

Bighorn-Desert View Water Agency

Report on Audit

June 30, 2008 and 2007

Bighorn-Desert View Water Agency

(A Special District)

June 30, 2008 and 2007

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INDEPENDENT AUDITORS' REPORT

December 19, 2008

The Board of Directors
Bighorn-Desert View Water Agency

We have audited the accompanying balance sheets of Bighorn-Desert View Water Agency (the "Agency") as of and for the years ended June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose 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 Agency's internal control over financial reporting. Accordingly, we express no 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency at June 30, 2008 and 2007, and the changes in net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report on page 31, dated December 19, 2008, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The Board of Directors
Bighorn-Desert View Water Agency

The Management's Discussion and Analysis on pages 3 through 9 are not a required part of the basic financial statements, but are supplementary information required by the 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 for the years ended June 30, 2007 and 2008 were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules listed in the accompanying table of contents for the years ended June 30, 2007 and 2008 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole for the years ended June 30, 2007 and 2008.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants



MANAGEMENT'S DISCUSSION AND ANALYSIS

THE AGENCY

The Bighorn-Desert View Water Agency (the "Agency") was formed in 1990 as the result of a merger between the Bighorn Mountains Water Agency (established 1969) and the Desert View Water Agency (established 1964). It is a state chartered public agency formed to provide a safe and reliable water distribution system to its constituents. The Agency encompasses approximately 44 square miles of desert area and services the communities of Flamingo Heights, Landers, and Johnson Valley. The Agency has approximately 1,584 metered, active services and operates eight deep wells, ten above ground reservoirs and maintains about 600 fire hydrants and 109 miles of water main pipelines. The Agency is governed by a five-member Board of Directors. The Directors serve at large and are elected by registered voters living within the Agency's boundaries.

THE BASIC FINANCIAL STATEMENTS

This annual report consists of the management's discussion and analysis (this section) and the basic financial statements. The basic financial statements are presented in the format prescribed by the Governmental Accounting Standards Board for proprietary type funds. As a proprietary fund, the Agency uses the full accrual basis of accounting. Proprietary fund statements offer short-term and long-term financial information about the activities that operate like a business.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes are located immediately after the basic financial statements.

The basic financial statements are made up of the statement of net assets, statement of revenues, expenses and changes in net assets, and the statement of cash flows. Each statement is described in detail below.

The statement of net assets presents information on the Agency's assets and liabilities. Assets reflect what we own and liabilities reflect what we owe. The difference between assets and liabilities is reported as net assets. The change in net assets is one way to measure the Agency's financial health. Increases and decreases are indicators of whether its financial health is improving or deteriorating, respectively.

The statement of revenues, expenses and changes in net assets describes the results of the Agency's financial activities during the years reported. It shows the change in net assets by comparing operating and non-operating revenues with operating and non-operating expenses. Operating revenues and expenses relate to the principal business activities of the Agency, which is to provide water for its customers. All other revenues and expenses, including surcharges for debt repayment, are classified as non-operating.

Bighorn-Desert View Water Agency

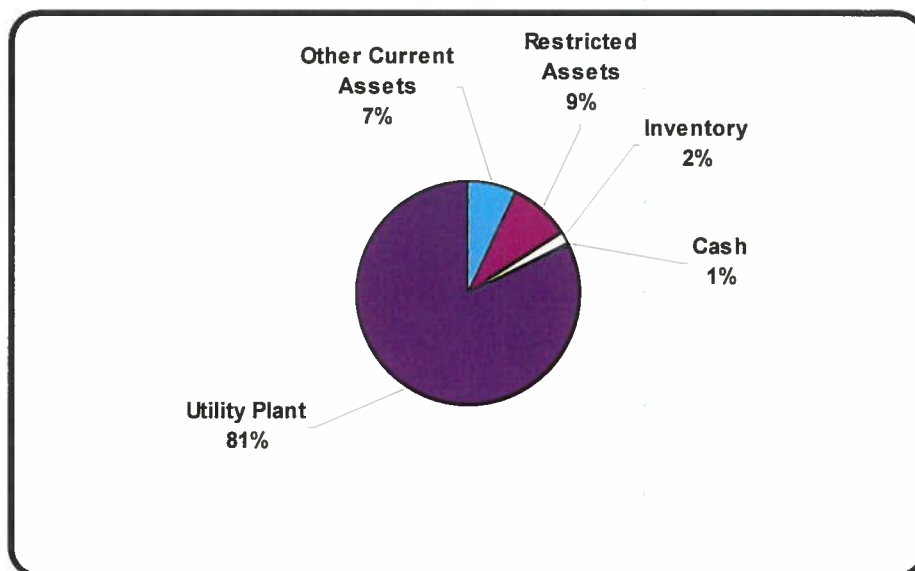
Management's Discussion and Analysis
June 30, 2008 and 2007

THE BASIC FINANCIAL STATEMENTS, Continued

The statement of cash flows describes to the financial statement users how the Agency managed its cash during the year. It tells the user from what sources the Agency received cash and for what purposes cash was used. The statement converts operating income (or loss) from the statement of revenues, expenses and changes in net assets into actual cash provided by and used in operations. Additionally, the statement of cash flows details how the Agency obtains and spends cash for investing and financing activities.

SUMMARY FINANCIAL INFORMATION AND ANALYSIS

ASSETS



As stated above, assets are, in their simplest form, what is owned by an entity. The Agency's assets are comprised of current assets, restricted assets and non-current assets.

Assets are classified as current if they are cash, are expected to be converted to cash or are expected to be consumed in operations within one year. Current assets consist of cash, accounts receivable, property taxes receivable, interest receivable, inventory, prepaid expenses and construction in progress. At June 30, 2008, the Agency had \$421,984 in current assets as compared to \$610,577 at June 30, 2007.

The total decrease in current assets of \$188,593 consists primarily of a decrease in unrestricted cash of \$264,083, and an increase in construction in progress of \$119,618. Construction in progress is made up of the development of a future water master plan and an annexation.

Assets are reported as restricted when restrictions, imposed by creditors (such as through debt covenants) or by law, change the nature or normal understanding of the availability of the assets. Restricted assets for the Agency are cash collections in excess of amounts currently due for the repayment of bond principal, and cash collected for customer deposits and basic facilities fees. Restricted assets of the Agency at June 30, 2008 and 2007 were \$433,099 and \$434,918.

