

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

San Bernardino, California

Basic Financial Statements and Supplementary Information

For the Year Ended June 30, 2016
(With Comparative Data for Prior Year)



San Bernardino Valley Municipal Water District

**Basic Financial Statements and Supplementary Information
For the Year Ended June 30, 2016
(With Comparative Data for Prior Year)**

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statement of Net Position at June 30, 2016 (With Comparative Data for Prior Year)	7
Statement of Revenues, Expenses and Changes in Net Position For the Year Ended June 30, 2016 (With Comparative Data for Prior Year)	9
Statement of Cash Flows For the Year Ended June 30, 2016 (With Comparative Data for Prior Year)	11
Notes to the Basic Financial Statements For the Year Ended June 30, 2016	13
Required Supplementary Information	
Schedule of District's Proportionate Share of the Plans' Net Pension Liability and Related Ratios as of the Measurement Date	38
Schedule of Plan Contributions	39
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40



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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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Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA
Nathan Statham, CPA, MBA
Gardenya Duran, CPA
Brianna Schultz, CPA
Daniel Hernandez, CPA, MBA
Lisa Dongxue Guo, CPA, MSA

Report on the Financial Statements

We have audited the accompanying financial statements of the San Bernardino Valley Municipal Water District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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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California Society of
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, 2016, 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.

Other Matters

Report on summarized comparative information

We have previously audited the San Bernardino Valley Municipal Water District's 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated December 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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 15, 2016, 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 15, 2016

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.

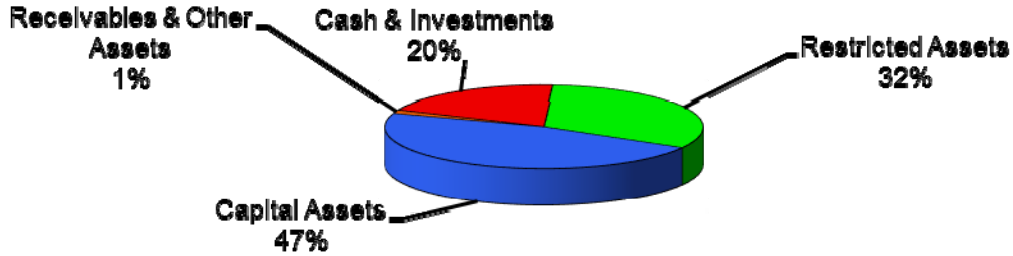
The Statement of Cash Flows conveys to financial statement users how the District managed cash resources during the year. This statement converts the income or loss from operations presented on the Statement of Revenues, Expenses and Changes in Net Position into actual cash provided by or used for operations. 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, 2016, the District's Total Assets increased by \$49.6 million and Total Net Position increased by \$49.2 million. A majority of the increase in Total Assets resulted from an increase of \$7.4 million in Unrestricted Current Assets and a \$34.1 million increase in Restricted Assets, an increase of \$5.6 million in Total Capital Assets, a \$2.1 million increase in Construction in Progress and an increase in other Non Current Assets of \$.4 million.

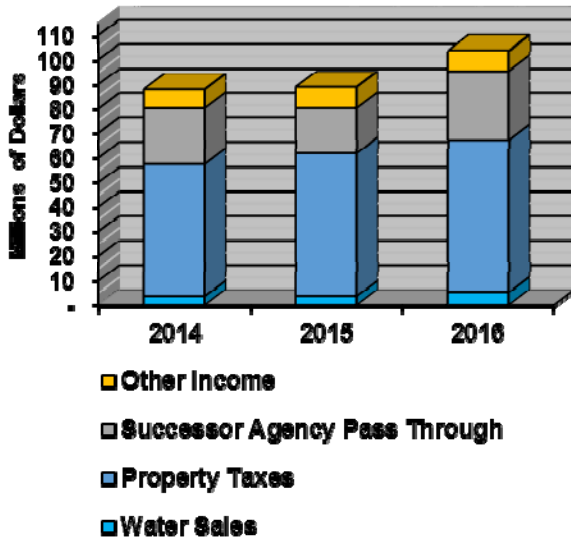
SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Assets Owned

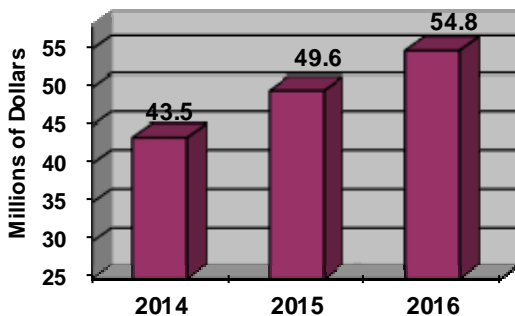


Total cash, cash equivalents, and Investments increased by \$39.0 million. The increase can be further divided into general unrestricted and restricted cash. Unrestricted cash increased by \$3.8 million and restricted cash increased by \$35.2 million.

