

VALLEY OF THE MOON WATER DISTRICT

BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

**VALLEY OF THE MOON WATER DISTRICT
FINANCIAL STATEMENTS**

JUNE 30, 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Valley of the Moon Water District
El Verano, California

We have audited the accompanying basic financial statements of the Valley of the Moon Water District (District) as of and for the fiscal year ended June 30, 2010, as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Valley of the Moon Water District as of June 30, 2010, and the changes in financial position and cash flows, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

The District adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, effective July 1, 2009.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 20, 2010, on our consideration of the Valley of the Moon Water District's internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
September 20, 2010

Management's Discussion and Analysis

The Management's Discussion and Analysis of the Valley of The Moon Water District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2010. Please read this in conjunction with the financial statements as listed in the Table of Contents.

Using This Financial Report

This annual report consists of three required financial statements. The "Comparative Statement of Net Assets" is similar to a "Balance Sheet" of a private sector (commercial) entity. Assets and Liabilities are reported in this statement.

The "Comparative Statement of Revenues, Expenses, and Changes in Net Assets" reports revenues and expenses of the District and is similar to an "Income Statement" of a commercial enterprise.

The "Statement of Cash Flows" reports what activity occurred that caused increases and decreases in cash. This is very similar to a private sector cash flow statement. Increases or decreases in cash are segregated into natural categories such as "Operating Activities", "Capital and Related Financing Activities", "Non-Capital and Related Financing Activities", and "Investing Activities".

All statements are in comparative form to facilitate comparison to last fiscal year's financial activity.

The Comparative Statement of Net Assets

Condensed comparative information is as follows:

	<u>6/30/2010</u>	<u>6/30/2009</u>	<u>Change</u>
<u>ASSETS</u>			
Current Assets	\$3,503,173	\$4,059,825	\$(566,652)
Net Capital Assets	22,654,027	23,033,383	(379,356)
Other Non-Current Assets	568,409	39,000	529,409
TOTAL ASSETS	26,725,609	27,132,208	(406,599)
<u>LIABILITIES</u>			
Current Liabilities	544,622	335,561	209,061
Long-Term Liabilities	3,092,174	3,033,018	59,156
<u>NET ASSETS</u>			
Invested in Capital Assets (net of related debt)	19,928,921	20,163,348	(234,427)
Unrestricted	3,159,892	3,600,281	(440,389)
<u>TOTAL NET ASSETS</u>	\$23,088,813	\$23,763,629	\$(674,816)

The District’s primary assets are property and equipment, investments held with the State LAIF Account and the County of Sonoma Treasury, as well as current assets such as accounts receivable and operating cash.

At the end of the fiscal year, the District had \$2,919,054 in investments included in “Current Assets” shown in the table on the previous page – \$1,291,639 in the State Investment Pool and \$1,627,415 with the Sonoma County Investment Pool.

The Comparative Statement of Activities and Changes in Net Assets

Condensed financial information is as follows:

<u>OPERATING REVENUES</u>	<u>6/30/2010</u>	<u>6/30/2009</u>	<u>Change</u>
Sale of Water and Service Charges	\$3,404,501	\$3,613,791	\$(209,290)
<u>OPERATING EXPENSES</u>			
Water Purchases	1,324,644	1,265,764	58,880
Plant Operating Expenses	818,712	786,181	32,531
General & Administrative Expenses	918,463	862,999	55,464
TOTAL OPERATING EXPENSES	3,061,819	2,914,944	146,875
Operating Income Before Depreciation & Amortization	342,682	698,847	(356,165)
Depreciation & Amortization	826,140	750,952	75,188
<u>OPERATING INCOME (LOSS)</u>	(483,458)	(52,105)	(431,353)
<u>NON-OPERATING REVENUES / (EXPENSES)</u>			
Income (Loss) Before Capital Contributions and Special Items	(27,181)	(5,429)	(21,752)
Capital Contributions	78,454	1,165,930	(1,087,476)
Settlement Agreement	(242,631)	0	(242,631)
<u>CHANGE IN NET ASSETS</u>	\$(674,816)	\$1,108,396	\$(1,783,212)

The District’s operating revenue decreased by \$209,290 or 5.8%. The District’s customer base is relatively stable. Changes in the water sales revenue are primarily attributable to a combination of factors including 1) changes in weather conditions, 2) a slight annual increase in the water rates, 3) a minimal addition of new customer accounts, and 4) a call for a 15% voluntary reduction in water use due to constraints in the Russian River water supply.

Water purchases increased \$58,880 or 4.7% over last fiscal year. The District’s unit cost of water bought from the Sonoma County Water Agency went up from \$486.21 per acre foot to \$622.12 per acre foot. This represents a 27.95% increase. The increase in water purchase costs is primarily due to the increased unit cost.

Compared to the prior fiscal year, plant operating expenses increased \$32,531 or 4.1% and general and administrative expenses increased \$55,464 or 6.4% over the prior fiscal year. Notable increases in this category include water testing (\$21,000), utilities (\$12,000), and OPEB expenses (\$65,000).

Included in the Statement of Activities under “Capital Contributions” are developer projects. The decrease of \$1,087,476 over last fiscal year is due to a decrease in developer activity.

Debt Administration

The District’s long term loan with the Sonoma Valley Bank decreased this year to \$1,982,833 due to the planned FY 2009-10 principal payment of \$116,202. The District’s long term loan with the California Infrastructure and Economic Development Bank decreased this year to \$778,273 due to the planned FY 2009-2010 principal payment of \$31,727.

Capital Assets

As reflected in the notes to the financial statements, the District’s total planned capital improvements over the next five fiscal years amounts to \$3,353,750. Amounts for each fiscal year are given below:

<u>Year</u>	<u>Amount</u>
2010/11	\$ 1,540,500
2011/12	425,000
2012/13	488,250
2013/14	395,000
2014/15	505,000
<hr/>	
Total	\$ 3,353,750

Scheduled projects may be extended or shortened somewhat depending on available capital funding and project needs.

Request for additional information

This financial report is designed to provide a general overview of the District’s finances for all those with an interest in its finances. If you have any questions concerning any information provided in this report or need additional information, please contact the District office at (707) 996-1037.

Krishna Kumar
General Manager

VALLEY OF THE MOON WATER DISTRICT
COMPARATIVE STATEMENT OF NET ASSETS
June 30, 2010
With Comparative Statement as of June 30, 2009

	June 30, 2010	June 30, 2009
ASSETS		
CURRENT ASSETS		
Cash and Investments	\$ 2,993,332	\$ 3,525,018
Accounts Receivable	438,875	463,288
Interest Receivable	5,576	13,490
Other Receivables	1,678	2,477
Inventory	49,384	42,543
Prepaid Expenses	14,328	13,009
TOTAL CURRENT ASSETS	3,503,173	4,059,825
NONCURRENT ASSETS		
Land	215,795	215,795
Construction in Progress	250,019	45,094
Utility, Plant & Equipment	32,987,613	32,748,754
Less-Accumulated Depreciation	(10,799,400)	(9,976,260)
TOTAL CAPITAL ASSETS, NET	22,654,027	23,033,383
OTHER NONCURRENT ASSETS		
Prepaid Post-employment Benefits	532,409	
Loan Fees (Net of Amortization)	36,000	39,000
TOTAL OTHER NONCURRENT ASSETS	568,409	39,000
TOTAL ASSETS	26,725,609	27,132,208
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	364,866	154,471
Accrued Wages	38,469	36,332
Accrued Interest	98,247	103,818
Customer Deposits	43,040	40,940
TOTAL CURRENT LIABILITIES	544,622	335,561
LONG TERM LIABILITIES		
Due within One Year	203,581	147,868
Due in More Than One Year	2,888,593	2,885,150
TOTAL LONG TERM LIABILITIES	3,092,174	3,033,018
TOTAL LIABILITIES	3,636,796	3,368,579
NET ASSETS		
Invested in Capital Assets, net of Related Debt	19,928,921	20,163,348
Unrestricted	3,159,892	3,600,281
TOTAL NET ASSETS	\$ 23,088,813	\$ 23,763,629

See accompanying notes to basic financial statements

VALLEY OF THE MOON WATER DISTRICT
COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2010
With Comparative Statement for the Fiscal Year Ended June 30, 2009

