

BIGHORN-DESERT VIEW WATER AGENCY
FINANCIAL STATEMENTS

Year Ended June 30, 2010

(with comparative information for June 30, 2009)

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To the Board of Directors

BIGHORN-DESERT VIEW WATER AGENCY

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of Bighorn-Desert View Water Agency (the "Agency") as of June 30, 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year 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 audit. The prior year partial comparative information has been derived from the financial statements of the Agency for the year ended June 30, 2009, and in our report dated September 29, 2009, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency at June 30, 2010, and its changes in net assets and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The information identified in the accompanying table of contents as management's discussion and analysis is not a required part of the basic financial statements, but is 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.

To The Board of Directors
Bighorn-Desert View Water Agency
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Our audit for the year ended June 30, 2010 was conducted for the purpose of forming an opinion on the financial statements that collectively compose the Bighorn-Desert View Water Agency. The supplemental schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. These schedules contain financial and nonfinancial information which have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 8, 2011 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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.

Maureen Ho Ahn MC CPA

Irvine, California
February 8, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial performance of the Bighorn Desert View Water Agency ("Agency") provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the transmittal letter and financial statements identified in the accompanying table of contents.

INFORMATION REPORTED IN THE ACCOMPANYING FINANCIAL STATEMENTS

One of the most important questions asked about the Agency's finances is, "Is the Agency better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Agency in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The financial statements of the Agency report the Agency's net assets and changes in them. You can think of the Agency's net assets – the difference between assets and liabilities – as one way to measure the Agency's financial health, or *financial position*. Over time, *increases and decreases* in the Agency's net assets are one indicator of whether its *financial health* is improving or deteriorating.

AGENCY FINANCIAL STATEMENTS

A summary of the Agency's *statement of net assets* follows:

Table 1
Net Assets
(in Millions)

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Current and Other Assets	\$ 1.0	\$ 0.8	0.27
Non-current Assets	<u>4.2</u>	<u>4.1</u>	0.11
Total Assets	\$ 5.2	\$ 4.9	0.34
Debt Issuance costs, net	\$ 1.0	\$ 1.1	(0.10)
Other Liabilities	<u>0.4</u>	<u>0.3</u>	0.12
Total Liabilities	\$ 1.4	\$ 1.3	0.02
Invested in capital asset, net of related debt	\$ 3.1	\$ 2.5	0.54
Restricted*	0.8	0.9	(0.17)
* Reinstated to conform to current year presentation.			
Total Net Assets	<u>\$ 3.9</u>	<u>\$ 3.5</u>	0.37
	<i>(in millions)</i>		

A summary of the Agency's *statement of revenues, expenses, and changes in net assets* follows:

Table 2
Changes in Net Assets
(in Millions)

	<u>2010</u>	<u>2009</u>	<u>Change</u>
Operating Revenues			
Water Sales	\$.5	\$.5	0.03
Other revenues	<u>0.6</u>	<u>0.5</u>	0.10
Total Operating Revenues	\$ 1.1	\$ 1.1	0.08
Operating Expenses			
Transmission and Distribution	\$ 0.4	\$ 0.4	0.04
General and Administrative	0.5	0.5	0.10
Depreciation	<u>0.2</u>	<u>0.2</u>	0.01
Total Operating Expenses	\$ 1.2	\$ 1.1	0.06
Operating Loss	(0.03)	(0.04)	0.01
Non-Operating Revenues (Expenses):			
Interest revenue	.003	0.01	(0.02)
Interest expense	<u>(0.05)</u>	<u>(0.07)</u>	0.02
Total Non-Operating Revenues (Expenses)	\$ 0.4	\$ 0.2	0.18
Change in Net Assets	0.4	0.17	0.20
Net Assets Beginning, July 1	<u>3.5</u>	<u>3.3</u>	0.37
Net Assets Ending, June 30	<u>\$ 3.9</u>	<u>\$ 3.5</u>	0.37

(In millions)

The increase or decrease in net assets can provide an indication as to whether the overall financial position of the Agency improved or deteriorated during the year. Net assets of the Agency increased by 10% (\$3.85 million compared to \$3.49) million. The net assets (financial position) of the Agency changed as a result of the revenue and expense fluctuations described below.