Revenue



Operating Expenses



Financial Statement Summary (In millions)

	6/30/2016	6/30/2015
Total Assets	\$ 719.98	\$ 670.42
Total Deferred Outflows	1.66	.92
Total Liabilities	25.77	23.94
Total Deferred Inflows	.62	1.35
Net Position	\$ 695.25	\$ 646.05
Operating Revenues	\$ 8.31	\$ 8.90
Operating Expenses	54.76	49.55
Nonoperating Revenues	95.48	80.01
Nonoperating Expenses	.32	.33
Contributions in aid	.50	.50
Change in Net Position	\$ 49.21	\$ 39.53

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

The increase in Net Position included an operating loss of \$46.5 million. This is due in part to the District being required by the California State Controller's office to report property taxes as nonoperating revenue. However, the majority of the property tax revenues are used for State Water Project expenditures which are included in operating expenses.

Total operating expenses for the year ended June 30, 2016 increased over the prior year by \$5.2 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 \$3.8 million and Administrative and General Expenses increased slightly by \$.6 million

Total Nonoperating revenues increased by \$15.5 million over the prior year. Total property taxes received increased by \$3.5 million. The assessed values within the District's service area experienced a 4.8% increase over the prior year. An increase in Nonoperating Revenues was due to an increase 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, and changes to the redevelopment dissolution law with the adoption of SB 107 in November 2015, the remaining property tax revenues that exceed the enforceable obligations are now being allocated to the District in the proportionate share as the taxes generated in regards to the State Water Project. Successor Agency Pass Through Payments increased by \$10.2 million over the prior year. Interest income increased over the prior year by \$2.2 million due to slight increase in interest rates and the District holding longer term investments.

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, 2016, the amount the District had invested in capital assets, net of related debt was \$329.7 million. This balance was obtained by combining Construction in Progress of \$4.0 million with Capital Assets in Service, net of Accumulated Depreciation and Amortization of \$333.7 million and Certificates of Participation of \$8.0 million.

Restricted Net Position – Debt Service

The District has restricted Net Position of \$231.3 million, which consists of tax proceeds that were levied for State Water Project payments plus interest on investments less State Water Project related expenditures. The Board of Directors has designated \$30 million of this amount to be retained for the purpose of Maintenance and Repairs on the State Water Project distribution pipelines, pump stations and reservoirs. The balance of restricted Net Position of \$201.3 million is to be used for future expenses related to the State Water Project.

The District's future commitment for State Water Project costs over the years 2016 to 2035, according to a payment schedule dated June 30, 2016, is estimated to total \$795 million.

Unrestricted Net Position

The District had unrestricted Net Position of \$134.3 million at June 30, 2016. The Board of Directors has designated \$21 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, 2016 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 \$44.4 million net of credits and refunds for participation rights in the State Water Project. This was an increase of \$9.7 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 and an increase in the variable costs due to a higher allocation of water being available to purchase through the State Water Project during the fiscal year June 30, 2016.

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

The net pension liability for the fiscal year ended June 30, 2016 resulted in the District recording a Net Pension Liability of \$5.8 million in addition to associated deferred outflows of resources of \$1.7 million and deferred inflows of resources of \$.6 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, 2016
(With Comparative Data for Prior Year)**

ASSETS	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 32,836,690	\$ 38,720,415
Investments	107,427,604	97,792,514
Property taxes receivable	118,280	99,165
Accounts receivable	1,248,476	1,619,775
Accrued interest receivable	435,881	204,054
Current portion of other receivables	3,671,715	229,536
Current portion of notes receivable	1,791,989	1,490,726
Total current assets - unrestricted	<u>147,530,635</u>	<u>140,156,185</u>
Restricted assets:		
Cash and cash equivalents	37,725,361	30,276,263
Investments	191,719,692	163,922,767
Total restricted cash and investments	<u>229,445,053</u>	<u>194,199,030</u>
Property taxes receivable	1,073,168	886,256
Accounts receivable	-	1,669,510
Accrued interest receivable	667,574	290,778
Water bank inventory	1,479,070	1,479,070
Total restricted assets	<u>232,664,865</u>	<u>198,524,644</u>
Noncurrent assets:		
Capital assets:		
Capital assets in service	193,827,856	194,615,142
Accumulated depreciation	<u>(47,012,454)</u>	<u>(43,542,912)</u>
Capital assets, net	<u>146,815,402</u>	<u>151,072,230</u>
Participation rights in State Water Project facilities (at cost)	317,740,818	298,815,200
Accumulated amortization	<u>(130,808,002)</u>	<u>(121,694,846)</u>
Participation rights in State Water Project facilities - net	<u>186,932,816</u>	<u>177,120,354</u>
Total capital assets, net of accumulated depreciation and amortization	333,748,218	328,192,584
Construction in progress	<u>4,009,942</u>	<u>1,900,230</u>
Total capital assets, net	<u>337,758,160</u>	<u>330,092,814</u>
Other noncurrent assets:		
Other receivables, net of current portion	859,966	1,325,892
Notes receivable, net of current portion	919,086	227,990
Water stock	88,500	88,500
Deposit on land	<u>163,451</u>	<u>1,975</u>
Total noncurrent assets	<u>339,789,163</u>	<u>331,737,171</u>
Total assets	<u>719,984,663</u>	<u>670,418,000</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related	<u>1,658,038</u>	<u>923,508</u>
Total deferred outflows of resources	<u>1,658,038</u>	<u>923,508</u>

