

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statements of net assets of San Bernardino Valley Municipal Water District as of June 30, 2009 and 2008, and the related statements of revenue, 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 provides a reasonable basis for our opinion.

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, 2009 and 2008, 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.

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2009, 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.

The management's discussion and analysis on pages 3 through 6 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

November 16, 2009

ROGERS, ANDERSON, MALODY & SCOTT, LLP

# **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 Revenue, 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 Revenue, 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.

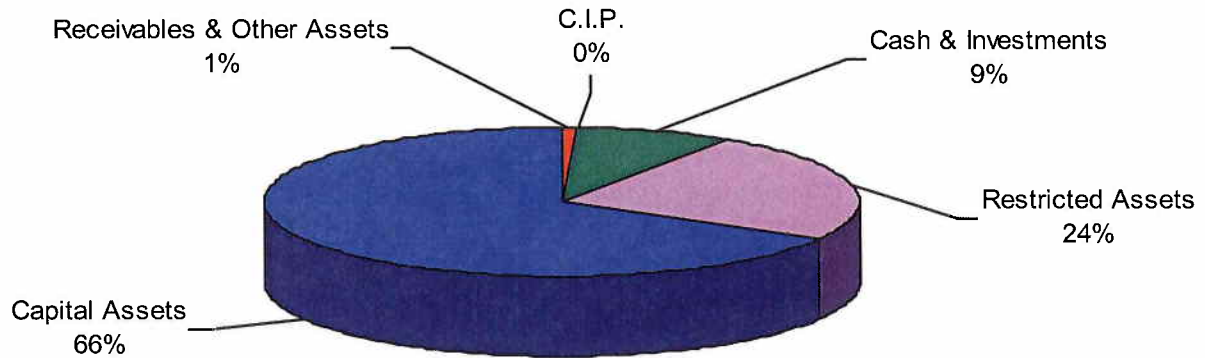
The Statement of Cash Flows conveys to financial statement users how the District managed cash resources during the year. This statement converts the Change in Net Assets presented on the Statement of Revenues, Expenses and Changes in Net Assets into actual cash provided by or used for operations. The 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, 2009, the District's Total Assets increased by \$22.6 million and net assets increased by \$31.7 million. A majority of the increase in Total Assets resulted from an increase of \$16.3 million in Restricted Assets, an increase of \$6.0 million in Total Capital Assets and Construction in Progress, and a \$1.9 increase in current assets netted against a decrease in Long-Term Receivable of \$1.6 million.

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

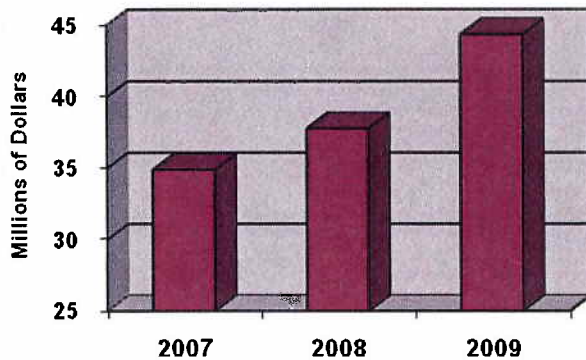
## Assets Owned



Total Cash in bank, Cash in Local Agency Investment Fund and Investments in government securities increased \$17.2 million. The increase can be further divided into general unrestricted and restricted cash. Unrestricted cash increased \$0.8 million and restricted cash increased \$16.4 million.

The increase in Net Assets included an operating loss of \$39.2 million. This is due in part to the District being required by the California State Controller's office to report property taxes as non operating 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)

|                                | 6/30/09  | 6/30/08  |
|--------------------------------|----------|----------|
| <b>Current Assets</b>          | \$ 40.62 | \$ 38.74 |
| <b>Restricted Assets</b>       | 109.38   | 93.08    |
| <b>Capital Assets</b>          | 306.97   | 300.99   |
| <b>Long Term Receivable</b>    | 1.03     | 2.62     |
| <b>Other Noncurrent Assets</b> | 1.59     | 1.59     |
| <b>Total Assets</b>            | 459.59   | 437.02   |
| <b>Total Liabilities</b>       | 12.81    | 21.90    |
| <b>Net Assets</b>              | 446.78   | 415.12   |
| <b>Oper. Revenues</b>          | 5.11     | 6.72     |
| <b>Oper. Expenses</b>          | (44.39)  | (37.79)  |
| <b>Non Oper. Rev:</b>          |          |          |
| Interest                       | 2.67     | 3.66     |
| Property Taxes                 | 62.77    | 59.20    |
| RDA Pass Through               | 3.75     | 6.52     |
| Miscellaneous                  | 1.75     | 1.54     |
| <b>Non Oper. Exp.</b>          | (.50)    | (.11)    |
| <b>Contributions</b>           | .50      | .42      |
| <b>Change in Net Assets</b>    | \$ 31.66 | \$ 40.16 |

