

Financial Statements for the Agencies

**San Bernardino Valley
Water Conservation District:
June 30, 2014**

Attachment 3d



**SAN BERNARDINO VALLEY WATER
CONSERVATION DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2014



SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT
ANNUAL FINANCIAL REPORT
 FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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INTRODUCTORY SECTION



SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT

Established 1932

1630 West Redlands Boulevard, Suite A
Redlands, CA 92373-8032
(909) 793-2503
Fax: (909) 793-0188

P.O. Box 1839
Redlands, CA 92373-0581
Email: info@sbvwcd.dst.ca.us
www.sbvwcd.dst.ca.us

September 10, 2014

Board of Directors
San Bernardino Valley Water Conservation District

Introduction

It is our pleasure to submit the Annual Financial Report for the San Bernardino Valley Water Conservation District (District) for the fiscal year ended June 30, 2014 following guidelines set forth by the Governmental Accounting Standards Board. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance the Board and public understanding of the District's financial position and activities.

This report is organized into two sections: (1) Introductory and (2) Financial. The Introductory section offers general information about the District's organization and current District activities and reports on a summary of significant financial results. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis of the District's basic financial statements, and the District's audited basic financial statements with accompanying Notes.

Generally Accepted Accounting Principles (GAAP) requires that District management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditor's Report.

District Structure and Leadership

The San Bernardino Valley Water Conservation District is an independent special district, which operates under the authority of Division 21 of the California Water Code. The origin of the District dates from 1909 when the Water Conservation Association was voluntarily formed to conserve water in the region. The District was formed in 1932 as the successor agency to the Water Conservation Association by a vote of the people. The District is currently governed by a five-member Board of Directors, elected by division from within the District's service area. The District reduced the number of Divisions to five and transitioned to a five member Board in December 2013. This assists the Board in limiting their expenses and improving the focus and efficiency of the District.

BOARD
OF
DIRECTORS

Division 1:
Richard Corneille
Division 2:
David E. Raley

Division 3:
Manual Aranda, Jr.
Division 4:
John Longville

Division 5:
Melody McDonald

GENERAL
MANAGER

Daniel B. Cozad

The General Manager administers the day-to-day operations of the District in accordance with powers established in Resolution 493 and the policies and procedures established by the Board of Directors. In addition to the general manager the District employs five regular employees, two in the field and three in the office. The District's Board of Directors generally meets once each month. Meetings are publicly noticed and the public and the press frequently attend its Board meetings and District workshops.

In 2013, the Board approved a Community Strategic Plan which was developed with input from the water, mining and other partners and the communities the District serves. This Strategic Plan focused on the District's services, efforts and strategic direction in support of the needs of the District's communities, rate payers and partners. This strategic plan provided additional focus on the District Priorities that are revised each January. The District is also finalizing policy principals to help translate the norms, values and desires of the Board.

District Services

The San Bernardino Valley Water Conservation District recharges the groundwater basin protecting the safe yield of the San Bernardino Bunker Hill Basin. The District's recharge services benefit the cities, districts and agricultural and non-agricultural groundwater producers within the District's boundaries.

To accomplish the recharge, the District maintains 71 water percolation basins in the Mill Creek and Santa Ana River spreading grounds. The District also plans for, maintains or leases over 3600 acres in the Santa Ana River Wash at and below the confluence of the Santa Ana River and Mill Creek. Water year 2014 has been an exceptionally dry year. The District recharged all water that was available; 8,153 acre feet of water successfully recharged into the groundwater basin for the water year ending September 30, 2013. This year has seen extreme drought grip California and the west as shown in the US Drought Monitor graphic from July 29, 2014 shown at right. Consequently the District has focused additional effort on conservation and outreach and performed additional maintenance of the basins and canals. At the same time the State Water Board has implemented emergency regulations for conservation and the District has supported the efforts of the BTAC Conservation committee to address these needs.



Significant Initiatives

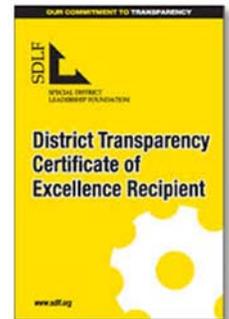
The District has several initiatives ongoing that are organizationally and financially significant.

Santa Ana River Wash Plan - The Wash Plan is a long term environmental and infrastructure planning effort that the District has led for many years. The District has been able to work with the USFWS to refocus efforts and reinitiate progress toward completion of the Wash Plan Habitat Conservation Plan. This plan will contribute the significant environmental improvements to habitat for several endangered species including the San Bernardino Kangaroo Rat and the Santa Ana River Woolly Star plant in the wash. The plan also allows expanded water conservation facilities, mining, transportation and trails. The communities served by the District are very involved in the effort through the Wash Plan Task Force. This effort was transitioned to have its own fund for accounting during this fiscal year and received funding beyond its current year costs.

Plunge Creek Water and Habitat Conservation - This project was developed and was selected from more than 100 projects within the Santa Ana Watershed for Proposition 84 Integrated Regional Water Management Planning funding. The District will receive an allocation of \$500,000 in grant funding for the project. This significant project planned with the US Fish and Wildlife Service will ultimately develop about 100 acres of new high quality SBKR habitat and create an additional 1,600 AF of groundwater recharge per year on District owned lands. The project is awaiting a grant funding contract from DWR and SAWPA for the project to begin. This is expected to take place in fiscal 2015.

Enhanced Recharge Project with SBVMWD - The Enhanced Recharge Project is significant to the District because it is a cooperative project with San Bernardino Valley Municipal Water District (SBVMWD). The project will improve and construct additional facilities; basins, canals and related structures on District lands to increase the capacity to recharge water from the Santa Ana River in the years when it is plentiful. This cooperative joint project also allows more effective use of the existing facilities for the benefit of the groundwater basin.

Policy Development - Staff continues to work to better document the principals, policy, practices and procedures used by the District. Many changes were made in the practices of the staff in the past years and this fiscal year many of these changes have been made to the Board's procedures and policies. The documentation of these proper policies and the redesign of the District website to make financial and policy information easily available to the public has resulted in the District receiving the Transparency Certificate of Excellence from the Special District Leadership Foundation (SDLF), affiliated with the California Special District Association.