The reasons for significant changes in the revenues and expenses of the Agency noted above are as follows:

- Bighorn Desert View Water Agency General Property Tax revenues were tapped by the State of California under Proposition 1A as part of the 2009-10 budget package passed by the State Legislature on July 28, 2009. The Agency participated in the California Statewide Communities Development Authority who purchased the Proposition 1A

receivables from the entities and issued bonds to provide BDVWA with the cash proceeds. The amount of the borrowing that pertained to BDVWA was \$8,980.

- Total Net Assets of the Agency increased approximately \$370,000 primarily due to receipt of grant income from the Environmental Protection Agency State and Tribal Assistance Grant (EPA STAG) reimbursements for expenditures made on the Ames/Reche Spreading Grounds Project (\$232,343) and collection of Basic Service Charges (\$105,324).
- The Balance Sheet for Liabilities and Net Assets (pg. 7 of the Financial Statements) shows an entry for “deferred revenue” equal to \$128,209. This represents the unspent portion of a larger cash advance from Mojave Water Agency to fund the Ames/Means Recharge Project as part of a Memorandum of Understanding (eg. Agreement) executed by both Agency’s effective September 10, 2009. As of June 30, 2010 a total of \$128,209 was unspent therefore the audit shows this transaction as a liability to conform to the terms and conditions of the MOU.

Methodology Pertaining to Restricted Net Assets

As described further in note eleven, the bond resolutions of the Agency and those of its predecessor districts contain provisions that require the tracking of certain operational funds with respect to the geographical areas of the two predecessor districts.

It was not practicable to re-construct with absolute precision the geographical identity of every dollar of operational activity (many expenditures of which were for the joint benefit of both areas) of the Agency that have transpired since the date that the two predecessor water districts were consolidated. Generally accepted accounting principles acknowledge the acceptability of reasonable approximations to measure an accounting result. Accordingly, a distribution of the equity (net assets) of the consolidated Agency as of June 30, 2010 into the two geographical areas associated with the Agency’s predecessor districts was appropriately based upon an operational analysis of the of the Agency based upon a three year study of operations.

For that three year period, the General Manager using her operational knowledge of the Agency, allocated each revenue account classification and each expense account classification to the geographical jurisdictions of the two predecessor agencies using her best determination of the geographical benefit associated with each revenue classification and expense classification.

Such determinations were made using her informed judgment and operational knowledge. Determinations were made based on the facts and circumstances pertaining to each revenue and expense classification. Where a particular revenue or expense account classification was not associated with a specific geographical area, that classification was assigned in equal proportions to each area.

Due to its larger geographical area, the area associated with the Bighorn Mountains Water Agency (Bighorn) required a significantly greater investment in capital facilities than that of the Desert View Water District (Desert View). Debt-financed capital facilities of Desert View amounted to \$700,000. Debt-financed capital facilities of Bighorn amounted to \$1,875,000. In addition, there has been substantial additional investment in Bighorn facilities since the construction of Bighorn’s debt-financed assets. Bighorn resources have been over-invested in necessary capital facilities resulting in a deficit in Bighorn’s available resources.

LONG-TERM DEBT

At the end of the 2009/10 fiscal year, the District had bonded debt outstanding of \$1,085,977 less the portion (\$95,000) due in less than one year. All debt payments were made on time and in full during the year. No new debt was issued during the fiscal year.

Contacting the Agency's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the General Manager's Office, at Bighorn Desert View Water Agency, 622 S. Jemez Trail, Yucca Valley, CA 92284.

BIGHORN-DESERT VIEW WATER AGENCY

BALANCE SHEET

As of June 30, 2010

(with comparative information for June 30, 2009)

	<u>2010</u>	<u>2009</u>
A S S E T S		
Current assets:		
Cash and investments (note 2)	704,401	389,496
Accounts receivable-water services	173,813	155,297
Accounts receivable-unbilled	46,631	48,805
Property tax receivable	30,310	39,984
Interest receivable	1,032	2,000
Inventory	75,500	113,983
Prepaid expenses	<u>6,804</u>	<u>11,847</u>
 TOTAL CURRENT ASSETS	 1,038,491	 761,412
Non-current assets:		
Debt issuance costs, net	2,011	2,008
Capital assets not being depreciated (note 3)	384,010	300,198
Capital assets being depreciated, net (note 3)	<u>3,789,468</u>	<u>3,760,614</u>
 TOTAL NON-CURRENT ASSETS	 <u>4,175,489</u>	 <u>4,062,820</u>
 TOTAL ASSETS	 <u>\$ 5,213,980</u>	 <u>4,824,232</u>