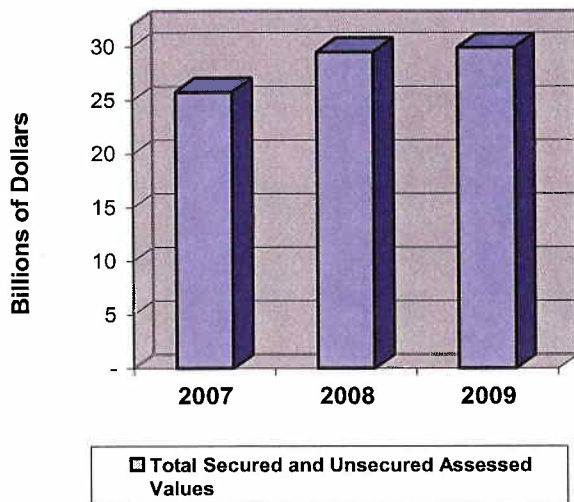
# SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Total operating expenses for the year ended June 30, 2009 increased over the prior year by 17%. The majority of the increase is from Source of Supply expenses which include operations, maintenance, power, and purchased water. Administrative and General Expenses increased by 13%, a majority of this increase is due to setting up an allowance for uncollectible long term receivables.

The total Non-operating revenues increased slightly over the prior year. Total property taxes received increased \$3.6 million. This increase was derived from a \$0.3 million increase from general-purpose property tax distribution and \$3.3 million increase from debt service property taxes. The assessed values within the District's service area experienced 1% growth which has attributed to the increase in property taxes received. Interest earned on reserves decreased by \$1.0 million that was mainly attributable to a decrease in interest rates.

The following reflects the District's assessed property tax valuations. Assessed valuations have increased each of the last three years ending on June 30, 2009, the percent increase in the current year was 1%.



### 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, 2009, the amount the District had invested in capital assets, net of related debt was \$304.9 million. This balance was obtained by combining Construction in Progress of \$0.7 million with Capital Assets in Service, net of Accumulated Depreciation and Amortization of \$306.3 million and reducing that amount by related debt of \$2.1 million.

#### Restricted – Debt Service

The District has restricted Net Assets of \$108.7 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 \$30.0 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 \$78.7 million is to be used for future expenses related to the State Water Project.

#### Unrestricted

The District had unrestricted Net Assets of \$33.2 million at June 30, 2009. The Board of Directors has designated \$14 million of this reserve to be retained for the purpose of self insuring the District against any claims made against the District.

The District's future commitment for State Water Project costs over the years 2010 to 2035, according to a payment schedule dated June 30, 2009, is estimated to total \$939.0 million.

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

Capital Asset activity for the year was as follows:

|   | Balance<br>July 1, 2008 | Additions            | Deletions            | Balance<br>June 30, 2009 |
|---|-------------------------|----------------------|----------------------|--------------------------|
| Capital assets not being depreciated:       |                         |                      |                      |                          |
| Land  | \$ 6,380,729            | \$ 279,291           | \$ -                 | \$ 6,660,020             |
| Construction in progress                    | 67,771,672              | 5,203,060            | 72,302,274           | 672,458                  |
| Total capital assets, not being depreciated | <u>74,152,401</u>       | <u>5,482,351</u>     | <u>72,302,274</u>    | <u>7,332,478</u>         |
| Capital assets being depreciated:           |                         |                      |                      |                          |
| Water rights                                | 224,713,420             | 8,187,020            | -                    | 232,900,440              |
| Buildings                                   | 5,177,350               | 4,729,281            | 2,084,960            | 7,821,671                |
| Distribution lines                          | 79,827,678              | 69,188,764           | 475,050              | 148,541,392              |
| Brine line                                  | 7,121,795               | -                    | -                    | 7,121,795                |
| Furniture, fixtures and equipment           | 1,108,306               | 516,698              | 727,068              | 897,936                  |
| Vehicles                                    | 527,690                 | 47,007               | 149,065              | 425,632                  |
| Yucaipa Dam                                 | 3,698,238               | -                    | -                    | 3,698,238                |
| Pipeline capacity                           | 1,305,000               | -                    | -                    | 1,305,000                |
| Total capital assets, being depreciated     | <u>323,479,477</u>      | <u>82,668,770</u>    | <u>3,436,143</u>     | <u>402,712,104</u>       |
| Total capital assets                        | <u>\$ 397,631,878</u>   | <u>\$ 88,151,121</u> | <u>\$ 75,738,417</u> | <u>\$ 410,044,582</u>    |

### Construction In Progress (CIP)

Construction in progress decreased from \$67.8 million to \$672 thousand between June 30, 2008 and June 30, 2009. There were two major projects completed in the current fiscal year, this included the Central Feeder Phase I and the new Administration Building. The major projects still in progress at June 30, 2009 include the Santa Ana River Recharge Optimization Study, and the Riverside Groundwater Aquifer Storage Project.

### Capital Assets

The District made payments to the Department of Water Resources during the year totaling \$29.7 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, 2009 AND 2008

