

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

San Bernardino, California

Basic Financial Statements and Supplementary Information

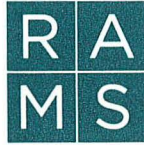
For the Year Ended June 30, 2017
(With Comparative Data for Prior Year)



San Bernardino Valley Municipal Water District

**Basic Financial Statements and Supplementary Information
For the Year Ended June 30, 2017
(With Comparative Data for Prior Year)**

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ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

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Independent Auditor's Report

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

PARTNERS

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Terry P. Shea, CPA
Kirk A. Franks, CPA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Bradferd A. Welebir, CPA, MBA, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)

MANAGERS / STAFF

Jenny Liu, CPA, MST
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA
Nathan Statham, CPA, MBA
Gardenya Duran, CPA
Brianna Schultz, CPA
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, 2017, 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 the District as of June 30, 2017, 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

Prior Year Comparative Information

We have previously audited the District's 2016 financial statements, and we expressed an unmodified opinion in our report dated December 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, 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 14, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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 14, 2017

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

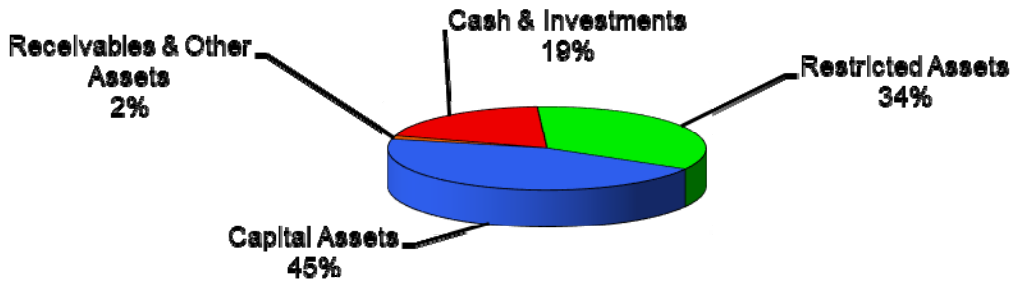
The Statement of Cash Flows conveys to financial statement users how the District managed cash resources during the year. This statement converts the income or loss from operations presented on the Statement of Revenues, Expenses and Changes in Net Position into actual cash provided by or used for operations. 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, 2017, the District's Total Assets increased by \$48.6 million and Total Net Position increased by \$52.2 million. A majority of the increase in Total Assets resulted from an increase of \$4.5 million in Unrestricted Current Assets and a \$30.7 million increase in Restricted Assets, an increase of \$7.0 million in Total Capital Assets, a \$2.4 million increase in Construction in Progress and an increase in other Non Current Assets of \$4.0 million.

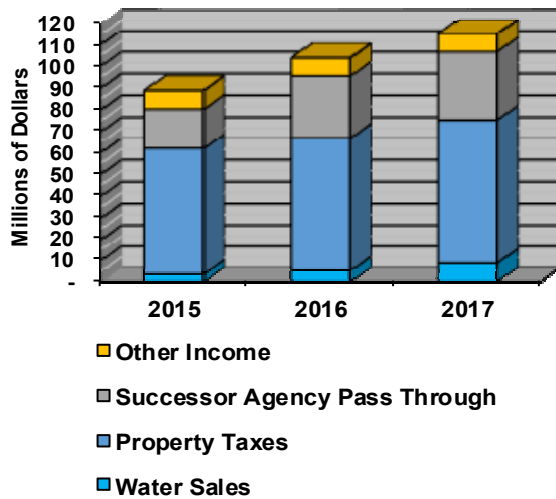
SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Assets Owned

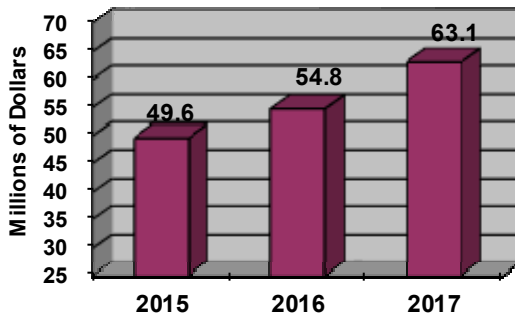


Total cash, cash equivalents, and Investments increased by \$37.8 million. The increase can be further divided into general unrestricted and restricted cash. Unrestricted cash increased by \$7.4 million and restricted cash increased by \$30.4 million.

