

# **SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT**

San Bernardino, California

Basic Financial Statements and Supplementary Information

For the years ended June 30, 2013 and 2012



*San Bernardino Valley Municipal Water District*

**Basic Financial Statements and Supplementary Information  
For the years ended June 30, 2013 and 2012**

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## Independent Auditor's Report

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Certified Public Accountants

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, 2013 and 2012, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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.

## **Opinions**

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, 2013 and 2012, and the results of its operations, changes in net position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

## **Other Matters**

### *Implementation of New Pronouncement*

As discussed in Note 1 of the financial statements, the District adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

### *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 October 18, 2013, 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, CA  
October 18, 2013

# **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.

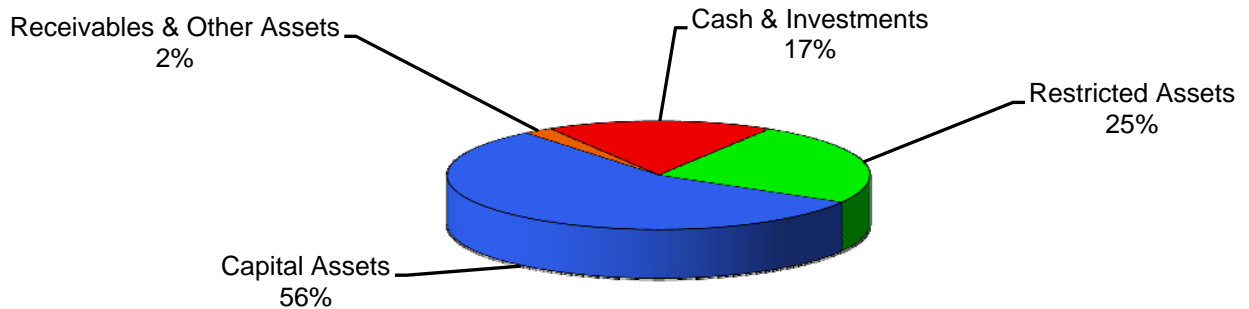
The Statement of Cash Flows conveys to financial statement users how the District managed cash resources during the year. This statement converts the Change in Net Position presented on the Statement of Revenues, Expenses and Changes in Net Position into actual cash provided by or used for operations. 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, 2013, the District's Total Assets increased by \$27.0 million and Net Position increased by \$31.8 million. A majority of the increase in Total Assets resulted from an increase of \$19.3 million in Unrestricted Current Assets and a \$5.9 million increase in Restricted Assets, an increase of \$11.3 million in Total Capital Assets and a \$8.5 million decrease in Construction in Progress netted against a decrease in Non Current Assets of \$1.0 million.

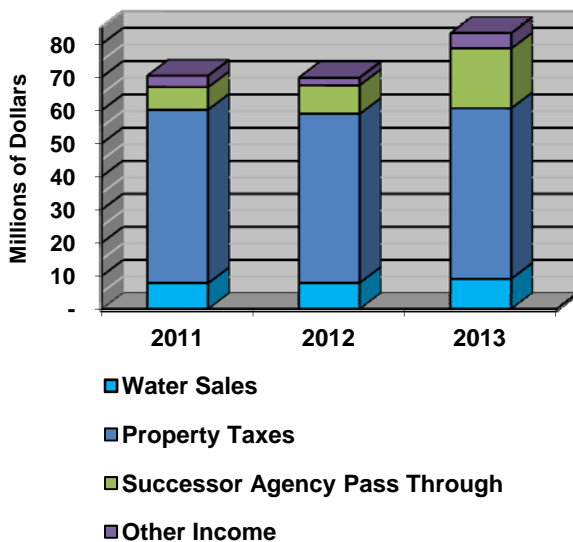
# SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

## Assets Owned

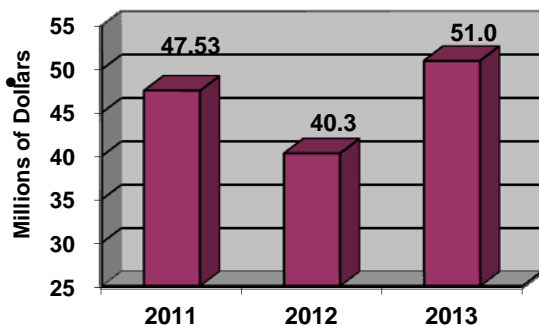


Total Cash in bank, Cash in Local Agency Investment Fund and Investments in government securities increased by \$14.0 million. The increase can be further divided into general unrestricted and restricted cash. Unrestricted cash increased by \$14.7 million and restricted cash decreased by \$.7 million.

### Revenue



### Operating Expenses



### Financial Statement Summary (In millions)

|                                | 6/30/2013 | 6/30/2012 |
|--------------------------------|-----------|-----------|
| <b>Current Assets</b>          | \$ 107.04 | \$ 87.79  |
| <b>Restricted Assets</b>       | 142.83    | 136.89    |
| <b>Capital Assets</b>          | 325.28    | 322.47    |
| <b>Other Noncurrent Assets</b> | 7.02      | 8.04      |
| <b>Total Assets</b>            | 582.17    | 555.19    |
| <b>Total Liabilities</b>       | 17.22     | 22.03     |
| <b>Net Position</b>            | 564.95    | 533.16    |
| <b>Revenues</b>                |           |           |
| Water Sales                    | 9.15      | 7.92      |
| Property Taxes                 | 51.47     | 50.96     |
| RDA Pass Through               | 17.99     | 8.65      |
| Interest                       | 0.27      | 0.56      |
| Miscellaneous/Grant            | 4.30      | 1.72      |
| <b>Expenses</b>                |           |           |
| Source of Supply               | (29.45)   | (19.72)   |
| Admin & General                | (10.86)   | (10.51)   |
| Depreciation & Amort.          | (10.74)   | (10.06)   |
| Interest Expense               | (0.34)    | (0.34)    |
| <b>Change in Net Position</b>  | \$ 31.79  | \$ 29.18  |

# **SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The increase in Net Position included an operating loss of \$41.9 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, 2013 increased over the prior year by \$10.8 million. The majority of the increase is from Source of Supply expenses which include operations, maintenance, power, and purchased water paid to the Department of Water Resources which increased by \$9.7 million and Administrative and General Expenses increased slightly by \$.3 million.

