Joshua Basin Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2012 and 2011

Charles Z. Fedak & Company

Certified Public Accountants

An Accountancy Corporation

Joshua Basin Water District

Board of Directors as of June 30, 2012

Name	Title	Elected/ Appointed	Current Term
Michael Reynolds	President	Elected	12/08-12/12
Mickey Luckman	Vice President	Elected	12/08-12/12
Frank Coate	Director	Appointed	12/11-12/12
William Long	Director	Elected	12/08-12/12
Gary L. Wilson	Director	Elected	12/10-12/14

Joshua Basin Water District
Joseph Guzzetta, General Manager
61750 Chollita Road
Joshua Tree, California 92252-0675
(760) 366-8438 – www.jbwd.com

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Financial Section

Charles Z. Fedak & Company
Certified Public Accountants
An Accountancy Corporation

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Independent Auditor's Report

Board of Directors
Joshua Basin Water District
Joshua Tree, California

We have audited the accompanying financial statements of the Joshua Basin Water District (District) as of and for the fiscal year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The comparative financial information as of June 30, 2011 was audited by other auditors whose report dated October 10, 2011, expressed an unqualified opinion on those basic financial statements.

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; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Joshua Basin Water District as of 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. This report can be found on page 26.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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.

Independent Auditor's Report, continued

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 inquires, 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.

Charles Z Fedak & Company CPA's - An Accountancy Corporation

Charles Z. Fedak & Company, CPA's – An Accountancy Corporation
Cypress, California
October 31, 2012

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Joshua Basin Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2012 and 2011. The two year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net assets increased 1.2% or $331,641 to $29,103,424 in fiscal year 2012 as a result of operations.
- In 2012, the District's operating revenues increased 6.2% or $250,118 primarily due to an $83,120 increase in water consumption sales and a $151,149 increase in standby service charges.
- In 2012, the District's operating expenses increased 1.0% or $33,018.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District in a way that helps answer this question.

Financial Analysis of the District, continued

These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net assets* and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 11 through 25.

Statement of Net Assets

Condensed Statements of Net Assets

		2012	2011	Change	2010	Change
Assets:						
Current assets	$	6,756,057	6,323,612	432,445	6,753,006	(429,394)
Non-current assets		37,654	36,934	720	36,215	719
Capital assets, net		26,741,763	27,286,496	(544,733)	27,161,281	125,215
Total assets		33,535,474	33,647,042	(111,568)	33,950,502	(303,460)
Liabilities:						
Current liabilities		673,494	925,474	(251,980)	1,789,420	(863,946)
Non-current liabilities		3,758,556	3,949,785	(191,229)	4,093,465	(143,680)
Total liabilities		4,432,050	4,875,259	(443,209)	5,882,885	(1,007,626)
Net assets:						
Investment in capital assets		22,868,325	23,231,058	(362,733)	22,465,168	765,890
Unrestricted		6,235,099	5,540,725	694,374	5,602,449	(61,724)
Total net assets		29,103,424	28,771,783	331,641	28,067,617	704,166
Total liabilities and net assets	$	33,535,474	33,647,042	(111,568)	33,950,502	(303,460)

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by $29,103,424 and $28,771,783 as of June 30, 2012 and 2011, respectively.

By far the largest portion of the District's net assets (76% as of June 30, 2012 and 81% as of June 30, 2011) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2012 and 2011, the District showed a positive balance in its unrestricted net assets of $6,235,099 and $5,540,725, respectively, which may be utilized in future years. See note 9 for further information.

Statement of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets

		2012	2011	Change	2010	Change
Revenue:						
Operating revenue	$	4,267,436	4,017,318	250,118	3,889,550	127,768
Non-operating revenue		814,764	895,460	(80,696)	844,628	50,832
Total revenue		5,082,200	4,912,778	169,422	4,734,178	178,600
Expense:						
Operating expense		3,219,812	3,186,794	33,018	2,986,433	200,361
Depreciation		1,251,680	1,134,312	117,368	1,195,062	(60,750)
Non-operating expense		412,790	497,985	(85,195)	533,634	(35,649)
Total expense		4,884,282	4,819,091	65,191	4,715,129	103,962
Net income before capital		197,918	93,687	104,231	19,049	74,638
Capital contributions:		133,723	710,479	(576,756)	79,990	630,489
Change in net assets		331,641	804,166	(472,525)	99,039	705,127
Net assets, beginning of year		28,771,783	27,967,617	804,166	27,868,578	99,039
Net assets, end of year	$	29,103,424	28,771,783	331,641	27,967,617	804,166

The statement of revenues, expenses and changes of net assets shows how the District's net assets changed during the fiscal years. In the case of the District, the District's change in net assets increased by $331,641 and $804,166 for the fiscal years ended June 30, 2012 and 2011, respectively.