Revenue



Operating Expenses



Financial Statement Summary (In millions)

	6/30/2017	6/30/2016
Total Assets	\$ 768.58	\$ 719.98
Total Deferred Outflows	6.48	1.66
Total Liabilities	26.69	25.77
Total Deferred Inflows	.92	.62
Net Position	\$ 747.45	\$ 695.25
Operating Revenues	\$ 15.90	\$ 8.31
Operating Expenses	63.11	54.76
Nonoperating Revenues	99.26	95.48
Nonoperating Expenses	.36	.32
Contributions in aid	.50	.50
Change in Net Position	\$ 52.19	\$ 49.21

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

The increase in Net Position included an operating loss of \$47.2 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, 2017 increased over the prior year by \$8.4 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 \$5.6 million and Administrative and General Expenses increased slightly by \$1.7 million.

Total Nonoperating revenues increased by \$3.8 million over the prior year. Total property taxes received increased by \$4.6 million. The assessed values within the District's service area experienced a 5.3% increase over the prior year. Successor Agency Pass Through Payments increased by \$2.9 million over the prior year. Interest income decreased over the prior year by \$3.7 million due to fair market values 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, 2017, the amount the District had invested in capital assets, net of related debt was \$339.3 million. This balance was obtained by combining Construction in Progress of \$6.4 million with Capital Assets in Service, net of Accumulated Depreciation and Amortization of \$340.7 million and Certificates of Participation of \$7.8 million.

Restricted Net Position – Debt Service

The District has restricted Net Position of \$262.5 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 \$232.50 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 2017 to 2035, according to a payment schedule dated June 30, 2017, is estimated to total \$743 million.

Unrestricted Net Position

The District had unrestricted Net Position of \$145.7 million at June 30, 2017. The Board of Directors has designated \$22 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, 2017 included Riverside Groundwater Aquifer Storage Project, East Branch Extension Phase II and design and construction of Hydroelectric Plants.

Capital Assets

The District made payments to the Department of Water Resources during the year totaling \$50.8 million net of credits and refunds for participation rights in the State Water Project. This was an increase of \$6.4 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, 2017.

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 which was be reaffirmed in August 2017. 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, 2017 resulted in the District recording a Net Pension Liability of \$6.2 million in addition to associated deferred outflows of resources of \$6.5 million and deferred inflows of resources of \$.9 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, 2017

(With Comparative Data for Prior Year)

ASSETS	2017	2016
Current assets:		
Cash and cash equivalents	\$ 39,879,440	\$ 32,836,690
Investments	107,786,606	107,427,604
Property taxes receivable	105,620	118,280
Accounts receivable	2,183,140	1,248,476
Accrued interest receivable	549,606	435,881
Current portion of other receivables	229,536	3,671,715
Current portion of notes receivable	1,300,000	1,791,989
Total current assets - unrestricted	152,033,948	147,530,635
Restricted assets:		
Cash and cash equivalents	67,623,822	37,725,361
Investments	192,239,971	191,719,692
Total restricted cash and investments	259,863,793	229,445,053
Property taxes receivable	1,145,306	1,073,168
Accrued interest receivable	905,621	667,574
Water bank inventory	1,479,070	1,479,070
Total restricted assets	263,393,790	232,664,865
Noncurrent assets:		
Capital assets:		
Capital assets in service	193,979,211	193,827,856
Accumulated depreciation	(50,519,340)	(47,012,454)
Capital assets, net	143,459,871	146,815,402
Participation rights in State Water Project facilities (at cost)	338,210,147	317,740,818
Accumulated amortization	(140,932,966)	(130,808,002)
Participation rights in State Water Project facilities - net	197,277,181	186,932,816
Total capital assets, net of accumulated depreciation and amortization	340,737,052	333,748,218
Construction in progress	6,424,477	4,009,942
Total capital assets, net	347,161,529	337,758,160
Other noncurrent assets:		
Other receivables, net of current portion	853,111	859,966
Notes receivable, net of current portion	4,882,355	919,086
Water stock	88,500	88,500
Deposit on land	163,451	163,451
Total noncurrent assets	353,148,946	339,789,163
Total assets	768,576,684	719,984,663
DEFERRED OUTFLOWS OF RESOURCES		
Pension related	6,482,244	1,658,038
Total deferred outflows of resources	6,482,244	1,658,038

