

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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, 2010 and 2009, 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 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, 2010 and 2009, 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.

As discussed in Note 1 to the financial statements, the Agency adopted the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, in 2010.

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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, Maloy & Staff, LLP

October 12, 2010

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.

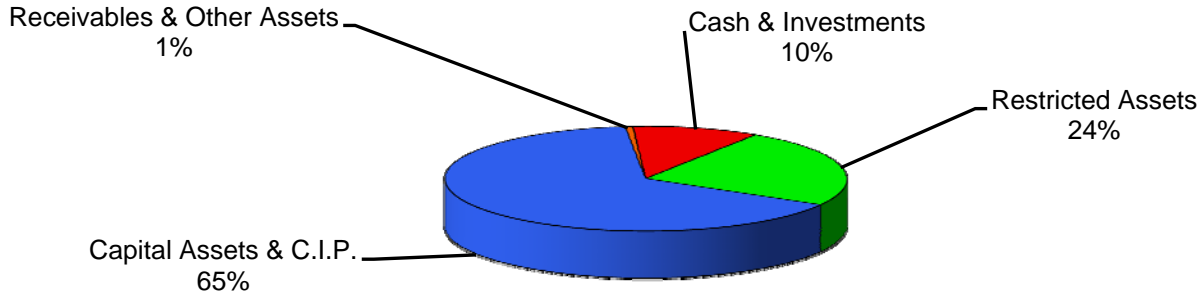
The Statement of Cash Flows conveys to financial statement users how the District managed cash resources during the year. This statement converts the Change in Net Assets presented on the Statement of Revenues, Expenses and Changes in Net Assets into actual cash provided by or used for operations. The 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, 2010, the District's Total Assets increased by \$20.9 million and net assets increased by \$25.5 million. A majority of the increase in Total Assets resulted from an increase of \$9.9 million in Current Assets and a \$6.7 million increase in Restricted Assets, an increase of \$5.3 million in Total Capital Assets and Construction in Progress netted against a decrease in Long-Term Receivable of \$1.0 million.

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

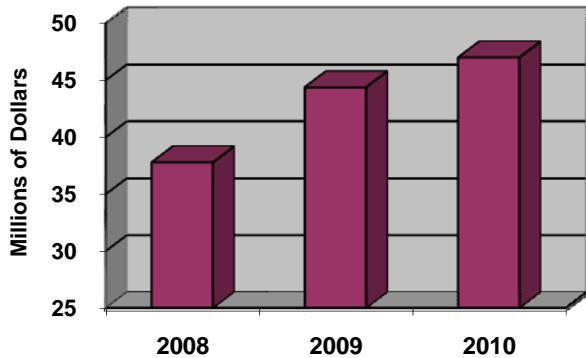
Assets Owned



Total Cash in bank, Cash in Local Agency Investment Fund and Investments in government securities increased \$17.5 million. The increase can be further divided into general unrestricted and restricted cash. Unrestricted cash increased \$9.4 million and restricted cash increased \$8.1 million.

The increase in Net Assets included an operating loss of \$41.8 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)**

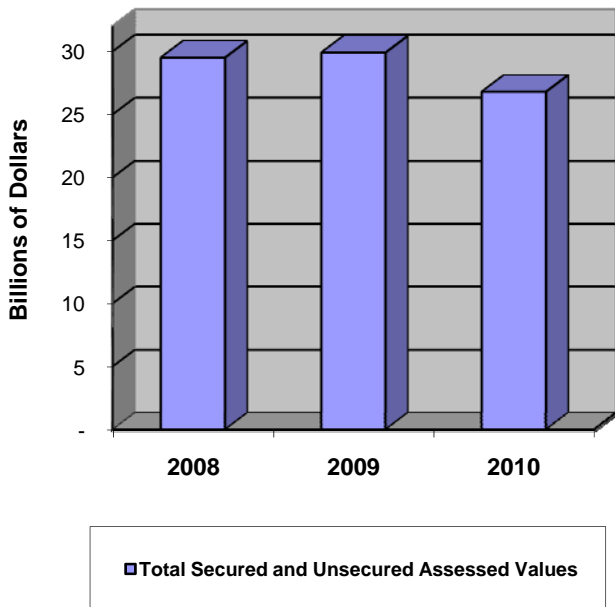
	6/30/10	6/30/09
Current Assets	\$ 50.51	\$ 40.62
Restricted Assets	116.11	109.38
Capital Assets	312.31	306.97
Long Term Receivable	-	1.03
Other Noncurrent Assets	1.59	1.59
Total Assets	480.52	459.59
Total Liabilities	8.20	12.81
Net Assets	472.32	446.78
Oper. Revenues	5.22	5.11
Oper. Expenses	(47.03)	(44.39)
Nonoper. Rev.:		
Interest	.51	2.67
Property Taxes	55.28	62.77
RDA Pass Through	4.37	3.75
Miscellaneous	2.28	1.75
Nonoper. Exp.	(.04)	(.50)
Contributions	4.95	.50
Change in Net Assets	\$ 25.54	\$ 31.66