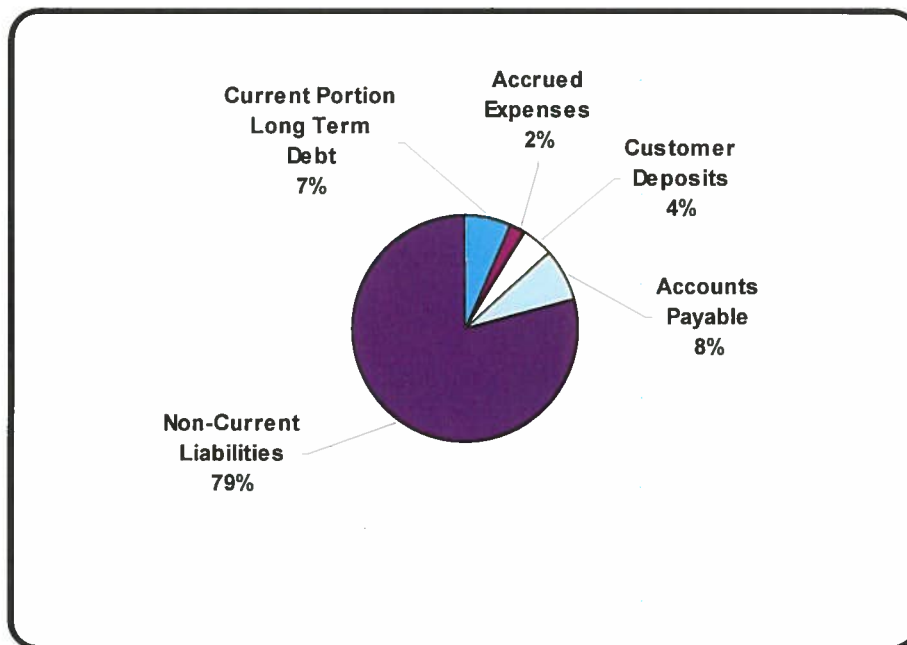
Bighorn-Desert View Water Agency

Management's Discussion and Analysis
June 30, 2008 and 2007

ASSETS, Continued

Non-current assets are the least liquid of assets. Assets that are not expected to be consumed or liquidated within one year are classified as non-current. Non-current assets for the Agency are deferred charges related to the issuance of long-term debt and utility plant (e.g., wells, tanks, pipeline, etc.). The Agency's non-current assets at June 30, 2008 were \$3,917,765 versus \$3,994,802 at June 30, 2007. Fixed asset purchases of \$265,243, along with depreciation and amortization of \$219,804, account for the majority of the change in non-current assets.

LIABILITIES



As stated above, liabilities are basically what is owed by an entity to its vendors, suppliers, employees and creditors. The Agency's liabilities are reported as current, payable from restricted assets, and non-current.

Current liabilities are amounts owed which are expected to be paid or otherwise settled within one year. The Agency's current liabilities consist of accounts payable, current portions of long-term debt (i.e., due within one year) and accrued expenses. Current liabilities of the Agency were \$248,000 at June 30, 2008 and \$151,380 at June 30, 2007.

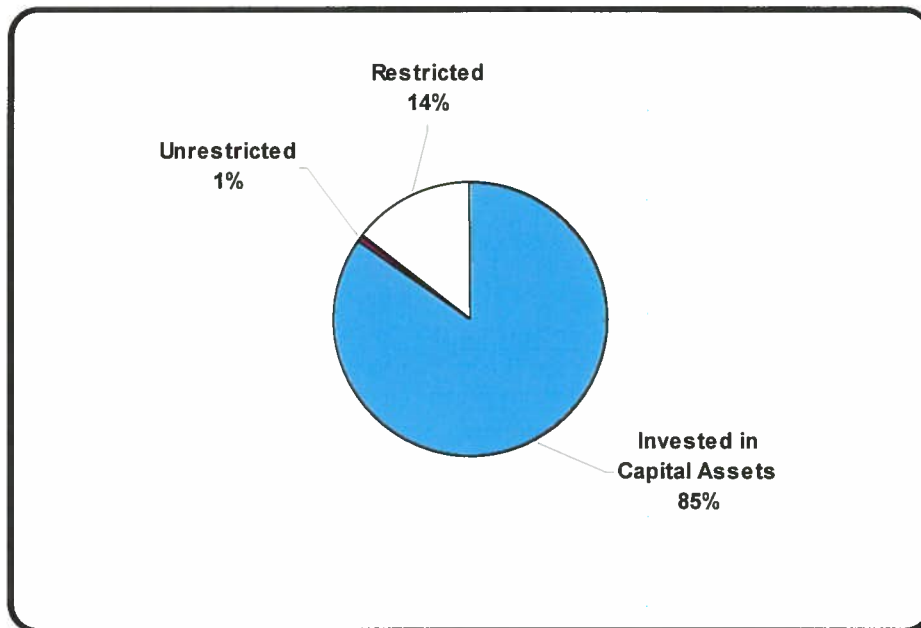
Liabilities payable from restricted assets represent obligations that will be repaid from assets classified as restricted. Liabilities payable from restricted assets for the Agency are security deposits received from customers. The balances of liabilities payable from restricted assets at June 30, 2008 and 2007 were \$62,710 and \$60,311, respectively.

Liabilities that are not due within one year are classified as non-current. The Agency's non-current liabilities are the principal portion of its outstanding bonds and capital leases. Non-current liabilities at June 30, 2008 were \$1,192,410 compared to \$1,291,497 at June 30, 2007. The decrease is due to principal payments made during the year.

Bighorn-Desert View Water Agency

Management's Discussion and Analysis
June 30, 2008 and 2007

NET ASSETS



The Agency is required to present its net assets in three categories: invested in capital assets, restricted and unrestricted.

Invested in capital assets is the component of net assets that consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any borrowings that are attributable to the acquisition of those assets.

The amounts reported as invested in capital assets for the Agency at June 30, 2008 include: utility plant, at cost, of \$8,666,417; less accumulated depreciation of \$4,752,674; plus construction in progress of \$156,293; less all debt related to the acquisition of utility plant of \$1,260,977 for a total of \$2,809,059. At June 30, 2007 the total of invested in capital assets was \$2,691,161. The increase is mainly due to fixed asset purchases.

Net assets are reported as restricted when constraints placed on net assets are either externally imposed by creditors (i.e., debt covenants) or imposed by law. Restricted net assets for the Agency at June 30, 2008 include: property tax collected and interest earned on property tax collected of \$461,626 for repayment of the General Obligation Bonds, and surcharges collected in excess of debt payments of \$18,238 for repayment of the Desert View Bonds for a total of \$479,864. The Agency's restricted net assets at June 30, 2007 were \$442,820.

