



JOSHUA BASIN WATER DISTRICT
REGULAR MEETING OF THE BOARD OF DIRECTORS
WEDNESDAY JANUARY 4, 2012 7:00 PM
61750 CHOLLITA ROAD, JOSHUA TREE CALIFORNIA 92252

AGENDA

- | | | |
|----------|-----|---|
| | 1. | CALL TO ORDER |
| | 2. | PLEDGE OF ALLEGIANCE |
| | 3. | DETERMINATION OF QUORUM |
| | 4. | APPROVAL OF AGENDA |
| | 5. | PUBLIC COMMENT: At this time, any member of the public may address the Board on matters within the Board's jurisdiction that are <u>not</u> listed on the agenda. Please use the podium microphone. The Board may not discuss at length or take action on items not on the agenda.
During either "Public Comment" Item, please use the podium microphone. State your name and have your information prepared and be ready to provide your comments to the Board. The District is interested and appreciates your comments. A 3-minute time limit may be imposed. Thank you. |
| Pg 1-39 | 6. | 10/11 AUDIT REPORT PRESENTATION FROM MESSNER & HADLEY
Recommend that the Board receive the presentation, ask questions and approve the report. |
| Pg 40-41 | 7. | APPOINTMENT OF BOARD REPRESENTATIVES TO MOJAVE WATER AGENCY TECHNICAL ADVISORY COMMITTEE, MORONGO BASIN PIPELINE COMMISSION AND ASSOCIATION OF SAN BERNARDINO COUNTY SPECIAL DISTRICTS
Recommend that the Board receive the appointments to be made by the Board President. |
| Pg 42-43 | 8. | CONSIDER APPROVAL OF RESOLUTION 12-880 AUTHORIZING SIGNERS WITH US BANK
Recommend that the Board adopt Resolution 12-880. |
| Pg 44 | 9. | CITIZENS ADVISORY COMMITTEE (CAC) RECOMMENDATION TO THE BOARD REGARDING PUBLIC USE OF THE DEMONSTRATION GARDENS
Recommend that the Board approve the CAC recommendation. |
| | 10. | COMMITTEE REPORTS
A. PUBLIC INFORMATION COMMITTEE: Kathleen Radnich, Public Outreach Consultant
B. AD HOC GENERAL MANAGER PERFORMANCE FACILITATED REVIEW PROCESS:
Recommend That the Board authorize a committee to serve as a point of contact between Rauch Communications, the Board, and the General Manager for the General Manager evaluation process; or determine to have a single Board member, or the President serve this function. |
| Pg 45 | | |

11. PUBLIC COMMENT
At this time, any member of the public may address the Board on matters within the Board's jurisdiction that are not listed on the agenda. Please use the podium microphone. The Board may not discuss at length or take action on items not on the agenda.
12. GENERAL MANAGER REPORT
13. DISTRICT GENERAL COUNSEL REPORT
14. DIRECTORS COMMENTS/REPORTS
 - A. Open Space Committee Status Report: Vice President Luckman
15. CLOSED SESSION
 - A. At this time, the Board will go into Closed Session to confer with Legal Counsel on existing litigation pursuant to subdivision (a) of Government Code Section 54956.9. (Re Joshua Basin Water District v. Robert Ellis, San Bernardino Superior Court - Joshua Tree District, Case No. CIVMS 900168).
 - B. At this time, the Board will go into Closed Session to confer with Legal Counsel on existing litigation pursuant to subdivision (a) of Government Code Section 54956.9. (Re Joshua Basin Water District v. Ironhead LLC a California Limited Liability Company, Praxedes Beard and Does 1 – 10 inclusive, San Bernardino Superior Court - Joshua Tree District, Case No. CIVMS 1100087).
16. REPORT ON CLOSED SESSION
17. ADJOURNMENT

INFORMATION

The public is invited to comment on any item on the agenda during discussion of that item.


Any person with a disability who requires accommodation in order to participate in this meeting should telephone Joshua Basin Water District at (760) 366-8438, at least 48 hours prior to the meeting in order to make a request for a disability-related modification or accommodation.

Materials related to an item on this Agenda submitted to the Board of Directors after distribution of the agenda packet are available for public inspection in the District's office located at 61750 Chollita Road, Joshua Tree, California 92252 during normal business hours.

JOSHUA BASIN WATER DISTRICT
SUPPLEMENTAL DATA SHEET

Regular Meeting of the Board of Directors

January 4, 2011

To: President and Members of the Board
From: Susan Greer 

TOPIC: 10/11 Audit Report Presentation from Messner & Hadley

RECOMMENDATION: Receive presentation, ask questions and approve report

ANALYSIS: Paul Messner from Messner & Hadley will be at the meeting to give the presentation of the 10/11 audited financial statements.

The easiest read of the financial report is located at the front of the document, within the sections entitled Management's Discussion and Analysis (pages 3-8), including summary information.

Approximately 95% of the District's net assets are comprised of the capital assets of the District such as pipes, tanks and wells.

Total revenues (operating and non-operating) increased \$682,000 or 14%, primarily related to a \$568,000 increase in grant revenue (EPA and MWA) compared to last year.

Total expenses (operating and non-operating) increased \$104,000 or 2%. Operating expenses, including depreciation expense, increased \$142,000 or 3%.

Recurring operating expenses exceed recurring operating revenues by \$298,000 or 10%. When we add depreciation expense, operating expense exceeds operating revenues by \$1,432,000 or 50% – compared to \$1,363,000 or 48% in the prior year. Another way of looking at this is that operating revenues cover all but \$1,432,000 of operating and depreciation expense, with depreciation expense being \$1,134,000 of that amount. Operating loss results partially from the Board's desire to maintain lower water rates and instead offset operating expenses with non-operating revenues such as standbys and property taxes. Many public agencies such as ours run with an operating loss, balancing operating costs with non-operating revenues such as tax revenues. Non-operating revenues exceeded non-operating expenses by \$2,166,000 and we used \$1,432,000 of that to fund the operating loss.

The District paid down it's debt from \$4.1 million to \$3.9 million during the year, including final payment on the 1997 Revenue Refunding Bonds. This leaves only two outstanding bond issues; the Copper Mountain Mesa Limited Obligation Bonds (payable from assessments to those property owners) and the 1974 General Obligation Bond (payable from ID#2 property tax rate).

Messner & Hadley indicate there were no findings as a result of the audit so no Management Letter was written. Findings are based on observed problems, weaknesses or deficiencies.

While I take great personal pride in presenting this report to the Board, I would be remiss if I didn't acknowledge the tremendous effort of my Finance Staff (Ben Ruffner, Anne Roman, Patricia Freeman and Shirley Bolha) during the previous year. Their commitment, effort, attention to detail and professionalism on a daily basis resulted in only three correcting audit entries and no audit findings again this year. They are a talented and dedicated group and I'm grateful for their fine work which produces these exceptional results.

FISCAL IMPACT: None

**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

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
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)

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June 30, 2011 and 2010

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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.

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messnerandhadley.com

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>\$ 803,443</u>	<u>\$ 162,824</u>	<u>\$ 640,619</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:

	June 30, 2011	June 30, 2010	Net Change
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	(19,228,872)	(18,094,560)	(1,134,312)
Total utility plant, net	\$ 27,286,496	\$ 27,161,281	\$ 125,215

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.

	June 30, 2011	June 30, 2010	Net Change
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	-	(47,325)	47,325
	\$ 3,873,438	\$ 4,008,113	\$ (134,675)

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	<u>\$ 28,834,845</u>	<u>\$ 28,031,402</u>

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><u>\$ (562,198)</u></u>	<u><u>\$ 59,514</u></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
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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	Additions	Deletions	Balance
	July 01, 2009			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>	<u>-</u>
Total long-term liabilities, net	<u>\$ 4,696,113</u>	<u>\$ -</u>	<u>\$ 640,675</u>	<u>\$ -</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>-</u>	<u>(47,325)</u>
Total long-term liabilities, net	<u>\$ 5,301,359</u>	<u>\$ -</u>	<u>\$ 605,246</u>	<u>\$ -</u>	<u>\$ 4,008,113</u>

JOSHUA BASIN WATER DISTRICT
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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
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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

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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

	2011	2010
Customer accounts		
Meter repair salaries and wages	\$ 68,672	\$ 111,738
Office salaries	102,342	64,904
Meter repair	20,034	14,379
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	300	210
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	(79,296)	(90,712)
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

	<u>2011</u>	<u>2010</u>
Pumping plant		
Power purchased for pumping	280,851	265,702
Salaries and wages	163,323	129,271
Maintenance	<u>75,530</u>	<u>56,235</u>
Total	519,704	451,208
Source of supply		
Operation and maintenance	54,423	28,426
Water treatment	<u>13,387</u>	<u>13,299</u>
Total	67,810	41,725
Transmission and distribution		
Salaries and wages	356,285	282,135
Repairs and maintenance	<u>55,645</u>	<u>81,466</u>
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	<u>15,810</u>	<u>19,195</u>
Total	98,326	109,995
Depreciation	<u>1,134,312</u>	<u>1,195,062</u>
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.

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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.

JOSHUA BASIN WATER DISTRICT
SUPPLEMENTAL DATA SHEET

Regular Meeting of the Board of Directors

January 4, 2012

Report to: President and Members of the Board
From: Joe Guzzetta, General Manager

TOPIC: APPOINTMENT OF BOARD REPRESENTATIVES TO MOJAVE WATER AGENCY TECHNICAL ADVISORY COMMITTEE, MORONGO BASIN PIPELINE COMMISSION, AND ASSOCIATION OF THE SAN BERNARDINO COUNTY SPECIAL DISTRICTS

RECOMMENDATION: That the Board receive the appointments to be made by the Board President for representatives to the above agencies.

ANALYSIS: The District participates in three organizations that require official appointment of representatives. They are:

- Morongo Basin Pipeline Commission
- Association of San Bernardino County Special Districts (ASBCSD)
- Mojave Water Agency Technical Advisory Committee (MWA TAC)

The purpose of the Morongo Basin Pipeline Commission is to make recommendations to MWA regarding rates, taxes, and other issues pertaining to the pipeline which brings state project water to the Morongo Basin. The meetings are held 3 or 4 times per year on a weekday at a water agency within the Morongo Basin, and are about one and one half hours long. JBWD has one voting seat on this commission.

Mojave Water Agency TAC meets about 4 to 6 times per year on a Wednesday from 9:00 am to noon in Apple Valley. This is an informal committee which is open to all "stakeholders" with an interest in MWA. The Joshua Basin Water District General Manager typically attends. Attendance by the JBWD board is not limited, so that all board members could attend if there were interest. The TAC provides recommendations to the MWA board on the Regional Water Management Plan, rates and fees, strategies for securing future water, etc.

The Association of San Bernardino County Special Districts meets monthly, at a dinner meeting usually in the west end of San Bernardino County. JBWD has one vote at meetings of this agency.

The meetings consist of a program and/or discussion of issues of interest to special districts in San Bernardino County. This association also has a formal role in making appointments to positions on the Local Agency Formation Commission.

The Board practice is for the president to make the appointments of representatives to these organizations.

JOSHUA BASIN WATER DISTRICT
SUPPLEMENTAL DATA SHEET

Regular Meeting of the Board of Directors

January 4, 2012

Report to: President and Members of the Board
From: Susan Greer, Assistant General Manager/Controller 

TOPIC: CONSIDER APPROVAL OF RESOLUTION 12-XXX AUTHORIZING
SIGNERS WITH US BANK

RECOMMENDATION: Adopt Resolution 12-XXX

ANALYSIS: This is a routine item, required since we have a new Board member. The attached resolution removes the outgoing Board member and adds the new Board member and is required before the bank will prepare new signature cards.

The resolution authorizes all Board members, the General Manager and Assistant General Manager/Controller to sign checks. Current practice is to require two signatures up to \$5,000 and three signatures when the check exceeds that amount.

Once signature cards are prepared we will need multiple signatures from every authorized signer.

RESOLUTION 12-XXX

A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE JOSHUA BASIN WATER DISTRICT
OPENING NEW BANK ACCOUNT AND AUTHORIZING SIGNERS
AT US BANK

WHEREAS, the Joshua Basin Water District requires bank accounts in order to conduct its business.

NOW, THEREFORE, BE IT RESOLVED that the District allows any of the following three acting together in excess of \$5,000 or any two at \$5,000 or less, to withdraw funds from any account in the form of checks in any manner as shall be agreed upon by the contracting officers with US Bank:

Mickey Luckman
Mike Reynolds
Bill Long
Paul F. Coate
Gary Wilson
Joseph Guzzetta
Susan Greer

FURTHER RESOLVED that any one of the preceding is allowed to transfer funds between the District's account and the Local Agency Investment Fund (LAIF) or from one District account to another District account only.

BE IT FURTHER RESOLVED that this Resolution replaces all prior Resolutions regarding this matter and shall remain in force until notice of revocation of it by this District shall be received by Bank at the office where the account is maintained or as Banks shall otherwise direct.

ADOPTED this 4th day of January, 2012.

By _____
Mike Reynolds, President

Attest _____
Joseph Guzzetta, Secretary

JOSHUA BASIN WATER DISTRICT
SUPPLEMENTAL DATA SHEET

Regular Meeting of the Citizens Advisory Committee

January 4, 2012

Report to: Chair and Members of the board
From: Joe Guzzetta, General Manager

TOPIC: POLICY REGARDING USE OF THE DEMONSTRATION GARDEN

RECOMMENDATION: That the Board approve the recommendation of the Citizen Advisory Committee to limit the use of events in the Demonstration Garden to those sponsored or co-sponsored by the Joshua Basin Water District or by another governmental agency, and determine a maximum capacity if possible.

ANALYSIS: During an earlier meeting of the Board Public Information Committee, it was anticipated that the District could be requested to make the Demonstration Garden available for private activities such as fund-raisers, weddings, religious services, photo-shoots or other private activities and events. The Committee asked the General Manager to develop a policy for the Board's consideration. The General Manager referred the matter to the Citizens Advisory Committee (CAC) for input.

Issues considered by the CAC included the following:

- Too many people at an event could damage the garden.
- Overtime would be incurred to open, close, and monitor the garden (a charge could be charged for this).
- Insurance would need to be required for events.
- If the District allows some organizations to use the garden, it may be restricted from discriminating against others that might be controversial, political in nature, or questionable in the eyes of the community.

Staff is researching a method of setting a reasonable capacity for the gardens and will bring that information to the Board.

The CAC has observed that the Demonstration Garden is primarily a garden and not primarily a park or special event site. Limiting use as recommended will allow for reasonable events without risking damage to the gardens. This would not limit use by individuals or small groups simply visiting the gardens.

JOSHUA BASIN WATER DISTRICT
SUPPLEMENTAL DATA SHEET

Regular Meeting of the Board of Directors

January 4, 2012

Report to: Board of Directors
From: Board Ad Hoc Committee to Coordinate Review of Performance Evaluation of
General Manager

TOPIC: POINT OF CONTACT FOR PERFORMANCE EVALUATION OF
GENERAL MANAGER

RECOMMENDATION: That the Board authorize a committee to serve as a point of
contact between Rauch Communications, the Board, and the
General Manager for the General Manager evaluation process.
Alternatively, the Board could determine to have a single Board
member, or the President serve this function.

ANALYSIS: At an earlier meeting, the Board approved an agreement with
Rauch Communications to serve as a facilitator in reviewing
the performance of the General Manager. Rauch
Communications has requested that the President, a single
Board member, or a Board committee serve as the point of
contact. They have indicated preference for a committee.

If the Board concurs, it is the President's prerogative to
appoint the committee.