353
	<u>\$ 124,067,027</u>	<u>\$ 117,864,564</u>	<u>\$ 111,476,713</u>	<u>\$ 102,216,230</u>
Total Revenues	\$ 27,377,336	\$ 28,445,936	\$ 23,913,223	\$ 20,068,101
Total Expenses	25,663,970	21,611,505	21,254,709	16,228,461
Net Income	<u>\$ 1,713,366</u>	<u>\$ 6,834,431</u>	<u>\$ 2,658,514</u>	<u>\$ 3,839,640</u>

The Agency's share of year-end assets, liabilities or fund equity has not been calculated. Complete separate financial statements for the ACWA/JPIA may be obtained at 5620 Birdcage Street, Suite 200, Citrus Heights, California 95610-7632.

**NOTE 15 – COMPLIANCE AND ACCOUNTABILITY**

**A. Finance-Related Legal and Contractual Provisions.**

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

**ANTELOPE VALLEY-EAST KERN WATER AGENCY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 15 – COMPLIANCE AND ACCOUNTABILITY (Continued)**

**B. Deficit Fund Balance or Fund Net Assets of Individual Funds**

Following are funds having deficit fund balances or fund net assets at year-end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

**NOTE 16 – ECONOMIC DEPENDENCY**

As discussed in Note 12, the Agency has a water supply contract with the State of California Department of Water Resources. The Agency purchases 100% of its water supplies pursuant to this contract.

**NOTE 17 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Excess of expenditures over appropriations as of June 30, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Pumping	\$ 2,051	\$ 0
Administration and General	\$ 101,265	\$ 45,741
Ground Water Survey	\$ 102,480	\$ 0
Depreciation	\$ 4,350	\$ 0
Statewater Contract	\$ 2,646,738	\$ 1,006,127
Amortization	\$ 243	\$ 59,706

**SUPPLEMENTARY INFORMATION**



**ANTELOPE VALLEY-EAST KERN WATER AGENCY  
HISTORY, ORGANIZATION AND BOARD OF DIRECTORS  
JUNE 30, 2010 AND 2009**

**HISTORY AND ORGANIZATION**

The Antelope Valley-East Kern Water Agency (AVEK) was granted its charter as regional water agency by the California State Legislature in 1959. In 1962 AVEK signed a water supply contract with the State to assure delivery of imported water through the State Water Project which includes the California Aqueduct System.

AVEK covers a land area of nearly 2,300 square miles. In addition to Northern Los Angeles and Eastern Kern Counties, the Agency's boundaries include a small portion of Ventura County.

The water agency consists of seven divisions, each represented by a director. Directors are elected to four year staggered terms by voters in the divisions in which they live.

**BOARD OF DIRECTORS**

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
David Rizzo (Division 7)	President	January 2013
George M. Lane (Division 4)	Vice President	January 2013
Andy D. Rutledge (Division 5)	Director	January 2011
Marlon Barnes (Division 6)	Director	January 2013
Carl B. Hunter, Jr. (Division 1)	Director	January 2011
Frank S. Donato (Division 3)	Director	January 2011
Keith Dyas (Division 2)	Director	January 2011