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

San Bernardino Valley Municipal Water District

Statement of Net Position (continued)
June 30, 2016
(With Comparative Data for Prior Year)

LIABILITIES	2016	2015
Current liabilities:		
Payables from current assets - unrestricted:		
Accounts payable	\$ 2,604,920	\$ 1,635,434
Accrued employee benefits	2,271,389	1,950,844
Accrued interest payable	163,197	165,747
Unearned revenue	5,834,759	5,565,119
Certificates of participation, current portion	180,000	170,000
Total payables from current assets - unrestricted	11,054,265	9,487,144
Payable from restricted assets:		
Accounts payable	679,490	502,500
Santa Ana River restoration/recovery trust fund	376,916	326,855
Total payables from current assets - restricted	1,056,406	829,355
Non-current liabilities:		
Certificates of participation, non-current portion	7,725,000	7,905,000
Premium on certificates of participation, net	129,005	134,165
Net pension liability	5,805,949	5,587,972
Total non-current liabilities	13,659,954	13,627,137
Total liabilities	25,770,625	23,943,636
DEFERRED INFLOWS OF RESOURCES		
Pension related	617,450	1,349,905
Total deferred inflows of resources	617,450	1,349,905
NET POSITION		
Net investment in capital assets	329,724,155	321,883,649
Restricted:		
Debt service - State Water Project	229,040,207	195,528,114
Debt service - Devil Canyon-Castaic	2,225,056	1,831,428
Unrestricted	134,265,208	126,804,776
Total net position	\$ 695,254,626	\$ 646,047,967

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, 2016
(With Comparative Data for Prior Year)**

	2016	2015
OPERATING REVENUES		
Water sales	\$ 5,303,831	\$ 3,712,329
Other operating revenues	3,006,766	5,188,034
Total operating revenues	<u>8,310,597</u>	<u>8,900,363</u>
OPERATING EXPENSES		
Source of supply:		
Operations, maintenance, power and replacement	20,441,107	18,914,682
Purchased water	7,361,813	5,082,261
	<u>27,802,920</u>	<u>23,996,943</u>
Administrative and general:		
Salaries	2,284,180	2,233,942
Retirement and benefits	1,514,342	1,770,779
Payroll taxes	156,487	165,420
Consultants	3,408,480	3,453,651
Legal and accounting	1,756,771	1,789,275
Outside services	44,729	43,095
Office supplies and expense	238,157	307,261
Dues and subscriptions	271,842	298,526
Water conservation, public education and information	1,451,854	656,380
Maintenance and repair	1,170,863	969,623
Utilities	444,069	447,248
Inland Empire Brine Line fees	1,081,140	1,105,563
Insurance	98,859	91,545
Auto and travel	79,270	72,905
Lodging and meals	18,323	14,034
Taxes and licenses	45,466	31,631
Tax collection fee	281,153	264,248
	<u>14,345,985</u>	<u>13,715,126</u>
Other operating expenses:		
Depreciation and amortization	12,613,349	11,840,983
Total operating expenses	<u>54,762,254</u>	<u>49,553,052</u>
OPERATING LOSS	<u>(46,451,657)</u>	<u>(40,652,689)</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, 2016
(With Comparative Data for Prior Year)**

