

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

San Bernardino, California

Basic Financial Statements and Supplementary Information

For the Year Ended June 30, 2015
(With Comparative Data for Prior Year)



San Bernardino Valley Municipal Water District

**Basic Financial Statements and Supplementary Information
For the Year Ended June 30, 2015
(With Comparative Data for Prior Year)**

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Independent Auditor's Report

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San Bernardino Valley Municipal Water District
San Bernardino, California

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Leena Shanbhag, CPA, MST, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)

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Bradferd A. Welebir, CPA, MBA

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Yiann Fang, CPA
Nathan Statham, CPA, MBA
Brigitta Bartha, CPA
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Juan Romero, CPA
Ivan Gonzales, CPA, MSA
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Daniel Hernandez, CPA, MBA

Report on the Financial Statements

We have audited the accompanying financial statements of the San Bernardino Valley Municipal Water District as of and for the year ended June 30, 2015, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

MEMBERS

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Certified Public Accountants

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Bernardino Valley Municipal Water District as of June 30, 2015, and the changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the California State Controller's office and state regulations governing special districts.

Emphasis of a Matter

Change in Accounting Principle

As discussed in Note 1 of the financial statements, the District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transaction for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Restatement of the comparative financial data for the prior period presented is not practical due to the unavailability of information from the pension plan, therefore the provisions of GASB Statements No. 68 and 71 were not applied to the prior period. The cumulative effects of applying the provisions of GASB Statements No. 68 and 71 have been reported as a restatement of beginning net position for the year ended June 30, 2015 in accordance with the Statements.

Other Matters

Report on summarized comparative information

We have previously audited the San Bernardino Valley Municipal Water District's 2014 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 5, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the District's proportionate share of the plans' net pension liability and related ratios as of the measurement date, and the schedule of plan contributions, 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 December 10, 2015, on our consideration of the San Bernardino Valley Municipal Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
December 10, 2015

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 portions of 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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. 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.

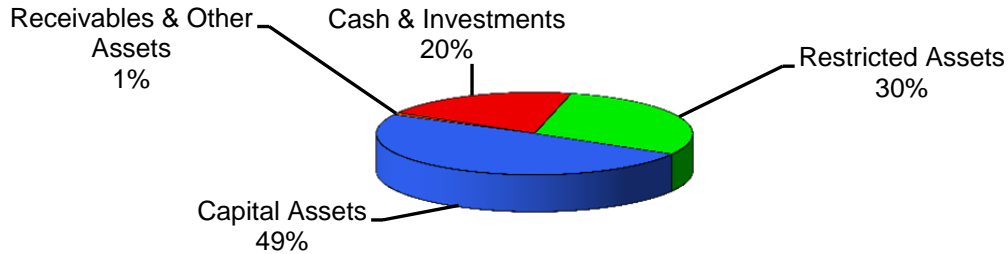
The Statement of Cash Flows conveys to financial statement users how the District managed cash resources during the year. This statement converts the income or loss from operations presented on the Statement of Revenues, Expenses and Changes in Net Position into actual cash provided by or used for operations. 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, 2015, the District's Total Assets increased by \$39.5 million and Total Net Position increased by \$33.5 million. A majority of the increase in Total Assets resulted from an increase of \$11.6 million in Unrestricted Current Assets and a \$25.8 million increase in Restricted Assets, an increase of \$2.9 million in Total Capital Assets and a \$.03 million increase in Construction in Progress netted against a decrease in other Non Current Assets of \$.8 million.

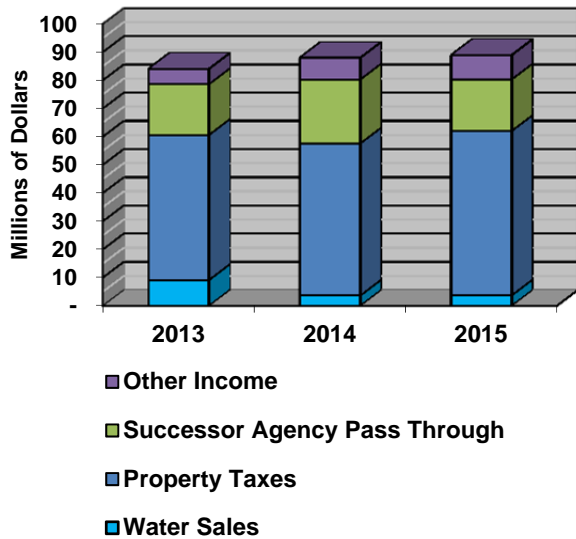
SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Assets Owned

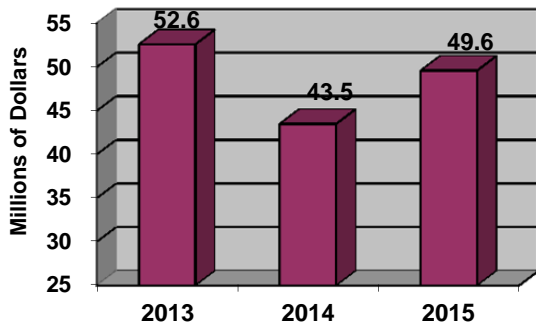


Total cash, cash equivalents, and Investments increased by \$40.1 million. The increase can be further divided into general unrestricted and restricted cash. Unrestricted cash increased by \$12.8 million and restricted cash decreased by \$27.3 million.

Revenue



Operating Expenses



Financial Statement Summary (In millions)

	6/30/2015	6/30/2014
Total Assets	\$ 670.42	\$ 630.98
Total Deferred Outflows	.92	-
Total Liabilities	23.94	18.38
Total Deferred Inflows	1.35	-
Net Position	\$ 646.05	\$ 612.60
Operating Revenues	\$ 8.90	\$ 8.98
Operating Expenses	49.55	43.51
Nonoperating Revenues	80.01	78.98
Nonoperating Expenses	.33	.33
Contributions in aid	.50	3.69
Change in Net Position	\$ 39.53	\$ 47.81

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

The increase in Net Position included an operating loss of \$40.7 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, 2015 increased over the prior year by \$6.0 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 \$4.9 million and Administrative and General Expenses increased slightly by \$.6 million

Total Nonoperating revenues increased by \$1.0 million over the prior year. Total property taxes received increased by \$4.4 million. The assessed values within the District's service area experienced a 4.8% increase over the prior year. A decrease in Nonoperating Revenues was due to a decrease in Successor Agency Pass Through Payments received over the prior year. 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 Payments decreased by \$4.4 million over the prior year.