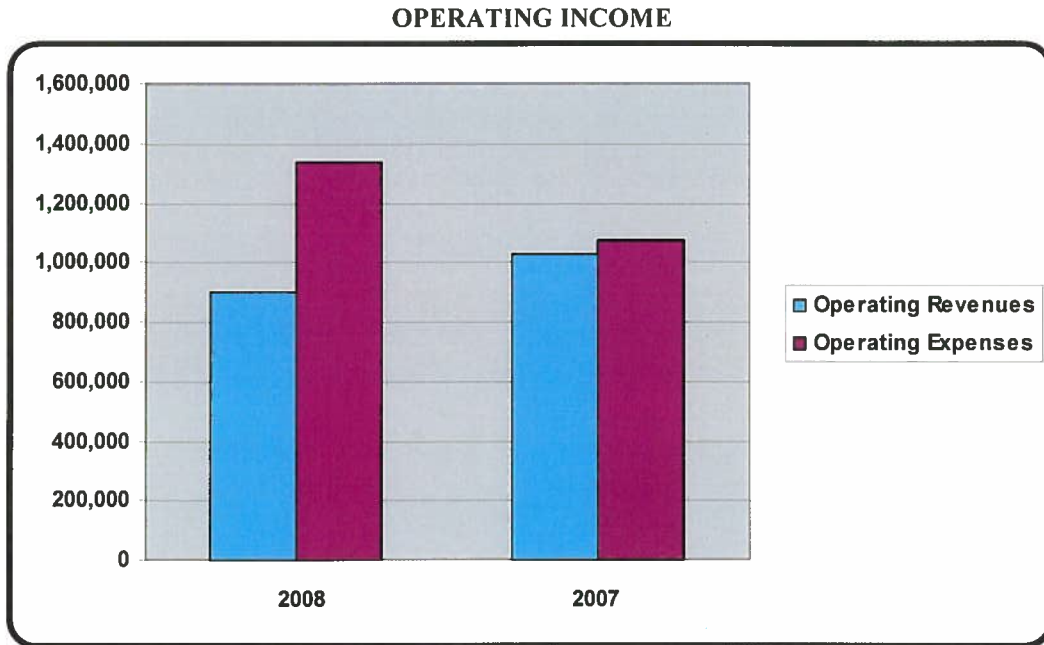
Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets". The Agency's unrestricted net assets at June 30, 2008 are (\$58,360) and \$403,128 at June 30, 2007.

	<u>2008</u>	<u>2007</u>
Total assets	\$ 4,772,848	\$ 5,040,297
Total liabilities	<u>1,503,120</u>	<u>1,503,188</u>
Total net assets	<u>\$ 3,269,728</u>	<u>\$ 3,537,109</u>

Bighorn-Desert View Water Agency

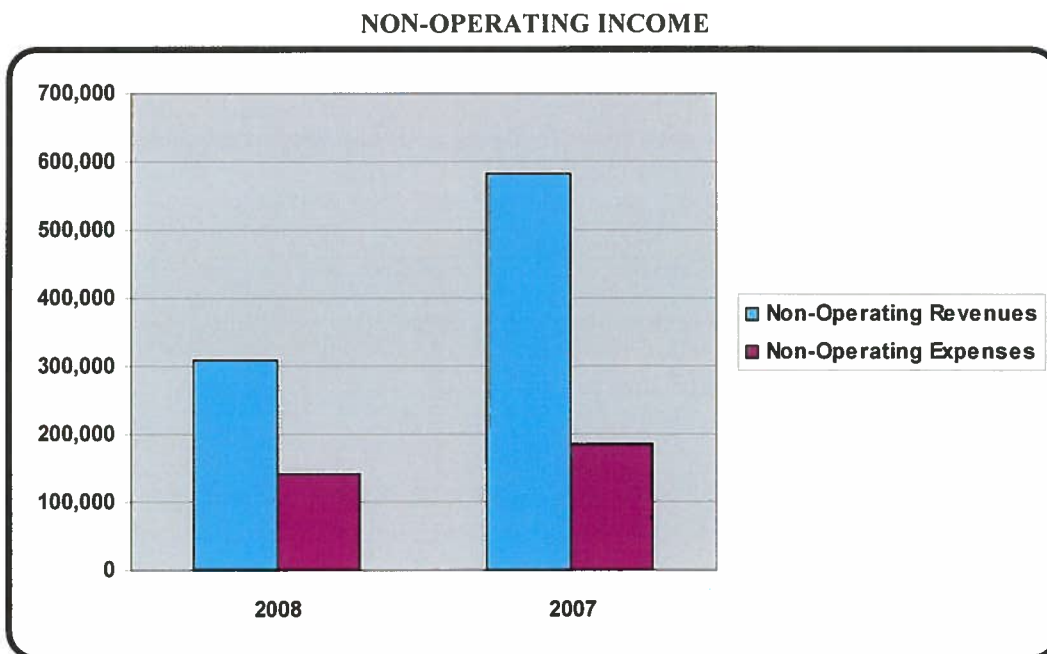
Management's Discussion and Analysis
June 30, 2008 and 2007

OPERATING REVENUES AND EXPENSES



The Agency's operating revenues decreased to \$901,719 from \$1,028,163, primarily due to lower water sales and services. Operating expenses increased \$258,506 from 2007.

NON-OPERATING REVENUES AND EXPENSES



Non-operating revenues for the year ended June 30, 2008 decreased \$273,280 over 2007. The majority of the decrease was due to less grant monies being received during the fiscal year.

