



**Comprehensive Annual Financial Report
For the Fiscal Year Ended
June 30, 2016**

**Bighorn-Desert View Water Agency
A Public Agency
622 S. Jemez Trail
Yucca Valley, California
92284**

**Prepared by:
*Marina D. West, PG, General Manager/Treasurer***



**Black Lava Buttes Portion of the Sand-to-Snow National Monument (2016)
Located Adjacent to BDVWA**



Our Mission, Vision and Values

To provide a high quality supply of water and reliable service to all customers at a fair and reasonable rate

To demonstrate accountability by taking economically and environmentally responsible action today to secure our water supply for tomorrow.

We pledge to use all available resources for maintaining our existing facilities as well as plan, design, finance, and construct our future infrastructure for benefit to our customers in our service area.

Staff and board are committed to a comprehensive evaluation of the most important issues while establishing a record of fairness to all customers

Bighorn-Desert View Water Agency
Board of Directors as of June 30th, 2016

Member	Office	Term Expires
J. Larry Coulombe	President	2019
Michael McBride	V. President	2019
Judy Corl-Lorono	Secretary	2017
J. Dennis Staley	Director	2017
Terry Burkhart	Director	2017

Bighorn-Desert View Water Agency
Marina D. West, PG, General Manager
622 S. Jemez Trail
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BIGHORN-DESERT VIEW WATER AGENCY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
Year Ended June 30, 2016
(with comparative information for June 30, 2015)

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INTRODUCTORY SECTION

Bighorn-Desert View Water Agency

Board of Directors

J. Larry Coulombe, President
Michael McBride, Vice President
Judy Corl-Lorono, Secretary
Terry Burkhart, Director
J. Dennis Staley, Director



Agency Office
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Yucca Valley, CA 92284-1440

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Marina D West, P.G., General Manager

www.bdvwa.org

A Public Agency

October 17, 2016

Introduction

It is our pleasure to submit the Annual Financial Report for the Bighorn-Desert View Water Agency for the fiscal year ended June 30, 2016, following guidelines set forth by the Governmental Accounting Standards Board. The Agency is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the Agency's financial position and activities.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with the MD&A. The Agency's MD&A can be found immediately after the Independent Auditors' Report.

Agency Structure and Leadership

The Bighorn-Desert View Water Agency enabling Act, the "Bighorn Mountains Water Agency Law" (Law), is an Uncodified Act of the California Statutes of 1969, Chapter 1175, and effective August 31, 1969. The Law was amended in 1989 (Statutes of 1989, Chapter 570) through AB 1819 (Woodruff) to facilitate a proposed consolidation of the 1969 Bighorn Mountains Water Agency with the Desert View County Water District, which was completed in 1990 without further amendment to the Water Agency Law. In September 2013, Governor Jerry Brown signed into law SB 246 (Fuller) which is a complete modernization (re-write and re-organization) of the 1990 version of the Law.

The Bighorn-Desert View Water Agency is a "special district" type public agency of the state of California organized and existing pursuant to the Bighorn-Desert View Water Agency Law at Deering's Water Code – Uncodified Acts, Act 90. The Agency is

governed by a five-member Board of Directors, elected at-large from within the Agency's service area. The General Manager administers the day-to-day operations of the Agency in accordance with policies and procedures established by the Board of Directors. In addition to the General Manager, the Agency staff consists of eight (8) full-time employees and one (1) part-time employee organized in two departments: Administration and Operations.

The Agency's Board of Directors regularly scheduled meetings are on the fourth Tuesday of each month at 6 pm. Meetings are publically noticed and citizens are encouraged to attend.

On March 26, 2015 the San Bernardino Local Agency Formation Commission (LAFCO) filed a *Certificate of Completion for LAFCO 3181 – Reorganization to Include Annexations to the Bighorn-Desert View Water Agency; Dissolution of Zone W-1 of County Service Area 70 and Formation of an Improvement District of the Bighorn-Desert View Water Agency*. This action was effective July 1, 2015 effectively increasing the Agency's customer base by 30% or 650 metered connections generally located in the eastern portion of Landers, CA. The Agency now provides water service to approximately 1,977 active residential customers, 507 infrequent/inactive customers, and 102 bulk-hauling customers within its fifty-two (52) square-mile service area, located in the eastern desert area of San Bernardino County. The Agency encompasses the unincorporated communities in the county known as Flamingo Heights, Landers, and Johnson Valley.