Categories of Net Position

The District is required to present its net position in three categories: Net investment in Capital Assets, Restricted, and Unrestricted.

Net Investment in Capital Assets

At June 30, 2015, the amount the District had invested in capital assets, net of related debt was \$321.9 million. This balance was obtained by combining Construction in Progress of \$1.9 million with Capital Assets in Service, net of Accumulated Depreciation and Amortization of \$328.1 million and Certificates of Participation of \$8.1 million.

Restricted Net Position – Debt Service

The District has restricted Net Position of \$197.4 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 \$167.4 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 2015 to 2035, according to a payment schedule dated January 24, 2014, is estimated to total \$807 million.

Unrestricted Net Position

The District had unrestricted Net Position of \$126.8 million at June 30, 2015. The Board of Directors has designated \$20 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, Recycled Water Systems and Conjunctive Use Well Projects.

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Construction In Progress (CIP)

The projects still in progress at June 30, 2015 included Riverside Groundwater Aquifer Storage Project, East Branch Extension Phase II and design of Hydroelectric Plants.

Capital Assets

The District made payments to the Department of Water Resources during the year totaling \$34.7 million net of credits and refunds for participation rights in the State Water Project. This was an increase of \$5.7 million over the prior year mainly attributable to an increase in East Branch Extension costs and the near completion of East Branch Extension Phase II 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 were used to build the Baseline Feeder Well Replacement Project.

Net Pension Liability

In the current year, the District implemented GASB Statements No. 68 & 71. This implementation resulted in the District recording a Net Pension Liability of \$5.6 million in addition to associated deferred outflows of resources of \$.9 million and deferred inflows of resources of \$1.4 million.

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

**Statement of Net Position
June 30, 2015
(With Comparative Data for Prior Year)**

ASSETS	2015	2014
Current assets:		
Cash and cash equivalents	\$ 38,720,415	\$ 38,957,218
Investments	97,792,514	84,717,982
Property taxes receivable	99,165	161,659
Accounts receivable	1,619,775	1,643,192
Accrued interest receivable	204,054	155,685
Current portion of other receivables	229,536	2,618,734
Current portion of notes receivable	1,490,726	338,481
Total current assets - unrestricted	140,156,185	128,592,951
Restricted assets:		
Cash and cash equivalents	30,276,263	34,657,031
Investments	163,922,767	132,271,613
Total restricted cash and investments	194,199,030	166,928,644
Property taxes receivable	886,256	740,872
Accounts receivable	1,669,510	2,854,197
Accrued interest receivable	290,778	201,254
Water bank inventory	1,479,070	1,983,525
Total restricted assets	198,524,644	172,708,492
Noncurrent assets:		
Capital assets:		
Capital assets in service	194,615,142	193,784,810
Accumulated depreciation	(43,542,912)	(40,045,343)
Capital assets, net	151,072,230	153,739,467
Participation rights in State Water Project facilities (at cost)	298,815,200	284,956,337
Accumulated amortization	(121,694,846)	(113,384,803)
Participation rights in State Water Project facilities - net	177,120,354	171,571,534
Total capital assets, net of accumulated depreciation and amortization	328,192,584	325,311,001
Construction in progress	1,900,230	1,874,334
Total capital assets, net	330,092,814	327,185,335
Other noncurrent assets:		
Other receivables, net of current portion	1,325,892	1,791,818
Notes receivable, net of current portion	227,990	453,713
Water stock	88,500	238,500
Deposit on land	1,975	1,975
Total noncurrent assets	331,737,171	329,671,341
Total assets	670,418,000	630,972,784
DEFERRED OUTFLOWS OF RESOURCES		
Pension related	923,508	-
Total deferred outflows of resources	923,508	-

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

San Bernardino Valley Municipal Water District

Statement of Net Position (Continued)
June 30, 2015
(With Comparative Data for Prior Year)

LIABILITIES	2015	2014
Current liabilities:		
Payables from current assets - unrestricted:		
Accounts payable	\$ 1,635,434	\$ 2,149,780
Accrued employee benefits	1,950,844	1,699,335
Accrued interest payable	165,747	168,222
Unearned revenue	5,565,119	5,415,624
Certificates of participation, current portion	170,000	165,000
Total payables from current assets - unrestricted	9,487,144	9,597,961
Payable from restricted assets:		
Accounts payable	502,500	288,093
Santa Ana River restoration/recovery trust fund	326,855	276,803
Total payables from current assets - restricted	829,355	564,896
Non-current liabilities:		
Certificates of participation, non-current portion	7,905,000	8,075,000
Premium on certificates of participation, net	134,165	139,325
Net pension liability	5,587,972	-
Total non-current liabilities	13,627,137	8,214,325
Total liabilities	23,943,636	18,377,182
DEFERRED INFLOWS OF RESOURCES		
Pension related	1,349,905	-
Total deferred inflows of resources	1,349,905	-
NET POSITION		
Net investment in capital assets	321,883,649	318,806,011
Restricted:		
Debt service - State Water Project	195,528,114	170,250,826
Debt service - Devil Canyon-Castaic	1,831,428	1,559,549
Unrestricted	126,804,776	121,979,216
Total net position	\$ 646,047,967	\$ 612,595,602

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

San Bernardino Valley Municipal Water District

**Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2015
(With Comparative Data for Prior Year)**

	2015	2014
OPERATING REVENUES		
Water sales	\$ 3,712,329	\$ 3,650,841
Other operating revenues	5,188,034	5,334,418
Total operating revenues	<u>8,900,363</u>	<u>8,985,259</u>
OPERATING EXPENSES		
Source of supply:		
Operations, maintenance, power and replacement	18,914,682	15,800,305
Purchased water	5,082,261	3,307,191
	<u>23,996,943</u>	<u>19,107,496</u>
Administrative and general:		
Salaries	2,233,942	2,241,929
Retirement and benefits	1,770,779	1,823,869
Payroll taxes	165,420	148,758
Consultants	3,453,651	3,625,722
Legal and accounting	1,789,275	970,493
Outside services	43,095	43,668
Office supplies and expense	307,261	215,484
Dues and subscriptions	298,526	356,991
Public education and information	656,380	246,340
Maintenance and repair	969,623	1,470,405
Utilities	447,248	447,164
Inland Empire Brine Line fees	1,105,563	1,075,382
Insurance	91,545	93,585
Auto and travel	72,905	83,343
Lodging and meals	14,034	14,994
Taxes and licenses	31,631	48,341
Tax collection fee	264,248	252,358
	<u>13,715,126</u>	<u>13,158,826</u>
Other operating expenses:		
Depreciation and amortization	11,840,983	11,240,524
Total operating expenses	<u>49,553,052</u>	<u>43,506,846</u>
OPERATING LOSS	<u>(40,652,689)</u>	<u>(34,521,587)</u>

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

San Bernardino Valley Municipal Water District

**Statement of Revenues, Expenses and Changes in Net Position (Continued)
For the Year Ended June 30, 2015
(With Comparative Data for Prior Year)**

	<u>2015</u>	<u>2014</u>
NONOPERATING REVENUES (EXPENSES)		
Revenues:		
Property taxes:		
Debt service	\$ 50,316,399	\$ 46,291,478
General purpose distribution	8,003,755	7,661,949
Successor Agency pass through	18,284,353	22,690,528
Investment income	3,006,831	2,172,030
Gain on sale of water stock	150,000	150,000
Gain on disposal of capital assets	249,482	10,312
	<u>80,010,820</u>	<u>78,976,297</u>
Expenses:		
Interest expense	<u>326,333</u>	<u>331,284</u>
Total nonoperating revenues	<u>79,684,487</u>	<u>78,645,013</u>
Income before contributions	39,031,798	44,123,426
Contributions in aid of construction	<u>499,598</u>	<u>3,685,598</u>
Change in net position	39,531,396	47,809,024
Net position - beginning of year, as restated	<u>606,516,571</u>	<u>564,786,578</u>
Net position - end of year	<u><u>\$ 646,047,967</u></u>	<u><u>\$ 612,595,602</u></u>

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

San Bernardino Valley Municipal Water District

**Statement of Cash Flows
For the Year Ended June 30, 2015
(With Comparative Data for Prior Year)**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water sales	\$ 5,069,928	\$ 11,712,025
Cash received from other operating activities	5,188,034	5,334,418
Cash paid for source of supply	(23,492,488)	(18,761,158)
Cash paid to other suppliers	(9,844,924)	(8,211,964)
Cash paid for employees' wages, taxes and benefits	(3,983,294)	(4,016,686)
Net cash used for operating activities	<u>(27,062,744)</u>	<u>(13,943,365)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes received - general purpose distribution	8,066,249	7,536,974
Successor Agency pass through received	21,139,477	24,236,286
Trust funds received	50,052	50,044
Net cash provided by noncapital financing activities	<u>29,255,778</u>	<u>31,823,304</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Property taxes received - debt service	50,171,015	46,260,033
Proceeds from sale of capital assets	1,013,815	10,312
Proceeds from (issuance of) notes receivable	(926,522)	106,252
Acquisition of capital assets	(14,467,464)	(11,961,371)
Payments for construction in progress	(1,045,331)	(1,186,372)
Principal payments on debt	(165,000)	(165,000)
Interest paid	(333,968)	(338,094)
Proceeds from contribution in aid of construction	499,598	3,685,598
Net cash provided by capital and related financing activities	<u>34,746,143</u>	<u>36,411,358</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(134,517,448)	(127,972,518)
Redemption of investments	90,287,241	66,347,460
Sale of water stock	300,000	300,000
Investment income	2,373,459	1,828,705
Net cash used for investing activities	<u>(41,556,748)</u>	<u>(59,496,353)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(4,617,571)</u>	<u>(5,205,056)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>73,614,249</u>	<u>78,819,305</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 68,996,678</u>	<u>\$ 73,614,249</u>

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

San Bernardino Valley Municipal Water District

**Statement of Cash Flows (Continued)
For the Year Ended June 30, 2015
(With Comparative Data for Prior Year)**

	<u>2015</u>	<u>2014</u>
RECONCILIATION TO STATEMENTS OF NET POSITION		
Current assets:		
Cash and cash equivalents - current	\$ 38,720,415	\$ 38,957,218
Cash and cash equivalents - restricted	<u>30,276,263</u>	<u>34,657,031</u>
Total cash and cash equivalents	<u>\$ 68,996,678</u>	<u>\$ 73,614,249</u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	\$ (40,652,689)	\$ (34,521,587)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	11,840,983	11,240,524
Actuarial pension expense	744,537	-
Pension contributions subsequent to measurement date	(809,199)	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	1,208,104	7,711,600
Water bank inventory	504,455	346,338
Increase (decrease) in:		
Accounts payable	(299,939)	732,306
Accrued employee benefits	251,509	197,870
Unearned revenue	<u>149,495</u>	<u>349,584</u>
Net cash used for operating activities	<u>\$ (27,062,744)</u>	<u>\$ (13,943,365)</u>
 SCHEDULE OF NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES		
Amortization of premium on bonds payable	\$ (5,160)	\$ (5,160)

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 Year Ended June 30, 2015

Note 1: Reporting Entity and Summary of Significant Accounting Policies

Organization and operations of the reporting entity

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

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

Measurement focus, basis of accounting and financial statement presentation

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

Use of estimates

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

Cash and cash equivalents

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

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

Note 1: Reporting Entity and Summary of Significant Accounting 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 related to notes receivable were \$1,588,221 for the year ended June 30, 2015. There were no allowances for uncollectible accounts to be netted with accounts receivable for 2015. Refer to Note 5 for details of the notes receivable netted with allowances for uncollectible accounts.

Prepaid expenses

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

Inventories

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

Capital assets

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

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

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

San Bernardino Valley Municipal Water District

Notes to the Basic Financial Statements For the Year Ended June 30, 2015

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

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.