(Continued)

BIGHORN-DESERT VIEW WATER AGENCY

BALANCE SHEET

As of June 30, 2010

(continued)

(with comparative information for June 30, 2009)

	<u>2010</u>	<u>2009</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	33,990	31,438
Current portion of long-term debt (note 4)	95,000	90,000
Current portion of capital lease (note 5)	2,346	14,087
Payroll liabilities	13,904	13,622
Customer deposits	65,734	66,574
Interest payable	8,237	16,475
Deferred revenue	128,209	-
Compensated absences (note 4)	21,619	16,397
	<u>369,039</u>	<u>248,593</u>
TOTAL CURRENT LIABILITIES		
Non-current liabilities:		
Bonds payable (note 4)	990,977	1,085,977
Capital lease payable (note 5)	-	2,346
	<u>990,977</u>	<u>1,088,323</u>
TOTAL NON-CURRENT LIABILITIES		
TOTAL LIABILITIES	1,360,016	1,336,916
NET ASSETS		
Invested in capital assets, net of related debt	3,087,501	2,546,637
Restricted	766,463	940,679
	<u>3,853,964</u>	<u>3,487,316</u>
TOTAL NET ASSETS		
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,213,980</u>	<u>4,824,232</u>

See Notes to Financial Statements

BIGHORN-DESERT VIEW WATER AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2010

(with comparative information for June 30, 2009)

	2010	2009
OPERATING REVENUES		
Water sales	\$ 513,026	538,603
Water services	33,881	35,241
Basic surcharge	597,680	492,356
TOTAL OPERATING REVENUES	1,144,587	1,066,200
OPERATING EXPENSES		
Transmission and distribution	406,370	365,534
General and administrative	535,884	522,783
Depreciation	229,766	219,607
TOTAL OPERATING EXPENSES	1,172,020	1,107,924
OPERATING LOSS	(27,433)	(41,724)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	3,266	9,537
Tax levy	237,111	256,533
Desert View debt surcharge	50,345	47,744
Grant income	232,343	42,855
Gain/loss on disposal of asset	(1,170)	-
Other income/Expense	(4,099)	233
Interest expense	(50,461)	(71,186)
Mojave Water Agency pipeline interest (note 7)	(73,254)	(73,198)
Amortization of debt issuance costs	-	(2,011)
TOTAL NON-OPERATING REVENUES (EXPENSES)	394,081	210,507
CHANGE IN NET ASSETS	366,648	168,783
NET ASSETS BEGINNING, JULY 1	3,487,316	3,269,728
Prior period adjustment	-	48,805
NET ASSETS ENDING, JUNE 30	\$ 3,853,964	3,487,316

See Notes to Financial Statements

BIGHORN-DESERT VIEW WATER AGENCY

STATEMENT OF CASH FLOWS

For the Year ended June 30, 2010

(with comparative information for June 30, 2009)

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,137,079	959,708
Cash payments to suppliers for goods and services	(361,462)	(427,035)
Cash payments to employees and directors for services	<u>(530,380)</u>	<u>(512,938)</u>
 NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	 <u>245,237</u>	 <u>19,735</u>
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Property taxes received	<u>113,732</u>	<u>113,960</u>
 NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	 <u>113,732</u>	 <u>113,960</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Property taxes received in support of long-term debt	123,379	142,572
Other revenue received in support of long-term debt	50,345	47,744
Acquisition of capital assets	(342,435)	(201,835)
Principal paid on long-term debt	(90,000)	(85,000)
Interest paid on long-term debt	69,510	(71,186)
Principal paid on capital leases	(14,087)	(14,087)
Mojave Water Agency pipeline support paid	(73,254)	(73,198)
Other income/expense	(4,099)	233
Grants revenue received	<u>232,343</u>	<u>42,855</u>
 NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	 <u>(48,298)</u>	 <u>(211,902)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>4,234</u>	<u>9,537</u>
 NET DECREASE IN CASH	 314,905	 (68,670)
CASH BEGINNING, JULY 1	<u>389,496</u>	<u>458,166</u>
CASH ENDING, JULY 30	<u>\$ 704,401</u>	<u>389,496</u>

