

**SAN BERNARDINO VALLEY WATER
CONSERVATION DISTRICT**

REPORT ON AUDIT

JUNE 30, 2008

SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT
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Management's Discussion and Analysis

The District

The San Bernardino Valley Water Conservation District was originally formed on January 4, 1932 under the statutory authority of the California Water Code, Sections 74000-76500, as well as other appropriate California laws.

The District encompasses approximately 50,000 acres of land. Within its boundaries are several cities, municipal water purveyors, public utilities, and other (mutual and private) companies who supply water needs. The primary source of such water is the groundwater basin underlying the District. Within the District boundary, 57 active producers extract approximately 100,000 acre-feet per year through some 227 active wells.

The sole function of the District is to conduct water spreading operations by capturing seasonal and storm flows of the Santa Ana River and Mill Creek, and diverting the water to the District's spreading grounds. This spreading enables the water to percolate into the groundwater basin for the benefit of all producers.

The Basic Financial Statements

The District is a special purpose government, a political subdivision of the State of California, and a water conservation district. Accordingly, the accompanying financial statements are presented in the format prescribed for governmental funds by the Governmental Accounting Standards Board.

These financial statements consist of four 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 Balance Sheet, the Statement of Activities and the Statement of Revenues, Expenditures, and Changes in Fund Balances.

The Statement of Net Assets and the Balance Sheet present 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 Activities and the Statement of Revenues, Expenditures, and Changes in Fund Balances describe the financial results of the District's operations for the year reported. These results, or changes in net assets and fund balances, are the increases or decreases in the bottom line of the Statement of Net Assets and the Balance Sheet.

Summary Financial Information and Analysis

Financial Statement Summary

June 30, 2008	
Total assets	\$ 10,551,137
Total liabilities	\$ 5,177,739
Net assets	\$ 5,373,398
Revenue	\$ 1,634,537
Expenditures/expenses	\$ 2,012,827
Change in net assets	\$ (378,290)

Assets

During the fiscal year ended June 30, 2008, total assets decreased by \$420,347.

The decrease in total assets is due in part to a decrease in mining income of \$324,184 and a decrease in groundwater assessments of \$181,123 which was due primarily to the June 30, 2006 correction of accrued receivables.

Management's Discussion and Analysis

Liabilities

During the fiscal year ended June 30, 2008, total liabilities decreased by \$42,057, consisting of decreases in accounts and accrued payables of \$36,917 and decreases in notes payable of \$5,991.

Revenue and Expenditures/Expenses

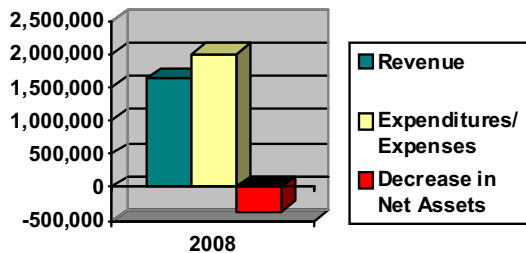
The District's revenue for the fiscal year ended June 30, 2008, decreased \$762,897 from the previous year, due primarily to the decrease in mining rents and royalties and a decrease in groundwater assessments.

The District's expenses for the year increased \$17,577 from the previous year, due in part to increases in legal fees and the use of outside consultants.

Change in Net Assets

Overall, the fiscal year ending June 30, 2008, resulted in a decrease in net assets of \$378,290.

Decrease in Net Assets



Categories of Net Assets

The District is required to present its net assets in three categories: Invested in Capital Assets, net of related debt; Restricted; and Unrestricted.

Invested in Capital Assets

At June 30, 2008, the District had net assets invested in capital assets, net of related debt of \$1,359,770.

Restricted

At June 30, 2008, the District did not have any restricted net assets.

Unrestricted

At June 30, 2008, the District had unrestricted net assets of \$4,013,628.