Restricted resources

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

Net position

Net position is categorized as follows:

- *Net investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- *Restricted net position* – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net position* – This component of net position consists of net position that does 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.

San Bernardino Valley Municipal Water District

Notes to the Basic Financial Statements For the Year Ended June 30, 2015

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

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenses) until then. The District currently has pension related deferred outflows of resources.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District currently has pension related deferred inflows of resources.

Reclassification

Certain reclassifications have been made to prior year's balances to conform to classifications used in 2015.

Implementation of new pronouncement

GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expenses. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

GASB has issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

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

Implementation of new pronouncement, (continued)

These pronouncements have been implemented for purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expenses. Information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Pension plans

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

Valuation Date (VD)	June 30, 2013
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	July 1, 2013 to June 30, 2014

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

Note 2: Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

	<u>2015</u>
Statements of Net Position:	
Current assets:	
Cash in bank and on hand	\$ 6,909,768
Cash in Local Agency Investment Fund	31,810,647
Total cash and cash equivalents	<u>38,720,415</u>
Investments	97,792,514
Total unrestricted	<u>136,512,929</u>
Restricted:	
Cash in bank	11,458,795
Cash in Local Agency Investment Fund	18,154,866
Cash held by trustee	335,747
Cash held in trust	326,855
Total cash and cash equivalents	<u>30,276,263</u>
Investments	163,912,767
Department of Water Resources bonds	10,000
Total investments	<u>163,922,767</u>
Total restricted	<u>194,199,030</u>
Total cash and cash equivalents and investments	<u>\$ 330,711,959</u>

Cash, cash equivalents, and investments as of June 30, 2015 consisted of the following:

	<u>2015</u>
Cash on hand	\$ 350
Deposits with financial institutions	19,030,815
Cash in Local Agency Investment Fund	49,965,513
Investments	<u>261,715,281</u>
Total cash and cash equivalents and investments	<u>\$ 330,711,959</u>

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

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, 2015, the District had the following investments and maturities:

Investment type	Amount	Remaining maturity (in months)			
		12 or less	13 to 24	25 to 36	More than 36
Federal Agency Securities	\$ 56,345,293	\$ -	\$ 42,643,789	\$ 13,701,504	\$ -
Municipal Bonds	10,000	-	-	-	10,000
U.S. Treasury Bills, Notes and Bonds	120,173,661	4,023,440	53,662,419	29,892,297	32,595,505
Commercial Paper	22,730,318	22,730,318	-	-	-
Medium-Term Notes	19,961,422	8,323,035	9,114,167	2,524,220	-
Money Market Funds	42,494,587	42,494,587	-	-	-
Total investments	\$ 261,715,281	\$ 77,571,380	\$ 105,420,375	\$ 46,118,021	\$ 32,605,505

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

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

Disclosures relating to credit risk

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

Credit ratings of investments as of June 30, 2015 were as follows:

Investment type	Amount	Minimum legal rating	Rating as of year end			
			AAA	AA-	A+	Not rated
Federal Agency Securities	\$ 56,345,293	N/A	\$ 56,345,293	\$ -	\$ -	\$ -
Municipal Bonds	10,000	N/A	-	-	-	10,000
U.S. Treasury Bills, Notes and Bonds	120,173,661	N/A	120,173,661	-	-	-
Commercial Paper	22,730,318	A	-	5,431,292	-	17,299,026
Medium-Term Notes	19,961,422	A	-	1,781,802	16,174,852	2,004,768
Money Market Funds	42,494,587	AAA	42,494,587	-	-	-
Total investments	\$ 261,715,281		\$ 219,013,541	\$ 7,213,094	\$ 16,174,852	\$ 19,313,794

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, 2015 met their respective minimum credit ratings requirements.

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

Issuer	Investment type	Reported amount
Federal National Mortgage	Federal Agency Securities	\$ 23,777,404
Federal Home Loan Bank	Federal Agency Securities	15,832,373
Federal Home Loan Mortgage	Federal Agency Securities	16,735,516

San Bernardino Valley Municipal Water District

Notes to the Basic Financial Statements For the Year Ended June 30, 2015

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

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, 2015, \$18,825,952, of the District's demand deposits with financial institutions were in excess of federal depository insurance limits. As of June 30, 2015, these funds were fully collateralized by securities in a separate account held by the same institution.

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 \$49,965,513 as of June 30, 2015. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The District may invest up to \$50,000,000 in the LAIF fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. All investments with LAIF are secured by the full faith and credit of the State of California. Separate LAIF financial statements are available from the California State Treasurer's Office on the internet at <http://www.treasurer.ca.gov>.

Investments with fair values highly sensitive to interest rate fluctuations

At June 30, 2015, 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 11,300 acre-feet and is able to call on a maximum of 5,000 acre-feet per year of this stored water. This stored water is classified as a restricted asset and is valued at cost.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

Note 3: Water Bank Inventory, (Continued)

The following is a summary of the water bank inventory for the year ended June 30, 2015:

	Acre-feet	Inventory cost
Balance at June 30, 2014	15,154	\$ 1,983,525
Additions	-	-
Reductions	(3,854)	(504,455)
Balance at June 30, 2015	<u>11,300</u>	<u>\$ 1,479,070</u>

Note 4: Capital Assets

Summaries of changes in capital assets in service for the year ended June 30, 2015 were as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets, not being depreciated:				
Land, right of ways, and pipeline capacity	\$ 12,686,129	\$ 369,900	\$ 764,333	\$ 12,291,696
Construction in progress	1,874,334	1,045,331	1,019,435	1,900,230
Total capital assets, not being depreciated	<u>14,560,463</u>	<u>1,415,231</u>	<u>1,783,768</u>	<u>14,191,926</u>
Capital assets, being depreciated:				
Buildings	6,232,110	-	-	6,232,110
Distribution lines	162,630,730	1,155,091	-	163,785,821
Brine line	7,121,795	-	-	7,121,795
Furniture, fixtures and equipment	1,036,248	73,082	-	1,109,330
Vehicles	379,560	29,963	33,371	376,152
Yucaipa Dam	3,698,238	-	-	3,698,238
Total capital assets, being depreciated	181,098,681	1,258,136	33,371	182,323,446
Less accumulated depreciation	(40,045,343)	(3,530,940)	(33,371)	(43,542,912)
Total capital assets, being depreciated, net	<u>141,053,338</u>	<u>(2,272,804)</u>	<u>-</u>	<u>138,780,534</u>
Participation rights in State Water Project Facilities	284,956,337	13,858,863	-	298,815,200
Less accumulated amortization	(113,384,803)	(8,310,043)	-	(121,694,846)
Participation rights in State Water Project Facilities, net	<u>171,571,534</u>	<u>5,548,820</u>	<u>-</u>	<u>177,120,354</u>
Total capital assets, net	<u>\$ 327,185,335</u>	<u>\$ 4,691,247</u>	<u>\$ 1,783,768</u>	<u>\$ 330,092,814</u>

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

Note 5: Notes Receivable

Notes receivable at June 30, 2015 consisted of the following:

	<u>2015</u>
The District entered into a loan agreement with the San Bernardino Regional Water Resources Authority JPA for an amount not to exceed \$900,000. The loan is to be repaid from time to time from available revenues and other funding sources of the Authority. This note shall continue in effect, until such time as the full amount of the note is repaid. The loan is not secured and the principal balance shall not accrue interest. An allowance for uncollectible accounts was recorded in 2009 for the total principal balance outstanding.	\$ 861,771
The District entered into a loan agreement with the San Bernardino Regional Water Resources Authority JPA in 2001 for an amount not to exceed \$850,000. The loan is to be repaid from time to time from available revenues and other funding sources of the Authority. This note shall continue in effect, until such time as the full amount of the note is repaid. The loan is not secured and the principal balance shall not accrue interest. An allowance for uncollectible accounts was recorded in 2009 for the total principal balance outstanding.	726,450
The District entered into a loan agreement with the San Bernardino Municipal Water Department, a division of the City of San Bernardino on July 3, 2012 for the amount of \$1,117,500, for the purchase of property located at 1331 South E. Street. The loan is secured by the property and is to be paid in monthly installments of \$19,102 including interest at 1% through July 2017.	453,713
The District entered into a loan agreement with the San Bernardino Regional Water Resources Authority JPA in December 2013 for the amount of \$115,003, for the construction of a park project in the City of San Bernardino, for which the JPA has been awarded a reimbursable grant from the state. The loan is to be repaid in one lump sum within the next fiscal year.	115,003
The District entered into a loan agreement with the San Bernardino Regional Water Resources Authority JPA in February 2015 for the amount of \$1,150,000, for the construction of a park project in the City of San Bernardino, for which the JPA has been awarded a reimbursable grant from the state. The loan is to be repaid in one lump sum within the next fiscal year.	1,150,000
	<u>3,306,937</u>
Less allowance for uncollectible accounts	1,588,221
Less current portion of notes receivable	<u>1,490,726</u>
Total notes receivable, net of current portion	<u>\$ 227,990</u>

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

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, 2015, total unearned revenue amounted to \$5,565,119.

Note 7: Certificates of Participation

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

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

The following is a summary of bonds payable for the year ended June 30, 2015:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015	Due within one year
2011A Certificates of Participation	\$ 8,240,000	\$ -	\$ (165,000)	\$ 8,075,000	\$ 170,000
Premium on certificates of participation	139,325	-	(5,160)	134,165	-
Total certificates of participation, net	<u>\$ 8,379,325</u>	<u>\$ -</u>	<u>\$ (170,160)</u>	<u>\$ 8,209,165</u>	<u>\$ 170,000</u>

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

Year ending June 30,	Principal	Interest	Total
2016	\$ 170,000	\$ 328,944	\$ 498,944
2017	180,000	323,694	503,694
2018	185,000	318,219	503,219
2019	190,000	311,644	501,644
2020	195,000	303,944	498,944
2021-2025	1,115,000	1,392,120	2,507,120
2026-2030	1,360,000	1,145,820	2,505,820
2031-2035	1,660,000	839,413	2,499,413
2036-2040	2,060,000	443,169	2,503,169
2041-2042	960,000	42,437	1,002,437
Total	<u>\$ 8,075,000</u>	<u>\$ 5,449,404</u>	<u>\$ 13,524,404</u>

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

Note 8: Defined Benefit Pension Plans (PERS)

General information about the pension plans

Plan descriptions

The Plans are cost-sharing, multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plans regarding number of employees covered, benefit provisions, assumptions (for funding, but not account purposes), and membership information are listed in the June 30, 2013 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. The actuarial valuation report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications, at www.calpers.ca.gov.

Benefits provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans operate under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plans' authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Prior to January 1, 2011	On or after January 1, 2011 and prior to January 1, 2013	On or after January 1, 2013
Hire date			
Benefit formula	3.0% @ 60	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-60	50-60	52-62
Monthly benefits, as a % of eligible compensation	2.0%-3.0%	1.92%-2.0%	1.0%-2.0%
Required employee contribution rates	8.0%	7.0%	7.0%
Required employer contribution rates	34.392%	9.905%	9.905%

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

Note 8: Defined Benefit Pension Plans (PERS), (Continued)

General information about the pension plans, (continued)

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the average active employee contribution rate for the respective miscellaneous tier 1 and tier 2 plans is 8.0 and 7.0 percent of annual pay, and the employer's contribution rate is 34.392 and 9.905 percent of annual payroll. Employer contribution rates may change if plan contracts are amended. Employer Contributions for the measurement period ended June 30, 2014 for the respective tier 1 and tier 2 plans are \$654,762 and \$13,673. Employer Paid Member Contributions for the measurement period ended June 30, 2014 for the respective miscellaneous tier 1 and tier 2 plans are \$158,591 and \$7,434, or an average rate of 8.0 and 6.0 percent of annual payroll. The actual employer payments for the respective miscellaneous tier 1 and tier 2 plans of \$654,762 and \$13,673, made to CalPERS by the District during the measurement period ending June 30, 2014, differed from the District's proportionate share of the employer's contributions of \$512,428 and \$874, by \$142,334 and \$12,799, which is being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employers plans.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

Note 8: Defined Benefit Pension Plans (PERS), (Continued)

Net pension liability

The District's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

Actuarial methods and assumptions used to determine total pension liability

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

	<u>Miscellaneous - Tier 1 Plan</u>	<u>Miscellaneous - Tier 2 Plan</u>
Valuation Date	June 30, 2013	June 30, 2013
Measurement Date	June 30, 2014	June 30, 2014
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Asset Valuation Method	Actuarial Value of Assets	Actuarial Value of Assets
Actuarial Assumptions		
Discount Rate	7.50%	7.50%
Inflation	2.75%	2.75%
Salary Increases (1)	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return (2)	7.50%	7.50%
Mortality Rate Table (3)	Derived using CALPERS' membership data for all Funds	Derived using CALPERS' membership data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

- (1) Annual increases vary by category, entry age, and duration of service
- (2) Net pension plan investment and administrative expenses; includes inflation
- (3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

Note 8: Defined Benefit Pension Plans (PERS), (Continued)

Net pension liability, (continued)

Discount rate

The discount rate used to measure the total pension liability was 7.50 percent for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan. Refer to the *sensitivity of the net pension liability to changes in the discount rate* section of this note, which provides information on the sensitivity of the net pension liability to changes in the discount rate.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

Note 8: Defined Benefit Pension Plans (PERS), (Continued)

Net pension liability, (continued)

Discount rate, (continued)

The following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10¹</u>	<u>Real Return Years 11+²</u>
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	(0.55%)	(1.05%)
Total	<u>100%</u>		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

Pension plan fiduciary net position

Information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in CalPERS' audited financial statements, which are publicly available reports that can be obtained at CalPERS' website under Forms and Publications, at www.calpers.ca.gov. The plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investments are reported at fair value.

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and Other Post-Employment Benefits (OPEB) expense included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

Note 8: Defined Benefit Pension Plans (PERS), (Continued)

Proportionate share of net pension liability

The following table shows the Plans' proportion share of the net pension liability over the measurement period.

Miscellaneous – Tier 1 Plan

	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2013 (VD)	\$ 23,153,134	\$ 16,248,668	\$ 6,904,466
Balance at: 6/30/2014 (MD)	\$ 24,530,969	\$ 18,949,602	\$ 5,581,367
Net changes during 2013-14	\$ 1,377,835	\$ 2,700,934	\$ (1,323,099)

Miscellaneous – Tier 2 Plan

	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2013 (VD)	\$ 36,735	\$ 27,710	\$ 9,025
Balance at: 6/30/2014 (MD)	\$ 38,921	\$ 32,316	\$ 6,605
Net changes during 2013-14	\$ 2,186	\$ 4,606	\$ (2,420)

Valuation Date (VD), Measurement Date (MD).

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability was determined by CalPERS using the output from the Actuarial Valuation System and the fiduciary net position, as provided in the CalPERS Public Agency Cost-Sharing Allocation Methodology Report, which is a publicly available report that can be obtained at CalPERS' website under Forms and Publications, at www.calpers.ca.gov. The District's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	<u>Tier 1 Plan</u>	<u>Tier 2 Plan</u>
Proportion - June 30, 2013	0.21072%	0.00028%
Proportion - June 30, 2014	0.22583%	0.00027%
Change - Increase (Decrease)	0.16432%	0.00030%

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

Note 8: Defined Benefit Pension Plans (PERS), (Continued)

Proportionate share of net pension liability, (continued)

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate

The following presents the District's proportionate share of the net pension liability for each Plan as of the measurement date, calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

Miscellaneous – Tier 1 Plan

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Miscellaneous Tier 1 Plan's Net Pension Liability	\$ 8,835,712	\$ 5,581,367	\$ 2,880,569

Miscellaneous – Tier 2 Plan

	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Miscellaneous Tier 2 Plan's Net Pension Liability	\$ 11,768	\$ 6,605	\$ 2,320

Subsequent events

There were no subsequent events that would materially affect the results presented in this disclosure.

Recognition of gains and losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the Public Agency Cost-Sharing Multiple-Employer Plan (PERF C).

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

Note 8: Defined Benefit Pension Plans (PERS), (Continued)

Proportionate share of net pension liability, (continued)

Recognition of gains and losses, (continued)

The EARSL for the Plans for the 2013-14 measurement period is 3.8 years, which was obtained by dividing the total service years of 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

Pension expense and deferred outflows and deferred inflows of resources related to pensions

As of the start of the measurement period (July 1, 2013), the net pension liability for the respective miscellaneous tier 1 and tier 2 plans is \$6,904,466 and \$9,025 (the net pension liability of the aggregate plan as of June 30, 2013 is \$3,276,668,431).

For the measurement period ending June 30, 2014 (the measurement date), the District incurred a pension expense of \$725,368 and \$19,169 for the Miscellaneous Tier 1 and Tier 2 Plans, respectively (the pension expense for the aggregate plan for the measurement period is \$239,824,465). A complete breakdown of the pension expense is as follows:

Miscellaneous – Tier 1 Plan

Description	Risk Pool Amounts	Employer's Share	Percentage of Employer's Share
Service Cost	\$ 338,829,351	\$ 517,090	0.15261%
Interest on the Total Pension Liability	921,162,366	1,723,522	0.18710%
Recognized Differences between Expected and Actual Experience	-	-	N/A
Recognized Changes of Assumptions	-	-	N/A
Employee Contributions	(159,834,203)	(161,046)	0.10076%
Employer Paid Member Contributions	-	158,591	N/A
Projected Earnings on Pension Plan Investments	(678,133,636)	(1,211,136)	0.17860%
Recognized Differences between Projected and Actual Earnings on Plan Investments	(182,199,413)	(325,405)	0.17860%
Other Changes in Fiduciary Net Position	-	-	N/A
Recognized Portion of Adjustment due to Differences in Proportions	-	(13,704)	N/A
Recognized Differences Between Contributions and Proportionate Share of Contributions	-	37,456	N/A
Subtotal: Employer's Share of Expense Components	\$ 239,824,465	725,368	0.30246%
Changes of Benefit Terms	-	-	
Employer's Proportionate Share of Pension Expense		\$ 725,368	

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

Note 8: Defined Benefit Pension Plans (PERS), (Continued)

**Pension expense and deferred outflows and deferred inflows of resources related to pensions,
(continued)**

Miscellaneous – Tier 2 Plan

Description	Risk Pool Amounts	Employer's Share	Percentage of Employer's Share
Service Cost	\$ 338,829,351	\$ 19,728	0.00582%
Interest on the Total Pension Liability	921,162,366	2,735	0.00030%
Recognized Differences between Expected and Actual Experience	-	-	N/A
Recognized Changes of Assumptions	-	-	N/A
Employee Contributions	(159,834,203)	(8,729)	0.00546%
Employer Paid Member Contributions	-	7,434	N/A
Projected Earnings on Pension Plan Investments	(678,133,636)	(2,065)	0.00031%
Recognized Differences between Projected and Actual Earnings on Plan Investments	(182,199,413)	(555)	0.00031%
Other Changes in Fiduciary Net Position	-	-	N/A
Recognized Portion of Adjustment due to Differences in Proportions	-	(2,747)	N/A
Recognized Differences Between Contributions and Proportionate Share of Contributions	-	3,368	N/A
Subtotal: Employer's Share of Expense Components	\$ 239,824,465	19,169	0.00799%
Changes of Benefit Terms	-	-	
Employer's Proportionate Share of Pension Expense		\$ 19,169	

Note: Plan administrative expenses are not displayed in the above pension expense tables. Since the expected investment return of 7.50 percent is net of administrative expenses, administrative expenses are excluded from the above tables, but implicitly included as part of investment earnings.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

Note 8: Defined Benefit Pension Plans (PERS), (Continued)

Pension expense and deferred outflows and deferred inflows of resources related to pensions, (continued)

As of June 30, 2015, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

Miscellaneous – Tier 1 Plan

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ -	\$ -
Changes of Assumptions	-	-
Net Difference between Projected and Actual Earnings on Pension Plan		
Investments	-	(1,301,622)
Adjustment due to Differences in Proportions	-	(38,370)
Net Difference between Contributions and Proportionate Share of Contributions	104,878	-
Pension Contributions Subsequent to Measurement Date	778,492	-
	<u>\$ 883,370</u>	<u>\$ (1,339,992)</u>

Miscellaneous – Tier 2 Plan

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ -	\$ -
Changes of Assumptions	-	-
Net Difference between Projected and Actual Earnings on Pension Plan		
Investments	-	(2,220)
Adjustment due to Differences in Proportions	-	(7,693)
Net Difference between Contributions and Proportionate Share of Contributions	9,431	-
Pension Contributions Subsequent to Measurement Date	30,707	-
	<u>\$ 40,138</u>	<u>\$ (9,913)</u>

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

Note 8: Defined Benefit Pension Plans (PERS), (Continued)

Pension expense and deferred outflows and deferred inflows of resources related to pensions, (continued)

These amounts above are net of outflows and inflows recognized in the 2013-14 measurement period expense. The \$778,492 and \$30,707 for the Miscellaneous Tier and Tier 2 Plans, respectively, reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Measurement Period Ended June 30:	Tier 1 Deferred Outflows/(Inflows) of Resources, Net	Tier 2 Deferred Outflows/(Inflows) of Resources, Net
2015	\$ (301,653)	\$ 66
2016	(301,653)	66
2017	(306,401)	(59)
2018	(325,407)	(555)
2019	-	-
Thereafter	-	-

Payable to the pension plan

At June 30, 2015, the District reported a payable of \$-0- for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

Note 9: Other-Post Employment Benefits (OPEB)

Plan description

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

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

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

Note 9: Other-Post Employment Benefits (OPEB), (Continued)

Funding policy and annual other postemployment benefit costs

The District has not adopted a funding policy for its other postemployment benefits (OPEB) obligation. Contributions requirements of the District are established and may be amended through Board action. The District contributes 100% of the cost of current-year premiums for eligible retired plan members and their dependents. The District's annual OPEB cost (expense) is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance within the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan for the year ended June 2015:

Annual required contribution	\$ 312,453
Interest on net OPEB obligation	89,826
Adjustment to annual required contribution	<u>(74,245)</u>
Annual OPEB cost	328,034
Contributions made	<u>(88,394)</u>
Increase in net OPEB obligation	239,640
Net OPEB obligation - beginning of year	<u>1,159,041</u>
Net OPEB obligation - end of year	<u><u>\$ 1,398,681</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. The net OPEB obligation is included in accrued employee benefits on the Statements of Net Position.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2015, 2014 and 2013 are presented below:

Plan	Year	Annual OPEB cost	Actual contribution	Percentage of OPEB cost contributed	Net OPEB obligation
OPEB	June 30, 2013	\$ 296,573	\$ 59,241	20%	\$ 933,094
OPEB	June 30, 2014	\$ 310,668	\$ 84,721	27%	\$ 1,159,041
OPEB	June 30, 2015	\$ 328,034	\$ 88,394	27%	\$ 1,398,681

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

Note 9: Other-Post Employment Benefits (OPEB), (Continued)

Schedule of funding progress

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

* Most recent actuarial valuation available

Actuarial methods and assumptions

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts, amounts determined regarding the funded status of a plan, and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

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

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 Year Ended June 30, 2015**

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 \$3,734,619 in open construction contracts as of June 30, 2015. These include:

Project	Approved Contract	Payments To Date	Balance To Complete
Construction of Cactus Basins	\$ 167,454	\$ 31,645	\$ 135,809
Rialto Colton Groundwater Model	175,353	140,385	34,968
Refine the Rialto Colton Basin Groundwater Model	386,975	382,737	4,238
Preliminary Design for Habitat Restoration Project	384,182	225,430	158,752
Upper Santa Ana River Habitat Conservation Plan	1,936,307	670,841	1,265,466
United State Geological Society	1,886,500	745,559	1,140,941
Conceptual Design for the Santa Ana River Watershed Scale	201,378	177,638	23,740
Bunker Hill Basin Conjunctive Use Project	157,920	99,065	58,855
Pipeline Pressure Surge Analysis Study	84,800	5,301	79,499
iEfficient Public Outreach FY 15-16	517,391	-	517,391
Annual Cathodic Protection Survey and Report for 2015	64,960	-	64,960
Regional Recycled Water Concept Study	250,000	-	250,000
Total	<u>\$ 6,213,220</u>	<u>\$ 2,478,601</u>	<u>\$ 3,734,619</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 2015 to 2035, according to the payment schedule dated June 30, 2015, is estimated as follows:

Transportation charges:	
Capital cost component	\$ 85,742,449
Minimum operations, maintenance, power and replacement component	305,684,444
Variable operations, maintenance, power and replacement component	225,250,550
	<u>616,677,443</u>
Delta water charges	154,348,340
Water system revenue bond surcharge	35,875,242
	<u>806,901,025</u>
Total	<u>\$ 806,901,025</u>

San Bernardino Valley Municipal Water District

Notes to the Basic Financial Statements For the Year Ended June 30, 2015

Note 10: Commitments and Contingencies, (Continued)

Jointly governed organization

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

Santa Ana Watershed Project Authority

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

Condensed financial information for the operation of SAWPA for the fiscal year ended June 30, 2014 is as follows:

	<u>2014</u>
Total assets	\$ 177,502,546
Total liabilities	\$ 110,906,578
Total net position	<u>\$ 66,595,968</u>
Total revenues	\$ 14,329,188
Total expenses	\$ (15,393,664)
Change in net position	<u>\$ (1,064,476)</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, 2015 was \$326,855.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2015**

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 \$60,467,176 as of June 24, 2015), 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 \$60,467,176 as of June 24, 2015), with a \$10,000 deductible for boiler and machinery breakdown.

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

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

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

The District is self-insured for general liability exposure.

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

Note 13: Prior Year Restatement

Change in accounting principle

As discussed in Note 1, the District implemented GASB Statement No. 68 effective July 1, 2014. GASB 68, among other provisions, amended prior guidance with respect to the reporting of pensions. GASB 68, establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the District's net pension liability was not previously recorded on the statement of net position. GASB 68 requires that accounting changes adopted to conform to the provisions of the Statement be applied retroactively by restating financial statements. Restatement of the comparative financial data for the prior period presented is not practical due to the unavailability of information from the pension plan, therefore the provisions of GASB Statements No. 68 and 71 were not applied to the prior period. The cumulative effects of applying the provisions of GASB Statements No. 68 and 71 have been reported as a restatement of beginning net position for the year ended June 30, 2015 in accordance with the Statements.

Accordingly, beginning net position on the Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2015 has been restated for changes related to GASB 68 as follows:

Beginning net position, as previously reported	\$ 612,595,602
Restatement due to change in accounting principle	<u>(6,079,031)</u>
Beginning net position, as restated	<u>\$ 606,516,571</u>

San Bernardino Valley Municipal Water District

**Required Supplementary Information
For the Year Ended June 30, 2015**

**Schedule of District's Proportionate Share of the Plan's Net Pension Liability and
Related Ratios as of the Measurement Date
Last 10 Years***

	Measurement Date June 30, 2014	
	Miscellaneous Tier 1 Plan	Miscellaneous Tier 2 Plan
Plan's Proportion of the Net Pension Liability ¹	0.08970%	0.00011%
Plan's Proportionate Share of the Net Pension Liability	\$ 5,581,367	\$ 6,605
Plan's Covered-Employee Payroll ²	\$ 2,012,162	\$ 154,058
Plan's Proportionate Share of the Net Pension Liability as a percentage of its Covered-Employee Payroll	241.53%	5.46%
Plan's Proportion of the Fiduciary Net Position ³	0.17860%	0.00031%
Plan's Share of Risk Pool Fiduciary Net Position ³	\$ 18,949,602	\$ 32,316
Plan's Additional Payments to Side Fund During Measurement Period	\$ -	\$ -
Plan's Proportionate Share of the Fiduciary Net Position (<i>sum of the two preceding lines</i>)	\$ 18,949,602	\$ 32,316
Plan's Proportionate Share of the Fiduciary Net Position as a percentage of the Plan's Total Pension Liability	77.25%	83.03%
Plan's Proportionate Share of Aggregate Employer Contributions ⁴	\$ 512,428	\$ 874

¹ Proportion of the net pension liability represents the plan's proportion of PERF C, which includes both the Miscellaneous and Safety Risk Pools excluding the 1959 Survivors Risk Pool.

² Covered-Employee Payroll represented above is based on the total payroll of employees that are provided pensions through the pension plan in accordance with GASB 68.

³ The term Fiduciary Net Position (FNP) as used in this line denotes the aggregate risk pool's FNP at June 30, 2014 less the sum of all employers' additional side fund contributions made during the measurement period.

⁴ The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the Measurement Period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of Fiduciary Net Position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

* Measurement period 2013-14 (fiscal year 2014-15) was the first year of implementation, therefore, only one year is shown.

San Bernardino Valley Municipal Water District

**Required Supplementary Information
For the Year Ended June 30, 2015**

**Schedule of Plan Contributions
Last 10 Years***

	Measurement Period 2013-14	
	Miscellaneous Tier 1 Plan	Miscellaneous Tier 2 Plan
Actuarially Determined Contribution	\$ 654,762	\$ 13,673
Contributions in Relation to the Actuarially Determined Contribution	(654,762)	(12,369)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ 1,304</u>
 Covered-Employee Payroll ¹	 \$ 2,012,162	 \$ 154,058
 Contributions as a Percentage of Covered-Employee Payroll	 32.54%	 8.03%

¹ Covered-Employee Payroll represented above is based on the total payroll of employees that are provided pensions through the pension plan in accordance with GASB 68.

* Measurement period 2013-14 (fiscal year 2014-15) was the first year of implementation, therefore, only one year is shown.

Notes to Schedule:

Change in Benefit Terms: None

Change in Assumptions: None



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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, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 10, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered San Bernardino Valley Municipal Water District's (District) internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
December 10, 2015