Total nonoperating revenues increased by \$12.1 million over the prior year. Total property taxes received increased slightly by \$.5 million. The assessed values within the District's service area experienced a slight 1.6% 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 \$9.3 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, 2013, the District's net investment in capital assets was \$316.7 million. This balance was obtained by combining Construction in Progress of \$.7 million with Capital Assets in Service, net of Accumulated Depreciation and Amortization of \$324.6 million and Certificates of Participation of \$8.4 million.

#### **Restricted – Debt Service**

The District has restricted Net Position of \$140.3 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 \$110.3 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 June 30, 2013, is estimated to total \$744 million.

#### **Unrestricted**

The District had unrestricted Net Position of \$108.0 million at June 30, 2013. The Board of Directors has designated \$18 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.

# **SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### Construction In Progress (CIP)

Construction in progress decreased from \$9.2 to \$7.7 million between June 30, 2012 and June 30, 2013. The projects still in progress at June 30, 2013 included Riverside Groundwater Aquifer Storage Project and East Branch Extension Phase II Project. The projects completed and reclassified as Capital Assets during fiscal year included the Baseline Feeder Well Replacement Project, the District Warehouse Project, Wilson Creek Turnout Project and the Yucaipa Surge Riser.

### Capital Assets

The District made payments to the Department of Water Resources during the year totaling \$38.5 million net of credits and refunds for participation rights in the State Water Project. This was an increase of \$9.8 million over the prior year, mainly attributable to the variable energy cost for water delivered and cost 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 are being used to build the Baseline Feeder Well Replacement Project. At June 30, 2013 the District held \$.8 in unspent bond proceeds.

### 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.



*San Bernardino Valley Municipal Water District*

**Statements of Net Position  
June 30, 2013 and 2012**

| <b>ASSETS</b>  | <u>2013</u>           | <u>2012</u>           |
|--|-----------------------|-----------------------|
| Current assets:  |                       |                       |
| Cash and cash equivalents  | \$ 46,791,820         | \$ 32,148,599         |
| Investments  | 54,025,565            | 54,009,450            |
| Property taxes receivable  | 36,684                | 86,089                |
| Accounts receivable  | 5,624,813             | 1,277,055             |
| Accrued interest receivable  | 172,904               | 100,466               |
| Deferred charges, net  | 164,733               | 170,616               |
| Current portion of notes receivable                                    | 221,255               | -                     |
| Deposit on land  | 1,975                 | 1,975                 |
| Total current assets - unrestricted                                    | <u>107,039,749</u>    | <u>87,794,250</u>     |
| Restricted assets:   |                       |                       |
| Cash and cash equivalents  | 32,027,485            | 32,675,116            |
| Investments  | 100,954,734           | 100,976,432           |
| Total restricted cash and investments                                  | <u>132,982,219</u>    | <u>133,651,548</u>    |
| Property taxes receivable  | 709,427               | 722,801               |
| Accounts receivable  | 6,584,176             | -                     |
| Accrued interest receivable  | 224,948               | 174,259               |
| Water bank inventory   | 2,329,863             | 2,329,863             |
| Total restricted assets  | <u>142,830,633</u>    | <u>136,878,471</u>    |
| Noncurrent assets:   |                       |                       |
| Capital assets:  |                       |                       |
| Capital assets in service  | 192,834,026           | 181,011,853           |
| Accumulated depreciation   | (36,570,607)          | (33,688,670)          |
| Capital assets - net   | <u>156,263,419</u>    | <u>147,323,183</u>    |
| Participation rights in State Water Project facilities (at cost)       | 273,980,909           | 264,358,954           |
| Accumulated amortization   | (105,654,174)         | (98,382,160)          |
| Participation rights in State Water Project facilities - net           | <u>168,326,735</u>    | <u>165,976,794</u>    |
| Total capital assets, net of accumulated depreciation and amortization | 324,590,154           | 313,299,977           |
| Construction in progress   | 687,962               | 9,174,909             |
| Total capital assets, net  | <u>325,278,116</u>    | <u>322,474,886</u>    |
| Other noncurrent assets:   |                       |                       |
| Other receivables  | 5,956,310             | 7,502,068             |
| Notes receivable, net of current portion                               | 677,191               | -                     |
| Water stock  | 388,500               | 538,500               |
| Total noncurrent assets  | <u>332,300,117</u>    | <u>330,515,454</u>    |
| Total assets   | <u>\$ 582,170,499</u> | <u>\$ 555,188,175</u> |

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

*San Bernardino Valley Municipal Water District*

**Statements of Net Position  
June 30, 2013 and 2012**

| <b>LIABILITIES</b>                                 | <u>2013</u>           | <u>2012</u>           |
|--|-----------------------|-----------------------|
| Current liabilities:                               |                       |                       |
| Payable from current assets - unrestricted:        |                       |                       |
| Accounts payable                                   | \$ 1,151,744          | \$ 1,607,649          |
| Accrued employee benefits                          | 1,501,465             | 1,228,803             |
| Accrued interest payable                           | 169,872               | 171,472               |
| Unearned revenue                                   | 5,066,040             | 6,165,531             |
| Certificates of participation, current portion     | 165,000               | 160,000               |
| Total payable from current assets - unrestricted   | <u>8,054,121</u>      | <u>9,333,455</u>      |
| Payable from restricted assets:                    |                       |                       |
| Accounts payable                                   | 553,823               | 3,959,138             |
| Santa Ana River restoration/recovery trust fund    | 226,759               | 176,725               |
| Total payable from current assets - restricted     | <u>780,582</u>        | <u>4,135,863</u>      |
| Non-current liabilities:                           |                       |                       |
| Certificates of participation, non-current portion | 8,240,000             | 8,405,000             |
| Premium on certificates of participation, net      | 144,485               | 149,645               |
| Total non-current liabilities                      | <u>8,384,485</u>      | <u>8,554,645</u>      |
| Total liabilities                                  | <u>17,219,188</u>     | <u>22,023,963</u>     |
| <b>NET POSITION</b>                                |                       |                       |
| Net investment in capital assets                   | 316,728,632           | 313,759,642           |
| Restricted:  |                       |                       |
| Debt service - State Water Project                 | 138,881,982           | 128,676,411           |
| Debt service - Devil Canyon-Castaic                | 1,376,877             | 1,271,748             |
| Unrestricted                                       | <u>107,963,820</u>    | <u>89,456,411</u>     |
| Total net position                                 | <u>\$ 564,951,311</u> | <u>\$ 533,164,212</u> |

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

*San Bernardino Valley Municipal Water District*

**Statements of Revenues, Expenses and Changes in Net Position  
For the years ended June 30, 2013 and 2012**

|  | <u>2013</u>            | <u>2012</u>            |
|--|------------------------|------------------------|
| <b>OPERATING REVENUES</b>                      |                        |                        |
| Water sales                                    | \$ 9,150,206           | \$ 7,921,858           |
| <b>OPERATING EXPENSES</b>                      |                        |                        |
| Source of supply:                              |                        |                        |
| Operations, maintenance, power and replacement | 21,185,726             | 15,420,292             |
| Purchased water                                | <u>8,266,464</u>       | <u>4,297,599</u>       |
|  | <u>29,452,190</u>      | <u>19,717,891</u>      |
| Administrative and general:                    |                        |                        |
| Salaries                                       | 2,447,175              | 2,350,055              |
| Retirement and benefits                        | 1,809,403              | 1,812,090              |
| Payroll taxes                                  | 160,770                | 155,721                |
| Consultants                                    | 2,204,112              | 2,505,472              |
| Legal and accounting                           | 858,120                | 631,910                |
| Outside services                               | 40,458                 | 55,968                 |
| Office supplies and expense                    | 264,300                | 151,900                |
| Dues and subscriptions                         | 273,792                | 283,646                |
| Public education and information               | 179,633                | 240,601                |
| Maintenance and repair                         | 1,103,272              | 878,540                |
| Utilities                                      | 539,437                | 398,604                |
| Inland Empire Brine Line fees                  | 422,623                | 587,703                |
| Insurance                                      | 148,128                | 109,277                |
| Auto and travel                                | 85,671                 | 81,145                 |
| Lodging and meals                              | 14,958                 | 12,703                 |
| Taxes and licenses                             | 31,208                 | 30,419                 |
| Tax collection fee                             | <u>274,850</u>         | <u>224,173</u>         |
|  | <u>10,857,910</u>      | <u>10,509,927</u>      |
| Other operating:                               |                        |                        |
| Depreciation and amortization                  | <u>10,736,283</u>      | <u>10,061,135</u>      |
| Total operating expenses                       | <u>51,046,383</u>      | <u>40,288,953</u>      |
| <b>OPERATING LOSS</b>                          | <u>\$ (41,896,177)</u> | <u>\$ (32,367,095)</u> |

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

*San Bernardino Valley Municipal Water District*

**Statements of Revenues, Expenses and Changes in Net Position  
For the years ended June 30, 2013 and 2012**

|   | <u>2013</u>                  | <u>2012</u>                  |
|---|------------------------------|------------------------------|
| <b>NONOPERATING REVENUES (EXPENSES)</b>   |                              |                              |
| Revenues:                                 |                              |                              |
| Property taxes:                           |                              |                              |
| Debt service                              | \$ 44,287,277                | \$ 43,915,557                |
| General purpose distribution              | 7,179,629                    | 7,043,595                    |
| Successor Agency pass through             | 17,987,013                   | 8,646,163                    |
| Investment income                         | 268,800                      | 561,270                      |
| Gain on sale of water stock               | 150,000                      | 150,000                      |
| Gain (loss) on disposal of capital assets | (1,276,997)                  | 12,359                       |
| Other income                              | 4,928,423                    | 1,059,935                    |
|   | <u>73,524,145</u>            | <u>61,388,879</u>            |
| Expenses:                                 |                              |                              |
| Interest expense                          | <u>340,467</u>               | <u>337,951</u>               |
|   |                              |                              |
| Total nonoperating revenues               | <u>73,183,678</u>            | <u>61,050,928</u>            |
|   |                              |                              |
| Income before contributions               | 31,287,501                   | 28,683,833                   |
| Contributions in aid of construction      | <u>499,598</u>               | <u>499,598</u>               |
|   |                              |                              |
| Change in net position                    | 31,787,099                   | 29,183,431                   |
|   |                              |                              |
| Net position - beginning of year          | <u>533,164,212</u>           | <u>503,980,781</u>           |
|   |                              |                              |
| Net position - end of year                | <u><u>\$ 564,951,311</u></u> | <u><u>\$ 533,164,212</u></u> |

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

*San Bernardino Valley Municipal Water District*

**Statements of Cash Flows  
For the years ended June 30, 2013 and 2012**

|   | 2013                 | 2012                 |
|---|----------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                      |                      |
| Cash received from water sales                                  | \$ 3,698,612         | \$ 9,969,753         |
| Cash paid for source of supply                                  | (36,032,021)         | (22,047,754)         |
| Cash paid to other suppliers                                    | (10,301,782)         | (2,634,390)          |
| Cash paid for employees' wages, taxes and benefits              | (4,144,686)          | (4,070,434)          |
| Net cash used for operating activities                          | <u>(46,779,877)</u>  | <u>(18,782,825)</u>  |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>          |                      |                      |
| Property taxes received - general purpose distribution          | 7,229,034            | 7,073,447            |
| Successor Agency pass through received                          | 19,532,771           | 9,986,291            |
| Trust funds (paid) received                                     | 50,034               | (74,953)             |
| Net cash provided by noncapital financing activities            | <u>26,811,839</u>    | <u>16,984,785</u>    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b> |                      |                      |
| Property taxes received - debt service                          | 44,300,651           | 44,062,355           |
| Other proceeds  | 4,928,423            | 1,059,935            |
| Proceeds from sale of capital assets                            | 1,419,333            | 312,359              |
| Proceeds from collection of note receivable                     | 219,054              | -                    |
| Acquisition of capital assets                                   | (15,420,041)         | (10,876,407)         |
| Payments for construction in progress                           | (1,933,302)          | (6,163,306)          |
| Proceeds from issuance of bonds                                 | -                    | 8,714,645            |
| Bond issuance costs, net  | -                    | (170,616)            |
| Principal payments on debt                                      | (160,000)            | -                    |
| Interest paid   | (341,344)            | (166,479)            |
| Proceeds from contribution in aid of construction               | 499,598              | 499,598              |
| Net cash provided by capital and related financing activities   | <u>33,512,372</u>    | <u>37,272,084</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                      |                      |
| Purchase of investments   | (94,708,044)         | (277,848,172)        |
| Redemption of investments                                       | 93,381,880           | 220,379,361          |
| Sale of water stock   | 300,000              | 300,000              |
| Investment income   | 1,477,420            | 1,109,794            |
| Net cash provided by (used for) investing activities            | <u>451,256</u>       | <u>(56,059,017)</u>  |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>     | 13,995,590           | (20,584,973)         |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>           | <u>64,823,715</u>    | <u>85,408,688</u>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                 | <u>\$ 78,819,305</u> | <u>\$ 64,823,715</u> |

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

*San Bernardino Valley Municipal Water District*

**Statements of Cash Flows**  
**For the years ended June 30, 2013 and 2012**

|   | <u>2013</u>              | <u>2012</u>              |
|---|--------------------------|--------------------------|
| <b>RECONCILIATION TO STATEMENTS OF NET POSITION</b> |                          |                          |
| Current assets:                                     |                          |                          |
| Cash and cash equivalents - current                 | \$ 46,791,820            | \$ 32,148,599            |
| Cash and cash equivalents - restricted              | <u>32,027,485</u>        | <u>32,675,116</u>        |
| <br>Total cash and cash equivalents                 | <br><u>\$ 78,819,305</u> | <br><u>\$ 64,823,715</u> |

**RECONCILIATION OF OPERATING LOSS TO NET  
CASH USED FOR OPERATING ACTIVITIES**

|   |                            |                            |
|---|----------------------------|----------------------------|
| Operating loss  | \$ (41,896,177)            | \$ (32,367,095)            |
| Adjustments to reconcile operating loss to net cash<br>used for operating activities: |                            |                            |
| Depreciation and amortization   | 10,736,283                 | 10,061,135                 |
| Additions to capital assets and CIP included in accounts payable                      | -                          | (854,515)                  |
| Changes in assets and liabilities:  |                            |                            |
| (Increase) decrease in accounts receivable  | (10,931,934)               | 976,810                    |
| Increase in water bank inventory  | -                          | (2,329,863)                |
| Increase (decrease) in accounts payable   | (3,861,220)                | 4,412,186                  |
| Increase in accrued employee benefits   | 272,662                    | 247,432                    |
| Increase (decrease) in unearned revenue   | <u>(1,099,491)</u>         | <u>1,071,085</u>           |
| <br>Net cash used for operating activities  | <br><u>\$ (46,779,877)</u> | <br><u>\$ (18,782,825)</u> |

**SCHEDULE OF NONCASH INVESTING, CAPITAL  
AND FINANCING ACTIVITIES**

|  |              |         |
|--|--------------|---------|
| Installment sale of capital assets         | \$ 1,117,500 | \$ -    |
| Amortization of deferred costs of issuance | 5,160        | 5,160   |
| Amortization of premium on bonds payable   | (5,883)      | (5,883) |

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

## *San Bernardino Valley Municipal Water District*

### **Notes to the Basic Financial Statements For the years ended June 30, 2013 and 2012**

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#### **Note 1: Reporting entity and summary of significant account policies**

##### **Organization and operations of the reporting entity**

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. 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 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.

The San Bernardino Valley Municipal Water District Financing Corporation (Corporation) was created in May of 2011 by a joint exercise of powers agreement for the purpose of acquiring, construction, rehabilitating, financing and refinancing, or providing for the sale or leasing 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.

## *San Bernardino Valley Municipal Water District*

### **Notes to the Basic Financial Statements For the years ended June 30, 2013 and 2012**

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#### **Note 1: Reporting entity and summary of significant account policies (continued)**

##### **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.

##### **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, 2013 and 2012, 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.

##### **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. Depreciation is computed using the straight-line method over the estimated service lives of depreciable properties which range from 3 to 75 years. The cost of maintenance is charged to operating expense.

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.

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.



## *San Bernardino Valley Municipal Water District*

### **Notes to the Basic Financial Statements For the years ended June 30, 2013 and 2012**

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#### **Note 1: Reporting entity and summary of significant account policies (continued)**

##### **Restricted resources**

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

##### **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.

##### **Management's review of subsequent events**

Management has evaluated subsequent events through October 18, 2013 the date which the financial statements were available to be issued.

##### **Reclassification**

Certain reclassifications have been made to prior years' balances to conform to classifications used in 2013.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2013 and 2012**

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**Note 1: Reporting entity and summary of significant account policies (continued)**

**Implementation of new pronouncements**

Beginning with the current fiscal year, the District implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the government's net position.

**Note 2: Cash, cash equivalents, and investments**

Cash, cash equivalents, and investments as of June 30, 2013 and 2012 are classified in the accompanying financial statements as follows:

|   | <u>2013</u>           | <u>2012</u>           |
|---|-----------------------|-----------------------|
| Statements of Net Position:                     |                       |                       |
| Current assets                                  |                       |                       |
| Cash in bank and on hand                        | \$ 15,140,182         | \$ 5,919,426          |
| Cash in Local Agency Investment Fund            | <u>31,651,638</u>     | <u>26,229,173</u>     |
| Total cash and cash equivalents                 | 46,791,820            | 32,148,599            |
| Investments                                     | <u>54,025,565</u>     | <u>54,009,450</u>     |
| Total unrestricted                              | <u>100,817,385</u>    | <u>86,158,049</u>     |
| Restricted:                                     |                       |                       |
| Cash in bank                                    | 20,624,720            | 9,550,733             |
| Cash in Local Agency Investment Fund            | 11,176,006            | 22,947,658            |
| Cash held in trust                              | <u>226,759</u>        | <u>176,725</u>        |
| Total cash and cash equivalents                 | <u>32,027,485</u>     | <u>32,675,116</u>     |
| Investments                                     | 100,944,734           | 100,966,432           |
| Department of Water Resources bonds             | 10,000                | 10,000                |
| Total investments                               | <u>100,954,734</u>    | <u>100,976,432</u>    |
| Total restricted                                | <u>132,982,219</u>    | <u>133,651,548</u>    |
| Total cash and cash equivalents and investments | <u>\$ 233,799,604</u> | <u>\$ 219,809,597</u> |

Cash, cash equivalents, and investments as of June 30, 2013 and 2012 consisted of the following:

|   | <u>2013</u>           | <u>2012</u>           |
|---|-----------------------|-----------------------|
| Cash on hand                                    | \$ 350                | \$ 350                |
| Deposits with financial institutions            | 35,991,311            | 15,646,534            |
| Cash in Local Agency Investment Fund            | 42,827,644            | 49,176,831            |
| Investments                                     | <u>154,980,299</u>    | <u>154,985,882</u>    |
| Total cash and cash equivalents and investments | <u>\$ 233,799,604</u> | <u>\$ 219,809,597</u> |

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2013 and 2012**

**Note 2: Cash, cash equivalents, and investments (continued)**

**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                             |

**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, 2013 and 2012, the District had the following investments and maturities:

As of June 30, 2013:

| Investment type                      | Amount                | Remaining maturity (in months) |                      |                      |                      |
|--------------------------------------|-----------------------|--------------------------------|----------------------|----------------------|----------------------|
|                                      |                       | 12 or less                     | 13 to 24             | 25 to 36             | More than 36         |
| Local Agency Investment Fund         | \$ 42,827,644         | \$ 42,827,644                  | \$ -                 | \$ -                 | \$ -                 |
| 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                        | -                    | -                    | -                    |
| <b>Total investments</b>             | <b>\$ 197,807,943</b> | <b>\$ 73,983,719</b>           | <b>\$ 48,627,761</b> | <b>\$ 47,815,103</b> | <b>\$ 27,381,360</b> |

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2013 and 2012**

**Note 2: Cash, cash equivalents, and investments (continued)**

**Interest rate risk (continued)**

As of June 30, 2012:

| Investment type                | Amount                | Remaining maturity (in months) |                      |                      |                      |
|--------------------------------|-----------------------|--------------------------------|----------------------|----------------------|----------------------|
|                                |                       | 12 or less                     | 13 to 24             | 25 to 36             | More than 36         |
| Local Agency Investment Fund   | \$ 49,176,831         | \$ 49,176,831                  | \$ -                 | \$ -                 | \$ -                 |
| Federal Agency                 |                       |                                |                      |                      |                      |
| Securities                     | 90,961,354            | 60,690,201                     | 3,601,412            | 12,524,375           | 14,145,366           |
| Municipal Bonds                | 10,000                | -                              | -                    | -                    | 10,000               |
| U.S. Treasury Bills, Notes and |                       |                                |                      |                      |                      |
| Bonds                          | 43,657,709            | -                              | 20,283,163           | 23,374,546           | -                    |
| Commercial Paper               | 13,764,990            | 13,764,990                     | -                    | -                    | -                    |
| Medium-Term Notes              | 4,907,465             | -                              | -                    | 4,907,465            | -                    |
| Money Market Funds             | 1,684,364             | 1,684,364                      | -                    | -                    | -                    |
| <b>Total investments</b>       | <b>\$ 204,162,713</b> | <b>\$ 125,316,386</b>          | <b>\$ 23,884,575</b> | <b>\$ 40,806,386</b> | <b>\$ 14,155,366</b> |

