Financial Statements for the Agencies

San Bernardino Valley Municipal Water District: June 30, 2014

Attachment 3c

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

San Bernardino, California

Basic Financial Statements and Supplementary Information

For the Years Ended June 30, 2014 and 2013

Table of Contents

	Page
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statements of Net Position at June 30, 2014 and 2013	7
Statements of Revenues, Expenses and Changes in Net Position For the Years Ended June 30, 2014 and 2013	9
Statements of Cash Flows For the Years Ended June 30, 2014 and 2013	11
Notes to the Basic Financial Statements For the Years Ended June 30, 2014 and 2013	13
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	33

ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

735 E. Carnegie Dr. Suite 100
San Bernardino, CA 92408
909 889 0871 T
909 889 5361 F
ramscpa.net

PARTNERS
Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Kirk A. Franks, CPA
Matthew B. Wilson, CPA, MSA, CGMA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)

MANAGERS / STAFF
Bradferd A. Welebir, CPA, MBA
Jenny Liu, CPA, MST
Papa Matar Thiaw, CPA, MBA
Maya S. Ivanova, CPA, MBA
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA
Yiann Fang, CPA
Daniel T. Turner, CPA, MSA
David D. Henwood, CPA
Nathan Statham, CPA, MBA
Brigitta Bartha, CPA
Gardenya Duran, CPA
Juan Romero, CPA
Ivan Gonzales, CPA, MSA
Brianna Pascoe, CPA

MEMBERS
American Institute of
Certified Public Accountants

PCPS The AICPA Alliance for CPA Firms

Governmental Audit Quality Center

California Society of
Certified Public Accountants

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the San Bernardino Valley Municipal Water District as of June 30, 2014 and 2013, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Bernardino Valley Municipal Water District as of June 30, 2014 and 2013, and the results of its operations, changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the California State Controller's office and state regulations governing special districts.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2014 the District adopted new accounting guidance, GASB Statement No. 65*, Items Previously Reported as Assets and Liabilities.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2014, on our consideration of the San Bernardino Valley Municipal Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Rogers Anderson Malody & Scott, LLP

San Bernardino, California
November 5, 2014

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

The District

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

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

Overview of the Basic Financial Statements

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

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

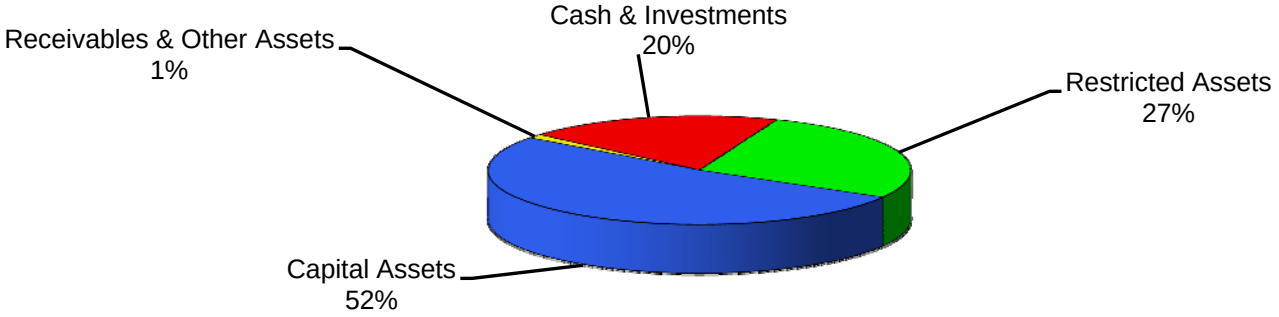
The Statement of Net Position presents the District's assets and liabilities and the difference, or net, between what is owned and what is owed as of the last day of the District's fiscal year. The Statement of Revenues, Expenses and Changes in Net Position describes the financial results of the District's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

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

Summary Financial Information and Analysis

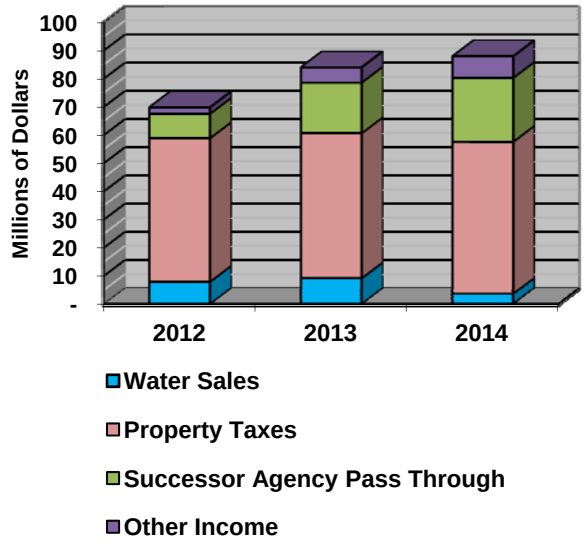
During the year ended June 30, 2014, the District's Total Assets increased by $48.9 million and Net Position increased by $47.8 million. A majority of the increase in Total Assets resulted from an increase of $20.1 million in Unrestricted Current Assets and a $29.9 million increase in Restricted Assets, an increase of $.7 million in Total Capital Assets and a $1.2 million increase in Construction in Progress netted against a decrease in Non Current Assets of $2.8 million.

Assets Owned

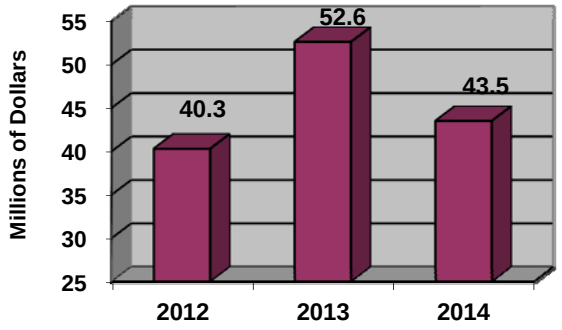


Total Cash in bank, Cash in Local Agency Investment Fund and Investments in government securities increased by $56.8 million. The increase can be further divided into general unrestricted and restricted cash. Unrestricted cash increased by $22.9 million and restricted cash increased by $33.9 million.

Revenue



Operating Expenses



Financial Statement Summary
(In millions)

	6/30/2014	6/30/2013
Current Assets	$ 128.59	$ 108.41
Restricted Assets	172.71	142.83
Capital Assets	327.19	325.28
Other Noncurrent Assets	2.49	5.48
Total Assets	630.97	582.01
Total Liabilities	18.38	17.22
Net Position	612.60	564.79
Revenues		
Water Sales	3.65	9.15
Other Operating Revenues	5.33	6.53
Property Taxes	53.95	51.47
SA Pass Through	22.69	17.99
Interest	2.17	0.27
Miscellaneous	3.85	(.63)
Expenses		
Source of Supply	(19.11)	(29.45)
Admin & General	(13.16)	(12.46)
Depreciation & Amort.	(11.24)	(10.74)
Interest Expense	(0.33)	(0.34)
Change in Net Position	$ 47.80	$ 31.79

The increase in Net Position included an operating loss of $34.5 million. This is due in part to the District being required by the California State Controller's office to report property taxes as nonoperating revenue. However, the majority of the property tax revenues are used for State Water Project expenditures which are included in operating expenses.

Total operating expenses for the year ended June 30, 2014 decreased over the prior year by $9.1 million. The majority of the decrease is from Source of Supply expenses which include operations, maintenance, power, and purchased water paid to the Department of Water Resources which decreased by $10.3 million and Administrative and General Expenses increased slightly by $.7 million.

Total Nonoperating revenues increased by $10.4 million over the prior year. Total property taxes received increased slightly by $2.5 million. The assessed values within the District's service area experienced a 3.4% increase over the prior year. A majority of the increase in Nonoperating Revenues was due to an increase in Successor Agency Pass Through Payments. The State of California Legislature approved the dissolution of Redevelopment Agencies (RDA). After a period of litigation, RDAs were officially dissolved as of February 1, 2012. As a result of the elimination of the RDAs, remaining property tax revenues that exceed the enforceable obligations are now being allocated to cities, counties, special districts, and school and community college districts. Successor Agency Pass Through Payment increase by $4.7 million over the prior year.

Categories of Net Position

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

Net Investment in Capital Assets

At June 30, 2014, the amount the District had invested in capital assets, net of related debt was $318.8 million. This balance was obtained by combining Construction in Progress of $1.8 million with Capital Assets in Service, net of Accumulated Depreciation and Amortization of $325.3 million and Certificates of Participation of $8.2 million.

Restricted Net Position – Debt Service

The District has restricted Net Position of $171.8 million, which consists of tax proceeds that were levied for State Water Project payments plus interest on investments less State Water Project related expenditures. The Board of Directors has designated $30 million of this amount to be retained for the purpose of Maintenance and Repairs on the State Water Project distribution pipelines, pump stations and reservoirs. The balance of restricted net position of $142.1 million is to be used for future expenses related to the State Water Project.

The District's future commitment for State Water Project costs over the years 2013 to 2035, according to a payment schedule dated January 24, 2014, is estimated to total $651 million.

Unrestricted Net Position

The District had unrestricted Net Position of $121.9 million at June 30, 2014. The Board of Directors has designated $19 million of this reserve to be retained for the purpose of self insuring the District against any claims made against the District. The District has an extensive future capital improvement plan which consists of many projects which include Enhanced Santa Ana River Spreading, Central Feeder Phase 2, Santa Ana River Tributary / Storm Water Capture and Recycled Water System.

Construction In Progress (CIP)

Construction in progress increased from $.7 to $1.8 million between June 30, 2013 and June 30, 2014. The projects still in progress at June 30, 2014 included Riverside Groundwater Aquifer Storage Project, East Branch Extension Phase II and the Baseline Feeder Flow Controls and Metering Project.

Capital Assets

The District made payments to the Department of Water Resources during the year totaling $29.0 million net of credits and refunds for participation rights in the State Water Project. This was a decrease of $9.5 million over the prior year mainly attributable to lower allocation of State Project Water being available for fiscal year June 30, 2014 which resulted in a decrease of variable energy cost and costs associated with the Off Aqueduct Power Facilities.

Certificates of Participation

The District issued $8.6 million in Certificates of Participation (COP) bonds during the fiscal year ending June 30, 2012. The District received an AAA bond rating from Standard and Poors. Bond proceeds were used to build the Baseline Feeder Well Replacement Project.

Contacting the District's Financial Management

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

Statements of Net Position
June 30, 2014 and 2013

ASSETS	2014	2013
Current assets:		
Cash and cash equivalents	$ 38,957,218	$ 46,791,820
Investments	84,717,982	54,025,565
Property taxes receivable	161,659	36,684
Accounts receivable	1,643,192	5,624,813
Accrued interest receivable	155,685	172,904
Current portion of other receivables	2,618,734	1,545,757
Current portion of notes receivable	338,481	221,255
Total current assets - unrestricted	128,592,951	108,418,798
Restricted assets:		
Cash and cash equivalents	34,657,031	32,027,485
Investments	132,271,613	100,954,734
Total restricted cash and investments	166,928,644	132,982,219
Property taxes receivable	740,872	709,427
Accounts receivable	2,854,197	6,584,176
Accrued interest receivable	201,254	224,948
Water bank inventory	1,983,525	2,329,863
Total restricted assets	172,708,492	142,830,633
Noncurrent assets:		
Capital assets:		
Capital assets in service	193,784,810	192,834,026
Accumulated depreciation	(40,045,343)	(36,570,607)
Capital assets - net	153,739,467	156,263,419
Participation rights in State Water Project facilities (at cost)	284,956,337	273,980,909
Accumulated amortization	(113,384,803)	(105,654,174)
Participation rights in State Water Project facilities - net	171,571,534	168,326,735
Total capital assets, net of accumulated depreciation and amortization	325,311,001	324,590,154
Construction in progress	1,874,334	687,962
Total capital assets, net	327,185,335	325,278,116
Other noncurrent assets:		
Other receivables, net of current portion	1,791,818	4,410,553
Notes receivable, net of current portion	453,713	677,191
Water stock	238,500	388,500
Deposit on land	1,975	1,975
Total noncurrent assets	329,671,341	330,756,335
Total assets	$ 630,972,784	$ 582,005,766

