

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

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ROGERS, ANDERSON, MALODY & SCOTT, LLP

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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.

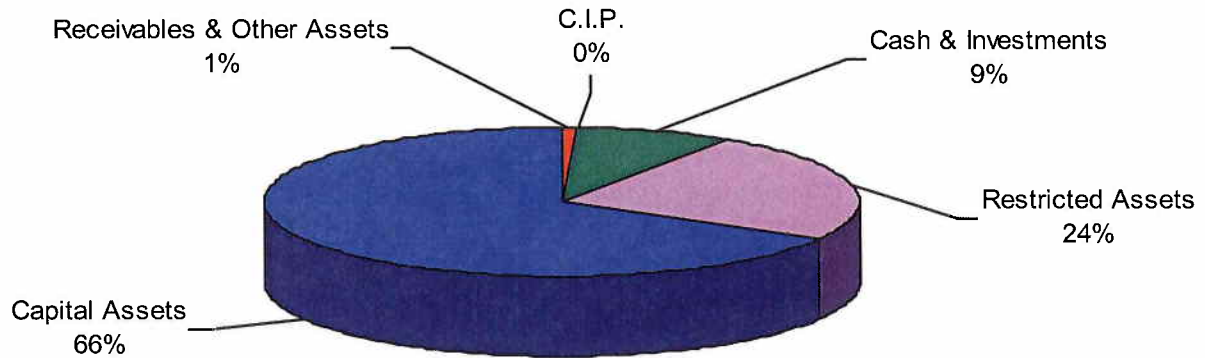
The Statement of Cash Flows conveys to financial statement users how the District managed cash resources during the year. This statement converts the Change in Net Assets presented on the Statement of Revenues, Expenses and Changes in Net Assets into actual cash provided by or used for operations. The 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

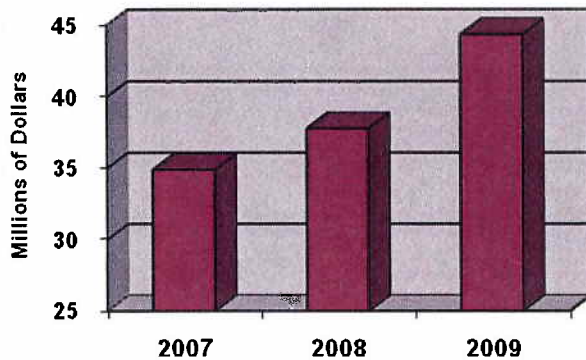
Assets Owned



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

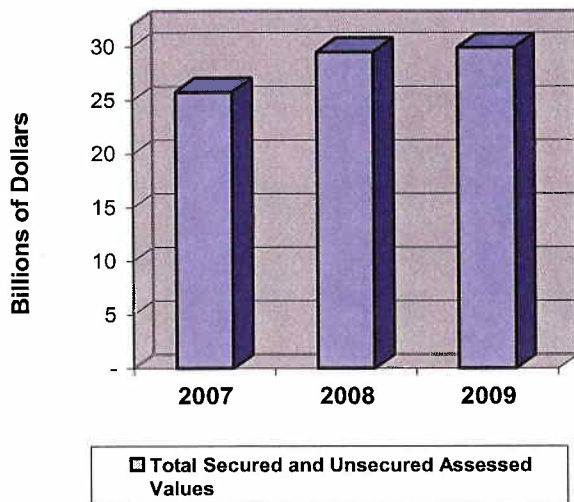
SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

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 July 1, 2008	Additions	Deletions	Balance 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

ASSETS	<u>2009</u>	<u>2008</u>
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
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
Total Current Assets - Unrestricted	<u>40,621,090</u>	<u>38,745,453</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
Total Restricted Cash and Investments	<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	-
Total Restricted Assets	<u>109,386,628</u>	<u>93,083,288</u>
Noncurrent Assets:		
Capital Assets		
Capital assets in service	176,471,684	105,146,786
Accumulated depreciation	(23,961,381)	(23,180,620)
Capital Assets - Net	<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)
Participation Rights in State Water Project Facilities - Net	<u>153,784,051</u>	<u>151,248,590</u>
Total Capital Assets	<u>306,294,354</u>	<u>233,214,756</u>
Construction in progress	672,458	67,771,672
Total Capital Assets and Construction in Progress	<u>306,966,812</u>	<u>300,986,428</u>
Long-Term Receivables		
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
Total Long-Term Receivables	<u>1,027,180</u>	<u>2,615,401</u>
Other Noncurrent Assets		
Water Stock	1,588,500	1,588,500
Total Noncurrent Assets	<u>309,582,492</u>	<u>305,190,329</u>
Total Assets	<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

LIABILITIES	<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>
NET ASSETS		
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>
OPERATING REVENUES		
Water sales	\$ 5,107,362	\$ 6,719,883
OPERATING EXPENSES		
Source of supply:		
Operations, maintenance, power and replacement	17,930,304	12,146,024
Purchased water	5,010,649	7,163,755
	<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	1,588,221	-
	<u>13,073,877</u>	<u>11,616,866</u>
Other operating:		
Depreciation and amortization	8,374,966	6,864,336
Total Operating Expenses	<u>44,389,796</u>	<u>37,790,981</u>
OPERATING LOSS	<u>\$ (39,282,434)</u>	<u>\$ (31,071,098)</u>

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