As of July 1, 2015 the Agency operates two distinct and isolated public water systems permitted by the State Water Resources Control Board Division of Drinking Water.

Agency Services

Residential customers represent nearly 100% of the Agency's customer base and therefore consume a majority of the water produced annually with the remainder utilized for system flushing, fire suppression or lost to leaks. The combined water systems utilize a total of nine (9) active groundwater wells with a total system production capacity of 3,864 gallons per minute. In fiscal year 2015/16, the Agency produced approximately 453 acre-feet of groundwater with 120 acre-feet of that production serving the ID GM system demand. For the predecessor Agency, Bighorn-Desert View Water Agency, this fiscal year 2015/16 production represents a decrease of approximately 6% from fiscal year 2014/15. This could be explained by the aggressive effort over the last three (3) fiscal years to replace meter service lines – a major source of leaks. For ID GM the FY2015/16 production was essentially unchanged from the prior fiscal year. The fiscal year 2016/17 budget includes an aggressive program to replace all service lines and meters in the ID GM over the next three years due to meter service line leaks as well as under-registering (old/unmaintained) water meters.

The Agency purchased 70 acre-feet of imported State Project Water from the Mojave Water Agency in FY2014/15 for recharge at the newly completed Ames/Reche Groundwater Storage site for a total of 170 acre-feet of "pre-stored" water.

Economic Condition and Outlook for the Local Economy

According to *Sperling's Best Places* the cost of living in the Landers area is 18.7% lower than the U.S. average but only because of lower housing costs. All other cost of living factors are greater than the U.S. average with groceries and transportation at least 10% higher. The unemployment rate is currently approximately 8.3% (unchanged from FY2014/15). Using U.S. Census Block group data, all census blocks within the Agency boundaries are classified as a "severely disadvantaged" with an average household income reported at \$28,255 which is less than half of the U.S. average. The area is classified as rural unincorporated San Bernardino County with a planned residential zoning of 2.5 acre minimum lot size. The area is comprised of predominantly English and Spanish speaking residents.

Within the Agency are very few commercial businesses. The largest employer is the local elementary school. Many working local residents commute to the Twenty-nine Palms Marine Corps Ground Combat Center, Town of Yucca Valley or 60 miles south to Palm Springs, CA area or a similar distance north to the Victorville area for employment.

Major Initiatives

The activities of the Board and staff of the Agency are driven by our mission statement: "To provide a high quality supply of water and reliable service to all customers at a fair and reasonable rate". At the February 2015 Board Workshop the following goals and objectives were confirmed for implementation over the next one to two years and beyond.

1. Balanced budget and growth of reserve funds for replacement/refurbishment of infrastructure, emergency contingencies and capital improvement programs specifically highlighted in the 2014 Mojave Water Agency Integrated Regional Water Management Plan (IRWMP). Continue efforts to reduce costs where possible. Explore revenue enhancing measures such as water transfers to neighboring agencies.
2. Remain focused on preventative maintenance of the water distribution system appurtenances including pressure reducing stations, fire hydrants, isolation valves, air vacuum valves and emergency power connections. Work with engineer to prioritize and implement short-term capital or refurbishment projects.
3. Continue outreach to the community through various forms of communication including newsletters, annual calendar, revised utility bill format and participation in local community events (eg. Homestead Valley Park 3rd of July and the Gubler Orchid Festival).
4. Update administrative procedures as needed including development of a "Director Handbook".
5. File *Amended and Restated Judgment for the Ames Valley Water Basin* on behalf of project participants following completion of the recharge facility in FY13/14. Initiate

recharge purchases and seek water transfer opportunities in accordance with draft 5-year budget projections.

6. Complete the process through the Local Agency Formation Commission (LAFCO) to annex the adjacent small water system located in "eastern" Landers, CA and operated by the County of San Bernardino Special Districts Department because it would increase the customer base by approximately 650 metered residences (approx. 1,500 properties) providing for more efficient/effective service and local elected representation for customers residing in the community.
7. Address aging/obsolete financial and billing software as well as outdated computer server, office software and security programs.
8. Continue to pursue grant opportunities for capital, replacement and refurbishment. Following adoption of the Agency's Hazard Mitigation Plan seek grants for emergency and disaster preparedness.
9. Obtain Certificate of Achievement for Excellence in Financial Reporting for our Comprehensive Financial Report for a minimum of five consecutive years from the Government Finance Officers Association of the United States and Canada.
10. Submit application to Special District Leadership Foundation for the *District of Distinction* Accreditation following completion of requirements.

All programs and operations of the Agency are developed and performed to provide the highest level of services to its customers.

Accomplishments

To assist the Board of Directors in meeting their mission, staff achieved the following initiatives in fiscal year 2015/16:

1. Adopted a balance budget on-time without reliance on cash reserves and with expectation of increased unrestricted reserves needed to fund planned capital projects and replace aged vehicles. In addition, a "blind" estimate projecting revenues and expenses from ID GM was integrated into the budget. The practice of placing liens on the secured property tax rolls for outstanding debt owed the Agency has resulted in eventual collection of these receivables over time.
2. Preventative maintenance in 2015/16 included testing and refurbishment of all ID GM pressure reducing stations (PRV's) and continued refurbishment of other PRV's, exercised all of the pipeline isolation valves in ID GM. All other isolation valves were exercised and staff completed the replacement of all air-vacuum valves, routine dead end flushing, initiated a cycle of fire hydrant maintenance as well as repair of 40 service line leaks and replacement of 67 service lines. Water well efficiency tests were completed on most facilities. Overhaul and modernization of Agency water system automated controls continued as well.

3. Participated in various outreach events including Homestead Valley Park 3rd of July event, Gubler's Orchid Festival and Morongo Basin Conservation Association Desert-Wise Landscape Home Tour and lecture series. News and events were provided in the water bill as well as through an Agency-wide newsletter. The Agency along with Hi Desert Water District created and executed a Water Education Festival at the local middle school funded by a grant from the Mojave Water Agency.
4. The Agency Board of Directors adopted a Board of Directors Handbook for purposes of providing a comprehensive desktop reference for current and future Board Members.
5. The Agency had completed the motions and filings for the *Amended and Restated Judgment for the Ames Valley Water Basin* with the Riverside County Court on behalf of project participants on September 17, 2014. The Agency began purchasing water for recharge thereafter. In Fiscal Year 2015/16, 70 acre-feet of State Water Project allocations were purchased for recharge at the Ames Facility. To date the Agency has stored a total of 170 acre-feet. The Agency is active in negotiations to sell available water supplies in the Agency's "native carry-over water storage account" to Hi Desert Water District to increase revenues. Some sales have been achieved to date but more revenues can be realized through this opportunity.
6. On January 21, 2015 following a Public Hearing, wherein only one (1) formal protest was noted in the record, the LAFCO Commission unanimously approved the Agency's request. On March 26, 2015 a Certificate of Completion for LAFCO No. 3181 was filed completing the proceedings and resulting in the annexation of a neighboring water agency (County Service Area 70/Zone W-1 – Landers/Goat Mountain) creating an Improvement District of the Agency. Operations and maintenance responsibilities became effective July 1, 2015 and the Agency named the 9 square mile zone Improvement District Goat Mountain. All assets became the property of the Agency on July 1, 2015 as well.

This action prompted the Agency to increase full-time equivalent staff by two (2) and acquire the necessary tools and equipment to accommodate the annexed territory. During the first year of operation Agency staff completed system mapping, routine maintenance and developed an understanding of the manner in which the ID GM water system functions. Portions of the system were found in serious disrepair so here was a significant amount of unexpected maintenance performed to provide for property security of ID GM facilities and proper operation of pressure regulating stations, booster stations and production wells.

7. The implementation of new financial and billing software, new server and peripherals was continued FY2015/16 with a majority of needs already completed with upgrades to employee desktop computers continuing into FY2016/17. The Agency accepted proposals and awarded a contract to Pacific Western Bank replacing Union Bank for all routine banking services effective July 1, 2016.
8. Received final approval from the California Office of Emergency Services as well as Federal Emergency Management Agency (FEMA) for the Hazard Mitigation Plan.

The final grant reimbursement was received thus closing out this project initiated in 2011. The Agency is now poised to utilize the Hazard Mitigation Plan to compete for grant funds for projects which result in a reduction in hazard vulnerability. The Agency also accepted a grant from the Mojave Water Agency for a middle school Water Education Festival which was held in May 2016. The Agency had applied for funds to construct emergency transfer switches but this application was denied. However, the Agency is optimistic that a planning grant might be awarded to integrate ID GM into the existing system and provide for emergency and water transfer interties with Hi Desert Water District.

9. Awarded Certificate of Achievement for Excellence in Financial Reporting for our Comprehensive Financial Report in fiscal year 2014/15 from the Government Finance Officers Association of the United States and Canada. This was the fifth consecutive year the Agency has received this award.
10. In 2016, the Agency was awarded the 2-year *Certificate of Excellence in District Transparency* from the Special Districts Risk Management Authority (SDRMA).
11. The Agency believes it meets the qualifications and will submit an application to California Special Districts Association (CSDA) for the *District of Distinction Accreditation* in the coming year.

Internal Control Structure

Agency management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the Agency are protected from loss, theft or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The Agency's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

Each year the Agency Board of Directors has adopted an annual operating budget. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the Agency's operations. Extensive capital budgets have not always been presented with the budget, therefore projects are brought to the Board individually, as needed, for consideration. The financial reporting treatment applied to the Agency is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, Agency ordinance and resolutions, and prudent money management. The objective of

the Investment Policy is safety, liquidity and yield. Although the policy covers a wide-variety of investment instruments the Agency's reserve funds are currently invested in the State Treasurer's Local Agency Investment Fund (LAIF) and an institutional checking account (Pacific Western Bank replaced Union Bank of California effective July 1, 2016). The Board of Directors approved the current investment policy on January 22, 2013 (Resolution No. 13R-01).

Water Rates and Agency Revenues

Agency's current policy direction ensures that all revenues from user charges generated from Agency customers must support all Agency operations including capital project funding. Accordingly, water rates are regularly reviewed. Water rates are user charges imposed on customers for services and are the primary component of the Agency's revenue. Water rates are composed of a commodity (usage) charge and a fixed meter (readiness-to-serve) charge. There have been no rate increases imposed since 2008. However, the Board of Directors adopted the Fiscal Year 2016/17 Budget with a four-year projection of revenues and expenses. Primarily due to the projected rising cost of health insurance and a sudden dramatic increase in lease payments to the Bureau of Land Management for pipeline right-of-way crossing the frontage of various governmental properties the Board agreed a rate increase would be necessary to maintain adequate financial reserves. In accordance with Proposition 218 the Board held a Public Hearing on July 26, 2016 and with just two letters of protest a four-year rate increase program was approved.

Water Conservation Programs

The Agency is an active member of the Morongo Basin Alliance for Water Awareness and Conservation (MB AWAC). Agency Board and staff participate in and sponsor a number of community events with a conservation component, such as the Desert-Wise Landscaping Home Tours and Workshops sponsored by the Morongo Basin Conservation Association and held throughout the year in the Morongo Basin. The Agency also distributes materials to encourage water conservation. In accordance with Governor Jerry Brown's April 1, 2015 Executive Order requiring water suppliers to reduce usage, the Agency adopted *Ordinance No. 15O-02 Adopting Water Conservation Measures* on July 28, 2015. The Agency later replaced this ordinance with the more comprehensive *Ordinance No. 15O-03 Amending and Restating the Agency's Water Conservation Plan*.

Audit and Financial Reporting

State Law and Bond covenants require the Agency to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Davis Farr, LLP; Certified Public Accountants has conducted the audit of the Agency's financial statements. Their unqualified Independent Auditor's Report appears in the Financial Section.

Risk Management

The Agency has been a member of the Special District Risk Management Authority (SDRMA) since 1983. The purpose of SDRMA is to arrange and administer programs of insurance for pooling of self-insured losses and to purchase excess insurance coverage.

Technology Advance in Customer Service (E-government initiatives)

The Agency customers have the option to pay their bills in person at the Agency office, on-line and via Automated Clearinghouse (ACH) through their bank account, with a major credit card over the phone or through the Agency's website or via the internet.

Customers also have access to agency agenda's and agenda backup materials via email notifications immediately upon publication. The agenda materials as well as other reference material are also available on the Agency website (www.bdvwa.org). The website includes a link to email addresses of each member of the Board of Directors as well as an email address for general inquiries.

Other References

More information has been provided in both the Management's Discussion and Analysis and the Notes to the Basic Financial Statements which can be found in the Financial Section of this report.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Bighorn-Desert View Water Agency for its comprehensive annual financial report of the fiscal year ended June 30, 2015. This was the fifth year that the Agency has applied for and achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

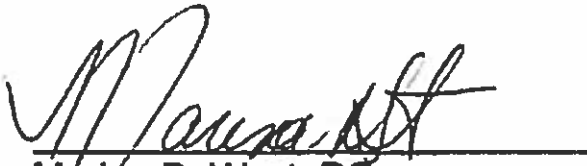
A Certificate of Achievement is valid for a period of only one year. The Agency believes that the current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and the Agency intends to submit an application to the GFOA to determine our eligibility for certification.

In 2016 the agency was awarded the 2-year *Certificate of Excellence in District Transparency* from the Special Districts Risk Management Authority.

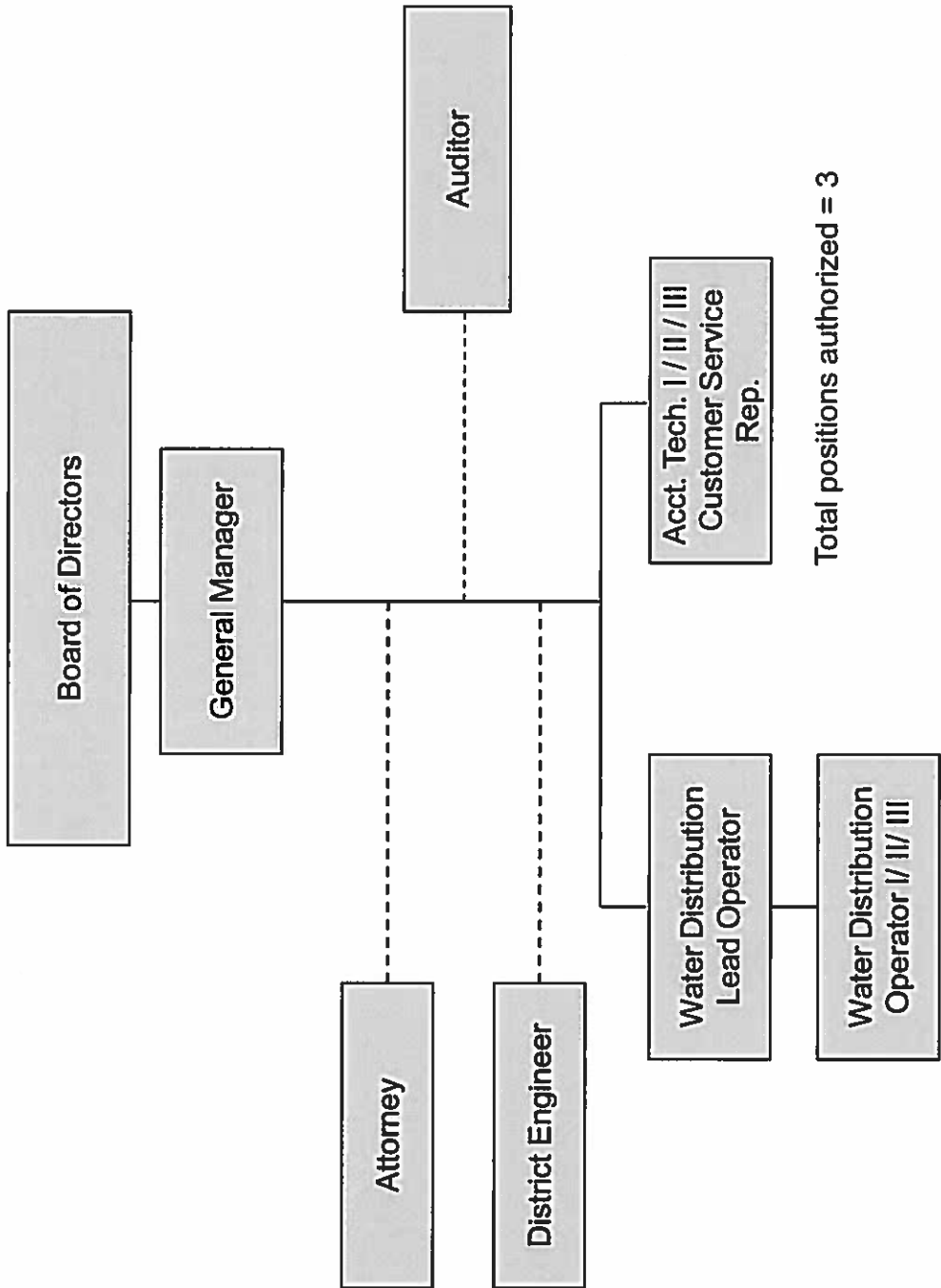
Preparation of this report was accomplished by the combined efforts of Agency staff. I truly appreciate the dedicated efforts and professionalism that our staff members bring to the Agency. I would also like to thank the members of the Board of Directors for their

continued support in the planning and implementation of the Bighorn-Desert View Water Agency's fiscal policies.

With Great Pleasure,

A handwritten signature in black ink, appearing to read 'Marina D. West', written over a solid horizontal line.

Marina D. West, PG
General Manager



Total positions authorized = 3

Total positions authorized = 5

- Existing positions = 3
- Authorized as part of CSA70/W-1 Annex. = 2



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Bighorn-Desert View Water Agency
California**

**For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended**

June 30, 2015

Executive Director/CEO

FINANCIAL SECTION

Board of Directors
Bighorn-Desert View Water Agency

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Bighorn-Desert View Water Agency (the Agency) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bighorn-Desert View Water Agency, as of June 30, 2016, and the changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Agency's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that *Management's Discussion and Analysis, the Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date, and the Schedule of Plan Contributions* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bighorn-Desert View Water Agency's basic financial statements. The *introductory section* and the *statistical section* are presented for purposes of additional analysis and are not a required part of the basic financial statements. The *introductory section* and the *statistical section* have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016 on our consideration of Bighorn-Desert View Water Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bighorn-Desert View Water Agency's internal control over financial reporting and compliance.

Davis Fan LLP

Irvine, California
October 17, 2016

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, 2016. 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 Position (previously a Statement of Net Assets) and the Statement of Revenues, Expenses, and Changes in Net Position 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 position – 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 Position
Formally "Net Assets"
(in Actual Dollars)

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Current and Other Assets	\$ 3,083,797	\$ 1,581,333	1,502,464
Capital Assets	<u>4,714,827</u>	<u>3,778,431</u>	936,396
Total Assets	\$ 7,798,624	\$ 5,359,764	2,438,860
Deferred Outflow of Resources	\$ 72,560	\$ 60,987	11,573
Current Liabilities	\$ 255,199	\$ 238,119	17,800
Non-Current Liabilities	<u>799,871</u>	<u>886,411</u>	(86,540)
Total Liabilities	\$ 1,055,070	\$ 1,124,530	(69,460)
Net Investment in capital			
Assets	\$ 4,277,850	\$ 3,220,454	1,057,396
Unrestricted	2,050,307	966,225	1,084,082
Restricted	449,082	-	449,082
Total Net Position	<u>\$ 6,777,239</u>	<u>\$ 4,186,679</u>	2,590,560

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

Table 2
Changes in Net Position
(in Actual Dollars)

	<u>2016</u>	<u>2015</u>	<u>Change</u>
Operating Revenues			
Water Sales	\$ 545,931	\$ 438,409	107,522
Other revenues & Grants	<u>984,562</u>	<u>679,690</u>	304,872
Total Operating Revenues	\$ 1,530,493	\$ 1,118,099	412,394
Operating Expenses			
Transmission and Distribution	\$ 726,110	\$ 496,019	230,091
General and Administrative	673,824	569,956	103,868
Depreciation	<u>362,372</u>	<u>245,697</u>	116,675
Total Operating Expenses	\$ 1,762,306	\$ 1,311,672	450,634
Operating Income (Loss)	(231,813)	(193,573)	(38,240)
Non-Operating Revenues (Expenses):			
Interest revenue	3,892	2,390	1,502
Tax Levy & Surcharges	328,939	292,261	36,678
Desert View Debt Surcharge	49,983	49,949	34
Gain/(loss) on sale of assets	11,190	-	11,190
Interest expense	(28,182)	(32,637)	4,455
Cont. from CoSB Annexation	1,333,598	-	1,333,598
Other expense	<u>(2,062)</u>	<u>580</u>	(2,642)
Total Non-Operating Revenues (Expenses)	\$ 1,697,358	\$ 312,543	1,384,815
Capital Contributions	1,125,015	2,245	1,122,770
Change in Net Position	2,590,560	121,215	2,469,345
Net Position at Beginning of Year	<u>4,186,679</u>	<u>4,065,464</u>	121,215
Net Position at End of Year	<u>\$ 6,777,239</u>	<u>\$ 4,186,679</u>	2,590,560

The increase or decrease in net position as shown on Table 1 can provide an indication as to whether the overall financial position of the Agency improved or deteriorated during the year. Net position of the Bighorn-Desert View Water Agency (Agency) increased by 62% (\$4.19 million compared to \$6.78) million. The increase is primarily attributed to the capital contribution (cash, restricted cash and physical assets) transferred to the Agency with the annexation of Improvement District Goat Mountain (ID GM) effective July 1, 2016. If this capital contribution were to be excluded, the net position of the Agency increased by 3% (\$4.19M compared to \$4.32M) approximately \$132,000. 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:

TABLE 1

- The financial summary presented as Table 1-*Net Position* shows a significant variations when compared to the prior year. This increase in Net Position is the result of the annexation of a neighboring water agency effective July 1, 2015. This entity was previously operated by the County of San Bernardino Special Districts Department (SDD) as CSA 70/Zone W1 (Goat Mountain/Landers). As a result of the creation of Improvement District Goat Mountain (ID GM) the Agency's territory expanded by approximately 9 square miles (5,858 Acres) to a total of 51 square miles. Approximately 16.5% of the ID GM territory is federal land managed by the Bureau of Land Management (BLM) and the remaining ID GM service territory is approximately 50% developed. In addition, the Agency received cash ("restricted" and "unrestricted" fund balances), approximately 650 new water accounts (active and inactive), and the physical assets (distribution system, wells, tanks, etc.) which comprise that water distribution system. See Note 10 of the financial statements for further clarification of assets received.
- The significant positive change in Total Assets as presented in Table 1-*Net Position* above is significant and primarily attributable to cash (fund balances) transferred to the Agency as a result of the dissolution of CSA 70/Zone W1 on June 30, 2015. Cash and cash equivalents were up approximately \$1.3M from the prior period with approximately \$1.2M received from ID GM. The Capital Asset portion of the Total Assets increased by \$0.94M primarily derived from the transfer of the physical assets from SDD to the Agency. Accounts Receivable and secured property tax liens also increased as a result of the transfer of ID GM. The total amount reported in Table 1 also includes the value of all other capital and idle assets, including new assets acquired during the reporting period, minus one year depreciation. See Notes 1, 2 and 3 of the financial statements for further clarification on accounting policies, cash and investments and capital assets being depreciated.

As of the publication of this Comprehensive Annual Financial Report the Agency believes that additional cash distributions are due from the County of San

Bernardino Special Districts Department that would otherwise relate to the June 30, 2016 financial statements.

- Other variations in Net Position can be attributed to the continued but varied (from prior year) investment (ie. expense) in new capital and other purchases for which reserves have been accrued in anticipation of their need. This year two field trucks were replaced, and the final payment made for the new financial/billing software installed in early 2015. Due to the creation of ID GM two new full time equivalent (FTE) field positions (jobs) were created which resulted the need for two new field trucks and one new backhoe/loader. See Note 2 of the audited financial statements for more information concerning cash and investments.

In addition, inventory value increased by \$45,000 with most of the value in purchased water from the State Water Project placed into storage through surface recharge and not yet utilized. A total of 70-Acre Feet were purchased in FY2015/16.

- Table 1 includes "deferred outflow of resources" which has increased by approximately \$11,500. This entry is related to the GASB68-Accounting and Financial Reporting for Pensions requirement. See Note 8 of the financial statements for more information.

See Audited Financial Statements-Statement of Net Position (pg. 9) for further clarification and details on the Agency's Net Position on June 30, 2016.

- The variance in current liabilities is relatively small but reflects the difference in payables at year-end, continued reduction of long-term debt and an increase in customer deposits stemming from the annexation of ID GM. See Note 4 of the audited financial statements for further clarification of long-term debt.
- The variance in non-current liabilities reported continue to fluctuate due to the Government Accounting Standards Board Statement No. 68 (GASB68-Accounting and Financial Reporting for Pensions) requirement to report unfunded pension liability, equaling \$450,309, or approximately \$40,000 greater than prior period, as reported by CalPERS for the June 30, 2015 measurement date. See Note 8 - "Allocation of Net Pension Liability and Pension Expense to Individual Employers" of the audited financial statements for further clarification. Overall, non-current liabilities decrease as a result of large principal payments on bond debt instruments nearing the end of their 30-year term. See Note 4 of the financial statements for further clarification on long-term debt.
- Net investment in capital assets reported in Table 1 represents the net increase in capital assets.
- The Agency's unrestricted assets increased over the prior year due to the annexation of Improvement District Goat Mountain and receipt of cash in that transaction. The "restricted" assets represent a portion of the ID GM fund balance

which can only be used for capital improvements within ID GM. See Notes 2 and 10 of the financial statements for further clarification.

TABLE 2

- Table 2-*Changes in Net Position* reveals that Operating Revenues increased by about 37% as expected with the annexation of ID GM. A small grant was received from the Mojave Water Agency which enabled the Agency along with neighboring water districts to execute a one-day Water Education Festival for 8th grade students in the Morongo Unified School District. The Agency also closed its Hazard Mitigation Grant in FY2015/16. The Agency continues to seek grant opportunities as they become available under the Mojave Water Agency Integrated Regional Water Management Plan (IRWMP) and the Hazard Mitigation Plan (HMP).
- Regarding operating expenses, Table 2 presents that Operating Expenses increased by approximately 34% also anticipated with the annexation of ID GM. Many of those expenses were routine and expected as outlined in the adopted FY2015/16 budget but there were also many one-time, non-capital, expenses at ID GM associated with routine maintenance of water system facilities and appurtenances essentially neglected by the prior operator, County of San Bernardino Special Districts Department.
- The non-operating revenues increased significantly due to the annexation and associated \$1.33M cash (capital) contribution from the dissolved entity. If this line item contribution is removed, the Agency still realized a net increase in non-operating revenues for the year of approximately \$51,000 attributed to better than anticipated tax levy collection in the Agency's ID 1 (Bighorn Mountains territory of the Agency) and added stand-by tax levy from ID GM.
- The change in net position reported on Table 2 above shows that at year-end the Agency's revenues exceeded expenses significantly due to the annexation of ID GM. However, the Agency is not convinced the County of San Bernardino has relinquished all the cash owed to the Agency and therefore the net position could be greater than shown on the statements. However, if the capital contributions from the annexation of ID GM are removed then the result shows the Agency still had a positive change in net position at year-end of approximately \$131,000. This was below the projected increase in net position in the adopted Fiscal Year 2015/16 Budget and primarily associated with unpaid standby assessments in ID GM that were "directly billed" in FY2015/16 rather than placed on the secure tax rolls due to timing issues. Any delinquent standby assessment from FY2015/16 was placed on the secure tax rolls for 2017 and the Agency fully expects those funds will be received in FY2016/17.