There were no noncash capital, financing, and investing activities

(Continued)

See Notes to Financial Statements

BIGHORN-DESERT VIEW WATER AGENCY

STATEMENTS OF CASH FLOWS

(continued)

For the Years ended June 30, 2010

(with comparative information for June 30, 2009)

	<u>2010</u>	<u>2009</u>
Reconciliation of cash and cash equivalents to the statement of net assets		
Cash and investments	\$ 704,401	389,496
	<u>704,401</u>	<u>389,496</u>
Reconciliation of operating income (loss) to cash used in operating activities		
Operating income (loss)	\$ (27,433)	(41,724)
Depreciation	229,766	219,607
Gain (loss) on disposal of assets	(1,170)	-
Changes in assets liabilities		
Accounts receivable and other receivables	(6,668)	(47,439)
Inventory	38,483	(43,316)
Prepaid expenses	5,043	(276)
Accounts payable and other liabilities	8,056	(70,981)
Customer deposits	(840)	3,864
	<u>(840)</u>	<u>3,864</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 245,237</u>	<u>19,735</u>

See Notes to Financial Statements

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

(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. There are 1,923 user connections within the Agency's boundaries which encompass approximately 44 square miles. The Agency is governed by a five-member Board of Directors, who are elected to staggered 4-year terms.

Basis of accounting – The Agency uses the flow of economic resources measurement focus. This measurement focus emphasizes the determination of net income. The accrual basis of accounting is used by the Agency. 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.

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.

Use of restricted resources – When resources are combined, the Agency generally uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources.

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.

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

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (Continued)

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 year ended June 30, 2010 was \$229,766. 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 uncollectibles 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 purposes of the statement of cash flows, the Agency limits the term *cash and cash equivalents* to only currency on hand, demand deposits with banks or other financial institutions, and deposits in other kinds of accounts or cash management pools that have the general characteristics of demand deposit accounts in that the Agency may deposit additional cash at any time and effectively withdraw cash at any time without prior notice or penalty.

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

Lien date:	March
Levy date:	July1 to June 30
Due date:	November 1 - first installment March 1 - second installment
Collection date:	December 10 - first installment April 10 - second installment

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.

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

(1) **Summary of significant accounting policies (Continued)**

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.

Prior Year Information – Certain data has been presented for the prior year. Such data does not represent a complete presentation in accordance with generally accepted accounting principles, but has been presented for comparative purposes only.

(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.

Cash deposits - The carrying amounts of the Agency's cash deposits were \$704,401 at June 30, 2010. Bank balances before reconciling items were \$721,599 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 \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

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;

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

(2) Cash and investments, (Continued)

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

Summary of cash and investments - The following is a summary of pooled cash and investments at June 30, 2010:

Cash and investments	\$704,401
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At June 30, 2010, cash and investments were composed of the following:

	Credit Quality Ratings	Fair Value
Deposits	Not Rated	\$ 52,265
Local Agency Investment Funds	Not Rated	<u>652,136</u>
		<u>\$704,401</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

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

(2) Cash and investments, (Continued)

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, 2010 is shown below:

Maturity:	
Current to one year	\$652,136
Two to three years	-
Four to five years	<u>-</u>
Total	<u>\$652,136</u>

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. LAIF is not rated.

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

(3) Utility plant in service

A summary of changes in utility plant in service for the year ended June 30, 2010:

<u>Assets at Cost</u>	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>
Capital assets, not being depreciated:				
Land	\$ 64,103	-	-	64,103
Construction in Progress	<u>236,095</u>	<u>234,692</u>	<u>(150,880)</u>	<u>319,907</u>
Total capital assets, not being depreciated	<u>300,198</u>	<u>234,692</u>	<u>(150,880)</u>	<u>384,010</u>
Capital assets, being depreciated:				
Fuel station	16,604	-	-	16,604
Motor vehicles	424,832	54,656	(34,490)	444,998
Office building	234,354	-	-	234,354
Office equipment	139,079	-	-	139,079
Organization	336,271	-	-	336,271
Shop equipment	99,213	-	-	99,213
Water system	7,424,607	210,513	-	7,635,120
Yards	<u>57,935</u>	<u>-</u>	<u>-</u>	<u>57,935</u>
Total capital assets, being depreciated	<u>8,732,895</u>	<u>265,169</u>	<u>(34,490)</u>	<u>8,963,574</u>
Total assets at cost	<u>9,033,093</u>	<u>499,861</u>	<u>(185,370)</u>	<u>9,347,584</u>
Accumulated depreciation				
Fuel station	(9,519)	(663)	-	(10,182)
Motor vehicles	(315,815)	(33,838)	27,941	(321,712)
Office building	(196,276)	(7,849)	-	(204,125)
Office equipment	(128,079)	(3,871)	-	(131,950)
Organization	(29,354)	(13,451)	-	(42,805)
Shop equipment	(89,552)	(2,089)	-	(91,641)
Water system	(4,145,751)	(168,005)	-	(4,313,756)
Yards	<u>(57,935)</u>	<u>-</u>	<u>-</u>	<u>(57,935)</u>
Total accumulated depreciation	<u>(4,972,281)</u>	<u>(229,766)</u>	<u>27,941</u>	<u>(5,174,106)</u>
Total capital assets being depreciated, net	<u>3,760,614</u>	<u>35,403</u>	<u>(6,549)</u>	<u>3,789,468</u>
Capital assets, net book value	<u>\$ 4,060,812</u>	<u>270,095</u>	<u>(157,429)</u>	<u>4,173,478</u>

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

(4) Long-term debt

	<u>June 30, 2010</u>
General obligation bonds:	
Original issue \$1,875,000, 5%, maturing in 2019; secured by tax levy revenues	\$ 772,000
Water revenue bonds:	
Original issue \$700,000, 5%, maturing in 2019; secured by a pledge of all revenues	311,977
Improvement District 71-2 Bond:	
Original issued \$275,000; 7%; matured July 2, 1988	2,000
Total long-term debt	1,085,977
Less: portion due within one year	<u>(95,000)</u>
	<u>\$ 990,977</u>

Bonds Payable:						
	<u>Beginning</u>			<u>Ending</u>	<u>Due Within</u>	<u>Due Beyond</u>
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>	<u>1 Year</u>	<u>1 Year</u>
General						
Obligation Bonds	838,000	-	(66,000)	772,000	70,000	702,000
Water Revenue						
Bonds	335,977	-	(24,000)	311,977	25,000	286,977
Improvement						
District 71-2 Bond	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Total	<u>1,175,977</u>	<u>-</u>	<u>(90,000)</u>	<u>1,085,977</u>	<u>95,000</u>	<u>990,977</u>

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

(4) Long-term debt (Continued)

Future long-term debt maturities are as follows:

<u>Year</u>	
2010-2011	\$ 95,000
2011-2012	100,000
2012-2013	105,000
2013-2014	110,000
2014-2015	116,000
Thereafter	<u>559,977</u>
	<u>\$ 1,085,977</u>

Compensated Absences

The Agency's policies relating to compensated absences are described in note 1. This liability amounted to \$21,619 at June 30, 2010, will be paid in future years.

(5) Capital lease

The Agency leases equipment under a capital lease agreement expiring in 2011. As of June 30, 2010, future minimum lease payments are as follows:

<u>June 30,</u>	
2011	<u>\$ 2,346</u>
	<u>\$ 2,346</u>

The leased asset is carried at a cost of \$77,433 less accumulated depreciation of \$54,387

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

(6) 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

(7) 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 \$73,524. The payments commencing June, 1996, and thereafter will be determined by Mojave Water Agency based upon various factors.

(8) Litigation

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

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

(9) **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, 2010, the Agency was required to contribute an actuarially determined rate of 8.749% of covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by PERS.

Annual pension cost - The Agency's total contributions to CalPERS for the fiscal years ending:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
CalPERS contributions	\$ 32,677	34,185	36,095

For the year ended June 30, 2010, 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.

(10) **Debt Covenants**

The Agency is presently repaying two bond issues: (1) the 1979 Bighorn Mountains Water Agency General Obligation Bonds; and (2) the 1980 Desert View 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 8. 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

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

(10) Debt Covenants (continued)

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 coverage. 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.

For the year ended June 30, 2010, the aggregate debt service coverage of the Agency was approximately 77%. Future debt service of the Agency through 2019 is \$1,085,977. The Agency expects debt service coverage to be comparable to that of the current year throughout the period to which the coverage requirement applies.