**GENERAL MANAGER**

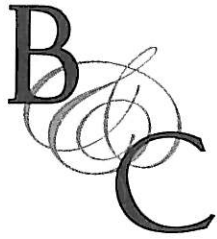
Daniel Flory

**ANTELOPE VALLEY-EAST KERN WATER AGENCY**  
**STATEMENT OF REVENUES AND EXPENSES - PROPRIETARY FUND TYPE**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	ORIGINAL BUDGET	FINAL BUDGET	2009-2010 ACTUAL	OVER/(UNDER) BUDGET
<b>OPERATING REVENUES</b>				
Water Sales	\$ 17,315,000	\$ 17,315,000	\$ 19,621,657	\$ 2,306,657
Irrigation Sales	1,437,000	1,437,000	444,678	(992,322)
Total Operating Revenues	<u>18,752,000</u>	<u>18,752,000</u>	<u>20,066,335</u>	<u>1,314,335</u>
<b>OPERATING EXPENSES</b>				
Water Purchases	8,776,460	8,776,460	7,158,632	(1,617,828)
Pumping	907,523	907,523	909,574	2,051
Water Treatment	4,066,894	4,066,894	3,427,621	(639,273)
Transmission and Distribution	117,798	117,798	80,641	(37,157)
Customer Accounts	10,029	10,029	4,974	(5,055)
Administration and General	3,695,571	3,695,571	3,796,837	101,266
Groundwater Survey	50,000	50,000	152,480	102,480
Depreciation	2,400,000	2,400,000	2,404,349	4,349
Total Operating Expenses	<u>20,024,275</u>	<u>20,024,275</u>	<u>17,935,108</u>	<u>(2,089,167)</u>
Operating Income (Loss)	<u>(1,272,275)</u>	<u>(1,272,275)</u>	<u>2,131,227</u>	<u>3,403,502</u>
<b>NON-OPERATING REVENUES</b>				
Tax Revenues	23,965,150	23,965,150	22,441,783	(1,523,367)
Net Investment Earnings	2,906,000	2,906,000	3,334,714	428,714
Other Revenues	60,000	60,000	47,866	(12,134)
Capacity Charges	0	0	536,293	536,293
Total Non-Operating Revenues	<u>26,931,150</u>	<u>26,931,150</u>	<u>26,360,656</u>	<u>(570,494)</u>
<b>NON-OPERATING EXPENSES</b>				
State Water Contract	16,910,000	16,910,000	19,556,738	2,646,738
Interest Expense	8,490,669	8,490,669	5,155,399	(3,335,270)
Amortization	35,000	35,000	35,243	243
Total Non-Operating Expenses	<u>25,435,669</u>	<u>25,435,669</u>	<u>24,747,380</u>	<u>(688,289)</u>
Non-Operating Income (Loss)	<u>1,495,481</u>	<u>1,495,481</u>	<u>1,613,276</u>	<u>117,795</u>
Increase (Decrease) in Net Assets	<u>\$ 223,206</u>	<u>\$ 223,206</u>	<u>\$ 3,744,503</u>	<u>\$ 3,521,297</u>

The accompanying Notes to Financial Statements are an integral part of these Statements.

**OTHER INDEPENDENT AUDITOR'S REPORT**



# BURKEY & COX EVANS BRADFORD ALDEN

ACCOUNTANCY CORPORATION

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TERRY L. SNEDIGAR, EA

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Antelope Valley-East Kern Water Agency  
Lancaster, California

We have audited the financial statements of the governmental activities, enterprise fund, and the aggregate remaining fund information of Antelope Valley-East Kern Water Agency, as of and for the year ended June 30, 2010 and 2009, which collectively comprise the Antelope Valley-East Kern Water Agency's basic financial statements and have issued our report thereon dated November 09, 2010. 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Antelope Valley-East Kern Water Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Antelope Valley-East Kern Water Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Antelope Valley-East Kern Water Agency's internal control over financial reporting.

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

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

Antelope Valley-East Kern Water Agency  
Page 2

Compliance and Other Matters

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

We noted certain matters that we reported to management of Antelope Valley-East Kern Water Agency, in a separate letter dated October 11, 2010.

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

*Burkey & Cox*

BURKEY COX EVANS BRADFORD & ALDEN  
Certified Public Accountant

Palmdale, California  
November 09, 2010

**RESOLUTION NO. R-13-10 (10/08/13)**

**BE IT RESOLVED** by the Board of Directors of Antelope Valley-East Kern Water Agency that the Rules and Regulations for Distribution of Water be amended, by amending Section 12. **WATER RATES AND CHARGES**, effective January 1, 2014 as follows:

**WATER RATES**

Page 1

**ANTELOPE VALLEY-EAST KERN WATER AGENCY  
WHOLESALE WATER RATES AND CHARGES  
EFFECTIVE JANUARY 1, 2014**

**12. WATER RATES AND CHARGES**

(a)

**FOR MUNICIPAL AND INDUSTRIAL WATER DELIVERED TO CONSUMERS  
UNDER TERMS OF WATER SERVICE AGREEMENTS**

<u>Year</u>	<u>Treated Water Delivery Charge Winter Season</u> <sup>1</sup> \$/AF	<u>Treated Water Delivery Charge Summer Season</u> <sup>2</sup> \$/AF	<u>Untreated Water Delivery Charge</u> \$/AF
<b>2014</b>	<b>375.00</b> (187.50/mo. min.)	<b>450.00</b> (225.00/mo. min.)	<b>288.00</b> (144.00/mo. min.)

<sup>1</sup> Winter Season: October - May

<sup>2</sup> Summer Season: June - September

**WATER RATES**

Page 2

(a-1)

**FOR TREATMENT & DELIVERY OF  
PALMDALE WATER DISTRICT ALLOCATION**

<u>Year</u>	<u>Treated Water Delivery Charge</u> \$/AF
2014 <sup>1</sup>	<b>448.00</b> (224.00/mo. min.)

