

BELLA VISTA WATER DISTRICT
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Bella Vista Water District
Redding, California

We have audited the accompanying financial statements of Bella Vista Water (District) as of and for the years ended June 30, 2009 and 2008, which 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements and Reporting Guidelines 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 the 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 the District as of June 30, 2009 and 2008, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America as well as the 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 September 22, 2009, on our consideration of the 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 7 is not a required part of the basic 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Nystrom & Company LLP

September 22, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Bella Vista Water District, we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for fiscal year ended June 30, 2009 and 2008. The management discussion and analysis is designed to: 1) assist the reader in focusing on significant financial issues, (2) provide an overview of the District's financial activity, and 3) identify changes in the District's financial position. Please read and review it in conjunction with the District's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- The net assets of the District at the close of the fiscal years 2009 and 2008 total \$22,843,854 and \$23,342,247, respectively. Of this amount, \$5,602,022 and \$6,769,091, respectively (unrestricted net assets) may be used to meet the District's ongoing obligations.
- Total operating revenue reached \$5,811,698 in fiscal year 2009 and \$5,810,419 in fiscal year 2008. Total operating costs and expenses were \$6,995,567 in fiscal year 2009 and \$5,070,736 in fiscal year 2008. The net revenues debt service coverage rates of 1.31% in fiscal year 2009 and 1.32% in fiscal year 2008 meets the required 1.20% by the 1996 Sales Agreement debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's annual financial report is comprised of three components: 1) management's discussion and analysis (this section), 2) financial statements, and 3) notes to the financial statements.

The financial statements provide both long-term and short-term information about the District's overall financial status along with providing the readers with a broad overview in a manner similar to a private-section business. The financial statements also include notes that are essential to fully understand the data provided in the financial statements. The notes to the financial statements can be found in this report and explain some of the information in the financial statements and provide more detailed data.

The District maintains an Enterprise fund which is used to account for its water funds. Various accounts are established within the fund. These accounts are utilized as the accounting device for allocations.

BELLA VISTA WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the District are included in the Statement of Net Assets.

The Statement of Net Assets presents the financial position of the District on a full accrual historical cost basis and provides information about the nature and amount of resources and obligations at year-end.

Net Assets

The following table summarizes the changes between June 30, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>% Change</u>	<u>2007</u>	<u>% Change</u>
Current assets	\$ 7,006,261	\$ 7,099,783	-1.32%	\$ 5,700,805	24.54%
Restricted assets	2,519,210	2,040,256	23.48%	2,050,106	-0.48%
Capital assets	27,698,707	27,710,210	-0.04%	27,051,490	2.44%
Other assets	<u>351,990</u>	<u>382,887</u>	-8.07%	<u>413,785</u>	-7.47%
Total assets	<u>37,576,168</u>	<u>37,233,136</u>	0.92%	<u>35,216,186</u>	5.73%
Current liabilities	1,712,029	1,241,678	37.88%	1,048,587	18.41%
Long-term contracts	463,308	-	100.00%	-	0.00%
Net other post employment benefits	338,367	-	100.00%	-	0.00%
Long-term debt	<u>12,218,610</u>	<u>12,649,211</u>	-3.40%	<u>12,645,118</u>	0.03%
Total liabilities	<u>14,732,314</u>	<u>13,890,889</u>	6.06%	<u>13,693,705</u>	1.44%
Net assets invested in capital, net of related debt	14,722,622	14,532,900	1.31%	14,087,056	3.16%
Restricted net assets	2,519,210	2,040,256	23.48%	2,050,106	-0.48%
Unrestricted net assets	<u>5,602,022</u>	<u>6,769,091</u>	-17.24%	<u>5,385,319</u>	25.70%
Total net assets	\$ <u>22,843,854</u>	\$ <u>23,342,247</u>	-2.14%	\$ <u>21,522,481</u>	8.46%

The net assets decreased at June 30, 2009 in the amount of \$498,393 or approximately -2.14% lower than at June 30, 2008. The increase of net assets at June 30, 2008 was \$1,819,766 or approximately 8% higher than at June 30, 2007. By far, the largest portion of the District's net assets (64% at June 30, 2009 and 62% at June 30, 2008) reflects its investment in capital assets (e.g., land, building, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

BELLA VISTA WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

Changes in Net Assets

The following table summarizes the changes between June 30, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>% Change</u>	<u>2007</u>	<u>% Change</u>
Operating revenues	\$ 5,811,698	\$ 5,810,419	0.02%	\$ 5,793,131	0.30%
Operating costs and expenses:					
Operating expenses	6,408,988	4,463,454	43.59%	4,075,957	9.51%
Depreciation	<u>586,579</u>	<u>607,282</u>	-3.41%	<u>628,427</u>	-3.36%
Total operating expenses	<u>6,995,567</u>	<u>5,070,736</u>	37.96%	<u>4,704,384</u>	7.79%
Operating income (loss)	(1,183,869)	739,683	-260.05%	1,088,747	-32.06%
Net non-operating revenue (expenses)	594,444	785,955	-24.37%	738,324	6.06%
Capital contributions	<u>91,032</u>	<u>294,128</u>	-69.05%	<u>490,869</u>	-40.08%
Change in net assets	(498,393)	1,819,766	-127.39%	2,317,940	-21.49%
Total net assets, beginning of year	<u>23,342,247</u>	<u>21,522,481</u>	8.46%	<u>19,204,541</u>	12.07%
Total net assets, end of year	\$ <u>22,843,854</u>	\$ <u>23,342,247</u>	-2.14%	\$ <u>21,522,481</u>	8.46%

At the end of the current fiscal year, the District is able to report a positive balance in net assets. As stated previously, net assets decreased at June 30, 2009 by \$498,393 or -2.14% lower than at June 30, 2008. The major factor attributable to the change of net assets was the repayment of the CalPERS unfunded liability for prior years of service. As stated previously, net assets increased at June 30, 2008 by \$1,819,766 or 8.46% higher than at June 30, 2007. The major factor attributable to the increase of net assets was an increase in land valuation which created additional assessment revenue and a reduction in operating income.

CAPITAL ASSET AND DEBT ADMINISTRATION

The following table summarizes the changes between June 30, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>% Change</u>	<u>2007</u>	<u>% Change</u>
Land	\$ 95,064	\$ 95,064	0.00%	\$ 95,064	0.00%
Land improvements	122,147	122,147	0.00%	106,469	14.73%
Buildings	762,743	540,260	41.18%	540,260	0.00%
Water system	37,232,528	26,135,268	42.46%	25,741,652	1.53%
General plant equipment	1,483,843	1,427,872	3.92%	1,310,725	8.94%
Office furniture and equipment	271,982	284,428	-4.38%	284,428	0.00%
Lease improvements	483,003	483,003	0.00%	483,003	0.00%
Construction in progress	177,509	10,977,837	-98.38%	10,238,276	7.22%
Less accumulated depreciation	<u>(12,930,112)</u>	<u>(12,355,669)</u>	4.65%	<u>(11,748,387)</u>	5.17%
Total net capital assets	\$ <u>27,698,707</u>	\$ <u>27,710,210</u>	-0.04%	\$ <u>27,051,490</u>	2.44%

BELLA VISTA WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

Major capital asset events that occurred during the current fiscal year included the finalization of the construction of the Water Treatment Plant Improvements. As of June 30, 2009, the District's investment in capital assets was \$27,698,707 (net of accumulated depreciation). This amount represents a net decrease of \$11,503 or 0.04% under June 30, 2008. As of June 30, 2008, the District's investment in capital assets was \$27,710,210 (net of accumulated depreciation). This amount represents a net increase of \$658,720 or 2.44% over June 30, 2007. Major capital asset events that occurred during the prior fiscal year included the construction of the Water Treatment Plant improvements and the construction of a new shop building.

Debt Administration

Long-term debt includes the repayment of the following obligations: United States Department of the Interior, 1996 Installment Sale Agreement and the 1915 Act Special Assessment Bonds (96-1 Assessment) and State of California Department of Water Resources. More detailed information about the debt of the District is set forth in the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The assessed valuation within the District increased \$24.5 million or 4.54% in 2008-2009 fiscal year or in the current tax year (total assessed valuation for 2007-2008 was \$540,536,327 and increased to \$565,092,825 for 2008-2009). The District has continued to see a reduction in the assessed valuation and has taken that into account along with the inflationary trends, the decrease in water sales and the unemployment rate for the County of Shasta in preparing the District's budget for the fiscal year 2009-2010. The District continues to maintain and budget using a 20-year Extraordinary Operations and Maintenance Replacement (EOMR) schedule that assists in planning for long term replacement costs. The costs for these projects are now being reserved and funded yearly by averaging the 20 year estimates from the EOMR schedule. This 2009-2010 budget includes a total of \$6,117,790 in revenue which consists of water sales, county taxes and other funds available for use. The operating budget includes expenses in the amount of \$6,117,790, an increase of \$69,917 from 2008-2009 fiscal year budget of \$6,047,873 or approximately .02%. The District continues to budget for all Capital Improvements under the General Operating Budget as no funds are available from other sources to fund Capital Projects. The District's 2009-2010 Debt Service Schedule was adopted in the amount of \$1,017,487. The Capital Improvement Fees previously collected under the sale of meters continues to fund the 1996 Installment Sale Agreement obligation and Water Treatment Improvement fees are collected on every active account in the amount of \$14.00 which is used to repay the State obligations. Current year projections indicate that meter sales are continuing to drop below the amount necessary to collect for repayment. Since the District has reserved all Capital Improvement fees from past sales, there still remains a reserve to offset any shortfall in the upcoming budget year. Staff continues to work on a rates model planned for presentation to the Board's Finance and Audit Committee and subsequent consideration by the Board of Directors in the current fiscal year.

BELLA VISTA WATER DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or questions for additional financial information should be addressed to the Office Manager, Bella Vista Water District, 11368 E. Stillwater Way, Redding, CA 96003 or by calling (530) 241-1085.

BELLA VISTA WATER DISTRICT
STATEMENTS OF NET ASSETS

	June 30,	
	2009	2008
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 6,277,415	\$ 6,244,922
Cash in Shasta County Treasury	46,100	56,874
Trade accounts receivable, net	494,576	673,364
1915 Act special assessment bonds receivable - current	3,000	3,000
Inventories	48,072	23,063
Deposits and prepaid expenses	137,098	98,560
Total current assets	7,006,261	7,099,783
Restricted Assets:		
Cash and cash equivalents:		
Department of Interior note reserve	73,225	71,379
Capital improvement funds	587,565	409,342
Water treatment plant improvement funds	1,684,385	1,390,054
Palo Cedro special projects	160,963	156,251
1996 Redemption fund	13,072	13,230
Total restricted assets	2,519,210	2,040,256
Capital Assets:		
Non-depreciable land and construction in progress	272,573	11,072,901
Depreciable capital assets, net	27,426,134	16,637,309
Total capital assets	27,698,707	27,710,210
Other Assets:		
Deferred loss on advance refunding	182,827	210,724
1915 Act special assessment bonds receivable - non-current	169,163	172,163
Total other assets	351,990	382,887
Total assets	\$ 37,576,168	\$ 37,233,136

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

BELLA VISTA WATER DISTRICT
STATEMENTS OF NET ASSETS

	June 30,	
	2009	2008
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 344,852	\$ 323,948
Deposits held	20,283	15,822
Accrued wages	68,538	68,746
Accrued interest	176,486	68,024
Accrued benefits and compensated absences	228,568	237,039
Current portion of long-term contract	115,827	-
Current maturities of long-term debt	757,475	528,099
Total current liabilities	1,712,029	1,241,678
Other Liabilities:		
Long-term contract, net of current maturities	463,308	-
Long-term debt, net of current maturities	12,218,610	12,649,211
Net other post employment benefits obligation	338,367	-
Total other liabilities	13,020,285	12,649,211
Total liabilities	14,732,314	13,890,889
NET ASSETS:		
Invested in capital assets, net of related debt	14,722,622	14,532,900
Restricted net assets	2,519,210	2,040,256
Unrestricted net assets	5,602,022	6,769,091
Total net assets	\$ 22,843,854	\$ 23,342,247

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

BELLA VISTA WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS

	Years Ended June 30,	
	2009	2008
OPERATING REVENUES		
Sale of water:		
Residential	\$ 1,415,642	\$ 1,452,228
Commercial and industrial	163,921	170,035
Rural	904,353	970,882
Agricultural	149,088	158,766
Public institution	200,370	218,743
Aquaculture	7,993	9,719
Drought consumption	138,277	13,984
New meters	8,488	11,428
New services	1,724	9,617
New hydrants	9,656	8,080
Cross connections	17,006	17,302
Special assessment	1,860,923	1,798,443
Capital and water treatment improvement fees	720,746	714,473
CVP restoration fees	75,440	82,183
Other charges	138,071	174,536
Total operating revenues	5,811,698	5,810,419
OPERATING EXPENSES		
Wages and salaries	1,530,293	1,536,587
Water purchases and other water costs	565,091	608,473
Depreciation	586,579	607,282
Payroll taxes and benefits	835,344	1,023,806
Payment of unfunded pension liability	1,094,000	-
Postretirement benefits	389,758	-
Repairs and maintenance	1,030,448	422,701
Tools and supplies	22,628	32,269
Equipment rental	2,972	3,002
Chemicals and lab services	119,666	75,219
Utilities and communications	380,437	269,321
Legal and professional	165,897	202,175
General and administrative expenses	127,617	93,308
Insurance	28,568	60,274

(Continued on following page)

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

BELLA VISTA WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS

	Years Ended June 30,	
	2009	2008
OPERATING EXPENSES (Continued)		
Office supplies	38,059	42,722
Education and training	9,977	14,709
Memberships and dues	15,094	15,035
Transportation	44,053	54,621
Janitorial	6,398	4,799
Directors fees	2,688	4,433
Total operating expenses	<u>6,995,567</u>	<u>5,070,736</u>
INCOME (LOSS) FROM OPERATIONS	<u>(1,183,869)</u>	<u>739,683</u>
NON-OPERATING REVENUES (EXPENSES)		
County tax allocation	733,403	720,213
Interest income	157,032	236,266
Interest expense	(293,192)	(192,269)
Loss on disposal of fixed assets	(2,799)	-
Miscellaneous income	-	21,745
Total non-operating revenues (expenses), net	<u>594,444</u>	<u>785,955</u>
CAPITAL CONTRIBUTIONS	<u>91,032</u>	<u>294,128</u>
CHANGE IN NET ASSETS	(498,393)	1,819,766
NET ASSETS, BEGINNING OF YEAR	<u>23,342,247</u>	<u>21,522,481</u>
NET ASSETS, END OF YEAR	<u><u>\$ 22,843,854</u></u>	<u><u>\$ 23,342,247</u></u>

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

BELLA VISTA WATER DISTRICT
STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 4,134,024	\$ 3,940,762
Cash received from special and county tax assessment	1,863,923	1,801,443
Cash paid to suppliers	(2,020,413)	(1,894,734)
Cash paid to employees	(3,522,395)	(2,466,638)
Net cash provided by operating activities	455,139	1,380,833
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash received from county tax allocation	733,403	720,213
Other	-	21,745
Net cash provided by noncapital financing activities	733,403	741,958
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(400,466)	(748,351)
Proceeds from meter replacement grant - USBR	32,632	5,467
Proceeds from long-term debt	333,458	532,192
Principal payments on long-term debt	(534,683)	(319,316)
Interest paid on long-term debt	(275,842)	(508,018)
Net cash used in capital and related financing activities	(844,901)	(1,038,026)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	157,032	236,266
Net cash provided by investing activities	157,032	236,266
NET CHANGE IN CASH AND CASH EQUIVALENTS	500,673	1,321,031
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,342,052	7,021,021
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 8,842,725	\$ 8,342,052

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

BELLA VISTA WATER DISTRICT
STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2009	2008
SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Developers' contributions (contributed capital)	\$ 58,400	\$ 288,661
COMPONENTS OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	\$ 6,277,415	\$ 6,244,922
Cash in Shasta County Treasury	46,100	56,874
Restricted cash and cash equivalents:		
Department of Interior note reserve	73,225	71,379
Capital improvement funds	587,565	409,342
Water treatment plant improvements funds	1,684,385	1,390,054
Palo Cedro storage improvement funds	160,963	156,251
1996 Redemption fund	13,072	13,230
Total cash and cash equivalents	\$ 8,842,725	\$ 8,342,052
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income (loss) from operations	\$ (1,183,869)	\$ 739,683
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:		
Depreciation	586,579	607,282
(Increase) decrease in assets:		
Trade accounts receivable, net	178,788	(72,968)
1915 Act special assessment bonds receivable	3,000	2,500
Inventories	(25,009)	589
Deposits and prepaid expenses	(38,538)	4,782
Increase (decrease) in liabilities:		
Accounts payable	20,904	(1,477)
Deposits held	4,461	2,254
Accrued wages	(208)	66,629
Accrued benefits and compensated absences	(8,471)	31,559
Long-term contract	579,135	-
Net other post employment benefits obligation	338,367	-
Total adjustments	1,639,008	641,150
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 455,139	\$ 1,380,833

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

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The District, a California water district, was formed on June 17, 1957, and was organized as a water district under Division 13 of the Water Code of the State of California. The District's purposes are limited to, "produce, store, and distribute water for irrigation, domestic, industrial and municipal purposes and reclaim lands incidental thereto or connected therewith."

The District operates under an elected Board of Directors. The accounting methods and procedures adopted by the District conform to generally accepted accounting principles (GAAP) as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Consistent with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has elected to apply all Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements. These financial statements present the District and its component units, entities for which the government is considered to be financially accountable under the criteria set by GASB Statement No. 14 and No. 39.

Reporting for component units on the District's financial statements can be blended or discretely presented. Blended component units, although legally separate entities are, in substance, part of the District's operations. Blended component units are an extension of the District and so data from these units are combined with data of the District. Discretely presented component units, on the other hand, are reported in a separate column in the financial statements to emphasize they are legally separate from the District.

The Bella Vista Capital Improvement Authority is governed by the District's Board of Directors, hence, the authority is presented by blending it with the District. There are no discretely presented component units of the District.

In accordance with generally accepted accounting principles, the financial statements of the District do not include the transactions of the 81-1, 86-1, and 86-2 Assessment Districts' special assessment funds. However, they do include the transactions of the 96-1 Special Assessment District.

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BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

BASIS OF ACCOUNTING

The District's activities are accounted for as an enterprise fund (a business-type activity) and the accounting records are maintained on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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.

CASH AND CASH EQUIVALENTS

Cash includes amounts in demand deposits as well as short-term investments with a maturity date from three months to one year of the date acquired by the District.

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

The District reports its investments in external investment pools at market value and the related realized and unrealized gains and losses in the statement of revenues and expenses. Investments in certificates of deposits and investments with remaining maturities of 90 days or less at the date of the financial statements are reported at amortized cost. The fair market value of investments are determined based on quoted market values, or on fair value as provided by the investment trustee, except time deposits, repurchase agreements, reverse repurchase agreements and AB 55 and General Fund loans which are valued at amortized cost.

ACCOUNTS RECEIVABLE

Receivables represent revenues earned but not collected. Receivables are uncollateralized and are valued at cost. Any losses on uncollectible accounts receivable are recognized when such losses become known or indicated. All receivables are adjusted to net realizable value when they are determined to be delinquent based on historical experience.

The allowance for doubtful accounts totaled \$5,000 at June 30, 2009 and 2008.

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009 AND 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 (Continued)

INVENTORIES

Inventories are valued at cost, which approximates market, using the average cost method. The District inventories the valued cost of meters under a pooled average basis.

DEPOSITS AND PREPAID EXPENSES

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid assets.

RESTRICTED ASSETS

Certain loan proceeds as well as certain resources set aside for their repayment are classified as restricted assets because their use is limited by applicable loan covenants. In addition, funds have been restricted for capital improvements, repairs and maintenance.

CAPITAL ASSETS

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related assets, as applicable.

Interest expense that relates to the cost of acquiring or constructing capital assets is capitalized. Interest expense incurred in connection with construction of capital assets has been reduced by interest earned on the investment of funds borrowed for construction in accordance with Financial Accounting Standards Board (FASB) Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax Exempt Borrowings and Certain Gifts and Grants*.

Capitalized interest consists of the following:

	June 30,	
	2009	2008
Interest incurred	\$ 412,201	\$ 421,259
Less amount expensed	<u>(293,192)</u>	<u>(192,269)</u>
Amount to be capitalized	119,009	228,990
Reduced by interest earned	<u>-</u>	<u>-</u>
Capitalized interest, net	<u>\$ 119,009</u>	<u>\$ 228,990</u>

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

CAPITAL ASSETS (Continued)

All purchased capital assets are valued at cost based upon purchasing records when available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at estimated fair market value on the date received.

Accumulated depreciation is reported on the accompanying statements of net assets. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Building	40 years
Land improvements	10 years
Water system	50 years
Equipment	5 to 15 years
Office furniture and equipment	10 years
Filter plant improvements	20 years

DEFERRED LOSS ON ADVANCE REFUNDING

The loss on debt refunding is deferred and amortized over the life of the related debt using the straight-line method.

COMPENSATED ABSENCES

Vested or accumulated sick leave, comp time and floater holiday pay, and vacation pay is recorded as an expense and liability as the benefits accrue to employees. In accordance with the provisions of Governmental Accounting Standards (GASB) Statement No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

NET ASSETS

Net assets represent the difference between assets and liabilities. The District's net assets are classified as follows:

- *Invested in capital assets, net of related debt* – This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component invested in capital assets, net of related debt.

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

NET ASSETS

- *Restricted net assets-expendable* – Restricted expendable net assets represent resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.
- *Unrestricted net assets* – Unrestricted net assets represent resources available for transactions relating to the general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

OPERATING REVENUE AND EXPENSE

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

TAX REVENUES

The County of Shasta assesses, bills and collects property taxes for the District.

The County property tax is levied each November 1st on the assessed valuation of land located in the County as of the preceding lien date (March 1). Taxes are receivable in two equal installments which become delinquent the first working day after December 10th and April 10th.

The County adopted the alternative method of tax apportionment ("Teeter Plan"). The District determined they would participate in this plan. Under the plan the County remits all property taxes and special assessments due to the District without regard to their current or delinquent status.

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

WATER SYSTEM SPECIAL ASSESSMENT

Section 37203 of the Water Code of the State of California, upon a vote of the affected property owners, allows a California Water District to compel the county in which it is located to levy and collect ad-valorem assessments on all lands located within the District, sufficient to raise monies to provide for the operations and debt service of the District. The assessment was authorized by the voters in March, 1964.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BUDGET

The District's budget is adopted on a modified accrual basis, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The annual appropriations lapse at fiscal year end.

RECLASSIFICATIONS

Certain reclassifications have been made to fiscal year 2008 amounts in order to conform to the fiscal year 2009 presentation.

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009 AND 2008

NOTE 2 CASH AND CASH EQUIVALENTS

DEPOSITS

All of the District's deposits in financial institutions are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure local agency deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a local agency's deposits.

Custodial credit risk – The District's deposits were as follows:

	June 30,	
	2009	2008
Carrying amount	\$ <u>8,354,008</u>	\$ <u>7,853,787</u>
Bank balance	\$ 8,350,789	\$ 7,863,472
Amount covered by Federal depository insurance	<u>250,000</u>	<u>100,000</u>
Amount covered by collateral held by agents of pledging banks	<u>\$ 8,100,789</u>	<u>\$ 7,763,472</u>

Collateral was not held in the District's name. (There is no Government Code requirement that collateral be held in the District's name).

EQUITY IN POOLED CASH AND INVESTMENTS

The District also maintains cash equivalents in pools managed by others. The pooled investment funds are both unrated.

	June 30,	
	2009	2008
Pooled investment funds:		
Cash in Shasta County Treasury	\$ <u>46,100</u>	\$ <u>56,874</u>
Local Agency Investment Fund (LAIF)	<u>\$ 442,617</u>	<u>\$ 431,391</u>

The District invests funds in the State Treasurer's Pooled Money Investment Account (PMIA) through the Local Agency Investment Fund (LAIF), a voluntary program created by statute in 1977. The PMIA has regulatory oversight from the Pooled Money Investment Board and an in-house Investment Committee. The Local Agency Investment Advisory Board has oversight of LAIF. The fair value of the District's position in the pool is materially equivalent to the value of pool shares.

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 2 CASH AND CASH EQUIVALENTS
(Continued)

EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

In accordance with authorized investment laws, the State Treasurer's Investment Pool (LAIF) invests in various structured notes and mortgage-backed securities, such as collateralized mortgage obligations. As of June 30, 2009 and 2008, 14.71% and 14.72%, respectively, of LAIF's investment portfolio was invested in structured notes and other asset-backed securities. (Copies can be obtained from the Local Agency Investment Fund, P.O. Box 942809, Sacramento, CA 94209.) PMIA's weighted average maturities was 223.17 days and 191.74 days at June 30, 2009 and 2008, respectively.

The District also invests funds with the Shasta County Treasury's Pooled Money Investment account.

The California Government Code and investment policy of the County authorize the County to invest in obligations, participations, or other investments of the U.S. Government or its agencies, state and municipal bonds, commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by Standard & Poor's Corporation or Moody's Investor Service, Inc., bankers' acceptances, repurchase agreements and the State Treasurer's Investment Pool (Local Agency Investment Fund). The 2009 audited financial statements of the County of Shasta are not yet available. (Copies can be obtained from the County of Shasta, 1450 Court Street, Redding, CA 96001.) As provided in the 2008 audited financial statements for the County of Shasta, cost and fair value are materially equivalent. Accordingly, the District has reported its position in the County Treasury at cost, which approximates fair value as of June 30, 2009. The County Treasury's Pooled Money Investment account's weighted average maturities was 323.22 days and 151.56 days at June 30, 2009 and 2008, respectively.

The pooled treasury has oversight from the Shasta County Treasury Oversight Committee in accordance with California Government Code requirements.

The District is unable to determine whether the County has invested directly or indirectly in any derivative instruments.

Interest Rate Risk – In accordance with its investment policy, the District manages its exposure to declines in fair value by limiting all debt securities to a final maturity of no more than five years.

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 2 CASH AND CASH EQUIVALENTS
(Continued)

EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Credit Risk – The District has a formal investment policy on managing credit risk; the District’s policy and the California Government Code authorize the District to invest in obligations, participations, or other investments of the U.S. Government or its agencies, state and municipal bonds, commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by Standard & Poor's Corporation or Moody's Investor Service, Inc., bankers' acceptances, repurchase agreements and the State Treasurer’s Investment Pool (Local Agency Investment Fund).

Concentration of Credit Risk – The District’s policy limits the amount that may be invested in any one permissible investment type.

NOTE 3 CAPITAL ASSETS

A summary of changes in capital assets for the years ended June 30, 2009 and 2008 is as follows:

	Year Ended June 30, 2009			
	Balance July 1, 2008	Additions	Transfers/ Deletions	Balance June 30, 2009
Non-depreciable capital assets:				
Land	\$ 95,064	\$ -	\$ -	\$ 95,064
Construction in progress	<u>10,977,837</u>	<u>457,273</u>	<u>(11,257,601)</u>	<u>177,509</u>
Non-depreciable capital assets total	<u>11,072,901</u>	<u>457,273</u>	<u>(11,257,601)</u>	<u>272,573</u>
Depreciable capital assets:				
Building	540,260	-	222,483	762,743
Land improvements	122,147	-	-	122,147
Water system	26,135,268	62,142	11,035,118	37,232,528
Equipment	1,427,872	55,971	-	1,483,843
Office furniture and equipment	284,428	2,489	(14,935)	271,982
Filter plant improvements	<u>483,003</u>	<u>-</u>	<u>-</u>	<u>483,003</u>
	28,992,978	120,602	11,242,666	40,356,246
Less accumulated depreciation	<u>12,355,669</u>	<u>586,579</u>	<u>(12,136)</u>	<u>12,930,112</u>
Depreciable capital assets, net	<u>16,637,309</u>	<u>(465,977)</u>	<u>11,254,802</u>	<u>27,426,134</u>
Capital assets, net	<u>\$ 27,710,210</u>	<u>\$ (8,704)</u>	<u>\$ (2,799)</u>	<u>\$ 27,698,707</u>

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 3 CAPITAL ASSETS
(Continued)

	Year Ended June 30, 2008			
	Balance July 1, 2007	Additions	Transfers/ Deletions	Balance June 30, 2008
Non-depreciable capital assets:				
Land	\$ 95,064	\$ -	\$ -	\$ 95,064
Construction in progress	<u>10,238,276</u>	<u>827,434</u>	<u>(87,873)</u>	<u>10,977,837</u>
Non-depreciable capital assets total	<u>10,333,340</u>	<u>827,434</u>	<u>(87,873)</u>	<u>11,072,901</u>
Depreciable capital assets:				
Building	540,260	-	-	540,260
Land improvements	106,469	15,678	-	122,147
Water system	25,741,652	393,616	-	26,135,268
Equipment	1,310,725	29,274	87,873	1,427,872
Office furniture and equipment	284,428	-	-	284,428
Filter plant improvements	<u>483,003</u>	<u>-</u>	<u>-</u>	<u>483,003</u>
	28,466,537	438,568	87,873	28,992,978
Less accumulated depreciation	<u>11,748,387</u>	<u>607,282</u>	<u>-</u>	<u>12,355,669</u>
Depreciable capital assets, net	<u>16,718,150</u>	<u>(168,714)</u>	<u>87,873</u>	<u>16,637,309</u>
Capital assets, net	<u>\$ 27,051,490</u>	<u>\$ 658,720</u>	<u>\$ -</u>	<u>\$ 27,710,210</u>

NOTE 4 ACCRUED BENEFITS AND COMPENSATED ABSENCES

A summary of the liabilities for accrued benefits and compensated absences as of June 30, 2009 and 2008 is as follows:

	June 30,	
	2009	2008
Vacation pay	\$ 87,008	\$ 85,982
Sick leave	108,080	110,993
Comp time and floater holidays	33,480	30,459
Pension	<u>-</u>	<u>9,605</u>
Total	<u>\$ 228,568</u>	<u>\$ 237,039</u>

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 5 LONG-TERM CONTRACT

During the 2008-2009 fiscal year, the District entered into a long-term contract for significant repair and maintenance costs of a water tank. The repairs were completed during the year; however, the contractor has allowed the District to pay for the repairs in 5 annual installments of \$115,827 at zero percent interest.

The future long-term contract payments as of June 30, 2009, are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2010	\$ 115,827
2011	115,827
2012	115,827
2013	115,827
2014	<u>115,827</u>
Total	\$ <u>579,135</u>

NOTE 6 LONG-TERM DEBT

A summary of long-term debt for the years ended June 30, 2009 and 2008 is as follows:

	<u>Year Ended June 30, 2009</u>			<u>Balance June 30, 2009</u>
	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	
Note payable – U.S. Department of the Interior	\$ 727,656	\$ -	\$ 85,000	\$ 642,656
1996 Installment sale agreement	2,436,308	-	245,815	2,190,493
1915 Act Special Assessment bonds	175,163	-	3,000	172,163
State of California Department of Water Resources	<u>9,838,183</u>	<u>333,458</u>	<u>200,868</u>	<u>9,970,773</u>
	\$ <u>13,177,310</u>	\$ <u>333,458</u>	\$ <u>534,683</u>	12,976,085
Less current maturities				<u>757,475</u>
Long-term debt, net of current maturities				\$ <u>12,218,610</u>

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 6 LONG-TERM DEBT
(Continued)

	<u>Year Ended June 30, 2008</u>			<u>Balance June 30, 2008</u>
	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	
Note payable – U.S. Department of the Interior	\$ 812,656	\$ -	\$ 85,000	\$ 727,656
1996 Installment sale agreement	2,668,124	-	231,816	2,436,308
1915 Act Special Assessment bonds	177,663	-	2,500	175,163
State of California Department of Water Resources	<u>9,305,991</u>	<u>532,192</u>	<u>-</u>	<u>9,838,183</u>
	<u>\$ 12,964,434</u>	<u>\$ 532,192</u>	<u>\$ 319,316</u>	13,177,310
Less current maturities				<u>528,099</u>
Long-term debt, net of current maturities				<u>\$ 12,649,211</u>

Note payable – U.S. Department of the Interior – This note is secured by the distribution system of the District. Interest at 3.046% is payable only on the portion of the unpaid balance of the loan allocated to municipal, industrial, and domestic water supply (M & I) for the prior calendar year. Interest calculations through the year 2017 are based on an estimated 35.88% M & I usage. The note is payable through the year 2017 in annual principal installments of \$80,000 to \$85,000 plus interest.

The Department of Interior note agreement requires funds to be set aside in a reserve fund. The agreement requires \$5,000 each year to be deposited into a separate account until at least \$50,000 has been accumulated. The District has currently set aside sufficient funds to satisfy this requirement.

1996 Installment Sale Agreement – During the fiscal year ended June 30, 1996, the District executed an advance refunding agreement to retire the 1992 Certificates of Participation. The District refunded the Certificates by entering into an Amended and Restated Installment Sale Agreement with a third party. The 1996 Installment Sale Agreement is due in semi-annual payments of \$193,586, including interest at 5.95%, which are payable on January 15 and July 15 of each year through 2016. The remaining proceeds from the 1992 Certificates of Participation along with the additional proceeds from the 1996 Installment Sale Agreement are required to be used for the acquisition of and construction of the water supply system.

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009 AND 2008

NOTE 6 LONG-TERM DEBT
 (Continued)

1915 Act Special Assessment Bonds – The District issued Limited Obligation Improvement Bonds (1915 Act), Series A for \$201,470 on August 7, 1997 in order to provide the matching funding required to complete the Logan Road Water Project. The bonds call for semi-annual interest payments at 5% on March 2 and September 2 of each year. Principal payments are due on September 2 of each year through the year 2036, and the principal payment amount ranges from \$3,000 to \$10,200. The bonds are secured by special assessment taxes to be collected by the County of Shasta.

State of California Department of Water Resources – On September 16, 2004, the District entered into a funding agreement with the State of California Department of Water Resources for a construction loan under the Safe Drinking Water State Revolving Fund Law of 1997 to upgrade the District's water treatment plant. The amount of the loan is not to exceed \$10,399,538. Interest is charged at a rate of 2.34% annually. Interest during the construction period was due semi-annually. Principal payments shall commence no later than one year from the project completion date. The project was completed in August 2008 and the first semi-annual principal payment for this loan was due July 1, 2009. The entire amount of the loan plus interest is due and payable within 20 years from the date of the first payment. The loan is collateralized by the revenues from the water treatment plant improvement fees.

The annual debt service requirements to amortize all long-term debt including interest are as follows:

Year Ending June 30,	U.S. Department of the Interior	1996 Installment Sales Agreement	1915 Act Special Assessment Bond (96-1 Logan Road)	State Loan Fund (SDWSTR)	Total
2010	\$ 92,023	\$ 387,172	\$ 11,533	\$ 639,755	\$ 1,130,483
2011	91,091	387,172	11,383	639,755	1,129,401
2012	90,159	387,172	11,721	639,575	1,128,627
2013	89,227	387,172	11,546	639,755	1,127,700
2014	88,295	387,172	11,371	639,755	1,126,593
2015 – 2019	216,656	774,344	57,366	3,198,777	4,247,143
2020 – 2024	-	-	57,416	3,198,777	3,256,193
2025 – 2029	-	-	57,691	2,878,899	2,936,590
2030 – 2034	-	-	55,916	-	55,916
2035 – 2039	-	-	31,921	-	31,921
Total	667,451	2,710,204	317,864	12,475,048	16,170,567
Less: interest	<u>24,795</u>	<u>519,711</u>	<u>145,701</u>	<u>2,504,275</u>	<u>3,194,482</u>
Net principal	<u>\$ 642,656</u>	<u>\$ 2,190,493</u>	<u>\$ 172,163</u>	<u>\$ 9,970,773</u>	<u>\$ 12,976,085</u>

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 7 EMPLOYEE BENEFIT PLANS

DEFINED BENEFIT PLANS

Qualified employees are covered under a cost-sharing multiple-employer defined benefit pension plan maintained by the Public Employees' Retirement System.

A. Plan Descriptions and Provisions

All full-time employees participate in the CalPERS, a cost-sharing multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The Bella Vista Water District is part of a "cost-sharing" pool within CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 60, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit.

Retirement after age 60 will increase the percentage rate to a maximum of 2.418 percent at age 63. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest credited through the date of separation.

The Public Employees' Retirement Law (Part 3 of the California Government Code, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

B. Funding Policy

Active plan members are required to contribute 7.0% of their salary (7.0% of monthly salary over \$133.33 if the member participates in Social Security) which is currently paid by the District. Also, the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2009, was 16.468% of annual payroll. The contribution requirements of the plan members are established by State statutes.

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009 AND 2008

NOTE 7 EMPLOYEE BENEFIT PLANS
 (Continued)

DEFINED BENEFIT PLANS (Continued)

B. Funding Policy (Continued)

The District's required contributions for the last three years are as follows:

Year Ended June 30,		
2007	2008	2009
\$ <u>302,885</u>	\$ <u>305,787</u>	\$ <u>264,919</u>

All contributions were made in accordance with actuarially determined requirements and equal 100% of the required contribution for each year.

During the year ended June 30, 2009, the District paid off the unfunded liability portion of the required contributions to CalPERS. The required employer contribution rates are now 6.387% of annual payroll.

DEFERRED COMPENSATION PLAN

The District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all District employees, permits them to defer a portion of their salary up to legal limit until future years. Participation in the Plan is optional. The District currently has two options employees can voluntarily defer to VALIC or CalPERS. The deferred compensation balance is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights, are held in trust for the "exclusive benefit of governmental plan participants." Consistent with this, the District has no rights to these monies and, therefore, Plan assets and liabilities are not reported on the District's financial statements.

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009 AND 2008

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN

A. Plan Description

The District contracts for health care for its active and retired employees under the Public Employee Medical Health Care Act (PEMCHA) (the Plan). The Plan provides lifetime healthcare insurance for eligible employees and their eligible family members through the District's group insurance plan which covers both active and retired members. Benefit provisions are established and may be amended by the District's Board of Directors as authorized by bylaws. The Plan provides for the District to contribute between 75 and 100 percent of the cost of health insurance premiums for retirees and their eligible family members. The Plan does not issue a publicly available report.

B. Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$ 389,758
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost	389,758
Contributions made	<u>51,391</u>
Increase in net OPEB obligation	338,367
Net OPEB obligation, beginning of year	<u>-</u>
Net OPEB obligation, end of year	\$ <u>338,367</u>

Fiscal year 2009 was the year of implementation of GASB Statement No. 45 and the District has elected to implement prospectively. Therefore, prior year comparative data is not available. In future years, three-year trend information will be presented.

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN
(Continued)

C. Funding Policy, Funded Status, and Funding Progress

The District contributes between 75 and 100 percent of the cost of current-year premiums for eligible retired Plan members and their eligible family members depending on the date of hire. For fiscal year 2009, the District contributed \$51,391 to the Plan.

As of June 30, 2008, the actuarial accrued liability for benefits was \$3,758,378, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the Plan) was \$1,537,066, and the ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll was 244.52 percent.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

D. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following simplifying assumptions were made:

Assumptions About Employees and Members – Based on the historical average retirement age of the covered group, active plan members were assumed to retire at age 60 or the first year thereafter in which the member would qualify for benefits. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on mortality tables published by the National Center for Health Statistics. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using non-group-specific age-based turnover data from GASB Statement No. 45.

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PLAN
(Continued)

D. Actuarial Methods and Assumptions (Continued)

Assumptions About Healthcare Costs – The 2008 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The expected rate of increase in health insurance premiums initially used a select rate of 9 percent, with reduction to the ultimate rate of 5 percent after four years.

Other Assumptions and Methods – The inflation rate was assumed to be 2.50 percent. A simplified version of the entry age actuarial cost method was used in the actuarial valuation. The UAAL is amortized over a thirty-year period as a level percent of projected payroll on an open basis. Payroll was assumed to grow over the long-term at the same rate as inflation.

NOTE 9 SPECIAL ASSESSMENT BONDS

Special assessment bonds are used for the provision and financing of public improvements which primarily benefit the particular taxpayers against whose properties special assessments are levied. Property owners are given the option of paying their special assessments in a lump sum or in interest-bearing annual installments over a number of years. Special assessment bonds issued to finance initial construction costs are secured by liens on the property of those taxpayers electing to pay their assessments in annual installments.

The Governmental Accounting Standards Board (GASB) issued Statement No. 6, *Accounting and Financial Reporting for Special Assessments* in January, 1989. Reporting requirements for governments vary under this statement, dependent on whether or not the government is obligated in some manner for special assessment debt.

In accordance with legal requirements pertaining to the sale of 1915 Act special assessment bonds, a reserve fund was established out of the proceeds of the bond sale and is utilized to cover delinquencies by property owners.

Delinquencies, if any, at June 30, 2009 and 2008, are immaterial and are covered by the Teeter Plan.

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009 AND 2008

NOTE 9 SPECIAL ASSESSMENT BONDS
 (Continued)

The liability for the payment of the outstanding 1915 Act special assessment bonds are reported and disclosed in Note 5.

In accordance with GASB Statement No. 6, the District determined that it has no liability for the payment of outstanding 1911 Act special assessment bonds under California Law. The District does not record any activity of these bonds on its financial statements as Shasta County is designated by the bond document as the collection and disbursement agent and currently collects all annual special assessment installments and pays off the bonds as they become due.

The following reflects the outstanding 1911 Act special assessment bonds:

	June 30,	
	2009	2008
Palo Cedro South 86-2	\$ <u>50,280</u>	\$ <u>62,470</u>

NOTE 10 SELF-INSURANCE

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The JPIA provides joint protection coverage for losses in excess of the District's self-insurance retention levels. Claims in excess of specified levels are covered by excess insurance policies purchased from commercial insurance carriers. There has been no significant reduction in coverage over the last three years.

The District has an agreement with the JPIA to provide auto and general liability insurance and property insurance. Under the agreement the District has no self-insured retention for auto and general liability insurance and excess insurance coverage to \$40,000,000. The property insurance fund provides for a self-insured retention of \$10,000 except for \$2,500 for auto and for mobile equipment and excess insurance coverage to \$50,000,000.

The District has an agreement with the JPIA to provide error and omissions insurance of \$1,000,000 per incident with a \$100,000 deductible.

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009 AND 2008

NOTE 10 SELF-INSURANCE
 (Continued)

The District also participates in the JPIA workers' compensation insurance program. Under the agreement, the District has no self-insured retention, and insurance coverage to statutory limits.

The premiums billed by the JPIA to member districts are planned to match the expenses of the self-insurance as well as the cost of providing the excess layer coverage and the cost of administering the plans.

NOTE 11 RESTRICTED NET ASSETS

Restricted net assets consist of the following:

	June 30,	
	2009	2008
<u>Department of Interior Note Reserve</u> – The purpose of these funds is to ensure that the District maintains adequate financial capability to meet unusual and unforeseen extraordinary operation and maintenance costs as per the Bureau contracts.	\$ 73,225	\$ 71,379
<u>Capital Improvement Fund</u> – This fund was established to deposit capital improvement fees charged for use towards the construction and improvement of District facilities and to maintain adequate facilities as growth in the District occurs. The fees collected are currently obligated to service the 1996 Sales Agreement.	587,565	409,342
<u>Water Treatment Plant Improvements</u> – This fund was established to deposit fees charged for the water treatment plant improvements required by the California Department of Health Services, and to service the debt established.	1,684,385	1,390,054

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009 AND 2008

NOTE 11 RESTRICTED NET ASSETS
 (Continued)

	June 30,	
	2009	2008
<p><u>Palo Cedro Special Projects</u> – Pursuant to Resolution 87-38, the purpose of this reservation was to reduce the initial construction cost of the Palo Cedro South Project. Agreement by the property owners was made whereby a capital facilities charge would be levied upon property owners at such time as they choose to connect to the system. The funds are specifically allocated to the construction of improvements at such time as it becomes necessary.</p>	160,963	156,251
<p><u>1996 Redemption Fund</u> – This fund was established to deposit the revenues collected by the County of Shasta for the 96-1 Assessments and repay the obligation with the USDA.</p>	13,072	13,230
	\$ <u>2,519,210</u>	\$ <u>2,040,256</u>

NOTE 12 DESIGNATED UNRESTRICTED NET ASSETS

Designated unrestricted net assets consist of the following:

	June 30,	
	2009	2008
<p><u>Contingency Fund</u> – This fund was established as an appropriation and interfund transfer account, as needed, for cash flow purposes.</p>	\$ 3,812,457	\$ 2,734,037
<p><u>Irrigation Users</u> – These funds were received from a rebate for the CVPIA Restoration funds previously paid by agricultural users. A large portion of the funds was refunded to the customers. The balance of the funds was deposited to maintain rate stabilization and to keep the O & M deficit at a zero balance.</p>	6,569	49,153
<p><u>Maintenance and Improvements Deficit</u> – This fund was established to fund current year M & I operating deficit charged by the Department of the Interior.</p>	503,777	387,363

(Continued on following page)

BELLA VISTA WATER DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2009 AND 2008

NOTE 12 DESIGNATED UNRESTRICTED NET ASSETS
 (Continued)

	June 30,	
	2009	2008
<u>Major Repair</u> – This fund was established as an emergency fund to make repairs to any major water lines or facilities.	138,671	135,274
<u>Extraordinary Operations Maintenance Replacement</u> – This fund was established to assist the District in long-term planning and budgeting for extraordinary major maintenance and replacement costs the District is going to be faced with for its aging facilities and infrastructure. In addition, a separate allocation under this fund was created to assist the District in the purchase of vehicles and large equipment items. It is the goal of the District to smooth the impact of these significant costs over many years rather than a significant impact to any one year.	682,484	835,956
	<u>\$ 5,143,958</u>	<u>\$ 4,141,783</u>

NOTE 13 COMMITMENTS AND CONTINGENCIES

PROPOSITION 218

Proposition 218, which was approved by the voters in November, 1996, and amended Article 13 of the State Constitution, regulates the District's ability to impose, increase and extend taxes, assessments and fees. New, increased, or extended taxes, assessments, and fees are subject to the provisions of Proposition 218. This decision was upheld and broadly interpreted to include water rates and charges in the recent court decision of *Bighorn-Desert View Water Agency vs. Virjil* which states "an agency may not adopt a rate increase if written protests against the proposed fee or charge are presented by a majority" of the affected property owners. In addition, Proposition 218 states that these rates will be fair, equitable and cost based. Therefore, the District's ability to finance the services for which the taxes, assessments and fees are imposed in the future may be impaired. However, management believes it will be able to maintain the current level of revenue it now receives. Recent legislation (AB 1260 CABELLERO) clarifies the process required to revise fees and rates.

(Continued on following page)

BELLA VISTA WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 13 COMMITMENTS AND CONTINGENCIES
(Continued)

SURFACE WATER TREATMENT RULE

The District's water treatment plant improvements have been made and it is in compliance with the federal "Surface Water Treatment Rule." The final costs of these improvements resulted in a borrowing of approximately \$10,500,000. Construction of these improvements began in 2004 and was completed in August 2008.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Bella Vista Water District
Redding, California

We have audited the basic financial statements of Bella Vista Water District, as of and for the year ended June 30, 2009 and have issued our report thereon dated September 22, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bella Vista Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bella Vista Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bella Vista Water District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Bella Vista Water District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Bella Vista Water District's financial statements that is more than inconsequential will not be prevented or detected by Bella Vista Water District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Bella Vista Water District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bella Vista Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal or state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

September 22, 2009