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

San Bernardino Valley Municipal Water District

Statement of Net Position (continued)
June 30, 2017
(With Comparative Data for Prior Year)

LIABILITIES	2017	2016
Current liabilities:		
Payables from current assets - unrestricted:		
Accounts payable	\$ 2,137,165	\$ 2,604,920
Accrued employee benefits	786,664	2,271,389
Accrued interest payable	160,497	163,197
Unearned revenue	6,854,827	5,834,759
Deposits	91,888	-
Certificates of participation, current portion	185,000	180,000
Total payables from current assets - unrestricted	10,216,041	11,054,265
Payable from restricted assets:		
Accounts payable	2,192,520	679,490
Santa Ana River restoration/recovery trust fund	377,054	376,916
Total payables from current assets - restricted	2,569,574	1,056,406
Non-current liabilities:		
Certificates of participation, non-current portion	7,540,000	7,725,000
Premium on certificates of participation, net	123,845	129,005
Net pension liability	6,243,808	5,805,949
Total non-current liabilities	13,907,653	13,659,954
Total liabilities	26,693,268	25,770,625
DEFERRED INFLOWS OF RESOURCES		
Pension related	918,654	617,450
Total deferred inflows of resources	918,654	617,450
NET POSITION		
Net investment in capital assets	339,312,684	329,724,155
Restricted:		
Debt service - State Water Project	259,708,873	229,040,207
Debt service - Devil Canyon-Castaic	2,771,906	2,225,056
Unrestricted	145,653,543	134,265,208
Total net position	\$ 747,447,006	\$ 695,254,626

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, 2017
(With Comparative Data for Prior Year)**

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Water sales	\$ 8,858,047	\$ 5,303,831
Other operating revenues	<u>7,051,353</u>	<u>3,006,766</u>
Total operating revenues	<u>15,909,400</u>	<u>8,310,597</u>
OPERATING EXPENSES		
Source of supply:		
Operations, maintenance, power and replacement	20,166,480	20,441,107
Purchased water	<u>13,247,893</u>	<u>7,361,813</u>
	<u>33,414,373</u>	<u>27,802,920</u>
Administrative and general:		
Salaries	2,414,493	2,284,180
Retirement and benefits	1,629,990	1,514,342
Payroll taxes	167,733	156,487
Consultants	3,774,791	3,408,480
Legal and accounting	1,084,491	1,756,771
Outside services	48,484	44,729
Office supplies and expense	283,951	238,157
Dues and subscriptions	311,478	271,842
Water conservation, public education and information	1,268,283	1,451,854
Field improvements	1,973,075	495,121
Maintenance and repair	740,012	675,742
Utilities	373,816	444,069
Inland Empire Brine Line fees	1,373,491	1,081,140
Insurance	108,025	98,859
Auto and travel	73,782	79,270
Lodging and meals	16,637	18,323
Taxes and licenses	34,384	45,466
Tax collection fee	<u>324,929</u>	<u>281,153</u>
	<u>16,001,845</u>	<u>14,345,985</u>
Other operating expenses:		
Depreciation and amortization	<u>13,694,898</u>	<u>12,613,349</u>
Total operating expenses	<u>63,111,116</u>	<u>54,762,254</u>
OPERATING LOSS	<u>(47,201,716)</u>	<u>(46,451,657)</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, 2017
(With Comparative Data for Prior Year)

