

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

San Bernardino, California

Financial Statements

For the years ended June 30, 2011 and 2010



San Bernardino Valley Municipal Water District

**Financial Statements
For the years ended June 30, 2011 and 2010**

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**Board of Directors
San Bernardino Valley Municipal Water District
San Bernardino, California**

Independent Auditor's Report

We have audited the accompanying statements of net assets of San Bernardino Valley Municipal Water District as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, 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 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Bernardino Valley Municipal Water District as of June 30, 2011 and 2010, and the results of its operations, changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2011, on our consideration of the San Bernardino Valley Municipal Water 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of 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.

Rogers Anderson Malody & Scott, LLP

November 2, 2011

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

The District

San Bernardino Valley Municipal Water District (District) was formed on February 17, 1954, under the Municipal Water District Act of 1911. The District is one of 29 contractors to the California State Water Project, which delivers water from northern California to various parts of the state. A major function of the District is to import and deliver water into its service area through participation in the State Water Project and to manage groundwater storage within its boundaries. The District's service area encompasses approximately 352 square miles in southwestern San Bernardino County and a portion of Riverside County. It spans the eastern two thirds of the San Bernardino Valley, the Crafton Hills, and a portion of the Yucaipa Valley, and includes the cities and communities of San Bernardino, Colton, Loma Linda, Redlands, Rialto, Bloomington, Highland, Grand Terrace, and Yucaipa. The District is governed by a five member board, representing five geographical divisions within the District, which is elected by the citizens in a general popular election.

In 1960, the District entered into a contract with the State Department of Water Resources to receive an annual allotment of up to 102,600 acre-feet of water from the State Water Project. The District has been importing water from the State Water Project since 1972.

The Basic Financial Statements

San Bernardino Valley Municipal Water District is a special purpose governmental district (Special District) engaged only in activities that support themselves through tax levies and user fees. Accordingly, the accompanying financial statements are presented in the format prescribed for proprietary funds by the Governmental Accounting Standards Board.

These financial statements consist of three interrelated statements designed to provide the reader with relevant, understandable data about the District's financial condition and operating results. They are the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows.

The Statement of Net Assets presents the District's assets and liabilities and the difference, or net, between what is owned and what is owed as of the last day of the District's fiscal year. The Statement of Revenues, Expenses and Changes in Net Assets describes the financial results of the District's operations for the years reported. These results, or changes in net assets, are the increases or decreases in the bottom line of the Statement of Net Assets.

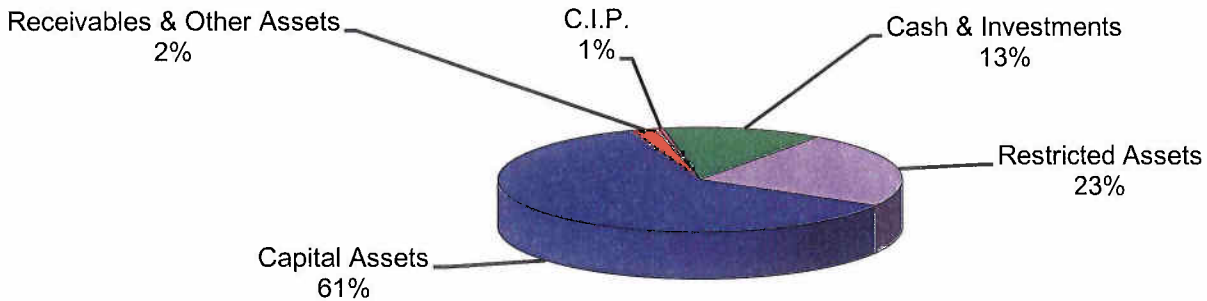
The Statement of Cash Flows conveys to financial statement users how the District managed cash resources during the year. This statement converts the Change in Net Assets presented on the Statement of Revenues, Expenses and Changes in Net Assets into actual cash provided by or used for operations. The Statement of Cash Flows also details how the District obtains cash through financing and investing activities and, conversely, how cash is spent for these purposes.

Summary Financial Information and Analysis

During the year ended June 30, 2011, the District's Total Assets increased by \$22.1 million and Net Assets increased by \$22.8 million. A majority of the increase in Total Assets resulted from an increase of \$16.7 million in Unrestricted Current Assets and a \$3.6 million increase in Restricted Assets, an increase of \$2.1 million in Total Capital Assets and a \$0.5 million increase in Construction in Progress netted against a decrease in Non Current Assets of \$0.9 million.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

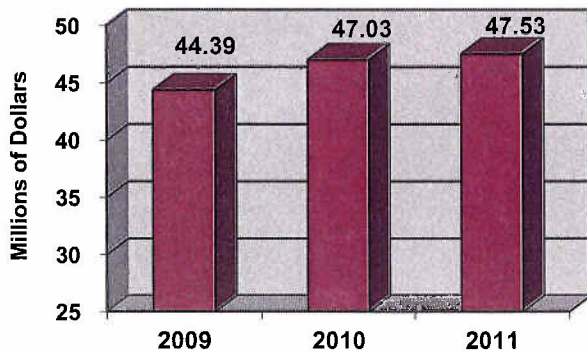
Assets Owned



Total Cash in bank, Cash in Local Agency Investment Fund and Investments in government securities increased by \$21.6 million. The increase can be further divided into general unrestricted and restricted cash. Unrestricted cash increased by \$17.3 million and restricted cash increased by \$4.3 million.

The increase in Net Assets included an operating loss of \$39.7 million. This is due in part to the District being required by the California State Controller's office to report property taxes as nonoperating revenue. However, the majority of the property tax revenues are used for State Water Project expenditures which are included in operating expenses.

Operating Expenses



Financial Statement Summary (In millions)

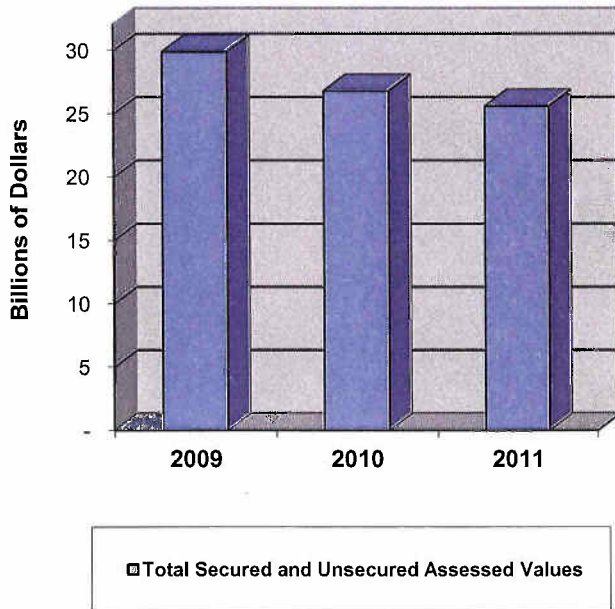
	6/30/11	6/30/10
Current Assets	\$ 67.23	\$ 50.51
Restricted Assets	119.76	116.11
Capital Assets	314.94	312.31
Other Noncurrent Assets	9.53	10.43
Total Assets	511.46	489.36
Total Liabilities	7.48	8.20
Net Assets	503.98	481.16
Revenues		
Water Sales	7.82	5.22
Property Taxes	52.36	55.28
RDA Pass Through	6.75	8.58
Interest	.44	.51
Miscellaneous	2.98	2.28
Grant Income	-	4.95
Expenses		
Source of Supply	(27.63)	(24.16)
Admin & General	(10.11)	(13.50)
Depreciation & Amort.	(9.79)	(9.37)
Interest Expense	-	(.04)
Change in Net Assets	\$ 22.82	\$ 29.75

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Total operating expenses for the year ended June 30, 2011 increased slightly over the prior year by 1%. The majority of the increase is from Source of Supply expenses which include operations, maintenance, power, and purchased water. Administrative and General Expenses decreased by 25%.

Total Nonoperating revenues increased by 6% over the prior year. Total property taxes received decreased by \$2.9 million. This decrease was derived from a \$0.5 million decrease from general-purpose property tax distribution and a \$2.4 million decrease from debt service property taxes. The assessed values within the District's service area experienced a 4% decline which has attributed to the decrease in property taxes received. Interest earned on reserves decreased by \$0.1 million and was primarily attributable to a decrease in interest rates.

The following reflects the District's assessed property tax valuations. Assessed valuations for the fiscal year June 30, 2011 have decreased over the prior year by 4%.



Categories of Net Assets

The District is required to present its net assets in three categories: Invested in Capital Assets, Restricted for State Water Project, and Unrestricted.

Invested in Capital Assets – Net of Related Debt

At June 30, 2011, the amount the District had invested in capital assets, net of related debt was \$314.9 million. This balance was obtained by combining Construction in Progress of \$2.1 million with Capital Assets in Service, net of Accumulated Depreciation and Amortization of \$312.8 million.

Restricted – Debt Service

The District has restricted Net Assets of \$119.1 million, which consists of tax proceeds that were levied for State Water Project payments plus interest on investments less State Water Project related expenditures. The Board of Directors has designated \$30 million of this amount to be retained for the purpose of Maintenance and Repairs on the State Water Project distribution pipelines, pump stations and reservoirs. The balance of restricted net assets of \$89.1 million is to be used for future expenses related to the State Water Project.

The District's future commitment for State Water Project costs over the years 2011 to 2035, according to a payment schedule dated June 30, 2011, is estimated to total \$728 million.

Unrestricted

The District had unrestricted Net Assets of \$69.9 million at June 30, 2011. The Board of Directors has designated \$16 million of this reserve to be retained for the purpose of self insuring the District against any claims made against the District. The District has an extensive future capital improvement plan which consists of many projects which include Enhanced Santa Ana River Spreading, Central Feeder Phase 2, Santa Ana River Tributary / Storm Water Capture and Recycled Water System.

**SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Capital asset activity for the year was as follows:

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets, not being depreciated:				
Land and right of ways	\$ 7,969,152	\$ 75,882	\$ -	\$ 8,045,034
Construction in progress	1,649,132	1,820,681	1,312,725	2,157,088
Total capital assets, not being depreciated	9,618,284	1,896,563	1,312,725	10,202,122
Capital assets, being depreciated:				
Participation rights in State Water				
Project facilities	243,202,218	10,849,469		254,051,687
Buildings	7,821,671	-	-	7,821,671
Distribution lines	150,587,647	1,319,647	458,294	151,449,000
Brine line	7,121,795	-	-	7,121,795
Furniture, fixtures and equipment	950,969	38,075	-	989,044
Vehicles	406,596	43,850	26,207	424,239
Yucaipa Dam	3,698,238	-	-	3,698,238
Pipeline capacity	1,305,000	-	-	1,305,000
Total capital assets, being	415,094,134	12,251,041	484,501	426,860,674
Total capital assets	\$ 424,712,418	\$ 14,147,604	\$ 1,797,226	\$ 437,062,796

Construction In Progress (CIP)

Construction in progress increased from \$1.6 to \$2.1 million between June 30, 2010 and June 30, 2011. The projects still in progress at June 30, 2011 include the Baseline Feeder Well Replacement Project, the Riverside Groundwater Aquifer Storage Project, the District Warehouse Project and the Wilson Creek Turnout Project.

Capital Assets

The District made payments to the Department of Water Resources during the year totaling 37.2 million net of credits and refunds for participation rights in the State Water Project.

Contacting the District's Financial Management

This financial report is designed to provide our customers, investors, and creditors with an overview of the District's financial operations and condition. If you have questions about this report or need additional information, you may contact the District at (909) 387-9200 or 380 E. Vanderbilt Way, San Bernardino, CA 92408.

San Bernardino Valley Municipal Water District

**Statements of Net Assets
June 30, 2011 and 2010**

ASSETS	<u>2011</u>	<u>2010</u>
Current assets:		
Cash in bank and on hand	\$ 27,162,371	\$ 9,799,462
Cash in Local Agency Investment Fund	11,282,363	11,225,258
Investments in government securities	26,391,669	26,531,882
Property taxes receivable	115,941	203,697
Accounts receivable	2,249,520	2,507,808
Accrued interest receivable	29,420	209,841
Prepaid expenses	-	30,072
Deposit on land	1,975	1,975
Total current assets - unrestricted	<u>67,233,259</u>	<u>50,509,995</u>
Restricted assets:		
Cash in bank	22,471,880	17,470,694
Cash in Local Agency Investment Fund	24,240,396	24,117,705
Cash held in trust	251,678	201,495
Investments in government securities	71,677,238	72,550,977
Department of Water Resources bonds	10,000	10,000
Total restricted cash and investments	<u>118,651,192</u>	<u>114,350,871</u>
Property taxes receivable	869,599	1,248,114
Accounts receivable	4,345	13,434
Accrued interest receivable	231,993	137,320
Prepaid expenses	-	367,608
Total restricted assets	<u>119,757,129</u>	<u>116,117,347</u>
Noncurrent assets:		
Capital assets:		
Capital assets in service	180,854,021	179,861,067
Accumulated depreciation	(30,586,950)	(27,281,008)
Capital assets - net	<u>150,267,071</u>	<u>152,580,059</u>
Participation rights in State Water Project facilities (at cost)	254,051,687	243,202,218
Accumulated amortization	(91,534,053)	(85,117,671)
Participation rights in State Water Project facilities - net	<u>162,517,634</u>	<u>158,084,547</u>
Total capital assets	312,784,705	310,664,606
Construction in progress	2,157,088	1,649,133
Total capital assets and construction in progress	<u>314,941,793</u>	<u>312,313,739</u>
Other noncurrent assets:		
RDA pass through receivable	8,842,196	8,842,196
Water stock	688,500	1,588,500
Total noncurrent assets	<u>324,472,489</u>	<u>322,744,435</u>
Total assets	<u>\$ 511,462,877</u>	<u>\$ 489,371,777</u>

The accompanying notes are an integral part of these financial statements.

San Bernardino Valley Municipal Water District

**Statements of Net Assets
June 30, 2011 and 2010**

LIABILITIES	<u>2011</u>	<u>2010</u>
Current liabilities:		
Payable from current assets - unrestricted:		
Accounts payable	\$ 756,215	\$ 597,513
Accrued employee benefits	981,371	764,743
Unearned revenue	5,094,446	5,343,691
Certificates of participation - current portion	-	1,080,000
Total payable from current assets - unrestricted	<u>6,832,032</u>	<u>7,785,947</u>
Payable from restricted assets:		
Accounts payable	398,386	217,484
Santa Ana River restoration/recovery trust fund	251,678	201,495
Total payable from current assets - restricted	<u>650,064</u>	<u>418,979</u>
Total liabilities	<u>7,482,096</u>	<u>8,204,926</u>
 NET ASSETS		
Invested in capital assets, net of related debt	314,941,793	311,233,739
Restricted:		
Debt service - State Water Project	117,587,085	114,061,923
Debt service - Devil Canyon-Castaic	1,519,981	1,636,445
Unrestricted	<u>69,931,922</u>	<u>54,234,744</u>
Total net assets	<u>\$ 503,980,781</u>	<u>\$ 481,166,851</u>

The accompanying notes are an integral part of these financial statements.

San Bernardino Valley Municipal Water District

**Statements of Revenues, Expenses and Changes in Net Assets
For the years ended June 30, 2011 and 2010**

	2011	2010
OPERATING REVENUES		
Water sales	\$ 7,816,573	\$ 5,222,312
OPERATING EXPENSES		
Source of supply:		
Operations, maintenance, power and replacement	21,755,725	19,119,080
Purchased water	5,870,594	5,040,392
	<u>27,626,319</u>	<u>24,159,472</u>
Administrative and general:		
Salaries	2,199,716	2,204,558
Retirement and benefits	1,486,506	1,459,873
Payroll taxes	145,098	143,832
Consultants	2,277,112	4,861,272
Legal and accounting	517,409	733,213
Outside services	60,158	56,290
Office supplies and expense	215,781	126,439
Dues and subscriptions	360,320	357,023
Public education and information	209,572	524,771
Maintenance and repair	1,264,901	1,545,481
Utilities	408,612	598,265
SARI discharge fees	518,284	479,890
Insurance	98,570	90,939
Auto and travel	54,723	60,277
Lodging and meals	9,129	5,722
Taxes and licenses	18,247	14,584
Tax collection fee	268,309	238,087
	<u>10,112,447</u>	<u>13,500,516</u>
Other operating:		
Depreciation and amortization	9,794,361	9,367,449
	<u>47,533,127</u>	<u>47,027,437</u>
OPERATING LOSS	<u>(39,716,554)</u>	<u>(41,805,125)</u>

The accompanying notes are an integral part of these financial statements.

San Bernardino Valley Municipal Water District

**Statements of Revenues, Expenses and Changes in Net Assets
For the years ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
NONOPERATING REVENUES AND EXPENSES		
Revenues:		
Property taxes:		
Debt service	\$ 45,207,485	\$ 47,677,194
General purpose distribution	7,151,954	7,603,643
RDA pass through	6,752,051	8,578,813
Interest income	438,835	512,638
Gain on sale of water stock	900,000	-
Gain (loss) on disposal of capital assets	(409,389)	3,952
Other income	2,489,548	2,273,505
	<u>62,530,484</u>	<u>66,649,745</u>
Expenses:		
Interest expense	-	40,500
	<u>62,530,484</u>	<u>66,609,245</u>
CONTRIBUTIONS		
Grant income	-	4,950,031
	<u>22,813,930</u>	<u>29,754,151</u>
Change in net assets	<u>22,813,930</u>	<u>29,754,151</u>
Net assets - beginning of year, as previously reported	481,166,851	446,782,111
Prior period adjustment	-	4,630,589
Net assets - beginning of year, as restated	<u>481,166,851</u>	<u>451,412,700</u>
Net assets - end of year	<u>\$ 503,980,781</u>	<u>\$ 481,166,851</u>

The accompanying notes are an integral part of these financial statements.

San Bernardino Valley Municipal Water District

**Statements of Cash Flows
For the years ended June 30, 2011 and 2010**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water sales	\$ 8,083,950	\$ 4,581,785
Cash paid for source of supply	(27,228,639)	(23,895,897)
Cash paid to other suppliers	(6,020,319)	(13,143,523)
Cash paid for employees' wages, taxes and benefits	(3,614,692)	(3,674,745)
Net cash used for operating activities	<u>(28,779,700)</u>	<u>(36,132,380)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unearned revenue received	(249,245)	184,440
Property taxes received - general purpose distribution	7,239,711	7,787,498
RDA pass through received	6,752,051	4,367,206
Trust funds received	50,183	50,148
Net cash provided by noncapital financing activities	<u>13,792,700</u>	<u>12,389,292</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Property taxes received - debt service	45,585,999	48,011,739
Grant proceeds received	-	5,977,211
Other proceeds	2,489,548	2,273,505
Proceeds from retirement of capital assets	3,075	3,952
Acquisition of capital assets	(10,997,181)	(13,737,701)
Payments for construction in progress	(1,758,902)	(1,501,684)
Net cash provided by capital and related financing activities	<u>35,322,539</u>	<u>41,027,022</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(200,239,888)	(189,728,189)
Redemption of investments	199,056,424	199,936,674
Sale of water stock	1,800,000	-
Interest on investments	1,641,999	2,873,845
Net cash provided by investing activities	<u>2,258,535</u>	<u>13,082,330</u>
NET INCREASE IN CASH	22,594,074	30,366,264
CASH AT BEGINNING OF YEAR	62,814,614	32,448,350
CASH AT END OF YEAR	\$ 85,408,688	\$ 62,814,614

The accompanying notes are an integral part of these financial statements.

San Bernardino Valley Municipal Water District

**Statements of Cash Flows
For the years ended June 30, 2011 and 2010**

	2011	2010
RECONCILIATION OF CASH TO STATEMENTS OF NET ASSETS		
Current assets:		
Cash in bank and on hand	\$ 27,162,371	\$ 9,799,462
Cash in Local Agency Investment Fund	11,282,363	11,225,258
Restricted cash in bank	22,471,880	17,470,694
Restricted cash in Local Agency Investment Fund	24,240,396	24,117,705
Restricted cash held in trust	251,678	201,495
	<u>85,408,688</u>	<u>62,814,614</u>
Total	\$ 85,408,688	\$ 62,814,614

**RECONCILIATION OF OPERATING LOSS TO NET
CASH USED FOR OPERATING ACTIVITIES**

Operating loss	\$ (39,716,554)	\$ (41,805,125)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	9,794,361	9,367,449
Additions to capital assets and CIP included in accounts payable	(69,565)	(47,791)
Prior year CIP expensed	-	572,800
Prior year CIP deposit reclassified to other income	(9,231)	-
Changes in assets and liabilities:		
Decrease (Increase) in accounts receivable	267,377	(640,527)
Decrease in prepaid expenses	397,680	263,575
Increase (Decrease) in accounts payable	339,604	(3,976,279)
Increase in accrued employee benefits	216,628	133,518
	<u>(28,779,700)</u>	<u>(36,132,380)</u>
Net cash used for operating activities	\$ (28,779,700)	\$ (36,132,380)

**SCHEDULE OF NONCASH INVESTING, CAPITAL
AND FINANCING ACTIVITIES**

Interest on long-term debt	\$ -	\$ 40,500
Acquisition of capital assets with accounts payable	1,312,725	-

The accompanying notes are an integral part of these financial statements.

San Bernardino Valley Municipal Water District

Notes to the Financial Statements For the years ended June 30, 2011 and 2010

Note 1: Reporting entity and summary of significant account policies

Organization and operations of the reporting entity

San Bernardino Valley Municipal Water District (District) was formed on February 17, 1954, under the Municipal Water District Act of 1911. The District is one of 29 contractors to the California State Water Project, which delivers water from northern California to various parts of the state. The purpose of the District is to import and deliver water into its service area through participation in the State Water Project and to manage groundwater storage within its boundaries. The District's service area encompasses approximately 352 square miles in southwestern San Bernardino County. It spans the eastern two-thirds of the San Bernardino Valley, the Crafton Hills, and a portion of the Yucaipa Valley, and includes the cities and communities of San Bernardino, Colton, Loma Linda, Redlands, Rialto, Bloomington, Highland, Grand Terrace, and Yucaipa. The District is governed by a five member board, representing five geographical divisions within the District, which is elected by the citizens in a general popular election.

Measurement focus, basis of accounting and financial statement presentation

The District's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting, in conformity with generally accepted accounting principles (GAAP) and the Uniform Systems of Accounts for Water Utility Districts as prescribed by the Controller of the State of California. Under this basis, revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District has elected to follow Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989, and all pronouncements of the Governmental Accounting Standards Board (GASB).

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash on hand, demand deposits at financial institutions, investments in money market funds and government securities that are highly liquid and readily available with an original maturity of three months or less, and deposits in the State of California Local Agency Investment Fund (LAIF). Deposits in the LAIF can be withdrawn at any time without penalty.

Investments

Investments are stated at fair value (the value at which financial instruments could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale), in accordance with GASB 31. 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.

San Bernardino Valley Municipal Water District

**Notes to the Financial Statements
For the years ended June 30, 2011 and 2010**

Note 1: Reporting entity and summary of significant account policies (continued)

Allowance for doubtful accounts

Receivables are reported net of an allowance for uncollectible accounts. Allowances are reported when accounts are proven to be uncollectible. Allowances for uncollectible accounts netted with notes receivable were \$1,588,221 for the years ended June 30, 2011 and 2010.

Prepaid expenses

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

Capital assets

Capital assets are stated at original cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. 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 computed using the straight-line method over the estimated service lives of depreciable properties which range from 3 to 75 years. The cost of maintenance is charged to operating expense.

The capital cost component of the transportation charges and the Delta water charge the District pays for participation rights in the State Water Project are being capitalized as paid and amortized using the straight-line method over the remaining life of the State Water Contract, which expires in 2035.

Employee benefits

District employees earn vacation and sick leave days based on length of service. Employees may accumulate vacation time not to exceed two annual vacation periods, as determined by length of service, and unused sick leave to a maximum of 1,280 hours. Upon termination, the District is obligated to compensate employees for 100% of the accrued unused vacation time, and 25% of the accrued unused sick leave. Compensated absences are presented in the current liabilities section of the statement of net assets.

The District provides a Health and Dependent Care Reimbursement Plan to employees eligible under the District's medical plan. Any unused benefits under this plan carry over to following years to a maximum of \$25,000. The accrued medical reimbursement plan liability is presented in the current liabilities section of the statement of net assets.

The District provides a deferred compensation plan to employees on a voluntary basis. Employees may elect to have a portion of their current earnings withheld and invested with ING Life Insurance and Annuity Company or PERS deferred compensation plan. Benefits are generally available upon the employee's death, disability, retirement, severe hardship, or termination of employment.

Restricted resources

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

San Bernardino Valley Municipal Water District

**Notes to the Financial Statements
For the years ended June 30, 2011 and 2010**

Note 1: Reporting entity and summary of significant account policies (continued)

Net assets

Net assets are categorized as follows:

- *Invested 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 *invested in capital assets, net of related debt*.

Operating and nonoperating activities

Revenues and expenses are distinguished between operating and nonoperating items. Operating revenues generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are water sales.

Operating expenses include costs associated with the purchasing, pumping, and distribution of water, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Property taxes

Property taxes are attached as an enforceable lien on property as of March 1. Taxes are levied on July 1 and are due in two installments. The first installment is due on November 1, and is payable through December 10 without penalty. The second installment is due February 1, and becomes delinquent on April 10. Property taxes are remitted to the District from the County of San Bernardino and County of Riverside at various times throughout the year.

Contributions

Contributions in aid of construction represent cash and capital assets contributed to the District by other governmental agencies for the acquisition, construction or improvement of District capital assets.

Management's review of subsequent events

Management has evaluated subsequent events through November 2, 2011, the date which the financial statements were available to be issued.

Reclassification

Certain reclassifications have been made to prior years' balances to conform to classifications used in 2011.

San Bernardino Valley Municipal Water District

**Notes to the Financial Statements
For the years ended June 30, 2011 and 2010**

Note 2: Cash and investments

Cash and investments as of June 30, 2011 and 2010 are classified in the accompanying financial statements as follows:

	<u>2011</u>	<u>2010</u>
Statements of Net Assets:		
Unrestricted:		
Cash in bank and on hand	\$ 27,162,371	\$ 9,799,462
Cash in Local Agency Investment Fund	11,282,363	11,225,258
Investments in government securities	<u>26,391,669</u>	<u>26,531,882</u>
	<u>64,836,403</u>	<u>47,556,602</u>
Restricted:		
Cash in bank	22,471,880	17,470,694
Cash in Local Agency Investment Fund	24,240,396	24,117,705
Cash held in trust	251,678	201,495
Investments in government securities	71,677,238	72,550,977
Department of Water Resources bonds	<u>10,000</u>	<u>10,000</u>
	<u>118,651,192</u>	<u>114,350,871</u>
 Total cash and investments	 <u>\$ 183,487,595</u>	 <u>\$ 161,907,473</u>

Cash and investments as of June 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Cash on hand	\$ 350	\$ 350
Deposits with financial institutions	49,885,579	27,471,301
Cash in Local Agency Investment Fund	35,522,759	35,342,963
Investments in government securities	<u>98,078,907</u>	<u>99,092,859</u>
 Total cash and investments	 <u>\$ 183,487,595</u>	 <u>\$ 161,907,473</u>

Investments authorized by the California Government Code and the District's investment policy

The table below identifies the investment types that are authorized by the District in accordance with Section 53601 of the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, and concentration of credit risk.

San Bernardino Valley Municipal Water District

**Notes to the Financial Statements
For the years ended June 30, 2011 and 2010**

Note 2: Cash and investments (continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Bills, Notes and Bonds	5 years	None	None
Government Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	None	15%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
California Local Agency Investment Fund	N/A	None	\$ 50,000,000
Medium-Term Notes	5 years	30%	None
Money Market Mutual Funds	90 days	15%	None
Collateralized Bank Deposits	None	25%	None
Municipal Bonds	5 years	None	None

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. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2011 and 2010, the District had the following investments and maturities:

	2011		2010	
	Fair Value	Maturity	Fair Value	Maturity
State Investment Pool	\$ 35,522,759	8 months average	\$ 35,342,963	7 months average
Government Agency Securities	\$ 98,068,907	5 months average	\$ 99,082,859	5 months average
Department of Water Resources Bond	\$ 5,000	April 1, 2020	\$ 5,000	April 1, 2020
Department of Water Resources Bond	\$ 5,000	July 1, 2022	\$ 5,000	July 1, 2022

San Bernardino Valley Municipal Water District

**Notes to the Financial Statements
For the years ended June 30, 2011 and 2010**

Note 2: Cash and investments (continued)

Disclosures relating to credit risk

Generally, 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. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy and the actual rating as of year end for each investment type.

Credit ratings of investments as of June 30, 2011 and 2010 were as follows:

Investment Type	Amount	Minimum Legal Rating	Rating as of Year End	
			AAA	Not Rated
<u>June 30, 2011</u>				
State Investment Pool	\$ 35,522,759	N/A	\$ -	\$ 35,522,759
Government Agency Securities	98,068,907	N/A	93,191,346	4,877,561
Municipal Bonds	10,000	N/A	10,000	-
	<u>\$ 133,601,666</u>		<u>\$ 93,201,346</u>	<u>\$ 40,400,320</u>
<u>June 30, 2010</u>				
State Investment Pool	\$ 35,342,963	N/A	\$ -	\$ 35,342,963
Government Agency Securities	99,082,860	N/A	93,993,444	5,089,416
Municipal Bonds	10,000	N/A	10,000	-
	<u>\$ 134,435,823</u>		<u>\$ 94,003,444</u>	<u>\$ 40,432,379</u>

Concentration of credit risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The District's investment policy is to apply the prudent investor standard as set forth in the California Government Code: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

The District's investment policy limits certain investments to minimum credit ratings issued by nationally recognized statistical rating organizations. The District's investments in the bonds of U.S. agencies at June 30, 2011 and 2010 were rated AAA by Standard & Poor's, and AAA by Moody's Investors Service. More than 5 percent of the District's investments are in unsecured government agency securities. These investments represent 73.4% and 73.7%, at June 30, 2011 and 2010 respectively, of the District's total investments.

San Bernardino Valley Municipal Water District

Notes to the Financial Statements For the years ended June 30, 2011 and 2010

Note 2: Cash and investments (continued)

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 custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty 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 California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. 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. 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.

As of June 30, 2011 and 2010, \$48,217,663 and \$27,778,485 respectively, of the District's demand deposits with financial institutions were in excess of federal depository insurance limits. As of June 30, 2011 these funds were not collateralized by securities in a separate account held by the same institution. The institution pledged additional securities on July 1, 2011, fully collateralizing the District's demand deposits.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF), which is part of the Pooled Money Investment Account that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio), which was \$35,578,760 and \$35,401,059 as of June 30, 2011 and 2010, respectively. The balance available for withdrawal of \$35,522,759 and \$35,342,963 as of June 30, 2011 and 2010, respectively, is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Management has elected to report its investment in LAIF at the balance available for withdrawal, as this is the amount that they can withdraw at any given time. Effective November 16, 2009, the District may invest up to \$50,000,000 in the LAIF fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. All investments with LAIF are secured by the full faith and credit of the State of California. Separate LAIF financial statements are available from the California State Treasurer's Office on the internet at <http://www.treasurer.ca.gov>.

The District's investment in this pool is reported in the accompanying financial statements at cost which approximates fair value 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.

Investments with fair values highly sensitive to interest rate fluctuations

At June 30, 2011 and 2010, the District did not hold investments that were highly sensitive to interest rate fluctuations beyond that already indicated in the information provided above.

San Bernardino Valley Municipal Water District

**Notes to the Financial Statements
For the years ended June 30, 2011 and 2010**

Note 3: Capital assets

Summaries of changes in capital assets in service for the years ended June 30, 2011 and 2010 were as follows:

June 30, 2011

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
Capital assets, not being depreciated:				
Land and right of ways	\$ 7,969,152	\$ 75,882	\$ -	\$ 8,045,034
Construction in progress	<u>1,649,132</u>	<u>1,820,681</u>	<u>1,312,725</u>	<u>2,157,088</u>
Total capital assets, not being depreciated	<u>9,618,284</u>	<u>1,896,563</u>	<u>1,312,725</u>	<u>10,202,122</u>
Capital assets, being depreciated:				
Buildings	7,821,671	-	-	7,821,671
Distribution lines	150,587,647	1,319,647	458,294	151,449,000
Brine line	7,121,795	-	-	7,121,795
Furniture, fixtures and equipment	950,969	38,075	-	989,044
Vehicles	406,596	43,850	26,207	424,239
Yucaipa Dam	3,698,238	-	-	3,698,238
Pipeline capacity	<u>1,305,000</u>	<u>-</u>	<u>-</u>	<u>1,305,000</u>
Total capital assets, being depreciated	171,891,916	1,401,572	484,501	172,808,987
Less accumulated depreciation	<u>(27,281,008)</u>	<u>(3,377,979)</u>	<u>(72,037)</u>	<u>(30,586,950)</u>
Total capital assets, being depreciated, net	<u>144,610,908</u>	<u>(1,976,407)</u>	<u>412,464</u>	<u>142,222,037</u>
Participation rights in State Water Project Facilities	243,202,218	10,849,469	-	254,051,687
Less accumulated amortization	<u>(85,117,671)</u>	<u>(6,416,382)</u>	<u>-</u>	<u>(91,534,053)</u>
Participation rights in State Water Project Facilities, net	<u>158,084,547</u>	<u>4,433,087</u>	<u>-</u>	<u>162,517,634</u>
Total capital assets and construction in progress	<u>\$ 312,313,739</u>	<u>\$ 4,353,243</u>	<u>\$ 1,725,189</u>	<u>\$ 314,941,793</u>

San Bernardino Valley Municipal Water District

**Notes to the Financial Statements
For the years ended June 30, 2011 and 2010**

Note 3: Capital assets (continued)

June 30, 2010

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Capital assets, not being depreciated:				
Land and right of ways	\$ 6,660,020	\$ 1,309,132	\$ -	\$ 7,969,152
Construction in progress	672,458	1,549,474	572,800	1,649,132
Total capital assets, not being depreciated	7,332,478	2,858,606	572,800	9,618,284
Capital assets, being depreciated:				
Buildings	7,821,671	-	-	7,821,671
Distribution lines	148,541,392	2,046,255	-	150,587,647
Brine line	7,121,795	-	-	7,121,795
Furniture, fixtures and equipment	897,936	53,033	-	950,969
Vehicles	425,632	27,504	46,540	406,596
Yucaipa Dam	3,698,238	-	-	3,698,238
Pipeline capacity	1,305,000	-	-	1,305,000
Total capital assets, being depreciated	169,811,664	2,126,792	46,540	171,891,916
Less accumulated depreciation	(23,961,381)	(3,366,167)	(46,540)	(27,281,008)
Total capital assets, being depreciated, net	145,850,283	(1,239,375)	-	144,610,908
Participation rights in State Water Project Facilities	232,900,440	10,301,778	-	243,202,218
Less accumulated amortization	(79,116,389)	(6,001,282)	-	(85,117,671)
Participation rights in State Water Project Facilities, net	153,784,051	4,300,496	-	158,084,547
Total capital assets and construction in progress	\$ 306,966,812	\$ 5,919,727	\$ 572,800	\$ 312,313,739

San Bernardino Valley Municipal Water District

**Notes to the Financial Statements
For the years ended June 30, 2011 and 2010**

Note 4: Contract receivables

Contract receivables at June 30, 2011 and 2010 consisted of the following:

	2011	2010
The District entered into a loan agreement with San Bernardino Regional Water Resources Authority, JPA for an amount not to exceed \$900,000. The loan is to be repaid from time to time from available revenues and other funding sources of the Authority. This note shall continue in effect, until such time as the full amount of the note is repaid. The loan is not secured and the principal balance shall not accrue interest. An allowance for uncollectible accounts was recorded in 2009 for the total principal balance outstanding.	\$ 861,771	\$ 861,771
The District entered into a loan agreement with San Bernardino Regional Water Resources Authority, 2001 for an amount not to exceed \$850,000. The loan is to be repaid from time to time from available revenues and other funding sources of the Authority. This note shall continue in effect, until such time as the full amount of the note is repaid. The loan is not secured and the principal balance shall not accrue interest. An allowance for uncollectible accounts was recorded in 2009 for the total principal balance outstanding.	726,450	726,450
Total	1,588,221	1,588,221
Less allowance for uncollectible accounts	(1,588,221)	(1,588,221)
	\$ -	\$ -

Note 5: Unearned revenue

The District receives cash advances from various water purveyors in exchange for commitments of future water deliveries. As of June 30, 2011 and 2010, total unearned revenue amounted to \$5,094,446 and \$5,343,691, respectively.

Note 6: Other long-term obligations

On March 30, 1994, the District sold \$11,430,000 of certificates of participation to defease the 1990 certificates refunding bonds. The certificates were issued in denominations of \$5,000 and bear interest at 3.75% per annum. The bonds mature annually on July 1, with the final principal payment due July 1, 2010. These General Fund Certificates of Participation were purchased by the District's State Water Contract Fund.

Annual debt service obligations by
fiscal year are as follows:

	2011	2010
2010 - 2011	\$ -	\$ 1,080,000
	\$ -	\$ 1,080,000

San Bernardino Valley Municipal Water District

Notes to the Financial Statements For the years ended June 30, 2011 and 2010

Note 7: Defined benefit pension plan (PERS)

Plan description

San Bernardino Valley Municipal Water District contributes to the California Public Employees' Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to eligible plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 P Street, Sacramento, California 95814.

Funding policy

All full-time District employees are eligible to participate in PERS with benefits vesting after five years of service. District employees who retire at age 60 or older are entitled to an annual retirement benefit, payable monthly for life, in increasing percentage increments up to 3% of their average full-time monthly pay rate for the highest 12 consecutive months for each year of credited service.

Participants are required to contribute 8% of their annual covered salary, and the District is required to contribute at an actuarially determined rate. The District's contribution rate for the period is 29.145% of covered payroll. The District makes the contributions required of District employees on their behalf and for their account. For the years ended June 30, 2011 and 2010, the amount contributed by the District, including the amount contributed on behalf of the employees, was \$793,239 and \$804,058, respectively. Benefit provisions and all other requirements are established by state statute and District ordinance.

Assembly Bill 1974, which added Sections 20840-20842 to the California Government Code allowed PERS to create risk pools and mandate public agency participation in those pools. Commencing with the valuation of June 30, 2003, mandatory pooling was established for plans with less than 100 active members. As a result, the San Bernardino Valley Municipal Water District was required to participate in a risk pool of other Districts with less than 100 employees. The valuation report as of June 30, 2009, contained two sections: 1) the specific information of the plan including the development of the pooled contribution rate, and 2) the report of the Risk Pool Actuarial Valuation as of June 30, 2009.

At the time of joining a risk pool (valuation of June 30, 2003), a side fund was created to account for the difference between the funded status of the pool and funded status of the District's plan. The side fund for the District's plan as of the June 30, 2009 valuation was a negative \$2,360,545.

The side fund will be credited, on an annual basis, with the actuarial investment return assumption. This assumption is currently 7.75%. The negative side fund will cause the District's required employer contribution rate to be increased by the amortization of the side fund. In the absence of subsequent contract amendments or funding changes, the side fund will disappear at the end of the amortization period. The amortization period remaining as of June 30, 2009, was 7 years.

Three Year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2009	\$ 824,594	100%	\$ -
June 30, 2010	\$ 804,058	100%	\$ -
June 30, 2011	\$ 793,239	100%	\$ -

San Bernardino Valley Municipal Water District

**Notes to the Financial Statements
For the years ended June 30, 2011 and 2010**

Note 8: Postemployment benefits other than pensions

During the year ended June 30, 2009, the District implemented GASB Statement No. 45 which changed the accounting and financial reporting used by local government employers for postemployment benefits other than pensions. Under GASB Statement No. 45, local government employers are required to account for the cost of those benefits using accrual accounting rather than the more common pay-as-you-go basis. This means that each employee's benefit will accrue throughout his or her working lifetime, and that employers will be required to show the annual accruals as a current year expense. The new reporting requirements for these benefit programs as they pertain to the District are as set forth in the following.

Plan description

The District pays the entire cost of the monthly medical and dental insurance premiums for retired employees and their dependents who have reached at least age 50 with a minimum of 10 years service. District provided benefits continue for the life of the retiree and eligible family members. Benefits are also continued to surviving family members in the event of the death of an active eligible employee if age plus service at death equals 60 or more. The District participates in the ACWA medical program and Delta Dental of California. Retirees may enroll in any of the plans offered by the District. The authority to establish and amend postemployment benefits resides with the District's Board of Directors. CalPERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the CERBT. That report may be obtained by writing to CalPERS Headquarters, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811, or on the internet at <http://www.calpers.ca.gov>.

Funding policy and annual other postemployment benefit costs

The District has not adopted a funding policy for its other postemployment benefits (OPEB) obligation. Contributions requirements of the District are established and may be amended through Board action. The District contributes 100 percent of the cost of current-year premiums for eligible retired plan members and their dependents. The District's annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance within the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan for the years ended June 2011 and 2010:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Annual required contribution	\$ 219,028	\$ 210,405
Interest on net OPEB obligation	24,281	11,768
Adjustment to annual required contribution	<u>(19,530)</u>	<u>(9,465)</u>
Annual OPEB cost	223,779	212,708
Contributions made	<u>(61,877)</u>	<u>(51,255)</u>
Increase in net OPEB obligation	161,902	161,453
Net OPEB obligation - beginning of year	<u>313,298</u>	<u>151,845</u>
Net OPEB obligation - end of year	<u>\$ 475,200</u>	<u>\$ 313,298</u>

The District's annual OPEB cost, which is equal to its annual required contribution, has been recognized as a part of the operating expenses of the District in the accompanying financial statements, while the net OPEB obligation is included in accrued employee benefits on the Statement of Net Assets.

San Bernardino Valley Municipal Water District

**Notes to the Financial Statements
For the years ended June 30, 2011 and 2010**

Note 8: Postemployment benefits other than pensions (continued)

Funding policy and annual other postemployment benefit costs (continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2011, 2010, and 2009 are presented below:

<u>Plan</u>	<u>Year</u>	<u>Annual OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
OPEB	June 30, 2009	\$ 192,623	\$ 40,778	21%	\$ 151,845
OPEB	June 30, 2010	\$ 212,708	\$ 51,255	24%	\$ 313,298
OPEB	June 30, 2011	\$ 223,779	\$ 61,877	28%	\$ 475,200

Funded Status

The funded status of the plan as of June 30, 2011, based on the July 1, 2008 actuarial valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 2,094,240
Actuarial value of assets	<u>162,472</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u><u>\$ 1,931,768</u></u>
Funded ratio (actuarial value of assets / AAL)	0%
Covered payroll (active plan members)	2,199,716
UAAL as a percentage of covered payroll	88%

Actuarial methods and assumptions

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts, amounts determined regarding the funded status of a plan, and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

San Bernardino Valley Municipal Water District

**Notes to the Financial Statements
For the years ended June 30, 2011 and 2010**

Note 8: Postemployment benefits other than pensions (continued)

Actuarial methods and assumptions (continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

Valuation date	July 1, 2008
Actuarial cost method	Entry age normal cost
Amortization method	Level percentage of payroll
Remaining amortization period	30 years as of the valuation date
Asset valuation method	N/A - no assets
Actuarial assumptions:	
Investment rate of return	7.75%
Payroll growth	3.25%

Healthcare trend rates	Year	Increase	
		Medical	Dental
	2012	7.6%	4%
	2013 - 2015	7.3% - 6.7%	4%
	2016 - 2018	6.4% - 5.8%	4%
	2019+	5.5%	4%

Note 9: Commitments

State of California Department of Water Resources

On December 30, 1960, the District entered into a contract with the State of California, Department of Water Resources to receive an annual entitlement for water from the State Water Project. The District assumed a proportionate share of capital costs and minimum operations, maintenance, power and replacement costs of the State facilities, in addition to paying variable operations, maintenance, power and replacement costs on a per-acre-foot charge for water deliveries received.

San Bernardino Valley Municipal Water District

**Notes to the Financial Statements
For the years ended June 30, 2011 and 2010**

Note 9: Commitments (continued)

The District's future commitment for State Water Project costs over the years 2011 to 2035, according to the payment schedule dated June 30, 2011, is estimated as follows:

Transportation charges:	
Capital cost component	\$ 83,941,132
Minimum operations, maintenance, power and replacement component	313,998,969
Variable operations, maintenance, power and replacement component	176,775,849
	<u>574,715,950</u>
Delta water charges	112,433,556
Water system revenue bond surcharge	<u>41,777,987</u>
 Total	 <u><u>\$ 728,927,493</u></u>

Construction contracts

At their meeting held on June 21, 2011, the Board of Directors of the District awarded a contract for the Baseline Feeder Well Replacement and Improvement Project (Project) to a private construction company, who was concluded to be the lowest responsible bidder. After a lengthy evaluation of all bids by the District, as well as other governmental agency-stakeholders in the Baseline Feeder Well, the awarding of the contract was unanimously approved for an amount of \$5,538,602, with the general manager authorized to approve contingent costs of up to five percent of the contract amount. At this meeting, the Board also authorized the general manager to enter into a contract with a private engineering firm to provide inspection services for the Project for a cost of \$100,030. The District has committed to open construction and inspection contracts for the Baseline Feeder Well Replacement and Improvement Project as of June 30, 2011 as follows:

<u>Contractor</u>	<u>Approved contract amount</u>	<u>Balance to complete</u>
Canyon Springs Enterprises - construction	\$ 5,538,602	\$ 5,538,602
Butier Engineering - inspection	<u>100,030</u>	<u>100,030</u>
Total	<u><u>\$ 5,638,632</u></u>	<u><u>\$ 5,638,632</u></u>

Note 10: Funds held in trust

The District is the administrator and custodian of funds held in trust on behalf of the California Department of Fish & Game (CDFG), as prescribed in the Memorandum of Agreement dated March 2007 (Agreement). The Agreement requires the District and Western Municipal Water District to deposit a combined sum of \$50,000 per year, from 2007 to 2016, into a segregated fund administered by the District. Accordingly, the segregated fund is presented as a restricted asset and liability in these financial statements. The CDFG shall direct the District on the disbursements from the fund as needed, in accordance with the Agreement. The balance of the Santa Ana River Restoration/Recovery Trust Fund as of June 30, 2011 and 2010 was \$251,678 and \$201,495, respectively.

San Bernardino Valley Municipal Water District

**Notes to the Financial Statements
For the years ended June 30, 2011 and 2010**

Note 11: Prior period adjustment

During the year ended June 30, 2011, District staff through analytical accounting review procedures discovered an extensive discrepancy between current year and prior year's apportionment of redevelopment agency (RDA) pass through payments received from the County of San Bernardino. Staff contacted the San Bernardino Auditor-Controller/Treasurer/Tax Collector Office (ATC) for further explanation. Once the ATC completed their review of the District's RDA pass through payments, it was determined that the 2008-09 and 2009-10 apportionments with regards to the Inland Valley Development Agency and Grand Terrace Redevelopment Agency were found to have been processed in error for those fiscal years. Both agencies combined had received excess revenues of \$4,630,589 and \$4,211,607 for the fiscal years ended June 30, 2010 and 2009, respectively. Unrestricted net assets at July 1, 2009 have been restated for the \$4,630,589 receivable from the fiscal year ended June 30, 2009, while the RDA pass through income for the fiscal year ended June 30, 2010 has been restated to include the \$4,211,607 receivable for the fiscal year then ended. The total RDA pass through receivable of \$8,842,196 has been included in the Statement of Net Assets as of June 30, 2010. The District is in the process of executing an agreement with both Agencies to repay these amounts to the District.

Note 12: Subsequent event

The District issued Revenue Certificates of Participation, Series 2011A on July 7, 2011, in the amount of \$8,565,000, to fund capital improvements to the Baseline Feeder Project. The certificates are secured by the District's annual net revenues, meaning the revenues for any given fiscal year, excluding property taxes levied for the State Water Project, less the operation and maintenance costs for that fiscal year. Principal and interest are due in semiannual installments beginning on July 1, 2012 and ending on July 1, 2041. Certificates are subject to extraordinary prepayment prior to their respective stated maturities at a prepayment price equal to the principal amount thereof plus accrued interest without a premium or penalty.

The following schedule summarizes annual debt service requirements to maturity for the certificates of participation:

Fiscal year ending June 30,	Principal	Interest	Total
2012	\$ -	\$ 165,756	\$ 165,756
2013	160,000	341,344	501,344
2014	165,000	338,094	503,094
2015	165,000	333,969	498,969
2016	170,000	328,944	498,944
2017 - 2021	955,000	1,553,445	2,508,445
2022 - 2026	1,160,000	1,346,620	2,506,620
2027 - 2031	1,415,000	1,090,320	2,505,320
2032 - 2036	1,730,000	768,156	2,498,156
2037 - 2042	2,645,000	361,918	3,006,918
Totals	<u>\$ 8,565,000</u>	<u>\$ 6,628,566</u>	<u>\$ 15,193,566</u>



ROGERS, ANDERSON, MALODY & SCOTT, LLP

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Board of Directors
San Bernardino Valley Municipal Water District
San Bernardino, California

**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**

We have audited the accompanying financial statements of San Bernardino Valley Municipal Water District, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 2, 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 San Bernardino Valley Municipal Water 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 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.

MEMBERS

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Bernardino Valley Municipal Water 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 the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Rogers Anderson Maloney & Scott, LLP

November 2, 2011