| <b>ASSETS</b>  | <u>2009</u>           | <u>2008</u>           |
|--|-----------------------|-----------------------|
| <b>Current Assets:</b>   |                       |                       |
| Cash in bank and on hand   | \$ 2,592,319          | \$ 4,000,406          |
| Cash in Local Agency Investment Fund   | 6,163,186             | 583,760               |
| Investments in government securities   | 29,368,462            | 32,757,612            |
| Property taxes receivable  | 387,552               | 606,126               |
| Accounts receivable  | 1,880,715             | 621,931               |
| Accrued interest receivable  | 226,881               | 173,643               |
| Deposit on land  | 1,975                 | 1,975                 |
| <b>Total Current Assets - Unrestricted</b>   | <u>40,621,090</u>     | <u>38,745,453</u>     |
| <b>Restricted Assets:</b>  |                       |                       |
| Cash in bank   | 8,541,498             | 13,195,292            |
| Cash in Local Agency Investment Fund   | 15,000,000            | -                     |
| Cash held in trust   | 151,347               | 100,988               |
| Investments in government securities   | 82,560,391            | 76,529,422            |
| Department of Water Resources bonds  | 10,000                | 10,000                |
| <b>Total Restricted Cash and Investments</b>   | <u>106,263,236</u>    | <u>89,835,702</u>     |
| Property taxes receivable  | 1,582,659             | 2,693,570             |
| Accrued interest receivable  | 879,478               | 554,016               |
| Prepaid expenses   | 661,255               | -                     |
| <b>Total Restricted Assets</b>   | <u>109,386,628</u>    | <u>93,083,288</u>     |
| <b>Noncurrent Assets:</b>  |                       |                       |
| <b>Capital Assets</b>  |                       |                       |
| Capital assets in service  | 176,471,684           | 105,146,786           |
| Accumulated depreciation   | (23,961,381)          | (23,180,620)          |
| <b>Capital Assets - Net</b>  | <u>152,510,303</u>    | <u>81,966,166</u>     |
| Participation rights in state water project facilities (at cost)                                 | 232,900,440           | 224,713,420           |
| Accumulated amortization   | (79,116,389)          | (73,464,830)          |
| <b>Participation Rights in State Water Project Facilities - Net</b>                              | <u>153,784,051</u>    | <u>151,248,590</u>    |
| <b>Total Capital Assets</b>  | <u>306,294,354</u>    | <u>233,214,756</u>    |
| Construction in progress   | 672,458               | 67,771,672            |
| <b>Total Capital Assets and Construction in Progress</b>   | <u>306,966,812</u>    | <u>300,986,428</u>    |
| <b>Long-Term Receivables</b>   |                       |                       |
| Contract receivable - San Bernardino Regional Water Resources Authority, JPA, net of allowance   | -                     | 861,771               |
| Contract receivable - San Bernardino Regional Water Resources Authority - 2001, net of allowance | -                     | 726,450               |
| Retention receivable - SAWPA   | 1,027,180             | 1,027,180             |
| <b>Total Long-Term Receivables</b>   | <u>1,027,180</u>      | <u>2,615,401</u>      |
| <b>Other Noncurrent Assets</b>   |                       |                       |
| Water Stock  | 1,588,500             | 1,588,500             |
| <b>Total Noncurrent Assets</b>   | <u>309,582,492</u>    | <u>305,190,329</u>    |
| <b>Total Assets</b>  | <u>\$ 459,590,210</u> | <u>\$ 437,019,070</u> |

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

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT  
STATEMENTS OF NET ASSETS  
JUNE 30, 2009 AND 2008

| <b>LIABILITIES</b>                               | <u>2009</u>           | <u>2008</u>           |
|--|-----------------------|-----------------------|
| Current Liabilities:                             |                       |                       |
| Payable from current assets - unrestricted:      |                       |                       |
| Accounts payable                                 | \$ 4,271,018          | \$ 1,542,330          |
| Accrued employee benefits                        | 631,225               | 463,843               |
| Unearned revenue                                 | 5,159,251             | 15,751,386            |
| Certificates of participation - current portion  | 995,000               | 935,000               |
| Total Payable from Current Assets - Unrestricted | <u>11,056,494</u>     | <u>18,692,559</u>     |
| Payable from restricted assets:                  |                       |                       |
| Accounts payable                                 | 520,258               | 1,033,700             |
| Santa Ana River restoration/recovery trust fund  | 151,347               | 100,988               |
| Total Payable from Current Assets - Restricted   | <u>671,605</u>        | <u>1,134,688</u>      |
| Total Current Liabilities                        | <u>11,728,099</u>     | <u>19,827,247</u>     |
| Noncurrent Liabilities:                          |                       |                       |
| Certificates of participation                    | <u>1,080,000</u>      | <u>2,075,000</u>      |
| Total Noncurrent Liabilities                     | <u>1,080,000</u>      | <u>2,075,000</u>      |
| Total Liabilities                                | <u>12,808,099</u>     | <u>21,902,247</u>     |
| <b>NET ASSETS</b>                                |                       |                       |
| Invested in capital assets, net of related debt  | 304,891,812           | 297,976,428           |
| Restricted:                                      |                       |                       |
| Debt service - State Water Project               | 106,691,437           | 89,732,423            |
| Debt service - Devil Canyon-Castaic              | 2,023,586             | 2,216,177             |
| Unrestricted                                     | <u>33,175,276</u>     | <u>25,191,795</u>     |
| Total Net Assets                                 | <u>\$ 446,782,111</u> | <u>\$ 415,116,823</u> |