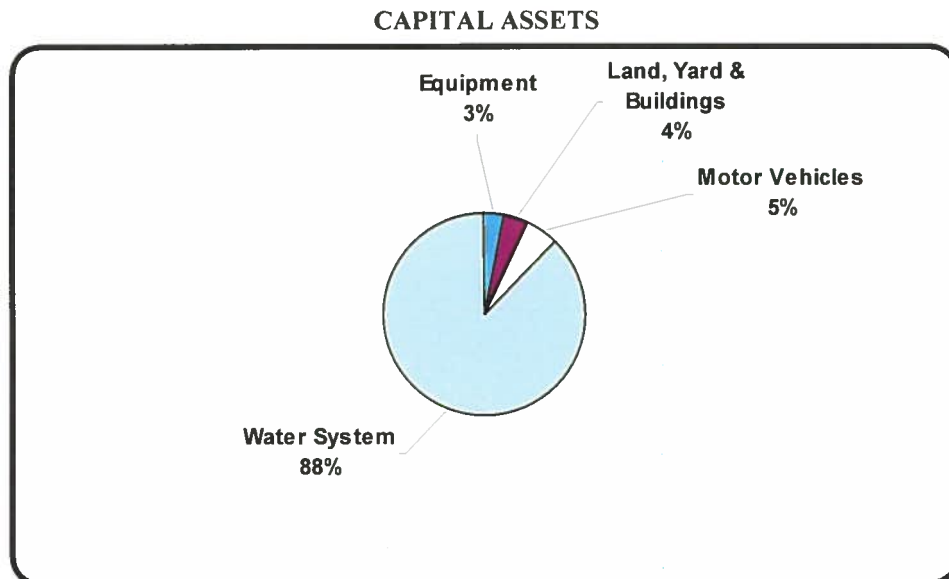
Bighorn-Desert View Water Agency

Management's Discussion and Analysis
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 901,719	\$ 1,028,163
Operating expenses before depreciation	<u>1,117,286</u>	<u>878,993</u>
Operating income before depreciation	(215,567)	149,170
Depreciation	<u>219,804</u>	<u>199,587</u>
Operating income (loss)	(435,371)	(50,421)
Non-operating income	<u>167,994</u>	<u>395,664</u>
Change in net assets	(267,377)	345,243
Net assets, beginning	<u>3,537,105</u>	<u>3,191,862</u>
Net assets, ending	<u>\$ 3,269,728</u>	<u>\$ 3,537,105</u>

CAPITAL ASSETS

The Agency's capital assets consist of its water distribution system and the ancillary equipment and fixtures needed to support and maintain that system. The following graph shows the composition of the Agency's total capital assets at June 30, 2008.



Capital expenditures during fiscal year 2007-2008 were \$272,743. \$152,618 was spent on water system improvements; \$507 on shop equipment; and \$119,618 on construction in progress.

Bighorn-Desert View Water Agency

Management's Discussion and Analysis
June 30, 2008 and 2007

LONG-TERM DEBT

The Agency has two outstanding bond issues: the Water Revenue Bonds of 1980 and a General Obligation Bond issued in June, 1979. The Water Revenue Bonds of 1980 were issued to finance \$700,000 of a \$1,500,000 project to construct additions to and improve the water supply and distribution system of the then Desert View Water District. The General Obligation Bonds were issued to help finance \$1,875,000 of a project to construct the water supply and distribution system for the Bighorn Mountains Water Agency's Improvement District 1.

No new debt was incurred by the Agency in 2007-2008. Principal payments of \$58,000 and interest payments of \$50,650 on the General Obligation Bonds were made as scheduled, as well as \$22,000 principal payments and \$19,049 interest payments on the Water Revenue Bonds. The outstanding principal on the General Obligation Bonds and Water Revenue Bonds, at June 30, 2008 is \$900,000 and \$358,977, respectively.

ECONOMIC OUTLOOK

Cash Flow

The District's previous growth trend has slowed significantly over the last year, following another smaller slowdown the prior year. This follows three years of moderate growth. Previously, there was nearly a decade of virtually no growth resulting from the 1992 Landers earthquake. Management expects the growth to slow even further in response to the decline in the national and state economies. Operating revenues decreased from 2007, while operating expenses increased. These conditions contributed to the decrease in cash of \$265,902 in 2008. In 2007, the District also experienced a decrease in cash of \$99,251. This trend must be reversed in 2009 if the District is to remain financially viable in the long-term.

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the District at 622 S. Jemez Trail, Yucca Valley, California 92284 or call (760) 364-2315.

Bighorn-Desert View Water Agency

(A Special District)

Balance Sheets

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets:		
Cash and investments	\$ 25,067	\$ 289,150
Accounts receivable-water services	105,786	126,606
Accounts receivable-availability	-	237
Property tax receivable	39,984	21,619
Interest receivable	4,072	10,185
Inventory	71,711	113,534
Prepaid expenses	11,571	5,071
Construction in progress	<u>163,793</u>	<u>44,175</u>
Total current assets	421,984	610,577
Restricted assets		
Cash	433,099	434,918
Non-current assets:		
Debt issuance costs, net	4,022	6,837
Utility plant, net	<u>3,913,743</u>	<u>3,987,965</u>
Total non-current assets	<u>3,917,765</u>	<u>3,994,802</u>
TOTAL ASSETS	<u>\$ 4,772,848</u>	<u>\$ 5,040,297</u>

See accompanying notes and auditors' report

Bighorn-Desert View Water Agency

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Balance Sheets

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 114,444	\$ 25,154
Current portion of long-term debt	85,000	80,000
Current portion of capital lease	14,087	14,087
Payroll liabilities	11,315	8,582
Interest payable	8,237	9,576
Compensated absences	14,917	13,981
Total current liabilities	<u>248,000</u>	<u>151,380</u>
Liabilities payable from restricted assets		
Customer deposits	62,710	60,311
Non-current liabilities		
Bonds payable	1,175,977	1,260,977
Capital lease payable	16,433	30,520
Total non-current liabilities	<u>1,192,410</u>	<u>1,291,497</u>
Total liabilities	1,503,120	1,503,188
NET ASSETS		
Invested in capital assets, net of related debt	2,816,559	2,691,161
Restricted for debt service	479,864	442,820
Unrestricted	<u>(26,695)</u>	<u>403,128</u>
Total net assets	<u>3,269,728</u>	<u>3,537,109</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,772,848</u>	<u>\$ 5,040,297</u>

See accompanying notes and auditors' report

Bighorn-Desert View Water Agency
(A Special District)

Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Water sales	\$ 497,295	\$ 565,170
Water services	29,598	84,826
Basic surcharge	374,826	378,167
Total operating revenues	<u>901,719</u>	<u>1,028,163</u>
OPERATING EXPENSES		
Transmission and distribution	452,725	312,948
General and administrative	664,561	566,049
Total expenses	<u>1,117,286</u>	<u>878,997</u>
Depreciation	219,804	199,587
Total operating expenses	<u>1,337,090</u>	<u>1,078,584</u>
OPERATING LOSS	(435,371)	(50,421)
NON-OPERATING REVENUES		
Interest income	28,175	43,874
Tax levy	231,254	205,830
Desert View debt surcharge	43,640	43,665
Mojave Water Agency pipeline surcharge	-	-
Grant income	11,077	278,378
Gain/loss on disposal of asset	(7,541)	(5,034)
Other income	1,143	14,315
Total non-operating revenues	<u>307,748</u>	<u>581,028</u>
NON-OPERATING EXPENSES		
Interest expense	65,610	70,332
Mojave Water Agency pipeline debt	71,330	112,218
Amortization of debt issuance costs	2,814	2,814
Total non-operating expenses	<u>139,754</u>	<u>185,364</u>
NON-OPERATING INCOME	167,994	395,664
CHANGE IN NET ASSETS	(267,377)	345,243
Net Assets		
Beginning, July 1	<u>3,537,105</u>	<u>3,191,862</u>
Ending, June 30	<u>\$ 3,269,728</u>	<u>\$ 3,537,105</u>