	<u>2016</u>	<u>2015</u>
NONOPERATING REVENUES (EXPENSES)		
Revenues:		
Property taxes:		
Debt service	\$ 53,411,967	\$ 50,316,399
General purpose distribution	8,404,756	8,003,755
Successor Agency pass through	28,435,277	18,284,353
Investment income	5,223,162	3,006,831
Gain on sale of water stock	-	150,000
Gain on disposal of capital assets	4,790	249,482
	<u>95,479,952</u>	<u>80,010,820</u>
Expenses:		
Interest expense	<u>321,234</u>	<u>326,333</u>
Total nonoperating revenues	<u>95,158,718</u>	<u>79,684,487</u>
Income before contributions	48,707,061	39,031,798
Contributions in aid of construction	<u>499,598</u>	<u>499,598</u>
Change in net position	49,206,659	39,531,396
Net position - beginning of year, as restated	<u>646,047,967</u>	<u>606,516,571</u>
Net position - end of year	<u><u>\$ 695,254,626</u></u>	<u><u>\$ 646,047,967</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, 2016
(With Comparative Data for Prior Year)**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water sales	\$ 7,218,669	\$ 5,069,928
Cash received from other operating activities	3,006,766	5,188,034
Cash paid for source of supply	(27,802,920)	(23,492,488)
Cash paid to other suppliers	(9,244,500)	(9,844,924)
Cash paid for employees' wages, taxes and benefits	(4,883,472)	(3,983,294)
	<u>(31,705,457)</u>	<u>(27,062,744)</u>
Net cash used for operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes received - general purpose distribution	8,385,641	8,066,249
Successor Agency pass through received	28,671,667	21,139,477
Trust funds received	50,061	50,052
	<u>37,107,369</u>	<u>29,255,778</u>
Net cash provided by noncapital financing activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Property taxes received - debt service	53,225,055	50,171,015
Proceeds from sale of capital assets	4,790	1,013,815
Proceeds from contribution in aid of construction	499,598	499,598
Refund on unused portion of construction deposit	462,208	-
Payments towards condemnation fund	(161,476)	-
Proceeds from (issuance of) notes receivable	(992,359)	(926,522)
Acquisition of capital assets	(21,448,223)	(14,467,464)
Payments for construction in progress	(2,109,712)	(1,045,331)
Principal payments on debt	(170,000)	(165,000)
Interest paid	(328,944)	(333,968)
	<u>28,980,937</u>	<u>34,746,143</u>
Net cash provided by capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(68,457,151)	(134,517,448)
Redemption of investments	32,141,680	90,287,241
Investment income	3,497,995	2,373,459
	<u>(32,817,476)</u>	<u>(41,556,748)</u>
Net cash used for investing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,565,373	(4,617,571)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>68,996,678</u>	<u>73,614,249</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 70,562,051</u>	<u>\$ 68,996,678</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, 2016
(With Comparative Data for Prior Year)**

	<u>2016</u>	<u>2015</u>
RECONCILIATION TO STATEMENTS OF NET POSITION		
Current assets:		
Cash and cash equivalents - current	\$ 32,836,690	\$ 38,720,415
Cash and cash equivalents - restricted	<u>37,725,361</u>	<u>30,276,263</u>
Total cash and cash equivalents	<u>\$ 70,562,051</u>	<u>\$ 68,996,678</u>
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	\$ (46,451,657)	\$ (40,652,689)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	12,613,349	11,840,983
Actuarial pension expense	314,035	744,537
Noncash reduction in accounts receivable	(395,611)	-
Pension contributions subsequent to measurement date	(1,563,043)	(809,199)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	2,040,809	1,208,104
Water bank inventory	-	504,455
Increase (decrease) in:		
Accounts payable	1,146,476	(299,939)
Accrued employee benefits	320,545	251,509
Unearned revenue	<u>269,640</u>	<u>149,495</u>
Net cash used for operating activities	<u>\$ (31,705,457)</u>	<u>\$ (27,062,744)</u>
 SCHEDULE OF NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES		
Amortization of premium on bonds payable	\$ (5,160)	\$ (5,160)
Noncash additions	395,611	-
Noncash disposals	(3,212,643)	-

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, 2016

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, 2016**

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, 2016. There were no allowances for uncollectible accounts to be netted with accounts receivable for 2016. 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.

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2016**

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, 2016**

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.

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, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	July 1, 2014 to June 30, 2015

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 2016.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2016**

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

Implementation of new pronouncement

The District implemented GASB Statement No. 72, Fair Value Measurement and Application. The objective of this statement is to address accounting and financial reporting issues related to fair value measurement. The statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between two market participants. This statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District implemented GASB Statement No. 82, Pension Issues. The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets that are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The statement addresses the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes and the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Note 2: Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

	<u>2016</u>
Statements of Net Position:	
Current assets:	
Cash in bank and on hand	\$ 903,640
Cash in Local Agency Investment Fund	<u>31,933,050</u>
Total cash and cash equivalents	32,836,690
Investments	<u>107,427,604</u>
Total unrestricted	<u>140,264,294</u>
Restricted:	
Cash in bank	19,300,825
Cash in Local Agency Investment Fund	17,704,423
Cash held by trustee	343,197
Cash held in trust	<u>376,916</u>
Total cash and cash equivalents	<u>37,725,361</u>
Investments	191,709,692
Department of Water Resources bonds	10,000
Total investments	<u>191,719,692</u>
Total restricted	<u>229,445,053</u>
Total cash and cash equivalents and investments	<u>\$ 369,709,347</u>

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2016**

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

Cash, cash equivalents, and investments as of June 30, 2016 consisted of the following:

	<u>2016</u>
Cash on hand	\$ 350
Deposits with financial institutions	20,924,228
Cash in Local Agency Investment Fund	49,637,473
Investments	<u>299,147,296</u>
Total cash and cash equivalents and investments	<u><u>\$ 369,709,347</u></u>

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

The table below identifies the investment types that are authorized by the District in accordance with Section 53601 of the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, and concentration of credit risk.

<u>Authorized investment type</u>	<u>Maximum maturity</u>	<u>Maximum percentage of portfolio</u>	<u>Maximum investment in one issuer</u>
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	\$ 65,000,000
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

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2016**

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

Interest rate risk

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

As of June 30, 2016, 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	\$ 92,042,809	\$ 42,536,314	\$ 22,322,142	\$ 10,092,770	\$ 17,091,583
Municipal Bonds	10,000	-	-	-	10,000
U.S. Treasury Bills, Notes and Bonds	126,023,541	46,840,505	17,916,769	38,570,000	22,696,267
Negotiable Certificates of Deposit	38,756,204	22,663,685	16,092,519	-	-
Medium-Term Notes	41,793,951	7,089,926	3,269,369	11,846,832	19,587,824
Money Market Funds	520,791	520,791	-	-	-
Total investments	\$ 299,147,296	\$ 119,651,221	\$ 59,600,799	\$ 60,509,602	\$ 59,385,674

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, 2016 were as follows:

Investment type	Amount	Minimum legal rating	Rating as of year end			
			AAA	AA	A	Not rated
Federal Agency Securities	\$ 92,042,809	N/A	\$ -	\$ 92,042,809	\$ -	\$ -
Municipal Bonds	10,000	N/A	-	-	-	10,000
U.S. Treasury Bills, Notes and Bonds	126,023,541	N/A	-	126,023,541	-	-
Negotiable Certificates of Deposit	38,756,204	A	-	9,635,440	29,120,764	-
Medium-Term Notes	41,793,951	A	-	23,207,368	18,586,583	-
Money Market Funds	520,791	AAA	520,791	-	-	-
Total investments	\$ 299,147,296		\$ 520,791	\$ 250,909,158	\$ 47,707,347	\$ 10,000

San Bernardino Valley Municipal Water District

Notes to the Basic Financial Statements For the Year Ended June 30, 2016

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

Concentration of credit risk

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

The District's investment policy limits certain investments to minimum credit ratings issued by nationally recognized statistical rating organizations. The District's investments in commercial paper, medium-term notes, and money market funds at June 30, 2016 met their respective minimum credit ratings requirements.

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

<u>Issuer</u>	<u>Investment type</u>	<u>Reported amount</u>
Federal National Mortgage Federal Home Loan Bank	Federal Agency Securities Federal Agency Securities	\$ 27,135,863 34,438,174

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, 2016, \$21,035,252, of the District's demand deposits with financial institutions were in excess of federal depository insurance limits. As of June 30, 2016, these funds were fully collateralized by securities in a separate account held by the same institution.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2016**

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

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF), which is part of the Pooled Money Investment Account that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio), which was \$49,637,473 as of June 30, 2016. 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 \$65,000,000 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, 2016, the District did not hold investments that were highly sensitive to interest rate fluctuations beyond that already indicated in the information provided above.

Fair value measurements

GASB Statement No. 72, *Fair Value Measurements and Application*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of quoted prices (unadjusted) for identical assets and liabilities in active markets that a government can access at the measurement date, Level 2 inputs that are observable for an asset or liability, either directly or indirectly, and Level 3 inputs have the lowest priority and consist of unobservable inputs for an asset or liability.

The District has the following fair value measurements as of June 30, 2016:

Investments by Fair Value Level	Fair Value Measurement Using			
	Total	Level 1	Level 2	Level 3
U.S. Treasury Bills, Notes and Federal Agency Securities	\$ 126,023,541	\$ 126,023,541	\$ -	\$ -
Negotiable Certificates of Deposit	92,042,809	-	92,042,809	-
Medium-Term Notes	38,756,204	-	38,756,204	-
	41,793,951	-	41,793,951	-
Total investments by fair value level	298,616,505	\$ 126,023,541	\$ 172,592,964	\$ -
Investments measured at the Net Asset Value (NAV)				
Municipal Bonds	10,000			
Money market mutual funds	520,791			
Total	\$ 299,147,296			

The District's investment in the Local Agency Investment Fund of \$49,637,473 is measured at amortized cost.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2016**

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.