The Pledge of Revenues and Funds of the 1980 Desert View Water District Revenue Bonds (the "pledge") requires that a Reserve Fund 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 the average of all future payments. As of June 30, 2010, the Agency has sufficient reserves to meet this requirement.

(11) Net Assets

Prior to fiscal year 2010, the Agency took the position that property tax assessments associated with each predecessor district were restricted solely for the payment of principal and interest associated with the debt of that predecessor district.

However, legal research conducted in fiscal year 2010, disclosed the following:

Section 9 of the Resolution No. 174 of the Bighorn Mountains Water Agency dated June 21, 1977 states: "The Board of Directors, so far as practicable, shall fix such rate or rates for water in Improvement District No. 1 as will result in revenues which will pay the operating expenses of the improvement district, which provide for the operating expenses of the improvement district, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on the bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due. If the revenues of the improvement district will be inadequate for any cause to pay the expenses set forth above, the Agency must provide for the levy and collection of a tax sufficient to raise the amount of money determined by such Board of Directors to be necessary for the purpose of paying such charges and expenses as set forth above and the principal and the interest on the bonds as the same become due."

Similarly, Section 5.11 of Resolution No. 304 of the Desert View Water District provides that revenues of the Agency will be used to pay "any reasonable and necessary maintenance and operation costs of the Enterprise."

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

(11) Net Assets (continued)

Section 33305 of the Desert View Water District-Bighorn Mountains Water Agency Consolidation Law and Section 31012 of the County Water District Law provide as follows:

- (a) All funds derived from the operation of the former district system shall be separately accounted for and used exclusively for the purposes of maintenance, operation, betterments, and bond debt service of the acquired system.
- (b) No funds derived from the former district system shall be used for any other such purpose until all debt of that former system has been paid in full or until a former system has authorized such other expenditures

The above restrictions remain in effect until a vote of the electorate of each predecessor district authorizes differently.

Based on the language above, legal counsel has concluded that all revenues (not just property tax levies) of each predecessor district are restricted for the expenditures of that district. It was also determined that qualified uses of such restricted revenues include the operating expenses (not just principal and interest payments) associated with that district.

As of June 30, 2010, the portion of net assets associated with this restriction are as follows:

Bighorn Mountains Water Agency ("Bighorn"):	
Invested in capital assets, net of related debt	\$ 2,212,649
Resources restricted for Bighorn	<u>(292,677)</u>
Total Bighorn Mountains Water Agency	\$ 1,919,972
Desert View Water District ("Desert View")	
Invested in capital assets, net of related debt	\$ 874,852
Resources restricted for Desert View	<u>1,059,140</u>
Total Desert View Water District	\$ 1,933,992

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

(12) Deferred Revenue

On September 9, 2009, the agency entered into a Memorandum of Understanding (the Agreement) with the Mojave Water Agency (MWA) regarding the Ames/Means recharge area. The Agreement was created to outline the Agency's role in as Project Manager of the Phase 1 and Phase 11 of the recharge. Deferred revenue has been recorded for the portion of funding received under the terms of this Agreement that have not yet been earned by the incurring of eligible project expenditures.

(13) Proposition 1A Securitization Program

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten year period. The amount of this borrowing pertaining to the Agency was \$8,980.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The Agency participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

SUPPLEMENTAL SCHEDULES

BIGHORN-DESERT VIEW WATER AGENCY
(A Special District)

History and Organization

June 30, 2010

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 four 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 AS OF JUNE 30, 2010:

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Terry Burkhart	President	2013
Larry Coulombe	Vice President	2013
Michael McBride	Director	2011
David Larson	Director	2011
Martha Oswald	Director	2013

ADMINISTRATION:

Marina West, General Manager



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To the Board of Directors
BIGHORN-DESERT VIEW WATER AGENCY

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

We have audited the financial statements of Bighorn-Desert View Water Agency (the "Agency") as of and for the year ended June 30, 2010, and have issued our report thereon dated February 8, 2011. 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.

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 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*.

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 Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

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

However, we noted other matters involving the internal control over financial reporting which we have communicated to management in a separate letter date February 8, 2011.

Board of Directors
BIGHORN-DESERT VIEW WATER AGENCY
Page Two

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

Mayor Hoffman Melton P.C.

Irvine, California
February 8, 2011