

**BIGHORN-DESERT VIEW
WATER AGENCY**

Report on Audit

June 30, 2007 and 2006

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

June 30, 2007 and 2006

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INDEPENDENT AUDITORS' REPORT

September 4, 2007

The Board of Directors
Bighorn-Desert View Water Agency

We have audited the accompanying balance sheets of Bighorn-Desert View Water Agency (the "Agency") as of and for the years ended June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency at June 30, 2007 and 2006, and the changes in net assets and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report on page 31, dated September 4, 2007, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Board of Directors
Bighorn-Desert View Water Agency

The Management's Discussion and Analysis on pages 3 through 9 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits for the years ended June 30, 2006 and 2007 were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules listed in the accompanying table of contents for the years ended June 30, 2006 and 2007 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole for the years ended June 30, 2006 and 2007.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants



MANAGEMENT'S DISCUSSION AND ANALYSIS

THE AGENCY

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

THE BASIC FINANCIAL STATEMENTS

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

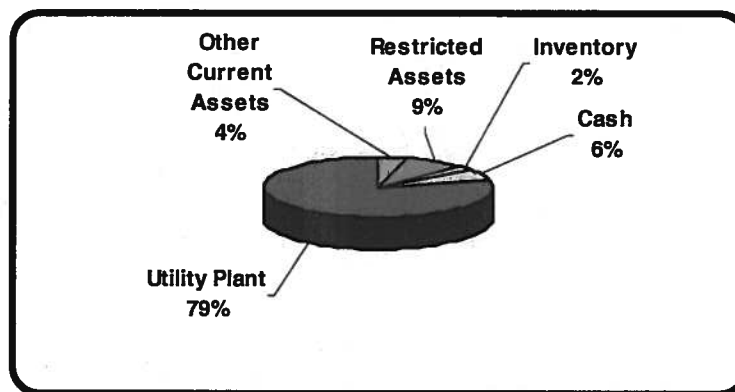
June 30, 2007 and 2006

THE BASIC FINANCIAL STATEMENTS, Continued

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

SUMMARY FINANCIAL INFORMATION AND ANALYSIS

ASSETS



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

Assets are classified as current if they are cash, are expected to be converted to cash or are expected to be consumed in operations within one year. Current assets consist of cash, accounts receivable, property taxes receivable, interest receivable, inventory, prepaid expenses and construction in progress. At June 30, 2007, the Agency had \$610,577 in current assets as compared to \$688,706 at June 30, 2006.

The total decrease in current assets of \$78,129 consists primarily of a decrease in unrestricted cash of \$85,641, an increase in receivables (cumulative) of \$33,791 and a decrease in construction in progress of \$21,625. Construction in progress is made up of the development of a future water master plan and an annexation.

Assets are reported as restricted when restrictions, imposed by creditors (such as through debt covenants) or by law, change the nature or normal understanding of the availability of the assets. Restricted assets for the Agency are cash collections in excess of amounts currently due for the repayment of bond principal, and cash collected for customer deposits and basic facilities fees. Restricted assets of the Agency at June 30, 2007 and 2006 were \$434,918 and \$448,528.

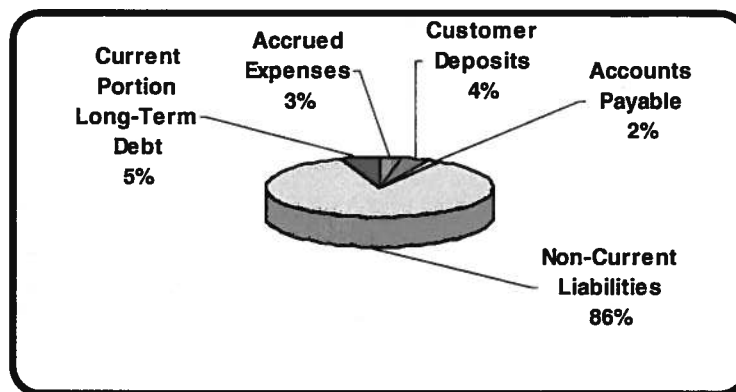
Non-current assets are the least liquid of assets. Assets that are not expected to be consumed or liquidated within one year are classified as non-current. Non-current assets for the Agency are deferred charges related to the issuance of long-term debt and utility plant (e.g., wells, tanks, pipeline, etc.). The Agency's non-current assets at June 30, 2007 were \$3,994,802 versus \$3,646,094 at June 30, 2006. Fixed asset purchases of \$551,109, along with depreciation and amortization of \$199,587, account for the majority of the change in non-current assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007 and 2006

SUMMARY FINANCIAL INFORMATION AND ANALYSIS, Continued

LIABILITIES



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

Current liabilities are amounts owed which are expected to be paid or otherwise settled within one year. The Agency's current liabilities consist of accounts payable, current portions of long-term debt (i.e., due within one year) and accrued expenses. Current liabilities of the Agency were \$151,380 at June 30, 2007 and \$151,317 at June 30, 2006.

Liabilities payable from restricted assets represent obligations that will be repaid from assets classified as restricted. Liabilities payable from restricted assets for the Agency are security deposits received from customers. The balances of liabilities payable from restricted assets at June 30, 2007 and 2006 were \$60,311 and \$54,565, respectively.

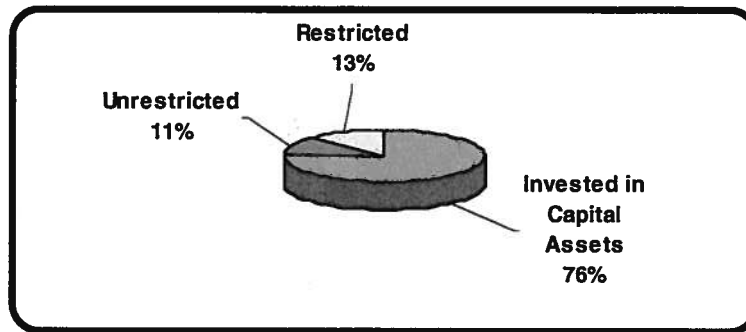
Liabilities that are not due within one year are classified as non-current. The Agency's non-current liabilities are the principal portion of its outstanding bonds and capital leases. Non-current liabilities at June 30, 2007 were \$1,291,497 compared to \$1,385,584 at June 30, 2006. The decrease is due to principal payments made during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007 and 2006

SUMMARY FINANCIAL INFORMATION AND ANALYSIS, Continued

NET ASSETS



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

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

The amounts reported as invested in capital assets for the Agency at June 30, 2007 include: utility plant, at cost, of \$8,522,510; less accumulated depreciation of \$4,534,547; plus construction in progress of \$44,175; less all debt related to the acquisition of utility plant of \$1,340,977 for a total of \$2,691,161. At June 30, 2006 the total of invested in capital assets was \$2,285,266. The increase is mainly due to fixed asset purchases.

Net assets are reported as restricted when constraints placed on net assets are either externally imposed by creditors (i.e., debt covenants) or imposed by law. Restricted net assets for the Agency at June 30, 2007 include: property tax collected and interest earned on property tax collected of \$427,451 for repayment of the General Obligation Bonds, and surcharges collected in excess of debt payments of \$15,369 for repayment of the Desert View Bonds for a total of \$442,820. The Agency's restricted net assets at June 30, 2006 were \$413,889.

Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets". The Agency's unrestricted net assets at June 30, 2007 are \$403,128 and \$492,707 at June 30, 2006.

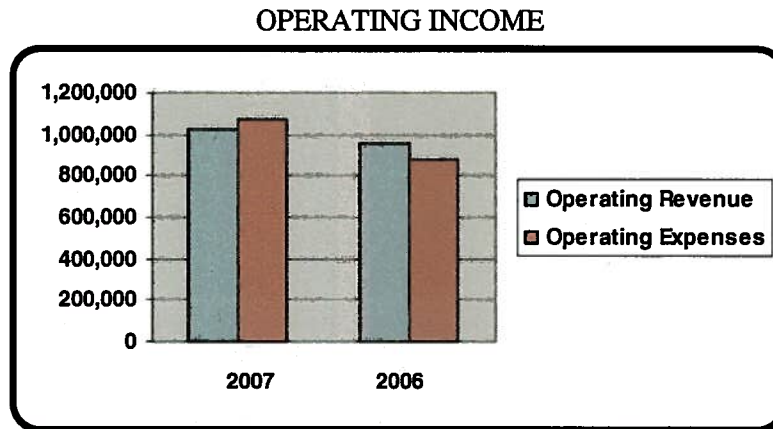
	<u>2007</u>	<u>2006</u>
Total assets	\$ 5,040,297	\$ 4,783,328
Total liabilities	<u>1,503,188</u>	<u>1,591,466</u>
Total net assets	<u>\$ 3,537,109</u>	<u>\$ 3,191,862</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007 and 2006

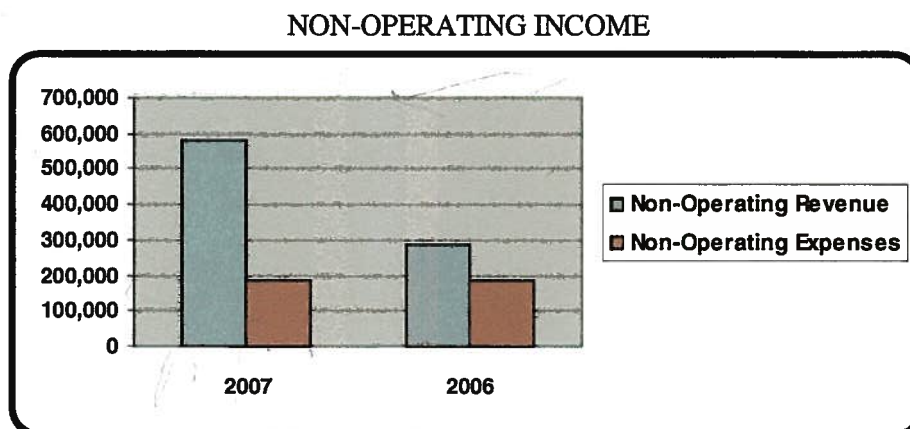
SUMMARY FINANCIAL INFORMATION AND ANALYSIS, Continued

OPERATING REVENUES AND EXPENSES



The Agency's operating revenues increased by 7.3% from \$957,729 to \$1,028,163, primarily due to increased water sales. Operating expenses increased \$199,719 or 22.7% from 2006.

NON-OPERATING REVENUES AND EXPENSES



Non-operating revenues for the year ended June 30, 2007 increased \$292,023 over 2006. Larger balances in savings and higher interest rates once again contributed to the increase in interest income of \$12,228. The majority of the increase, however, was due to \$278,378 in grant monies being received during the fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

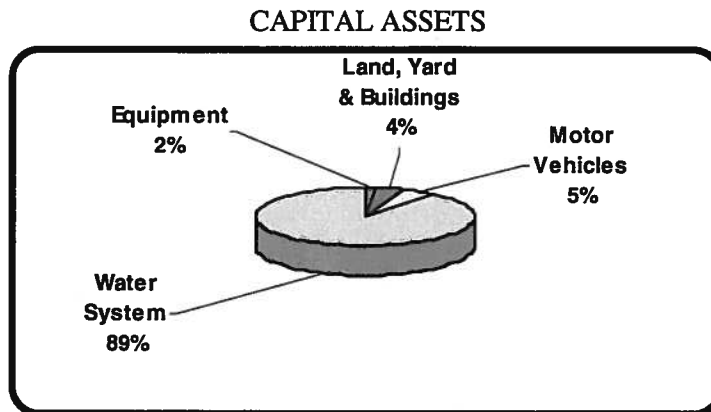
June 30, 2007 and 2006

SUMMARY FINANCIAL INFORMATION AND ANALYSIS, Continued

	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 1,028,163	\$ 957,729
Operating expenses before depreciation	<u>878,993</u>	<u>693,233</u>
Operating income before depreciation	149,170	264,496
Depreciation	<u>199,587</u>	<u>185,628</u>
Operating income (loss)	(50,417)	78,868
Non-operating income	<u>395,664</u>	<u>103,148</u>
Change in net assets	345,247	182,016
Net assets, beginning	<u>3,191,862</u>	<u>3,009,846</u>
Net assets, ending	<u>\$ 3,537,109</u>	<u>\$ 3,191,862</u>

CAPITAL ASSETS

The Agency's capital assets consist of its water distribution system and the ancillary equipment and fixtures needed to support and maintain that system. The following graph shows the composition of the Agency's total capital assets at June 30, 2007.



The Agency received grant funds during the 2006-2007 fiscal year of approximately \$278,000 to be used for the Basin Conception Model and Water Master Plan.

Capital expenditures during fiscal year 2006 were \$551,109. \$134,408 was spent on water system improvements; \$56,167 on motor vehicles; \$17,312 on office equipment; \$6,951 on shop equipment; and \$336,271 was spent on the above mentioned Basin Conception Model and Water Master Plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007 and 2006

SUMMARY FINANCIAL INFORMATION AND ANALYSIS, Continued

LONG-TERM DEBT

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

No new debt was incurred by the Agency in 2006-2007. Principal payments of \$55,000 and interest payments of \$53,250 on the General Obligation Bonds were made as scheduled, as well as \$21,000 principal payments and \$20,099 interest payments on the Water Revenue Bonds. The outstanding principal on the General Obligation Bonds and Water Revenue Bonds, at June 30, 2007 is \$958,000 and \$380,977, respectively.

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

BALANCE SHEETS

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash and investments	\$ 289,150	\$ 374,791
Accounts receivable – water services	126,606	99,701
Accounts receivable – availability	237	237
Property tax receivable	21,619	15,236
Interest receivable	10,185	9,682
Inventory	113,534	116,395
Prepaid expenses	5,071	6,864
Construction in progress	<u>44,175</u>	<u>65,800</u>
Total current assets	610,577	688,706
Restricted assets		
Cash	434,918	448,528
Non-current assets		
Debt issuance costs, net	6,837	9,651
Utility plant, net	<u>3,987,965</u>	<u>3,636,443</u>
Total non-current assets	<u>3,994,802</u>	<u>3,646,094</u>
TOTAL ASSETS	<u>\$ 5,040,297</u>	<u>\$ 4,783,328</u>

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

BALANCE SHEETS

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 25,154	\$ 36,956
Current portion of long-term debt	80,000	76,000
Current portion of capital lease	14,087	14,087
Payroll liabilities	8,582	5,489
Interest payable	9,576	9,525
Compensated absences	<u>13,981</u>	<u>9,260</u>
Total current liabilities	151,380	151,317
Liabilities payable from restricted assets		
Customer deposits	60,311	54,565
Non-current liabilities		
Bonds payable	1,260,977	1,340,977
Capital lease payable	<u>30,520</u>	<u>44,607</u>
Total non-current liabilities	<u>1,291,497</u>	<u>1,385,584</u>
Total liabilities	1,503,188	1,591,466
Net assets		
Invested in capital assets, net of related debt	2,691,161	2,285,266
Restricted for debt service	442,820	413,889
Unrestricted	<u>403,128</u>	<u>492,707</u>
Total net assets	<u>3,537,109</u>	<u>3,191,862</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,040,297</u>	<u>\$ 4,783,328</u>

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues		
Water sales	\$ 565,170	\$ 500,565
Other customer charges	84,826	125,180
Basic surcharge	<u>378,167</u>	<u>331,984</u>
Total operating revenues	1,028,163	957,729
Operating expenses		
Transmission and distribution	312,948	270,946
General and administrative	<u>566,045</u>	<u>422,287</u>
Total expenses	878,993	693,233
Depreciation	<u>199,587</u>	<u>185,628</u>
Total operating expenses	<u>1,078,580</u>	<u>878,861</u>
OPERATING INCOME (LOSS)	(50,417)	78,868
Non-operating revenues		
Interest income	43,874	31,646
Tax levy	205,830	117,342
Desert View debt surcharge	43,665	42,964
Mojave Water Agency pipeline surcharge	-	42,918
Grant income	278,378	20,000
Gain (loss) on disposal of asset	(5,034)	9,147
Other income	<u>14,315</u>	<u>24,988</u>
Total non-operating revenues	581,028	289,005
Non-operating expenses		
Interest expense	70,332	73,882
Mojave Water Agency pipeline debt	112,218	110,568
Amortization of debt issuance costs	<u>2,814</u>	<u>1,407</u>
Total non-operating expenses	<u>185,364</u>	<u>185,857</u>
NON-OPERATING INCOME	<u>395,664</u>	<u>103,148</u>
CHANGE IN NET ASSETS	345,247	182,016
Net assets		
Beginning, July 1	<u>3,191,862</u>	<u>3,009,846</u>
Ending, June 30	<u>\$ 3,537,109</u>	<u>\$ 3,191,862</u>

See accompanying notes and auditors' report

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Cash received from customers	\$ 1,007,004	\$ 1,046,167
Cash payments to suppliers for goods and services	(518,136)	(411,223)
Cash payments to employees and directors for services	(360,190)	(304,492)
Other miscellaneous revenues	<u>8,545</u>	<u>24,988</u>
Net cash provided by operating activities	137,223	355,440
 Cash flows from non-capital financing activities		
Property taxes received	<u>88,604</u>	<u>24,380</u>
Net cash provided by non-capital financing activities	88,604	24,380
 Cash flows from capital and related financing activities		
Property taxes received in support of long-term debt	154,509	136,916
Acquisition of capital assets	(529,485)	(231,789)
Proceeds on disposition of capital assets	736	12,690
Principal paid on long-term debt	(76,000)	(72,000)
Interest paid on long-term debt	(70,282)	(74,349)
Principal paid on capital leases	(14,087)	(11,739)
Mojave Water Agency pipeline surcharge received	-	42,918
Mojave Water Agency pipeline support paid	(112,218)	(110,568)
Grant revenue received	<u>278,378</u>	<u>20,000</u>
Net cash used in capital and related financing activities	(368,449)	(287,921)
 Cash flows from investing activities		
Interest received	<u>43,371</u>	<u>27,546</u>
Net cash provided by investing activities	<u>43,371</u>	<u>27,546</u>
 NET CHANGE IN CASH	(99,251)	119,445
 Cash		
Beginning, July 1	<u>823,319</u>	<u>703,874</u>
Ending, June 30	<u>\$ 724,068</u>	<u>\$ 823,318</u>

See accompanying notes and auditors' report

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Reconciliation of cash and cash equivalents to the statement of net assets		
Cash, restricted for debt service	\$ 434,918	\$ 448,528
Cash, unrestricted	<u>289,150</u>	<u>374,791</u>
	<u>\$ 724,068</u>	<u>\$ 823,319</u>
 Reconciliation of operating income (loss) to cash used in operating activities		
Operating income (loss)	\$ (50,417)	\$ 78,868
Adjustments		
Depreciation	199,587	185,628
Other miscellaneous revenues	8,545	24,988
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	(26,905)	85,569
(Increase) decrease in inventory	2,861	2,051
(Increase) decrease in prepaid expenses	1,793	(1,839)
Increase (decrease) in accounts payable, operating	(11,802)	13,236
Increase (decrease) in customer deposits	5,747	2,868
Increase (decrease) in payroll liabilities	3,093	(38,691)
Increase (decrease) in accrued compensation balances	<u>4,721</u>	<u>2,762</u>
Net cash provided by operating activities	<u>\$ 137,223</u>	<u>\$ 355,440</u>

See accompanying notes and auditors' report

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Fund Accounting

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

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Agency distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with water sales to customers. Non-operating revenues are those derived from support of long-term debt and the investment of cash reserves.

Basis of Accounting

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

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

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Accounting, Continued

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

Invested in Capital Assets, Net of Related Debt

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

Restricted

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

Unrestricted Net Assets

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

Use of Restricted Resources

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Inventory

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

Utility Plant

Capital assets are stated at cost. Depreciation is provided on a straight-line basis over the estimated useful lives which range from five to fifty years. Depreciation expense for the years ended June 30, 2007 and 2006 was \$199,587 and \$185,628, respectively. It is the policy of the Agency to capitalize property, plant and equipment with a cost of \$1,000 or more.

Allowance for Uncollectible Accounts

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

Debt Issuance Costs

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

Other Accounting Policies

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

Income Taxes

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

Cash and Cash Equivalents

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

Property Taxes

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

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

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Property Taxes, Continued

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

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

Grants

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

NOTE 2 – CASH AND INVESTMENTS

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

Cash Deposits

The carrying amounts of the Agency's cash deposits were \$724,068 at June 30, 2007. Bank balances before reconciling items were \$731,259 at that date, the total amount of which was collateralized or insured with securities held by pledging financial institutions in the Agency's name as discussed below.

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

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

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007 and 2006

NOTE 2 – CASH AND INVESTMENTS, Continued

Cash Deposits, Continued

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

Investments

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

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

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value using the aggregate method in all funds, resulting in the following investment income in all funds at June 30, 2006:

Interest income	\$ <u>43,874</u>
-----------------	------------------

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

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

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007 and 2006

NOTE 2 – CASH AND INVESTMENTS, Continued

Summary of Cash and Investments

The following is a summary of pooled cash and investments at June 30, 2007:

Business type activities:	
Cash and investments	\$ 289,150
Restricted cash and investments	<u>434,918</u>
	<u>\$ 724,068</u>

At June 30, 2007, the District had the following deposits:

	<u>Credit Quality Ratings</u>	<u>Fair Value</u>
Deposits	Not Rated	\$ 5,064
Local Agency Investment Funds	Not Rated	<u>719,004</u>
		<u>\$ 724,068</u>

Risk Disclosures

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

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

Summary of Investments to Maturity

The fair value of investments held by maturity at June 30, 2007 is shown below:

Maturity:	
Current to one year	\$ 724,068
Two to three years	-
Four to five years	<u>-</u>
Total	<u>\$ 724,068</u>

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007 and 2006

NOTE 3 – RESTRICTED ASSETS AND LIABILITIES

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

NOTE 4 – UTILITY PLANT IN SERVICE

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

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

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007 and 2006

NOTE 4 – UTILITY PLANT IN SERVICE, Continued

A summary of changes in utility plant in service for the year ended June 30, 2006:

<u>Assets at Cost</u>	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Capital assets, not being depreciated:				
Land	\$ 64,103	\$ -	\$ -	\$ 64,103
Capital assets, being depreciated:				
Fuel station	16,604	-	-	16,604
Motor vehicles	364,074	120,142	(94,551)	389,665
Office building	232,675	2,185	(506)	234,354
Office equipment	119,335	3,117	(685)	121,767
Shop equipment	88,654	3,208	(107)	91,755
Water system	6,905,669	110,551	-	7,016,220
Yards	<u>57,935</u>	<u>-</u>	<u>-</u>	<u>57,935</u>
Total capital assets, being depreciated	<u>7,784,946</u>	<u>239,203</u>	<u>(95,849)</u>	<u>7,928,300</u>
Total assets at cost	7,849,049	<u>239,203</u>	<u>(95,849)</u>	7,992,403
Accumulated depreciation				
Fuel station	6,862	665	-	7,527
Motor vehicles	303,977	27,728	(91,225)	240,480
Office building	165,409	7,769	(450)	172,728
Office equipment	102,837	5,560	(523)	107,874
Shop equipment	81,657	1,208	(107)	82,758
Water system	3,546,346	141,919	-	3,688,265
Yards	<u>55,549</u>	<u>779</u>	<u>-</u>	<u>56,328</u>
Total accumulated depreciation	<u>4,262,637</u>	<u>185,628</u>	<u>(92,305)</u>	<u>4,355,960</u>
Capital assets, net book value	<u>\$ 3,586,412</u>			<u>\$ 3,636,443</u>

NOTE 5 – LONG-TERM DEBT

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
General obligation bonds: original issue \$1,875,000; 5%; maturing in 2019; secured by tax levy revenues	\$ 958,000	\$ 1,013,000
Water revenue bonds: original issue \$700,000; 5%; maturing in 2019; secured by a pledge of all revenues	380,977	401,977
Improvement District 71-2 Bond: original issue \$275,000; 7%; matured July 2, 1988	<u>2,000</u>	<u>2,000</u>
Total long-term debt	1,340,977	1,416,977
Less: portion due within one year	<u>(80,000)</u>	<u>(76,000)</u>
	<u>\$ 1,260,977</u>	<u>\$ 1,340,977</u>

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007 and 2006

NOTE 5 – LONG-TERM DEBT, Continued

Future long-term debt maturities are as follows:

<u>Year</u>	
2007 – 2008	\$ 80,000
2008 – 2009	85,000
2009 – 2010	90,000
2010 – 2011	95,000
2011 – 2012	100,000
Thereafter	<u>890,977</u>
	<u>\$ 1,340,977</u>

NOTE 6 – CAPITAL LEASE

The Agency leases equipment under a capital lease agreement expiring in 2011. As of June 30, 2007, future minimum lease payments are as follows:

<u>June 30,</u>	
2008	\$ 14,087
2009	14,087
2010	14,087
2011	<u>2,346</u>
	44,607
Less amount representing interest	<u>-</u>
	<u>\$ 44,607</u>

The leased asset is carried at a cost of \$77,433 less accumulated depreciation of \$21,202.

NOTE 7 – JOINT VENTURES

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

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

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007 and 2006

NOTE 7 – JOINT VENTURES, Continued

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

Condensed audited financial information for SDRMA (Special Districts Risk Management Authority) is presented below. Years ended June 30, 2006 and 2005 are the most recent years available.

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Total assets	\$ 52,454,396	\$ 42,332,618
Total liabilities	<u>(33,850,371)</u>	<u>(24,871,468)</u>
Total fund equity	<u>\$ 18,604,025</u>	<u>\$ 17,461,150</u>
Total revenues	\$ 24,464,075	\$ 20,658,697
Total expenses	<u>(23,321,200)</u>	<u>(17,274,600)</u>
Net income	<u>\$ 1,142,875</u>	<u>\$ 3,384,097</u>

The payments to Special District Risk Management Authority for June 30, 2007 totaled \$54,335. Payments for the year ended June 30, 2006 totaled \$54,768. The Agency's share of year-end assets, liabilities or fund equity has not been calculated.

NOTE 8 – COMMITMENTS

On March 15, 1991, the Agency entered into an agreement with the Mojave Water Agency to become a participant in the Morongo Basin Pipeline project. Under the agreement, the Agency was obligated to pay its project allotment percentage of the estimated fixed project cost commencing July 1, 1991. The payment made to Mojave Water Agency for the current year was \$73,142. The payments commencing June, 1996, and thereafter will be determined by Mojave Water Agency based upon various factors.

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued June 30, 2007 and 2006

NOTE 9 – LITIGATION

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

NOTE 10 – DEFINED BENEFIT PENSION PLAN

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.

For the year ended June 30, 2007, participants were required to contribute 7% of their annual covered salary. The Agency was required to contribute an actuarially determined rate of 6.621% of covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by PERS.

For the year ended June 30, 2007, 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, 2005 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.

Schedule of funding progress for PERS:

	<u>June 30, 2007</u>
Actuarial accrued liability (AAL) entry age	\$ 1,283,387
Actuarial value of assets	\$ 967,740
Unfunded (overfunded AAL) (UALL)	\$ 315,647
Funded ratio	75%

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2007 and 2006

NOTE 11 – CONTINGENCIES

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

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

The Pledge of Revenues and Funds of the 1980 Desert View County Water District Revenue Bonds (the “pledge”) requires that a Reserve Fund shall be established to further secure the payment of the principal of and interest on those bonds. Pursuant to the pledge, the balance of this Reserve Fund is to be maintained at approximately \$41,000. The covenant further requires that monies withdrawn from the Reserve Fund shall be restored by monthly transfers. As of June 30, 2006, the Agency has sufficient reserves to meet this requirement.

SUPPLEMENTAL SCHEDULES

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

HISTORY AND ORGANIZATION

June 30, 2007

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

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

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

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

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

BOARD OF DIRECTORS:

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Phillip Johnson	Vice-President	2007
Delmour Maybury	Director	2007

The following Board Members were recalled as a result of a special election held on August 28, 2007:

Michael Maline	President	2009
Sharon Edwards	Director	2009
Maryan Barkley	Director	2009

ADMINISTRATION:

Don Bartz, General Manager
Jessica Tiffany, Administrative Supervisor

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

PROPERTY TAXES

June 30, 2007

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

Ad Valorem Tax Assessments

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

Assessed Valuations

The net assessed valuations of property within the Agency's taxing area for 2007 as reported by the San Bernardino County Auditor-Controller are:

	<u>Total Assessed Valuation</u>
General tax levy	
Secured property	\$ 116,505,151
Unsecured property	\$ 363,694
 Debt service improvement	
Secured property	\$ 35,692,393
Unsecured property	\$ 95,588

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

INSURANCE COVERAGE

June 30, 2007

Agency insurance coverage as of June 30, 2007 is as follows:

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

BIGHORN-DESERT VIEW WATER AGENCY

(A Special District)

SCHEDULE OF OPERATING EXPENSES

For the Years Ended June 30, 2006 and 2007

	<u>2007</u>	<u>2006</u>
Transmission and distribution		
Salaries	\$ 161,468	\$ 129,973
Ames Basin monitoring	1,213	7,692
Automatic controls	4,280	4,124
Communications	2,469	2,220
Disinfection expense	3,270	3,661
Electricity: wells and pumps	59,217	47,815
Miscellaneous operating expenses	6,146	2,691
Repairs and maintenance – operations	17,814	9,272
Supplies	33,114	40,046
Uniforms	1,045	1,643
Vehicle expense	14,670	9,415
Water testing	<u>8,242</u>	<u>12,394</u>
Total transmission and distribution	312,948	270,946
 General and administrative		
Salaries – office	168,244	87,744
Directors' fees	7,600	7,800
Employee benefits	61,312	51,017
Payroll taxes	8,515	6,195
PERS contribution	<u>25,231</u>	<u>14,135</u>
	270,902	166,891
 Auditing and accounting	8,900	8,900
Bad debt	4,756	8,352
Contractual services	30,512	104,400
Customer relations	665	4,507
Dues and subscriptions	10,850	10,819
Election costs	(255)	4,783
Employee education	2,208	1,359
Insurance	54,457	56,140
Legal fees	145,406	20,194
Miscellaneous administrative expenses	5,330	11,063
Office supplies and expenses	9,393	8,470
Postage	9,614	4,806
Telephone	4,984	3,982
Utilities – office	<u>8,323</u>	<u>7,621</u>
Total general and administrative	<u>566,045</u>	<u>422,287</u>
 Total expenses	878,993	693,233
Depreciation	<u>199,587</u>	<u>185,628</u>
 TOTAL OPERATING EXPENSES	<u>\$ 1,078,580</u>	<u>\$ 878,861</u>

**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

The Board of Directors
Bighorn-Desert View Water Agency

We have audited the financial statements of Bighorn-Desert View Water Agency (the "Agency") as of and for the years ended June 30, 2006 and 2007, and have issued our report thereon dated September 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

COMPLIANCE AND OTHER MATTERS

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

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

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants