

# **SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT**

San Bernardino, California

Basic Financial Statements and Supplementary Information

For the years ended June 30, 2012 and 2011



*San Bernardino Valley Municipal Water District*

**Basic Financial Statements and Supplementary Information  
For the years ended June 30, 2012 and 2011**

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**Table of Contents**

	<u>Page</u>
<b>Independent Auditor's Report</b>	1
<b>Management's Discussion and Analysis</b>	3
<b>Basic Financial Statements</b>	
Statements of Net Assets at June 30, 2012 and 2011	7
Statements of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2012 and 2011	9
Statements of Cash Flows for the years ended June 30, 2012 and 2011	11
Notes to the Basic Financial Statements	13
<b>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 <i>Government Auditing Standards</i></b>	31



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**Independent Auditor's Report**

We have audited the accompanying statements of net assets of San Bernardino Valley Municipal Water District as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Bernardino Valley Municipal Water District as of June 30, 2012 and 2011, and the results of its operations, changes in net assets 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2012, 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* and should be considered in assessing the results of our audit.

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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.

*Rogers Anderson Malody & Scott, LLP*

October 30, 2012

# **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.

## **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 Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows.

The Statement of Net Assets 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 Assets describes the financial results of the District's operations for the years reported. These results, or changes in net assets, are the increases or decreases in the bottom line of the Statement of Net Assets.

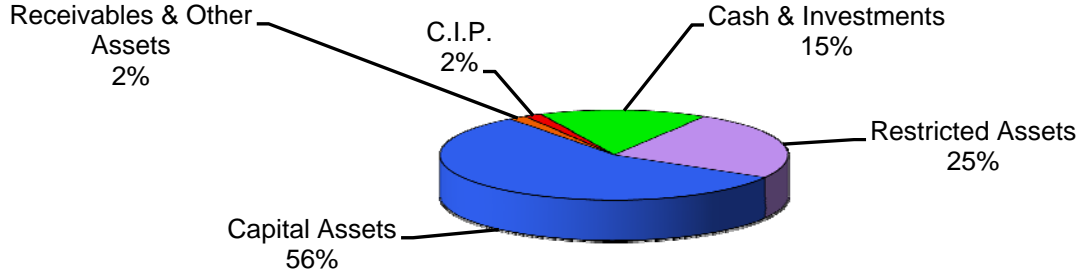
The Statement of Cash Flows conveys to financial statement users how the District managed cash resources during the year. This statement converts the Change in Net Assets presented on the Statement of Revenues, Expenses and Changes in Net Assets into actual cash provided by or used for operations. The 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, 2012, the District's Total Assets increased by \$43.7 million and Net Assets increased by \$29.2 million. A majority of the increase in Total Assets resulted from an increase of \$20.6 million in Unrestricted Current Assets and a \$17.1 million increase in Restricted Assets, an increase of \$.5 million in Total Capital Assets and a \$7.0 million increase in Construction in Progress netted against a decrease in Noncurrent Assets of \$1.5 million.

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

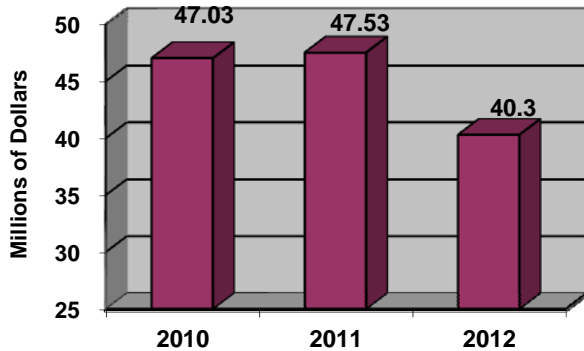
## Assets Owned



Total Cash in bank, Cash in Local Agency Investment Fund and Investments in government securities increased by \$36.3 million. The increase can be further divided into general unrestricted and restricted cash. Unrestricted cash increased by \$21.3 million and restricted cash increased by \$15.0 million.