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

Statements of Net Position
June 30, 2014 and 2013

LIABILITIES	2014	2013
Current liabilities:		
Payable from current assets - unrestricted:		
Accounts payable	$ 2,149,780	$ 1,151,744
Accrued employee benefits	1,699,335	1,501,465
Accrued interest payable	168,222	169,872
Unearned revenue	5,415,624	5,066,040
Certificates of participation, current portion	165,000	165,000
Total payable from current assets - unrestricted	9,597,961	8,054,121
Payable from restricted assets:		
Accounts payable	288,093	553,823
Santa Ana River restoration/recovery trust fund	276,803	226,759
Total payable from current assets - restricted	564,896	780,582
Non-current liabilities:		
Certificates of participation, non-current portion	8,075,000	8,240,000
Premium on certificates of participation, net	139,325	144,485
Total non-current liabilities	8,214,325	8,384,485
Total liabilities	18,377,182	17,219,188
NET POSITION		
Net investment in capital assets	318,806,011	316,728,632
Restricted:		
Debt service - State Water Project	170,250,826	138,881,982
Debt service - Devil Canyon-Castaic	1,559,549	1,376,877
Unrestricted	121,979,216	107,799,087
Total net position	$ 612,595,602	$ 564,786,578

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

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013

	2014	2013
OPERATING REVENUES		
Water sales	$ 3,650,841	$ 9,150,206
Other operating revenues	5,334,418	6,527,693
Total operating revenues	8,985,259	15,677,899
OPERATING EXPENSES		
Source of supply:		
Operations, maintenance, power and replacement	15,800,305	21,185,726
Purchased water	3,307,191	8,266,464
	19,107,496	29,452,190
Administrative and general:		
Salaries	2,241,929	2,447,175
Retirement and benefits	1,823,869	1,809,403
Payroll taxes	148,758	160,770
Consultants	3,625,722	2,204,112
Legal and accounting	970,493	858,120
Outside services	43,668	40,458
Office supplies and expense	215,484	264,300
Dues and subscriptions	356,991	273,792
Public education and information	246,340	179,633
Maintenance and repair	1,470,405	1,103,272
Utilities	447,164	539,437
Inland Empire Brine Line fees	1,075,382	2,021,893
Insurance	93,585	148,128
Auto and travel	83,343	85,671
Lodging and meals	14,994	14,958
Taxes and licenses	48,341	31,208
Tax collection fee	252,358	274,850
	13,158,826	12,457,180
Other operating expenses:		
Depreciation and amortization	11,240,524	10,736,283
Total operating expenses	43,506,846	52,645,653
OPERATING LOSS	$ (34,521,587)	$ (36,967,754)

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

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013

	2014	2013
NONOPERATING REVENUES (EXPENSES)		
Revenues:		
Property taxes:		
Debt service	$ 46,291,478	$ 44,287,277
General purpose distribution	7,661,949	7,179,629
Successor Agency pass through	22,690,528	17,987,013
Investment income	2,172,030	268,800
Gain on sale of water stock	150,000	150,000
Gain (loss) on disposal of capital assets	10,312	(1,276,997)
	78,976,297	68,595,722
Expenses:		
Interest expense	331,284	340,467
Total nonoperating revenues	78,645,013	68,255,255
Income before contributions	44,123,426	31,287,501
Contributions in aid of construction	3,685,598	499,598
Change in net position	47,809,024	31,787,099
Net position - beginning of year, as restated	564,786,578	532,999,479
Net position - end of year	$ 612,595,602	$ 564,786,578

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

Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water sales	$ 11,712,025	$ 3,698,612
Cash received from other operating activities	5,334,418	4,928,423
Cash paid for source of supply	(18,761,158)	(36,032,021)
Cash paid to other suppliers	(8,211,964)	(10,301,782)
Cash paid for employees' wages, taxes and benefits	(4,016,686)	(4,144,686)
Net cash used for operating activities	(13,943,365)	(41,851,454)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes received - general purpose distribution	7,536,974	7,229,034
Successor Agency pass through received	24,236,286	19,532,771
Trust funds received	50,044	50,034
Net cash provided by noncapital financing activities	31,823,304	26,811,839
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Property taxes received - debt service	46,260,033	44,300,651
Proceeds from sale of capital assets	10,312	1,419,333
Proceeds from collection of note receivable	106,252	219,054
Acquisition of capital assets	(11,961,371)	(15,420,041)
Payments for construction in progress	(1,186,372)	(1,933,302)
Principal payments on debt	(165,000)	(160,000)
Interest paid	(338,094)	(341,344)
Proceeds from contribution in aid of construction	3,685,598	499,598
Net cash provided by capital and related financing activities	36,411,358	28,583,949
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(127,972,518)	(94,708,044)
Redemption of investments	66,347,460	93,381,880
Sale of water stock	300,000	300,000
Investment income	1,828,705	1,477,420
Net cash (used for) provided by investing activities	(59,496,353)	451,256
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,205,056)	13,995,590
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	78,819,305	64,823,715
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 73,614,249	$ 78,819,305

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

Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	2014	2013
RECONCILIATION TO STATEMENTS OF NET POSITION		
Current assets:		
Cash and cash equivalents - current	$ 38,957,218	$ 46,791,820
Cash and cash equivalents - restricted	34,657,031	32,027,485
Total cash and cash equivalents	$ 73,614,249	$ 78,819,305
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	$ (34,521,587)	$ (36,967,754)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	11,240,524	10,736,283
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	7,711,600	(10,931,934)
Water bank inventory	346,338	-
Increase (decrease) in:		
Accounts payable	732,306	(3,861,220)
Accrued employee benefits	197,870	272,662
Unearned revenue	349,584	(1,099,491)
Net cash used for operating activities	$ (13,943,365)	$ (41,851,454)
SCHEDULE OF NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES		
Installment sale of capital assets	$ -	$ 1,117,500
Amortization of premium on bonds payable	(5,160)	(5,160)

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

Note 1: Reporting Entity and Summary of Significant Accounting Policies

Organization and operations of the reporting entity

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

The San Bernardino Valley Municipal Water District Financing Corporation (the Corporation) was created in May of 2011 by a joint exercise of powers agreement for the purpose of acquiring, constructing, rehabilitating, financing and refinancing, or providing for the sale or leasing of public capital improvements. It is governed by a Board of Directors comprised of the District's Board of Directors. The Corporation has issued debt which is secured solely from installment payments payable under an installment purchase agreement entered into by the District and the Corporation. All accounts or funds created and established pursuant to any instrument or agreement to which the Corporation is a party, and any interest earned or accrued thereon, shall incur to the benefit of the District. Separate financial statements are not prepared for the Corporation. It is reported as a blended component unit.

Measurement focus, basis of accounting and financial statement presentation

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

Use of estimates

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

Cash and cash equivalents

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

Investments

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

Note 1: Reporting Entity and Summary of Significant Accounting Policies (continued)

Allowance for doubtful accounts

Notes and accounts receivable are reported net of an allowance for uncollectible accounts. Allowances are reported when notes and accounts are proven to be uncollectible. Allowances for uncollectible accounts netted with notes receivable were $1,588,221 for the years ended June 30, 2014 and 2013, while there were no allowances for uncollectible accounts to be netted with accounts receivable for those respective years. Refer to Note 5 for details of the notes receivable netted with allowances for doubtful accounts.

Prepaid expenses

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

Inventories

Inventories are valued at purchase cost using the weighted average cost of consumption method. Refer to Note 3 for more information regarding inventory.

Capital assets

Capital assets are stated at original cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. The cost of maintenance is charged to operating expense. Land, right of ways, pipeline capacity, and construction in progress are not depreciated. Other tangible property, plant and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Lives
Buildings	30-40
Furniture, fixtures and equipment	5-50
Vehicles	5-10
Water transportation and distributions lines	10-100

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

Employee benefits

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

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

Note 1: Reporting Entity and Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

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

Restricted resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed, in accordance with its Reserve Policy.

Net position

Net position is categorized as follows:

- *Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.

- *Restricted net position* – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted net position* – This component of net position consists of net position that do not meet the definition of *restricted* or *net investment in capital assets*.

Operating and nonoperating activities

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

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

Property taxes

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

Contributions

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

Reclassification

Certain reclassifications have been made to prior years' balances to conform to classifications used in 2014.

Note 1: Reporting Entity and Summary of Significant Accounting Policies (continued)

Implementation of new accounting principle

Effective July 1, 2013, the District adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The District's financial statements do not contain any elements that meet the definition of deferred outflows of resources or deferred inflows of resources. GASB 65 amended prior guidance with respect to the treatment of debt issuance costs. Under GASB 65, debt issuance costs, except any portion related to prepaid insurance costs, are recognized as an expense in the period incurred rather than reported as an asset on the statement of net position and recognized as an expense in a systematic and rational manner over the duration of the related debt. Accordingly, as noted in Note 13 of the financial statements, the District has restated beginning net position for any unamortized debt issuance costs previously reported on the statement of net position in conformity with GASB 65.

Note 2: Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and investments as of June 30, 2014 and 2013 are classified in the accompanying financial statements as follows:

	2014	2013
Statements of Net Position:		
Current assets:		
Cash in bank and on hand	$ 7,226,620	$ 15,140,182
Cash in Local Agency Investment Fund	31,730,598	31,651,638
Total cash and cash equivalents	38,957,218	46,791,820
Investments	84,717,982	54,025,565
Total unrestricted	123,675,200	100,817,385
Restricted:		
Cash in bank	15,936,180	20,624,720
Cash in Local Agency Investment Fund	18,110,826	10,841,134
Cash held by trustee	333,222	334,872
Cash held in trust	276,803	226,759
Total cash and cash equivalents	34,657,031	32,027,485
Investments	132,261,613	100,944,734
Department of Water Resources bonds	10,000	10,000
Total investments	132,271,613	100,954,734
Total restricted	166,928,644	132,982,219
Total cash and cash equivalents and investments	$ 290,603,844	$ 233,799,604

Note 2: Cash, Cash Equivalents, and Investments (continued)

Cash, cash equivalents, and investments as of June 30, 2014 and 2013 consisted of the following:

	2014	2013
Cash on hand	$ 350	$ 350
Deposits with financial institutions	23,772,475	36,326,183
Cash in Local Agency Investment Fund	49,841,424	42,492,772
Investments	216,989,595	154,980,299
Total cash and cash equivalents and investments	$ 290,603,844	$ 233,799,604

Investments authorized by the California Government Code and the District's investment policy

The table below identifies the investment types that are authorized by the District in accordance with Section 53601 of 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, and concentration of credit risk.

Authorized investment type	Maximum maturity	Maximum percentage of portfolio	Maximum investment in one issuer
U.S. Treasury Bills, Notes and Bonds	5 years	None	None
Federal Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
California Local Agency Investment Fund	N/A	None	$ 50,000,000
Medium-Term Notes	5 years	30%	None
Money Market Funds	90 days	20%	None
Collateralized Bank Deposits	None	25%	None
Municipal Bonds	5 years	30%	None

Note 2: Cash, Cash Equivalents, and Investments (continued)

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 is to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2014 and 2013, the District had the following investments and maturities:

As of June 30, 2014:

		Remaining maturity (in months)			
Investment type	Amount	12 or less	13 to 24	25 to 36	More than 36
Federal Agency Securities	$ 68,253,588	$ 6,269,350	$ 31,717,849	$ 16,698,100	$ 13,568,289
Municipal Bonds	10,000	-	-	-	10,000
U.S. Treasury Bills, Notes and Bonds	53,887,526	2,621,172	-	42,347,916	8,918,438
Commercial Paper	4,999,339	4,999,339	-	-	-
Medium-Term Notes	29,125,012	6,256,785	10,604,498	8,027,476	4,236,253
Money Market Funds	60,714,130	60,714,130	-	-	-
Total investments	$ 216,989,595	$ 80,860,776	$ 42,322,347	$ 67,073,492	$ 26,732,980

As of June 30, 2013:

		Remaining maturity (in months)			
Investment type	Amount	12 or less	13 to 24	25 to 36	More than 36
Federal Agency Securities	$ 77,190,719	$ 3,566,973	$ 15,046,572	$ 39,831,341	$ 18,745,833
Municipal Bonds	10,000	-	-	-	10,000
U.S. Treasury Bills, Notes and Bonds	41,276,539	13,834,717	22,957,406	-	4,484,416
Commercial Paper	6,889,470	6,889,470	-	-	-
Medium-Term Notes	29,033,722	6,285,066	10,623,783	7,983,762	4,141,111
Money Market Funds	579,849	579,849	-	-	-
Total investments	$ 154,980,299	$ 31,156,075	$ 48,627,761	$ 47,815,103	$ 27,381,360

Note 2: Cash, Cash Equivalents, and Investments (continued)

Disclosures relating to credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy and the actual rating as of year-end for each investment type.