(a-2)

**FOR TREATMENT AND DELIVERY OF  
MOJAVE WATER AGENCY ALLOCATION**

<u>Year</u>	<u>Treated Water Delivery Charge</u> \$/AF	<u>Treated Water Capacity Charge</u> <sup>2</sup> \$/AF	<u>Rebate To Mojave WA</u> <sup>3</sup> \$/AF
2014	<b>1,003.00</b>	<b>180.93</b>	<b>394.00</b>

<sup>1</sup> Estimated 2014 State Variable: \$191.00/AF. Actual charges subject to specific terms of Agreement.

<sup>2</sup> Rate to be calculated regularly based on CPI Index as per Agreement.

<sup>3</sup> Estimated Rate Shown. Actual Rate to be Determined Prior to January 1, 2014.

**WATER RATES**

Page 3

(a-3)

**FOR MUNICIPAL & INDUSTRIAL WATER  
DELIVERED TO MAIN BASE AT EDWARDS AFB**

<u>Year</u>	<u>Treated Water Delivery &amp; Capacity Charge<sup>1</sup></u> \$/AF
2014	916.00

(a-4)

**FOR MUNICIPAL & INDUSTRIAL WATER  
DELIVERED TO PHILLIPS LAB AT EDWARDS AFB**

<u>Year</u>	<u>Treated Water Delivery Charge<sup>1</sup></u> \$/AF
2014	956.00

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<sup>1</sup> Estimate rate shown. Actual charges subject to specific terms of agreement.



**WATER RATES**

Page 4

(b)

**FOR AGRICULTURAL WATER DELIVERED TO CONSUMER**  
**UNDER TERMS OF WATER SERVICE AGREEMENTS**  
**FROM THE CALIFORNIA AQUEDUCT THROUGH CONSUMER-OWNED FACILITIES**

<u>Year</u>	<u>Water Availability Charge</u> \$/AF	<u>Untreated Water Delivery Charge</u> \$/AF
2014	139.00	278.00

(b-1)

**FOR AGRICULTURAL WATER DELIVERED TO CONSUMER**  
**UNDER TERMS OF WATER SERVICE AGREEMENTS**  
**FROM AGENCY-OWNED FACILITIES**

<u>Year</u>	<u>Water Availability Charge</u> \$/AF	<u>Treated Water Delivery Charge</u> \$/AF	<u>Untreated Water Delivery Charge</u> \$/AF
2014	113.00	406.00 (203.00/mo. min.)	282.00 (141.00/mo. min.)

## WATER RATES

Page 5

(c-2)

**GROUNDWATER BANKING/STORAGE**  
**PRICE FOR UNTREATED WATER TO BE STORED IN THE**  
**ANTELOPE VALLEY FOR USE WITHIN AVEK BOUNDARIES**  
**BY DIRECT OR IN-DIRECT (IN-LIEU) RECHARGE**  
**Effective April 1, 2013 – March 31, 2014**

<u>Year</u> <sup>1</sup>	<u>Untreated Water</u> <u>Delivery Charge</u> <sup>2</sup> \$/AF
2014	260.00

(c-3)

**GROUNDWATER BANKING/STORAGE**  
**PRICE FOR TREATED WATER TO BE STORED**  
**IN THE ANTELOPE VALLEY**  
**BY DIRECT RECHARGE, INCLUDING AQUIFER STORAGE & RECOVERY (ASR)**

<u>Year</u>	<u>Treated Water</u> <u>Delivery Charge</u> <sup>4</sup> \$/AF
2014 Winter Season <sup>3</sup>	347.50

<sup>1</sup> The Groundwater Banking / Storage Rate will be in effect from April 1, 2013 through March 31, 2014. The next annual rate will be set by March 2014.

<sup>2</sup> Water Rate to be based on the variable rate charges indicated to AVEK on the January Department of Water Resources (DWR) invoice, including Variable O & M Power, Variable Transportation, and Off-Aqueduct, plus an overhead factor to be determined by the AVEK Board annually.

<sup>3</sup> Winter Season: January – May, October – December. The 12 (c-3) ASR Rate is available only during the winter period.

<sup>4</sup> Water Rate to be set at \$65.00/AcFt less than the Section 12(a) Base Treated Water Rate, before the summer/winter rates are set. The Base Treated Water Rate is equal to the average of the summer and winter rate. For example: If the Base Rate = \$412.50/AcFt, the 12 (c-3) ASR Rate is: \$412.50 - \$65 = \$347.50/AcFt.