The following is a summary of the water bank inventory for the year ended June 30, 2016:

	Acre-feet	Inventory cost
Balance at June 30, 2015	11,300	\$ 1,479,070
Additions	-	-
Reductions	-	-
Balance at June 30, 2016	<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, 2016 were as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets, not being depreciated:				
Land, right of ways, and pipeline capacity	\$ 12,291,696	\$ 2,488,475	\$ 3,212,643	\$ 11,567,528
Construction in progress	1,900,230	2,109,712	-	4,009,942
Total capital assets, not being depreciated	<u>14,191,926</u>	<u>4,598,187</u>	<u>3,212,643</u>	<u>15,577,470</u>
Capital assets, being depreciated:				
Buildings	6,232,110	28,182	-	6,260,292
Distribution lines	163,785,821	348,253	462,208	163,671,866
Brine line	7,121,795	-	-	7,121,795
Furniture, fixtures and equipment	1,109,330	22,013	-	1,131,343
Vehicles	376,152	31,293	30,651	376,794
Yucaipa Dam	3,698,238	-	-	3,698,238
Total capital assets, being depreciated	<u>182,323,446</u>	<u>429,741</u>	<u>492,859</u>	<u>182,260,328</u>
Less accumulated depreciation	<u>(43,542,912)</u>	<u>(3,500,193)</u>	<u>(30,651)</u>	<u>(47,012,454)</u>
Total capital assets, being depreciated, net	<u>138,780,534</u>	<u>(3,070,452)</u>	<u>462,208</u>	<u>135,247,874</u>
Participation rights in State Water Project Facilities	298,815,200	18,925,618	-	317,740,818
Less accumulated amortization	<u>(121,694,846)</u>	<u>(9,113,156)</u>	<u>-</u>	<u>(130,808,002)</u>
Participation rights in State Water Project Facilities, net	<u>177,120,354</u>	<u>9,812,462</u>	<u>-</u>	<u>186,932,816</u>
Total capital assets, net	<u>\$ 330,092,814</u>	<u>\$ 11,340,197</u>	<u>\$ 3,674,851</u>	<u>\$ 337,758,160</u>

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2016**

Note 5: Notes Receivable

Notes receivable at June 30, 2016 consisted of the following:

	<u>2016</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.	246,887
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.	1,149,185
The District entered into a loan agreement with City of San Bernardino Municipal Water Department in December 2015 for the amount of \$1,200,000, for UV System Rehabilitation project improvements to the Rapid Infiltration and Extraction facility owned by the City of Colton and the City of San Bernardino Municipal Water Department under a Joint Exercise of Power Agreement, and operated by the City of San Bernardino Municipal Water Department.	1,200,000
	<u>4,299,296</u>
Less allowance for uncollectible accounts	(1,588,221)
Less current portion of notes receivable	<u>(1,791,989)</u>
Total notes receivable, net of current portion	<u>\$ 919,086</u>

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2016**

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, 2016, total unearned revenue amounted to \$5,834,759.

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, 2016:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Due within one year
2011A Certificates of Participation	\$ 8,075,000	\$ -	\$ (170,000)	\$ 7,905,000	\$ 180,000
Premium on certificates of participation	134,165	-	(5,160)	129,005	-
Total certificates of participation, net	<u>\$ 8,209,165</u>	<u>\$ -</u>	<u>\$ (175,160)</u>	<u>\$ 8,034,005</u>	<u>\$ 180,000</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
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	205,000	295,944	500,944
2022-2026	1,160,000	1,346,620	2,506,620
2027-2031	1,415,000	1,090,320	2,505,320
2032-2036	1,730,000	768,156	2,498,156
2037-2041	2,155,000	351,200	2,506,200
2042-2043	490,000	10,719	500,719
Total	<u>\$ 7,905,000</u>	<u>\$ 5,120,460</u>	<u>\$ 13,025,460</u>

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2016**

Note 8: Defined Benefit Pension Plans (PERS)

A. General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS.) The Plan consists of individual rate plans (benefit tiers) within a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the miscellaneous pool. Accordingly, rate plans within the miscellaneous pool are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous risk pool. The District sponsors three miscellaneous rate plans. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS' website.

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 Plan operates 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 Plan's 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 Plan's provisions and benefits in effect at June 30, 2016 are summarized as follows:

Hire date	Prior to January 1, 2011	On or after January 1, 2011 and prior to January 1, 2013	On or after January 1, 2013
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	13.995%	8.785%	6.967

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2016**

Note 8: Defined Benefit Pension Plans (PERS), (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. Employer contribution rates may change if plan contracts are amended. Employer Contributions to the Plan for the fiscal year ended June 30, 2016 were \$1,563,043. The actual employer payments of \$654,436 made CalPERS by the District during the measurement period ended June 30, 2015 differed from the District's proportionate share of the employer's contributions of \$682,168 by \$27,732, which is being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

B. Net Pension Liability

The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 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

	<u>Miscellaneous</u>
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Actuarial Value of Assets
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases (1)	3.3-14.2%
Investment Rate of Return (2)	7.65%
Mortality Rate Table (3)	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

- (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.