**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 yearend for each investment type.

Credit ratings of investments as of June 30, 2013 and 2012 were as follows:

As of June 30, 2013:

| Investment type                | Amount                | Minimum legal rating | Rating as of year end |                     |                      |                      |
|--------------------------------|-----------------------|----------------------|-----------------------|---------------------|----------------------|----------------------|
|                                |                       |                      | AAA                   | AA-                 | A+                   | Not rated            |
| Local Agency Investment Fund   | \$ 42,827,644         | N/A                  | \$ -                  | \$ -                | \$ -                 | \$ 42,827,644        |
| 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               | -                   | -                    | -                    |
| <b>Total investments</b>       | <b>\$ 197,807,943</b> |                      | <b>\$ 125,936,577</b> | <b>\$ 4,895,729</b> | <b>\$ 24,137,993</b> | <b>\$ 42,837,644</b> |

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2013 and 2012**

**Note 2: Cash, cash equivalents, and investments (continued)**

As of June 30, 2012:

| Investment type                | Amount                | Remaining maturity (in months) |                      |                      |                      |
|--------------------------------|-----------------------|--------------------------------|----------------------|----------------------|----------------------|
|                                |                       | 12 or less                     | 13 to 24             | 25 to 36             | More than 36         |
| Local Agency Investment Fund   | \$ 49,176,831         | \$ 49,176,831                  | \$ -                 | \$ -                 | \$ -                 |
| Federal Agency                 |                       |                                |                      |                      |                      |
| Securities                     | 90,961,354            | 60,690,201                     | 3,601,412            | 12,524,375           | 14,145,366           |
| Municipal Bonds                | 10,000                | -                              | -                    | -                    | 10,000               |
| U.S. Treasury Bills, Notes and |                       |                                |                      |                      |                      |
| Bonds                          | 43,657,709            | -                              | 20,283,163           | 23,374,546           | -                    |
| Commercial Paper               | 13,764,990            | 13,764,990                     | -                    | -                    | -                    |
| Medium-Term Notes              | 4,907,465             | -                              | -                    | 4,907,465            | -                    |
| Money Market Funds             | 1,684,364             | 1,684,364                      | -                    | -                    | -                    |
| <b>Total investments</b>       | <b>\$ 204,162,713</b> | <b>\$ 125,316,386</b>          | <b>\$ 23,884,575</b> | <b>\$ 40,806,386</b> | <b>\$ 14,155,366</b> |

**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, 2013 and 2012 met their respective minimum credit ratings requirements. More than 5% of the District's investments are in unsecured federal agency securities. These investments represent 39.0% and 44.6%, at June 30, 2013 and 2012 respectively, of the District's total investments.

**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, 2013 and 2012, \$35,384,732 and \$15,223,557 respectively, of the District's demand deposits with financial institutions were in excess of federal depository insurance limits. As of June 30, 2013, these funds were fully collateralized by securities in a separate account held by the same institution.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2013 and 2012**

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**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 \$42,827,644 and \$49,176,831 as of June 30, 2013 and 2012, respectively. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Effective November 16, 2009, 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, 2013 and 2012, 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 30,000 acre-feet and is able to call on 5,000 acre-feet per year of this stored water. This stored water is classified as a restricted asset and is valued at cost.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2013 and 2012**

**Note 4: Capital assets**

Summaries of changes in capital assets in service for the years ended June 30, 2013 and 2012 were as follows:

As of June 30, 2013:

|  | Balance<br>June 30, 2012 | Additions            | Deletions            | Balance<br>June 30, 2013 |
|--|--------------------------|----------------------|----------------------|--------------------------|
| Capital assets, not being depreciated:                         |                          |                      |                      |                          |
| Land, right of ways, and<br>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<br>depreciated                 | <u>18,696,791</u>        | <u>5,478,306</u>     | <u>11,747,126</u>    | <u>12,427,971</u>        |
| 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<br>depreciated                     | <u>171,489,971</u>       | <u>12,673,330</u>    | <u>3,069,284</u>     | <u>181,094,017</u>       |
| Less accumulated depreciation                                  | <u>(33,688,670)</u>      | <u>(3,464,269)</u>   | <u>(582,332)</u>     | <u>(36,570,607)</u>      |
| Total capital assets, being<br>depreciated, net                | <u>137,801,301</u>       | <u>9,209,061</u>     | <u>2,486,952</u>     | <u>144,523,410</u>       |
| Participation rights in State Water<br>Project Facilities      | 264,358,954              | 9,621,955            | -                    | 273,980,909              |
| Less accumulated amortization                                  | <u>(98,382,160)</u>      | <u>(7,272,014)</u>   | <u>-</u>             | <u>(105,654,174)</u>     |
| Participation rights in State<br>Water Project Facilities, net | <u>165,976,794</u>       | <u>2,349,941</u>     | <u>-</u>             | <u>168,326,735</u>       |
| Total capital assets, net                                      | <u>\$ 322,474,886</u>    | <u>\$ 17,037,308</u> | <u>\$ 14,234,078</u> | <u>\$ 325,278,116</u>    |

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2013 and 2012**

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**Note 4: Capital assets (continued)**