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

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT  
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

|  | <u>2009</u>            | <u>2008</u>            |
|--|------------------------|------------------------|
| <b>OPERATING REVENUES</b>                      |                        |                        |
| Water sales                                    | \$ 5,107,362           | \$ 6,719,883           |
| <b>OPERATING EXPENSES</b>                      |                        |                        |
| Source of supply:                              |                        |                        |
| Operations, maintenance, power and replacement | 17,930,304             | 12,146,024             |
| Purchased water                                | <u>5,010,649</u>       | <u>7,163,755</u>       |
|  | <u>22,940,953</u>      | <u>19,309,779</u>      |
| Administrative and general:                    |                        |                        |
| Salaries                                       | 2,274,219              | 2,228,430              |
| Retirement and benefits                        | 1,430,668              | 1,188,392              |
| Payroll taxes                                  | 152,606                | 145,301                |
| Consultants                                    | 2,802,219              | 3,154,197              |
| Legal and accounting                           | 1,770,878              | 1,054,788              |
| Outside services                               | 81,972                 | 195,796                |
| Office supplies and expense                    | 735,789                | 647,799                |
| Maintenance and repair                         | 461,340                | 804,120                |
| Utilities                                      | 542,325                | 675,430                |
| SARI discharge fees                            | 499,872                | 501,388                |
| Insurance                                      | 116,840                | 54,465                 |
| Auto and travel                                | 63,978                 | 72,563                 |
| Lodging and meals                              | 5,807                  | 2,247                  |
| Taxes and licenses                             | 215,389                | 428,206                |
| Tax collection fee                             | 331,754                | 463,744                |
| Uncollectible accounts                         | <u>1,588,221</u>       | <u>-</u>               |
|  | <u>13,073,877</u>      | <u>11,616,866</u>      |
| Other operating:                               |                        |                        |
| Depreciation and amortization                  | <u>8,374,966</u>       | <u>6,864,336</u>       |
| Total Operating Expenses                       | <u>44,389,796</u>      | <u>37,790,981</u>      |
| <b>OPERATING LOSS</b>                          | <u>\$ (39,282,434)</u> | <u>\$ (31,071,098)</u> |

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

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT  
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

|   | 2009           | 2008           |
|---|----------------|----------------|
| <b>NONOPERATING REVENUES AND EXPENSES</b> |                |                |
| Revenues:                                 |                |                |
| Property taxes:                           |                |                |
| Debt service                              | \$ 54,311,672  | \$ 51,003,849  |
| General purpose distribution              | 8,459,659      | 8,194,132      |
| RDA pass through                          | 3,753,943      | 6,522,592      |
| Interest income                           | 2,667,299      | 3,655,390      |
| Other income                              | 1,749,599      | 1,541,210      |
|   | 70,942,172     | 70,917,173     |
| Expenses:                                 |                |                |
| Interest expense                          | 492,401        | 112,875        |
|   | 70,449,771     | 70,804,298     |
| <b>CONTRIBUTIONS</b>                      |                |                |
| Grant income                              | 497,951        | 424,466        |
|   | 31,665,288     | 40,157,666     |
| Net Assets - beginning of year            | 415,116,823    | 374,959,157    |
| Net Assets - end of year                  | \$ 446,782,111 | \$ 415,116,823 |

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, 2009 AND 2008**

|   | <u>2009</u>          | <u>2008</u>          |
|---|----------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                      |                      |
| Cash received from water sales                                  | \$ 2,162,256         | \$ 4,854,065         |
| Cash paid for source of supply                                  | (23,602,208)         | (19,309,779)         |
| Cash paid to other suppliers                                    | (5,567,447)          | (10,975,922)         |
| Cash paid for employees' wages, taxes and benefits              | (3,690,111)          | (3,525,028)          |
| Net Cash Used For Operating Activities                          | <u>(30,697,510)</u>  | <u>(28,956,664)</u>  |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>          |                      |                      |
| Unearned revenue received                                       | 1,594,187            | 5,380,204            |
| Unearned revenue refunded                                       | (10,500,000)         | -                    |
| Property taxes received - general purpose distribution          | 8,678,233            | 8,242,718            |
| RDA pass through received                                       | 3,753,943            | 6,522,592            |
| Trust funds received  | 50,359               | 50,838               |
| Net Cash Provided By Noncapital Financing Activities            | <u>3,576,722</u>     | <u>20,196,352</u>    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b> |                      |                      |
| Property taxes received - debt service                          | 55,422,583           | 50,228,632           |
| Grant proceeds received   | 497,951              | 424,466              |
| Proceeds from collection of contract receivable                 | -                    | 50,000               |
| Other proceeds  | 738,284              | 1,761,387            |
| Interest paid   | (414,588)            | -                    |
| Proceeds from retirement of capital assets                      | 2,504,812            | 825,000              |
| Acquisition of capital assets                                   | (10,645,787)         | (9,771,457)          |
| Payments for construction in progress                           | (5,048,530)          | (34,473,179)         |
| Net Cash Provided By Capital and Related Financing Activities   | <u>43,054,725</u>    | <u>9,044,849</u>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                      |                      |
| Purchase of investments   | (145,587,884)        | (71,933,130)         |
| Redemption of investments                                       | 141,625,000          | 60,867,000           |
| Interest on investments   | 2,596,851            | (1,407,252)          |
| Net Cash Used For Investing Activities                          | <u>(1,366,033)</u>   | <u>(12,473,382)</u>  |
| <b>NET INCREASE (DECREASE) IN CASH</b>                          | 14,567,904           | (12,188,845)         |
| <b>CASH AT BEGINNING OF YEAR</b>                                | <u>17,880,446</u>    | <u>30,069,291</u>    |
| <b>CASH AT END OF YEAR</b>                                      | <u>\$ 32,448,350</u> | <u>\$ 17,880,446</u> |
| <b>RECONCILIATION OF CASH TO STATEMENTS OF NET ASSETS</b>       |                      |                      |
| Current assets:   |                      |                      |
| Cash in bank and on hand  | \$ 2,592,319         | \$ 4,000,406         |
| Cash in Local Agency Investment Fund                            | 6,163,186            | 583,760              |
| Restricted cash in bank   | 8,541,498            | 13,195,292           |
| Restricted cash in Local Agency Investment Fund                 | 15,000,000           | -                    |
| Restricted cash held in trust                                   | 151,347              | 100,988              |
| Total   | <u>\$ 32,448,350</u> | <u>\$ 17,880,446</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, 2009 AND 2008