	June 30, 2010	June 30, 2009
Operating Revenues		
Water Sales	\$ 3,404,501	\$ 3,613,791
Total Operating Revenues	3,404,501	3,613,791
Operating Expenses		
Water Purchases	1,324,644	1,265,764
Plant Operating Expenses	818,712	786,181
General and Administrative Expenses	918,463	862,999
Depreciation	823,140	747,952
Amortization	3,000	3,000
Total Operating Expenses	3,887,959	3,665,896
Operating Income (Loss)	(483,458)	(52,105)
Non-Operating Revenues (Expenses)		
Other Income	79,298	57,829
Interest Earned	27,644	69,886
Gain (Loss) on Sale of Capital Assets	(2,880)	2,700
Interest Expense	(131,243)	(135,844)
Total Non-Operating Revenues (Expenses)	(27,181)	(5,429)
Net Income (Loss) Before Capital Contributions and Special Items	(510,639)	(57,534)
Capital Contributions and Special Items		
Capital Contributions	78,454	1,165,930
Settlement Expense	(242,631)	
Total Capital Contributions and Special Items	(164,177)	1,165,930
Change in Net Assets	(674,816)	1,108,396
Total Net Assets, Beginning of Fiscal Year	23,763,629	22,655,233
Total Net Assets, End of Fiscal Year	\$ 23,088,813	\$ 23,763,629

See accompanying notes to basic financial statements

VALLEY OF THE MOON WATER DISTRICT
COMPARATIVE STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2010
With Comparative Statement for the Fiscal Year Ended June 30, 2009

	June 30, 2010	June 30, 2009
Cash Flows From Operating Activities		
Cash Received from Customers	\$ 3,431,813	\$ 3,680,686
Payments to Suppliers for Goods and Services	(2,735,078)	(2,375,101)
Payments to Employees and Related Items	(641,798)	(679,354)
Net Cash Flows Provided by Operating Activities	54,937	626,231
Cash Flows From Capital and Related Financing Activities		
Acquisition of Capital Assets	(446,664)	(1,865,607)
Proceeds from Sale of Surplus Property		2,700
Proceeds from Issuance of Long Term Debt		810,000
Payment on Long Term Debt	(196,455)	(109,992)
Interest Payments	(136,814)	(130,291)
Capital Contributions	78,454	1,165,930
Net Cash Flows (Used) by Capital and Related Financing Activities	(701,479)	(127,260)
Cash Flows From Non-Capital and Related Financing Activities		
Miscellaneous Non-Operating Revenues	79,298	57,829
Net Cash Provided by Non-Capital and Related Financing Activities	79,298	57,829
Cash Flows From Investing Activities		
Interest Income	35,558	78,581
Net Cash Flows Provided by Investing Activities	35,558	78,581
Net Increase (Decrease) in Cash and Investments	(531,686)	635,381
Cash and Investments, Beginning of Fiscal Year	3,525,018	2,889,637
Cash and Investments, End of Fiscal Year	\$ 2,993,332	\$ 3,525,018
Reconciliation of Cash and Investments to Amounts Reported on the Statement of Net Assets:		
Cash and Investments	\$ 2,993,332	\$ 3,525,018
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:		
Operating Income (Loss)	\$ (483,458)	\$ (52,105)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	823,140	747,952
Amortization	3,000	3,000
(Increase) Decrease in Other Receivables	799	1,799
(Increase) Decrease in Accounts Receivable	24,413	68,056
(Increase) in Inventory	(6,841)	8,449
(Increase) in Prepaid Expenses	(1,319)	(129)
(Increase) in Prepaid Post-employment Benefits	(532,409)	
Increase in Accounts Payable	210,395	(159,434)
Increase in Accrued Wages	2,137	5,047
Increase in Customer Deposits Payable	2,100	(2,960)
Increase in Compensated Absences	12,980	6,556
Total Adjustments	538,395	678,336
Net Cash Provided by Operating Activities	\$ 54,937	\$ 626,231

See accompanying notes to basic financial statements

VALLEY OF THE MOON WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2010

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Valley of the Moon Water District (District) was formed in 1960 through an election under Division 12, Section 30000 of the California State Water Code for the primary purpose of providing adequate quantities of potable water to all properties located within the District.

The District accounting policies conform to accounting principles generally accepted in the United States of America as applicable to governments, in accordance with the uniform system of accounts for water utility special enterprise districts as prescribed by the State Controller in compliance with the government code of the State of California.

B. Method of Accounting

The District follows the accrual basis of accounting. The District's policy is to record all assets, liabilities, revenues, and expenses on the accrual basis of accounting and the flow of economic resources measurement focus.

Under this method, revenue is recognized when earned and expenses are recognized when the related liability is incurred. Receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

C. Budgetary Reporting

The Board of Directors adopts the budget by passage of a resolution prior to July 1st, for the new fiscal year. The general manager is authorized to transfer budgeted amounts within departments; however, any revisions that alter the total appropriations must be approved by the Board of Directors.

D. Inventories

Materials, supplies, and gasoline are valued using the first-in-first-out method.

E. Deferred Charges

Loan fees are amortized over 20 years; organization and master water plan costs are amortized over 5 years.

F. Capital Assets

Land, structures, and improvements are recorded at cost at the time of purchase, or if constructed, at the completion of the construction. Contributed assets are recorded at their fair value at the time of transfer to the District. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Specifically, transmission and distribution mains are depreciated over 67 years; wells, springs, and tunnels over 30 years; reservoirs and tanks over 50 years; equipment over 5-25 years; meters over 20 years; and structures and improvements over 25 years.

VALLEY OF THE MOON WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2010

Note 1: Summary of Significant Accounting Policies (Continued)

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) 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.

H. Proprietary Fund Accounting

The District has one fund which is considered a proprietary fund.

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has opted to apply all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

Operating revenues in the proprietary fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operation of the fund. All other expenses are reported as non-operating expenses.

I. Flexible Benefits Plan

The District has established a benefits plan including a Dependent Care Expense Reimbursement Plan and a Medical Care Expense Reimbursement Plan. Pre-tax premium elections under the plan are intended to qualify for the exclusion from income provided by Section 125 of the Internal Revenue Code. At present, this plan is only used for medical premiums.

J. New Accounting Pronouncements

The District has implemented the requirements of GASB Statements No. 45, 51, 53, 57, and 58 during the fiscal year ended June 30, 2010.

GASB Statement No. 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions

This Statement is effective for periods beginning July 1, 2009. This Statement establishes standards for accounting and financial reporting for state and local government employees that offer “Other Postemployment Benefits” (OPEB) and requires accrual basis measurement and recognition of OPEB expenses and liabilities that will result in recognition of expenses over periods that approximate employees’ years of service. See note 9 for more details of the District’s Plan and the effect on the financial statements.

VALLEY OF THE MOON WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2010

J. New Accounting Pronouncements (Continued)

GASB Statement No. 51 – Accounting and Financial Reporting for Intangible Assets

For the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 51, “Accounting and Financial Reporting for Intangible Assets”. This Statement is effective for financial statements for periods beginning after June 15, 2009. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 53 – Accounting and Financial Reporting for Derivative Instruments

For the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments”. This Statement is effective for financial statements for periods beginning after June 15, 2009. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 57 – OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans

For the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”. This Statement establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 58 – Accounting and Financial Reporting for Chapter 9 Bankruptcies

For the fiscal year ended June 30, 2010, the District implemented GASB Statement No. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies”. This Statement is effective for reporting periods beginning after June 15, 2009. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. The implementation of this Statement did not have an effect on these financial statements.

VALLEY OF THE MOON WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2010

Note 2: Cash and Investments

Classification

The cash and investments are classified in the financial statements as shown below, based on whether or not its use is restricted under the terms of District debt instruments or District agreements.

Statement of Net Assets:

Cash and Investments	\$ 2,993,332
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Cash and Investments as of June 30, 2010 consists of the following:

Cash on Hand	\$ 500
Cash in Bank	73,778
Investments	2,919,054
 Total Cash and Investments	 \$ 2,993,332

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the Valley of the Moon Water District (District) by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Investment Fund (State Pool)	N/A	None	\$20 million
Certificates of Deposit	N/A	None	\$100,000
Sonoma County Pooled Investment Fund	N/A	None	None
Passbook Savings Accounts	N/A	None	None
U.S. Treasury Obligations	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in the market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

VALLEY OF THE MOON WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2010

Note 2: Cash and Investments (Continued)

Investment Type	Carrying Amount	Remaining Maturity (in Months)					
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	49-60 Months	More than 60 Months
State Investment Pool (LAIF)	\$ 1,291,639	\$ 1,291,639	\$ -	\$ -	\$ -	\$ -	\$ -
Sonoma County Investment Pool	1,627,415	1,627,415					
	<u>\$ 2,919,054</u>	<u>\$ 2,919,054</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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 rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code and the District's investment policy, and the actual rating as of fiscal year end for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	AA	Not Rated
State Investment Pool (LAIF)	\$ 1,291,639	N/A	\$ -	\$ -	\$ -	\$ 1,291,639
Sonoma County Investment Pool	<u>1,627,415</u>	N/A				<u>1,627,415</u>
Total	<u>\$ 2,919,054</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,919,054</u>

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. There are no investments in any one issuer that represent 5% or more of total District investments (other than LAIF and Sonoma County Investment Pool).

