

Bighorn-Desert View Water Agency
Yucca Valley, California



A Public Agency

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2012



Photo by Kaylee West

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 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, 2012

Member	Office	Term Expires
Michael McBride	President	2015
Judy Corl-Lorono	V. President	2013
David Larson	Secretary	2015
Terry Burkhart	Director	2013
J. Dennis Staley	Director	2013

Bighorn-Desert View Water Agency
Marina D. West, PG, General Manager
622 S. Jemez Trail
Yucca Valley, California 92284
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Comprehensive Annual Financial Report

For the Fiscal Year Ended

June 30, 2012

Bighorn-Desert View Water Agency

A Public Agency

622 S. Jemez Trail

Yucca Valley, California

92284

Prepared by:

Marina D. West, PG, General Manager
Gayla Blanton, Accounting Technician II

BIGHORN-DESERT VIEW WATER AGENCY
COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ended June 30, 2012

(with comparative information for June 30, 2011)

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INTRODUCTORY SECTION

Bighorn-Desert View Water Agency

Board of Directors

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



Agency Office

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Marina D West, P.G., General Manager

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A Public Agency

Introduction

It is our pleasure to submit the Annual Financial Report for the Bighorn-Desert View Water Agency for the fiscal years ended June 30, 2012 and 2011, 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.

This report is organized into four sections: (1) Introductory; (2) Financial; (3) Supplemental Information; and (4) Statistical. The Introductory section offers general information about the Agency's organization and current Agency activities and reports on a summary of significant financial results. The Financial section includes the Independent Auditors' Report, Management's Discussion and Analysis of the Agency's basic financial statements and the Agency's audited basic financial statements with accompanying notes. The Supplemental Information section includes schedules for purposes of additional analysis. The Statistical section presents un-audited ten-year historical financial, demographic and statistical information pertinent to the Agency's operations.

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 is a consolidated independent special district, formed in 1990, operating pursuant to the provisions of the Bighorn-Desert View Water Agency Law, California Water Code Appendix, Sections 112-1 *et. seq.* 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 employs six (6) full-time employees 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.

The Agency provides water service to approximately 1,450 active residential customers, 400 infrequent/inactive customers, and 100 bulk-hauling customers within its forty-four (44) 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, (western) Landers, and Johnson Valley.

Agency Services

Residential customers represent nearly 100% of the Agency's customer base and therefore consume a majority of the water produced annually. A small quantity of water is lost to system flushing, testing and leaks. The Agency currently has a total of eight (8) groundwater wells with a maximum production capacity of 2,733 gallons per minute. In fiscal year 2011/12, the Agency produced 412 acre-feet of groundwater, unchanged from fiscal year 2010/11. The Agency did not purchase any imported State Project Water from the Mojave Water Agency during this time period.

Economic Condition and Outlook for the Local Economy

According to *Sterling Places* the cost of living in the Landers area is 13.3% lower than the U.S. average. The unemployment rate is currently approximately 14%. Using U.S. Census Block group data, all census blocks within the Agency boundaries are classified as a "disadvantaged". 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 local residents commute to the Twentynine 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.

The downturned economy has affected the Agency's revenue stream through reduced property taxes following re-assessment of property values as well as decreased water sales from conservation, foreclosures and undetected system leaks.

Measurable improvements in the local economy are not anticipated in the next fiscal year.

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". From the February 2012 Board Workshop the following goals and objectives were agreed upon.

1. Balanced Budget and growth of reserve funds for replacement/refurbishment of infrastructure, emergency contingencies and capital improvement programs outlined in the 2005 Water Master Plan. Continue efforts to reduce costs where possible.
2. Completion of remaining Work Plan Tasks authorized under a \$575,000 Environmental Protection Agency State and Tribal Assistance Grant (EPA STAG) granted to the Agency in 2005.
 - a. Ames/Reche Spreading Grounds and Recovery Program and Management Agreement.
 - b. Ames/Reche Groundwater Management Plan in support of the Ames/Reche Groundwater Basin Management Agreement aimed at amending the Ames Valley Water Basin Agreement (Stipulated Judgment).
 - c. Johnson Valley Hydrogeologic Investigation.
3. Construction of the Ames/Reche Spreading Grounds for recharge of imported water from the State Water Project through the Morongo Basin Pipeline in partnership with the Mojave Water Agency, Hi Desert Water District and the County of San Bernardino Special Districts Water Department.
4. Completion of the Local Area Formation Commission Municipal Sphere Review/Sphere of Influence process for the Agency.
5. Reorganization (acquisition) of the adjoining County Service Area 70/Zone W-1-Landers water system into Bighorn-Desert View Water Agency which would increase the customer base by approximately 650 metered residences providing more efficient/effective service and local elected representation.
6. Solicit proposals, conduct interviews and appoint new General Counsel following untimely death of former General Counsel.
7. Promote continued education for Board and staff.

8. Increase communication with constituents through increased newsletter distribution and attendance at community events.
9. Focus on preventative maintenance of the water distribution system including fire hydrants, reservoir recoating, emergency power connections and engineering analysis of options to address elevated uranium in three Agency drinking water wells.
10. Emergency and disaster preparedness.
11. Obtain Certificate of Achievement for Excellence in Financial Reporting for our Comprehensive Financial Report in fiscal year 2010/11 from the Government Finance Officers Association of the United States and Canada.

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 2011/12:

1. Adopted a balance budget on time and without relying on cash reserves. Switched credit card service providers so that "swipe fees" would be passed directly onto customers using this payment method which resulted in a direct savings of approximately \$12,000 annually. Updated Agency Rules and Regulations for Water Service. Updated the Agency Records Retention Policy and approved a policy establishing the criteria for use of Agency financial reserves. Placed liens on the secured property tax rolls for outstanding debt owed the Agency.
2. Completed all tasks associated with the EPA STAG grant and closed the grant prior to its expiration. Achievements include completion of a Groundwater Management Plan for the Pipes and Reche Groundwater Subbasins. Execution of the related Ames/Reche Groundwater Basin Management Agreement and Monitoring Program Plan. Continued progress on federal National Environmental Policy Act (NEPA) Environmental Assessment and associated US Fish and Wildlife Biological Opinion. Preparation and submittal of an application for a California Department of Fish and Game Section 2081 Incidental Take Permit. Also completed in fiscal year 2011/12 was the acquisition of real property to complete the Johnson Valley Hydrologic Investigation test well.
3. The Local Agency Formation Commission (LAFCO) Municipal Service Review/Sphere of Influence Review was completed by LAFCO Resolution No. 3155 on April 18, 2012. The Resolution authorized a reduction in the size of the Agency's Sphere of Influence by approximately 11,882 acres (public lands) and expanded the Agency's Sphere of Influence by 8,150 acres over the adjoining County Service Area 70/Zone W-1-Landers. The expanded sphere provides the

impetus for pursuing reorganization of the Agency and expansion of service territory.

4. Developed outreach plan to begin communications with adjoining water agency customers regarding the benefits of reorganization from a County Service Area into BDVWA.
5. Increased outreach efforts to BDVWA customer base through direct mailing of newsletters and continued participation in community events.
6. Appointed Joseph Aklufi from the law offices of Aklufi and Wysocki as Agency General Counsel.
7. Continued education for members of the Board and staff. Agency General Manager obtained Master of Public Administration degree from California State University San Bernardino. Continuing education to maintain the Operations Staff state certifications for water distribution and water treatment.
8. Preventative maintenance in 2011/12 included upgrades to several pressure reducing stations, testing of approximately one-half of the Agency's fire hydrants to ensure proper operation, replacement of three chlorinators, system flushing of dead-ends, management of the Agency backflow prevention program, repair of water main and service line leaks and purchase of one new field vehicle.
9. Maintained NIMS (National Incident Management System) certifications. Continued participation in ERNIE (Emergency Response Network of the Inland Empire) and CalWarn via mutual aid Memorandum of Understanding.
10. Recipient of the calendar year *2011 McMurchie Excellence in Safety Award* in recognition of outstanding leadership for employee loss prevention and safety programs. No Worker's Compensation or Property Liability claims filed in calendar year 2011.
11. Agency Director Terry Burkhart was elected to the Special Districts Risk Management Authority (SDRMA) Board of Directors for a three (3) year term.
12. Awarded Certificate of Achievement for Excellence in Financial Reporting for our Comprehensive Financial Report in fiscal year 2010/11 from the Government Finance Officers Association of the United States and Canada.

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 complied 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. Capital budgets have not been passed by the Board of Directors due to lack of cash reserves to establish a budget for capital improvements however projects have been brought to the Board for individual consideration. The budget and 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 and institutional checking accounts only.

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 were no rate increases imposed in fiscal year 2011/12.

Water Conservation Programs

Due to the size of the Agency's customer base, compulsory participation in the State's 20X2020 (20% reduction in water consumption by the year 2020) is not required. However, overall the Agency customers have demonstrated a very low per capita consumption rate. Nonetheless, 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 held throughout the Morongo Basin. The Agency also distributes materials to encourage water conservation. The Agency has not found a need to implement a tiered water rate structure to encourage conservation.

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 Mayer-Hoffman-McCann P.C., An Independent Accounting Firm 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 through their bank account, with a major credit card over the phone or on the Agency's website. The Agency is evaluating the Automated Clearing House (ACH) payment method at this time.

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.

Other References

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

Awards and Acknowledgements

The Agency received the *McMurchie Excellence in Safety Award* for calendar year 2011 in recognition of outstanding leadership for employee loss prevention and safety programs.

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, 2011. This was the first year that the government 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 one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of

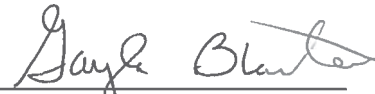
Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Preparation of this report was accomplished by the combined efforts of Agency staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the Agency. We 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.

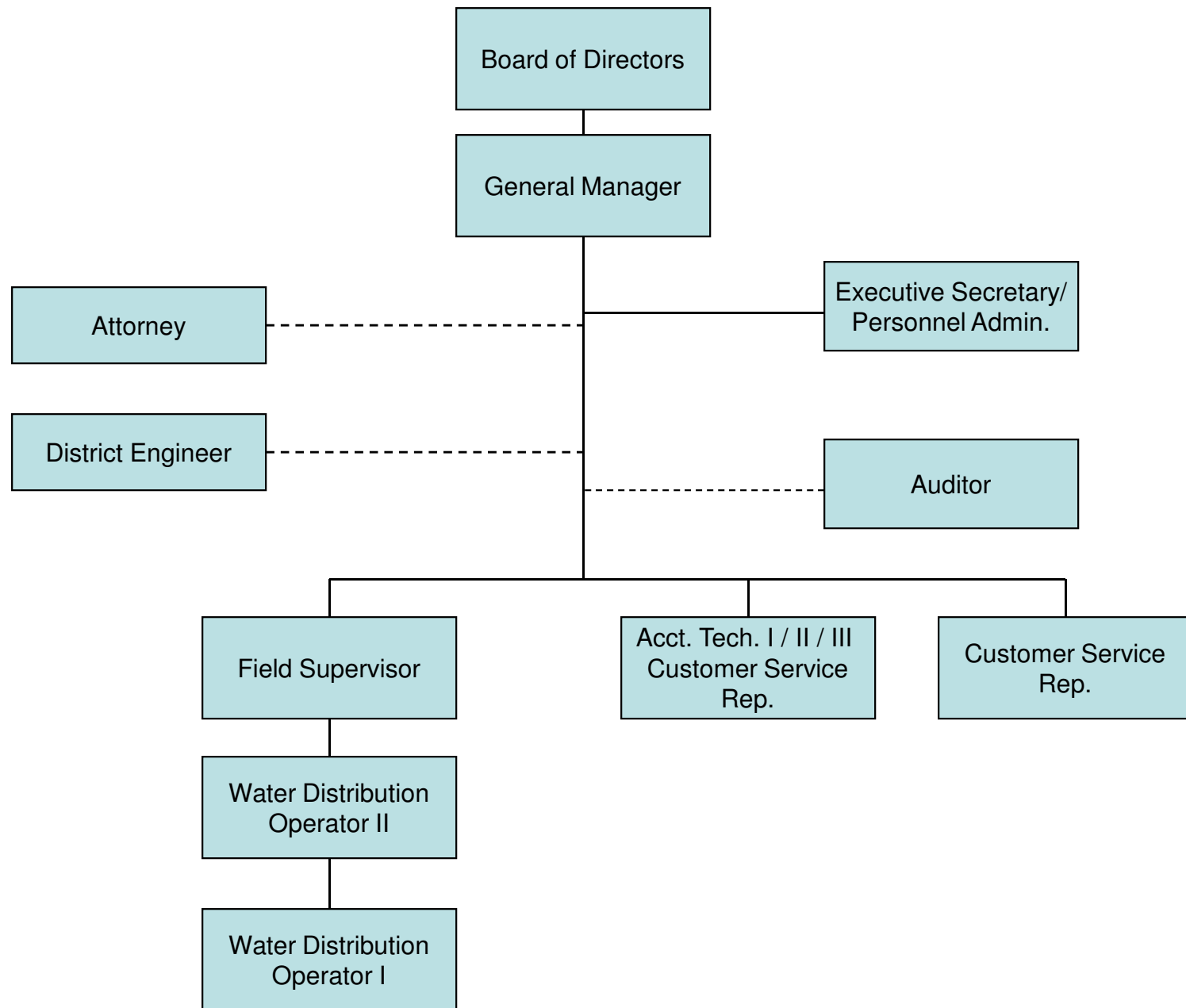
With Great Pleasure,



Marina D. West, PG
General Manager



Gayla Blanton
Accounting Technician II



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, 2011

A Certificate of Achievement for Excellence in Financial
Reporting is presented by the Government Finance Officers
Association of the United States and Canada to
government units and public employee retirement
systems whose comprehensive annual financial
reports (CAFRs) achieve the highest
standards in government accounting
and financial reporting.



Linda C. Sandison

President

Jeffrey R. Emer

Executive Director

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Board of Directors

BIGHORN-DESERT VIEW WATER AGENCY

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of Bighorn-Desert View Water Agency (the "Agency") as of June 30, 2012, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Agency for the year ended June 30, 2011, and in our report dated November 30, 2011, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Agency at June 30, 2012, and the respective changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* referenced in the accompanying table of contents 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 the 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 regarding 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Bighorn-Desert View Water Agency's basic financial statements. The introductory section and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 20, 2012 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McLean P.C.

Irvine, California
November 20, 2012

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, 2012. Please read it in conjunction with the transmittal letter and financial statements identified in the accompanying table of contents.

INFORMATION REPORTED IN THE ACCOMPANYING FINANCIAL STATEMENTS

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

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

AGENCY FINANCIAL STATEMENTS

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

Table 1 Net Assets (in Millions)			
	<u>2012</u>	<u>2011</u>	<u>Change</u>
Current and Other Assets	\$ 1.2	1.1	0.16
Non-current Assets	<u>4.4</u>	<u>4.3</u>	0.05
Total Assets	<u>5.6</u>	<u>5.4</u>	0.21
Current Liabilities	0.2	0.2	0.01
Non-Current Liabilities	<u>0.8</u>	<u>0.9</u>	(0.10)
Total Liabilities	<u>1.0</u>	<u>1.1</u>	(0.10)
Invested in capital asset, net of related debt	3.3	3.3	(0.04)
*Restricted for Bighorn	0.1	(0.2)	0.28
*Restricted for Desert View	1.2	1.2	0.07
Total Net Assets	<u>\$ 4.6</u>	<u>4.3</u>	0.30

* Restated to conform to current year presentation.

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

Table 2
Changes in Net Assets
(in Millions)

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Operating Revenues			
Water Sales	\$.5	.5	0.01
Other revenues	<u>0.6</u>	<u>0.6</u>	(0.01)
Total Operating Revenues	1.1	1.1	(0.001)
Operating Expenses			
Transmission and Distribution	0.4	0.4	0.04
General and Administrative	0.5	0.6	(0.09)
Depreciation	<u>0.2</u>	<u>0.2</u>	0.01
Total Operating Expenses	<u>1.1</u>	<u>1.2</u>	(0.05)
Operating Income (Loss)	<u>(0.05)</u>	<u>(0.09)</u>	0.05
Non-Operating Revenues (Expenses):			
Interest revenue	0.002	0.004	(0.002)
Other revenue*	0.35	0.28	0.07
Interest expense	(0.05)	(0.05)	0.003
Other expense	<u>(0.08)</u>	<u>(0.11)</u>	(0.01)
Total Non-Operating Revenues (Expenses)	<u>0.22</u>	<u>0.12</u>	0.10
Capital Grants*	0.13	0.43	(0.3)
Change in Net Assets	<u>0.30</u>	<u>0.46</u>	(0.12)
Net Assets Beginning, July 1	<u>4.31</u>	<u>3.85</u>	0.46
Net Assets Ending, June 30	<u>\$ 4.62</u>	<u>4.31</u>	0.30

* Restated to conform to current year presentation.

The increase or decrease in net assets can provide an indication as to whether the overall financial position of the Agency improved or deteriorated during the year. Net assets of the Agency increased by 7% (\$4.62 million compared to \$4.31) million. The net assets (financial position) of the Agency changed as a result of the revenue and expense fluctuations described below.

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

- Administrative expenses were down in FY2011/12 due to a vacancy in one senior level position from March through July 2012. In addition, some expenses were lower than anticipated for the year such as director fees, propane, power and expenses associated with payroll (payroll tax, PERS, benefits, etc.).
- Total Net Assets of the Agency increased approximately \$300,000 which is primarily attributed to revenues exceeding expenses. While the Agency, overall received less revenue from grants, the Agency did received approximately \$95,000 of revenue as grant income from the Environmental Protection Agency State and Tribal Assistance Grant (EPA STAG). This reimbursement was primarily for expenditures made on the Johnson Valley Hydrologic Investigation. An additional \$35,000 was received from the Mojave Water Agency and expended on the Ames/Reche Spreading Grounds Project.
- Total cash and cash equivalents increased by approximately \$120,000. These funds add to the unrestricted cash available for replacement and refurbishment, new capital improvements and emergency reserve funds maintained in the Local Agency Investment Fund (LAIF).
- Long term receivables (\$44,884) reflect the total amount of outstanding charges on water accounts which have been placed as secured liens on the property tax rolls for future collection.
- The term “idle asset” was assigned to the Johnson Valley Test Well (\$177,096) as this project represented a water supply and recharge investigation or “feasibility study”. Following its completion, the test well was not actually put into service and thus will remain an “idle asset” until further action is taken by the Board of Directors.
- During Fiscal Year 2011/12 capital asset activity included both additions and deletions. Additions include placing the Ames/Reche Groundwater Storage and Recovery Program monitoring wells (\$331,448) into the capitalized fixed asset category and the purchase of a new field vehicle (\$25,023). Deletions include disposal of one field vehicle, a pressure washer and an obsolete copier. See Note 3 of the enclosed financial statements for more detailed information on capital asset activity.
- Other Non-Operating Revenues increased approximately \$70,000 in Fiscal Year 2011/12 attributed to the Board of Directors authority to adjust the Bighorn Mountains Improvement District 1 Ad Valorem Tax Assessment to ensure sufficient revenues are

collected to operate and maintain the ID 1 distribution system constructed in the early 1980's.

- Capital grant funds decreased in fiscal year 2011/12 from prior year (\$430,608 received) to \$128,217 as funds appropriated from an Environmental Protection Agency State and Tribal Assistance Grant (EPA STAG) were exhausted on both the Ames/Reche Groundwater Storage and Recovery Program and the Johnson Valley Hydrologic Investigation.
- As described further in note ten (10), the bond resolutions of the Agency and those of its predecessor districts contain provisions that require the tracking of certain operational funds with respect to the geographical areas of the two predecessor districts.

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

For at least a five year period, the General Manager using her operational knowledge of the Agency, allocated each revenue account classification and each expense account classification to the geographical jurisdictions of the two predecessor entities using her best determination of the geographical benefit associated with each revenue classification and expense classification.

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

The Agency is seeking relief from this requirement through an amendment to its enabling Act by seeking a "spot bill" in the State Legislature. The Agency is hopeful this will be completed in FY2012/13.

LONG-TERM DEBT

At the end of the 2011/12 fiscal year, the Agency had bonded debt outstanding of \$888,977 less the portion (\$105,000) due in less than one year. All debt payments were made on time and in full during the year. No new debt was issued during the fiscal year. The Desert View Water Revenue Bond matures in 2019 as does the Bighorn Mountains General Obligation Bond. For more detailed information on long-term debt activity see note 4 of the enclosed financial statements.

Contacting the Agency's Financial Management

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

BIGHORN-DESERT VIEW WATER AGENCY**BALANCE SHEET**

As of June 30, 2012

(with comparative information for June 30, 2011)

A S S E T S

	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents (note 2)	\$ 882,481	762,219
Accounts receivable - water services	163,789	164,140
Accounts receivable - customer projects	-	2,790
Accounts receivable-unbilled	59,053	40,251
Grants receivable	36,166	28,673
Property tax receivable	32,011	22,707
Interest receivable	-	1,955
Inventory	62,911	61,100
Prepaid expenses	<u>6,324</u>	<u>-</u>
 TOTAL CURRENT ASSETS	 1,242,735	 1,083,835
 Non-current assets:		
Long term receivables	44,884	28,068
Idle Assets (note 3)	177,096	-
Capital assets not being depreciated (note 3)	552,468	805,494
Capital assets being depreciated, net (note 3)	<u>3,622,746</u>	<u>3,515,094</u>
TOTAL NON-CURRENT ASSETS	<u>4,397,194</u>	<u>4,348,656</u>
 TOTAL ASSETS	 <u>\$ 5,639,929</u>	 <u>5,432,491</u>

(Continued)

BIGHORN-DESERT VIEW WATER AGENCY**BALANCE SHEET**

As of June 30, 2012

(continued)

(with comparative information for June 30, 2011)

LIABILITIES

	<u>2012</u>	<u>2011</u>
Current liabilities:		
Accounts payable	\$ 27,734	20,144
Current portion of bonds payable (note 4)	105,000	100,000
Current portion of compensated absences (note 4)	29,276	25,229
Payroll liabilities	15,403	18,930
Customer deposits - Water	54,141	50,904
Customer deposits - Projects	-	7,388
Interest payable	<u>4,621</u>	<u>5,347</u>
 TOTAL CURRENT LIABILITIES	 <u>236,175</u>	 <u>227,942</u>
 Non-current liabilities (note 4):		
Bonds payable	783,977	890,977
Compensated absences	<u>3,188</u>	<u>-</u>
 TOTAL NON-CURRENT LIABILITIES	 <u>787,165</u>	 <u>890,977</u>
 TOTAL LIABILITIES	 <u>1,023,340</u>	 <u>1,118,919</u>
 NET ASSETS		
Invested in capital assets, net of related debt (note 10)	3,286,244	3,331,173
Restricted for Bighorn (note 10)	96,880	(182,214)
Restricted for Desert View (note 10)	<u>1,233,465</u>	<u>1,164,613</u>
 TOTAL NET ASSETS	 <u>4,616,589</u>	 <u>4,313,572</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 5,639,929</u>	 <u>5,432,491</u>

See Notes to Financial Statements

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

For the Year Ended June 30, 2012
(with comparative information for June 30, 2011)

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Water sales	\$ 466,610	457,078
Water services	40,134	50,253
Basic surcharge	<u>595,375</u>	<u>595,583</u>
 TOTAL OPERATING REVENUES	 1,102,119	 1,102,914
 OPERATING EXPENSES		
Transmission and distribution	393,634	351,065
General and administrative	507,341	605,733
Depreciation	<u>248,330</u>	<u>239,342</u>
 TOTAL OPERATING EXPENSES	 <u>1,149,305</u>	 <u>1,196,140</u>
 OPERATING INCOME (LOSS)	 (47,186)	 (93,226)
 NON-OPERATING REVENUES (EXPENSES)		
Interest income	2,326	4,472
Tax levy	295,186	223,764
Desert View debt surcharge	50,006	50,206
Gain/loss on disposal of asset	1,644	(38,832)
Other income/expense	(5,352)	9,036
Interest expense	(48,643)	(51,309)
Contribution to Mojave Water Agency pipeline (note 6)	(73,181)	(73,097)
Amortization of debt issuance costs	<u>-</u>	<u>(2,011)</u>
 TOTAL NON-OPERATING REVENUES (EXPENSES)	 221,986	 122,229
 INCOME BEFORE CAPITAL CONTRIBUTIONS	 174,800	 29,003
 CAPITAL GRANTS	 <u>128,217</u>	 <u>430,605</u>
 CHANGE IN NET ASSETS	 303,017	 459,608
 NET ASSETS BEGINNING, JULY 1	 <u>4,313,572</u>	 <u>3,853,964</u>
 NET ASSETS ENDING, JUNE 30	 <u><u>\$ 4,616,589</u></u>	 <u><u>4,313,572</u></u>

See Notes to Financial Statements

BIGHORN-DESERT VIEW WATER AGENCY**STATEMENT OF CASH FLOWS**

For the Year ended June 30, 2012

(with comparative information for June 30, 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,048,694	1,059,597
Cash payments to suppliers for goods and services	(394,179)	(343,707)
Cash payments to employees and directors for services	(503,633)	(597,097)
Other miscellaneous revenues	<u>(5,352)</u>	<u>9,036</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>145,530</u>	<u>127,829</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Property taxes received	<u>98,568</u>	<u>95,783</u>
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>98,568</u>	<u>95,783</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Property taxes received in support of long-term debt	196,618	127,981
Other revenue received in support of long-term debt	50,006	50,206
Acquisition of capital assets	(278,408)	(425,284)
Principal paid on long-term debt	(102,000)	(95,000)
Interest paid on long-term debt	(49,369)	(54,199)
Principal paid on capital leases	-	(2,346)
Mojave Water Agency pipeline support paid	(73,181)	(73,097)
Grant revenue received	<u>128,217</u>	<u>302,396</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(128,117)</u>	<u>(169,343)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	<u>4,281</u>	<u>3,549</u>
NET INCREASE (DECREASE) IN CASH	120,262	57,818
CASH AND CASH EQUIVALENTS BEGINNING, JULY 1	<u>762,219</u>	<u>704,401</u>
CASH AND CASH EQUIVALENTS ENDING, JUNE 30	<u>\$ 882,481</u>	<u>762,219</u>

(Continued)

See Notes to Financial Statements

BIGHORN-DESERT VIEW WATER AGENCY**STATEMENTS OF CASH FLOWS**

(continued)

For the Years ended June 30, 2012

(with comparative information for June 30, 2011)

	2012	2011
Reconciliation of cash and cash equivalents to the statement of net assets:		
Cash and investments	\$ 882,481	762,219
	<u>\$ 882,481</u>	<u>762,219</u>
Reconciliation of operating income (loss) to cash used in operating activities:		
Operating income (loss)	(47,186)	(93,226)
Depreciation	248,330	239,342
Other Income/Expense	(5,352)	9,036
Changes in assets liabilities:		
Accounts receivable and other receivables	(49,274)	(35,875)
Inventory	(1,811)	14,400
Prepaid expenses	(6,324)	6,804
Accounts payable and other liabilities	11,298	(5,210)
Customer deposits	<u>(4,151)</u>	<u>(7,442)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 145,530</u>	<u>127,829</u>
Noncash capital, financing, or investing activities		
Capital contributions	<u>\$ 128,217</u>	<u>430,605</u>

See Notes to Financial Statements

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

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

Reporting entity - Bighorn-Desert View Water Agency (the “Agency”) is a special district that was formed in 1990 when the San Bernardino County Board of Supervisors approved the consolidation of Bighorn Mountains Water Agency (established 1969) and Desert View Water District (established 1964). It is the Agency’s mission to provide water and water related services to the population within the Agency’s boundaries. Accordingly, the Agency is authorized to finance, construct, operate and maintain a water transmission and distribution system to benefit this population. There are 1,923 user connections within the Agency’s boundaries which encompass approximately 44 square miles. The Agency is governed by a five-member Board of Directors, who are elected to staggered 4-year terms.

Basis of accounting – The Agency uses the flow of economic resources measurement focus. This measurement focus emphasizes the determination of net income. The accrual basis of accounting is used by the Agency. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

The Agency distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with water sales to customers. Non-operating revenues are those derived from support of long-term debt and the investment of cash reserves.

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

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

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

(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 year ended June 30, 2012 was \$248,330. 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 – It is agency policy that for all water accounts delinquent for more than 90 days have a lien placed on their property. The agency believes that collection is certain as customers cannot sell their properties without remittance of their water payments. Therefore the agency does not deem it necessary to record an allowance for uncollectible accounts, although the amount placed on the tax rolls is recorded separately as a long term receivable on the balance sheet. Long Term receivables for the year ended June 30, 2012 was \$44,884.

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

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

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

Cash and cash equivalents – For purposes of the statement of cash flows, the Agency limits the term *cash and cash equivalents* to only currency on hand, demand deposits with banks or other financial institutions, and deposits in other kinds of accounts or cash management pools that have the general characteristics of demand deposit accounts in that the Agency may deposit additional cash at any time and effectively withdraw cash at any time without prior notice or penalty.

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

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

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

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

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

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

(2) **Cash and investments**

The Agency maintains a cash and investment pool that is available for all funds. Each fund type balance in the pool is reflected on the combined balance sheet as cash and investments.

Cash deposits - The carrying amounts of the Agency's cash deposits were \$6,997 at June 30, 2012. Bank balances before reconciling items were \$19,746 at that date, the total amount of which was collateralized or insured with securities held by pledging financial institutions in the Agency's name as discussed below.

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

The market value of the pledged securities must equal at least 110% of the Agency's deposits. California law also allows financial institutions to secure the Agency's deposits by pledging first trust deed mortgage notes having a value of 150% of the Agency's deposits. The Agency may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

(2) Cash and investments

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
- Bankers' Acceptances
- Non-negotiable certificates of deposit
- Repurchase Agreements
- California Local Agency Investment Fund (State Pool)
- Corporate medium-term notes
- Mortgage-backed securities
- Diversified Management Companies, as defined by Section 23701m of the Revenue Taxation Code

Summary of cash and investments - The following is a summary of pooled cash and investments at June 30, 2012:

Cash and investments	\$882,481
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At June 30, 2011, cash and investments were composed of the following:

	Credit Quality Ratings	Fair Value
Deposits	Not Rated	\$ 6,997
Local Agency Investment Funds	Not Rated	<u>875,484</u>
		<u>\$882,481</u>

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

(2) Cash and investments, (Continued)

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, 2012 is shown below:

Maturity:	
Current to one year	\$875,484
Two to three years	-
Four to five years	<u>-</u>
Total	<u>\$875,484</u>

Investment in State Investment Pool – the Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not rated.

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

(3) Utility plant in service

A summary of changes in utility plant in service for the year ended June 30, 2012:

<u>Assets at Cost</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Capital assets, not being depreciated:				
Land	\$ 64,103	12,508	-	76,611
Construction in Progress	<u>741,391</u>	<u>291,840</u>	<u>(557,374)</u>	<u>475,857</u>
Total capital assets, not being depreciated	<u>805,494</u>	<u>304,348</u>	<u>(557,374)</u>	<u>552,468</u>
Capital assets, being depreciated:				
Fuel station	16,604	-	-	16,604
Motor vehicles	444,499	25,142	(18,546)	451,095
Office building	230,552	-	-	230,552
Office equipment	129,713	-	(2,688)	127,025
Organization	336,271	-	-	336,271
Shop equipment	43,075	-	(1,748)	41,327
Water system	7,533,873	331,448	-	7,865,321
Yards	<u>52,958</u>	<u>-</u>	<u>-</u>	<u>52,958</u>
Total capital assets, being depreciated	<u>8,787,545</u>	<u>356,590</u>	<u>(22,982)</u>	<u>9,121,153</u>
Total assets at cost	<u>9,593,039</u>	<u>660,938</u>	<u>(580,356)</u>	<u>9,673,621</u>
Accumulated depreciation				
Fuel station	(10,846)	(664)	-	(11,510)
Motor vehicles	(355,052)	(34,213)	18,104	(371,161)
Office building	(205,440)	(3,438)	-	(208,878)
Office equipment	(126,299)	(1,584)	2,688	(125,195)
Organization	(56,256)	(13,451)	-	(69,707)
Shop equipment	(37,986)	(1,717)	1,582	(38,121)
Water system	(4,427,614)	(193,263)	-	(4,620,877)
Yards	<u>(52,958)</u>	<u>-</u>	<u>-</u>	<u>(52,958)</u>
Total accumulated depreciation	<u>(5,272,451)</u>	<u>(248,330)</u>	<u>22,374</u>	<u>(5,498,407)</u>
Total capital assets being depreciated, net	<u>3,515,094</u>	<u>108,260</u>	<u>(608)</u>	<u>3,622,746</u>
Capital assets, net book value	<u>\$ 4,320,588</u>	<u>412,608</u>	<u>(557,982)</u>	<u>4,175,214</u>

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

(3) Utility plant in service, (Continued)

Idle Assets - During fiscal year 2011/2012 the Agency conducted a feasibility study as to the existence of ground water in the Johnson Valley. In doing so, the Agency constructed a well which was to be used to pump water from the Johnson Valley. However, it was determined that at the feasibility study dictated drilling depth, the well would not produce water. While the Agency could continue to drill to further depths, in hopes of creating a producing well, this decision has not been made by management or the Board of Directors. As such, the value of the Johnson Valley Well, \$177,096, will be held on the balance sheet as an Idle Asset, not to be depreciated, until the Agency decides how to proceed regarding further drilling.

(4) Long-term debt

Bonds Payable:

June 30, 2012

Bighorn General obligation bonds:

Original issue \$1,875,000, 5%, maturing in 2019;
secured by tax levy revenues

\$ 628,000

Desert View Water revenue bonds:

Original issue \$700,000, 5%, maturing in 2019;
secured by a pledge of all revenues

260,977

Total bonds payable

888,977

Less portion due within one year

(105,000)

\$ 783,977

Change in Long Term Liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within 1 Year</u>
Bighorn General Obligation Bonds	\$ 702,000	-	(74,000)	628,000	74,000
Desert View Water Revenue Bonds	286,977	-	(26,000)	260,977	26,000
Improvement District 71-2 Bonds	2,000	-	(2,000)	-	-
Compensated Absences	<u>25,229</u>	<u>36,511</u>	<u>(29,276)</u>	<u>32,464</u>	<u>29,276</u>
Total	<u>\$ 1,016,206</u>	<u>36,511</u>	<u>(131,276)</u>	<u>921,441</u>	<u>137,464</u>

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

(4) **Long-term debt, (Continued)**

Future long-term debt maturities are as follows:

Year Ending June 30	<u>General Obligation Bonds</u>		<u>Water Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 77,000	31,400	28,000	12,022
2014	81,000	27,550	29,000	10,572
2015	85,000	23,500	31,000	9,022
2016	89,000	19,250	32,000	7,422
2017	94,000	14,800	34,000	5,722
2018	98,000	10,100	35,000	3,972
2019	104,000	5,200	37,000	2,122
2020	-	-	34,977	172
Total	<u>\$ 628,000</u>	<u>131,800</u>	<u>260,977</u>	<u>51,029</u>

(5) **Joint powers authority**

The Agency participates in a joint powers agreement (JPA), the Special District Risk Management Authority (SDRMA), in order to obtain workers compensation and property liability insurance coverage. The relationships between the Agency and the JPA are such that the JPA is not a component unit of the Agency for financial reporting purposes.

The JPA has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, transactions between the JPA and the Agency are included in these statements.

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

(5) **Joint powers authority, (Continued)**

Special Districts Risk
Management Authority (SDRMA)

Purpose	To purchase property, workers compensation, and liability insurance for member districts
Participants	Special districts in California
Governing board	Two directors selected by the California Special Districts Association and five elected from membership

(6) **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 \$73,181. The payments commencing June, 1996, and thereafter will be determined by Mojave Water Agency based upon various factors.

(7) **Litigation**

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

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

(8) **Defined benefit pension plan**

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

Funding policy - For the year ended June 30, 2012, the Agency was required to contribute an actuarially determined rate of 11.677% (employer's rate) of covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by PERS.

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

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
CalPERS contributions	\$ 38,520	27,995	32,677

For the year ended June 30, 2012, 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, 2009 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 3.00% attributable to inflation; and (c) a 0.25% across the board increase and merit increases that vary by length of service. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

(9) Debt Covenants

The Agency is presently repaying two bond issues: (1) the 1979 Bighorn Mountains Water Agency General Obligation Bonds; and (2) the 1980 Desert View Water District Revenue Bonds. The Agency has also entered into an agreement with Mojave Water Agency for Construction, Operation and Financing of the Morongo Basin Pipeline Project as detailed in Note 6. 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 coverage. The 1980 Desert View bonds have a coverage requirement that net revenues be 20% over the annual principal and interest payment, while the agreement with Mojave Water Agency requires coverage of 25% over the annual principal and interest payment.

For the year ended June 30, 2012, the aggregate debt service coverage of the Agency was approximately 438%. Future debt service of the Agency through 2020 is \$888,977. The Agency expects debt service coverage to be comparable to that of the current year throughout the period to which the coverage requirement applies.

The Pledge of Revenues and Funds of the 1980 Desert View Water District Revenue Bonds (the "pledge") requires that a Reserve Fund be established to further secure the payment of the principal of and interest on those bonds. Pursuant to the pledge, the balance of this Reserve Fund is to be maintained at the average of all future payments, or \$39,001. At June 30, 2012 the reserve was fully funded and had a balance of \$873,934.

(10) Net Assets

Prior to fiscal year 2012, the Agency took the position that ad valorem taxes on Bighorn Mountains Water Agency and bond surcharges on the Desert View Water District were restricted solely for the payment of principal and interest associated with the debt of each respective district.

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

(10) Net Assets (Continued)

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

Section 9 of the Resolution No. 174 of the Bighorn Mountains Water Agency dated June 21, 1977 states: "The Board of Directors, so far as practicable, shall fix such rate or rates for water in Improvement District No. 1 as will result in revenues which will pay the operating expenses of the improvement district, which provide for the operating expenses of the improvement district, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on the bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

If the revenues of the improvement district will be inadequate for any cause to pay the expenses set forth above, the Agency must provide for the levy and collection of a tax sufficient to raise the amount of money determined by such Board of Directors to be necessary for the purpose of paying such charges and expenses as set forth above and the principal and the interest on the bonds as the same become due."

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

Section 33305(a) of the Desert View Water District-Bighorn Mountains Water Agency Consolidation Law and Section 31012 of the County Water District Law states that "all funds derived from the operation of the former district system shall be separately accounted for and used exclusively for the purposes of maintenance, operation, betterments, and bond debt service of the acquired system."

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

BIGHORN-DESERT VIEW WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

(10) Net Assets (Continued)

As of June 30, 2012, the portion of net assets associated with this restriction are as follows:

Bighorn Mountains Water Agency ("Bighorn"):	
Invested in capital assets, net of related debt	\$ 2,264,839
Resources restricted for Bighorn	<u>96,880</u>
Total Bighorn Mountains Water Agency	\$ 2,361,719
 Desert View Water District ("Desert View")	
Invested in capital assets, net of related debt	\$ 1,021,405
Resources restricted for Desert View	<u>1,233,465</u>
Total Desert View Water District	\$ 2,254,870

STATISTICAL SECTION

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time:

- Net Assets by Component
- Changes in Net Assets/Equity

Revenue Capacity

These schedules contain trend information to help the reader assess the government's most significant current local revenue source, the property tax:

- Water Sold
- Rates
- Largest Users

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place:

- Demographic

Debt Capacity Information

These schedules assist users in understanding and assessing a government's debt burden and its ability to issue additional debt:

- Ratio of Outstanding Debt
- Ratio of General Bond Outstanding
- Pledged – Revenue Coverage

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs:

- Employees
- Operating and Capital

**NET ASSETS BY COMPONENT
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Invested in capital assets, net of related debt	\$ 2,233,537	2,146,035	2,100,217	2,285,266	2,691,161	2,816,559	2,546,637	3,087,501	3,331,173	3,286,244
Restricted for Bighorn/Desert View	380,978	383,003	408,227	413,889	-	-	-	766,463	-	-
Restricted for Bighorn	-	-	-	-	-	-	-	-	(182,214)	96,880
Restricted for Desert View	-	-	-	-	-	-	-	-	1,164,613	1,233,465
Unrestricted	224,522	329,612	501,402	492,707	845,948	453,169	940,679	-	-	-
Total net assets	<u>\$ 2,839,037</u>	<u>2,858,650</u>	<u>3,009,846</u>	<u>3,191,862</u>	<u>3,537,109</u>	<u>3,269,728</u>	<u>3,487,316</u>	<u>3,853,964</u>	<u>4,313,572</u>	<u>4,616,589</u>
% Increase	-3.37%	0.69%	5.29%	6.05%	10.82%	-7.56%	6.65%	10.51%	11.93%	7.02%

Source: Annual Financial Statements

**CHANGES IN NETS ASSETS
LAST TEN FISCAL YEARS**

Fiscal Year	Water Revenues	Operating Expenses	Operating Loss	Total Nonoperating Revenues/Expenses	Grant Income	Change in Net Assets
2003	\$ 624,840	\$ 857,361	\$ (232,521)	\$ 133,429	\$ -	\$ (99,092)
2004	\$ 749,537	\$ 893,426	\$ (143,889)	\$ 163,502	\$ -	\$ 19,613
2005	\$ 793,862	\$ 918,655	\$ (124,793)	\$ 275,989	\$ -	\$ 151,196
2006	\$ 957,729	\$ 878,861	\$ 78,868	\$ 103,148	\$ 200,000	\$ 182,016
2007	\$ 1,028,163	\$ 1,078,584	\$ (50,421)	\$ 117,286	\$ 278,378	\$ 345,243
2008	\$ 901,719	\$ 1,337,090	\$ (435,371)	\$ 167,994	\$ 11,077	\$ (256,300)
2009	\$ 1,066,200	\$ 1,107,924	\$ (41,724)	\$ 210,507	\$ 42,855	\$ 211,638
2010	\$ 1,144,587	\$ 1,172,020	\$ (27,433)	\$ 161,738	\$ 232,343	\$ 366,648
2011	\$ 1,102,914	\$ 1,196,140	\$ (93,226)	\$ 122,229	\$ 430,605	\$ 459,608
2012	\$ 1,102,119	\$ 1,149,305	\$ (47,186)	\$ 221,986	\$ 128,217	\$ 303,017

BIGHORN DESERTVIEW WATER AGENCY
Water Sold
Last Ten Fiscal Years

Fiscal Year	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
BIGHORN MOUNTAINS										
Residential 1-6 plus bulk accounts 30, 31 & 33										
Cubic Feet	8,635,437	13,706,781	6,151,317	6,342,070	9,182,709	8,018,498	7,410,980	6,714,996	6,542,481	6,307,928
Acre Feet	198	315	141	146	211	184	170	154	150	145
DESERT VIEW										
Residential 7-11 plus bulk account 32										
Cubic Feet	8,650,599	8,754,520	8,227,880	7,053,992	9,499,609	8,623,442	8,295,352	8,239,072	7,779,814	7,559,768
Acre Feet	199	201	189	162	218	198	190	189	179	174
Total Sales in Cubic Feet	\$ 17,286,036	22,461,301	14,379,197	13,396,062	18,682,318	16,641,940	15,706,332	14,954,068	14,322,295	13,867,696
Total Sales in Acre Feet	397	516	330	308	429	382	361	343	329	318

Bulk accounts are for individuals that haul their own water and water haulers.
Closed accounts are included with billing cycle regardless of route.

**WATER RATES
LAST TEN FISCAL YEARS**

Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
BIGHORN MOUNTAINS										
Accounts 01-06										
Consumption Rate	\$ 4.00	4.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Basic Service Charge	\$ 17.92	17.72	20.00	20.00	20.00	20.00	27.50	27.50	27.50	27.50
DESERT VIEW										
Accounts 07-11										
Consumption Rate	\$ 4.00	4.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Basic Service Charge	\$ 17.72	17.72	20.00	20.00	20.00	20.00	27.50	27.50	27.50	27.50
FMHA	\$ 4.37	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65
Accounts 30-33										
Consumption Rate	\$ 4.00	4.00	3.00	3.00	7.00	7.00	7.00	8.50	8.50	8.50
Basic Service Charge	\$ 13.62	13.62	20.00	20.00	None	None	None	None	None	None

"Basic Rate" is montly fixed basic service charge regardless of water consumption.

"Usage Rate" is rate imposed per 100 cubic feet metered Agency bills customers bi-monthly.

Basic Service Charge and Consumption Rate changes are subject to California Constitution limitations (aka: Proposition 218)

Change from 2011 report: FMHA previous report showed a 2 month total, it has been reduce to the monthly amount.

**LARGEST WATER CUSTOMER
AS OF JUNE 30, 2011**

	Customer Name	Sales in Cubic Feet	Annual Revenues	Percent of District Sales
1	Commercial Water Hauler*	168,940	\$ 14,360	3.20%
2	Landers Elementary School	123,195	3,696	0.82%
3	Residential Customer	85,530	2,566	0.57%
4	Commercial Water Hauler*	72,110	6,129	1.36%
5	Residential Customer	64,154	1,925	0.43%
6	White Rock Horse Rescue	60,937	1,828	0.41%
7	Residential Customer	58,476	1,754	0.39%
8	Hero Market	58,461	1,754	0.39%
9	Residential Customer	53,738	1,612	0.36%
10	Residential Customer	50,763	1,523	0.34%
		<u>796,304</u>	<u>\$ 37,147</u>	<u>8.27%</u>

Total Water Sales for the District	13,867,696	\$ 449,141
------------------------------------	------------	------------

Only potable water is sold.
Customers with leaks causing large water usage are not been included.

* Commercial Water Haulers are charged the bulk rate.
Bulk Water Rates: \$8.50 per ccf w/\$0 Basic Service Charge
Domestic Water Rates: \$3.00 per ccf w/\$27.50 monthly Basic Service Charge

**Ratio of Outstanding Debt by Type
Last Ten Fiscal Years**

Fiscal Year	BH Bond	DV Bond	Totals	Percent of Personal Income	Debt per Capita
2003	\$ 1,163,000	\$ 458,977	\$ 1,621,977	3.26%	\$ 659
2004	\$ 1,115,000	\$ 440,977	\$ 1,555,977	2.89%	\$ 628
2005	\$ 1,065,000	\$ 421,977	\$ 1,486,977	2.54%	\$ 587
2006	\$ 1,013,000	\$ 401,977	\$ 1,414,977	2.24%	\$ 548
2007	\$ 958,000	\$ 380,977	\$ 1,338,977	1.99%	\$ 511
2008	\$ 900,000	\$ 358,977	\$ 1,258,977	1.87%	\$ 489
2009	\$ 838,000	\$ 335,977	\$ 1,173,977	1.76%	\$ 456
2010	\$ 772,000	\$ 311,977	\$ 1,083,977	1.79%	\$ 432
2011	\$ 702,000	\$ 268,447	\$ 970,447	1.23%	\$ 383
2012	\$ 628,000	\$ 260,978	\$ 888,978	0.94%	\$ 351

2010 and 2011 income was estimated by using the Yucca Valley income found in the financial report and taking the same % of inc/dec.

Changed per GFOA comments from 2011 report

2012 Median household income taken from
http://www.bestplaces.net/economy/zip-code/california/yucca_valley/92284

**Ratio of General Bonded Debt Outstanding
Last Ten Fiscal Years**

Fiscal Year	Obligation Bonds	Assessed Value	Debt per Capita
2003	\$ 1,163,000	\$ 1,163,000	\$ 472
2004	1,115,000	1,115,000	450
2005	1,065,000	1,065,000	420
2006	1,013,000	1,013,000	392
2007	958,000	958,000	366
2008	900,000	900,000	350
2009	838,000	838,000	325
2010	772,000	772,000	307
2011	702,000	702,000	277
2012	628,000	628,000	246

BIGHORN DESERT VIEW WATER AGENCY
Pledged-Revenue Coverage
Last Ten Fiscal Years

Desert View Water Revenue Bonds

Fiscal Year Ended June 30	FMHA Surcharge		Debt		Coverage
			Principal	Interest	
2003	\$	42,408	\$ 17,000	\$ 24,000	103%
2004		41,738	18,000	23,150	101%
2005		42,631	19,000	22,250	103%
2006		42,964	20,000	20,586	106%
2007		43,665	21,000	19,899	107%
2008		43,640	22,000	18,181	109%
2009		47,744	23,000	22,436	105%
2010		50,345	24,000	12,311	139%
2011		50,206	25,000	13,534	130%
2012		50,006	26,000	13,442	127%

2003 - 2005 are estimated from service connections multiplied by the FHMA surcharge

**DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN CALENDAR YEARS**

Calendar Year	Population	Personal Income	Unemployment Rate
2003	2,463	\$ 20,198	N/A
2004	2,476	21,718	N/A
2005	2,535	23,104	5.30%
2006	2,582	24,425	5.00%
2007	2,619	25,645	5.60%
2008	2,574	26,178	8.20%
2009	2,575	25,837	13.00%
2010	2,512	24,052	13.00%
2011	2,537	31,027	14.00%
2012	2,533	37,293	12.70%

1. Population calculated using number of active service connections on Jan. 1 (prior to FY start July 1) multiplied by 75.8%* multiplied by number of persons per household**

*SB County Community Plan for Homestead Valley, 75.8% of developed properties are occupied full time

**2010 Census population within BDVWA boundaries was 3,041 with 1,415 occupied dwellings.

3041/1415 = 2.13 persons per household. Agency applied 2.13

2. Personal income is based on an average of 3 blocks from U.S. Census American Community Survey Household Median Income in 2009, then compared to previous data for San Bernardino County.

<http://www.bea.gov/regional/downloadzip.cfm>

3. 2012 Unemployment was taken from www.labormarketinfo.edd.ca.gov - Historical Civilian Labor Force

4. 2012 Median household income taken from

http://www.bestplaces.net/economy/zip-code/california/yucca_valley/92284

Employer	2012 No. of Employees	2012 Percentage of Total Labor Force
Post Office	1	0.11%
Western Coffee Pot	1	0.11%
Mojave Liquor	2	0.23%
Loyal Order/Moose Lander	2	0.23%
Halliday's	2	0.23%
Castle Inn	3	0.34%
Diversified Tools	4	0.46%
Heros	6	0.69%
Gubler's Orchid	6	0.69%
Bighorn Desert View Water Agency	7	0.80%
Landers Elementary School	25	2.87%
Total Labor Force	870	

Every employer in the Bighorn area is included.

Employment information from 9 years prior is not available.

Total Labor Force was estimated by using the Yucca Valley Labor Force found on www.Labormarketinfo.edd.ca.gov and reducing according to the population.

**District Employees by Function
Last 10 Years**

Water Operations	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Water Quality & Maintenance	1	1	1	1	1	1	1	1	1	1
Water Distribution & Maintenance	2	2	2	2	2	2	2	2	2	2
Field Supervisor*	1	1	1	1	1	1	1	1	0	0
Chief of Operations**	0	0	0	0	1	1	0	0	0	0
Administration										
Administration***	2	2	2	2	2	2	2	2	2	2
Accounting I, II, III/Customer Service	2	2	2	2	2	2	2	2	2	2
Total Positions	8	8	8	8	9	9	8	8	7	7

General Manager is included
Board Members and Temporary employees are not included.

*6/30/12: Supervisor Field Vacant.

**6/30/08 Chief of Operations position eliminated

***6/30/12: Exec. Sec/Personnel Vacant

**OPERATING AND CAPITAL INDICATORS
LAST TEN YEARS**

POTABLE WATER SYSTEM

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Miles of pipeline:	120	120	120	120	120	120	120	120	120	120
Number of storage tanks	9	9	9	9	9	9	9	9	9	9
Maximum storage capacity (million gallons)	2,302,000	2,302,000	2,302,000	2,302,000	2,302,000	2,302,000	2,302,000	2,302,000	2,302,000	2,302,000
Number of active pumping plants	2	2	2	2	2	2	2	2	2	2
Number of active wells:										
domestic	7	7	7	7	7	7	7	7	7	7
Domestic well production capacity: Calendar year acre feet per year	504	494	452	474	530	487	469	432	412	412
Number of service connections: ¹										
Bighorn Mountains ²	775	779	787	804	825	809	1009	1000	1003	1005
Desert View	760	748	764	780	797	773	912	906	903	901

GENERAL INFORMATION

Service area (annexed property): ³										
acres	27,323	27,323	27,353	27,353	27,353	27,353	27,353	27,353	27,353	27,353
square miles	43	43	43	43	43	43	43	43	43	43

1. 2003 to 2008 figures include open meters in use only. 2009 the count was changed to include all meters active and inactive.

2. Connection totals from 2007-2011 were corrected.

3. New note: Agency underwent Municipal Sphere Review in FY2011/12 which provided more accurate acreage calculation