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2016**

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

All other actuarial assumptions used in the June 30, 2014 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.

Change of Assumptions

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

Discount Rate

The discount rate used to measure the total pension liability for measurement date June 30, 2015 was 7.65 percent. The discount rate used to measure the total pension liability in the previous year was 7.50 percent. 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 of the plan, the test revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 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.

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 (Public Employees' Retirement 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, 2016**

Note 8: Defined Benefit Pension Plans (PERS), (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. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

<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	100%		

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, 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 the 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, 2016**

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

C. Proportionate Share of Net Pension Liability

The following table shows the Plan's proportionate share of the net pension liability over the measurement period.

	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2014 (VD)	\$ 24,569,890	\$ 18,981,918	\$ 5,587,972
Balance at: 6/30/2015(MD)	\$ 25,527,012	\$ 19,721,063	\$ 5,805,949
Net changes during 2014-15	\$ 957,122	\$ 739,145	\$ 217,977

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

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 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.

	<u>Miscellaneous</u>
Proportion - June 30, 2014	0.22610%
Proportion - June 30, 2015	0.21163%
Change - Increase (Decrease)	(0.01447%)

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 of the Plan as of the measurement date, calculated using the discount rate of 7.65 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 (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Miscellaneous Tier 1 Plan's Net Pension Liability	\$ 9,282,388	\$ 5,805,949	\$ 2,935,745

Subsequent Events

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

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2016**

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

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).

The EARSL for the Plan for the 2014-15 measurement period is 3.8 years, which was obtained by dividing the total service years of 467,023 (the sum of remaining service lifetimes of the active employees) by 122,410 (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.

D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

As of the start of the measurement period (July 1, 2014), the net pension liability for the plan was \$5,587,972. For the measurement period ending June 30, 2015 (the measurement date), the District incurred a pension expense/(income) of \$314,035 for the Plan.

As of June 30, 2016, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 41,944	\$ -
Changes of Assumptions	-	(396,834)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	(198,938)
Change in Employer's Proportion	-	(21,678)
Difference in Actual vs Projected Contributions	53,051	-
Pension Contributions Subsequent to Measurement Date	1,563,043	-
	<u>\$ 1,658,038</u>	<u>\$ (617,450)</u>

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2016**

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

These amounts above are net of outflows and inflow recognized in the 2014-15 measurement period expense. \$2,000,000 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, 2017. 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:	Deferred Outflows/(Inflows) of Resources, Net
2016	\$ (238,062)
2017	(242,935)
2018	(236,194)
2019	194,736
2020	-
Remaining	-

E. Payable to the Pension Plan

At June 30, 2016, the District reported a payable of \$-0- for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

Note 9: Other-Post Employment Benefits (OPEB)

Plan description

For employees hired prior to April 19, 2011, 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. For employees hired after April 19, 2011, who have reached at least age 60 with a minimum of 15 years of service, the District pays the entire cost of the monthly medical and dental insurance premiums for retired employees and their dependents until the employee reaches the age of Medicare eligibility as determined by the United States Department of Health and Human Services. 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, 2016**

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 2016:

Annual required contribution	\$ 324,968
Interest on net OPEB obligation	104,901
Adjustment to annual required contribution	<u>(89,596)</u>
Annual OPEB cost	340,273
Contributions made	<u>(81,506)</u>
Increase in net OPEB obligation	258,767
Net OPEB obligation - beginning of year	<u>1,398,681</u>
Net OPEB obligation - end of year	<u><u>\$ 1,657,448</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, 2016, 2015 and 2014 are presented below:

<u>Plan</u>	<u>Year</u>	<u>Annual OPEB cost</u>	<u>Actual contribution</u>	<u>Percentage of OPEB cost contributed</u>	<u>Net OPEB obligation</u>
OPEB	June 30, 2014	\$ 310,668	\$ 84,721	27%	\$ 1,159,041
OPEB	June 30, 2015	\$ 328,034	\$ 88,394	27%	\$ 1,398,681
OPEB	June 30, 2016	\$ 340,273	\$ 81,506	24%	\$ 1,657,448

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2016**

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, 2016**

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 \$9,171,975 in open construction contracts as of June 30, 2016. These include:

Project	Approved Contract	Payments To Date	Balance To Complete
Construction of Cactus Basins	\$ 167,454	\$ 31,645	\$ 135,809
Preliminary Design for Habitat Restoration Project	384,182	237,145	147,037
Upper Santa Ana River Habitat Conservation Plan	1,936,307	981,949	954,358
United States Geological Survey	2,587,460	2,011,737	575,723
Pipeline Pressure Surge Analysis Study	84,800	39,872	44,928
Regional Recycled Water Concept Study	294,888	283,864	11,024
Cactus Basin Project	2,020,000	-	2,020,000
Enhanced Recharge Project	1,448,495	177,048	1,271,447
Santa Ana River Conservation & Conjunctive Use	249,915	79,133	170,782
On Call Grant Services	100,000	-	100,000
Cactus Basin & Lytle Creek Turnout Hydroelectric Project	869,660	519,009	350,651
Waterman Turnout Hydroelectric Project	804,240	759,169	45,071
City Creek Turnout & East Valley Water District Plant 134 Hydroelectric Project	725,730	612,577	113,153
Waterman Turnout Hydroelectric Project	248,610	-	248,610
City Creek Turnout & East Valley Water District Plant 134 Hydroelectric Project	141,685	99,180	42,505
City Creek Turnout & East Valley Water District Plant 134 Hydroelectric Project	2,675,777	-	2,675,777
City Creek Turnout & East Valley Water District Plant 134 Hydroelectric Project	365,000	99,900	265,100
Total	<u>\$ 15,104,203</u>	<u>\$ 5,932,228</u>	<u>\$ 9,171,975</u>

31

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2016**

Note 10: Commitments and Contingencies, (Continued)

State of California Department of Water Resources

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

The District's future commitment for State Water Project costs over the years 2016 to 2035, according to the payment schedule dated June 30, 2016, is estimated as follows:

Transportation charges:	
Capital cost component	\$ 73,388,810
Minimum operations, maintenance, power and replacement component	306,764,228
Variable operations, maintenance, power and replacement component	223,456,801
	<hr/>
	603,609,839
Delta water charges	141,605,943
Water system revenue bond surcharge	50,117,119
	<hr/>
Total	<u>\$ 795,332,901</u>

Jointly governed organization

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

San Bernardino Valley Municipal Water District

Notes to the Basic Financial Statements For the Year Ended June 30, 2016

Note 10: Commitments and Contingencies, (Continued)

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, 2015 is as follows:

	<u>2015</u>
Total assets	<u>\$ 173,051,031</u>
Total deferred outflows of resources	<u>\$ 273,547</u>
Total liabilities	<u>\$ 107,505,347</u>
Total deferred inflows of resources	<u>\$ 784,673</u>
Total net position	<u>\$ 65,034,558</u>
Total revenues	<u>\$ 15,228,824</u>
Total expenses	<u>\$ (14,084,505)</u>
Change in net position	<u>\$ 1,144,319</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, 2016 was \$376,916.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2016**

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 \$2,000,000 per occurrence with no deductible for security and privacy breaches.

Pollution liability - Insured up to \$2,000,000 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.

San Bernardino Valley Municipal Water District

**Required Supplementary Information
For the Year Ended June 30, 2016**

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

	<u>Measurement Date 6/30/2015</u>	<u>Measurement Date 6/30/2014</u>
Employer's Proportion of the Collective Net Pension Liability ¹	0.21163%	0.08970%
Employer's Proportionate Share of the Collective Net Pension Liability	\$ 5,805,949	\$ 5,587,972
Employer's Covered Payroll ²	\$ 2,279,057	\$ 2,166,220
Employer's Proportionate Share of the Collective Net Pension Liability as a Percentage of the Employer's Covered Payroll	268.02%	258.00%
Pension Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	77.26%	77.26%

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 payroll is defined as the payroll on which contributions to a pension plan are based, in accordance with GASB 82.

San Bernardino Valley Municipal Water District

**Required Supplementary Information
For the Year Ended June 30, 2016**

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

	<u>Fiscal Year 2015-2016</u>	<u>Fiscal Year 2014-2015</u>
Actuarially Determined Contribution	\$ 1,563,043	\$ 668,435
Contributions in Relation to the Actuarially Determined Contribution	(1,563,043)	(667,131)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ 1,304</u>
Covered-Employee Payroll ¹	\$ 2,279,057	\$ 2,166,220
Contributions as a Percentage of Covered-Employee Payroll	68.58%	30.80%

¹ Covered payroll is defined as the payroll on which contributions to a pension plan are based, in accordance with GASB 82.

Notes to Schedule:

Change in Benefit Terms: None

Change in Assumptions: The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the business-type activities of San Bernardino Valley Municipal Water District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise San Bernardino Valley Municipal Water District's basic financial statements, and have issued our report thereon dated December 15, 2016.

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.

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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 15, 2016