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

Total operating expenses for the year ended June 30, 2010 increased over the prior year by 6%. 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 3%.

The total Nonoperating revenues decreased 12% over the prior year. Total property taxes received decreased \$7.5 million. This decrease was derived from a \$0.9 million decrease from general-purpose property tax distribution and \$6.6 million decrease from debt service property taxes. The assessed values within the District's service area experienced a 10% decline which has attributed to the decrease in property taxes received. Interest earned on reserves decreased by \$2.1 million that was mainly 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, 2010 have decreased over the prior year by 10%.



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, 2010, the amount the District had invested in capital assets, net of related debt was \$311.2 million. This balance was obtained by combining Construction in Progress of \$1.6 million with Capital Assets in Service, net of Accumulated Depreciation and Amortization of \$310.7 million and reducing that amount by related debt of \$1.1 million.

Restricted – Debt Service

The District has restricted Net Assets of \$115.7 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 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 \$85.7 million is to be used for future expenses related to the State Water Project.

Unrestricted

The District had unrestricted Net Assets of \$45.4 million at June 30, 2010. The Board of Directors has designated \$15 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, 2010, is estimated to total \$885 million.

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

Capital Asset activity for the year was as follows:

	Balance July 1, 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	<u>7,332,478</u>	<u>2,858,606</u>	<u>572,800</u>	<u>9,618,284</u>
Capital assets being depreciated:				
Participation rights in State Water Project Facilities	232,900,440	10,301,778	-	243,202,218
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	<u>402,712,104</u>	<u>12,428,570</u>	<u>46,540</u>	<u>415,094,134</u>
Total capital assets	<u>\$ 410,044,582</u>	<u>\$ 15,287,176</u>	<u>\$ 619,340</u>	<u>\$ 424,712,418</u>

Construction In Progress (CIP)

Construction in progress increased from \$672 thousand to \$1.6 million between June 30, 2009 and June 30, 2010. The major projects still in progress at June 30, 2010 include the Lytle Creek Turnout, the Baseline Feeder Well Replacement Project and the Riverside Groundwater Aquifer Storage Project.

Capital Assets

The District made payments to the Department of Water Resources during the year totaling \$33.5 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 DISTRICTSTATEMENTS OF NET ASSETSJUNE 30, 2010 AND 2009

ASSETS	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash in bank and on hand	\$ 9,799,462	\$ 2,592,319
Cash in Local Agency Investment Fund	11,225,258	6,163,186
Investments in government securities	26,531,882	29,368,462
Property taxes receivable	203,697	387,552
Accounts receivable	2,507,808	1,880,715
Accrued interest receivable	209,841	226,881
Prepaid expenses	30,072	-
Deposit on land	1,975	1,975
Total Current Assets - Unrestricted	<u>50,509,995</u>	<u>40,621,090</u>
Restricted Assets:		
Cash in bank	17,470,694	8,541,498
Cash in Local Agency Investment Fund	24,117,705	15,000,000
Cash held in trust	201,495	151,347
Investments in government securities	72,550,977	82,560,391
Department of Water Resources bonds	10,000	10,000
Total Restricted Cash and Investments	<u>114,350,871</u>	<u>106,263,236</u>
Property taxes receivable	1,248,114	1,582,659
Accounts receivable	13,434	-
Accrued interest receivable	137,320	879,478
Prepaid expenses	367,608	661,255
Total Restricted Assets	<u>116,117,347</u>	<u>109,386,628</u>
Noncurrent Assets:		
Capital Assets		
Capital assets in service	179,861,067	176,471,684
Accumulated depreciation	(27,281,008)	(23,961,381)
Capital Assets - Net	<u>152,580,059</u>	<u>152,510,303</u>
Participation rights in state water project facilities (at cost)	243,202,218	232,900,440
Accumulated amortization	(85,117,671)	(79,116,389)
Participation Rights in State Water Project Facilities - Net	<u>158,084,547</u>	<u>153,784,051</u>
Total Capital Assets	<u>310,664,606</u>	<u>306,294,354</u>
Construction in progress	1,649,133	672,458
Total Capital Assets and Construction in Progress	<u>312,313,739</u>	<u>306,966,812</u>
Long-Term Receivables		
Retention receivable - SAWPA	-	1,027,180
Other Noncurrent Assets		
Water Stock	1,588,500	1,588,500
Total Noncurrent Assets	<u>313,902,239</u>	<u>309,582,492</u>
Total Assets	<u>\$ 480,529,581</u>	<u>\$ 459,590,210</u>