A closer examination of the sources of changes in net assets reveals that:

In 2012, the District's operating revenues increased 6.2% or $250,118 primarily due to an $83,120 increase in water consumption sales and a $151,149 increase in standby service charges.

In 2012, the District's operating expenses increased 1.0% or $33,018.

Capital Asset Administration

Changes in capital asset amounts for 2012 were as follows:

		Balance 2011	Additions	Transfers/ Deletions	Balance 2012
Capital assets:					
Non-depreciable assets	$	3,811,305	706,947	(1,119,572)	3,398,680
Depreciable assets		42,704,063	1,119,572	(54,013)	43,769,622
Accumulated depreciation		(19,228,872)	(1,251,680)	54,013	(20,426,539)
Total capital assets, net	$	27,286,496	574,839	(1,119,572)	26,741,763

Changes in capital asset amounts for 2011 were as follows:

		Balance 2010	Additions	Transfers/ Deletions	Balance 2011
Capital assets:					
Non-depreciable assets	$	3,666,328	1,259,527	(1,114,550)	3,811,305
Depreciable assets		41,589,513	1,114,550	-	42,704,063
Accumulated depreciation		(18,094,560)	(1,134,312)	-	(19,228,872)
Total capital assets, net	$	27,161,281	1,239,765	(1,114,550)	27,286,496

At the end of fiscal year 2012 and 2011, the District's investment in capital assets amounted to $26,741,763 and $27,286,496 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, buildings, equipment, vehicles and construction-in-process, etc. See note 5 for further information.

Debt Administration

Changes in long-term debt amounts for 2012 were as follows:

		Balance 2011	Additions	Transfers/ Deletions	Balance 2012
Long-term debt:					
Bonds payable	$	4,055,438	-	(182,000)	3,873,438
Total long-term debt	$	4,055,438	-	(182,000)	3,873,438

Changes in long-term debt amounts for 2011 were as follows:

		Balance 2010	Additions	Transfers/ Deletions	Balance 2011
Long-term debt:					
Bonds payable	$	4,228,438	-	(173,000)	4,055,438
Total long-term debt	$	4,228,438	-	(173,000)	4,055,438

See note 7 for further information.

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net assets or operating results based on past, present and future events.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Assistant General Manager/Controller at 61750 Chollita Road, Joshua Tree, California, 92252-0675 – (760) 366-8438.

Basic Financial Statements

Joshua Basin Water District
Statements of Net Assets
June 30, 2012 and 2011

Assets		2012	2011
Current assets:			
Cash and cash equivalents (note 2)	$	5,389,847	5,042,018
Accrued interest receivable		4,730	5,850
Accounts receivable – water sales and services, net (note 3)		922,216	557,675
Property taxes receivable		34,617	30,061
Special assessments receivable		150,822	139,179
Grants receivable		-	291,000
Accounts receivable – other		25,136	27,662
Materials and supplies inventory		153,184	155,886
Prepaid expenses and other deposits		75,505	74,281
Total current assets		6,756,057	6,323,612
Non-current assets:			
Note receivable – property tax from state (note 4)		37,654	36,934
Capital assets – not being depreciated (note 5)		3,398,680	3,811,305
Capital assets, net – being depreciated (note 5)		23,343,083	23,475,191
Total non-current assets		26,779,417	27,323,430
Total assets	$	33,535,474	33,647,042
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	146,872	299,956
Accrued wages and related payables		64,080	65,291
Customer deposits and deferred revenue		188,842	287,925
Accrued interest payable		58,660	64,853
Long-term liabilities – due within one year:			
Compensated absences (note 6)		25,040	25,449
Bonds payable (note 7)		190,000	182,000
Total current liabilities		673,494	925,474
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 6)		75,118	76,347
Bonds payable (note 7)		3,683,438	3,873,438
Total non-current liabilities		3,758,556	3,949,785
Total liabilities		4,432,050	4,875,259
Net assets:			
Investment in capital assets, net of related debt (note 8)		22,868,325	23,231,058
Unrestricted (note 9)		6,235,099	5,540,725
Total net assets		29,103,424	28,771,783
	$	33,535,474	33,647,042

See accompanying notes to the basic financial statements

Joshua Basin Water District
Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2012 and 2011

		2012	2011
Operating revenues:			
Water consumption sales	$	1,448,441	1,365,321
Water service charges		1,362,325	1,337,804
Standby service charges		1,302,280	1,151,131
Other charges for services		154,390	163,062
Total operating revenues		4,267,436	4,017,318
Operating expenses:			
Pumping, production and treatment		841,399	748,582
Transmission and distribution		433,839	484,418
Customer service		576,438	642,970
General and administrative		1,368,136	1,310,824
Total operating expenses		3,219,812	3,186,794
Operating income before depreciation expense		1,047,624	830,524
Depreciation expense – capital recovery		(1,251,680)	(1,134,312)
Operating loss		(204,056)	(303,788)
Non-operating revenue(expense):			
Property taxes		396,283	398,294
Special assessments for debt service		398,443	445,990
Investment earnings		17,713	26,136
Morongo Basin Pipeline project (note 10)		(219,544)	(219,291)
Interest expense		(180,869)	(214,538)
Amortization of debt related items		-	(47,325)
Debt administration charges		(11,174)	(15,816)
Property tax administration charge		(1,203)	(1,015)
Other non-operating revenue, net		2,325	25,040
Total non-operating, net		401,974	397,475
Net income before capital contributions		197,918	93,687
Capital contributions:			
Water capacity charges		47,803	42,829
Wastewater capacity charges		85,920	26,650
Federal capital grant		-	291,000
Local capital grant		-	350,000
Total capital contributions		133,723	710,479
Change in net assets		331,641	804,166
Net assets, beginning of year		28,771,783	28,031,402
Prior period adjustment (note 14)		-	(63,785)
Net assets, end of year	$	29,103,424	28,771,783

See accompanying notes to the basic financial statements

Joshua Basin Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2012 and 2011

		2012	2011
Cash flows from operating activities:			
Cash receipts from customers for water sales and services	$	3,907,746	4,242,084
Cash paid to employees for salaries and wages		(1,501,249)	(1,459,274)
Cash paid to vendors and suppliers for materials and services		(2,204,022)	(2,360,591)
Net cash provided by operating activities		202,475	422,219
Cash flows from non-capital financing activities:			
Property taxes		391,727	300,233
Net cash provided by non-capital financing activities		391,727	300,233
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(706,947)	(1,259,527)
Capital contributions		424,723	429,086
Special assessments for debt service		386,800	446,811
Principle paid		(182,000)	(688,000)
Interest paid		(187,062)	(217,258)
Net cash used in capital and related financing activities		(264,486)	(1,288,888)
Cash flows from investing activities:			
Investment earnings		18,113	27,137
Net cash provided by investing activities		18,113	27,137
Net increase(decrease) in cash and cash equivalents		347,829	(539,299)
Cash and cash equivalents, beginning of year		5,042,018	5,581,317
Cash and cash equivalents, end of year	$	5,389,847	5,042,018

Continued on next page

See accompanying notes to the basic financial statements

Joshua Basin Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2012 and 2011

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	$ (204,056)	(303,788)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	1,251,680	1,134,312
Morongo Basin pipeline	(219,544)	(219,291)
Debt administration charges	(11,174)	(15,816)
Property tax administration charge	(1,203)	(1,015)
Other non-operating revenue, net	2,325	25,040
Changes in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable – water sales and services, net	(364,541)	96,668
Accounts receivable – other	2,526	103,058
Materials and supplies inventory	2,702	(14,434)
Prepaid expenses and other deposits	(1,224)	(18,284)
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	(153,084)	(383,393)
Accrued wages and related payables	(1,211)	16,074
Customer deposits and deferred revenue	(99,083)	15,095
Compensated absences	(1,638)	(12,007)
Total adjustments	406,531	726,007
Net cash provided by operating activities	$ 202,475	422,219

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Joshua Basin Water District (District) was organized in January 1963, under provisions of Division 12 of the Water Code of the State of California. The purpose of the District is to finance, construct, operate and maintain a water system and wastewater system to serve properties within the District's boundaries. The District services approximately 96 square miles in the unincorporated area of Joshua Tree, located in the Morongo Basin of San Bernardino County. The District is governed by a Board of Directors made up of five members elected by the qualified voters in the District.

The criteria used in determining the scope of the reporting entity is based on the provisions of GASB Statement 14, as amended by GASB Statement 39. 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.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. 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 by major categories.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting

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.

D. Assets, Liabilities and Net Assets

1. Use of Estimates

The preparation of the basic 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

3. Investments

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. 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.

5. Property Taxes and Assessments

The San Bernardino County Assessor's Office assesses all real and personal property within the County each year. The San Bernardino County Tax Collector's Offices bills and collects the District's share of property taxes and assessments. The San Bernardino County Treasurer's Office remits current and delinquent property 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 San Bernardino County 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

6. Materials and Supplies Inventory

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

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Assets, continued

7. 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.

8. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Transmission and distribution system – 3 to 50 years
- Structures and improvements – 10 to 30 years
- Vehicles and large equipment – 5 to 10 years
- Office furniture and equipment – 5 to 10 years
- Water rights – 25 years
- Wastewater system in development – 15 year
- Surveys and plans – 2 to 5 years

9. Compensated Absences

The District's policy is to permit employees to accumulate earned vacation up to a total of 400 hours with amounts exceeding the limit being paid out as part of the employee's regular compensation. Upon termination of employment, employees are paid all unused vacation and forfeit any unused sick time.

10. Net Assets

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

- **Investment in Capital Assets, Net of Related Debt** – 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 consists of net assets that do not meet the definition of *restricted* or *investment in capital assets, net of related debt.*

11. Water Sales and Services

Water sales are billed on a monthly cyclical basis and recognize the respective revenues when they are earned.

12. 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.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Liabilities and Net Assets, continued

13. Reclassifications

Certain reclassifications of prior year amounts have been made to adhere to the current year presentation of the basic financial statements.

14. Budgetary Policies

The District adopts a bi-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.

(2) Cash and Investments

Cash and investments as of June 30, consist of the following:

		2012	2011
Cash on hand	$	2,100	2,100
Deposits with financial institutions		207,449	142,734
Deposits in Local Agency Investment Fund		5,180,298	4,897,184
Total cash and investments	$	5,389,847	5,042,018

As of June 30, the District's authorized deposits had the following maturities:

	2012	2011
Deposits in Local Agency Investment Fund	268 days	237 days

Investments Authorized by the California Government Code and the District's Investment Policy

The District is legally empowered by statute and resolution to invest in money-market funds and to invest in the California State Investment Pool – Local Agency Investment Fund. The District's investment policy identifies other investment types that are authorized for the District to invest in under the California Government Code.

Investment in State Investment Pool

The District 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 District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District'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.

Custodial Credit Risk

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 and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits.

(2) Cash and Investments, continued

Custodial Credit Risk, continued

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to $250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contains legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for external investment pools) that represent 5% or more of total District's investments at June 30, 2012 and 2011, respectively.

(3) Accounts Receivable – Water Sales and Services, net

Accounts receivable – water sales and sewer services, net consisted of the following as of June 30:

		2012	2011
Accounts receivable – water sales	$	280,471	259,792
Unbilled water sales receivables		226,713	200,824
Standby charges receivables		705,032	497,489
Allowance for doubtful accounts		(290,000)	(400,430)
Total accounts receivable, net	$	922,216	557,675

(4) Note Receivable – Property Tax from State

Under the provisions of the State of California Proposition 1A and as part of the 2010 fiscal year State of California budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8.0% of the amount of property tax revenue apportioned to cities, counties and special districts. The State of California is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California State Legislature may consider only one additional borrowing within a ten-year period. The amount of the borrowing pertaining to the District was $35,975. The borrowing by the State of California was recognized as a note receivable plus accrued interest at 2.0% per annum in the accompanying financial statements as follows:

Note receivable – property tax from state consisted of the following as of June 30:

		2012	2011
Note receivable – property tax from state	$	35,975	35,975
Accrued interest receivable on note		1,679	959
Total note receivable	$	37,654	36,934

(5) Capital Assets

Major capital assets additions during the years include upgrades and extensions of the District's water transmission and distribution systems and equipment purchases in the following schedules:

Changes in capital assets for the year ended June 30, 2012 were as follows:

		Balance 2011	Additions/	Deletions/ Transfers	Balance 2012
Non-depreciable assets:					
Land and land rights	$	496,400	11,777	-	508,177
Construction-in-process		3,314,905	695,170	(1,119,572)	2,890,503
Total non-depreciable assets		3,811,305	706,947	(1,119,572)	3,398,680
Depreciable assets:					
Transmission and distribution system		38,532,051	880,519	-	39,412,570
Structures and improvements		821,390	17,298	(3,663)	835,025
Vehicles and large equipment		1,358,624	145,891	-	1,504,515
Office furniture and equipment		1,145,237	22,803	-	1,168,040
Water rights		263,759	-	-	263,759
Wastewater system in development		22,419	-	-	22,419
Surveys and plans		560,582	53,061	(50,350)	563,293
Total depreciable assets		42,704,062	1,119,572	(54,013)	43,769,621
Accumulated depreciation:					
Transmission and distribution mains		(16,705,272)	(888,417)	-	(17,593,689)
Structures and improvements		(305,303)	(28,444)	3,663	(330,084)
Vehicles and large equipment		(769,312)	(76,551)	-	(845,863)
Office furniture and equipment		(815,112)	(87,123)	-	(902,235)
Water rights		(171,817)	(10,216)	-	(182,033)
Wastewater system in development		(4,857)	(4,484)	-	(9,341)
Surveys and plans		(457,198)	(156,445)	50,350	(563,293)
Total accumulated depreciation		(19,228,871)	(1,251,680)	54,013	(20,426,538)
Total depreciable assets, net		23,475,191	(132,108)	-	23,343,083
Total capital assets, net	$	27,286,496	574,839	(1,119,572)	26,741,763

(5) Capital Assets, continued

Changes in capital assets for the year ended June 30, 2011 were as follows:

	Balance 2010	Additions/	Deletions/ Transfers	Balance 2011
Non-depreciable assets:				
Land and land rights	$ 496,400	-	-	496,400
Construction-in-process	3,169,928	1,259,527	(1,114,550)	3,314,905
Total non-depreciable assets	3,666,328	1,259,527	(1,114,550)	3,811,305
Depreciable assets:				
Transmission and distribution system	37,755,680	776,371	-	38,532,051
Structures and improvements	543,229	278,161	-	821,390
Vehicles and large equipment	1,358,624	-	-	1,358,624
Office furniture and equipment	1,085,219	60,018	-	1,145,237
Water rights	263,759	-	-	263,759
Wastewater system in development	22,419	-	-	22,419
Surveys and plans	560,582	-	-	560,582
Total depreciable assets	41,589,512	1,114,550	-	42,704,062
Accumulated depreciation:				
Transmission and distribution mains	(15,829,727)	(875,545)	-	(16,705,272)
Structures and improvements	(286,044)	(19,259)	-	(305,303)
Vehicles and large equipment	(665,256)	(104,056)	-	(769,312)
Office furniture and equipment	(735,793)	(79,318)	-	(815,111)
Water rights	(161,601)	(10,216)	-	(171,817)
Wastewater system in development	(374)	(4,484)	-	(4,858)
Surveys and plans	(415,764)	(41,434)	-	(457,198)
Total accumulated depreciation	(18,094,559)	(1,134,312)	-	(19,228,871)
Total depreciable assets, net	23,494,953	(19,762)	-	23,475,191
Total capital assets, net	$ 27,161,281	1,239,765	(1,114,550)	27,286,496

Construction-In-Process

The District is involved in various construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset. The balance of construction-in-process was $2,890,503 as of June 30, 2012 as follows:

Construction-in-process consisted of the following projects as of June 30, 2012:

Project Description	2012
Water recharge pond	$ 1,804,179
Water recharge pipe	362,070
Grading for new tank	138,069
Various other minor projects < $100,000	586,185
Total construction-in-process	$ 2,890,503

(6) Compensated Absences

Changes to compensated absences for 2012, were as follows:

Balance 2011	Earned	Taken	Balance 2012	Current Portion	Long-term Portion
$ 101,796	56,428	(58,066)	100,158	25,040	75,118

Changes to compensated absences for 2011, were as follows:

Balance 2010	Earned	Taken	Balance 2011	Current Portion	Long-term Portion
$ 113,803	54,263	(66,270)	101,796	25,449	76,347

(7) Long-Term Debt

Changes in long-term debt amounts for the year were as follows:

		Balance 2011	Additions	Payments	Balance 2012	Current Portion
Long-term debt:						
Bonds payable:						
1974 General obligation bonds	$	430,000	-	(100,000)	330,000	105,000
1996 Limited obligation improvement bonds		3,625,438	-	(82,000)	3,543,438	85,000
Total bonds payable	$	4,055,438	-	(182,000)	3,873,438	190,000

Changes in long-term debt amounts for the year were as follows:

		Balance 2010	Additions	Payments	Balance 2011	Current Portion
Long-term debt:						
Bonds payable:						
1974 General obligation bonds	$	525,000	-	(95,000)	430,000	100,000
1996 Limited obligation improvement bonds		3,703,438	-	(78,000)	3,625,438	82,000
Total bonds payable	$	4,228,438	-	(173,000)	4,055,438	182,000

1974 General Obligation Bonds

In 1974, the District authorized and issued general obligation bonds in the amount of $2.0 million at an interest rate of 5.00%. The bonds mature through fiscal year 2015 as follows:

Year		Principal	Interest	Total
2013	$	105,000	16,500	121,500
2014		110,000	11,250	121,250
2015		115,000	5,750	120,750
Total		330,000	33,500	363,500
Current		(105,000)		
Long-term	$	225,000		

1996 Limited Obligation Improvement Bonds

In March 1996, the District authorized the issuance of $4,551,389 in Copper Mountain Mesa limited obligation improvement bonds pursuant to the provisions of the Municipal Improvement Act of 1913. The bonds are payable solely from and secured solely by special assessments on property parcels 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 bear interest at 4.5% per annum. Principal and interest are payable on March 2nd and September 2nd of each year as follows:

Year		Principal	Interest	Total
2013	$	85,000	157,567	242,567
2014		89,000	153,653	242,653
2015		93,000	149,558	242,558
2016		98,000	145,260	243,260
2017		102,000	140,760	242,760
2018-2022		582,000	629,101	1,211,101
2023-2027		722,000	482,940	1,204,940
2028-2032		899,000	301,296	1,200,296
2033-2036		873,438	80,775	954,213
Total		3,543,438	2,240,910	5,784,348
Current		(85,000)		
Long-term	$	3,458,438		

(8) Net Investment in Capital Assets, Net of Related Debt

Calculation of net investment in capital assets as of June 30, were as follows:		2012	2011
Investment in capital assets, net of related debt			
Capital assets, not being depreciated	$	3,398,680	3,811,305
Depreciable capital assets, net		23,343,083	23,475,191
Current:			
Bonds payable		(190,000)	(182,000)
Non-current:			
Bonds payable		(3,683,438)	(3,873,438)
Total investment in capital assets, net of related debt	$	22,868,325	23,231,058

(9) Unrestricted Net Assets

Unrestricted net assets as of June 30, were categorized as follows:		2012	2011
Non-spendable net assets:			
Materials and supplies inventory	$	153,184	155,886
Prepaid expenses and other deposits		75,505	74,281
Total non-spendable net assets		228,689	230,167
Spendable net assets are designated as follows:			
Capital replacement reserve		3,003,205	2,655,279
Rate stabilization reserve		3,003,205	2,655,279
Total spendable net assets		6,006,410	5,310,558
Total unrestricted net assets	$	6,235,099	5,540,725

(10) Morongo Basin Pipeline Project

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 (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.

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.

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.

(10) Morongo Basin Pipeline Project, continued

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 $219,544 and $219,291 for the years ended June 30, 2012 and 2011.

(11) Defined Benefit Pension Plan

Plan Description

The Agency contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the Agency. Copies of CalPERS annual financial report may be obtained form their executive Office: 400 P Street, Sacramento, CA, 95814.

Funding Policy

The contribution rate for plan members in the CalPERS, 2.0% at 55 Risk Pool Retirement Plan is 7% of their annual covered salary and is paid by the members. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2012, 2011 and 2010 as noted below. 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. At fiscal year ended June 30, 2012, the District does not have an unfunded pension liability. For Fiscal years 2012, 2011 and 2010, the District's annual contributions for the CalPERS plan were equal to the Agencies required and actual contributions for each fiscal year as follows:

Three Year Trend Information:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	APC Percentage of Payroll
2009-2010	$ 119,308	100%	-	9.511%
2010-2011	124,029	100%	-	10.861%
2011-2012	139,706	100%	-	11.040%

(12) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2012, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $1,000,000, combined single limit at $1,000,000 per occurrence. The JPIA purchases additional excess coverage layers: $60 million per occurrence for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to $100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's.
- Property loss is paid at the replacement cost for property on file ($31,714,916), if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of $100 million per occurrence, subject to a $2,500 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to $50 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law. The ACWA/JPIA is self-insured up to $2.0 million and excess insurance coverage has been purchased.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the year ending June 30, 2012. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2012, 2011 and 2010, respectively.

(13) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2012, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangement*s. This standard addresses how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into. This statement is effective for financial statements for periods beginning after December 15, 2011. The District estimates that this statement will not have an impact on the presentation of the basic financial statements.

Governmental Accounting Standards Board Statement No. 61

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity, Omnibus.* This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity,* and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*. This statement is effective for financial statements for periods beginning after June 15, 2012. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

Governmental Accounting Standards Board Statement No. 62

In December 2010, The GASB issued Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

Governmental Accounting Standards Board Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement is effective for financial statements for periods beginning after December 15, 2011. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

(13) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 65

In March 2012, the GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain* items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

Governmental Accounting Standards Board Statement No. 66

In March 2012, the GASB issued Statement No. 66 – *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54*, Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The District estimates that this statement will not have a material impact on the presentation of the basic financial statements.

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27*, Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

(14) Prior Period Adjustment

Prior period adjustment:		**June 30, 2010**
Accrual of property tax from state	$	35,975
Accrual of investment earnings from property tax from state receivable		240
Over-accrual of property taxes receivable		(100,000)
Total	$	(63,785)

Accrual of Property Tax from State

In fiscal year 2010, the State of California borrowed 8.0% of the amount of property tax revenue apportioned to the District, which amounted to $35,975. This amount is due and payable to the District as of June 30, 2013. The District did not accrue for this amount as a note receivable – property tax from state in the 2010 fiscal year and therefore are accounting for this transaction as a prior period adjustment. (See note 4 for further information)

Accrual of Investment Earnings from Property Tax from State Receivable

In fiscal year 2010, the State of California borrowed 8.0% of the amount of property tax revenue apportioned to the District, which amounted to $35,975. This amount is due and payable to the District as of June 30, 2013 plus accrued interest on this balance at an interest rate of 2.00%. The District did not accrue for this accrued interest earned amount in the 2010 fiscal year and therefore are accounting for this transaction as a prior period adjustment. (See note 4 for further information)

Over-Accrual of Property Taxes Receivable

In prior fiscal year(s), the District accrued for property taxes receivable above the Teeter Plan reconciliation received. The Teeter Plan reconciliation is to make the District whole each year for the property taxes levied each fiscal year. Therefore, the District has recorded a reversal of the property tax receivable of $100,000 as a prior period adjustment.

(15) 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 (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.

(16) Commitments and Contingencies

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water and wastewater facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and capital contributions.

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(17) Subsequent Events

Events occurring after June 30, 2012 have been evaluated for possible adjustment to the financial statements or disclosure as of October 31, 2012, which is the date the financial statements were available to be issued.

Report on Internal Controls and Compliance

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Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Joshua Basin Water District
Joshua Tree, California

We have audited the basic financial statements of the Joshua Basin Water District (District) as of and for the year ended June 30, 2012 and have issued our report thereon dated October 31, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 grants, 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 the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Charles Z. Fedak & Company CPA's - An Accountancy Corporation

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Cypress, California
October 31, 2012