Additionally, SDLF recognized SBVWCD with the District of Distinction accreditation. To make the award, the SDLF committee of volunteers, made up of district controllers, finance directors and certified general managers reviewed the independent audits and the District's operations to ensure prudent fiscal practices are followed and ensure the District's Board of Directors and executive staff have appropriate educational training in public governance, and compliance with ethics and harassment prevention training. The Board of Directors and staff completed training and development, and performed a self-assessment of performance. Both the Board and Staff are proud of these recognitions as they demonstrate our commitment to do the public's business transparently and to act as a professional special district measured by the highest standards and benchmarks.



Economic Condition and Outlook

The District is located at a strategic point in the watershed in the East end of the San Bernardino Valley. The Valley experienced significant economic growth with the rest of the Inland Empire in the mid 2000's. During the last six to seven years, it has also experienced the downturn as a result of the housing market collapse. This downturn in building and the larger economy greatly impacted the District's revenues. The downturn in building caused the District to experience near elimination of mining royalties collected on aggregate mined from District leased properties. A 2011 revision to the land lease and mining agreement with CEMEX now provides for minimum annual guaranteed revenue. This has shown to be a significant improvement and will help to mitigate revenue variability given future uncertainty.

The broader economic outlook for the Inland Empire has improved from the real estate recession. Housing prices have risen and development activities are being initiated in the District and the region. Historically, the Inland Empire recovers somewhat slower than Los Angeles and coastal Southern California. The ongoing financial crisis remnants may continue to impact District's mining royalties for the next few years. The California State budget has improved from the late 2000 deficits and should have less impact to the District. County property tax revenues are now also recovering.

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met with the limited staff at the District. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management. The District is better documenting its controls and practices and adding efforts to allow the highest level of control possible with its minimal staffing.

Budgetary Control

The District's Board of Directors annually adopts an operating and capital budget prior to the beginning of the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

In 2011 the District's Board of Directors adopted an enterprise model for financial management as well as reserve and other pertinent policies to implement the enterprise model. These changes were made to provide better internal accountability and provide greater public transparency for the finances of the District. In 2013/14 several of these policies were updated to revisit levels of reserves and provide implementation when revenue was available.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity and yield. District funds are invested in the State Treasurer's Local Agency Investment Fund, the CalTrust Joint Powers Authority, and institutional checking accounts.

District Revenues

State law and District policy ensure that all revenues from groundwater charges generated from District groundwater production support District operations. Groundwater Charge rates are set in accordance with section 75500 of the California Water Code. Groundwater charges are levied on all groundwater producing agricultural and non-agricultural facilities within the District boundaries. This is the primary component of the District's revenue. The District has agreements with other entities for payment or reimbursement for the cost of recharge of water on their behalf. In 2012 a cooperative agreement for the implementation of the Enhanced Recharge facilities was implemented and this agreement provides land lease funding as well as groundwater operations funding, which replaces reimbursement revenue from SBVMWD. Revenue from royalties on aggregate mining, property leases, easements, and interest on reserves complete the non-rate revenues of the District.

Audit and Financial Reporting

State Laws require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Eadie and Payne, LLP CPAs has conducted the audit of the District's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.

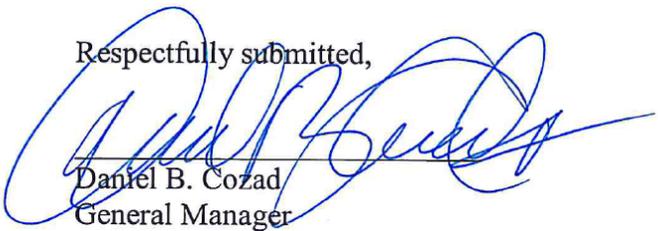
Other References

More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

Acknowledgements

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that the staff of the District. We would also like to thank the members of the Ad Hoc Audit Committee and the Board of Directors for their continued support in planning and implementation of the San Bernardino Valley Water Conservation District's fiscal policies.

Respectfully submitted,



Daniel B. Cozad
General Manager

Service Since 1932

San Bernardino Valley Water Conservation District Board of Directors as of June 30, 2014

<u>Name</u>	<u>Division</u>	<u>Title</u>	<u>Current Term Ending</u>
Richard Corneille	1	President	December 14, 2015
Melody Henriques-McDonald	5	Vice-President	December 11, 2017
Manuel Aranda Jr.	3	Director	December 14, 2015
John Longville	4	Director	December 11, 2017
David E. Raley	2	Director	December 11, 2017

**San Bernardino Valley Water Conservation District
Daniel B. Cozad, General Manager
1630 West Redlands Blvd., Suite A
P.O. Box 1839
Redlands, California 92373
(909) 793-2503 - www.sbvxcd.org**

FINANCIAL SECTION



CERTIFIED
PUBLIC
ACCOUNTANTS
& BUSINESS
ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the fiduciary fund of San Bernardino Valley Water Conservation District (District) as of and for the year ended June 30, 2014, and the related notes to the 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the 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 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the fiduciary fund of the District, as of June 30, 2014 and, where applicable, the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior-Period Financial Statements

The financial statements of the San Bernardino Valley Water Conservation District as of June 30, 2013, were audited by other auditors whose report dated October 9, 2013, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 11 through 17 and schedules of funding progress on pages 40 and 41 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, schedules of operating revenues and expenses, and schedules of Wash Plan additions and reductions are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of operating revenues and expenses and schedules of Wash Plan additions and reductions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating revenues and expenses and schedules of Wash Plan additions and reductions are fairly stated in all material respects in relation to the basic financial statements as a whole. The 2013 balances on page 42 and 43 were subjected to the auditing procedures applied in the 2013 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2013 financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not 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 September 10, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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. This report can be found on pages 44 and 45.

Eadie and Payne, LLP

September 10, 2014
Redlands, California

**SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the San Bernardino Valley Water Conservation District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2014 and 2013. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

The District's net position increased 17.0% or \$731,789 to \$5,043,733 in fiscal year 2014 as the result of operations. In 2013, The District's net position increased 45.7% or \$1,353,056 to \$4,311,944 as the result of one-time payments and operations.

The District's operating revenues for fiscal year 2014 were \$1,303,888, which was \$8,558 less than its operating expenses. Depreciation expense was \$94,204 and net nonoperating income was \$834,551 resulting in a net change in net position of \$731,789.

Required Financial Statements

This annual report consists of a series of financial statements. The statement of net position, statement of revenues, expenses, and changes in net position and statement of cash flows provide information about the activities and performance of the District using accounting methods similar to those used by private-sector companies.

The statement of net position includes all of the District's investments in resources (assets and deferred outflows) and the obligations to creditors (liabilities and deferred inflows). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness.