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

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICTSTATEMENTS OF NET ASSETSJUNE 30, 2010 AND 2009

LIABILITIES	<u>2010</u>	<u>2009</u>
Current Liabilities:		
Payable from current assets - unrestricted:		
Accounts payable	\$ 597,513	\$ 4,271,018
Accrued employee benefits	764,743	631,225
Unearned revenue	5,343,691	5,159,251
Certificates of participation - current portion	<u>1,080,000</u>	<u>995,000</u>
Total Payable from Current Assets - Unrestricted	<u>7,785,947</u>	<u>11,056,494</u>
Payable from restricted assets:		
Accounts payable	217,484	520,258
Santa Ana River restoration/recovery trust fund	<u>201,495</u>	<u>151,347</u>
Total Payable from Current Assets - Restricted	<u>418,979</u>	<u>671,605</u>
Total Current Liabilities	8,204,926	11,728,099
Noncurrent Liabilities:		
Certificates of participation	<u>-</u>	<u>1,080,000</u>
Total Liabilities	<u>8,204,926</u>	<u>12,808,099</u>
NET ASSETS		
Invested in capital assets, net of related debt	311,233,739	304,891,812
Restricted:		
Debt service - State Water Project	114,061,923	106,691,437
Debt service - Devil Canyon-Castaic	1,636,445	2,023,586
Unrestricted	<u>45,392,548</u>	<u>33,175,276</u>
Total Net Assets	<u>\$ 472,324,655</u>	<u>\$ 446,782,111</u>

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

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICTSTATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETSFOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Water sales	\$ 5,222,312	\$ 5,107,362
OPERATING EXPENSES		
Source of supply:		
Operations, maintenance, power and replacement	19,119,080	17,930,304
Purchased water	5,040,392	5,010,649
	<u>24,159,472</u>	<u>22,940,953</u>
Administrative and general:		
Salaries	2,204,558	2,274,219
Retirement and benefits	1,459,873	1,430,668
Payroll taxes	143,832	152,606
Consultants	4,861,272	2,802,219
Legal and accounting	733,213	1,770,878
Outside services	56,290	81,972
Office supplies and expense	126,439	263,887
Dues and subscriptions	357,023	320,424
Public education and information	524,771	151,478
Maintenance and repair	1,545,481	461,340
Utilities	598,265	542,325
SARI discharge fees	479,890	499,872
Insurance	90,939	116,840
Auto and travel	60,277	63,978
Lodging and meals	5,722	5,807
Taxes and licenses	14,584	215,389
Tax collection fee	238,087	331,754
Uncollectible accounts	-	1,588,221
	<u>13,500,516</u>	<u>13,073,877</u>
Other operating:		
Depreciation and amortization	9,367,449	8,374,966
Total Operating Expenses	<u>47,027,437</u>	<u>44,389,796</u>
OPERATING LOSS	<u>(41,805,125)</u>	<u>(39,282,434)</u>