See accompanying notes and auditors' report

Bighorn-Desert View Water Agency

(A Special District)

Statements of Cash Flows

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Cash received from customers	\$ 905,122	\$ 1,007,004
Cash payments to suppliers for goods and services	(479,832)	(518,136)
Cash payments to employees and directors for services	(537,337)	(360,190)
Other miscellaneous revenues	-	8,545
	<u> </u>	<u> </u>
Net cash provided by (used in) operating activities	(112,047)	137,223
Cash flows from non-capital financing activities		
Property taxes received	<u>108,998</u>	<u>88,604</u>
	<u> </u>	<u> </u>
Net cash provided by non-capital financing activities	108,998	88,604
Cash flows from capital and related financing activities		
Property taxes received in support of long-term debt	122,256	110,844
Other revenue received in support of long-term debt	43,640	43,665
Acquisition of capital assets	(272,743)	(529,485)
Proceeds on disposition of capital assets	-	736
Principal paid on long-term debt	(80,000)	(76,000)
Interest paid on long-term debt	(66,949)	(70,282)
Principal paid on capital leases	(14,087)	(14,087)
Mojave Water Agency pipeline support paid	(35,665)	(112,218)
Other income	1,443	-
Grants revenue received	<u>11,077</u>	<u>278,378</u>
	<u> </u>	<u> </u>
Net cash used in capital and related financing activities	(291,028)	(368,449)
Cash flows from investing activities		
Interest received	<u>28,175</u>	<u>43,371</u>
	<u> </u>	<u> </u>
NET DECREASE IN CASH	(265,902)	(99,251)
Cash		
Beginning, July 1	<u>724,068</u>	<u>823,319</u>
	<u> </u>	<u> </u>
Ending, June 30	<u>\$ 458,166</u>	<u>\$ 724,068</u>

See accompanying notes and auditors' report

Bighorn-Desert View Water Agency
(A Special District)

Statements of Cash Flows, Continued
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Reconciliation of cash and cash equivalents to the statements of net assets		
Cash, restricted for debt service	\$ 433,099	\$ 434,918
Cash, unrestricted	<u>25,067</u>	<u>289,150</u>
	<u>\$ 458,166</u>	<u>\$ 724,068</u>
Reconciliation of operating income (loss) to cash used in operating activities		
Operating income (loss)	\$ (435,371)	\$ (50,417)
Adjustments		
Depreciation	219,804	199,587
Other miscellaneous revenues	-	8,545
Changes in assets liabilities		
Accounts receivable and other receivables	8,804	(26,905)
Inventory	41,823	2,861
Prepaid expenses	(6,500)	1,793
Accounts payable and other liabilities	57,294	(3,988)
Customer deposits	<u>2,099</u>	<u>5,747</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (112,047)</u>	<u>\$ 137,223</u>

Bighorn-Desert View Water Agency

(A Special District)

Notes to Financial Statements

June 30, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Bighorn-Desert View Water Agency (the “Agency”) is a special district that was formed in 1990 when the San Bernardino County Board of Supervisors approved the consolidation of Bighorn Mountains Water Agency (established 1969) and Desert View Water District (established 1964). It is the Agency’s mission to provide water and water related services to the population within the Agency’s boundaries. Accordingly, the Agency is authorized to finance, construct, operate and maintain a water transmission and distribution system to benefit this population. Its boundaries encompass approximately 44 square miles. The Agency is governed by a five-member Board of Directors, who are elected to staggered 4-year terms.

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.

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 cost (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. Non-operating revenues are those derived from support of long-term debt and the investment of cash reserves.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund is accounted for on a flow of economic resources measurement focus. This measurement focus emphasizes the determination of net income. The accrual basis of accounting is used for the enterprise fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Agency follows all applicable Governmental Accounting Standards Board (GASB) pronouncements, and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989 unless they conflict with or contradict GASB pronouncements. After November 30, 1989, the Agency applies only GASB pronouncements.

Bighorn-Desert View Water Agency

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Notes to Financial Statements, Continued
June 30, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Accounting, Continued

The Agency's basic financial statements are presented in conformance with the provisions of GASB No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*". Statement No. 34 established revised financial reporting for state and local governmental entities throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports. GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. The following are the classifications of net assets:

Invested in Capital Assets, Net of Related Debt

This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted

This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets

This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Use of Restricted Resources

The Agency uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Bighorn-Desert View Water Agency

(A Special District)

Notes to Financial Statements, Continued
June 30, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Inventory

Inventory of materials and supplies, consisting of parts used for utility plant construction are carried at the weighted-average cost.

Utility Plant

Capital assets are stated at cost. Depreciation is provided on a straight-line basis over the estimated useful lives which range from five to fifty years. Depreciation expense for the years ended June 30, 2008 and 2007 was \$219,804 and \$199,587, respectively. It is the policy of the Agency to capitalize property, plant and equipment with a cost of \$1,000 or more.

Allowance for Uncollectible Accounts

Water accounts receivable have not been reduced by an allowance for estimated un-collectibles as it is expected that essentially all such receivables will be collected.

Debt Issuance Costs

Debt issuance costs are deferred and amortized over the term of the debt.

Other Accounting Policies

Customers are billed on a bi-monthly basis and the related revenues are recorded when customers are billed.

Income Taxes

The Agency is exempt from Federal and State income taxes, as it is a public government agency.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Agency considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents, including restricted assets.

Property Taxes

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

Lien date:	March
Levy date:	July 1 to June 30
Due date:	November 1 – first installment March 1 – second installment
Collection date:	December 10 – first installment April 10 – second installment

Bighorn-Desert View Water Agency

(A Special District)

Notes to Financial Statements, Continued
June 30, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Property Taxes, Continued

General property taxes are assessed and collected by the County of San Bernardino on a rate per \$100 of assessed value, plus other increases approved by the voters. The general property taxes are pooled and are then allocated to the districts based on formulas. These general property taxes are not restricted for a specific use. In addition, the Agency has established an ad valorem tax, which is restricted for debt service.