Capital Assets

Existing Capital Assets

The District had capital assets as of June 30, 2008 totaling \$1,359,770, net of accumulated depreciation of \$642,156.

Future Capital Improvements

The District currently has capital improvement plans in the planning stages totaling \$205,000. This includes channel improvements and outlet structures and pipelines to current infrastructure maintained by the District.

Long-Term Debt

The District did not have any long-term debt as of June 30, 2008.



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors
San Bernardino Valley Water Conservation District
Redlands, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the San Bernardino Valley Water Conservation District (District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of June 30, 2008, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and Budgetary Comparison information on pages i through ii and page 25 are not a required part of the basic financial statements but are 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 required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Organizational Information is presented for purposes of additional analysis and is not a required part of these basic financial statements. The Organizational Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Regus Anderson Malody + Scott, LLP

September 30, 2008

San Bernardino Valley Water Conservation District
Statement of Net Assets
June 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 8,793,685	\$ 25,284	\$ 8,818,969
Mining income receivable	29,411	-	29,411
Interest receivable	67,621	-	67,621
Assessment receivable	270,000	-	270,000
Property tax receivable	5,366	-	5,366
Property and equipment, net	1,005,200	354,570	1,359,770
Total Assets	10,171,283	379,854	10,551,137
LIABILITIES			
Accounts payable	90,402	-	90,402
Accrued payroll and payroll taxes	23,950	-	23,950
Accrued compensated absences - noncurrent	57,562	-	57,562
Security deposits	-	5,825	5,825
Deferred revenue	5,000,000	-	5,000,000
Total Liabilities	5,171,914	5,825	5,177,739
NET ASSETS			
Invested in capital assets, net of related debt	1,005,200	354,570	1,359,770
Unrestricted	3,994,169	19,459	4,013,628
Total Net Assets	\$ 4,999,369	\$ 374,029	\$ 5,373,398

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

San Bernardino Valley Water Conservation District
Statement of Activities
For the Year Ended June 30, 2008

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Regional programs	\$ 79,666	\$ -	\$ 79,666
Professional services	775,948	-	775,948
Field operations	17,577	-	17,577
Vehicle operations	23,419	-	23,419
Utilities	29,048	11,550	40,598
General and administrative	84,506	-	84,506
Benefits	226,628	-	226,628
Salaries / staff	501,702	-	501,702
Insurance	31,216	-	31,216
Board of Directors' expenses	105,592	-	105,592
Administrative / staff expenses	12,823	-	12,823
Management services	-	10,200	10,200
Facility maintenance	-	38,428	38,428
Depreciation	48,665	15,859	64,524
Total Program Expenses	<u>1,936,790</u>	<u>76,037</u>	<u>2,012,827</u>
PROGRAM REVENUES			
Groundwater assessments	609,474	-	609,474
Rents and royalties	385,943	126,809	512,752
Services for other agencies	23,161	-	23,161
Total Program Revenues	<u>1,018,578</u>	<u>126,809</u>	<u>1,145,387</u>
Net Program Expense (Revenue)	<u>918,212</u>	<u>(50,772)</u>	<u>867,440</u>
GENERAL REVENUES			
Property taxes	83,264	-	83,264
Property income	6,000	-	6,000
Investment income	391,474	-	391,474
Other	8,412	-	8,412
TRANSFERS - INTERNAL ACTIVITIES	64,344	(64,344)	-
Total General Revenues and Transfers	<u>553,494</u>	<u>(64,344)</u>	<u>489,150</u>
Change in Net Assets	(364,718)	(13,572)	(378,290)
Net Assets, beginning	<u>5,364,087</u>	<u>387,601</u>	<u>5,751,688</u>
Net Assets, ending	<u>\$ 4,999,369</u>	<u>\$ 374,029</u>	<u>\$ 5,373,398</u>