|  | <u>2009</u>            | <u>2008</u>            |
|--|------------------------|------------------------|
| <b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES</b>  |                        |                        |
| Operating Loss   | \$ (39,282,434)        | \$ (31,071,098)        |
| Adjustments to reconcile operating loss to net cash used for operating activities: |                        |                        |
| Depreciation and amortization  | 8,374,966              | 6,864,336              |
| Additions to CIP included in accounts payable                                      | (154,530)              | (940,127)              |
| Noncash reduction in unearned revenue  | (1,686,322)            | (3,691,560)            |
| Changes in assets and liabilities:   |                        |                        |
| (Increase) Decrease in accounts receivable   | (1,258,784)            | 1,825,742              |
| Increase in prepaid expenses   | (661,255)              | -                      |
| Decrease in contracts receivable   | 1,588,221              | -                      |
| Increase (Decrease) in accounts payable  | 2,215,246              | (1,877,226)            |
| Increase in accrued employee benefits  | 167,382                | 37,095                 |
| Decrease in reserve - SARl treatment capacity                                      | -                      | (103,826)              |
| Net Cash Used For Operating Activities   | <u>\$ (30,697,510)</u> | <u>\$ (28,956,664)</u> |

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

|                                      |            |            |
|--------------------------------------|------------|------------|
| Interest on long-term debt           | \$ 77,813  | \$ 112,875 |
| Acquisition of capital assets        | 72,302,274 | 11,123,979 |
| Gain on retirement of capital assets | 1,011,315  | 58,000     |

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

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
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.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (continued)

**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.

**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 accounts receivable were \$1,588,221 and \$-0- for the years ended June 30, 2009 and 2008, respectively.

**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.



SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (continued)

**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.

**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*.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (continued)

**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.

**Reclassification**

Certain reclassifications have been made to prior years' balances to conform to classifications used in 2009.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 2: CASH AND INVESTMENTS

Cash and investments as of June 30, 2009 and 2008 are classified in the accompanying financial statements as follows:

|                                      | <u>2009</u>               | <u>2008</u>               |
|--------------------------------------|---------------------------|---------------------------|
| Statements of Net Assets:            |                           |                           |
| Current Assets:                      |                           |                           |
| Cash in bank and on hand             | \$ 2,592,319              | \$ 4,000,406              |
| Cash in Local Agency Investment Fund | 6,163,186                 | 583,760                   |
| Investments in government securities | 29,368,462                | 32,757,612                |
|                                      | <u>38,123,967</u>         | <u>37,341,778</u>         |
| Restricted Assets:                   |                           |                           |
| Cash in bank                         | 8,541,498                 | 13,195,292                |
| Cash in Local Agency Investment Fund | 15,000,000                | -                         |
| Cash held in trust                   | 151,347                   | 100,988                   |
| Investments in government securities | 82,560,391                | 76,529,422                |
| Department of Water Resources bonds  | 10,000                    | 10,000                    |
|                                      | <u>106,263,236</u>        | <u>89,835,702</u>         |
| <br>Total Cash and Investments       | <br><u>\$ 144,387,203</u> | <br><u>\$ 127,177,480</u> |

Cash and investments as of June 30, 2009 and 2008 consisted of the following:

|                                      |                           |                           |
|--------------------------------------|---------------------------|---------------------------|
| Cash on hand                         | \$ 350                    | \$ 350                    |
| Deposits with financial institutions | 11,284,814                | 17,296,336                |
| Investments in government securities | 133,102,039               | 109,880,794               |
|                                      | <u>144,387,203</u>        | <u>127,177,480</u>        |
| <br>Total Cash and Investments       | <br><u>\$ 144,387,203</u> | <br><u>\$ 127,177,480</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 FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 2: CASH AND INVESTMENTS (continued)

| <u>Authorized Investment Type</u>       | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|---|-------------------------|--|---|
| 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                                   | \$ 40,000,000                           |
| 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, 2009 and 2008, the District had the following investments and maturities:

|                                     | <u>2009</u>       |                  | <u>2008</u>       |                  |
|-------------------------------------|-------------------|------------------|-------------------|------------------|
|                                     | <u>Fair Value</u> | <u>Maturity</u>  | <u>Fair Value</u> | <u>Maturity</u>  |
| State Investment Pool               | \$ 21,163,186     | 8 months average | \$ 583,760        | 7 months average |
| Government Agency Securities        | \$ 111,928,853    | 5 months average | \$ 109,287,034    | 7 months average |
| Department of Water Resources Bonds | \$ 5,000          | April 1, 2020    | \$ 5,000          | April 1, 2020    |
| Department of Water Resources Bonds | \$ 5,000          | July 1, 2022     | \$ 5,000          | July 1, 2022     |

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 2: CASH AND INVESTMENTS (continued)

**Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations**

At June 30, 2009 and 2008, the District did not hold investments that were highly sensitive to interest rate fluctuations beyond that already indicated in the information provided above.

**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, 2009 and 2008, were as follows:

| <u>Investment Type</u>          | <u>Amount</u>         | <u>Minimum<br/>Legal<br/>Rating</u> | <u>Rating as of Year End</u> |                      |
|---------------------------------|-----------------------|-------------------------------------|------------------------------|----------------------|
|                                 |                       |                                     | <u>AAA</u>                   | <u>Not Rated</u>     |
| <u>June 30, 2009</u>            |                       |                                     |                              |                      |
| State Investment Pool           | \$ 21,163,186         | N/A                                 |                              | \$ 21,163,186        |
| Government Agency<br>Securities | 111,928,853           | N/A                                 | \$ 99,670,896                | 12,257,957           |
| Municipal Bonds                 | 10,000                | N/A                                 | 10,000                       |                      |
|                                 | <u>\$ 133,102,039</u> |                                     | <u>\$ 99,680,896</u>         | <u>\$ 33,421,143</u> |
| <u>June 30, 2008</u>            |                       |                                     |                              |                      |
| State Investment Pool           | \$ 583,760            | N/A                                 |                              | \$ 583,760           |
| Government Agency<br>Securities | 109,287,034           | N/A                                 | \$109,287,034                |                      |
| Municipal Bonds                 | 10,000                | N/A                                 | 10,000                       |                      |
|                                 | <u>\$ 109,880,794</u> |                                     | <u>\$109,297,034</u>         | <u>\$ 583,760</u>    |

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 2: CASH AND INVESTMENTS (continued)

**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, 2009 and 2008 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 84.10% and 99.47%, at June 30, 2009 and 2008 respectively, of the District's total investments.

**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, 2009 and 2008, \$13,821,892 and \$19,034,373 respectively, of the District's demand deposits with financial institutions were in excess of federal depository insurance limits, and were collateralized by securities held by the pledging financial institutions' trust department or agent, but not in the District's name.

**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 State Treasurer, Director of Finance and State Controller. Effective January 1, 2002, the District may invest up to \$40,000,000 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>.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 2: CASH AND INVESTMENTS (continued)

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.

NOTE 3: CAPITAL ASSETS

Summaries of changes in capital assets in service for the years ended June 30, 2009 and 2008 were as follows:

June 30, 2009

|   | Balance<br>June 30, 2008 | Additions           | Deletions              | Balance<br>June 30, 2009 |
|---|--------------------------|---------------------|------------------------|--------------------------|
| Capital assets, not being depreciated:                      |                          |                     |                        |                          |
| Land and right of ways                                      | \$ 6,380,729             | \$ 279,291          | \$ -                   | \$ 6,660,020             |
| Construction in progress                                    | 67,771,672               | 5,203,060           | (72,302,274)           | 672,458                  |
| Total capital assets, not being depreciated                 | <u>74,152,401</u>        | <u>5,482,351</u>    | <u>(72,302,274)</u>    | <u>7,332,478</u>         |
| Capital assets, being depreciated:                          |                          |                     |                        |                          |
| Buildings   | 5,177,350                | 4,729,281           | (2,084,960)            | 7,821,671                |
| Distribution lines  | 79,827,678               | 69,188,764          | (475,050)              | 148,541,392              |
| Brine line  | 7,121,795                | -                   | -                      | 7,121,795                |
| Furniture, fixtures and equipment                           | 1,108,306                | 516,698             | (727,068)              | 897,936                  |
| Vehicles  | 527,690                  | 47,007              | (149,065)              | 425,632                  |
| Yucaipa Dam   | 3,698,238                | -                   | -                      | 3,698,238                |
| Pipeline capacity   | 1,305,000                | -                   | -                      | 1,305,000                |
| Total capital assets, being depreciated                     | <u>98,766,057</u>        | <u>74,481,750</u>   | <u>(3,436,143)</u>     | <u>169,811,664</u>       |
| Less accumulated depreciation                               | <u>(23,180,620)</u>      | <u>(2,723,407)</u>  | <u>1,942,646</u>       | <u>(23,961,381)</u>      |
| Total capital assets, being depreciated, net                | <u>75,585,437</u>        | <u>71,758,343</u>   | <u>(1,493,497)</u>     | <u>145,850,283</u>       |
| Water rights  | 224,713,420              | 8,187,020           | -                      | 232,900,440              |
| Less accumulated amortization                               | <u>(73,464,830)</u>      | <u>(5,651,559)</u>  | <u>-</u>               | <u>(79,116,389)</u>      |
| Participation rights in State Water Project Facilities, net | <u>151,248,590</u>       | <u>2,535,461</u>    | <u>-</u>               | <u>153,784,051</u>       |
| Total capital assets and construction in progress           | <u>\$300,986,428</u>     | <u>\$79,776,155</u> | <u>\$ (73,795,771)</u> | <u>\$ 306,966,812</u>    |

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 3: CAPITAL ASSETS (continued)

June 30, 2008

|   | <u>Balance</u><br><u>June 30, 2007</u> | <u>Additions</u>    | <u>Deletions</u>       | <u>Balance</u><br><u>June 30, 2008</u> |
|---|--|---------------------|------------------------|--|
| Capital assets, not being depreciated:                      |  |                     |                        |  |
| Land and right of ways                                      | \$ 6,317,858                           | \$ 62,871           | \$ -                   | \$ 6,380,729                           |
| Construction in progress                                    | 43,482,345                             | 35,413,306          | (11,123,979)           | 67,771,672                             |
| Total capital assets, not being depreciated                 | <u>49,800,203</u>                      | <u>35,476,177</u>   | <u>(11,123,979)</u>    | <u>74,152,401</u>                      |
| Capital assets, being depreciated:                          |  |                     |                        |  |
| Buildings   | 5,133,674                              | 43,676              | -                      | 5,177,350                              |
| Distribution lines  | 68,703,698                             | 11,123,980          | -                      | 79,827,678                             |
| Brine line  | 7,121,795                              | -                   | -                      | 7,121,795                              |
| Furniture, fixtures and equipment                           | 1,001,561                              | 106,745             | -                      | 1,108,306                              |
| Vehicles  | 496,217                                | 31,473              | -                      | 527,690                                |
| Yucaipa Dam   | 3,698,238                              | -                   | -                      | 3,698,238                              |
| Pipeline capacity   | 2,130,000                              | -                   | (825,000)              | 1,305,000                              |
| Total capital assets, being depreciated                     | <u>88,285,183</u>                      | <u>11,305,874</u>   | <u>(825,000)</u>       | <u>98,766,057</u>                      |
| Less accumulated depreciation                               | <u>(21,704,112)</u>                    | <u>(1,534,508)</u>  | <u>58,000</u>          | <u>(23,180,620)</u>                    |
| Total capital assets, being depreciated, net                | <u>66,581,071</u>                      | <u>9,771,366</u>    | <u>(767,000)</u>       | <u>75,585,437</u>                      |
| Water rights  | 215,186,729                            | 9,526,691           | -                      | 224,713,420                            |
| Less accumulated amortization                               | <u>(68,135,002)</u>                    | <u>(5,329,828)</u>  | <u>-</u>               | <u>(73,464,830)</u>                    |
| Participation rights in State Water Project Facilities, net | <u>147,051,727</u>                     | <u>4,196,863</u>    | <u>-</u>               | <u>151,248,590</u>                     |
| Total capital assets and construction in progress           | <u>\$263,433,001</u>                   | <u>\$49,444,406</u> | <u>\$ (11,890,979)</u> | <u>\$300,986,428</u>                   |



SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 4: CONTRACT RECEIVABLES

Contract receivables at June 30, 2009 and 2008 consisted of the following:

|  | <u>2009</u>        | <u>2008</u>         |
|--|--------------------|---------------------|
| 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. | <u>726,450</u>     | <u>726,450</u>      |
| Total  | 1,588,221          | 1,588,221           |
| Less Allowance for Uncollectible Accounts  | <u>(1,588,221)</u> | <u>-</u>            |
|  | <u>\$ -</u>        | <u>\$ 1,588,221</u> |

NOTE 5: RETENTION RECEIVABLE

The District received Proposition 13 grant funds from the Southern California Integrated Watershed Program, as administered by the Santa Ana Watershed Project Authority (SAWPA), for improvements made to local water facilities, also known as the High Groundwater Mitigation Project. Grant funds are received as a reimbursement for work completed and costs incurred by the District. As required by the grant contract, SAWPA withholds a 10% retention on the reimbursements. These retained funds will be available to the District upon completion of the capital project. The project is not expected to be completed within the year, and is therefore reported as a noncurrent asset on the statement of net assets at June 30, 2009.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 6:      **UNEARNED REVENUE**

The District receives cash advances from various water purveyors in exchange for commitments of future water deliveries. As of June 30, 2009 and 2008, total unearned revenue amounted to \$5,159,251 and \$15,751,386, respectively. Unearned revenue at June 30, 2008 includes \$10,500,000 which relates to a prior period adjustment (Note 12).

NOTE 7:      **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:

|             | <u>2009</u>         | <u>2008</u>         |
|-------------|---------------------|---------------------|
| 2008 – 2009 | \$ -                | \$ 935,000          |
| 2009 – 2010 | 995,000             | 995,000             |
| 2010 – 2011 | 1,080,000           | 1,080,000           |
|             | <u>\$ 2,075,000</u> | <u>\$ 3,010,000</u> |

NOTE 8:      **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.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 8: DEFINED BENEFIT PENSION PLAN (PERS) (continued)

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 29.800% 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, 2009 and 2008, the amount contributed by the District, including the amount contributed on behalf of the employees, was \$824,594 and \$740,777, 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, 2006, 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, 2006.

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, 2006 valuation was a negative \$2,694,994.

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, 2006, was 10 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, 2007      | \$ 814,988                       | 100%                                 | 0                             |
| June 30, 2008      | \$ 740,777                       | 100%                                 | 0                             |
| June 30, 2009      | \$ 824,594                       | 100%                                 | 0                             |

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 9:      **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 intends to join California Employer's Retiree Benefit Trust (CERBT) and fund the full Annual Required Contribution (ARC) each year, as defined in GASB Statement No. 45. The CERBT is governed by CalPERS, an agent multiple-employer plan. 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**

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 other postemployment benefit (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 for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan:

|  |                   |
|--|-------------------|
| Annual required contribution           | \$ 192,623        |
| Contribution made                      | 40,778            |
| Increase in net OPEB obligation        | <u>151,845</u>    |
| Net OPEB obligation, beginning of year | -                 |
| Net OPEB obligation, end of year       | <u>\$ 151,845</u> |

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

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.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2009 is presented below. The District implemented GASB Statement No. 45 during the year ended June 30, 2009, and therefore information is not available for the prior two years.

| <u>Plan</u> | <u>Year Ended</u> | <u>Annual<br/>OPEB Cost</u> | <u>Actual<br/>Contribution</u> | <u>Percentage of<br/>OPEB Cost<br/>Contributed</u> | <u>Net OPEB<br/>Obligation</u> |
|-------------|-------------------|-----------------------------|--------------------------------|--|--------------------------------|
| OPEB        | June 30, 2009     | \$ 192,623                  | \$ 40,778                      | 21%  | \$ 151,845                     |

**Funded Status**

The funded status of the plan as of June 30, 2009, based on the July 1, 2008 actuarial valuation is as follows:

|  |                     |
|--|---------------------|
| Actuarial Accrued Liability (AAL)              | \$ 1,746,276        |
| Actuarial value of assets                      | -                   |
| Unfunded Actuarial Accrued Liability (UAAL)    | <u>\$ 1,746,276</u> |
| Funded ratio (actuarial value of assets / AAL) | 0%                  |
| Covered payroll (active plan members)          | \$ 2,274,219        |
| UAAL as a percentage of covered payroll        | 77%                 |

**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 FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (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 |
|                        | 2010        | 8.5%        | 4.0%   |
|                        | 2011 – 2015 | 6.7% – 8.2% | 4.0%   |
|                        | 2016 – 2018 | 5.8% – 6.4% | 4.0%   |
|                        | 2019+       | 5.5%        | 4.0%   |

NOTE 10: 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 FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 10: COMMITMENTS (continued)

The District's future commitment for State Water Project costs over the years 2009 to 2035, according to the payment schedule dated June 30, 2009, is estimated as follows:

|   |                              |
|---|------------------------------|
| Transportation charges:   |                              |
| Capital cost component  | \$ 92,092,699                |
| Minimum operations, maintenance, power and replacement component  | 330,261,408                  |
| Variable operations, maintenance, power and replacement component | <u>364,715,231</u>           |
|   | 787,069,338                  |
| Delta water charges   | 103,614,037                  |
| Water system revenue bond surcharge                               | <u>48,334,896</u>            |
| Total   | <u><u>\$ 939,018,271</u></u> |

**Construction Contracts**

The District has one agreement with a private party relating to the construction, installation, improvement or modification of water facilities and distributions systems within its service area. The financing of such construction contracts is being provided primarily from other governmental entities. The District has committed to approximately \$992,000 of open construction contracts as of June 30, 2009 as follows:

| <u>Contractor</u>             | <u>Approved<br/>Contract Amount</u> | <u>Balance to<br/>Complete</u> |
|-------------------------------|-------------------------------------|--------------------------------|
| Pacific Hydrotech Corporation | <u>\$ 992,000</u>                   | <u>\$ 992,000</u>              |

NOTE 11: 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, 2009 was \$151,347.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 12: PRIOR PERIOD ADJUSTMENTS

**Water Stock**

As part of an agreement dated February 1, 1996 between Big Bear Municipal Water District and San Bernardino Valley Municipal Water District (District), the District obtained 21,180 shares of stock in Bear Valley Mutual Water Company (Bear Valley). The contribution of shares of stock in Bear Valley was not recorded in the District's financial records in the year of acquisition or in subsequent years, and is therefore reported as a prior period adjustment. The estimated fair value of Bear Valley stock in 1996 is \$75 per share. Unrestricted Net Assets at July 1, 2007 have been restated by \$1,588,500 to reflect the estimated fair value of the Bear Valley shares contributed to the District in 1996. The District's investment in shares of Bear Valley stock is classified as Water Stock in the noncurrent assets section of the Statement of Net Assets at June 30, 2009 and 2008.

**Unearned Revenue**

Unrestricted Net Assets at July 1, 2007 have been restated to adjust for funds received in prior years from Metropolitan Water District of Southern California (Metropolitan) for the purchase of water which was to be delivered to them by the San Bernardino Valley Municipal Water District (District) in future years. The District recorded the funds as current year revenue at the time the funds were received. However, the funds received in excess of current year deliveries are adjusted to reflect deferred revenue. As a result, Unrestricted Net Assets at July 1, 2007 have been decreased by \$10,500,000 which represents the funds received that were in excess of actual water deliveries. The \$10,500,000 deposit is classified as unearned revenue in the current liabilities section of the Statement of Net Assets at June 30, 2008.

Due to the limited water supplies available currently, and in a letter agreement dated March 18, 2009, Metropolitan has agreed to waive the District's obligation to deliver the Carryover Storage Water of 20,000 acre feet and Minimum Purchase Water of 50,000 acre feet. As a condition of the waiver, the District agreed to return \$10,500,000 previously deposited by Metropolitan for this undelivered water, and the deposit was returned during the year ended June 30, 2009.