	<u>2017</u>	<u>2016</u>
NONOPERATING REVENUES (EXPENSES)		
Revenues:		
Property taxes:		
Debt service	\$ 57,518,592	\$ 53,411,967
General purpose distribution	8,937,795	8,404,756
Successor Agency pass through	31,306,105	28,435,277
Investment income	1,540,657	5,223,162
Grant income	150,242	-
Gain (loss) on disposal of capital assets	(193,059)	4,790
	<u>99,260,332</u>	<u>95,479,952</u>
Expenses:		
Contribution	50,000	-
Interest expense	315,834	321,234
	<u>365,834</u>	<u>321,234</u>
 Total nonoperating revenues (expenses)	 <u>98,894,498</u>	 <u>95,158,718</u>
 Income before contributions	 51,692,782	 48,707,061
Contributions in aid of construction	499,598	499,598
	<u>499,598</u>	<u>499,598</u>
 Change in net position	 52,192,380	 49,206,659
 Net position - beginning of year	 <u>695,254,626</u>	 <u>646,047,967</u>
 Net position - end of year	 <u>\$ 747,447,006</u>	 <u>\$ 695,254,626</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, 2017
(With Comparative Data for Prior Year)**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from water sales	\$ 9,035,339	\$ 7,218,669
Cash received from other operating activities	7,051,353	3,006,766
Cash paid for source of supply	(33,414,373)	(27,802,920)
Cash paid to other suppliers	(11,173,838)	(9,244,500)
Cash paid for employees' wages, taxes and benefits	(9,787,244)	(4,883,472)
Net cash used for operating activities	<u>(38,288,763)</u>	<u>(31,705,457)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes received - general purpose distribution	8,950,455	8,385,641
Successor Agency pass through received	34,755,139	28,671,667
Trust funds received	150,242	50,061
Net cash provided by noncapital financing activities	<u>43,855,836</u>	<u>37,107,369</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Property taxes received - debt service	57,446,454	53,225,055
Proceeds from sale of capital assets	36,925	4,790
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)
Issuance of notes receivable	(424,628)	(992,359)
Acquisition of capital assets	(20,933,493)	(21,448,223)
Payments for construction in progress	(5,011,926)	(2,109,712)
Contribution	(50,000)	-
Principal payments on debt	(180,000)	(170,000)
Interest paid	(318,534)	(328,944)
Net cash provided by capital and related financing activities	<u>31,064,396</u>	<u>28,980,937</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(137,327,004)	(68,457,151)
Redemption of investments	132,944,617	32,141,680
Investment income	4,692,129	3,497,995
Net cash (used for) provided by investing activities	<u>309,742</u>	<u>(32,817,476)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	36,941,211	1,565,373
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>70,562,051</u>	<u>68,996,678</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 107,503,262</u>	<u>\$ 70,562,051</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, 2017
(With Comparative Data for Prior Year)**

	2017	2016
RECONCILIATION TO STATEMENTS OF NET POSITION		
Current assets:		
Cash and cash equivalents - current	\$ 39,879,440	\$ 32,836,690
Cash and cash equivalents - restricted	67,623,822	37,725,361
Total cash and cash equivalents	\$ 107,503,262	\$ 70,562,051
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	\$ (47,201,716)	\$ (46,451,657)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	13,694,898	12,613,349
Actuarial pension expense	217,945	314,035
Noncash reduction in accounts receivable	-	(395,611)
Pension contributions subsequent to measurement date	(4,308,248)	(1,563,043)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(934,664)	2,040,809
Increase (decrease) in:		
Accounts payable	615,791	1,146,476
Accrued employee benefits	(1,484,725)	320,545
Unearned revenue	1,111,956	269,640
Net cash used for operating activities	\$ (38,288,763)	\$ (31,705,457)
 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, 2017

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, 2017**

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). 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, 2017. There were no allowances for uncollectible accounts to be netted with accounts receivable for 2017. 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>Useful 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, 2017**

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, 2017**

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, 2015
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	July 1, 2015 to June 30, 2016

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.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2017**

Note 2: Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and investments as of June 30, 2017 are classified in the accompanying financial statements as follows:

	<u>2017</u>
Statement of Net Position:	
Current assets:	
Cash in bank and on hand	\$ 8,297,046
Cash in Local Agency Investment Fund	31,582,394
Total cash and cash equivalents	<u>39,879,440</u>
Investments	107,786,606
Total unrestricted	<u>147,666,046</u>
Restricted:	
Cash in bank	36,610,883
Cash in Local Agency Investment Fund	30,290,388
Cash held by trustee	345,497
Cash held in trust	377,054
Total cash and cash equivalents	<u>67,623,822</u>
Investments	192,229,971
Department of Water Resources bonds	10,000
Total investments	<u>192,239,971</u>
Total restricted	<u>259,863,793</u>
Total cash and cash equivalents and investments	<u>\$ 407,529,839</u>

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2017**

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

Cash, cash equivalents, and investments as of June 30, 2017 consisted of the following:

	<u>2017</u>
Cash on hand	\$ 350
Deposits with financial institutions	45,630,130
Cash in Local Agency Investment Fund	61,872,782
Investments	<u>300,026,577</u>
Total cash and cash equivalents and investments	<u><u>\$ 407,529,839</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

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.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2017**