The increase in Net Assets included an operating loss of \$31.9 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.

### Operating Expenses



## Financial Statement Summary (In millions)

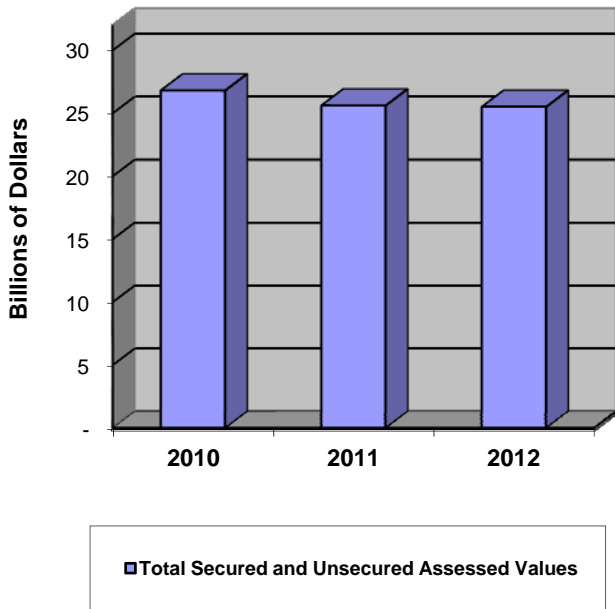
	6/30/12	6/30/11
<b>Current Assets</b>	\$ 87.79	\$ 67.23
<b>Restricted Assets</b>	136.89	119.76
<b>Capital Assets</b>	322.47	314.94
<b>Other Noncurrent Assets</b>	8.04	9.53
<b>Total Assets</b>	555.19	511.46
<b>Total Liabilities</b>	22.03	7.48
<b>Net Assets</b>	533.16	503.98
<b>Revenues</b>		
Water Sales	8.42	7.82
Property Taxes	50.96	52.36
RDA Pass Through	8.65	6.75
Interest	.56	.44
Miscellaneous	1.22	2.98
<b>Expenses</b>		
Source of Supply	(19.72)	(27.63)
Admin & General	(10.51)	(10.11)
Depreciation & Amort.	(10.06)	(9.79)
Interest Expense	( .34)	-
<b>Change in Net Assets</b>	\$ 29.18	\$ 22.82

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

Total operating expenses for the year ended June 30, 2012 decreased over the prior year by 15%. The majority of the decrease is from Source of Supply expenses which include operations, maintenance, power, and purchased water. Administrative and General Expenses increased slightly by 4%.

Total Nonoperating revenues decreased slightly by 2% over the prior year. Total property taxes received decreased by \$1.4 million. This decrease was derived from a \$0.1 million decrease from general-purpose property tax distribution and a \$1.3 million decrease from debt service property taxes. The assessed values within the District's service area experienced a 4% decline which has attributed to the decrease in property taxes received.

The following reflects the District's assessed property tax valuations. Assessed valuations for the fiscal year June 30, 2012 remained relatively stable over the prior year.



## Categories of Net Assets

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

### Invested in Capital Assets – Net of Related Debt

At June 30, 2012, the amount the District had invested in capital assets, net of related debt was \$313.8 million. This balance was obtained by combining Construction in Progress of \$9.2 million with Capital Assets in Service, net of Accumulated Depreciation and Amortization of \$313.3 million and Certificates of Participation of \$8.7 million.

### Restricted – Debt Service

The District has restricted Net Assets of \$136.8 million, which consists of tax proceeds that were levied for State Water Project payments plus interest on investments less State Water Project related expenditures. The Board of Directors has designated \$30 million of this amount to be retained for the purpose of Maintenance and Repairs on the State Water Project distribution pipelines, pump stations and reservoirs. The balance of restricted net assets of \$106.8 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 2012 to 2035, according to a payment schedule dated June 30, 2012, is estimated to total \$781 million.