As of June 30, 2012:

|  | Balance<br>June 30, 2011 | Additions           | Deletions         | Balance<br>June 30, 2012 |
|--|--------------------------|---------------------|-------------------|--------------------------|
| Capital assets, not being depreciated:                         |                          |                     |                   |                          |
| Land, right of ways, and<br>pipeline capacity                  | \$ 9,350,034             | \$ 471,848          | \$ 300,000        | \$ 9,521,882             |
| Construction in progress                                       | 2,157,088                | 7,017,821           | -                 | 9,174,909                |
| Total capital assets, not being<br>depreciated                 | <u>11,507,122</u>        | <u>7,489,669</u>    | <u>300,000</u>    | <u>18,696,791</u>        |
| Capital assets, being depreciated:                             |                          |                     |                   |                          |
| Buildings  | 7,821,671                | -                   | -                 | 7,821,671                |
| Distribution lines   | 151,449,000              | -                   | -                 | 151,449,000              |
| Brine line   | 7,121,795                | -                   | -                 | 7,121,795                |
| Furniture, fixtures and equipment                              | 989,044                  | 39,785              | -                 | 1,028,829                |
| Vehicles   | 424,239                  | 57,507              | 111,308           | 370,438                  |
| Yucaipa Dam  | 3,698,238                | -                   | -                 | 3,698,238                |
| Total capital assets, being<br>depreciated                     | <u>171,503,987</u>       | <u>97,292</u>       | <u>111,308</u>    | <u>171,489,971</u>       |
| Less accumulated depreciation                                  | <u>(30,586,950)</u>      | <u>(3,213,028)</u>  | <u>(111,308)</u>  | <u>(33,688,670)</u>      |
| Total capital assets, being<br>depreciated, net                | <u>140,917,037</u>       | <u>(3,115,736)</u>  | <u>-</u>          | <u>137,801,301</u>       |
| Participation rights in State Water<br>Project Facilities      | 254,051,687              | 10,307,267          | -                 | 264,358,954              |
| Less accumulated amortization                                  | <u>(91,534,053)</u>      | <u>(6,848,107)</u>  | <u>-</u>          | <u>(98,382,160)</u>      |
| Participation rights in State<br>Water Project Facilities, net | <u>162,517,634</u>       | <u>3,459,160</u>    | <u>-</u>          | <u>165,976,794</u>       |
| Total capital assets, net                                      | <u>\$ 314,941,793</u>    | <u>\$ 7,833,093</u> | <u>\$ 300,000</u> | <u>\$ 322,474,886</u>    |



*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2013 and 2012**

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**Note 5: Notes receivable**

Notes receivable at June 30, 2013 and 2012 consisted of the following:

|  | 2013       | 2012       |
|--|------------|------------|
| The District entered into a loan agreement with 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 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 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.  | 898,446    | -          |
|  | 2,486,667  | 1,588,221  |
| Less allowance for uncollectible accounts  | 1,588,221  | 1,588,221  |
| Less current portion of notes receivable   | 221,255    | -          |
| Total notes receivable, net of current portion   | \$ 677,191 | \$ -       |

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2013 and 2012**

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**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, 2013 and 2012, total unearned revenue amounted to \$5,066,040 and \$6,165,531, 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 City 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 year ended June 30, 2013:

|   | Balance<br>June 30, 2012 | Additions   | Deletions           | Balance<br>June 30, 2013 | Due within<br>one year |
|---|--------------------------|-------------|---------------------|--------------------------|------------------------|
| 2011A Certificates of Participation,<br>2.00%-4.25%, due 2035 | \$ 8,565,000             | \$ -        | \$ (160,000)        | \$ 8,405,000             | \$ 165,000             |
| Premium on Certificates of<br>Participation, net              | 149,645                  | -           | (5,160)             | 144,485                  | -                      |
| <b>Total Certificates of Participation</b>                    | <b>\$ 8,714,645</b>      | <b>\$ -</b> | <b>\$ (165,160)</b> | <b>\$ 8,549,485</b>      | <b>\$ 165,000</b>      |

The aggregate principal and interest payments of bonds payable, is summarized as follows:

| Year ending<br>June 30, | Principal           | Interest            | Total                |
|-------------------------|---------------------|---------------------|----------------------|
| 2014                    | \$ 165,000          | \$ 338,094          | \$ 503,094           |
| 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              |
| 2019-2023               | 1,030,000           | 1,477,820           | 2,507,820            |
| 2024-2028               | 1,250,000           | 1,250,220           | 2,500,220            |
| 2029-2033               | 1,535,000           | 971,308             | 2,506,308            |
| 2034-2038               | 1,885,000           | 613,826             | 2,498,826            |
| 2039-2042               | 1,840,000           | 165,373             | 2,005,373            |
| <b>Total</b>            | <b>\$ 8,405,000</b> | <b>\$ 6,121,466</b> | <b>\$ 14,526,466</b> |

## *San Bernardino Valley Municipal Water District*

### **Notes to the Basic Financial Statements For the years ended June 30, 2013 and 2012**

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#### **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 33.421% 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, 2013 and 2012, the amount contributed by the District, including the amount contributed on behalf of the employees, was \$973,159 and \$999,768, respectively. Benefit provisions and all other requirements are established by state statute and District ordinance.

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, 2009, 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, 2010.

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, 2011 valuation was a negative \$2,037,621.

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, 2010, was 6 years.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2013 and 2012**

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**Note 8: Defined benefit pension plan (PERS) (continued)**

**Three Year Trend Information**

| <u>Fiscal year</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC contributed</u> | <u>Net pension obligation</u> |
|--------------------|----------------------------------|--------------------------------------|-------------------------------|
| June 30, 2011      | \$ 793,239                       | 100%                                 | \$ -                          |
| June 30, 2012      | \$ 999,768                       | 100%                                 | \$ -                          |
| June 30, 2013      | \$ 973,159                       | 100%                                 | \$ -                          |

**Note 9: Postemployment benefits other than pensions (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>.

**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 percent 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.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2013 and 2012**

**Note 9: Postemployment benefits other than pensions (OPEB) (continued)**

**Funding policy and annual other postemployment benefit costs (continued)**

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 2013 and 2012:

|  | <u>June 30, 2013</u>  | <u>June 30, 2012</u>  |
|--|-----------------------|-----------------------|
| Annual required contribution               | \$ 288,960            | \$ 277,936            |
| Interest on net OPEB obligation            | 52,182                | 35,640                |
| Adjustment to annual required contribution | <u>(44,569)</u>       | <u>(30,440)</u>       |
| Annual OPEB cost                           | 296,573               | 283,136               |
| Contributions made                         | <u>(59,241)</u>       | <u>(62,574)</u>       |
| Increase in net OPEB obligation            | 237,332               | 220,562               |
| Net OPEB obligation - beginning of year    | <u>695,762</u>        | <u>475,200</u>        |
| <br>Net OPEB obligation - end of year      | <br><u>\$ 933,094</u> | <br><u>\$ 695,762</u> |

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 Statement 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, 2013, 2012, and 2011 are presented below:

| <u>Plan</u> | <u>Year</u>   | <u>Annual OPEB cost</u> | <u>Actual contribution</u> | <u>Percentage of OPEB cost contributed</u> | <u>Net OPEB obligation</u> |
|-------------|---------------|-------------------------|----------------------------|--|----------------------------|
| OPEB        | June 30, 2011 | \$ 223,779              | \$ 61,877                  | 28%  | \$ 475,200                 |
| OPEB        | June 30, 2012 | \$ 283,136              | \$ 62,574                  | 22%  | \$ 695,762                 |
| OPEB        | June 30, 2013 | \$ 296,573              | \$ 59,241                  | 20%  | \$ 933,094                 |

**Funded Status**

The funded status of the plan as of June 30, 2013 was as follows:

| <u>Actuarial Valuation Date</u> | <u>Entry Age Normal Actuarial Accrued Liability (a)</u> | <u>Actuarial Value of Assets (AVA) (b)</u> | <u>Unfunded Actuarial Accrued Liability (UAAL)/ (Excess Assets) (a) - (b)</u> | <u>Funded Ratio Based on AVA (b) / (a)</u> | <u>Annual Covered Payroll (c)</u> | <u>UAAL As a % Covered Payroll [(a)-(b)]/(c)</u> |
|---------------------------------|---|--|---|--|-----------------------------------|--|
| 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%   |

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2013 and 2012**

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**Note 9: Postemployment benefits other than pensions (OPEB) (continued)**

**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%                             |

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

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2013 and 2012**

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**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 \$1,527,907 in open construction contracts as of June 30, 2013. These include:

| Project   | Approved<br>Contract | Payments<br>To Date | Balance<br>To Complete |
|---|----------------------|---------------------|------------------------|
| Baseline Feeder Flow Control and Metering Improvement | \$ 950,267           | \$ 34,200           | \$ 916,067             |
| City Creek Stream Channel Armor Protection            | 611,840              | -                   | 611,840                |
| Total   | <u>\$ 1,562,107</u>  | <u>\$ 34,200</u>    | <u>\$ 1,527,907</u>    |

**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 2013 to 2035, according to the payment schedule dated June 30, 2013, is estimated as follows:

|   |                       |
|---|-----------------------|
| Transportation charges:   |                       |
| Capital cost component  | \$ 75,296,117         |
| Minimum operations, maintenance, power and replacement component  | 279,143,791           |
| Variable operations, maintenance, power and replacement component | <u>239,850,897</u>    |
|   | 594,290,805           |
| Delta water charges   | 109,327,533           |
| Water system revenue bond surcharge                               | <u>40,073,727</u>     |
| Total   | <u>\$ 743,692,065</u> |

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2013 and 2012**

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**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](http://www.sawpa.org).

Condensed financial information for the operation of SAWPA for the fiscal years ended June 30, 2012 and 2011 are as follows:

|                        | <u>2012</u>            | <u>2011</u>            |
|------------------------|------------------------|------------------------|
| Total assets           | <u>\$ 192,136,326</u>  | <u>\$ 181,103,770</u>  |
| Total liabilities      | <u>\$ 123,953,552</u>  | <u>\$ 115,484,904</u>  |
| Total net position     | <u>\$ 68,182,774</u>   | <u>\$ 65,618,866</u>   |
| <br>                   |                        |                        |
| Total revenues         | <u>\$ 19,424,885</u>   | <u>\$ 18,111,314</u>   |
| Total expenses         | <u>\$ (16,860,977)</u> | <u>\$ (18,253,295)</u> |
| Change in net position | <u>\$ 2,563,908</u>    | <u>\$ (141,981)</u>    |

**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, 2013 and 2012 was \$226,759 and \$176,725, respectively.



*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2013 and 2012**

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**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 \$48,361,274 as of June 27, 2013), 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 \$48,361,274 as of June 27, 2013), 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.



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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, 2013, and have issued our report thereon dated October 18, 2013.

**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.

## 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.

A handwritten signature in black ink that reads "Rogers Anderson Maloney & Scott, LLP". The signature is written in a cursive style with a large, sweeping initial 'R'.

San Bernardino, CA  
October 18, 2013