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

As of June 30, 2017, 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	\$ 60,767,638	\$ 22,073,697	\$ 9,943,820	\$ 28,750,121	\$ -
Municipal Bonds	10,000	-	-	10,000	-
U.S. Treasury Bills, Notes and					
Bonds	104,813,163	9,407,424	37,928,009	57,477,729	-
Negotiable Certificates of Deposit	54,308,439	19,057,230	35,251,209	-	-
Medium-Term Notes	59,247,587	4,347,316	11,503,539	43,396,732	-
Commercial paper	11,891,902	11,891,902	-	-	-
Money Market Funds	8,987,849	8,987,849	-	-	-
Total investments	\$ 300,026,577	\$ 75,765,418	\$ 94,626,577	\$ 129,634,582	\$ -

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, 2017 were as follows:

Investment type	Amount	Minimum legal rating	Rating as of year end			
			AAA	AA	A	Not rated
Federal Agency						
Securities	\$ 60,767,638	N/A	\$ -	\$ 60,767,638	\$ -	\$ -
Municipal Bonds	10,000	N/A	-	-	-	10,000
U.S. Treasury Bills, Notes and						
Bonds	104,813,163	N/A	-	104,813,163	-	-
Negotiable Certificates of Deposit	54,308,439	A	-	15,222,638	39,085,801	-
Medium-Term Notes	59,247,587	A	1,428,632	23,344,077	34,474,878	-
Commercial paper	11,891,902	A	-	-	11,891,902	-
Money Market Funds	8,987,849	AAA	8,987,849	-	-	-
Total investments	\$300,026,577		\$ 10,416,481	\$204,147,515	\$ 85,452,581	\$ 10,000

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2017**

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, 2017 met their respective minimum credit ratings requirements.

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

<u>Issuer</u>	<u>Investment type</u>	<u>Reported amount</u>
Federal National Mortgage Federal Home Loan Bank	Federal Agency Securities Federal Agency Securities	\$ 28,750,121 18,408,290

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, 2017, \$44,941,484, of the District's demand deposits with financial institutions were in excess of federal depository insurance limits. As of June 30, 2017, 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, 2017**

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 District's investment in this pool is based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio), which was \$61,872,782 as of June 30, 2017. 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, 2017, 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, 2017:

Investments by Fair Value Level	Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
U.S. Treasury Bills, Notes and Federal Agency Securities	\$ 104,813,163	\$ 104,813,163	\$ -	\$ -
Negotiable Certificates of Deposit	60,767,638	-	60,767,638	-
Medium-Term Notes	54,308,439	-	54,308,439	-
Commercial Paper	59,247,587	-	59,247,587	-
	11,891,902	-	11,891,902	-
Total investments by fair value level	291,028,728	\$ 104,813,163	\$ 186,215,566	\$ -
Investments measured at the Net Asset Value (NAV)				
Municipal Bonds	10,000			
Money market mutual funds	8,987,849			
Total	\$ 300,026,577			

The District's investment in the Local Agency Investment Fund of \$61,872,782 is measured at amortized cost which approximated fair value.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2017**

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, 2017:

	<u>Acre-feet</u>	<u>Inventory cost</u>
Balance at June 30, 2016	11,300	\$ 1,479,070
Additions	-	-
Reductions	-	-
	<u>11,300</u>	<u>\$ 1,479,070</u>
Balance at June 30, 2017	<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, 2017 were as follows:

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
Capital assets, not being depreciated:				
Land, right of ways, and pipeline capacity	\$ 11,567,528	\$ 129,921	\$ 276,246	\$ 11,421,203
Construction in progress	4,009,942	5,441,410	3,026,875	6,424,477
Total capital assets, not being depreciated	<u>15,577,470</u>	<u>5,571,331</u>	<u>3,303,121</u>	<u>17,845,680</u>
Capital assets, being depreciated:				
Buildings	6,260,292	-	-	6,260,292
Distribution lines	163,671,866	220,905	-	163,892,771
Brine line	7,121,795	-	-	7,121,795
Furniture, fixtures and equipment	1,131,343	71,844	-	1,203,187
Vehicles	376,794	67,979	63,048	381,725
Yucaipa Dam	3,698,238	-	-	3,698,238
Total capital assets, being depreciated	<u>182,260,328</u>	<u>360,728</u>	<u>63,048</u>	<u>182,558,008</u>
Less accumulated depreciation	<u>(47,012,454)</u>	<u>(3,569,934)</u>	<u>(63,048)</u>	<u>(50,519,340)</u>
Total capital assets, being depreciated, net	<u>135,247,874</u>	<u>(3,209,206)</u>	<u>-</u>	<u>132,038,668</u>
Participation rights in State Water Project Facilities	317,740,818	20,469,329	-	338,210,147
Less accumulated amortization	<u>(130,808,002)</u>	<u>(10,124,964)</u>	<u>-</u>	<u>(140,932,966)</u>
Participation rights in State Water Project Facilities, net	<u>186,932,816</u>	<u>10,344,365</u>	<u>-</u>	<u>197,277,181</u>
Total capital assets, net	<u>\$ 337,758,160</u>	<u>\$ 12,706,490</u>	<u>\$ 3,303,121</u>	<u>\$ 347,161,529</u>