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The 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 provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair 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 the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

None of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

VALLEY OF THE MOON WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2010

Note 2: Cash and Investments (Continued)

Custodial Credit Risk (Continued)

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF and the Sonoma County Investment Pool).

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 District's investment in this pool is reported in the accompanying basic financial statements at the amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Note 3: Capital Assets

Capital assets activity for the fiscal year ended June 30, 2010, was as follows:

	Balance at July 1, 2009	Additions	Deletions	Transfers	Balance at June 30, 2010
Capital Assets, not being depreciated:					
Land	\$ 215,795	\$ -	\$ -	\$ -	\$ 215,795
Construction in Progress	45,094	209,081	(2,880)	(1,276)	250,019
Total Capital Assets, not being depreciated	260,889	209,081	(2,880)	(1,276)	465,814
Capital Assets, being depreciated:					
Source of Supply	8,228,084	12,671			8,240,755
Transmission and Distribution	22,802,451	224,912		1,276	23,028,639
General Plant	1,718,219				1,718,219
Total Capital Assets, being depreciated	32,748,754	237,583		1,276	32,987,613
Less Accumulated Depreciation	(9,976,260)	(823,140)			(10,799,400)
Total Capital Assets, being depreciated, net	22,772,494	(585,557)		1,276	22,188,213
Total Capital Assets, Net	\$ 23,033,383	\$ (376,476)	\$ (2,880)	\$ -	\$ 22,654,027

VALLEY OF THE MOON WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2010

Note 4: Operating Leases

A. Pitney Bowes

The District is obligated to make lease payments for office equipment (Pitney Bowes) until December 2010. The following is a schedule by years of future minimum rental payments required under the operating lease as of June 30, 2010.

Fiscal Year Ending <u>June 30,</u>	<u>Amounts</u>
2011	<u>\$ 120</u>
Total	<u><u>\$ 120</u></u>

B. Larbre Well Lease

The District also entered into a well lease agreement (Larbre Well Lease) whereby the District is purchasing water from the owner. The District must maintain average monthly purchases of at least \$2,000 for the period of December 1 to November 30. The lease was amended in December 2009, and expires on December 1, 2014. For the current fiscal year, \$23,243 was used for purchases under this agreement and \$29,862 was used for water purchases in the prior fiscal year. For the period of December 1, 2008 to November 30, 2009 the District paid \$25,740.

Note 5: Capital Improvement Program

The District has developed a capital improvement program for water projects including water mains, wells, storage tanks, and pump stations. The list of improvements has been developed by District staff and consulting engineers. Projects have been identified from a series of annual capital improvement program updates developed by District staff from the Strategic Water Supply Plan prepared by JONWRM, from a Water Master Plan and a Water Storage Plan prepared by Brelje & Race, and from a Master Plan for Ground Water Development and Management by Luhdorff and Scalmanini. Projects are phased in over a five-year period, although this is not a rigid schedule and may be extended or shortened somewhat depending on available capital funding and project needs.

Projected capital improvements over the next five years are as follows:

<u>Fiscal Year</u>	<u>Per Updated Budget 10/11</u>
2010/2011	\$ 1,540,500
2011/2012	425,000
2012/2013	488,250
2013/2014	395,000
2014/2015	505,000

VALLEY OF THE MOON WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2010

Note 6: Long-Term Debt

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the District for the fiscal year ended June 30, 2010:

	Balance at July 1, 2009	Additions	Repayments	Balance at June 30, 2010	Due Within One Year
Certificate of Participation	\$ 2,099,035	\$ -	\$ (116,202)	\$ 1,982,833	\$ 122,323
CIED B Loan Payable	810,000		(31,727)	778,273	32,732
Settlement Agreement		242,631	(48,526)	194,105	48,526
Compensated Absences	123,983	12,980		136,963	
Total	<u>\$ 3,033,018</u>	<u>\$ 255,611</u>	<u>\$ (196,455)</u>	<u>\$ 3,092,174</u>	<u>\$ 203,581</u>

The details of the long-term debt are as follows:

A. Certificate of Participation/1999 Installment Purchase Contract

In September 1999, the District sold a \$2,833,992 Certificate of Participation Note to Sonoma Valley Bank in order to finance the initial two years of the Capital Improvement Program. Total annual payments (principal and interest) are \$227,883 with interest accruing at 5.25%. The note matures on September 1, 2021.

The loan fees carried on the statement of net assets at \$60,000 are amortized over the life of the loan. \$3,000 is amortized each fiscal year. As of June 30, 2010, the loan fees, net of accumulated amortization, were \$36,000.

The remaining debt service payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 122,322	\$ 105,561	\$ 227,883
2012	128,834	99,049	227,883
2013	135,439	92,444	227,883
2014	142,901	84,982	227,883
2015	150,507	77,376	227,883
2016-2020	881,390	258,028	1,139,418
2021-2022	421,440	34,027	455,467
	<u>\$ 1,982,833</u>	<u>\$ 751,467</u>	<u>\$ 2,734,300</u>

VALLEY OF THE MOON WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2010

Note 6: Long-Term Debt (Continued)

B. CIEDB Loan Payable/Enterprise Fund Installment Sale Agreement

On June 15, 2008, the District entered into an installment sale agreement with California Infrastructure and Economic Development Bank for \$810,000. Proceeds of this agreement were used for the construction portion of the Well No. 5 Replacement Project, which includes replacement of an abandoned production well, construction of a well house and security fence, and acquisition and installation of a pump, appurtenances, a filtration system, and a disinfection system. Interest accrues on the agreement at 3.17% and repayments began on February 1, 2009, of interest only. The agreement matures on August 1, 2027.

The remaining debt service payments are as follows:

Fiscal Year	Principal	Interest	Total
2011	\$ 32,732	\$ 26,488	\$ 59,220
2012	33,770	25,336	59,106
2013	34,841	24,145	58,986
2014	35,945	22,920	58,865
2015	37,084	21,654	58,738
2016-2020	203,819	87,842	291,661
2021-2025	238,238	49,621	287,859
2026-2028	161,844	8,785	170,629
Totals	<u>\$ 778,273</u>	<u>\$ 266,791</u>	<u>\$ 1,045,064</u>

C. Settlement Agreement

During the fiscal year 2009-10, the District entered into a settlement agreement with the Sonoma County Water Agency (Agency), as a result of a dispute with respect to the calculation of payments to be made to the Agency by the District under the Restructured Agreement for Water Supply for the costs of constructing the Eldridge-Madrone Pipeline. The terms of the settlement agreement calls for the District to pay the Agency five annual installments of \$48,526.29 each, with zero interest, beginning fiscal year 2009-10 and ending fiscal year 2013-14. The settlement agreement expense of \$242,631 is shown as a special item on the Comparative Statement of Revenues, Expenses, and Changes in Net Assets.

The remaining debt service payments are as follows:

Fiscal Year	Payment
2011	\$ 48,526
2012	48,526
2013	48,526
2014	48,527
Total	<u>\$ 194,105</u>

D. Compensated Absences

Included in accrued liabilities are accruals for accumulated sick leave and fully vested accumulated vacation pay. It is District policy to allow employees with greater than 15 years of service to receive 50% payment of their accumulated sick leave upon retirement, or have 100% applied to their PERS retirement credit, and to pay no accumulated sick leave upon termination under other circumstances (such as employees who have less than 15 years of service). However for employees with more than 10 consecutive years of service, those individuals can convert all unused sick leave hours to PERS.

VALLEY OF THE MOON WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2010

Note 7: Employees Retirement Plan (Defined Benefit Pension Plan)

A. Plan Description:

The District contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, annual cost-of-living adjustments, 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. Benefit provisions and all other requirements are established by state statute and local resolution. Copies of PERS' annual financial report may be obtained from the Executive Office, 400 P Street, Sacramento, CA 95814.

B. Funding Policy:

All full-time District employees are eligible to participate in the system. Benefits vest after five years of service. District employees who retire at or after age 50, with a minimum of five years credited service, are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to percent (2.5%-at age 55) times the number of years service credit times their annual salary, based on the highest 36 consecutive months.

District employees are required to contribute 3.614% of their annual salary to PERS. The District is required to contribute all amounts necessary to fund the benefits for its members using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the Board of Administration. At June 30, 2010, the combined employer/employee rate was 19.881% of annual salary. However, for employees who are covered by Social Security, a rate of zero percent is charged for the first \$133 per month.

For 2009-2010, the District's annual pension cost was \$74,022, not including \$51,738 which is the employees required contribution paid by the District. The \$74,022 contributed for the fiscal year ending June 30, 2010 was equal to 100% of the required contribution for that fiscal year. The District's annual pension costs for fiscal years ending June 30, 2009 and 2008 were \$67,669 and \$62,915, respectively, and equal 100% of the required contributions for each fiscal year.

Note 8: Net Assets

GASB Statement No. 34 requires that the difference between assets and liabilities be reported as net assets. Net assets are classified as either invested in capital assets, net of related debt, restricted, or unrestricted.

Net assets that are invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net assets are those net assets that have external constraints placed on them by creditors, grantors, contributors, laws or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt, or restricted net assets. Unrestricted net assets include designated net assets of \$1,000,000, which has been designated by the Board for emergencies. The District has no net assets which would be restricted by enabling legislation.

VALLEY OF THE MOON WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2010

Note 9: Post Retirement Health Insurance

Plan Description

The District provides certain health insurance benefits, in accordance with memoranda of understanding, to retired employees. If the retiree was hired prior to July 1, 1999, then the District shall contribute for the retiree and dependents the same amount toward a health plan premium as it contributes to an active employee with dependents. The retiree may enroll eligible dependents in the group plan covering the retiree, but the retiree is responsible for the total premium cost in excess of the limit stipulated above. If the retiree was hired after July 1, 1999, upon retirement, the District shall contribute towards post retirement health benefits, for the retiree and dependents, based on the employee's credited years of service at retirement as shown in the table below, except that at least five years of service shall have been performed entirely with the District, in accordance with Government Code Section 22893, as amended. The applicable total premium limits are annually set by PERS.

<u>Credited Years of Service</u>	<u>Percentage of District Contribution</u>
less than 10	0
10	50
11	55
12	60
13	65
14	70
15	75
16	80
17	85
18	90
19	95
20	100

Funding Policy

The District adopted a resolution to enter into an agreement with CalPERS to participate in the California Employer's Retiree Benefit Trust Program (CERBT). During the fiscal year 2009-10, the District contributed \$600,000 to the CERBT to prefund the post retirement health insurance benefits for retirees. The District also paid \$57,409 for current retirees health care benefits during the 2009-10 fiscal year.

Annual OPEB and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), and an amount actuarially determined in accordance with the parameters of GASB Statement No.45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

Annual required contribution	\$ 125,000
Annual OPEB cost (expense)	125,000
Contributions made	(657,409)
Decrease in net OPEB obligation	(532,409)
Net OPEB obligation - beginning of fiscal year	-
Net OPEB obligation (asset) - end of fiscal year	\$ (532,409)

VALLEY OF THE MOON WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2010

Note 9: Post Retirement Health Insurance (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009-10 and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contribution	Net OPEB Obligation (Asset)
6/30/2008	\$ -	0%	\$ -
6/30/2009	-	0%	-
6/30/2010	125,000	525.9%	(532,409)

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$1,255,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,255,000. The covered payroll (annual payroll of active employees covered by the plan) was \$758,752, and the ratio of the UAAL to the covered payroll was 165.4 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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 the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs 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.

In the July 1, 2009 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 7.75 percent investment rate of return, which is the expected long-term investment returns on plan assets and an annual healthcare cost trend rate of 4.0 to 5.5 percent. The actuarial value of assets is not applicable (no assets as of the initial valuation date). The UAAL is being amortized as a flat percentage of covered payroll over thirty years. The remaining amortization period at July 1, 2009 was thirty years.

VALLEY OF THE MOON WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2010

Note 10: Deferred Compensation Plans

The District offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans are available to all employees. The District matches the employees' contribution up to a maximum of \$50 per month. Part-time employees are eligible for the District's match on a pro-rata basis. The Omnibus Budget Reconciliation Act of 1990 mandates social security coverage for state and local government employees who are not covered by a retirement plan. The plans permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust by a third party administrator (AIG Valic and CitiStreet LLC) for the exclusive benefit of the plan participants and their beneficiaries as prescribed by Internal Revenue Code Section 457 (g). Accordingly, these assets have been excluded from the accompanying financial statements.



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS:

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

Board of Directors
Valley of the Moon Water District
El Verano, California

We have audited the basic financial statements of the Valley of the Moon Water District (District), as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated September 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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* or the California State Controller's *Guide to Audits of California Special Districts*.

This report is intended solely for the information and use of management, the Board of Directors, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
September 20, 2010