

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

San Bernardino, California

Financial Statements

For the years ended June 30, 2011 and 2010



San Bernardino Valley Municipal Water District

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

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements	
Statements of Net Assets at June 30, 2011 and 2010	7
Statements of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2011 and 2010	9
Statements of Cash Flows for the years ended June 30, 2011 and 2010	11
Notes to the Financial Statements	13
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

ROBERT B. MEMORY, C.P.A. (1945-2009)

OF COUNSEL
JAY H. ZERCHER, C.P.A.

PHILLIP H. WALLER, C.P.A.
BRENDA L. ODLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.
MATTHEW B. WILSON, C.P.A.
SCOTT W. MANNO, C.P.A.
LEENA SHANBHAG, C.P.A.

NANCY O'RAFFERTY, C.P.A.
BRADFERD A. WELEBIR, C.P.A.
JENNY LIU, C.P.A.
KATIE L. MILLSOM, C.P.A.
PAPA MATAR THIAW, C.P.A.
MAYA S. IVANOVA, C.P.A.
DANIELLE E. ODGERS, C.P.A.
WILLIAM C. CLAYTON, C.P.A.
SCOTT MILLSOM, C.P.A.
PETER MURRAY, C.P.A.

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

Independent Auditor's Report

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2011, on our consideration of the San Bernardino Valley Municipal Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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VANIR TOWER • 290 NORTH "D" STREET • SUITE 300
SAN BERNARDINO, CA 92401
(909) 889-0871 • (909) 824-6736 • FAX (909) 889-5361
Website: www.ramscpa.net

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Rogers Anderson Malody & Scott, LLP

November 2, 2011

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

The District

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

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

The Basic Financial Statements

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

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

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

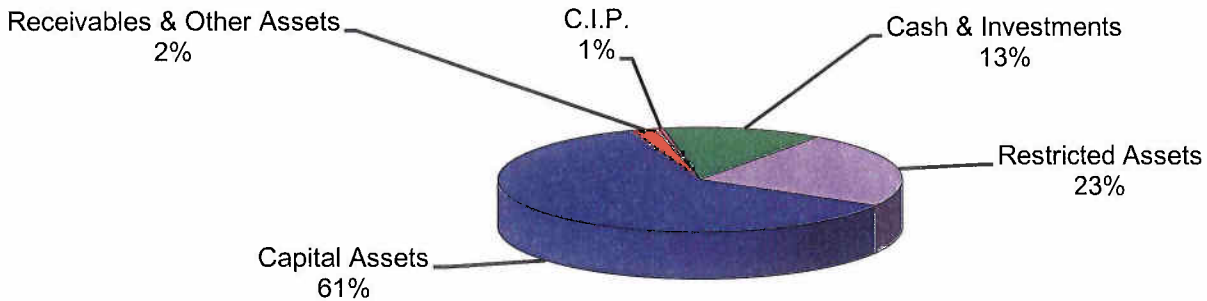
The Statement of Cash Flows conveys to financial statement users how the District managed cash resources during the year. This statement converts the Change in Net Assets presented on the Statement of Revenues, Expenses and Changes in Net Assets into actual cash provided by or used for operations. The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

Summary Financial Information and Analysis

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

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

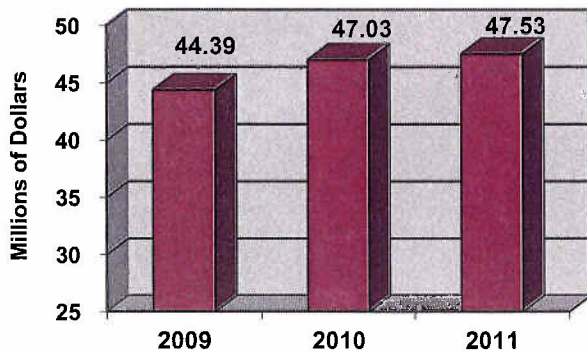
Assets Owned



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

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

Operating Expenses



Financial Statement Summary (In millions)

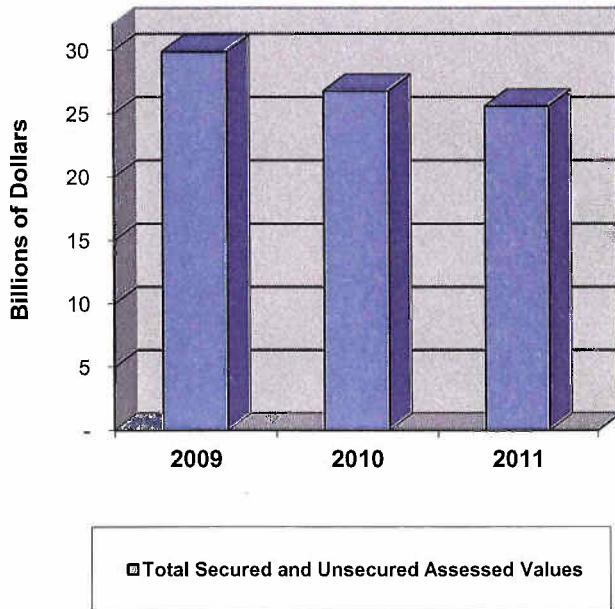
	6/30/11	6/30/10
Current Assets	\$ 67.23	\$ 50.51
Restricted Assets	119.76	116.11
Capital Assets	314.94	312.31
Other Noncurrent Assets	9.53	10.43
Total Assets	511.46	489.36
Total Liabilities	7.48	8.20
Net Assets	503.98	481.16
Revenues		
Water Sales	7.82	5.22
Property Taxes	52.36	55.28
RDA Pass Through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

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

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

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

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



Categories of Net Assets

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

Invested in Capital Assets – Net of Related Debt

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

Restricted – Debt Service

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

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

Unrestricted

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

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

Capital asset activity for the year was as follows:

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

Construction In Progress (CIP)

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

Capital Assets

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

Contacting the District's Financial Management

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

San Bernardino Valley Municipal Water District

Statements of Net Assets
June 30, 2011 and 2010

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

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

San Bernardino Valley Municipal Water District

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

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

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

San Bernardino Valley Municipal Water District

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

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

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

San Bernardino Valley Municipal Water District

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

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

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

San Bernardino Valley Municipal Water District

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

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

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

San Bernardino Valley Municipal Water District

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

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

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

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

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

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

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

San Bernardino Valley Municipal Water District

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

Note 1: Reporting entity and summary of significant account policies

Organization and operations of the reporting entity

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

Measurement focus, basis of accounting and financial statement presentation

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

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

Use of estimates

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

Cash and cash equivalents

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

Investments

Investments are stated at fair value (the value at which financial instruments could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale), in accordance with GASB 31. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

San Bernardino Valley Municipal Water District

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

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

Allowance for doubtful accounts

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

Prepaid expenses

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

Capital assets

Capital assets are stated at original cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is computed using the straight-line method over the estimated service lives of depreciable properties which range from 3 to 75 years. The cost of maintenance is charged to operating expense.

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

Employee benefits

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

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

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

Restricted resources

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

San Bernardino Valley Municipal Water District

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

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

Net assets

Net assets are categorized as follows:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- *Restricted net assets* – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of *restricted* or *invested in capital assets, net of related debt*.

Operating and nonoperating activities

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

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

Property taxes

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

Contributions

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

Management's review of subsequent events

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

Reclassification

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