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2017**

Note 5: Notes Receivable

Notes receivable at June 30, 2017 consisted of the following:

	<u>2017</u>
The District entered into a loan agreement with the San Bernardino Regional Water Resources Authority (the Authority) 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 (the Authority) 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 Regional Water Resources Authority (the Authority) 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 Authority has been awarded a reimbursable grant from the state. The loan is to be repaid in one lump sum within the next fiscal year.	1,000,000
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.	900,000
The District entered into a loan agreement with Habitat for Humanity San Bernardino Area, Inc. in April 2017 for the amount of \$46,262, for the purchase of vacant land in San Bernardino, CA. The interest is computed at the monthly variable rate then in effect equal to Local Agency Investment Fund (LAIF) Pooled Money Investment Account (PMIA) Average Monthly Effective Yield until all principal has been paid, compounded monthly. All unpaid principal plus all then-accumulated interest shall be paid in a single lump sum payment sixty months after the the date hereof.	44,720

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2017**

Note 5: Notes Receivable (Continued)

The District entered into a loan agreement with East Valley Water District in January, 2015 for the amount of approximately \$4 million for the construction, operation and maintenance of the city creek turnout and the plant 134 Hydroelectric Station. Interest shall accrue monthly on the unpaid and outstanding balance of the costs commencing from the effective date and continuing until repayment in full at the Local Agency Investment Fund interest rate, with accrued but unpaid interest also bearing interest. The term is eleven years or until the date on which the debt incurred by the district in financing the project is paid in full, including interest or other charges, whichever occurs later.

	4,237,635
	<u>7,770,576</u>
Less allowance for uncollectible accounts	(1,588,221)
Less current portion of notes receivable	<u>(1,300,000)</u>
Total notes receivable, net of current portion	<u>\$ 4,882,355</u>

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, 2017, total unearned revenue amounted to \$6,854,827.

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.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2017**

Note 7: Certificates of Participation (Continued)

The following is a summary of bonds payable for the year ended June 30, 2017:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due within one year
2011A Certificates of Participation	\$ 7,905,000	\$ -	\$ (180,000)	\$ 7,725,000	\$ 185,000
Premium on certificates of participation	129,005	-	(5,160)	123,845	-
Total certificates of participation, net	<u>\$ 8,034,005</u>	<u>\$ -</u>	<u>\$ (185,160)</u>	<u>\$ 7,848,845</u>	<u>\$ 185,000</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
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	215,000	287,544	502,544
2023-2027	1,205,000	1,299,320	2,504,320
2028-2032	1,475,000	1,032,320	2,507,320
2033-2037	1,805,000	692,990	2,497,990
2038-2042	2,250,000	254,841	2,504,841
Total	<u>\$ 7,725,000</u>	<u>\$ 4,796,766</u>	<u>\$ 12,521,766</u>

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.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2017**

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

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, 2017 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	14.809%	9.111%	7.191%

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, 2017 were \$4,308,248. The actual employer payments of \$1,563,043 made to CalPERS by the District during the measurement period ended June 30, 2016 differed from the District's proportionate share of the employer's contributions of \$743,272 by \$819,771, which is being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2017**

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

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, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 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, 2015
Measurement Date	June 30, 2016
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.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2017**

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

Change of Assumptions

There were no changes of assumptions.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of the 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. The tests 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 (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website, at www.calpers.ca.gov.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 (PERF) cash flows. Taking into account historical returns of all the PERF asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B and C funds), 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 equal 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, 2017**

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, 2015.