### Unrestricted

The District had unrestricted Net Assets of \$89.5 million at June 30, 2012. The Board of Directors has designated \$17 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 increased from \$1 to \$2.1 million between June 30, 2011 and June 30, 2012. The projects still in progress at June 30, 2012 include the Baseline Feeder Well Replacement Project, the Riverside Groundwater Aquifer Storage Project, the District Warehouse Project and the Wilson Creek Turnout Project, Yucaipa Surge Riser and East Branch Extension Phase II Project.

## Capital Assets

The District made payments to the Department of Water Resources during the year totaling \$28.7 million net of credits and refunds for participation rights in the State Water Project.

## 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, 2012 the District held \$2.5 in unspent bond proceeds. The first principal payment is due July 1, 2012.

## 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 Assets**  
**June 30, 2012 and 2011**

<b>ASSETS</b>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 32,148,599	\$ 38,444,734
Investments	54,009,450	26,391,669
Property taxes receivable	86,089	115,941
Accounts receivable	1,277,055	2,249,520
Accrued interest receivable	100,466	29,420
Deferred charges, net	170,616	-
Deposit on land	1,975	1,975
Total current assets - unrestricted	<u>87,794,250</u>	<u>67,233,259</u>
Restricted assets:		
Cash and cash equivalents	32,675,116	46,963,954
Investments	<u>100,976,432</u>	<u>71,687,238</u>
Total restricted cash and investments	133,651,548	118,651,192
Property taxes receivable	722,801	869,599
Accounts receivable	-	4,345
Accrued interest receivable	174,259	231,993
Water bank inventory	<u>2,329,863</u>	<u>-</u>
Total restricted assets	<u>136,878,471</u>	<u>119,757,129</u>
Noncurrent assets:		
Capital assets:		
Capital assets in service	181,011,853	180,854,021
Accumulated depreciation	<u>(33,688,670)</u>	<u>(30,586,950)</u>
Capital assets - net	<u>147,323,183</u>	<u>150,267,071</u>
Participation rights in State Water Project facilities (at cost)	264,358,954	254,051,687
Accumulated amortization	<u>(98,382,160)</u>	<u>(91,534,053)</u>
Participation rights in State Water Project facilities - net	<u>165,976,794</u>	<u>162,517,634</u>
Total capital assets, net of accumulated depreciation and amortization	313,299,977	312,784,705
Construction in progress	<u>9,174,909</u>	<u>2,157,088</u>
Total capital assets, net	<u>322,474,886</u>	<u>314,941,793</u>
Other noncurrent assets:		
Other receivables	7,502,068	8,842,196
Water stock	<u>538,500</u>	<u>688,500</u>
Total noncurrent assets	<u>330,515,454</u>	<u>324,472,489</u>
Total assets	<u>\$ 555,188,175</u>	<u>\$ 511,462,877</u>

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

*San Bernardino Valley Municipal Water District*

**Statements of Net Assets**  
**June 30, 2012 and 2011**

<b>LIABILITIES</b>	<u>2012</u>	<u>2011</u>
Current liabilities:		
Payable from current assets - unrestricted:		
Accounts payable	\$ 1,607,649	\$ 756,215
Accrued employee benefits	1,228,803	981,371
Accrued interest payable	171,472	-
Unearned revenue	6,165,531	5,094,446
Certificates of participation, current portion	160,000	-
Total payable from current assets - unrestricted	<u>9,333,455</u>	<u>6,832,032</u>
Payable from restricted assets:		
Accounts payable	3,959,138	398,386
Santa Ana River restoration/recovery trust fund	176,725	251,678
Total payable from current assets - restricted	<u>4,135,863</u>	<u>650,064</u>
Non-current liabilities:		
Certificates of participation, non-current portion	8,405,000	-
Premium on certificates of participation, net	149,645	-
Total non-current liabilities	<u>8,554,645</u>	<u>-</u>
Total liabilities	<u>22,023,963</u>	<u>7,482,096</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	313,759,642	314,941,793
Restricted:		
Debt service - State Water Project	128,676,411	117,587,085
Debt service - Devil Canyon-Castaic	1,271,748	1,519,981
Unrestricted	<u>89,456,411</u>	<u>69,931,922</u>
Total net assets	<u>\$ 533,164,212</u>	<u>\$ 503,980,781</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 Assets  
For the years ended June 30, 2012 and 2011**