Credit ratings of investments as of June 30, 2014 and 2013 were as follows:

As of June 30, 2014:

Investment type	Amount	Minimum legal rating	Rating as of year end			
			AAA	AA-	A+	Not rated
Federal Agency Securities	$ 68,253,588	N/A	$ 68,253,588	$ -	$ -	$ -
Municipal Bonds	10,000	N/A	-	-	-	10,000
U.S. Treasury Bills, Notes and Bonds	53,887,526	N/A	53,887,526	-	-	-
Commercial Paper	4,999,339	A	4,999,339	-	-	-
Medium-Term Notes	29,125,012	A	-	6,643,986	22,481,026	-
Money Market Funds	60,714,130	AAA	60,714,130	-	-	-
Total investments	$ 216,989,595		$ 187,854,583	$ 6,643,986	$ 22,481,026	$ 10,000

As of June 30, 2013:

Investment type	Amount	Minimum legal rating	Rating as of year end			
			AAA	AA-	A+	Not rated
Federal Agency Securities	$ 77,190,719	N/A	$ 77,190,719	$ -	$ -	$ -
Municipal Bonds	10,000	N/A	-	-	-	10,000
U.S. Treasury Bills, Notes and Bonds	41,276,539	N/A	41,276,539	-	-	-
Commercial Paper	6,889,470	A	6,889,470	-	-	-
Medium-Term Notes	29,033,722	A	-	4,895,729	24,137,993	-
Money Market Funds	579,849	AAA	579,849	-	-	-
Total investments	$ 154,980,299		$ 125,936,577	$ 4,895,729	$ 24,137,993	$ 10,000

Note 2: Cash, Cash Equivalents, and Investments (continued)

Concentration of credit risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The District's investment policy is to apply the prudent investor standard as set forth in the California Government Code: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

The District's investment policy limits certain investments to minimum credit ratings issued by nationally recognized statistical rating organizations. The District's investments in commercial paper, medium-term notes, and money market funds at June 30, 2014 and 2013 met their respective minimum credit ratings requirements.

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% of more of the total District's investments are as follows:

As of June 30, 2014:

Issuer	Investment type	amount
Fannie Mae	Federal Agency Securities	$ 35,668,150
Federal Home Loan Bank	Federal Agency Securities	$ 13,380,038
Freddie Mac	Federal Agency Securities	$ 19,205,379

As of June 30, 2013:

Issuer	Investment type	Reported amount
Fannie Mae	Federal Agency Securities	$ 39,934,184
Federal Home Loan Bank	Federal Agency Securities	$ 16,902,381
Freddie Mac	Federal Agency Securities	$ 20,354,153

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 custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty 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 deposits or investments, 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. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

As of June 30, 2014 and 2013, $22,552,940 and $35,384,732 respectively, of the District's demand deposits with financial institutions were in excess of federal depository insurance limits. As of June 30, 2014, these funds were fully collateralized by securities in a separate account held by the same institution.

Note 2: Cash, Cash Equivalents, and Investments (continued)

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF), which is part of the Pooled Money Investment Account that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is based upon the Agency'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), which was $49,841,424 and $42,492,772 as of June 30, 2014 and 2013, respectively. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The District may invest up to $50,000,000 in the LAIF fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. All investments with LAIF are secured by the full faith and credit of the State of California. Separate LAIF financial statements are available from the California State Treasurer's Office on the internet at http://www.treasurer.ca.gov.

Investments with fair values highly sensitive to interest rate fluctuations

At June 30, 2014 and 2013, the District did not hold investments that were highly sensitive to interest rate fluctuations beyond that already indicated in the information provided above.

Note 3: Water Bank Inventory

The Metropolitan Water District of Southern California, a State Water Project Contractor, has allowed the District to utilize capacity in the Kern Delta Water Bank, for the purpose of increasing water supply in a dry year. The District has stored 15,154 acre-feet and is able to call on a maximum of 5,000 acre-feet per year of this stored water. This stored water is classified as a restricted asset and is valued at cost.

The following is a summary of the water bank inventory for the years ended June 30, 2014 and 2013:

	Acre-feet	Inventory cost
Balance at June 30, 2012	17,800	$ 2,329,863
Additions	-	-
Reductions	-	-
Balance at June 30, 2013	17,800	2,329,863
Additions	-	-
Reductions	(2,646)	(346,338)
Balance at June 30, 2014	15,154	$ 1,983,525

Note 4: Capital Assets

Summaries of changes in capital assets in service for the years ended June 30, 2014 and 2013 were as follows:

As of June 30, 2014:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets, not being depreciated:				
Land, right of ways, and pipeline capacity	$ 11,740,009	$ 946,120	$ -	$ 12,686,129
Construction in progress	687,962	1,186,372	-	1,874,334
Total capital assets, not being depreciated	12,427,971	2,132,492	-	14,560,463
Capital assets, being depreciated:				
Buildings	6,232,110	-	-	6,232,110
Distribution lines	162,620,042	10,688	-	162,630,730
Brine line	7,121,795	-	-	7,121,795
Furniture, fixtures and equipment	1,036,248	-	-	1,036,248
Vehicles	385,584	29,135	35,159	379,560
Yucaipa Dam	3,698,238	-	-	3,698,238
Total capital assets, being depreciated	181,094,017	39,823	35,159	181,098,681
Less accumulated depreciation	(36,570,607)	(3,509,895)	(35,159)	(40,045,343)
Total capital assets, being depreciated, net	144,523,410	(3,470,072)	-	141,053,338
Participation rights in State Water Project Facilities	273,980,909	10,975,428	-	284,956,337
Less accumulated amortization	(105,654,174)	(7,730,629)	-	(113,384,803)
Participation rights in State Water Project Facilities, net	168,326,735	3,244,799	-	171,571,534
Total capital assets, net	$ 325,278,116	$ 1,907,219	$ -	$ 327,185,335

Note 4: Capital Assets (continued)

As of June 30, 2013:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets, not being depreciated:				
Land, right of ways, and pipeline capacity	$ 9,521,882	$ 3,545,004	$ 1,326,877	$ 11,740,009
Construction in progress	9,174,909	1,933,302	10,420,249	687,962
Total capital assets, not being depreciated	18,696,791	5,478,306	11,747,126	12,427,971
Capital assets, being depreciated:				
Buildings	7,821,671	1,447,382	3,036,943	6,232,110
Distribution lines	151,449,000	11,171,042	-	162,620,042
Brine line	7,121,795	-	-	7,121,795
Furniture, fixtures and equipment	1,028,829	7,419	-	1,036,248
Vehicles	370,438	47,487	32,341	385,584
Yucaipa Dam	3,698,238	-	-	3,698,238
Total capital assets, being depreciated	171,489,971	12,673,330	3,069,284	181,094,017
Less accumulated depreciation	(33,688,670)	(3,464,269)	(582,332)	(36,570,607)
Total capital assets, being depreciated, net	137,801,301	9,209,061	2,486,952	144,523,410
Participation rights in State Water Project Facilities	264,358,954	9,621,955	-	273,980,909
Less accumulated amortization	(98,382,160)	(7,272,014)	-	(105,654,174)
Participation rights in State Water Project Facilities, net	165,976,794	2,349,941	-	168,326,735
Total capital assets, net	$ 322,474,886	$ 17,037,308	$ 14,234,078	$ 325,278,116

Note 5: Notes Receivable

Notes receivable at June 30, 2014 and 2013 consisted of the following:

	2014	2013
The District entered into a loan agreement with the San Bernardino Regional Water Resources Authority JPA for an amount not to exceed $900,000. The loan is to be repaid from time to time from available revenues and other funding sources of the Authority. This note shall continue in effect, until such time as the full amount of the note is repaid. The loan is not secured and the principal balance shall not accrue interest. An allowance for uncollectible accounts was recorded in 2009 for the total principal balance outstanding.	$ 861,771	$ 861,771
The District entered into a loan agreement with the San Bernardino Regional Water Resources Authority JPA in 2001 for an amount not to exceed $850,000. The loan is to be repaid from time to time from available revenues and other funding sources of the Authority. This note shall continue in effect, until such time as the full amount of the note is repaid. The loan is not secured and the principal balance shall not accrue interest. An allowance for uncollectible accounts was recorded in 2009 for the total principal balance outstanding.	726,450	726,450
The District entered into a loan agreement with the San Bernardino Municipal Water Department, a division of the City of San Bernardino on July 3, 2012 for the amount of $1,117,500, for the purchase of property located at 1331 South E. Street. The loan is secured by the property and is to be paid in monthly installments of $19,102 including interest at 1% through July 2017.	677,191	898,446
The District entered into a loan agreement with the San Bernardino Regional Water Resources Authority JPA in December 2013 for the amount of $115,003, for the construction of a park project in the City of San Bernardino, for which the JPA has been awarded a reimbursable grant from the state. The loan is to be repaid in one lump sum within the next fiscal year.	115,003	-
	2,380,415	2,486,667
Less allowance for uncollectible accounts	1,588,221	1,588,221
Less current portion of notes receivable	338,481	221,255
Total notes receivable, net of current portion	$ 453,713	$ 677,191

Note 6: Unearned Revenue

The District receives cash advances from various water purveyors in exchange for commitments of future water deliveries. As of June 30, 2014 and 2013, total unearned revenue amounted to $5,415,624 and $5,066,040, respectively.

Note 7: Certificates of Participation

The District issued Revenue Certificates of Participation, Series 2011A on July 7, 2011, in the amount of $8,565,000, to fund capital improvements to the Baseline Feeder Project. The certificates are secured by the District's annual net revenues, meaning the revenues for any given fiscal year, excluding property taxes levied for the State Water Project, less the operation and maintenance costs for that fiscal year. Principal and interest are due in semiannual installments beginning on July 1, 2012 and ending on July 1, 2041. Interest rates range from 2.00% to 4.25%. Certificates are subject to extraordinary prepayment prior to their respective stated maturities at a prepayment price equal to the principal amount thereof plus accrued interest without a premium or penalty.

In May 2012, the District executed a Restated and Amended Agreement for the Construction, Operation and Maintenance of the New Baseline Feeder System with the District of Rialto, Riverside Highland Water Company and the West Valley Water District. The agreement requires annual capital payments by Rialto, Riverside Highland and West Valley to reimburse the District for the Debt Service on the 2011A Certificates of Participation. The District receives 100% reimbursement from the above mentioned entities and pays the annual principal and interest payable on the bonds to the bond trustee.

The following is a summary of bonds payable for the years ended June 30, 2014 and 2013:

As of June 30, 2014:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014	Due within one year
2011A Certificates of Participation	$ 8,405,000	$ -	$ (165,000)	$ 8,240,000	$ 165,000
Premium on certificates of participation	144,485	-	(5,160)	139,325	-
Total certificates of participation, net	$ 8,549,485	$ -	$ (170,160)	$ 8,379,325	$ 165,000

As of June 30, 2013:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013	Due within one year
2011A Certificates of Participation	$ 8,565,000	$ -	$ (160,000)	$ 8,405,000	$ 165,000
Premium on certificates of participation	149,645	-	(5,160)	144,485	-
Total certificates of participation, net	$ 8,714,645	$ -	$ (165,160)	$ 8,549,485	$ 165,000

Note 7: Certificates of Participation (continued)

The aggregate principal and interest debt to maturity payments for certificates of participation are summarized as follows:

Year ending June 30,	Principal	Interest	Total
2015	$ 165,000	$ 333,968	$ 498,968
2016	170,000	328,944	498,944
2017	180,000	323,694	503,694
2018	185,000	318,219	503,219
2019	190,000	311,644	501,644
2020-2024	1,070,000	1,435,820	2,505,820
2025-2029	1,305,000	1,199,120	2,504,120
2030-2034	1,595,000	907,051	2,502,051
2035-2039	1,970,000	530,632	2,500,632
2040-2042	1,410,000	94,280	1,504,280
Total	$ 8,240,000	$ 5,783,372	$ 14,023,372

Note 8: Defined Benefit Pension Plan (PERS)

Plan description

The District contributes to the California Public Employees' Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to eligible plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Funding policy

All full-time District employees are eligible to participate in PERS with benefits vesting after five years of service. District employees who retire at age 60 or older are entitled to an annual retirement benefit, payable monthly for life, in increasing percentage increments up to 2% for employees hired on or after July 1, 2011, or 3% for employees hired prior to that, of their average full-time monthly pay rate for the highest 12 consecutive months for each year of credited service.

Participants are required to contribute a percentage of their annual covered salary, and the District is required to contribute at an actuarially determined rate. Employees hired before July 1, 2011 are required to contribute 8% of their annual covered salary. The District's contribution rate for the period is 33.029% of covered payroll for those employees. The District makes the contributions required of these District employees on their behalf and for their account.

Effective July 1, 2011, the District amended the plan for new employees hired on or after that date, and as such, those employees are required to contribute 7% of their annual covered salary. The District's contribution rate for the period is 9.873% of covered payroll for those employees. The District makes 6.130% of the 7% contributions required of these District employees on their behalf and for their account, with the employees contributing the rest. For the years ended June 30, 2014 and 2013, the amount contributed by the District, including the amount contributed on behalf of the employees, was $982,982 and $973,159, respectively. Benefit provisions and all other requirements are established by state statute and District ordinance.

Note 8: Defined Benefit Pension Plan (PERS) (continued)

Assembly Bill 1974, which added Sections 20840-20842 to the California Government Code allowed PERS to create risk pools and mandate public agency participation in those pools. Commencing with the valuation of June 30, 2003, mandatory pooling was established for plans with less than 100 active members. As a result, the San Bernardino Valley Municipal Water District was required to participate in a risk pool of other Districts with less than 100 employees. The valuation report as of June 30, 2012, contained two sections: 1) the specific information of the plan including the development of the pooled contribution rate, and 2) the report of the Risk Pool Actuarial Valuation as of June 30, 2012.

At the time of joining a risk pool (valuation of June 30, 2003), a side fund was created to account for the difference between the funded status of the pool and funded status of the District's plan. The side fund for the District's plan as of the June 30, 2012 valuation was a negative $1,840,360.

The side fund will be credited, on an annual basis, with the actuarial investment return assumption. This assumption is currently 7.5%. The negative side fund will cause the District's required employer contribution rate to be increased by the amortization of the side fund. In the absence of subsequent contract amendments or funding changes, the side fund will disappear at the end of the amortization period. The amortization period remaining as of June 30, 2012, was 4 years.

Three year trend information

Fiscal year	Annual Pension Cost (APC)	Percentage of APC contributed	Net pension obligation
June 30, 2012	$ 999,768	100%	$ -
June 30, 2013	$ 973,159	100%	$ -
June 30, 2014	$ 982,982	100%	$ -

Note 9: Other-Post Employment Benefits (OPEB)

Plan description

The District pays the entire cost of the monthly medical and dental insurance premiums for retired employees and their dependents who have reached at least age 50 with a minimum of 10 years service. District-provided benefits continue for the life of the retiree and eligible family members. Benefits are also continued to surviving family members in the event of the death of an active eligible employee if age plus service at death equals 60 or more. The District participates in the ACWA medical program and Delta Dental of California. Retirees may enroll in any of the single-employer benefit plans offered by the District. The authority to establish and amend postemployment benefits resides with the District's Board of Directors.

The District intends to pre-fund its other postemployment benefits (OPEB) with CalPERS through the California Employers' Retiree Benefits Trust (CERBT) Fund. The CERBT is a trust fund that allows public employers to pre-fund the future cost of their retiree health insurance benefits and OPEB obligations for their covered employees or retirees. Employers that elect to participate in the CERBT make contributions into the trust fund. Participating employers use investment earnings to pay for retiree health benefits, similar to the CalPERS pension trust. CalPERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the CERBT. That report may be obtained by writing to CalPERS Headquarters, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811, or on the internet at http://www.calpers.ca.gov.

Note 9: Other-Post Employment Benefits (OPEB) (continued)

Funding policy and annual other postemployment benefit costs

The District has not adopted a funding policy for its other postemployment benefits (OPEB) obligation. Contributions requirements of the District are established and may be amended through Board action. The District contributes 100% of the cost of current-year premiums for eligible retired plan members and their dependents. The District's annual OPEB cost (expense) is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance within 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 the 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, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan for the years ended June 2014 and 2013:

	June 30, 2014	June 30, 2013
Annual required contribution	$ 300,458	$ 288,960
Interest on net OPEB obligation	69,982	52,182
Adjustment to annual required contribution	(59,772)	(44,569)
Annual OPEB cost	310,668	296,573
Contributions made	(84,721)	(59,241)
Increase in net OPEB obligation	225,947	237,332
Net OPEB obligation - beginning of year	933,094	695,762
Net OPEB obligation - end of year	$ 1,159,041	$ 933,094

The District's annual OPEB cost, which is equal to its annual required contribution, has been recognized as a part of the operating expenses of the District in the accompanying financial statements. The net OPEB obligation is included in accrued employee benefits on the Statements of Net Position.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2014, 2013 and 2012 are presented below:

Plan	Year	Annual OPEB cost	Actual contribution	Percentage of OPEB cost contributed	Net OPEB obligation
OPEB	June 30, 2012	$ 283,136	$ 62,574	22%	$ 695,762
OPEB	June 30, 2013	$ 296,573	$ 59,241	20%	$ 933,094
OPEB	June 30, 2014	$ 310,668	$ 84,721	27%	$ 1,159,041

Note 9: Other-Post Employment Benefits (OPEB) (continued)

Schedule of funding progress

Actuarial Valuation Date	Entry Age Normal Actuarial Accrued Liabiltiy (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Actuarial Accrued Liability (UAAL)/ (Excess Assets) (a) - (b)	Funded Ratio Based on AVA (b) / (a)	Annual Covered Payroll (c)	UAAL As a % Covered Payroll [(a)-(b)]/(c)
7/1/2008	$ 1,743,276	$ -	$ 1,743,276	0%	$ 2,204,558	79%
7/1/2011*	$ 2,824,066	$ -	$ 2,824,066	0%	$ 2,350,055	120%

* Most recent actuarial valuation available

Actuarial methods and assumptions

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. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts, 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.

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 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 assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

Valuation date	July 1, 2011
Actuarial cost method	Entry age normal cost
Amortization method	Level percentage of payroll
Remaining amortization period	27 years as of the valuation date
Asset valuation method	N/A - no assets
Actuarial assumptions:	
Investment rate of return	7.50%
Payroll growth	3.25%

		Increase	
	Year	Medical	Dental
Healthcare trend rates	2012	7.6%	4%
	2013 - 2015	7.3% - 6.7%	4%
	2016 - 2018	6.4% - 5.8%	4%
	2019+	5.5%	4%

Note 10: Commitments and Contingencies

Construction contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves. The District has committed to $2,668,735 in open construction contracts as of June 30, 2014. These include:

Project	Approved Contract	Payments To Date	Balance To Complete
Baseline Feeder Flow Control and Metering Improvement	$ 950,267	$ 950,267	$ -
City Creek Stream Channel Armor Protection	611,840	336,868	274,972
Construction of Cactus Basins	167,454	23,489	143,965
Rialto Colton Groundwater Model	115,353	67,605	47,748
Refine the Rialto Colton Basin Groundwater Model	337,070	310,283	26,787
Habitat Conservation Plan and Preliminary Design for Habitat Restoration Project	563,182	337,071	226,111
United State Geological Society	1,886,500	745,559	1,140,941
Economic Based Water Use Efficiency	83,960	75,868	8,092
Conceptual Design for the Santa Ana River Watershed Scale	112,229	10,529	101,700
Coordinate Public Outreach on Drought and Water Conservation	353,550	-	353,550
Yucaipa Basin Annual Change in Storage and Recharge	553,045	208,176	344,869
Total	$ 5,734,450	$ 3,065,715	$ 2,668,735

State of California Department of Water Resources

On December 30, 1960, the District entered into a contract with the State of California, Department of Water Resources to receive an annual entitlement for water from the State Water Project. The District assumed a proportionate share of capital costs and minimum operations, maintenance, power and replacement costs of the State facilities, in addition to paying variable operations, maintenance, power and replacement costs on a per-acre-foot charge for water deliveries received.

The District's future commitment for State Water Project costs over the years 2014 to 2035, according to the payment schedule dated January 24, 2014, is estimated as follows:

Transportation charges:	
Capital cost component	$ 64,568,427
Minimum operations, maintenance, power and replacement component	248,423,867
Variable operations, maintenance, power and replacement component	205,673,158
	518,665,452
Delta water charges	94,728,123
Water system revenue bond surcharge	37,389,543
Total	$ 650,783,118

Note 10: Commitments and Contingencies (continued)

Jointly governed organization

The District participates in the following jointly governed organization with other districts and agencies for various water projects and operating facilities in Southern California:

Santa Ana Watershed Project Authority

The Santa Ana Watershed Project Authority (SAWPA) was formed under a joint exercise of power agreement for the purpose of undertaking projects for water quality control, protection, and pollution abatement in the Santa Ana River Watershed. SAWPA is composed of five member water agencies within the watershed area: Eastern Municipal Water District, Orange County Water District, San Bernardino Valley Municipal Water District, Western Municipal Water District, and the Inland Empire Utilities Agencies. Each participating agency appoints one commissioner and one alternate commissioner to form the Board of Commissioners, the governing body of SAWPA. Financial data for SAWPA is available online at www.sawpa.org.

Condensed financial information for the operation of SAWPA for the fiscal years ended June 30, 2013 and 2012 are as follows:

	2013	2012
Total assets	$ 185,329,072	$ 192,136,326
Total liabilities	$ 117,951,098	$ 125,316,591
Total net position	$ 67,377,974	$ 66,819,735
Total revenues	$ 15,507,129	$ 18,061,846
Total expenses	$ (14,948,890)	$ (16,860,977)
Change in net position	$ 558,239	$ 1,200,869

Note 11: Funds Held in Trust

The District is the administrator and custodian of funds held in trust on behalf of the California Department of Fish & Game (CDFG), as prescribed in the Memorandum of Agreement dated March 2007 (Agreement). The Agreement requires the District and Western Municipal Water District to deposit a combined sum of $50,000 per year, from 2007 to 2016, into a segregated fund administered by the District. Accordingly, the segregated fund is presented as a restricted asset and liability in these financial statements. The CDFG shall direct the District on the disbursements from the fund as needed, in accordance with the Agreement. The balance of the Santa Ana River Restoration/Recovery Trust Fund as of June 30, 2014 and 2013 was $276,803 and $226,759, respectively.

Note 12: Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To help mitigate some of these risks, the District has purchased commercial insurance as follows:

Property Loss - Insured up to $100,000,000 per occurrence (total insurable value of $59,275,450 as of May 23, 2014), with a $5,000 deductible for buildings, personal property, fixed equipment, mobile equipment, and licensed vehicles.

Boiler and Machinery - Insured up to $100,000,000 per occurrence (total insurable value of $59,275,450 as of May 23, 2014), with a $10,000 deductible for boiler and machinery breakdown.

Auto Liability - Insured up to $1,000,000 per occurrence with no deductible for property damage.

Information Security and Privacy Liability - Insured up to $20,000,000 per occurrence with no deductible for security and privacy breaches.

Pollution Liability - Insured up to $25,000,000 per occurrence with no deductible for underground storage tanks.

The District is self-insured for general liability exposure.

The District pays annual premiums for these coverages. They are subject to retrospective adjustments based on claims experience. The nature and amounts of these adjustments cannot be estimated and are charged to expense as invoiced. There have been no significant reductions in insured liability coverage from coverage in the prior year, and there were no instances in the past three years where a settlement exceeded the District's coverage.

Note 13: Change in Accounting Principle

As discussed in Note 1, the District implemented GASB Statement No. 65 effective July 1, 2013. GASB 65, among other provisions, amended prior guidance with respect to the treatment of debt issuance costs. Under GASB 65, debt issuance costs, except any portion related to prepaid insurance costs, are recognized as an expense in the period incurred rather than reported as an asset on the statement of net position and recognized as an expense in a systematic and rational manner over the duration of the related debt. The District's unamortized balance of debt issuance costs, at the beginning of the year was $164,733. GASB 65 requires that accounting changes adopted to conform to the provisions of the Statement be applied retroactively by restating financial statements. Accordingly, beginning net position on the Statement of Revenues, Expenses and Changes in Net Position, has been restated for any unamortized debt issuance costs previously reported on the Statement of Net Position as follows:

Net position - at June 30, 2012, as previously reported	$ 533,164,212
Change in accounting principle	(164,733)
Net position - at June 30, 2012, as restated	$ 532,999,479

ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

735 E. Carnegie Dr. Suite 100
San Bernardino, CA 92408
909 889 0871 T
909 889 5361 F
ramscpa.net

PARTNERS
Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Kirk A. Franks, CPA
Matthew B. Wilson, CPA, MSA, CGMA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)

MANAGERS / STAFF
Bradferd A. Welebir, CPA, MBA
Jenny Liu, CPA, MST
Papa Matar Thiaw, CPA, MBA
Maya S. Ivanova, CPA, MBA
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA
Yiann Fang, CPA
Daniel T. Turner, CPA, MSA
David D. Henwood, CPA
Nathan Statham, CPA, MBA
Brigitta Bartha, CPA
Gardenya Duran, CPA
Juan Romero, CPA
Ivan Gonzales, CPA, MSA
Brianna Pascoe, CPA

MEMBERS
American Institute of
Certified Public Accountants

PCPS The AICPA Alliance for CPA Firms

Governmental Audit Quality Center

California Society of
Certified Public Accountants

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

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

We have audited, in accordance with the 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, the accompanying financial statements of San Bernardino Valley Municipal Water District, as of and for the year ended June 30, 2014, and have issued our report thereon dated November 5, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered San Bernardino Valley Municipal Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

STABILITY. ACCURACY. TRUST.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Bernardino Valley Municipal 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rogers Anderson Malody & Scott, LLP

San Bernardino, California
November 5, 2014