Property taxes are recognized as revenue when received and/or become available. Property tax revenues are considered available when they become due or past due and receivable within the current period and those expected to be collected during a 60-day period subsequent to the balance sheet date when significant.

Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a federal capital or operating grant receivable on the statement of net assets and as capital grant contribution or operating grant revenue, as appropriate, on the statement of revenues, expenses and changes in net assets.

NOTE 2 – CASH AND INVESTMENTS

The Agency maintains a cash and investment pool that is available for all funds. Each fund type balance in the pool is reflected on the combined balance sheet as cash and investments. The Agency apportions interest earnings to all funds based on their monthly cash balances.

Cash Deposits

The carrying amounts of the Agency's cash deposits were \$458,166 at June 30, 2008. Bank balances before reconciling items were \$467,813 at that date, the total amount of which was collateralized or insured with securities held by pledging financial institutions in the Agency's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the Agency's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Agency's name.

The market value of the pledged securities must equal at least 110% of the Agency's deposits. California law also allows financial institutions to secure the Agency's deposits by pledging first trust deed mortgage notes having a value of 150% of the Agency's deposits. The Agency may waive collateral requirements for cash deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

Bighorn-Desert View Water Agency

(A Special District)

Notes to Financial Statements, Continued
June 30, 2008 and 2007

NOTE 2 – CASH AND INVESTMENTS, Continued

Cash Deposits, Continued

The Agency follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

Investments

Under the provisions of the Agency's investment policy and in accordance with California Government Code, the following investments were authorized:

- Securities issued by the U.S. Treasury
- Securities issued and fully guaranteed as to payment by an agency of the U.S. Government
- Banker's Acceptances
- Non-negotiable certificates of deposit
- Repurchase Agreements
- California Local Agency Investment Fund (State Pool)
- Corporate medium-term notes
- Mortgage-backed securities
- Diversified Management Companies, as defined by Section 23701m of the Revenue Taxation Code

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value using the aggregate method in all funds, resulting in the following investment income in all funds at June 30, 2008:

Interest income	\$ <u>28,175</u>
-----------------	------------------

The Agency's portfolio value fluctuates in an inverse relationship to any change in interest rates. Accordingly, if interest rates have risen, the portfolio value will have declined. If interest rates have fallen, the portfolio value will have risen.

In accordance with GASB Statement No. 31, the portfolio for year-end reporting purposes is treated as if it were all sold. Therefore, fund balance must reflect the portfolio's change in value. These portfolio value changes are unrealized unless sold. The Agency's policy is to buy and hold investments until their maturity dates.

Bighorn-Desert View Water Agency
 (A Special District)

Notes to Financial Statements, Continued
 June 30, 2008 and 2007

NOTE 2 – CASH AND INVESTMENTS, Continued

Summary of Cash and Investments

The following is a summary of pooled cash and investments at June 30, 2008:

Business-type activities:	
Cash and investments	\$ 25,067
Restricted cash and investments	<u>433,099</u>
	<u><u>\$ 458,166</u></u>

At June 30, 2008, the Agency had the following deposits:

	<u>Credit Quality Ratings</u>	<u>Fair Value</u>
Deposits	Not Rated	\$ 14,874
Local Agency Investment Funds	Not Rated	<u>443,292</u>
		<u><u>\$ 458,166</u></u>

Risk Disclosures

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Agency’s investment policy limits the Agency’s investment portfolio to maturities not to exceed five years at time of purchase.

Credit Risk – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the Agency’s policy to limit its investments in these investment types to the top rating issued by NRSROs, including raters Standard & Poor’s, Fitch Ratings, and Moody’s Investors Service.

Summary of Investments to Maturity

The fair value of investments held by maturity at June 30, 2008 is shown below:

Maturity:	
Current to one year	\$ 458,166
Two to three years	-
Four to five years	<u>-</u>
Total	<u><u>\$ 458,166</u></u>

Bighorn-Desert View Water Agency
(A Special District)

Notes to Financial Statements, Continued
June 30, 2008 and 2007

NOTE 3 – RESTRICTED ASSETS AND LIABILITIES

Certain assets of the Agency are restricted in use by ordinance or debt covenants and, accordingly, are shown as restricted assets on the accompanying statements of net assets. Property taxes and surcharges collected in excess of principal and interest payments made on outstanding long-term debt are restricted for future debt service payments. Customer deposits are restricted for refunding to customers. The basic facilities fee is restricted for future capital improvements.

NOTE 4 – UTILITY PLANT IN SERVICE

A summary of changes in utility plant in service for the year ended June 30, 2008:

Assets at Cost	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 64,103	\$ -	\$ -	\$ 64,103
Capital assets, being depreciated:				
Fuel station	16,604	-	-	16,604
Motor vehicles	424,832	-	-	424,832
Office building	234,354	-	-	234,354
Office equipment	139,079	-	-	139,079
Organization	336,271	-	-	336,271
Shop equipment	98,706	507	-	99,213
Water system	7,150,628	152,618	9,220	7,294,026
Yards	57,935	-	-	57,935
Total capital assets, being depreciated	<u>8,458,409</u>	<u>153,125</u>	<u>9,220</u>	<u>8,602,314</u>
Total assets at cost	8,522,512	<u>153,125</u>	<u>9,220</u>	8,666,417
Accumulated depreciation				
Fuel station	8,192	664	-	8,856
Motor vehicles	250,160	33,015	-	283,175
Office building	180,578	7,849	-	188,427
Office equipment	115,435	7,340	-	122,775
Organization	2,450	13,451	-	15,901
Shop equipment	84,947	2,387	-	87,334
Water system	3,835,677	154,416	1,676	3,988,417
Yards	57,108	681	-	57,789
Total accumulated depreciation	<u>4,534,547</u>	<u>219,803</u>	<u>1,676</u>	<u>4,752,674</u>
Capital Assets, net book value	<u>\$ 3,987,965</u>			<u>\$ 3,913,743</u>

Bighorn-Desert View Water Agency
(A Special District)

Notes to Financial Statements, Continued
June 30, 2008 and 2007

NOTE 4 – UTILITY PLANT IN SERVICE, Continued

A summary of changes in utility plant in service for the year ended June 30, 2007:

Assets at Cost	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 64,103	\$ -	\$ -	\$ 64,103
Capital assets, being depreciated:				
Fuel station	16,604	-	-	16,604
Motor vehicles	389,665	56,167	21,000	424,832
Office building	234,354	-	-	234,354
Office equipment	121,767	17,312	-	139,079
Organization	-	336,271	-	336,271
Shop equipment	91,755	6,951	-	98,706
Water system	7,016,220	134,408	-	7,150,628
Yards	57,935	-	-	57,935
Total capital assets, being depreciated	7,928,300	551,109	21,000	8,458,409
Total assets at cost	7,992,403	551,109	21,000	8,522,512
Accumulated depreciation				
Fuel station	7,527	665		8,192
Motor vehicles	240,480	30,680	21,000	250,160
Office building	172,728	7,850	-	180,578
Office equipment	107,874	7,561	-	115,435
Organization	-	2,450	-	2,450
Shop equipment	82,758	2,189	-	84,947
Water system	3,688,265	147,412	-	3,835,677
Yards	56,328	780	-	57,108
Total accumulated depreciation	4,355,960	199,587	21,000	4,534,547
Capital Assets, net book value	\$ 3,636,443			\$ 3,987,965

Bighorn-Desert View Water Agency
(A Special District)

Notes to Financial Statements, Continued
June 30, 2008 and 2007

NOTE 5 – LONG-TERM DEBT

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
General obligation bonds: original issue \$1,875,000, 5%, maturing in 2019; secured by tax levy revenues	\$ 900,000	\$ 958,000
Water revenue bonds: original issue \$700,000; 5%, maturing in 2019; secured by a pledge of all revenues	358,977	380,977
Improvement District 71-2 Bond: original issue \$275,000; 7%; matured July 2, 1988	<u>2,000</u>	<u>2,000</u>
Total long-term debt	1,260,977	1,340,977
Less: portion due within one year	<u>(85,000)</u>	<u>(80,000)</u>
	<u><u>\$ 1,175,977</u></u>	<u><u>\$ 1,260,977</u></u>

Future long-term debt maturities are as follows:

<u>Year</u>	
2008-2009	\$ 85,000
2009-2010	90,000
2010-2011	95,000
2011-2012	100,000
2012-2013	105,000
Thereafter	<u>785,977</u>
	<u><u>\$ 1,260,977</u></u>

NOTE 6 – CAPITAL LEASE

The Agency leases equipment under a capital lease agreement expiring in 2011. As of June 30, 2008, future minimum lease payments are as follows:

<u>June 30,</u>	
2009	\$ 14,087
2010	14,087
2011	<u>2,346</u>
	<u><u>\$ 30,520</u></u>

The leased asset is carried at a cost of \$77,433 less accumulated depreciation of \$32,264.

Bighorn-Desert View Water Agency
(A Special District)

Notes to Financial Statements, Continued
June 30, 2008 and 2007

NOTE 7 – JOINT VENTURES

The Agency participates in two joint ventures under joint powers agreements (JPAs): the Special District Risk Management Authority (SDRMA) and the Special Districts Workers' Compensation Authority (SDWCA). The relationships between the Agency and the JPAs are such that the JPAs are not component units of the Agency for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the Agency are included in these statements. Effective July 1, 2003, SDRMA signed an agreement with SDWCA to provide the administrative services for the SDWCA program. Per that agreement, both Organizations approved merging the workers compensation program into SDRMA.

	<u>Special Districts Risk Management Authority (SDRMA)</u>	<u>Special Districts Workers' Compensation Authority (SDWCA)</u>
Purpose	To purchase property and liability insurance for member districts	Provide a program of self-insurance for workers' compensation
Participants	Special Districts in California	Special Districts in California
Governing board	Two directors selected by the California Special Districts Association and five elected from membership	Certain members from the Special Districts

Condensed audited financial information for SDRMA (Special Districts Risk Management Authority) is presented below. Years ended June 30, 2007 and 2006 are the most recent years available.

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Total assets	\$ 60,103,067	\$ 52,454,396
Total liabilities	<u>(42,623,168)</u>	<u>(33,850,371)</u>
Total fund equity	<u>\$ 17,479,899</u>	<u>\$ 18,604,025</u>
Total revenues	\$ 28,957,986	\$ 24,464,075
Total expenses	<u>(28,192,556)</u>	<u>(23,321,200)</u>
Net income	<u>\$ 765,430</u>	<u>\$ 1,142,875</u>

The Agency's share of year-end assets, liabilities or fund equity has not been calculated.

Bighorn-Desert View Water Agency
(A Special District)

Notes to Financial Statements, Continued
June 30, 2008 and 2007

NOTE 8 – COMMITMENTS

On March 15, 1991, the Agency entered into an agreement with the Mojave Water Agency to become a participant in the Morongo Basin Pipeline project. Under the agreement, the Agency was obligated to pay its project allotment percentage of the estimated fixed project cost commencing July 1, 1991. The payment made to Mojave Water Agency for the current year was \$71,330. The payments commencing June, 1996, and thereafter will be determined by Mojave Water Agency based upon various factors.

NOTE 9 – LITIGATION

The Agency presently has no action, suit or proceeding that is expected to have a material adverse effect upon the financial condition of the Agency.

NOTE 10 – DEFINED BENEFIT PENSION PLAN

Plan Description

The Agency contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy

For the year ended June 30, 2008, participants were required to contribute 7% of their annual covered salary. The Agency was required to contribute an actuarially determined rate of 6.621% of covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by PERS.

Annual Pension Cost

The District's total contributions to CalPERS for the fiscal years ending:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
CalPERS contributions	\$ 36,095	\$ 25,231	\$ 14,135

For the year ended June 30, 2008, the Agency's annual pension cost for PERS was equal to the Agency's required and actual contributions (not including the portion paid on behalf of employees). The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal cost method. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses); (b) projected annual salary increases of 3.25% attributable to inflation; and (c) a 0.25% across the board increase and merit increases that vary by length of service. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

Bighorn-Desert View Water Agency
(A Special District)

Notes to Financial Statements, Continued
June 30, 2008 and 2007

NOTE 11 – CONTINGENCIES

The Agency is presently repaying two bond issues: (1) the 1979 Bighorn Mountains Water Agency General Obligation Bonds; and (2) the 1980 Desert View County Water District Revenue Bonds. The Agency has also entered into an agreement with Mojave Water Agency for Construction, Operation and Financing of the Morongo Basin Pipeline Project as detailed in Note 7. Each of these bond issues and the agreement with Mojave Water Agency includes a series of covenants to which the Agency, or its predecessors, has agreed. One of the covenants in each issue is that the Agency will, at a minimum, set its rates in a manner to provide sufficient revenue to cover operating costs, pay the principal and interest due on the bond installments, pay the annual payment required by the agreement with Mojave Water Agency, and have a specified overage. The 1980 Desert View bonds have a coverage requirement of 20% over the annual principal and interest payment, while the agreement with Mojave Water Agency requires additional coverage of 25% over the annual principal and interest payment.