The final required financial statement is the statement of cash flows, which provides information about the District's cash receipts and cash payments during the reporting period. The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, noncapital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

In addition, the financial statements include a statement of fiduciary net position - agency fund, which reports the assets and liabilities of the Wash Plan. The annual report also includes required supplementary information and other supplementary information.

Financial Analysis of the District

The analysis in this section is focused on the primary activities of the District and do not include Agency Fund balances and activities.

These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities"? The statement of net position and the statement of revenues, expenses and changes in net position report information about the District in a way that helps answer this question.

These two statements report the District's *net position* and changes in it. You can think of the District's net position - the difference between assets and deferred outflows less liabilities and deferred inflows - as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other nonfinancial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 23 through 39.

Condensed Statements of Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Percentage Change</u>
Assets:				
Current assets	\$ 8,894,590	\$ 8,143,031	\$ 751,559	9.2%
Capital assets, net	<u>1,278,721</u>	<u>1,283,635</u>	<u>(4,914)</u>	-0.4%
Total assets	<u>10,173,311</u>	<u>9,426,666</u>	<u>746,645</u>	7.9%
Liabilities:				
Current liabilities	85,995	52,289	33,706	64.5%
Noncurrent liabilities	<u>5,043,583</u>	<u>5,062,433</u>	<u>(18,850)</u>	-0.4%
Total liabilities	<u>5,129,578</u>	<u>5,114,722</u>	<u>14,856</u>	0.3%
Net position:				
Net investment in capital assets	1,278,721	1,283,635	(4,914)	-0.4%
Unrestricted	<u>3,765,012</u>	<u>3,028,309</u>	<u>736,703</u>	24.3%
Total net position	<u>\$ 5,043,733</u>	<u>\$ 4,311,944</u>	<u>\$ 731,789</u>	17.0%

The total net position of the District may serve over time as a useful indicator of a government's financial position. In the case of the District, assets plus deferred outflows of the District exceeded liabilities plus deferred inflows \$5,043,733 and \$4,311,944 as of June 30, 2014 and 2013, respectively.

By far, the largest portion of the District's net position, 25.4% as of June 30, 2014 and 29.8% as of June 30, 2013, reflects the District's investment in capital assets (net of accumulated depreciation). The District uses these capital assets to provide services to groundwater producers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2014 and 2013, the District showed a positive balance in its unrestricted net position of \$3,765,012 and \$3,028,309, respectively, which may be utilized in future years.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Percentage Change</u>
Revenues:				
Operating revenues	\$ 1,303,888	\$ 1,579,538	\$ (275,650)	-17.5%
Nonoperating revenues	946,321	932,498	13,823	1.5%
Total revenues	<u>2,250,209</u>	<u>2,512,036</u>	<u>(261,827)</u>	-10.4%
Expenses:				
Operating expenses	1,312,446	931,716	380,730	40.9%
Depreciation expense	94,204	101,985	(7,781)	-7.6%
Nonoperating expenses	111,770	125,280	(13,510)	-10.8%
Total expenses	<u>1,518,420</u>	<u>1,158,981</u>	<u>359,439</u>	31.0%
Change in net position	731,789	1,353,055	(621,266)	-45.9%
Net position, beginning of year	<u>4,311,944</u>	<u>2,958,889</u>	<u>1,353,055</u>	45.7%
Net position, end of year	<u>\$ 5,043,733</u>	<u>\$ 4,311,944</u>	<u>\$ 731,789</u>	17.0%

The statement of revenues, expenses, and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, net position increased by \$731,789 and \$1,353,055 in fiscal years ended June 30, 2014 and 2013, respectively.

A closer examination of the sources of changes in net assets reveals that:

- The District's net position increased 17.0% or \$731,789 to \$5,043,733 in fiscal year 2014 as the result of operations. In 2013, The District's net position increased 45.7% or \$1,353,055 to \$4,311,944 as the result of one-time payments and operations.
- The District's operating revenues decreased by 17.5% or \$275,650 in 2014 primarily due to a \$298,838 reduction in revenue from operating agreements. In 2013, the District's operating revenues increased 84.0% or \$721,048 due to a one-time payment of \$496,090 for completion of reimbursable contracts for water spreading and a \$224,958 increase in groundwater assessments from increased production.

- The District's nonoperating revenues increased by 1.5% or \$13,823 in 2014 primarily due to a \$151,382 increase in royalty income resulting from new contracts with minimum annual royalty payments and a \$43,346 increase in the fair-market value of investments, which was offset by a reduction in other nonoperating revenues of \$171,565. The reduction in other nonoperating revenues was due to the prior year one-time revenue which was partially offset by a \$124,016 insurance reimbursement. In 2013, The District's nonoperating revenues increased by 83.0% or \$422,788 primarily due to a \$52,876 increase in property tax revenues, a \$63,848 increase in royalty revenues, and a \$311,818 increase in other nonoperating revenues related to a one-time payment for the East Branch Extension II Easement Condemnation.
- The District's operating expenses increased 40.9% or \$380,730 in 2014 primarily due to increases in salaries and benefits of \$155,382 due to the addition of a Land Resources Manager, basin maintenance expenses of \$100,740, and contributions to regional programs of \$92,421. In 2013, the District's operating expenses decreased 14.1% or \$152,844 primarily due to decreases in maintenance expenses of \$73,110, professional services of \$28,591, and employee benefits costs of \$16,747.
- The District's nonoperating expenses decreased 10.8% or \$13,510 in 2014 primarily due to the increase in the fair-market value of investments recovering the previous losses, which was offset by a \$23,111 increase in rental property expense. In 2013, the District's nonoperating expenses increased 10.0% or \$11,361 primarily due to a \$16,368 decrease in the fair-market value of investments at year-end, a \$6,702 increase in rental property expense, which was offset by an \$11,709 decrease in interest expense.

Capital Asset Administration

At the end of fiscal years 2014 and 2013, the District's net investment in capital assets amounted to \$1,278,721 and \$1,283,635, respectively. This investment in capital assets includes land, diversion facilities, recharge basins, buildings, equipment, and vehicles. Major capital asset additions during the year include improvements to the District's buildings and equipment.

Changes in capital assets in 2014 were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2014</u>
Capital assets:				
Nondepreciable assets	\$ 219,383	-	-	\$ 219,383
Depreciable assets	2,123,146	\$ 89,290	\$ (81,556)	2,130,880
Accumulated depreciation	(1,058,894)	(94,204)	81,556	(1,071,542)
Total capital assets	<u>\$ 1,283,635</u>	<u>\$ (4,914)</u>	<u>\$ -</u>	<u>\$ 1,278,721</u>

Changes in capital assets in 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2013</u>
Capital assets:				
Nondepreciable assets	\$ 219,383	-	-	\$ 219,383
Depreciable assets	2,136,800	\$ 12,212	\$ (25,866)	2,123,146
Accumulated depreciation	(982,775)	(101,985)	25,866	(1,058,894)
Total capital assets	<u>\$ 1,373,408</u>	<u>\$ (89,773)</u>	<u>\$ -</u>	<u>\$ 1,283,635</u>

District Reserves

The District builds, maintains and uses reserves to prepare for expected and unexpected costs. In accordance with the District's reserve policy, funds are allocated based on enterprise or fund performance and targets set by the Board based on benchmarks, best practices, and risk. Reserves may greatly exceed the minimums set by the Board for many reasons. Likewise, some reserves fall below the target level because they are funded over many years and have not been fully funded. The Board revises targets or reallocates funds to reserves annually. Additionally, it should be noted that the Prepaid Royalties Reserve/Liability is unearned revenue related to a deposit of funds in anticipation of aggregate mining under the Wash Plan. Additionally, the overall reserves are about 17% above targets. The reserves that are above their target levels are the land resources reserve and groundwater recharge enterprise reserve, which contain deferred capital project costs anticipated for 2015 and 2016.

Reserve	<u>Target</u>	<u>Balance</u>	<u>% Funded</u>
Groundwater Recharge Enterprise Reserve	\$ 200,000	\$ 1,524,057	762%
Groundwater ER Maintenance Reserve	250,000	100,000	40%
GWA Rate Stabilization	400,000	38,340	10%
Redlands Plaza Reserve	65,000	55,127	85%
Land Resources Reserve	50,000	927,180	1854%
Prepaid Royalties Reserve/Liability	5,000,000	5,000,000	100%
Habitat Management Reserve/Trust	-	-	
PERS/Post-Employment Expense Trust	32,423	32,423	100%
Self Insurance Reserve	50,000	15,000	30%
Capital Improvement/Equipment Reserve	60,000	60,000	100%
General Fund Reserve	1,048,000	640,324	61%
	<u>\$ 7,155,423</u>	<u>\$ 8,392,451</u>	<u>117%</u>

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net assets, or operating results based on past, present, and future events.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders, and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please review the District website at www.sbvcd.org or contact the District's General Manager at 1630 West Redlands Blvd., Suite A, P.O. Box 1839, Redlands, CA 92373.

BASIC FINANCIAL STATEMENTS

SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT
STATEMENTS OF NET POSITION
 JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 916,307	\$ 1,469,699
Investments (Note 2)	7,476,144	6,041,653
Accrued interest receivable	3,484	3,378
Accounts receivable	62,553	45,361
Assessments receivable - groundwater charge	427,746	380,585
Advances to Wash Plan (Note 3)	-	188,365
Prepaid expenses	8,356	13,990
	<u>8,894,590</u>	<u>8,143,031</u>
NONCURRENT ASSETS		
Capital assets (Note 4)	2,350,264	2,342,530
Accumulated depreciation	<u>(1,071,543)</u>	<u>(1,058,895)</u>
Total Noncurrent Assets	<u>1,278,721</u>	<u>1,283,635</u>
TOTAL ASSETS	<u>10,173,311</u>	<u>9,426,666</u>
CURRENT LIABILITIES		
Accounts payable and accrued expenses	34,560	10,535
Accrued wages and related payables	25,781	15,358
Customer deposits for rentals	9,291	6,767
Compensated absences (Note 5)	<u>16,363</u>	<u>19,629</u>
Total Current Liabilities	<u>85,995</u>	<u>52,289</u>
NONCURRENT LIABILITIES		
Unearned revenue (Note 6)	5,000,000	5,000,000
Compensated absences (Note 5)	31,296	59,315
Other post-employment benefits payable (Note 8)	<u>12,287</u>	<u>3,118</u>
Total Noncurrent Liabilities	<u>5,043,583</u>	<u>5,062,433</u>
TOTAL LIABILITIES	<u>5,129,578</u>	<u>5,114,722</u>
NET POSITION		
Net investment in capital assets	1,278,721	1,283,635
Unrestricted	<u>3,765,012</u>	<u>3,028,309</u>
TOTAL NET POSITION	<u>\$ 5,043,733</u>	<u>\$ 4,311,944</u>

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

SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Groundwater assessments	\$ 919,338	\$ 896,150
Operating agreements	354,550	653,388
Services for other agencies	30,000	30,000
Total Operating Revenues	<u>1,303,888</u>	<u>1,579,538</u>
OPERATING EXPENSES		
District operations	1,026,077	773,563
Regional programs	99,171	6,750
General and administrative	187,198	151,403
Total Operating Expenses	<u>1,312,446</u>	<u>931,716</u>
OPERATING INCOME (LOSS) BEFORE DEPRECIATION EXPENSE	(8,558)	647,822
DEPRECIATION EXPENSE	<u>94,204</u>	<u>101,985</u>
OPERATING INCOME (LOSS)	<u>(102,762)</u>	<u>545,837</u>
NONOPERATING REVENUES (EXPENSES)		
Property taxes	108,138	129,852
Investment earnings	26,387	45,343
Gain on disposal of assets	5,500	
Increase (decrease) in fair-market value of investments	43,346	(36,590)
Royalty income	416,294	264,912
Rental income	189,587	163,758
Rental property expense	(111,770)	(88,659)
Interest expense	-	(31)
Other nonoperating revenues and expenses	157,069	328,634
Total Nonoperating Revenues	<u>834,551</u>	<u>807,219</u>
CHANGE IN NET POSITION	731,789	1,353,056
NET POSITION, BEGINNING OF YEAR	<u>4,311,944</u>	<u>2,958,888</u>
NET POSITION, END OF YEAR	<u>\$ 5,043,733</u>	<u>\$ 4,311,944</u>

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

SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from groundwater assessments and other agencies	\$ 1,239,535	\$ 1,579,538
Cash paid to vendors and suppliers for materials and services	(793,651)	(340,949)
Cash paid to employees for salaries and wages	<u>(500,829)</u>	<u>(399,932)</u>
Net Cash Provided By (Used In) Operating Activities	<u>(54,945)</u>	<u>838,657</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from property taxes	108,138	129,852
Proceeds from royalty income	416,294	264,912
Proceeds from rental revenue, net of expenses	80,341	75,098
Proceeds from other sources	157,069	-
Receipts from (advances to) Wash Plan	188,365	(26,459)
Interest paid on pension debt	-	(31)
Net Cash Provided By Noncapital Financing Activities	<u>950,207</u>	<u>443,372</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Acquisition of capital assets	(89,290)	(12,212)
Proceeds from disposal of capital assets	<u>5,500</u>	<u>-</u>
Net Cash Provided By (Used In) Capital Financing Activities	<u>(83,790)</u>	<u>(12,212)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(3,741,601)	(500,000)
Sale of investments	2,350,350	
Interest and investment earnings	<u>26,387</u>	<u>37,743</u>
Net Cash Provided By (Used In) Investing Activities	<u>(1,364,864)</u>	<u>(462,257)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(553,392)	807,560
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,469,699</u>	<u>662,139</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 916,307</u>	<u>\$ 1,469,699</u>

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

STATEMENTS OF CASH FLOWS (Continued)

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	\$ (102,762)	\$ 545,837
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities		
Depreciation expense	94,204	101,985
Other nonoperating revenues (expenses), net		292,044
Changes in Operating Assets and Liabilities		
(Increase) Decrease in Operating Assets		
Accounts receivable	(17,192)	(15,361)
Assessments receivable - groundwater charge	(47,161)	(85,430)
Prepaid expenses and other	5,634	(12,490)
Increase (Decrease) in Operating Liabilities		
Accounts payable and accrued expenses	24,025	(12,497)
Accrued wages and related payables	10,423	5,765
Customer deposits for rentals	-	2,050
Compensated absences	(31,285)	15,598
Other post-employment benefits payable	<u>9,169</u>	<u>1,156</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ (54,945)</u>	<u>\$ 838,657</u>
NONCASH INVESTING, CAPITAL, AND FINANCING TRANSACTIONS		
Change in fair-market value of investments	<u>\$ 43,346</u>	<u>\$ (16,368)</u>

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

SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT
STATEMENTS OF FIDUCIARY NET POSITION - AGENCY FUND
 FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 180,178	-
Due from other entities	<u>212,009</u>	<u>\$ 188,365</u>
Total Assets	<u>392,187</u>	<u>188,365</u>
LIABILITIES		
Budgeted expenditures for Wash Plan	392,187	
Advances from District for Wash Plan	<u>-</u>	<u>188,365</u>
Total Liabilities	<u>392,187</u>	<u>188,365</u>
NET POSITION	<u>\$ -</u>	<u>\$ -</u>

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

SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The San Bernardino Valley Water Conservation District (District) was formed in 1932 under the statutory authority of the California Water Code. Its function is to conduct water spreading operations by capturing water flows of the Santa Ana River and Mill Creek. Spreading enables the water to percolate into the groundwater basin for the benefit of all producers.

The District is comprised of approximately 50,000 acres of land. Within its boundaries are several municipal water purveyors, public utilities, and other (mutual and private) companies who supply water needs. The source of such water is the groundwater basin underlying the District, of which an average of 150,000 acre-feet per year is extracted through more than 200 producing wells by more than 50 different producers.

The District is governed by a five-member board of directors elected by the citizens residing within the District's service boundaries.

B. Basis of Accounting

The accounting records of the District are maintained on the accrual basis of accounting. Under this method, revenues are recognized in the period earned and expenses are recognized in the period incurred. The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through groundwater assessments, capital grants, and similar funding.

Operating revenues and expenses result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses are reported as nonoperating revenues and expenses.

The District also maintains a fiduciary fund for reporting the Wash Plan assets and liabilities. A Task Force was established, under the leadership of the District to coordinate land uses within the wash area. The members include the District, the County of San Bernardino, the Cities of Highland and Redlands, the San Bernardino Valley Municipal Water District, East Valley Water District, and two aggregate miners. The Wash Plan is accounted for as an agency fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

Both the enterprise fund and the fiduciary fund report using an economic resources measurement focus.

C. **Accounting Pronouncements**

The financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting.

D. **Net Position**

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

- (1) **Net Investment in Capital Assets** - Investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- (2) **Restricted** - Restricted consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- (3) **Unrestricted** - Unrestricted consists of any remaining balance of the District's net position that do not meet the definition of "restricted" or "net investment in capital assets."

The District's policy is to first apply disbursements to restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

E. **Use of Estimates**

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, and disclose material contingent liabilities existing at the date of the financial statements. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS (Continued)

F. **Cash and Cash Equivalents**

Substantially all of the District's cash is invested in interest-bearing accounts. The District considers all cash and cash deposits, investment in the State Treasurer's Local Agency Investment Fund, and other investments with initial maturities of less than 90 days at the date of purchase to be cash and cash equivalents in the presentation of the District's financial statements.

G. **Investments**

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.

H. **Property Taxes and Assessments**

Secured property taxes are levied against real property and are due and payable in two equal installments. The first installment is due on November 1 and becomes delinquent if not paid by April 10. Unsecured personal property taxes are due on July 1 each year. These taxes become delinquent if not paid by August 31.

The District assesses its property taxes through the County tax rolls. Property taxes are recognized as revenue in the period for which they are levied.

I. **Compensated Absences**

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

J. **Concentrations**

The District has two primary sources of revenue. One is the groundwater charge levied to entities who extract water from the groundwater basin underlying the District. The amount of rainfall in the area as well as additional allocations of state project water to the neighboring water districts can have a significant effect on the amount of water extracted. The second major source of revenue is from mining activities on District property. The level of building activity in the region may have significant impact on royalties from mining activities.

NOTES TO FINANCIAL STATEMENTS (Continued)

K. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$1,000 and an estimated useful life of five years. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	40-50 years
Vehicles and equipment	5-10 years
Office equipment	3-10 years
Field equipment	5-10 years
Spreading basins	50+ years
Improvements	
Structural	40 years
Furnishings	10 years

K. Budgetary Policies

The District adopts an annual nonappropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

2. CASH AND INVESTMENTS

Cash and investments as of June 30 are classified in the statements of net position as follows:

	<u>2014</u>	<u>2013</u>
STATEMENTS OF NET POSITION		
Cash and cash equivalents	\$ 916,307	\$ 1,469,699
Investments	<u>7,476,144</u>	<u>6,041,653</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 8,392,451</u>	<u>\$ 7,511,352</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

Cash and investments as of June 30 consist of the following:

	<u>2014</u>	<u>2013</u>
Cash on hand - undeposited funds	-	\$ 32,940
Deposits with financial institutions	\$ 470,949	992,498
Deposits held with the California Local Agency Investment Fund	445,358	444,261
Deposits Held with CalTrust		
Short-Term Trust Fund	3,734,031	
Medium-Term Fund	<u>3,742,113</u>	<u>6,041,653</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 8,392,451</u>	<u>\$ 7,511,352</u>

As of June 30, the District's authorized deposits had the following average maturities:

	<u>2014</u>	<u>2013</u>
California Local Agency Investment Fund	232 Days	278 Days
Investment Trust of California (CalTrust Short-Term Fund)	500 Days	N/A
Investment Trust of California (CalTrust Medium-Term Fund)	748 Days	741 Days

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

The District's investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The District's investment policy does not contain any specific provisions intended to limit the District's allowable deposits or investments or address the specific types of risk to which the government is exposed, including its exposure to a concentration of credit risk.