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	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES</b>		
Water sales	\$ 8,421,456	\$ 7,816,573
<b>OPERATING EXPENSES</b>		
Source of supply:		
Operations, maintenance, power and replacement	15,420,292	21,755,725
Purchased water	<u>4,297,599</u>	<u>5,870,594</u>
	<u>19,717,891</u>	<u>27,626,319</u>
Administrative and general:		
Salaries	2,350,055	2,199,716
Retirement and benefits	1,812,090	1,486,506
Payroll taxes	155,721	145,098
Consultants	2,505,472	2,277,112
Legal and accounting	631,910	517,409
Outside services	55,968	60,158
Office supplies and expense	151,900	215,781
Dues and subscriptions	283,646	360,320
Public education and information	240,601	209,572
Maintenance and repair	878,540	1,264,901
Utilities	398,604	408,612
Inland Empire Brine Line fees	587,703	518,284
Insurance	109,277	98,570
Auto and travel	81,145	54,723
Lodging and meals	12,703	9,129
Taxes and licenses	30,419	18,247
Tax collection fee	<u>224,173</u>	<u>268,309</u>
	<u>10,509,927</u>	<u>10,112,447</u>
Other operating:		
Depreciation and amortization	<u>10,061,135</u>	<u>9,794,361</u>
	<u>40,288,953</u>	<u>47,533,127</u>
<b>OPERATING LOSS</b>	<u>\$ (31,867,497)</u>	<u>\$ (39,716,554)</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 Assets  
For the years ended June 30, 2012 and 2011**

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	<u>2012</u>	<u>2011</u>
<b>NONOPERATING REVENUES AND EXPENSES</b>		
Revenues:		
Property taxes:		
Debt service	\$ 43,915,557	\$ 45,207,485
General purpose distribution	7,043,595	7,151,954
RDA pass through	8,646,163	6,752,051
Investment income	561,270	438,835
Gain on sale of water stock	150,000	900,000
Gain (loss) on disposal of capital assets	12,359	(409,389)
Other income	1,059,935	2,489,548
	<u>61,388,879</u>	<u>62,530,484</u>
Expenses:		
Interest expense	<u>337,951</u>	<u>-</u>
Total nonoperating revenues and expenses	<u>61,050,928</u>	<u>62,530,484</u>
Change in net assets	29,183,431	22,813,930
Net assets - beginning of year	<u>503,980,781</u>	<u>481,166,851</u>
Net assets - end of year	<u>\$ 533,164,212</u>	<u>\$ 503,980,781</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, 2012 and 2011**

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from water sales	\$ 10,469,351	\$ 7,834,705
Cash paid for source of supply	(22,047,754)	(27,228,639)
Cash paid to other suppliers	(2,634,390)	(6,020,319)
Cash paid for employees' wages, taxes and benefits	(4,070,434)	(3,614,692)
Net cash used for operating activities	<u>(18,283,227)</u>	<u>(29,028,945)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Property taxes received - general purpose distribution	7,073,447	7,239,711
RDA pass through received	9,986,291	6,752,051
Trust funds (paid) received	(74,953)	50,183
Net cash provided by noncapital financing activities	<u>16,984,785</u>	<u>14,041,945</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Property taxes received - debt service	44,062,355	45,585,999
Other proceeds	1,059,935	2,489,548
Proceeds from retirement of capital assets	312,359	3,075
Acquisition of capital assets	(10,876,407)	(10,997,181)
Payments for construction in progress	(6,163,306)	(1,758,902)
Proceeds from issuance of bonds	8,714,645	-
Bond issuance costs, net	(170,616)	-
Interest paid	(166,479)	-
Net cash provided by capital and related financing activities	<u>36,772,486</u>	<u>35,322,539</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(277,848,172)	(200,239,888)
Redemption of investments	220,379,361	199,056,424
Sale of water stock	300,000	1,800,000
Investment income	1,109,794	1,641,999
Net cash provided by (used for) investing activities	<u>(56,059,017)</u>	<u>2,258,535</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(20,584,973)	22,594,074
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>85,408,688</u>	<u>62,814,614</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 64,823,715</u>	<u>\$ 85,408,688</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, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>RECONCILIATION TO STATEMENTS OF NET ASSETS</b>		
Current assets:		
Cash and cash equivalents - current	\$ 32,148,599	\$ 38,444,734
Cash and cash equivalents - restricted	<u>32,675,116</u>	<u>46,963,954</u>
 Total cash and cash equivalents	 <u><u>\$ 64,823,715</u></u>	 <u><u>\$ 85,408,688</u></u>

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

Operating loss	\$ (31,867,497)	\$ (39,716,554)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	10,061,135	9,794,361
Additions to capital assets and CIP included in accounts payable	(854,515)	(69,565)
Prior year CIP deposit reclassified to other income	-	(9,231)
Changes in assets and liabilities:		
Decrease in accounts receivable	976,810	267,377
Increase in water bank inventory	(2,329,863)	-
Decrease in prepaid expenses	-	397,680
Increase in accounts payable	4,412,186	339,604
Increase in accrued employee benefits	247,432	216,628
Increase (decrease) in unearned revenue	<u>1,071,085</u>	<u>(249,245)</u>
 Net cash used for operating activities	 <u><u>\$ (18,283,227)</u></u>	 <u><u>\$ (29,028,945)</u></u>

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

Amortization of deferred costs of issuance	\$ 5,160	\$ -
Amortization of premium on bonds payable	(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, 2012 and 2011**

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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.

The District has elected to follow Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989, and all pronouncements of the Governmental Accounting Standards Board (GASB).

##### **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, 2012 and 2011**

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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, 2012 and 2011, 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 assets.

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 assets.

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, 2012 and 2011**

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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 assets**

Net assets are categorized as follows:

- *Invested in capital assets, net of related debt* – This component of net assets 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 assets* – This component of net assets consists of constraints placed on net assets 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 assets* – This component of net assets consists of net assets that do not meet the definition of *restricted* or *invested in capital assets, net of related debt*.

##### **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 30, 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 2012.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2012 and 2011**

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

Cash, cash equivalents, and investments as of June 30, 2012 and 2011 are classified in the accompanying financial statements as follows:

	<u>2012</u>	<u>2011</u>
Statements of Net Assets:		
Current assets		
Cash in bank and on hand	\$ 5,919,426	\$ 27,162,371
Cash in Local Agency Investment Fund	26,229,173	11,282,363
Investments	<u>54,009,450</u>	<u>26,391,669</u>
	<u>86,158,049</u>	<u>64,836,403</u>
Restricted:		
Cash in bank	9,550,733	22,471,880
Cash in Local Agency Investment Fund	22,947,658	24,240,396
Cash held in trust	176,725	251,678
Investments	100,966,432	71,677,238
Department of Water Resources bonds	10,000	10,000
	<u>133,651,548</u>	<u>118,651,192</u>
 Total cash and cash equivalents and investments	 <u>\$ 219,809,597</u>	 <u>\$ 183,487,595</u>

Cash, cash equivalents, and investments as of June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Cash on hand	\$ 350	\$ 350
Deposits with financial institutions	15,646,534	49,885,579
Cash in Local Agency Investment Fund	49,176,831	35,522,759
Investments	<u>154,985,882</u>	<u>98,078,907</u>
 Total cash and cash equivalents and investments	 <u>\$ 219,809,597</u>	 <u>\$ 183,487,595</u>

**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.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2012 and 2011**

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

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, 2012 and 2011, the District had the following investments and maturities:

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>

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2012 and 2011**

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

**Interest rate risk (continued)**

As of June 30, 2011:

Investment type	Amount	Remaining maturity (in months)			
		12 or less	13 to 24	25 to 36	More than 36
Local Agency Investment Fund	\$ 35,522,759	\$ 35,522,759	\$ -	\$ -	\$ -
Federal Agency					
Securities	97,791,155	91,743,413	6,047,742	-	-
Municipal Bonds	10,000	-	-	-	10,000
Money Market Funds	277,752	277,752	-	-	-
<b>Total Investments</b>	<b>\$ 133,601,666</b>	<b>\$ 127,543,924</b>	<b>\$ 6,047,742</b>	<b>\$ -</b>	<b>\$ 10,000</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, 2012 and 2011 were as follows:

As of June 30, 2012:

Investment type	Amount	Minimum legal rating	Rating as of year end			
			AAA	AA-	A+	Not rated
Local Agency Investment Fund	\$ 49,176,831	N/A	\$ -	\$ -	\$ -	\$ 49,176,831
Federal Agency						
Securities	90,961,354	N/A	90,961,354	-	-	-
Municipal Bonds	10,000	N/A	-	-	-	10,000
U.S. Treasury Bills, Notes and						
Bonds	43,657,709	N/A	43,657,709	-	-	-
Commercial Paper	13,764,990	A	13,764,990	-	-	-
Medium-Term Notes	4,907,465	A	-	2,446,688	2,460,777	-
Money Market Funds	1,684,364	AAA	1,684,364	-	-	-
<b>Total Investments</b>	<b>\$ 204,162,713</b>		<b>\$ 150,068,417</b>	<b>\$ 2,446,688</b>	<b>\$ 2,460,777</b>	<b>\$ 49,186,831</b>

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2012 and 2011**

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

As of June 30, 2011:

Investment type	Amount	Minimum legal rating	Rating as of year end			
			AAA	AA-	A+	Not rated
Local Agency Investment Fund	\$ 35,522,759	N/A	\$ -	\$ -	\$ -	\$ 35,522,759
Federal Agency Securities	97,791,155	N/A	97,791,155	-	-	-
Municipal Bonds	10,000	N/A	-	-	-	10,000
Money Market Funds	277,752	AAA	277,752	-	-	-
<b>Total Investments</b>	<b>\$ 133,601,666</b>		<b>\$ 98,068,907</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 35,532,759</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, 2012 and 2011 met their respective minimum credit ratings requirements. More than 5 percent of the District's investments are in unsecured federal agency securities. These investments represent 44.6% and 73.4%, at June 30, 2012 and 2011 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, 2012 and 2011, \$15,223,557 and \$48,217,663 respectively, of the District's demand deposits with financial institutions were in excess of federal depository insurance limits. As of June 30, 2012 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, 2012 and 2011**

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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 \$49,176,831 and \$35,578,760 as of June 30, 2012 and 2011, respectively. The balance available for withdrawal of \$48,789,644 and \$35,522,759 as of June 30, 2012 and 2011, respectively, is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Management has elected to report its investment in LAIF at fair value, beginning in the year ended June 30, 2012. 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>.

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

**Investments with fair values highly sensitive to interest rate fluctuations**

At June 30, 2012 and 2011, 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, 2012 and 2011**

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**Note 4: Capital assets**

Summaries of changes in capital assets in service for the years ended June 30, 2012 and 2011 were as follows:

As of June 30, 2012

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets, not being depreciated:				
Land, right of ways, and 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 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 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 depreciated, net	<u>140,917,037</u>	<u>(3,115,736)</u>	<u>-</u>	<u>137,801,301</u>
Participation rights in State Water 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 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, 2012 and 2011**