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

**San Bernardino Valley Water Conservation District
Balance Sheet
Governmental Fund
June 30, 2008**

ASSETS

Cash and investments	\$ 8,793,685
Mining income receivable	29,411
Interest receivable	67,621
Assessment receivable	270,000
Property tax receivable	<u>5,366</u>
 Total Assets	 <u><u>\$ 9,166,083</u></u>

LIABILITIES AND FUND BALANCE

Liabilities	
Accounts payable	\$ 90,402
Accrued payroll and payroll taxes	23,950
Deferred revenue	<u>5,000,000</u>
 Total Liabilities	 <u>5,114,352</u>
 Fund balance	
Unreserved	<u>4,051,731</u>
 Total Fund Balance	 <u>4,051,731</u>
 Total Liabilities and Fund Balance	 <u><u>\$ 9,166,083</u></u>

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

**San Bernardino Valley Water Conservation District
Reconciliation of the Governmental Fund Balance Sheet to the
Statement of Net Assets
June 30, 2008**

Total fund balance - governmental fund	\$ 4,051,731
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets of \$1,552,637, net of accumulated depreciation of \$547,437, are not financial resources and, therefore, are not reported in the funds.	1,005,200
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Compensated absences	<u>(57,562)</u>
Net Assets of Governmental Activities	<u><u>\$ 4,999,369</u></u>

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

San Bernardino Valley Water Conservation District
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2008

REVENUES

Groundwater assessments	\$ 609,474
Investment income	391,474
Property taxes	83,264
Property income	6,000
Mining income	385,943
Exchange plan	23,161
Other	8,412

Total Revenues	1,507,728
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EXPENDITURES

Operating:

Regional programs	79,666
Professional services	710,523
Field operations	17,577
Vehicle operations	29,410
Utilities	29,048
General and administrative	84,506
Benefits	226,628
Salaries/staff	500,851
Insurance	31,216
Board of Directors' expenses	105,592
Administrative/staff expenses	12,823

Capital Outlay:

Construction	-
Equipment and vehicles	6,872
Professional services	65,425

Total Expenditures	1,900,137
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Excess of Revenues Over (Under) Expenditures	(392,409)
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OTHER FINANCING SOURCES

Transfers in	64,344
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Net Change in Fund Balance	(328,065)
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Fund Balance, beginning	4,379,796
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Fund Balance, ending	\$ 4,051,731
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The accompanying notes are an integral part of these financial statements.

**San Bernardino Valley Water Conservation District
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Fund to the
Statement of Activities
For the Year Ended June 30, 2008**

Net change in fund balance - governmental fund	\$ (328,065)
Amounts reported for governmental activities in the statement of activities are different because:	
The increase in the liability for compensated absences is an increase in liabilities that are reported as expenses in the statement of activities but are not reported as expenditures in the governmental fund.	(851)
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Depreciation expense	(48,665)
Capital outlay	6,872
Payments on notes payable are reductions of liabilities and are not reported in the statement of activities but are reported as expenditures in the governmental fund.	<u>5,991</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (364,718)</u></u>

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

San Bernardino Valley Water Conservation District
Statement of Net Assets
Proprietary Fund
June 30, 2008

	<u>REDLANDS PLAZA</u>
ASSETS	
Current Assets	
Cash and investments	<u>\$ 25,284</u>
Total Current Assets	<u>25,284</u>
Noncurrent Assets	
Capital assets, net	<u>354,570</u>
Total Noncurrent Assets	<u>354,570</u>
Total Assets	<u>379,854</u>
 LIABILITIES	
Noncurrent Liabilities	
Security deposits	<u>5,825</u>
Total Noncurrent Liabilities	<u>5,825</u>
Total Liabilities	<u>5,825</u>
 NET ASSETS	
Invested in capital assets, net of related debt	354,570
Unrestricted	<u>19,459</u>
Total Net Assets	<u><u>\$ 374,029</u></u>

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

San Bernardino Valley Water Conservation District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2008

	REDLANDS PLAZA
OPERATING REVENUES	
Rental Income	\$ 126,809
OPERATING EXPENSES	
Maintenance	34,118
Management fee	10,200
Taxes	4,310
Utilities and telephone	11,550
Depreciation	15,859
Total Operating Expenses	76,037
Income Before Transfers	50,772
TRANSFERS	
Transfers out	(64,344)
Change in Net Assets	(13,572)
Net Assets, beginning	387,601
Net Assets, ending	\$ 374,029

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

**San Bernardino Valley Water Conservation District
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from tenants	\$ 126,809
Payments to suppliers	<u>(60,178)</u>
Net Cash Provided By Operating Activities	<u>66,631</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Repayment of advance from General Fund	(47,656)
Transfer to General Fund	<u>(64,344)</u>
Net Cash Used for Noncapital Financing Activities	<u>(112,000)</u>
Net Decrease in Cash	(45,369)
Cash Balance, beginning	<u>70,653</u>
Cash Balance, ending	<u><u>\$ 25,284</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 50,772
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	<u>15,859</u>
Net Cash Provided By Operating Activities	<u><u>\$ 66,631</u></u>

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

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The San Bernardino Valley Water Conservation District (District) was formed in 1932 under the statutory authority of the California Water Code. Its function is to conduct water spreading operations by capturing flood flows of the Santa Ana River and Mill Creek.

The accompanying financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The financial statements include all organizations, activities, and functions that comprise the District. Component units are legally separate entities for which the District (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and, either (1) the District's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the District. Using these criteria, the District has no component units.

The District is engaged in a single governmental activity and also has a proprietary fund.

Government-Wide and Fund Financial Statements

The statement of net assets and the statement of activities are the government-wide financial statements and report information on all of the activities of the District.

The balance sheet and statement of revenues, expenditures, and changes in fund balance report information on the general operating fund of the District.

Information on the proprietary fund is reported on a separate statement of net assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash receipts and disbursements.

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty days after year-end. Expenditures are recorded when a liability is incurred, as under accrual accounting.

Assessment revenues, mining revenues, and interest income are susceptible to accrual and are recognized as revenue in the period assessed or earned.

The proprietary fund is accounted for on a flow of economic resources measurement focus and the accrual basis of accounting.

The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Budgets

The District adopts an annual budget for the general fund. Comparisons between actual and budgeted amounts are made by management and are used as a management tool during the year.

Capital Assets

Capital assets are re-pooled in the government-wide statement of net assets and in the proprietary fund statement of net assets, but are not reported in the general fund financial statements.

Capital assets are capitalized at cost and updated for additions and retirements during the year. Improvements that add to the value of the asset or materially extend the asset's life are capitalized. The costs of normal maintenance and repairs are expensed. The District has elected to not retroactively report major general infrastructure assets. The District is required to capitalize and depreciate infrastructure assets acquired or constructed after June 30, 2004.

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The cost of capital assets is depreciated over the estimated useful lives of the related assets using the straight-line method. The useful lives of capital assets for purposes of computing depreciation are as follows:

General Fund	
Buildings	40-50 years
Automotive equipment	5 years
Office furniture and equipment	5-10 years
Tools and other equipment	5-10 years
Wells	50 years
Proprietary Fund	
Buildings	40 years
Tenant Improvements	
Structural	40 years
Furnishings	10 years

Cash and Investments

The District considers all short-term debt securities with a maturity of three months or less when acquired to be cash equivalents.

Property Taxes

The District assesses its property taxes through the County tax rolls. Property taxes are recognized as revenue when they are both measurable and available.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2: CASH AND INVESTMENTS

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

Statement of net assets:	
Cash and investments	<u>\$ 8,818,969</u>

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2008

NOTE 2: CASH AND INVESTMENTS (continued)

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

Pooled deposits:	
Demand deposits	\$ 152,132
Petty cash	200
Local Agency Investment Fund	<u>8,666,637</u>
 Total cash and investments	 <u><u>\$ 8,818,969</u></u>

Authorized investments

Under provisions of the District's investment policy, and in accordance with Section 53601 of the California Government Code, the District may invest the following types of investments:

Securities of the U.S. Government, or its agencies,
Certificates of deposit (or time deposits) placed with commercial banks
and/or savings and loan companies,
State of California – Local Agency Investment Fund (LAIF),
Checking accounts or passbook savings account demand deposits, and
money market mutual funds.

The district's investment policy is to apply the prudent-person rule: 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 does not contain any specific provisions intended to limit its exposure to a concentration of credit risk.

Interest rate risk

The District's investment policy mitigates interest rate risk by:

- (1) Structuring the District's portfolio so that securities mature to meet the District's cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to their maturation to meet those specific needs;
- (2) Investing primarily in short-term securities; and
- (3) Occasionally restructuring the portfolio to minimize the loss of market value and/or to maximize cash flows.

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2008

NOTE 2: CASH AND INVESTMENTS (continued)

Custodial credit risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will no longer be able to recover collateral securities that are in the possession of an outside 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, other than the following provisions 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 (unless so waived by the governmental unit). 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. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2008, there was a total of \$45,499 in excess of federal depository insurance limits.

Credit risk/pooled cash

The District follows GASBS No. 40 which established the way the District discloses credit, custodial, interest rate, and foreign currency risks. Currently, custodial and interest rate risk are minimal. The District does not own any foreign currency. The District's most significant investment, LAIF, does not have a rating provided by a nationally statistical rating agency.

Disclosures relating to credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical organization. The District currently invests excess monies in the LAIF and checking and savings accounts at local banks. Currently the District mitigates credit risk by:

- (1) Limiting investments to the safest type of securities;
- (2) Pre-qualifying with an established financial institution with which it will do business; and,
- (3) Diversifying the investment portfolio so that a failure of any one issuer or backer will not place an undue financial burden on the District.

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2008

NOTE 2: CASH AND INVESTMENTS (continued)

Concentration of credit risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The District's most significant investment, LAIF, does not have a rating provided by a nationally recognized statistical rating agency.

Fair value of investments

GASBS No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrant and stock rights that have readily determinable fair values. Accordingly, the District reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

Investment in State investment pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Entity's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of 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.

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2008

NOTE 3: CAPITAL ASSETS

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land - spreading basin	\$ 32,537	\$ -	\$ -	\$ 32,537
Land - Mentone shop	64,750	-	-	64,750
Total capital assets, not being depreciated	<u>97,287</u>	<u>-</u>	<u>-</u>	<u>97,287</u>
Capital assets, being depreciated:				
Buildings and paving	319,893	-	-	319,893
Vehicles	123,083	-	-	123,083
Field equipment	76,327	5,813	-	82,140
Wells	317,648	-	-	317,648
Office building	471,244	-	-	471,244
Office equipment	140,283	1,059	-	141,342
Total capital assets, being depreciated	<u>1,448,478</u>	<u>6,872</u>	<u>-</u>	<u>1,455,350</u>
Less accumulated depreciation for:				
Buildings and paving	98,105	7,384	-	105,489
Vehicles	90,297	12,041	-	102,338
Field equipment	77,356	1,294	-	78,650
Wells	14,293	6,352	-	20,645
Office building	106,030	11,781	-	117,811
Office equipment	112,691	9,813	-	122,504
Total accumulated depreciation	<u>498,772</u>	<u>\$ 48,665</u>	<u>\$ -</u>	<u>547,437</u>
Total capital assets, being depreciated, net	<u>949,706</u>			<u>907,913</u>
Governmental activities capital assets, net	<u>\$ 1,046,993</u>			<u>\$ 1,005,200</u>

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2008

NOTE 3: CAPITAL ASSETS (continued)

	Beginning Balance	Additions	Deletions	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 110,250	\$ -	\$ -	\$ 110,250
Total capital assets, not being depreciated	<u>110,250</u>	<u>-</u>	<u>-</u>	<u>110,250</u>
Capital assets, being depreciated:				
Building	244,635	-	-	244,635
Tenant improvements	94,404	-	-	94,404
Total capital assets, being depreciated	<u>339,039</u>	<u>-</u>	<u>-</u>	<u>339,039</u>
Less accumulated depreciation for:				
Building	56,774	10,501	-	67,275
Tenant improvements	22,086	5,358	-	27,444
Total accumulated depreciation	<u>78,860</u>	<u>\$ 15,859</u>	<u>\$ -</u>	<u>94,719</u>
Total capital assets, being depreciated, net	<u>260,179</u>			<u>244,320</u>
Governmental activities capital assets, net	<u>\$ 370,429</u>			<u>\$ 354,570</u>

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2008

NOTE 4: LONG-TERM OBLIGATIONS

The following is a schedule of changes in long-term debt of the District for the fiscal year ended June 30, 2008:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Governmental Activities					
Compensated absences	\$ 56,711	\$ 34,335	\$ 33,484	\$ 57,562	\$ -
Note payable	5,991	-	5,991	-	-
TOTALS	<u>\$ 62,702</u>	<u>\$ 34,335</u>	<u>\$ 39,475</u>	<u>\$ 57,562</u>	<u>\$ -</u>

A. COMPENSATED ABSENCES

The District records the cost of vested vacation and sick leave as it is earned. Vacation pay is payable to employees at the time a vacation is taken or upon termination of employment. Employees may receive payment for unused sick leave upon termination according to a predetermined vesting schedule.

At June 30, 2008, the total accrued liability for compensated absences amounted to \$57,562, \$32,307 and \$25,255 of vested vacation and sick leave, respectively.

NOTE 5: DEFERRED REVENUE

During fiscal year 1993, the District received a \$5,000,000 prepayment against future rentals and royalties to be received for the extraction of rock, sand, and gravel from its Section 7 property. The lease terms call for a commencement date of approximately December 31, 2002, upon lapse of existing easements. The initial term is ten years with four successive five-year renewal periods, minimum annual rents of \$1,000,000, and a minimum aggregate excavation of 12,000,000 tons of materials. In the event the lessee is unable to obtain the necessary permits within four years after the commencement date, the amounts prepaid by the lessee would then become refundable, without interest.

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2008

NOTE 6: LEASE AGREEMENTS

The District is the lessor, in various lease agreements, providing for the excavation and removal of rock, gravel, sand, and other materials from District property. Monthly lease payments are generally based on tonnage of materials removed, subject to annual minimum amounts.

The Redlands Plaza Enterprise Fund is the lessor of commercial building space under operating leases expiring in various years through the year ending June 30, 2013.

The property held for lease consisted of the following:

	Amount
Land, building, and tenant improvements	\$ 449,289
Less: Accumulated depreciation	94,719
Total	\$ 354,570

Minimum future rentals to be received on noncancelable leases as of June 30, 2008 for each of the next 5 years and thereafter are as follows:

Years Ending June 30,	Sand and Gravel Mining	Redlands Plaza	Total
2009	\$ 36,000	\$ 79,786	\$ 115,786
2010	18,000	68,815	86,815
2011	-	52,126	52,126
2012	-	44,347	44,347
2013	-	2,836	2,836
Total Minimum Future Rentals	\$ 54,000	\$ 247,910	\$ 301,910

NOTE 7: DEFINED BENEFIT PENSION PLAN (PERS)

The 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 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.

**San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2008**

NOTE 7: DEFINED BENEFIT PENSION PLAN (PERS) (continued)

All full-time District employees are eligible to participate in PERS with benefits vesting after five years of service. Employees who retire at age 55 are entitled to an annual retirement benefit, payable monthly for life, in increasing percentage increments up to 2.5% of their average full-time monthly pay rate for the highest 12 consecutive months for each year of credited services.

District employees are required to contribute eight percent of their annual covered salary. This requirement is paid by the District on behalf of the employees. Employee contributions amounted to \$38,906 for the year ended June 30, 2008. The District is required to contribute the remaining amounts necessary to fund the system, using the actuarial basis specified by statute. The District was required to contribute \$63,440 for the year ended June 30, 2008. Benefit provisions and all other requirements are established by state statute and District ordinance.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contribution for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2007 to June 30, 2008 has been determined by an actuarial valuation of the plan as of June 30, 2006. The contribution rate indicated for the period is 13.909% of covered payroll. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2008, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2007 to June 30, 2008.

A summary of principal assumptions and methods used to determine the contractually required contributions is shown below for the cost-sharing multiple-employer defined benefit plan.

Valuation Date	June 30, 2006
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	16 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on Age, Service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%.

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2008

NOTE 7: DEFINED BENEFIT PENSION PLAN (PERS) (continued)

Initial plan unfunded liabilities are amortized over a closed period equal to the average amortization period at the plan's date of entry into CalPERS risk pool. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the risk pool are amortized over a rolling 30-year period. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

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 District was required to participate in a risk pool of other organizations with less than 100 employees. The valuation report as of June 30, 2006, contained two sections: 1) the specific information of the plan including the development of the pooled contribution rate, and 2) the report of the Risk Pool Actuarial Valuation as of June 30, 2006.

At the time of joining a risk pool (valuation of June 30, 2003), a side fund was created to account for the difference between the funded status of the pool and funded status of the District's plan. The side fund for the District's plan as of the June 30, 2006 valuation was a negative \$207,868.

The side fund will be credited, on an annual basis, with the actuarial investment return assumption. This assumption is currently 7.75%. The negative side fund will cause the District's required employer contribution rate to be increased by the Amortization of the side fund. In the absence of subsequent contract amendments or funding changes, the side fund will disappear at the end of the amortization period. The amortization period remaining as of June 30, 2006, was 14 years.

Required Supplementary Information

Risk Pool

Valuation Date	Actuarial Liabilities	Actuarial Assets	Unfunded Liabilities (UL)	Funded Ratio	Annual Covered Payroll	UL as a % of Payroll
June 30, 2004	\$ 434,267,445	\$ 379,807,592	\$ 54,459,853	87.5%	\$ 97,227,479	56.0%
June 30, 2005	\$ 579,276,103	\$ 500,388,523	\$ 78,887,580	86.4%	\$ 129,379,492	61.0%
June 30, 2006	\$ 912,988,585	\$ 787,758,909	\$125,229,676	86.3%	\$ 200,320,145	62.5%

Three Year Trend Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2006	\$ 111,592	100%	\$ -0-
June 30, 2007	\$ 99,231	100%	\$ -0-
June 30, 2008	\$ 102,346	100%	\$ -0-

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2008

NOTE 8: RISK MANAGEMENT

The District is exposed to various risks *of loss related to* limited torts; theft of, damage to, and destruction *of assets*; errors and omissions; and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and there have not been any settlements past three years.

NOTE 9: INTERFUND BALANCES

The prior year advance of \$47,656 in the proprietary fund was created during the original construction of the rental facilities. The balance, which was originally in excess of \$320,000, is being repaid, from the operating income of the proprietary fund. The balance was reduced by \$47,656 in the current year. As of June 30, 2008, the balance has been repaid in full.

NOTE 10: FUTURE PRONOUNCEMENTS

In June 2004, the Government Accounting Standards Board issued GASB Statement No. 45, *Reporting by Employers for Post-employment Benefits Other than Pensions*, which is effective for periods beginning after December 15, 2008 for governments whose annual revenues are less than \$10,000,000. Management has elected not to implement the pronouncements in the current fiscal year and has not yet determined the effect, if any, of implementing this statement.

NOTE 11: CONCENTRATIONS

The District has two primary sources of revenue. One is the assessments charged to entities who extract water from the groundwater basin underlying the District. The amount of rainfall in the area can have a significant effect on the amount of water extracted. The second major source of revenue is from mining activities on District property. The building activity in the region has a significant impact on mining revenues.

NOTE 12: CONTINGENCY

The San Bernardino Local Agency Formation Commission (LAFCO) completed the District's Municipal Service Review in 2005. As a result of this review, the LAFCO Board approved an action resulting in a "zero sphere of influence" for the District. This action is a precursor to consolidation of the District with another entity. The District is opposed to this decision and is currently directing staff and special counsel to vigorously oppose any proposed consolidation and to reinstate the District's "sphere of influence."

Required Supplementary Information
San Bernardino Valley Water Conservation District
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Groundwater assessments	\$ 615,000	\$ 615,000	\$ 609,474	\$ (5,526)
Investment income	440,000	440,000	391,474	(48,526)
Property taxes	60,000	60,000	83,264	23,264
Property income	43,000	43,000	6,000	(37,000)
Mining income	646,000	646,000	385,943	(260,057)
Exchange plan	30,000	30,000	23,161	(6,839)
Other	500	500	8,412	7,912
Total Revenues	1,834,500	1,834,500	1,507,728	(326,772)
EXPENDITURES				
Operating:				
Regional programs	73,000	73,000	79,666	(6,666)
Professional services	356,500	356,500	710,523	(354,023)
Field operations	59,000	59,000	17,577	41,423
Vehicle operations	23,600	23,600	29,410	(5,810)
Utilities	25,900	25,900	29,048	(3,148)
General administrative	73,850	73,850	84,506	(10,656)
Benefits	233,310	233,310	226,628	6,682
Salaries/staff	555,000	555,000	500,851	54,149
Insurance	34,400	34,400	31,216	3,184
Board of Directors' expenses	101,350	101,350	105,592	(4,242)
Administrative/staff expenses	22,705	22,705	12,823	9,882
Capital Outlay:				
Construction	213,500	213,500	-	213,500
Equipment and vehicles	24,000	24,000	6,872	17,128
Professional services	15,000	15,000	65,425	(50,425)
Total Expenditures	1,811,115	1,811,115	1,900,137	(89,022)
Excess of Revenues Over (Under)				
Expenditures	23,385	23,385	(392,409)	(415,794)
OTHER FINANCING SOURCES				
Transfers in	-	-	64,344	64,344
Net Change in Fund Balance	23,385	23,385	(328,065)	(351,450)
Fund Balance, beginning	4,379,796	4,379,796	4,379,796	-
Fund Balance, ending	\$ 4,403,181	\$ 4,403,181	\$ 4,051,731	\$ (351,450)

**San Bernardino Valley Water Conservation District
Organizational Information
June 30, 2008**

Organization and Description of the District:

The San Bernardino Valley Water Conservation District was originally formed on January 4, 1932 under the statutory authority of the California Water Code, Sections 74000-76500, as well as other appropriate California laws.

The District is comprised of approximately 50,000 acres of land. Within its boundaries are several municipal water purveyors, public utilities, and other (mutual and private) companies who supply water needs. The source of such water is the groundwater basin underlying the District, of which an average of 150,000 acre-feet per year is extracted through some 300 producing wells by approximately 150 different producers.

The function of the District is to conduct water spreading operations by capturing flood flows of the Santa Ana River and Mill Creek. This spreading enables the water to percolate into the groundwater basin for the benefit of all producers.

Officers and Directors:

Melody McDonald	President
Manuel Aranda, Jr.	Vice President
Richard Corneille	Director
Clare Henry Day	Director
John Longville	Director
Cheryl Tubbs	Director
Arnold L. Wright	Director

General ManagerR. Robert Neufeld