B. **Investment in State Investment Pool**

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the 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 financial statements at 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. The District's cost basis in LAIF was \$445,237 at June 30, 2014 and its fair value was \$445,358.

C. **Investment Trust of California (CalTrust)**

(CalTrust) is organized as a Joint Powers Authority established by public agencies in California for the purpose of pooling and investing local agency funds. A Board of Trustees supervises and administers the investment program of the Trust. CalTrust has four pools, money market account, short-term, medium-term, and long-term. The District has deposits in the Short-Term Fund and the Medium-Term Fund. The District's investment in these pools are reported in the accompanying financial statements at fair value based on the District's pro-rata share of the respective pools as reported by CalTrust. The average cost of the District's investment in the Short-Term Fund as of June 30, 2014 was \$3,727,420 and its fair value (withdrawal value) was \$3,734,031. The average cost of the District's investment in the Medium-Term Fund as of June 30, 2014 was \$3,752,446 and its fair value (withdrawal value) was \$3,742,113.

NOTES TO FINANCIAL STATEMENTS (Continued)

D. 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 Code and the District's investment policy does 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 Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to \$250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

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 Code and the District's investment policy contains legal and 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).

E. 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 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 matures or comes close to maturity evenly over time as necessary to provide for cash flow requirements and liquidity needed for operations.

NOTES TO FINANCIAL STATEMENTS (Continued)

F. Credit Risk

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 Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

	MINIMUM		RATING AS OF	
	LEGAL RATING		YEAR-END	
	2014	2013	2014	2013
California Local Agency Investment Fund	None	None	Not rated	Not rated
Investment Trust of California (CalTrust Short-Term Fund)	None	None	AAf / S1+	AAf / S1+
Investment Trust of California (CalTrust Medium-Term Fund)	None	None	Not rated	Not rated

G. Concentrations of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments at June 30, 2014 and 2013.

3. ADVANCES TO WASH PLAN

The District provides various funding for Wash Plan operations on behalf of interested parties. Amounts are to be reimbursed to the District based on the Plan's formative agreement.

Changes in advances to Wash Plan at June 30 were as follows:

	2014	2013
Beginning balance	\$ 188,365	\$ 161,906
Advances	150,043	26,459
Receipts	338,408	-
ENDING BALANCE	\$ -	\$ 188,365

NOTES TO FINANCIAL STATEMENTS (Continued)

4. CAPITAL ASSETS

Changes in capital assets for 2014 were as follows:

	BALANCE 7/1/13	ADDITIONS	DISPOSALS/ TRANSFERS	BALANCE 6/30/14
Land	\$ 219,383	-	-	\$ 219,383
Buildings	1,174,848	-	-	1,174,848
Vehicles and equipment	140,484	-	\$(14,857)	125,627
Office equipment	155,232	\$ 6,704	(24,504)	137,432
Field equipment	208,704	79,623	(42,195)	246,132
Spreading basins	330,192	-	-	330,192
Improvements	94,404	2,963	-	97,367
Equipment	19,283	-	-	19,283
	<u>2,342,530</u>	<u>89,290</u>	<u>(81,556)</u>	<u>2,350,264</u>
Less: Accumulated depreciation	<u>(1,058,895)</u>	<u>(94,204)</u>	<u>81,556</u>	<u>(1,071,543)</u>
TOTAL CAPITAL ASSETS, NET	<u>\$1,283,635</u>	<u>\$ (4,914)</u>	<u>\$ -</u>	<u>\$ 1,278,721</u>

Changes in capital assets for 2013 were as follows:

	BALANCE 7/1/12	ADDITIONS	DISPOSALS/ TRANSFERS	BALANCE 6/30/13
Land	\$ 219,383	-	-	\$ 219,383
Buildings	1,174,847	-	-	1,174,847
Vehicles and equipment	140,484	-	-	140,484
Office equipment	174,534	\$ 6,567	\$(25,866)	155,235
Field equipment	208,701	-	-	208,701
Spreading basins	330,192	-	-	330,192
Improvements	94,404	-	-	94,404
Equipment	13,638	5,645	-	19,283
	<u>2,356,183</u>	<u>12,212</u>	<u>(25,866)</u>	<u>2,342,529</u>
Less: Accumulated depreciation	<u>(982,775)</u>	<u>(101,985)</u>	<u>25,866</u>	<u>(1,058,894)</u>
TOTAL CAPITAL ASSETS, NET	<u>\$1,373,408</u>	<u>\$ (89,773)</u>	<u>\$ -</u>	<u>\$ 1,283,635</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

5. COMPENSATED ABSENCES

The changes to compensated absences balances at June 30 were as follows:

BALANCE			BALANCE		
<u>7/1/13</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>6/30/14</u>	<u>CURRENT</u>	<u>LONG TERM</u>
<u>\$78,944</u>	<u>\$24,152</u>	<u>\$(55,437)</u>	<u>\$47,659</u>	<u>\$16,363</u>	<u>\$31,296</u>
BALANCE			BALANCE		
<u>7/1/12</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>6/30/13</u>	<u>CURRENT</u>	<u>LONG TERM</u>
<u>\$63,346</u>	<u>\$35,639</u>	<u>\$(20,041)</u>	<u>\$78,944</u>	<u>\$19,629</u>	<u>\$59,315</u>

6. UNEARNED REVENUE

In 1993, the District entered into a lease agreement for the extraction of rock, sand, and gravel from Section 7 property within the Wash Plan area. The District received a \$5,000,000 prepayment against future rentals and royalties on 12,000,000 tons of material to be earned when mining was initiated. The lease commencement date was December 31, 2002, but due to delays in the Wash Plan the agreement was subsequently amended in 2003. This amendment linked the commencement of operations to the approval of the Wash Plan. The initial term of the lease is for ten years with four successive five-year renewal periods, minimum annual rent of \$1,000,000 after the initial prepayment is exhausted. In the event the lessee is unable to obtain necessary permits for operations within the Wash Plan area the prepaid \$5,000,000 would then become refundable without interest, upon a one-year notice.

7. DEFINED BENEFIT PENSION PLAN

A. Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by State statute and the Agency. Copies of CalPERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

NOTES TO FINANCIAL STATEMENTS (Continued)

B. Funding Policy

The contribution rate for Plan members in CalPERS, under funding Policy 2.5% at 55 Risk Pool Retirement Plan is 7.888% of their annual covered salary and is paid 85% by the District. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2014, 2013, and 2012 as noted below. The contribution requirements of the Plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For fiscal years 2014, 2013, and 2012, the District's annual contributions for the CalPERS Plan were equal to the Agency's required and actual contributions for each fiscal year as follows:

THREE-YEAR TREND INFORMATION FOR CALPERS

<u>FISCAL YEAR</u>	<u>ANNUAL PENSION COST (APC)</u>	<u>PERCENTAGE OF APC CONTRIBUTED</u>	<u>NET PENSION OBLIGATION</u>	<u>APC PERCENTAGE OF PAYROLL</u>
2011-2012	\$ 63,658	100 %	-	14.532 %
2012-2013	67,671	100	-	19.171
2013-2014	96,258	100	-	19.537

8. OTHER POST-EMPLOYMENT BENEFITS PAYABLE

A. Plan Description - Eligibility

The District pays the level set by the Board for Employees for the cost of health insurance for retirees under the plans offered by the District until the retiree qualifies for Medicare, subject to limits determined by the Board of the District.

Membership in the OPEB plan consisted of the following members as of June 30:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Active Plan members	6	6	5
Retirees and beneficiaries receiving benefits	-	-	-
Separated Plan members entitled to but not yet receiving benefits	-	-	-
TOTAL PLAN MEMBERSHIP	<u>6</u>	<u>6</u>	<u>5</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

B. Plan Description - Benefits

The District offers post-employment medical benefits to retired employees who satisfy the eligibility requirements. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any medical plan available through the District. The contribution requirements of eligible retired employees and the District are established and may be amended by the Board of Directors.

C. Funding Policy and Annual Other Post-employment Costs

The District's annual OPEB expense is calculated based on the *Annual Required Contribution (ARC) of the Employer*, 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 the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The current ARC rate is 1.83% of the annual covered payroll.

The District funds the plan on a pay-as-you-go basis. The District will pay up to 100% of the cost of the post-employment benefit plan. The District has established reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost. The District's annual OPEB cost for the current year and two preceding years and the related information for the Plan are shown below:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
ANNUAL OPEB EXPENSE			
Annual required contribution (ARC)	\$ 9,169	\$ 1,156	\$ 1,000
Interest on net OPEB obligation	125	-	-
Adjustment to annual required contribution	<u>(125)</u>	<u>-</u>	<u>-</u>
Total Annual OPEB Expense	9,169	1,156	1,000
CHANGE IN NET OPEB PAYABLE OBLIGATION			
Age-adjusted contributions made	<u>-</u>	<u>-</u>	<u>-</u>
Total Change in Net OPEB Payable Obligation	9,169	1,156	1,000
OPEB PAYABLE, BEGINNING OF YEAR	<u>3,118</u>	<u>1,962</u>	<u>962</u>
OPEB PAYABLE, END OF YEAR	<u>\$12,287</u>	<u>\$3,118</u>	<u>\$1,962</u>

The District's current-year OPEB cost, which is equal to the current-year annual required contribution, has been recognized as a part of the general and administrative expenses in the accompanying statement of revenues, expenses and changes in net position.

NOTES TO FINANCIAL STATEMENTS (Continued)

D. Funded Status

The funded status of the Plan as of June 30, 2014, based on the July 1, 2014 actuarial valuation, is as follows:

	<u>AMOUNT</u>
Actuarial Accrued Liability (AAL)	\$ 32,423
Actuarial value of trust assets	-
UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	\$ 32,423
Funded ratio (actuarial value of trust assets/AAL)	0%

E. Actuarial Methods and Assumptions

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 rates of employee turnover, retirement, mortality, as well as economic assumptions regarding claim costs per retiree, healthcare inflation, and interest rates. 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. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multi-year trend information about whether the unfunded actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

The following is a summary of the actuarial assumptions and methods:

Valuation date	July 1, 2014
Actuarial cost method	Entry age normal actuarial cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	23 Years as of the valuation date
Asset valuation method	30-Year smoothed market
Actuarial Assumptions	
Investment rate of return	4.00%
Projected salary increase	3.00%
Inflation - discount rate	4.00%
Individual salary growth	3.00%
Medical Insurance Premium	
Increases	
Years 1 and 2	8.00%
Years 3 and 4	7.00%
Year 5	6.00%
Years 6-10	5.00%
Years 11-21	4.00%
Thereafter	3.00%

9. LEASE AGREEMENTS

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

The District is the lessor of commercial building space under operating leases expiring in various years through the year ending June 30, 2019.

NOTES TO FINANCIAL STATEMENTS (Continued)

Minimum future rentals to be received on noncancelable leases as of June 30 are as follows:

<u>YEAR</u>	<u>RENTAL</u>	<u>ROYALTIES</u>	<u>TOTAL</u>
2015	\$ 156,315	\$ 434,667	\$ 590,982
2016	107,642	516,667	624,309
2017	72,307	550,000	622,307
2018	49,255	550,000	599,255
2019	8,249	550,000	558,249
2020	-	183,333	183,333
TOTAL	<u>\$ 393,768</u>	<u>\$ 2,784,667</u>	<u>\$ 3,178,435</u>

The District is the lessee of a copier with monthly payments of \$335. Minimum future rentals to be paid on noncancelable leases as of June 30, 2014 were as follows:

<u>YEAR</u>	<u>AMOUNT</u>
2015	\$ 4,024
2016	4,024
2017	4,024
2018	4,024
2019	<u>3,020</u>
TOTAL	<u>\$ 19,116</u>

10. 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. The District is insured for a variety of potential exposures. The following is a summary of the insurance policies carried by the District as of June 30, 2014:

- Property: Up to the scheduled value of the property with a \$1,000 deductible;
- Vehicles/Mobile Equipment: \$1,000,000 in the aggregate per occurrence with a \$500 deductible/vehicles and \$1,000 deductible/equipment;
- General Liability: \$1,000,000 in the aggregate per occurrence with a \$1,000 deductible;
- Crime, Computer Fraud, Forgery, and Dishonesty coverage: \$100,000 per claim with a \$1,000 deductible;
- Employers Liability: \$2,000,000 per accident employee by disease; and
- Workers' compensation: \$2,000,000 each accident or each employee by disease.

NOTES TO FINANCIAL STATEMENTS (Continued)

11. GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS ISSUED, NOT YET EFFECTIVE

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2014, that have effective dates that may impact future financial presentations.

A. **Governmental Accounting Standards Board Statement No. 68**

In June 2012, the GASB issued Statement No. 68 - Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

B. **Governmental Accounting Standards Board Statement No. 69**

In January 2013, the GASB issued Statement No. 69 - Government Combinations and Disposals of Government Operations. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

C. **Governmental Accounting Standards Board Statement No. 71**

In November 2013, the GASB issued Statement No. 71 - Pension Transition for Contributions made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

NOTES TO FINANCIAL STATEMENTS (Continued)

12. COMMITMENTS AND CONTINGENCIES

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

13. SUBSEQUENT EVENTS

Events occurring after June 30, 2014 have been evaluated for possible adjustment to the financial statements or disclosure as of September 10, 2014, which is the date the financial statements were available to be issued.

14. RESTATEMENTS

Certain items in the prior year financial statements have been restated to agree with the current year presentation. There was no effect on net position or the changes in net position as a result of the restatements.

REQUIRED SUPPLEMENTARY INFORMATION

**SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT
SCHEDULE OF FUNDING PROGRESS - RETIREMENT PLAN
FOR THE YEAR ENDED JUNE 30, 2014**

**CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM
Miscellaneous 2.5% at 55 Risk Pool**

The table below displays a short history of the Entry Age Normal Accrued Liability, the Actuarial Value of Assets, the Unfunded Liability (or Excess Assets). Funded Status (i.e., the ratio of the Actuarial Value of Assets to Entry Age Normal Accrued Liability), the estimated annual covered payroll and the Unfunded Actuarial Accrued Liability (UAAL) as a percentage of the covered payroll. The table represents amounts for the entire pool of which the San Bernardino Valley Water Conservation District is only one participating employer.

VALUATION DATE	ENTRY AGE NORMAL ACCRUED LIABILITY (a)	ACTUARIAL VALUE OF ASSETS (b)	UNFUNDED LIABILITY (EXCESS ASSETS) (a)-(b)	FUNDED STATUS (b)/(a)	ANNUAL COVERED PAYROLL (c)	UAAL AS A PERCENTAGE OF COVERED PAYROLL [(a)-(b)]/c
6-30-2008	\$1,537,909,933	\$1,337,707,835	\$200,202,098	87.0%	\$333,307,600	60.1%
6-30-2009	1,834,424,640	1,493,430,831	340,993,809	81.4%	355,150,151	96.0%
6-30-2010	1,972,910,641	1,603,482,152	369,428,489	81.3%	352,637,380	104.8%
6-30-2011	2,135,350,204	1,724,200,585	411,149,619	80.8%	350,121,750	117.4%
6-30-2012	2,254,622,362	1,837,489,422	417,132,940	81.5%	339,228,272	123.0%

**SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT
SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT
BENEFITS PLAN
FOR THE YEAR ENDED JUNE 30, 2014**

OTHER POST-EMPLOYMENT BENEFITS PLAN

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (b)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) (b-a)	FUNDED RATIO (a/b)	COVERED PAYROLL (c)	UAAL AS A PERCENTAGE OF COVERED PAYROLL [(b-a)/c]
11-1-2011	-	\$ 3,118	\$ 3,118	0.00%	\$ 429,422	0.73%
7-1-2014	-	32,423	32,423	0.00%	630,544	5.14%

*This information for the two preceding years is unavailable.
GASB No. 45 was implemented in fiscal year 2011.

SUPPLEMENTARY INFORMATION

SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT
SCHEDULES OF OPERATING REVENUES AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Groundwater Assessments		
Groundwater charge assessment - agricultural	\$ 52,599	\$ 987
Groundwater charge assessment - nonagricultural	866,739	895,163
Operating Agreements		
Enhanced recharge agreement	354,550	157,298
Close-out of prior agreement		496,090
Services for other agencies	30,000	30,000
Total Operating Revenues	<u>1,303,888</u>	<u>1,579,538</u>
OPERATING EXPENSES		
District Operations		
Professional services	147,998	139,159
Field operations	30,891	35,564
Utilities	20,526	27,015
Benefits	240,222	158,293
Salaries/staff	479,967	406,514
Repairs and maintenance	106,473	7,018
Total District Operations	<u>1,026,077</u>	<u>773,563</u>
Regional Programs		
Regional programs LAFCO contribution	995	6,750
Regional River HCP contribution	20,000	
Wash Plan contribution	78,176	-
Total Regional Programs	<u>99,171</u>	<u>6,750</u>
General and Administrative		
Directors' fees/expense	85,336	95,319
Staff travel and education	12,151	6,238
Insurance	23,974	3,552
Other administrative expenses	65,737	46,294
Total General and Administrative	<u>187,198</u>	<u>151,403</u>
Total Operating Expenses	<u>1,312,446</u>	<u>931,716</u>
OPERATING INCOME (LOSS) BEFORE DEPRECIATION EXPENSE	(8,558)	647,822
DEPRECIATION EXPENSE	<u>94,204</u>	<u>101,985</u>
OPERATING INCOME (LOSS)	<u>\$ (102,762)</u>	<u>\$ 545,837</u>

An insurance reimbursement of \$108,508 was received to cover some of the costs to repair damages incurred.

SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT
SCHEDULES OF WASH PLAN ADDITIONS AND REDUCTIONS
 FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ADDITIONS	<u>\$ 730,595</u>	<u>-</u>
	<u>\$ 730,595</u>	<u>\$ -</u>
REDUCTIONS		
Professional services	\$ 55,092	\$ 16,870
Environmental services	14,862	-
Legal expenses	8,941	9,590
Allocated District Expenses		
Salaries and benefits	65,176	
Office expense	5,972	
	<u>150,043</u>	<u>26,460</u>
Repayment of prior liability	<u>188,365</u>	<u>-</u>
	<u>\$ 338,408</u>	<u>\$ 26,460</u>

REPORT ON INTERNAL CONTROLS AND COMPLIANCE