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

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICTSTATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETSFOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
NONOPERATING REVENUES AND EXPENSES		
Revenues:		
Property taxes:		
Debt service	\$ 47,677,194	\$ 54,311,672
General purpose distribution	7,603,643	8,459,659
RDA pass through	4,367,206	3,753,943
Interest income	512,638	2,667,299
Other income	2,277,457	1,749,599
	<u>62,438,138</u>	<u>70,942,172</u>
Expenses:		
Interest expense	40,500	492,401
	<u>40,500</u>	<u>492,401</u>
Total Nonoperating Revenue	<u>62,397,638</u>	<u>70,449,771</u>
CONTRIBUTIONS		
Grant income	4,950,031	497,951
	<u>4,950,031</u>	<u>497,951</u>
Change in Net Assets	25,542,544	31,665,288
Net Assets - beginning of year	<u>446,782,111</u>	<u>415,116,823</u>
Net Assets - end of year	<u>\$ 472,324,655</u>	<u>\$ 446,782,111</u>

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

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICTSTATEMENTS OF CASH FLOWSFOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water sales	\$ 4,581,785	\$ 2,162,256
Cash paid for source of supply	(23,895,897)	(23,602,208)
Cash paid to other suppliers	(13,143,523)	(5,567,447)
Cash paid for employees' wages, taxes and benefits	<u>(3,674,745)</u>	<u>(3,690,111)</u>
Net Cash Used For Operating Activities	<u>(36,132,380)</u>	<u>(30,697,510)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unearned revenue received	184,440	1,594,187
Unearned revenue refunded	-	(10,500,000)
Property taxes received - general purpose distribution	7,787,498	8,678,233
RDA pass through received	4,367,206	3,753,943
Trust funds received	<u>50,148</u>	<u>50,359</u>
Net Cash Provided By Noncapital Financing Activities	<u>12,389,292</u>	<u>3,576,722</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Property taxes received - debt service	48,011,739	55,422,583
Grant proceeds received	5,977,211	497,951
Other proceeds	2,273,505	738,284
Interest paid	-	(414,588)
Proceeds from retirement of capital assets	3,952	2,504,812
Acquisition of capital assets	(13,737,701)	(10,645,787)
Payments for construction in progress	<u>(1,501,684)</u>	<u>(5,048,530)</u>
Net Cash Provided By Capital and Related Financing Activities	<u>41,027,022</u>	<u>43,054,725</u>

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

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICTSTATEMENTS OF CASH FLOWSFOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	\$ (189,728,189)	\$ (145,587,884)
Redemption of investments	199,936,674	141,625,000
Interest on investments	2,873,845	2,596,851
Net Cash Provided By (Used For) Investing Activities	<u>13,082,330</u>	<u>(1,366,033)</u>
NET INCREASE IN CASH	30,366,264	14,567,904
CASH AT BEGINNING OF YEAR	<u>32,448,350</u>	<u>17,880,446</u>
CASH AT END OF YEAR	<u>\$ 62,814,614</u>	<u>\$ 32,448,350</u>

RECONCILIATION OF CASH TO STATEMENTS OF NET ASSETS

Current assets:

Cash in bank and on hand	\$ 9,799,462	\$ 2,592,319
Cash in Local Agency Investment Fund	11,225,258	6,163,186
Restricted cash in bank	17,470,694	8,541,498
Restricted cash in Local Agency Investment Fund	24,117,705	15,000,000
Restricted cash held in trust	<u>201,495</u>	<u>151,347</u>
Total	<u>\$ 62,814,614</u>	<u>\$ 32,448,350</u>

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

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICTSTATEMENTS OF CASH FLOWSFOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating Loss	\$ (41,805,125)	\$ (39,282,434)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	9,367,449	8,374,966
Additions to CIP included in accounts payable	(47,791)	(154,530)
Noncash reduction in unearned revenue	-	(1,686,322)
Noncash reduction in CIP	572,800	-
Changes in assets and liabilities:		
(Increase) in accounts receivable	(640,527)	(1,258,784)
Decrease (Increase) in prepaid expenses	263,575	(661,255)
Decrease in contracts receivable	-	1,588,221
(Decrease) Increase in accounts payable	(3,976,279)	2,215,246
Increase in accrued employee benefits	133,518	167,382
Net Cash Used For Operating Activities	<u>\$ (36,132,380)</u>	<u>\$ (30,697,510)</u>

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

Interest on long-term debt	\$ 40,500	\$ 77,813
Acquisition of capital assets	-	72,302,274
Gain on retirement of capital assets	-	1,011,315

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

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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.

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.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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

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 notes receivable were \$1,588,221 for the years ended June 30, 2010 and 2009.

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.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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

Employee Benefits (continued)

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*.

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.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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

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 October 12, 2010, 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 2010.

Implementation of new pronouncements

Effective July 1, 2009, the Agency adopted a new accounting standard issued by the Governmental Accounting Standards Board (GASB):

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*

The objective of this statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies, particularly in the areas of recognition, initial measurement and amortization, which have occurred in practice due to the absence of sufficiently specified authoritative guidance. By reducing inconsistencies, this statement enhances the comparability of the accounting and financial reporting of such assets among state and local governments. It also results in a more faithful representation of the service capacity of intangible assets, and therefore the financial position of governments, and of the periodic cost associated with the usage of such service capacity in governmental financial statements.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 2: CASH AND INVESTMENTS

Cash and investments as of June 30, 2010 and 2009 are classified in the accompanying financial statements as follows:

	<u>2010</u>	<u>2009</u>
Statements of Net Assets:		
Cash in bank and on hand	\$ 9,799,462	\$ 2,592,319
Cash in Local Agency Investment Fund	11,225,258	6,163,186
Investments in government securities	26,531,882	29,368,462
	<u>47,556,602</u>	<u>38,123,967</u>
Restricted Assets:		
Cash in bank	17,470,694	8,541,498
Cash in Local Agency Investment Fund	24,117,705	15,000,000
Cash held in trust	201,495	151,347
Investments in government securities	72,550,977	82,560,391
Department of Water Resources bonds	10,000	10,000
	<u>114,350,871</u>	<u>106,263,236</u>
Total Cash and Investments	<u>\$ 161,907,473</u>	<u>\$ 144,387,203</u>

Cash and investments as of June 30, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Cash on hand	\$ 350	\$ 350
Deposits with financial institutions	27,471,301	11,284,814
Investments in government securities	134,435,822	133,102,039
Total Cash and Investments	<u>\$ 161,907,473</u>	<u>\$ 144,387,203</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, 2010 AND 2009

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	\$ 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, 2010 and 2009, the District had the following investments and maturities:

	<u>2010</u>		<u>2009</u>	
	<u>Fair Value</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Maturity</u>
State Investment Pool	\$ 35,342,963	7 months average	\$ 21,163,186	8 months average
Government Agency Securities	\$ 99,082,860	5 months average	\$ 111,928,854	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 FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 2: CASH AND INVESTMENTS (continued)

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

At June 30, 2010 and 2009, 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, 2010 and 2009 were as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>	
			<u>AAA</u>	<u>Not Rated</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>
<u>June 30, 2009</u>				
State Investment Pool	\$ 21,163,186	N/A		\$ 21,163,186
Government Agency				
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>

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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, 2010 and 2009 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 73.7% and 84.1%, at June 30, 2010 and 2009 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, 2010 and 2009, \$27,778,485 and \$13,821,892 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 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>.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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, 2010 and 2009 were as follows:

June 30, 2010

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Capital assets, not being depreciated:				
Land and right of ways	\$ 6,660,020	\$ 1,309,132	\$ -	\$ 7,969,152
Construction in progress	<u>672,458</u>	<u>1,549,474</u>	<u>572,800</u>	<u>1,649,132</u>
 Total capital assets, not being depreciated	 <u>7,332,478</u>	 <u>2,858,606</u>	 <u>572,800</u>	 <u>9,618,284</u>
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	<u>1,305,000</u>	<u>-</u>	<u>-</u>	<u>1,305,000</u>
Total capital assets, being depreciated	169,811,664	2,126,792	46,540	171,891,916
Less accumulated depreciation	<u>(23,961,381)</u>	<u>(3,366,167)</u>	<u>(46,540)</u>	<u>(27,281,008)</u>
Total capital assets, being depreciated, net	<u>145,850,283</u>	<u>(1,239,375)</u>	<u>-</u>	<u>144,610,908</u>
Participation rights in State Water Project Facilities	232,900,440	10,301,778	-	243,202,218
Less accumulated amortization	<u>(79,116,389)</u>	<u>(6,001,282)</u>	<u>-</u>	<u>(85,117,671)</u>
Participation rights in State Water Project Facilities, net	<u>153,784,051</u>	<u>4,300,496</u>	<u>-</u>	<u>158,084,547</u>
 Total capital assets and construction in progress	 <u>\$ 306,966,812</u>	 <u>\$ 5,919,727</u>	 <u>\$ 572,800</u>	 <u>\$ 312,313,739</u>

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 3: CAPITAL ASSETS (continued)

June 30, 2009

	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2009</u>
Capital assets, not being depreciated:				
Land and right of ways	\$ 6,380,729	\$ 279,291	\$ -	\$ 6,660,020
Construction in progress	<u>67,771,672</u>	<u>5,203,060</u>	<u>(72,302,274)</u>	<u>672,458</u>
 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	<u>1,305,000</u>	<u>-</u>	<u>-</u>	<u>1,305,000</u>
Total capital assets, being depreciated	98,766,057	74,481,750	(3,436,143)	169,811,664
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>
Participation rights in State Water Project Facilities	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, 2010 AND 2009

NOTE 4: CONTRACT RECEIVABLES

Contract receivables at June 30, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</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>(1,588,221)</u>
	<u>\$ -</u>	<u>\$ -</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. As of June 30, 2009, the project was not expected to be completed within the following year, and was therefore reported as a noncurrent asset on the statement of net assets at June 30, 2009. The project was completed during the year ended June 30, 2010 and the retention was released to the District.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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, 2010 and 2009, total unearned revenue amounted to \$5,343,691 and \$5,159,251, respectively.

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>2010</u>	<u>2009</u>
2009 – 2010	\$ -	\$ 995,000
2010 – 2011	<u>1,080,000</u>	<u>1,080,000</u>
	<u>\$ 1,080,000</u>	<u>\$ 2,075,000</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, 2010 AND 2009

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 29.145% 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, 2010 and 2009, the amount contributed by the District, including the amount contributed on behalf of the employees, was \$804,058 and \$824,594, 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, 2008, 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, 2008.

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, 2008 valuation was a negative \$2,490,234.

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, 2008, was 8 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, 2008	\$ 740,777	100%	\$ -0-
June 30, 2009	\$ 824,594	100%	\$ -0-
June 30, 2010	\$ 804,058	100%	\$ -0-

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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 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 table on the following page 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.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Annual required contribution	\$ 210,405	\$ 192,623
Interest on net OPEB obligation	11,768	-
Adjustment to annual required contribution	<u>(9,465)</u>	<u>-</u>
Annual OPEB cost	212,708	192,623
Contributions made	<u>(51,255)</u>	<u>(40,778)</u>
Increase in net OPEB obligation	161,453	151,845
Net OPEB obligation - beginning of year	<u>151,845</u>	<u>-</u>
 Net OPEB obligation - end of year	 <u>\$ 313,298</u>	 <u>\$ 151,845</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.

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, 2010 and 2009 are presented below. The District implemented GASB Statement No. 45 during the year ended June 30, 2009, and therefore information is not available for June 30, 2008.

<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

Funded Status

The funded status of the plan as of June 30, 2010, based on the July 1, 2008 actuarial valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 1,743,276
Actuarial value of assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 1,743,276</u>
 Funded ratio (actuarial value of assets / AAL)	 0%
Covered payroll (active plan members)	\$ 2,204,558
UAAL as a percentage of covered payroll	79%

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 9: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

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.

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
	2011	7.9%	4%
	2012 – 2016	6.4% – 7.9%	4%
	2017 – 2018	5.8% – 6.1%	4%
	2019+	5.5%	4%

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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.

The District's future commitment for State Water Project costs over the years 2010 to 2035, according to the payment schedule dated June 30, 2010, is estimated as follows:

Transportation charges:	
Capital cost component	\$ 87,865,586
Minimum operations, maintenance, power and replacement component	331,677,047
Variable operations, maintenance, power and replacement component	<u>309,286,464</u>
	728,829,097
Delta water charges	110,410,616
Water system revenue bond surcharge	<u>45,768,868</u>
Total	<u><u>\$ 885,008,581</u></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, 2010 and 2009 was \$201,495 and \$151,347, respectively.



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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, 2010, and have issued our report thereon dated October 12, 2010. 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, Malof & Smith, LLP

October 12, 2010