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

As of June 30, 2011

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Capital assets, not being depreciated:				
Land, right of ways, and pipeline capacity	\$ 9,274,152	\$ 75,882	\$ -	\$ 9,350,034
Construction in progress	1,649,132	1,820,681	1,312,725	2,157,088
Total capital assets, not being depreciated	<u>10,923,284</u>	<u>1,896,563</u>	<u>1,312,725</u>	<u>11,507,122</u>
Capital assets, being depreciated:				
Buildings	7,821,671	-	-	7,821,671
Distribution lines	150,587,647	1,319,647	458,294	151,449,000
Brine line	7,121,795	-	-	7,121,795
Furniture, fixtures and equipment	950,969	38,075	-	989,044
Vehicles	406,596	43,850	26,207	424,239
Yucaipa Dam	3,698,238	-	-	3,698,238
Total capital assets, being depreciated	170,586,916	1,401,572	484,501	171,503,987
Less accumulated depreciation	<u>(27,281,008)</u>	<u>(3,377,979)</u>	<u>(72,037)</u>	<u>(30,586,950)</u>
Total capital assets, being depreciated, net	<u>143,305,908</u>	<u>(1,976,407)</u>	<u>412,464</u>	<u>140,917,037</u>
Participation rights in State Water Project Facilities	243,202,218	10,849,469	-	254,051,687
Less accumulated amortization	<u>(85,117,671)</u>	<u>(6,416,382)</u>	<u>-</u>	<u>(91,534,053)</u>
Participation rights in State Water Project Facilities, net	<u>158,084,547</u>	<u>4,433,087</u>	<u>-</u>	<u>162,517,634</u>
Total capital assets, net	<u>\$ 312,313,739</u>	<u>\$ 4,353,243</u>	<u>\$ 1,725,189</u>	<u>\$ 314,941,793</u>



*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2012 and 2011**

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**Note 5: Notes receivable**

Notes receivable at June 30, 2012 and 2011 consisted of the following:

	2012	2011
<p>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.</p>	\$ 861,771	\$ 861,771
<p>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.</p>	726,450	726,450
<p>Total</p>	1,588,221	1,588,221
<p>Less allowance for uncollectible accounts</p>	(1,588,221)	(1,588,221)
<p>Net realizable value</p>	\$ -	\$ -

**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, 2012 and 2011, total unearned revenue amounted to \$6,165,531 and \$5,094,446, 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.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2012 and 2011**

**Note 7: Bonds payable (continued)**

The following is a summary of bonds payable for the year ended June 30, 2012:

	Balance			Balance	Due within
	June 30, 2011	Additions	Deletions	June 30, 2012	one year
2011A Certificates of Participation, 2.00%-4.25%, due 2035	\$ -	\$ 8,565,000	\$ -	\$ 8,565,000	\$ 160,000
Premium on Certificates of Participation, net	-	154,805	(5,160)	149,645	-
Total Certificates of Participation	\$ -	\$ 8,719,805	\$ (5,160)	\$ 8,714,645	\$ 160,000

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

Year ending June 30,	Principal	Interest	Total
2013	\$ 160,000	\$ 341,344	\$ 501,344
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 - 2022	990,000	1,517,295	2,507,295
2023 - 2027	1,205,000	1,299,320	2,504,320
2028 - 2032	1,475,000	1,032,320	2,507,320
2033 - 2037	1,805,000	692,990	2,497,990
2038 - 2042	2,250,000	254,841	2,504,841
Total	\$ 8,565,000	\$ 6,462,810	\$ 15,027,810

**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 31.777% of covered payroll for those employees. The District makes the contributions required of these District employees on their behalf and for their account.

# San Bernardino Valley Municipal Water District

## Notes to the Basic Financial Statements For the years ended June 30, 2012 and 2011

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

#### Funding policy (continued)

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, 2012 and 2011, the amount contributed by the District, including the amount contributed on behalf of the employees, was \$999,768 and \$793,239, 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, 2010 valuation was a negative \$2,210,318.

The side fund will be credited, on an annual basis, with the actuarial investment return assumption. This assumption is currently 7.75%. 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.

#### 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, 2010	\$ 804,058	100%	\$ -
June 30, 2011	\$ 793,239	100%	\$ -
June 30, 2012	\$ 999,768	100%	\$ -

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2012 and 2011**

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**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.