Presently, the Agency has sufficient reserves to meet the revenue requirements of all the bond issues, as the language in each of the bond documents is sufficiently broad to allow for existing reserves to be included as “revenues” for purposes of the coverage covenants.

The Pledge of Revenues and Funds of the 1980 Desert View County Water District Revenue Bonds (the “pledge”) requires that a Reserve Fund shall be established to further secure the payment of the principal of and interest on those bonds. Pursuant to the pledge, the balance of this Reserve Fund is to be maintained at approximately \$41,000. The covenant further requires that monies withdrawn from the Reserve Fund shall be restored by monthly transfers. As of June 30, 2008, the Agency has sufficient reserves to meet this requirement.

SUPPLEMENTAL SCHEDULES

Bighorn-Desert View Water Agency
(A Special District)

History and Organization
June 30, 2008

On June 4, 1990, the San Bernardino County Board of Supervisors approved the Consolidation of Desert View Water District and Bighorn Mountains Water Agency. The effective date of this action was July 1, 1990. The consolidation was jointly initiated and approved by the respective jurisdictions. The new entity became known as the Bighorn-Desert View Water Agency.

Bighorn Mountains Water Agency was organized under provisions of the Agency Law of 1969. The purpose of the Agency was to finance, construct, operate and maintain a water system to serve properties within the unincorporated town of Landers and portions of the surrounding unincorporated area, which covered approximately 23,500 acres in San Bernardino County.

Desert View Water District was organized by a vote of electors of the District in an election held on January 14, 1964. The Board of Supervisors of the County of San Bernardino, California approved the formation of Desert View Water District effective January 20, 1964. The purpose of the District was to finance, construct, operate and maintain a water system to serve properties within the surrounding unincorporated area, which covered approximately 5,368 acres in San Bernardino County.

The administrative office, customer service office, maintenance and repair shop, and storage of material and supplies inventory is located on Agency owned land located at 622 South Jemez Trail, Yucca Valley, California 92284. There is an additional location at 1720 N. Cherokee Trail, Landers, California 92285 where board meetings are held and miscellaneous material and supplies inventory is stored.

The Agency is governed by a Board of Directors consisting of five members, who are elected to staggered four-year terms. From among its members, the Board appoints a President, one Vice-President, and such other positions as it deems necessary. Agency operations are supervised by an appointed General Manager. Assessor-collector functions are performed for the Agency by San Bernardino County.

BOARD OF DIRECTORS:

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Phillip Johnson	President	2011
Judy Corl-Lorono	Vice-President	2009
Terry Burkhart	Director	2009
Duane Lisiewski	Director	2009
Michael McBride	Director	2011

ADMINISTRATION:

Marina West, General Manager

Bighorn-Desert View Water Agency
(A Special District)

Property Taxes
June 30, 2008

The Agency has authorization in its Act for Ad Valorem tax assessments to repay the costs of debt service.

Ad Valorem Tax Assessments

The Agency has established one ad valorem tax assessment, Debt Service Improvement District 1. The 2005-2006 tax rate per \$100 of assessed valuations for the assessment is \$0.20.

Assessed Valuations

The net assessed valuations of property within the Agency's taxing area for 2008 as reported by the San Bernardino County Auditor-Controller are:

	<u>Total Assessed Valuation</u>
General tax levy	
Secured property	\$ 138,017,947
Unsecured property	\$ 531,191
Debt service improvement	
Secured property	\$ 43,327,983
Unsecured property	\$ 93,325

Bighorn-Desert View Water Agency
(A Special District)

Insurance Coverage
June 30, 2008

Agency insurance coverage as of June 30, 2008 is as follows:

	<u>Limits per Occurrence</u>
Comprehensive general liability – bodily injury	\$ 2,500,000
Property loss - \$2,000 deductible	Replacement Cost
Automobile liability	\$ 2,500,000
Public officials and employees liability – errors and omissions	\$ 2,500,000

Bighorn-Desert View Water Agency
(A Special District)

Schedule of Operating Expenses
For the Years Ended June 30, 2008 and 2007

	2008	2007
Transmission and distribution		
Salaries and wages	\$ 227,420	\$ 161,468
Ames Basin monitoring	2,974	1,213
Automatic controls	4,102	4,280
Communications	3,338	2,469
Contractual services-engineering	1,373	-
Disinfection expense	6,636	3,270
Electricity: wells and pumps	58,312	59,217
Miscellaneous operating expenses	2,908	6,146
Repairs and maintenance-operations	12,641	17,814
Supplies	92,497	33,114
Uniforms	3,943	1,045
Vehicle expense	23,917	14,670
Water testing	12,664	8,242
Total transmission and distribution	<u>452,725</u>	<u>312,948</u>
General and administrative		
Salaries-office	188,206	168,244
Directors' fees	12,950	7,600
Employee benefits	63,350	61,312
Payroll taxes	9,316	8,515
PERS contribution	36,095	25,231
	<u>309,917</u>	<u>270,902</u>
Auditing and accounting	9,346	8,900
Bad debt	2,459	4,756
Contractual services	74,456	30,512
Customer relations	606	665
Dues and subscriptions	15,527	10,850
Election costs	32,539	(255)
Employee education	3,941	2,208
Insurance	63,694	54,457
Legal fees	96,884	145,406
Miscellaneous administrative expenses	20,911	5,330
Office supplies and expenses	13,424	9,393
Postage	6,420	9,614
Telephone	5,560	4,984
Utilities-office	8,877	8323
Total general and administrative	<u>664,561</u>	<u>566,045</u>
Total expenses	1,117,286	878,993
Depreciation	<u>219,804</u>	<u>199,587</u>
TOTAL OPERATING EXPENSES	<u><u>\$ 1,337,090</u></u>	<u><u>\$ 1,078,580</u></u>

OTHER INDEPENDENT AUDITORS' REPORT

**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***

The Board of Directors
Bighorn-Desert View Water Agency

We have audited the financial statements of Bighorn-Desert View Water Agency (the "Agency") as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated December 19, 2008. 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting or its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants