

**JOSHUA BASIN
WATER DISTRICT**

Report on Audit

June 30, 2011 and 2010

JOSHUA BASIN WATER DISTRICT

of San Bernardino County

Joshua Tree, California

June 30, 2011 and 2010

| MEMBER | OFFICE | TERM EXPIRES |
|----------------|----------------|---------------------|
| Mickey Luckman | President | December 5, 2012 |
| Mike Reynolds | Vice-President | December 5, 2012 |
| Bill Long | Director | December 5, 2012 |
| Michael Luhrs | Director | December 3, 2014 |
| Gary Wilson | Director | December 3, 2014 |

ADMINISTRATION

| | |
|----------------|---------------------------------------|
| Joe Guzzetta | General Manager |
| Susan Greer | Assistant General Manager/Controller |
| Jim Corbin | Construction/Maintenance Supervisor |
| Randy Little | Water Production Supervisor |
| Keith Faul | GIS Coordinator |
| Terry Spurrier | HR/Administrative Services Supervisor |
| Ben Ruffner | Accountant |

JOSHUA BASIN WATER DISTRICT

(A Special District)

Table of Contents
June 30, 2011 and 2010

| | Page |
|---|------|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 3 |
| Financial Statements | |
| Statements of Net Assets..... | 9 |
| Statements of Revenues, Expenses and Changes in Net Assets..... | 10 |
| Statements of Cash Flows..... | 12 |
| Notes to Financial Statements | 13 |
| Supplemental Schedule | |
| Schedule of Operating Expenses..... | 26 |
| Other Independent Auditors' Report | |
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 28 |
| Findings and Responses Section | |
| Schedule of Findings and Responses..... | 30 |
| Schedule of Prior Audit Findings..... | 31 |

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Joshua Basin Water District
Joshua Tree, California

We have audited the accompanying statements of the business-type activities of Joshua Basin Water District (the "District"), as of and for the years ended June 30, 2011 and 2010, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the District's 2010 financial statements and, in our report dated October 10, 2011, we expressed unqualified opinions on the respective financial statements of the business-type activities.

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*. 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Joshua Basin Water District, as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

- 1 -

The Board of Directors
Joshua Basin Water District

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplemental operating statement is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Messner & Hadley, LLP.

Messner & Hadley, LLP
Certified Public Accountants

Victorville, California
October 10 2011

JOSHUA BASIN WATER DISTRICT

(A Special District)

Management's Discussion and Analysis

June 30, 2011 and 2010

The management of the Joshua Basin Water District (the "District") presents this Management Discussion and Analysis to achieve two goals:

1. To comply with the requirements of Governmental Accounting Standards Board Statement 34 (GASB 34) that are designed to provide more and easier-to-understand information about the finances of local government agencies such as the District; and
2. To provide readers with narrative information that may help in understanding and interpreting the information presented in the District's financial statements for the year ended June 30, 2011.

Questions or comments regarding this Management Discussion and Analysis may be directed to the Assistant General Manager/Controller via the following methods:

Mailing Address: Joshua Basin Water District
P.O. Box 675
Joshua Tree, California 92252-0675

Telephone: (760) 366-8438
Facsimile: (760) 366-9528
E-mail: sgreer@jbwd.com

FINANCIAL HIGHLIGHTS

The following items are, in the opinion of District management, among the most significant in assessing the District's overall financial activities and its financial position at the close of the year ended June 30, 2011:

- ✓ The District's assets exceeded its liabilities by \$28,834,845. Approximately 95 percent of the net assets, \$27,286,496, are composed of capital assets of the District – the water transmission and distribution system, land, buildings and equipment. Unrestricted net assets totaled \$5,603,787, up from \$5,566,234 at June 30, 2010.
- ✓ The District's operating revenues for the year ended June 30, 2011 were \$2,891,225. The majority of revenues came from water sales to customers. The second-largest source of revenue was \$1,151,131 in standby charges.
- ✓ The District's total net long-term liabilities at June 30, 2011, including the 1974 General Obligation Bonds and the Copper Mountain Mesa Limited Obligation Bonds, are \$3,873,438. This is a decrease of \$134,675 from net long-term liabilities, reflecting the payment of principal on debt.

JOSHUA BASIN WATER DISTRICT
(A Special District)

Management's Discussion and Analysis
June 30, 2011 and 2010

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts: (1) management's discussion and analysis; and (2) the financial statements, including the notes to financial statements.

The financial statements provide both long-term and short-term information about the District's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses and Changes in Net Assets. All assets and liabilities associated with the operation of the District are included in the Statement of Net Assets.

The Statement of Net Assets presents the financial position of the District on a full accrual historical cost basis and provides information about the nature and amount of resources and obligations at year-end.

Statement of Net Assets

As of June 30, 2011, the total net assets of the District were \$28,834,845. The following table summarizes assets, liabilities and net assets at June 30, 2011 and 2010:

| | <u>June 30, 2011</u> | <u>June 30, 2010</u> | <u>Net Change</u> |
|---|-----------------------------|-----------------------------|----------------------------|
| Current assets | \$ 6,423,612 | \$ 6,753,006 | \$ (329,394) |
| Capital assets | <u>27,286,496</u> | <u>27,161,281</u> | <u>125,215</u> |
| Total Assets | <u>\$ 33,710,108</u> | <u>\$ 33,914,287</u> | <u>\$ (204,179)</u> |
| Current liabilities | \$ 1,001,825 | \$ 1,874,772 | \$ (872,947) |
| Non-current liabilities | 3,873,438 | 4,008,113 | (134,675) |
| Net assets | <u>28,834,845</u> | <u>28,031,402</u> | <u>803,443</u> |
| Total Liabilities and Net Assets | <u>\$ 33,710,108</u> | <u>\$ 33,914,287</u> | <u>\$ (204,179)</u> |

Total net assets increased \$803,443, or 2.87 percent from the prior year. At June 30, 2011, the District had \$6,423,612 in current assets as compared to \$6,753,006 at June 30, 2010. The total decrease in current assets of \$329,394 consists primarily of a \$539,299 decrease to cash and a \$177,187 increase in accounts receivable.

Net 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 District are cash collections in excess of amounts currently due for the repayment of bond principal.

JOSHUA BASIN WATER DISTRICT

(A Special District)

Management's Discussion and Analysis

June 30, 2011 and 2010

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. The District's non-current assets consists of utility plant (e.g., wells, tanks, pipeline, etc.). The District's non-current assets at June 30, 2011 were \$27,286,496 versus \$27,161,281 at June 30, 2010. Charges against non-current assets, in the form of depreciation and amortization account for a portion of the change in non-current assets.

Change in Net Assets

The following table summarizes the changes in net assets for the years ended June 30, 2011 and 2010:

| | <u>June 30, 2011</u> | <u>June 30, 2010</u> | <u>Net Change</u> |
|-----------------------------------|--------------------------|--------------------------|--------------------------|
| Operating revenues | \$ 2,891,225 | \$ 2,818,039 | \$ 73,186 |
| Operating expenses | <u>(4,323,582)</u> | <u>(4,181,495)</u> | <u>(142,087)</u> |
| Operating loss | (1,432,357) | (1,363,456) | (68,901) |
| Non-operating revenue and expense | 2,166,321 | 1,519,540 | 646,781 |
| Capital contributions | <u>69,479</u> | <u>6,740</u> | <u>62,739</u> |
| Change in Net Assets | <u><u>\$ 803,443</u></u> | <u><u>\$ 162,824</u></u> | <u><u>\$ 640,619</u></u> |

Total operating revenues increased \$73,186 or 2.60 percent, while expenses increased \$142,087 or 3.40 percent.

Non-operating revenues of \$2,731,310 exceeded non-operating expenses of \$495,510 by \$2,235,800. Among the significant changes from 2010: property tax revenue dropped \$24,683; standby charge revenue increased \$79,620 primarily because of an adjustment to standby charge receivables in the prior year; grant revenue increased by \$567,750; and there was a \$14,030 drop in investment income. Interest expense dropped \$31,393 as the 1997 refunding bond matured.

Capital contributions increased by \$62,739.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2011, the District's investment in capital assets was \$27,286,496, including: the water transmission and distribution system (underground pipelines, water services, water meters, fire hydrants, and other components); water production facilities (groundwater wells); land; buildings and both mobile and fixed equipment. 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.

JOSHUA BASIN WATER DISTRICT

(A Special District)

Management's Discussion and Analysis

June 30, 2011 and 2010

The amounts reported as invested in capital assets for the District at June 30, 2011 include: utility plant, at cost, of \$46,515,368, less accumulated depreciation of \$19,228,872; less all debt related to the acquisition of utility plant of \$4,055,438 for a total of \$23,231,058. At June 30, 2010 the total of invested in capital assets was \$22,465,168. The increase is due to current year capital asset additions and a pay down of the related debt.

The following shows the composition of the District's total capital assets at June 30, 2011:

| | <u>June 30, 2011</u> | <u>June 30, 2010</u> | <u>Net Change</u> |
|-------------------------------------|-----------------------------|-----------------------------|--------------------------|
| Land | \$ 496,400 | \$ 496,400 | \$ - |
| Construction in progress | 3,314,905 | 3,169,928 | 144,977 |
| Water storage and related equipment | 42,409,534 | 41,301,668 | 1,107,866 |
| Office building and equipment | 294,529 | 287,845 | 6,684 |
| Less accumulated depreciation | <u>(19,228,872)</u> | <u>(18,094,560)</u> | <u>(1,134,312)</u> |
| Total utility plant, net | <u><u>\$ 27,286,496</u></u> | <u><u>\$ 27,161,281</u></u> | <u><u>\$ 125,215</u></u> |

Additional information on the District's capital assets can be found in Note 4, Capital Assets, of the notes to the basic financial statements.

Debt Administration

The District now has two outstanding bond issues: the Copper Mountain Mesa Limited Obligation Bonds of 1996, and the General Obligation Bond. The 1997 Revenue Refunding Bonds were fully paid in fiscal 2010-2011.

No new debt was incurred by the District in 2011. Principal payments of \$95,000 on the General Obligation Bonds were made as scheduled, as well as \$78,000 principal payments on the Copper Mountain Mesa Limited Obligation Bonds. A final principal payment of \$515,000 was made on the 1997 Revenue Refunding Bonds.

| | <u>June 30, 2011</u> | <u>June 30, 2010</u> | <u>Net Change</u> |
|---------------------------------|----------------------------|----------------------------|----------------------------|
| General Obligation Bonds - 1974 | \$ 430,000 | \$ 525,000 | \$ (95,000) |
| Refunding Revenue Bonds - 1997 | - | 515,000 | (515,000) |
| Rural Development - CCM | 3,625,438 | 3,703,438 | (78,000) |
| Less current portion | (182,000) | (688,000) | 506,000 |
| Less deferred amounts | <u>-</u> | <u>(47,325)</u> | <u>47,325</u> |
| | <u><u>\$ 3,873,438</u></u> | <u><u>\$ 4,008,113</u></u> | <u><u>\$ (134,675)</u></u> |

JOSHUA BASIN WATER DISTRICT

(A Special District)

Management's Discussion and Analysis June 30, 2011 and 2010

The \$4.5 million Copper Mountain Mesa Limited Obligation Bonds were issued in 1996 to finance the installation and construction of a water distribution system and two booster pumping stations.

Additional information on debt activity can be found in Note 6, Long-Term Liabilities, of the notes to the basic financial statements.

ECONOMIC FACTORS AND FUTURE BUDGET CONSIDERATIONS

Growth

Growth continues to stall, as of June 30, 2011, in response to declines in both state and national economies; the same as for the last few years. This follows six years of minimal-to-moderate growth. Prior to that, the 1992 Landers Earthquake resulted in a decade of virtually no growth. We measure growth in two ways: increased assessed values and new service installations.

Assessed values decreased for the second year in a row – down another 5% for the year ending June 30, 2011 following a 7% decrease for the year ending June 30, 2010. This is compared to increases of 12%, 16%, 15%, 29% and 14% for the five previous years ending June 30, 2009, 2008, 2007, 2006 and 2005, respectively.

The District installed nine new customer-funded meters for the year ending June 30, 2011, an increase of 350% over the previous year. In prior years, new service installations were 2 in 2010, 9 in 2009, 24 in 2008, 105 in 2007, 192 in 2006, and 147 in 2005. While the current year results are promising since they have increased significantly over the prior year, it is still far below the normal meter growth numbers, established at approximately 200 per year in the 1980's.

In addition to the factors considered above – assessed values and meter installations – the District continues to see decreased water consumption by customers. The water rates are comprised of two components: a fixed charge and a variable charge based upon water consumption. Customers appear to be voluntarily reducing their water consumption in order to reduce their variable water charge. For the year ending June 30, 2011, water consumption was 4% less than the year before. This continues the trend we've seen over the last few years, with water consumption also decreasing 7% for the year ending June 30, 2010, 5% for the year ending June 30, 2009, and decreasing 2% for the year ending June 30, 2008.

Another factor which impacts the District's revenue and growth projections are the number of active meters. The active, billable meter count has declined each year since June 2009, when the count was 4,451. As of June 30, 2011, the count is 4,370, a decline of 87 meters since 2009. We expect that the decline is primarily the result of foreclosures, but may relate to the economy in a different way, with some vacation/second home accounts being closed by owners who can no longer afford to visit the area.

Management expects growth, measured by assessed values, new meter installations and active meter count, to slow even more in response to the continuing decline in the economy. Water usage may also continue to decline, although per capita consumption in Joshua Tree is already among the lowest in the State.

JOSHUA BASIN WATER DISTRICT

(A Special District)

Management's Discussion and Analysis

June 30, 2011 and 2010

Water Rates and Capital Spending

The District implemented a 3% water rate increase mid-year; the final rate increase authorized by the 2007 independent rate study, which is designed to provide for the capital needs of the District with small, regular rate increases. Due to the impact of any rate increases upon our customers in the current economy, our Board of Directors elected not to consider any water rate increases at the current time although they have authorized a miscellaneous fee study that is currently under way. Miscellaneous fees include such items as new account setup, returned check fees, copy charges and broken lock fees.

For the year ending June 30, 2011, the District completed more than \$1,114,000 in capital projects, including the recharge project monitoring well, the Water Wise Demonstration Garden, tank improvements, new PC's and laptops for staff and completion of two production well projects.

JOSHUA BASIN WATER DISTRICT
(A Special District)

Statements of Net Assets
For the Years Ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|-----------------------------|-----------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and investments, unrestricted | \$ 5,042,018 | \$ 5,581,317 |
| Accounts receivable | 1,151,427 | 974,240 |
| Inventory | 155,886 | 141,452 |
| Prepaid expenses | <u>74,281</u> | <u>55,997</u> |
| Total current assets | 6,423,612 | 6,753,006 |
| Non-current assets: | | |
| Utility plant, net | <u>27,286,496</u> | <u>27,161,281</u> |
| | | |
| TOTAL ASSETS | <u><u>\$ 33,710,108</u></u> | <u><u>\$ 33,914,287</u></u> |
| | | |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 466,834 | \$ 846,369 |
| Current portion of long-term debt | 182,000 | 688,000 |
| Deposits | 288,138 | 272,830 |
| Interest payable | <u>64,853</u> | <u>67,573</u> |
| Total current liabilities | 1,001,825 | 1,874,772 |
| Non-current liabilities, net | <u>3,873,438</u> | <u>4,008,113</u> |
| | | |
| Total Liabilities | <u>4,875,263</u> | <u>5,882,885</u> |
| | | |
| NET ASSETS | | |
| Invested in capital assets | 23,231,058 | 22,465,168 |
| Unrestricted | <u>5,603,787</u> | <u>5,566,234</u> |
| | | |
| Total Net Assets | <u>28,834,845</u> | <u>28,031,402</u> |
| | | |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 33,710,108</u></u> | <u><u>\$ 33,914,287</u></u> |

JOSHUA BASIN WATER DISTRICT
(A Special District)

Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|---------------|---------------|
| OPERATING REVENUES | \$ 2,891,225 | \$ 2,818,039 |
| OPERATING EXPENSES | | |
| Customer accounts | 191,048 | 191,020 |
| Fringe benefits | 501,264 | 469,228 |
| General and administrative | 1,399,188 | 1,359,656 |
| Pumping plant | 519,704 | 451,208 |
| Source of supply | 67,810 | 41,725 |
| Transmission and distribution | 411,930 | 363,601 |
| Vehicle and equipment | 98,326 | 109,995 |
| Depreciation | 1,134,312 | 1,195,062 |
| Total operating expenses | 4,323,582 | 4,181,495 |
| OPERATING LOSS | (1,432,357) | (1,363,456) |
| NON-OPERATING REVENUES (EXPENSES) | | |
| Standby charges | 1,151,131 | 1,071,511 |
| Property taxes | 844,284 | 868,967 |
| Investment income | 25,416 | 39,446 |
| Grant revenue | 641,000 | 73,250 |
| Interest expense | (220,345) | (251,738) |
| Inter-agency payments | (219,291) | (219,763) |
| Other non-operating revenue/(expense) | (55,874) | (62,133) |
| Total non-operating revenues (expenses) | 2,166,321 | 1,519,540 |
| INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS | 733,964 | 156,084 |
| Capital contributions | 69,479 | 6,740 |
| CHANGES IN NET ASSETS | 803,443 | 162,824 |
| Net Assets, Beginning of year | 28,031,402 | 27,868,578 |
| Net Assets, End of year | \$ 28,834,845 | \$ 28,031,402 |

JOSHUA BASIN WATER DISTRICT
(A Special District)

Statements of Cash Flows
For the Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|---|--------------|--------------|
| Cash flows from operating activities | | |
| Receipts from customers | \$ 3,039,325 | \$ 2,695,712 |
| Payments to suppliers | (1,112,204) | (758,591) |
| Payments to employees and directors for services | (2,489,319) | (1,877,607) |
| Net cash provided by (used in) operating activities | (562,198) | 59,514 |
| Cash flows from non-capital and related financing activities | | |
| Payments on inter-agency maintenance | (219,291) | (219,763) |
| Other payments | (55,874) | (52,032) |
| Net cash provided by (used in) non-capital and related financing activities | (275,165) | (271,795) |
| Cash flows from capital and related financing activities | | |
| Acquisition and construction of utility plant | (1,259,527) | (1,835,508) |
| Principal paid on long-term debt | (688,000) | (655,000) |
| Interest paid on long-term debt | (175,740) | (208,083) |
| Receipts from assessments | 1,151,433 | 1,071,511 |
| Receipts from property tax for debt service | 813,677 | 868,967 |
| Capital contributions | 69,479 | 6,740 |
| Grant revenue | 359,606 | 73,250 |
| Net cash provided by (used in) capital and related financing activities | 270,928 | (678,123) |
| Cash flows from investing activities | | |
| Interest received | 27,136 | 39,446 |
| NET DECREASE IN CASH | (539,299) | (850,958) |
| Cash and cash equivalents | | |
| Beginning of year | 5,581,317 | 6,432,275 |
| End of year | \$ 5,042,018 | \$ 5,581,317 |

JOSHUA BASIN WATER DISTRICT
(A Special District)

Statements of Cash Flows
For the Years Ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|---------------------|------------------|
| Reconciliation of operating loss to cash used in operating activities | | |
| Operating loss | \$ (1,432,357) | \$ (1,363,456) |
| Depreciation and amortization | 1,134,312 | 1,195,062 |
| (Increase) decrease in assets | | |
| Accounts receivable and other current assets | 132,791 | (139,125) |
| Inventory | (14,434) | (15,867) |
| Prepaid expenses | (18,284) | (26,568) |
| Increase (decrease) in liabilities | | |
| Accounts payable | (379,534) | 392,670 |
| Deposits | <u>15,308</u> | <u>16,798</u> |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | <u>\$ (562,198)</u> | <u>\$ 59,514</u> |

JOSHUA BASIN WATER DISTRICT

(A Special District)

Notes to Financial Statements

June 30, 2011 and 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Joshua Basin Water District (the “District”) was organized under provisions of Division 12 of the Water Code of the State of California in January 1963. The District was formed to finance, construct, operate and maintain a water system serving portions of southwestern San Bernardino County. Currently, the District services approximately 96 square miles in the unincorporated area of Joshua Tree, located in the Morongo Basin of San Bernardino County.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Statement No. 14. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit’s board, or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has no component units.

Basis of Presentation and Measurement Focus

The District accounts for its activities as a single enterprise fund, and the financial statements are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the related liability is incurred, regardless of the timing of the cash flows.

The District 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 principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales and services. Operating expenses include the cost of water delivery and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange include grants, entitlements and donations. In accordance with GASB No. 33, *Accounting and Reporting for Non-Exchange Transactions*, revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. The government has elected not to follow subsequent private-sector guidance.

JOSHUA BASIN WATER DISTRICT

(A Special District)

Notes to Financial Statements

June 30, 2011 and 2010

Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" (GASB No. 34). This statement established revised financial reporting requirements for state and local governments 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. Under the direct method, cash flows from operating activities are presented in major categories.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the American Institute of Certified Public Accountants (AICPA), 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.

Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

JOSHUA BASIN WATER DISTRICT

(A Special District)

Notes to Financial Statements

June 30, 2011 and 2010

Property Taxes and Assessments

The County of San Bernardino Assessor's Office assesses all real and personal property within the County each year. The County of San Bernardino Tax Collector's Offices bills and collects the District's share of property taxes and assessments. The County of San Bernardino Treasurer's Office remits current and delinquent tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the County of San Bernardino, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

| | |
|------------------|--------------------------|
| Lien date | March 1 |
| Levy date | July 1 |
| Due dates | November 1 and March 1 |
| Collection dates | December 10 and April 10 |

Material and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipe and pipe fittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using the first-in first-out method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

Prepaid Expenses

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

Capital Assets

Purchased capital assets are stated at historical cost or estimated historical cost when original cost is not available. Donated capital assets are recorded at their estimated fair value at the date of donation. The District's policy is to capitalize all capital assets with costs exceeding a minimum threshold of \$5,000. Depreciation is recorded using the straight-line method over the estimated useful lives of the capital assets.

The range of estimated useful lives by type of asset is as follows:

| | |
|-------------------------------|---------------|
| Automatic controls | 5 – 10 years |
| Booster station | 25 – 45 years |
| General structures | 15 – 40 years |
| Intangible plant | 3 – 5 years |
| Meters and services | 10 – 30 years |
| Office equipment | 5 – 10 years |
| Reservoirs and tanks | 25 – 50 years |
| Shop tools and equipment | 5 – 15 years |
| Source of supply – wells | 5 – 40 years |
| Transmission and distribution | 3 – 50 years |
| Transportation equipment | 5 years |
| Pumping and equipment | 15 – 25 years |

JOSHUA BASIN WATER DISTRICT

(A Special District)

Notes to Financial Statements

June 30, 2011 and 2010

Depreciation aggregated \$1,134,312 and \$1,195,062 for the years ended June 30, 2011 and 2010, respectively.

Compensated Absences

All earned vacation, floating holiday and administrative leave hours are payable upon termination or retirement and are accrued as compensated absences. The compensated liability is calculated in accordance with GASB Statement No. 16.

Water Sales

Water sales are billed on a monthly cyclical basis. Estimated unbilled water revenue through June 30 has been accrued at year end.

Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Net Investment in Capital Assets** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, 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 consist of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

JOSHUA BASIN WATER DISTRICT

(A Special District)

Notes to Financial Statements

June 30, 2011 and 2010

NOTE 2 – CASH AND INVESTMENTS

Cash and investments held by the District were comprised of the following at June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|--|---------------------|---------------------|
| Cash on hand and in banks | \$ 144,834 | \$ 130,829 |
| Investments with Local Agency Investment Fund (LAIF) | <u>4,897,184</u> | <u>5,450,488</u> |
| | <u>\$ 5,042,018</u> | <u>\$ 5,581,317</u> |

Custodial Credit Risk of Cash Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code requires that a financial institution secure the District's cash deposits by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of pledged securities in the collateral pool must equal at least 110% of the District's cash deposits. California law also allows institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total cash deposits.

At June 30, 2011, the recorded amount of the District's deposits was \$144,834 and the bank balances were \$216,360. Of the bank balances, all were covered by Federal Depository Insurance Corporation (FDIC).

Investments

Under the provisions of the District's investment policy, and in accordance with California Government Code, Sections 53600 and 53603, the following investments were authorized:

Investment Type

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

Concentration of Credit Risk

At June 30, 2011, in accordance with State law and the District's Investment Policy, the District did not have 5% or more of its net investment in commercial paper, corporate bonds or medium term notes of a single organization. Investments in obligations of the U.S. government, U.S. government agencies, or government-sponsored enterprises are exempt from these limitations.

JOSHUA BASIN WATER DISTRICT

(A Special District)

Notes to Financial Statements

June 30, 2011 and 2010

Local Agency Investment Fund

The District maintains an investment in the State of California Local Agency Investment Fund (LAIF), managed by the State Treasurer. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California Government Code. Participants in the pool include voluntary and involuntary participants, such as special districts and school districts for which there are legal provisions regarding their investments. The Local Investment Advisory Board (the "Board") has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute.

At June 30, 2011, the District's investment position in the State of California Local Agency Investment Fund (LAIF) included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgaged-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2011, the District had \$4,897,184 invested in LAIF.

NOTE 3 – RECEIVABLES

The following summarizes the significant categories of receivables and other assets (current and non-current) at June 30, 2011 and 2010:

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|-------------------|
| Receivables: | | |
| Water sales | \$ 460,616 | \$ 513,577 |
| Assessments/property taxes | 811,719 | 781,416 |
| Interest | 5,850 | 7,570 |
| Grants | 291,000 | 9,607 |
| Other | 27,662 | 130,720 |
| Allowance for uncollectible assessment/accounts | (445,420) | (468,650) |
| | <u>\$ 1,151,427</u> | <u>\$ 974,240</u> |

JOSHUA BASIN WATER DISTRICT
(A Special District)

Notes to Financial Statements
June 30, 2011 and 2010

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

| Capital Assets: | Balance | Additions | Deletions | Balance |
|---|----------------------|---------------------|-----------------------|----------------------|
| | July 01, 2010 | | | June 30, 2011 |
| Land and easements | \$ 496,400 | \$ - | \$ - | \$ 496,400 |
| Construction in progress | 3,169,928 | 1,259,527 | (1,114,550) | 3,314,905 |
| Total capital assets not being depreciated | 3,666,328 | 1,259,527 | (1,114,550) | 3,811,305 |
| Automatic controls | 452,902 | 10,096 | - | 462,998 |
| Booster/pump stations | 944,924 | - | - | 944,924 |
| Mainlines & fire hydrants | 23,512,190 | 9,125 | - | 23,521,315 |
| Meters | 3,368,967 | 7,093 | - | 3,376,060 |
| Monitor wells | 86,726 | 855,935 | - | 942,661 |
| Production wells | 3,081,426 | 422,415 | - | 3,503,841 |
| Pumping plant | 589,328 | - | - | 589,328 |
| Tanks | 5,027,656 | 20,321 | - | 5,047,977 |
| USGS monitoring wells - Phase 2 | 548,615 | (548,615) | - | - |
| Utility plant | 92,843 | - | - | 92,843 |
| Water sampling stations | 20,150 | - | - | 20,150 |
| Water seepage pits | 29,953 | - | - | 29,953 |
| Buildings | 543,229 | 7,893 | - | 551,122 |
| Demonstration garden | - | 270,268 | - | 270,268 |
| Office furniture/equipment | 401,004 | - | - | 401,004 |
| Engineering equipment | 82,680 | - | - | 82,680 |
| Mapping system | 50,888 | - | - | 50,888 |
| Meter reading equipment | 53,827 | - | - | 53,827 |
| Shop tools/equipment | 205,166 | 6,683 | - | 211,849 |
| Automotive | 479,814 | - | - | 479,814 |
| Large equipment | 878,810 | - | - | 878,810 |
| Demographic survey | 5,150 | - | - | 5,150 |
| Ground water monitoring plan | 33,336 | - | - | 33,336 |
| Ground water survey | 25,250 | - | - | 25,250 |
| Personnel manual/class study | 49,370 | - | - | 49,370 |
| Rate & fee study | 42,566 | - | - | 42,566 |
| Strategic plans | 33,999 | - | - | 33,999 |
| Urban water management plan | 50,349 | - | - | 50,349 |
| Vulnerability assessment | 8,044 | - | - | 8,044 |
| Waste water feasibility study | 117,632 | - | - | 117,632 |
| Water availability evaluation | 71,081 | - | - | 71,081 |
| Water master plan | 77,399 | - | - | 77,399 |
| Water model assessment H2O net | 46,407 | - | - | 46,407 |
| Software & Computers | 291,656 | 53,336 | - | 344,992 |
| Intangible water rights | 263,758 | - | - | 263,758 |
| Waste water start up | 22,418 | - | - | 22,418 |
| | 41,589,513 | 1,114,550 | - | 42,704,063 |
| Less accumulated depreciation | (18,094,560) | (1,134,312) | - | (19,228,872) |
| Net assets being depreciated | 23,494,953 | (19,762) | - | 23,475,191 |
| NET CAPITAL ASSETS | \$ 27,161,281 | \$ 1,239,765 | \$ (1,114,550) | \$ 27,286,496 |

JOSHUA BASIN WATER DISTRICT
(A Special District)

Notes to Financial Statements
June 30, 2011 and 2010

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

| Capital Assets: | Balance July 01, 2009 | Additions | Deletions | Balance June 30, 2010 |
|--|--------------------------|----------------|-----------------|--------------------------|
| Land and easements | \$ 218,371 | \$ 278,029 | \$ - | \$ 496,400 |
| Construction in progress | 2,382,140 | 787,788 | - | 3,169,928 |
| Total capital assets not being depreciated | 2,600,511 | 1,065,817 | - | 3,666,328 |
| Automatic controls | 337,210 | 115,692 | - | 452,902 |
| Booster/pump stations | 923,484 | 21,440 | - | 944,924 |
| Mainlines & fire hydrants | 23,512,190 | - | - | 23,512,190 |
| Meters | 3,368,158 | 809 | - | 3,368,967 |
| Monitor wells | 86,726 | - | - | 86,726 |
| Production wells | 3,081,426 | - | - | 3,081,426 |
| Pumping plant | 539,892 | 49,436 | - | 589,328 |
| Tanks | 4,968,502 | 59,154 | - | 5,027,656 |
| USGS monitoring wells - Phase 2 | 548,615 | - | - | 548,615 |
| Utility plant | 92,843 | - | - | 92,843 |
| Water sampling stations | 20,150 | - | - | 20,150 |
| Water seepage pits | 29,953 | - | - | 29,953 |
| Buildings | 537,937 | 5,292 | - | 543,229 |
| Office furniture/equipment | 397,743 | 3,261 | - | 401,004 |
| Engineering equipment | 79,498 | 3,182 | - | 82,680 |
| Mapping system | 50,888 | - | - | 50,888 |
| Meter reading equipment | 59,010 | - | (5,183) | 53,827 |
| Shop tools/equipment | 205,166 | - | - | 205,166 |
| Automotive | 479,814 | - | - | 479,814 |
| Large equipment | 812,631 | 66,179 | - | 878,810 |
| Demographic survey | 5,150 | - | - | 5,150 |
| Ground water monitoring plan | 33,336 | - | - | 33,336 |
| Ground water survey | 25,250 | - | - | 25,250 |
| Personnel manual/class study | 49,370 | - | - | 49,370 |
| Rate & fee study | - | 42,566 | - | 42,566 |
| Strategic plans | 33,999 | - | - | 33,999 |
| Urban water management plan | 34,431 | 15,919 | - | 50,350 |
| Vulnerability assessment | 8,044 | - | - | 8,044 |
| Waste water feasibility study | 31,758 | 85,874 | - | 117,632 |
| Water availability evaluation | 66,757 | 4,323 | - | 71,080 |
| Water master plan | 77,399 | - | - | 77,399 |
| Water model assessment H2O net | 46,407 | - | - | 46,407 |
| Software & Computers | 28,837 | 274,145 | (11,326) | 291,656 |
| Intangible water rights | 263,758 | - | - | 263,758 |
| Waste water start up | - | 22,418 | - | 22,418 |
| | 40,836,332 | 769,690 | (16,509) | 41,589,513 |
| Less accumulated depreciation | (16,905,907) | (1,195,062) | 6,409 | (18,094,560) |
| Net assets being depreciated | 23,930,425 | (425,372) | (10,100) | 23,494,953 |
| NET CAPITAL ASSETS | \$ 26,530,936 | \$ 640,445 | \$ (10,100) | \$ 27,161,281 |

JOSHUA BASIN WATER DISTRICT
(A Special District)

Notes to Financial Statements
June 30, 2011 and 2010

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2011 and 2010 consisted of the following:

| | <u>2011</u> | <u>2010</u> |
|-------------------|-------------------|-------------------|
| Payables: | | |
| Vendors | \$ 264,711 | \$ 648,315 |
| Payroll | 65,292 | 49,217 |
| Vacation | 101,796 | 113,803 |
| Pre-paid capacity | <u>35,034</u> | <u>35,034</u> |
| | <u>\$ 466,833</u> | <u>\$ 846,369</u> |

NOTE 6 – LONG-TERM LIABILITIES

Summary

The changes in the District's long-term obligations during the past two years consist of the following:

| | <u>Balance</u> <u>July 01, 2010</u> | <u>Additions</u> | <u>Reductions</u> | <u>Due in</u> <u>one year</u> | <u>Long-Term Balance</u> <u>June 30, 2011</u> |
|--|--|------------------|-------------------|----------------------------------|--|
| General Obligation Bonds - 1974 | \$ 525,000 | \$ - | \$ 95,000 | \$ 100,000 | \$ 330,000 |
| Refunding Revenue Bonds - 1997 | 515,000 | - | 515,000 | - | - |
| Rural Development - CMM | <u>3,703,438</u> | <u>-</u> | <u>78,000</u> | <u>82,000</u> | <u>3,543,438</u> |
| | - | | | | - |
| Total | <u>4,743,438</u> | <u>-</u> | <u>688,000</u> | <u>\$ 182,000</u> | <u>3,873,438</u> |
| Less deferred amounts: | | | | | |
| Issuance costs/premiums/ discounts/loss | <u>(47,325)</u> | <u>-</u> | <u>(47,325)</u> | | <u>-</u> |
| Total long-term liabilities, net | <u>\$ 4,696,113</u> | <u>\$ -</u> | <u>\$ 640,675</u> | | <u>\$ 3,873,438</u> |

| | <u>Balance</u> <u>July 01, 2009</u> | <u>Additions</u> | <u>Reductions</u> | <u>Due in</u> <u>one year</u> | <u>Long-Term Balance</u> <u>June 30, 2010</u> |
|--|--|------------------|-------------------|----------------------------------|--|
| General Obligation Bonds - 1974 | \$ 615,000 | \$ - | \$ 90,000 | \$ 95,000 | \$ 430,000 |
| Refunding Revenue Bonds - 1997 | 1,005,000 | - | 490,000 | 515,000 | - |
| Rural Development - CMM | <u>3,778,438</u> | <u>-</u> | <u>75,000</u> | <u>78,000</u> | <u>3,625,438</u> |
| | - | | | | - |
| Total | <u>5,398,438</u> | <u>-</u> | <u>655,000</u> | <u>\$ 688,000</u> | <u>4,055,438</u> |
| Less deferred amounts: | | | | | |
| Issuance costs/premiums/ discounts/loss | <u>(97,079)</u> | <u>-</u> | <u>(49,754)</u> | | <u>(47,325)</u> |
| Total long-term liabilities, net | <u>\$ 5,301,359</u> | <u>\$ -</u> | <u>\$ 605,246</u> | | <u>\$ 4,008,113</u> |

JOSHUA BASIN WATER DISTRICT

(A Special District)

Notes to Financial Statements

June 30, 2011 and 2010

General Obligation Bonds

In 1974, the District authorized and issued General Obligation Bonds in the amount of \$2,000,000 at an interest rate of 5%. The bonds mature through 2015 as follows:

| Fiscal Year | General Obligation Bonds - 1974 | |
|-------------|---------------------------------|------------------|
| | Principal | Interest |
| 2012 | \$ 100,000 | \$ 21,500 |
| 2013 | 105,000 | 16,500 |
| 2014 | 110,000 | 11,250 |
| 2015 | 115,000 | 5,750 |
| | <u>\$ 430,000</u> | <u>\$ 55,000</u> |

1997 Refunding Revenue Bonds Capital Improvement

In November 1997, the Joshua Basin-Hi Desert Financing Authority (the "Authority") issued \$5,400,000 in revenue refunding bonds. The proceeds of this issue, together with other lawfully available monies, were used to establish irrevocable escrows to advance refund and defease in their entirety the District's outstanding 1991 Revenue Bonds and the 1978 and 1979 State Safe Drinking Water Act Loans.

The District extinguished \$4,905,000 of 1991 Revenue Bonds and \$282,720 of State Safe Drinking Water Act Loans through a refunding. This resulted in a defeasance of debt. The net proceeds of approximately \$5,750,374 (after payment of issuance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Revenue Bonds and Safe Drinking Water Act Loans. As a result, this debt is considered to be defeased and the liability for the debt has been removed from long-term debt on the District's financial statements.

Although the refunding resulted in a deferred amount of \$740,419, the District, in effect, reduced its aggregate debt service payments by approximately \$638,567 over the next 18 years and obtained an economic gain (difference between the present value of the old and new debt service payments) of approximately \$301,513. The deferred amount on refunding is being amortized over the remaining life of the refunded debt.

The 1997 Revenue Bonds are limited obligations of the Authority. They are payable from and secured by a first pledge of certain payments received by the Authority from the District under an installment agreement and from interest and other income derived from any funds and accounts held under the indenture of trust. The obligation of the District to make such payments is payable solely from all gross income and revenue received by the District. The 1997 Revenue Bonds bear interest from 3.8% to 5.05% and mature from May 1, 1998 through May 1, 2011.

Final payment on the bonds was made in May, 2011.

JOSHUA BASIN WATER DISTRICT

(A Special District)

Notes to Financial Statements

June 30, 2011 and 2010

Limited Obligation Improvement Bonds

In March 1996, the District authorized the issuance of \$4,551,389 in Copper Mountain Mesa Limited Obligation Bonds pursuant to the provisions of the Municipal Improvement Act of 1913. The bonds are payable solely from and secured solely by the assessments and the amounts held by the District. The District is not obligated to, but may in its sole discretion, advance available surplus funds from the District treasury. The bonds shall bear interest at 4.5% per annum. Principal and/or the applicable interest are payable on March 2 and September 2 of each year.

The bonds mature through 2036 as follows:

| Fiscal Year | Rural Development - CCM | |
|-------------|-------------------------|---------------------|
| | Principal | Interest |
| 2012 | \$ 82,000 | \$ 161,325 |
| 2013 | 85,000 | 157,567 |
| 2014 | 89,000 | 153,653 |
| 2015 | 93,000 | 149,557 |
| 2016 | 98,000 | 145,260 |
| 2017 - 2021 | 557,000 | 654,728 |
| 2022 - 2026 | 692,000 | 514,755 |
| 2027 - 2031 | 861,000 | 340,897 |
| 2032 - 2036 | 1,068,438 | 124,493 |
| | <u>\$ 3,625,438</u> | <u>\$ 2,402,235</u> |

NOTE 7 – MOJAVE WATER AGENCY AGREEMENT

During the year ended June 30, 1991, the District executed an Agreement for construction, operation and financing of the Morongo Basin Pipeline project with the Mojave Water Agency (the “Agency”). Pursuant to this Agreement, the Agency has constructed a pipeline to supply, on a wholesale basis, certain areas of San Bernardino County, including the Joshua Basin Water District, with water from the State Water Project.

Voters within the area to be served by the pipeline project approved the issuance of \$66,500,000 principal amount of general obligation bonds to finance the pipeline project. This resulted in the formation of Improvement District M of the Mojave Water Agency. In the Agreement, the District has agreed to make certain payments to the Agency to cover the District’s share of fixed project costs, including debt service and fixed operating and maintenance costs of the project on a take-or-pay basis.

The District makes annual payments under the Agreement for Improvement District M’s general obligation bond sales of \$12,000,000 principal amount in May 1991 (Series A) and \$40,735,000 principal amount in 1993 (Series B).

The District is obligated to pay 27% of the debt service on Improvement District M’s general obligation bonds.

JOSHUA BASIN WATER DISTRICT

(A Special District)

Notes to Financial Statements

June 30, 2011 and 2010

Improvement District M bonds are general obligations of the Mojave Water Agency and are secured by and payable from the taxes levied upon the taxable property in Improvement District M. As part of the agreement, approximately 70% of the debt service will be derived from the levy of taxes on properties within Improvement District M, and 30% of the debt service on the bonds will be derived from payments to be made by the Mojave Water Agency participants.

In April 1996, \$50,485,000 of the Improvement District Bonds was refinanced with \$51,780,000 Improvement District M of the Mojave Water Agency General Obligation Bonds (Morongo Basin Pipeline Project) election of 1990, refunding Series of 1996. Interest rates range from 3.75% to 5.80%.

Payments of fixed project costs to the Agency have been classified as non-operating expenses in the amount of \$219,291 and \$219,763 for the years ended June 30, 2011 and 2010.

NOTE 8 – JOINT VENTURE: JOSHUA BASIN – HI DESERT FINANCING AUTHORITY

In February 1991, the District and Hi-Desert Water District created the Joshua Basin – Hi-Desert Financing Authority (the “Authority”) pursuant to the laws of the State of California.

The Authority is a joint exercise of powers agreement by and between Joshua Basin Water District and Hi-Desert Water District. The purpose of the Authority is to cause the acquisition and construction of water facilities and to finance such projects through the issuance of bonds.

The Authority has a five-member Board of Directors comprised of: (a) three members of the Board of Directors of Joshua Basin Water District and (b) two members of the Board of Directors of Hi-Desert Water District.

Participation in the joint venture gives the District the ability to finance the cost of the installation and construction of any building, facility, structure, or other improvement which may be used to provide water to the lands and inhabitants of the District.

As provided in the law, the Authority shall be a public entity separate from Joshua Basin Water District and Hi-Desert Water District. The debts, liabilities and obligations of the Authority shall not constitute debts, liabilities or obligations of Joshua Basin Water District or Hi-Desert Water District. The debts, liabilities and obligations of either Joshua Basin Water District or Hi-Desert Water District shall not constitute debts, liabilities or obligations of the other agency.

NOTE 9 – DEFERRED CHARGES

The long-term debt issuance costs are capitalized and amortized over the terms of the respective debt using the life of the underlying debt.

JOSHUA BASIN WATER DISTRICT

(A Special District)

Notes to Financial Statements

June 30, 2011 and 2010

NOTE 10 – EMPLOYEES’ RETIREMENT PLAN DESCRIPTION

In August, 2008 the District transitioned from a defined contribution plan to a defined benefit pension plan, Public Employees’ Retirement System (PERS) that provides retirement and disability benefits, annual cost - of - living adjustments, and death benefits to plan members and beneficiaries. PERS is part of the Public Agency portion of the California Public Employees’ Retirement System, (CalPERS), a cost-sharing multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers with the State of California. A menu of benefit provisions as well as other requirements is established by State statutes with the Public Employees’ Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS’ annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy – The District contributes the employer shares for the Miscellaneous Plan. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The District’s employer contribution rate for 2010-11 was 10.861% for miscellaneous employees. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost – For year ended June 30, 2011, the District’s annual pension cost was \$124,029 and was equal to the District’s required and actual contributions. The required contribution was determined as part of the pool’s June 30, 2009 actuarial valuation.

Information for the District Public Employees’ Retirement Plan

| <u>Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentages APC Contribution</u> | <u>Net Pension Obligation</u> |
|--------------------|----------------------------------|-------------------------------------|-------------------------------|
| 6-30-2009 | \$ 97,555 | 100% | \$ -- |
| 6-30-2010 | \$ 119,308 | 100% | \$ -- |
| 6-30-2011 | \$ 124,029 | 100% | \$ -- |

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The District has entered into various contracts for the purchase of material and construction of facilities. The amounts contracted for are based on the contractor’s estimated cost of construction. At June 30, 2011 and 2010, the total unpaid amounts on these contracts were \$435,045 and \$1,022,746, respectively.

In addition, in 2010 the District began a program to recoat some of their water storage tanks. The District has contracted with Utility Service Company to perform this recoating program along with a tank inspection program. At June 30, 2011 the District was committed to \$213,763 of the total project cost.

SUPPLEMENTAL SCHEDULE

JOSHUA BASIN WATER DISTRICT

(A Special District)

Schedule of Operating Expenses

For the Years Ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|--|-----------------|-----------------|
| Customer accounts | | |
| Meter repair salaries and wages | \$ 68,672 | \$ 111,738 |
| Office salaries | 102,342 | 64,904 |
| Meter repair | <u>20,034</u> | <u>14,379</u> |
| Total | 191,048 | 191,021 |
| Fringe benefits | | |
| Group insurance and workers compensation | 254,603 | 230,212 |
| Payroll taxes | 114,402 | 112,453 |
| Retirement | 124,029 | 119,306 |
| Uniforms | 7,930 | 7,047 |
| Employee education | <u>300</u> | <u>210</u> |
| Total | 501,264 | 469,228 |
| General and administration | | |
| Salaries | 657,413 | 744,505 |
| Temporary Labor | 43,069 | 27,880 |
| Directors' fees/education | 32,418 | 36,115 |
| Accounting services | 23,582 | 23,582 |
| Bad debt expense | 25,745 | 23,244 |
| Building repairs | 24,227 | 26,537 |
| Dues and subscriptions | 14,622 | 16,526 |
| Communication | 11,199 | 10,730 |
| Engineering services | 116,249 | 33,407 |
| Insurance - property | 64,103 | 63,479 |
| Legal services | 75,666 | 67,689 |
| Lobbyist | 42,000 | 42,000 |
| Membership fees and public information | 45,371 | 42,354 |
| Miscellaneous expense | 43,650 | 41,510 |
| Office equipment repair and maintenance | 95,220 | 79,799 |
| Office supplies and postage | 52,942 | 54,144 |
| Outside services | 29,853 | 37,406 |
| Telephone and utilities | 36,051 | 31,615 |
| Training | 29,592 | 32,004 |
| Travel and business expenses | 15,512 | 15,843 |
| Expense allocation | <u>(79,296)</u> | <u>(90,712)</u> |
| Total | 1,399,188 | 1,359,657 |

JOSHUA BASIN WATER DISTRICT
(A Special District)

Schedule of Operating Expenses
For the Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|--|---------------------|---------------------|
| Pumping plant | | |
| Power purchased for pumping | 280,851 | 265,702 |
| Salaries and wages | 163,323 | 129,271 |
| Maintenance | 75,530 | 56,235 |
| Total | 519,704 | 451,208 |
| Source of supply | | |
| Operation and maintenance | 54,423 | 28,426 |
| Water treatment | 13,387 | 13,299 |
| Total | 67,810 | 41,725 |
| Transmission and distribution | | |
| Salaries and wages | 356,285 | 282,135 |
| Repairs and maintenance | 55,645 | 81,466 |
| Total | 411,930 | 363,601 |
| Vehicle and equipment | | |
| Auto expense | 74,333 | 61,017 |
| Auto repair - salaries and wages | - | 7,476 |
| Tractor - tool repair | 5,440 | 16,014 |
| Tractor - tool repair salaries and wages | - | 3,415 |
| Equipment rental | 2,743 | 2,878 |
| Shop and small tools expense | 15,810 | 19,195 |
| Total | 98,326 | 109,995 |
| Depreciation | 1,134,312 | 1,195,062 |
| Total | <u>\$ 4,323,582</u> | <u>\$ 4,181,497</u> |

OTHER INDEPENDENT AUDITORS' REPORT

**INDEPENDENT AUDITORS' 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 Trustees
Joshua Basin Water District
Joshua Tree, California

We have audited the financial statements of the business-type activities of Joshua Basin Water District (the "District"), as of and for the year ended June 30, 2011, and have issued our report thereon dated October 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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

The Board of Trustees
Joshua Basin Water District

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Governing Board and others within the District, 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

Victorville, California
October 10, 2011

FINDINGS AND RESPONSES SECTION

JOSHUA BASIN WATER DISTRICT

(A Special District)

Schedule of Findings and Responses

For the Year Ended June 30, 2011

There are no findings to report for the year ended June 30, 2011.

JOSHUA BASIN WATER DISTRICT

(A Special District)

Schedule of Prior Audit Findings
For the Year Ended June 30, 2011

There were no prior year findings for the year ended June 30, 2010.