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 2012 and 2011:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Annual required contribution	\$ 277,936	\$ 219,028
Interest on net OPEB obligation	35,640	24,281
Adjustment to annual required contribution	<u>(30,440)</u>	<u>(19,530)</u>
Annual OPEB cost	283,136	223,779
Contributions made	<u>(62,574)</u>	<u>(61,877)</u>
Increase in net OPEB obligation	220,562	161,902
Net OPEB obligation - beginning of year	<u>475,200</u>	<u>313,298</u>
Net OPEB obligation - end of year	<u><u>\$ 695,762</u></u>	<u><u>\$ 475,200</u></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, while the net OPEB obligation is included in accrued employee benefits on the Statement of Net Assets.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2012 and 2011**

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

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

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, 2012, 2011, and 2010 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, 2010	\$ 212,708	\$ 51,255	24%	\$ 313,298
OPEB	June 30, 2011	\$ 223,779	\$ 61,877	28%	\$ 475,200
OPEB	June 30, 2012	\$ 283,136	\$ 62,574	22%	\$ 695,762

**Funded Status**

The funded status of the plan as of June 30, 2012, based on the July 1, 2011 actuarial valuation is as follows:

Actuarial Accrued Liability (AAL)	\$ 2,824,066
Actuarial value of assets	<u>-</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 2,824,066</u>
Funded ratio (actuarial value of assets / AAL)	0%
Covered payroll (active plan members)	\$ 2,350,055
UAAL as a percentage of covered payroll	120%

**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.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2012 and 2011**

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

**Actuarial methods and assumptions (continued)**

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%

**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 \$1,980,194 in open construction contracts as of June 30, 2012. These include:

Project	Approved Contract	Payments To Date	Balance To Complete
Baseline Feeder Well Replacement and Improvement	\$ 5,538,602	\$ 4,566,638	\$ 971,964
District Warehouse at Redlands Pump Station	1,375,000	709,900	665,100
Wilson Creek Turnout	1,051,380	801,900	249,480
Yucaipa Surge Riser	244,000	150,350	93,650
Total	<u>\$ 8,208,982</u>	<u>\$ 6,228,788</u>	<u>\$ 1,980,194</u>

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the years ended June 30, 2012 and 2011**

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**Note 10: Commitments and contingencies (continued)**

**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 2012 to 2035, according to the payment schedule dated June 30, 2012, is estimated as follows:

Transportation charges:		
Capital cost component		\$ 80,529,034
Minimum operations, maintenance, power and replacement component		295,111,193
Variable operations, maintenance, power and replacement component		249,404,337
		<u>625,044,564</u>
Delta water charges		113,818,683
Water system revenue bond surcharge		42,322,111
		<u>42,322,111</u>
 Total		 <u><u>\$ 781,185,358</u></u>

**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 assets	<u>\$ 68,182,774</u>	<u>\$ 65,618,866</u>
 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 assets	<u>\$ 2,563,908</u>	<u>\$ (141,981)</u>

## *San Bernardino Valley Municipal Water District*

### **Notes to the Basic Financial Statements For the years ended June 30, 2012 and 2011**

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#### **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, 2012 and 2011 was \$176,725 and \$251,678, respectively.

#### **Note 12: Risk management**

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

Property Loss - Insured up to \$100,000,000 per occurrence (total insurable value of \$47,252,588 as of July 4, 2012), 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 \$47,252,588 as of July 4, 2012), 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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California Society of  
Certified Public Accountants

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

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

We have audited the accompanying financial statements of San Bernardino Valley Municipal Water District, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### *Internal Control over Financial Reporting*

Management of San Bernardino Valley Municipal Water District is responsible for establishing and maintaining internal control over financial reporting. In planning and performing our audit, we considered San Bernardino Valley Municipal Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether 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*.

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

*Rogers Anderson Maloney & Scott, LLP*

October 30, 2012