Asset Class	Current Target Allocation	Real Return Years 1 - 10 ¹	Real Return Years 11+ ²
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	(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, 2017**

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 position liability over the measurement period.

	Increase (Decrease)		
	Plan Total Pension	Plan Fiduciary Net	Plan Net Pension
Balance at: 6/30/2015 (VD)	\$ 25,527,012	\$ 19,721,063	\$ 5,805,949
Balance at: 6/30/2016(MD)	\$ 26,203,183	\$ 19,959,375	\$ 6,243,808
Net changes during 2015-16	\$ 676,171	\$ 238,312	\$ 437,859

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, 2016, 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, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was determined by CalPERS using the output from the Actuarial Valuation System and the fiduciary net position, as provided in the CalPERS Public Agency Cost-Sharing Allocation Methodology Report, which is a publicly available report that can be obtained at CalPERS' website under Forms and Publications, at www.calpers.ca.gov. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of the June 30, 2015 and 2016 measurement dates was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2015	0.21163%
Proportion - June 30, 2016	0.17974%
Change - Increase (Decrease)	(0.03189%)

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	\$ 9,771,572	\$ 6,243,808	\$ 3,328,285

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, 2017**

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 2015-16 measurement period is 3.7 years, which was obtained by dividing the total service years of 475,689 (the sum of remaining service lifetimes of the active employees) by 127,009 (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, 2015), the net pension liability for the plan was \$5,805,949. For the measurement period ending June 30, 2016 (the measurement date), the District incurred a pension expense/(income) of \$217,945 for the Plan.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2017**

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

As of June 30, 2017, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 30,614	\$ (7,014)
Changes of Assumptions	-	(289,627)
Differences between Projected and Actual Earnings	1,507,411	-
Differences between Employer's Contributions and Proportionate Share of Contributions	630,871	(13,136)
Change in Employer's Proportion	5,100	(608,877)
Pension Contributions Subsequent to Measurement Date	4,308,248	-
	<u>\$ 6,482,244</u>	<u>\$ (918,654)</u>

These amounts above are net of outflows and inflows recognized in the 2015-16 measurement period expense. Contributions subsequent to the measurement date of \$4,308,248 reported with deferred outflows of resources will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other 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
2017	\$ 88,384
2018	98,556
2019	677,965
2020	390,437
2021	-
Remaining	-

E. Payable to the Pension Plan

At June 30, 2017, the District reported a payable of \$-0- for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2017**

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>.

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.

Annual required contribution	\$ 529,151
Interest on net OPEB obligation	111,546
Adjustment to annual required contribution	<u>(111,405)</u>
Annual OPEB cost	529,292
Contributions made	<u>(2,026,972)</u>
Increase in net OPEB obligation	(1,497,680)
Net OPEB obligation - beginning of year	<u>1,657,448</u>
Net OPEB obligation - end of year	<u>\$ 159,768</u>

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2017**

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

The following table shows the components of the District's annual OPEB cost, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the plan for the year ended June 2017:

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, 2017, 2016 and 2015 are presented below:

Plan	Year	Annual OPEB cost	Actual contribution	Percentage of OPEB cost contributed	Net OPEB obligation
OPEB	June 30, 2015	\$ 328,034	\$ 88,394	27%	\$ 1,398,681
OPEB	June 30, 2016	\$ 340,273	\$ 81,506	24%	\$ 1,657,448
OPEB	June 30, 2017	\$ 529,292	\$ 2,026,972	383%	\$ 159,768

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%
7/1/2016*	\$ 5,595,769	\$ -	\$ 5,595,769	0%	\$ 2,133,689	262%

* 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.

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2017**

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

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

Valuation date	07/01/16
Actuarial cost method	Entry age normal cost
Amortization method	Level percentage of payroll
Remaining amortization period	22 years as of the valuation date
Asset valuation method	N/A - no assets
Actuarial assumptions:	
Investment rate of return	6.73%
Payroll growth	3.25%

	Year Beginning	Increase in CalPERS Regional Premium Rates	
		Pre-65	Post-65
Healthcare trend rates	2018	8.0%	5.5%
	2019 - 2021	7.75% - 7.25%	5.25% - 5%
	2022 - 2024	7% - 6.5%	5%
	2025+	6.25% - 5%	5%

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2017**

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 \$20,694,658 in open construction contracts as of June 30, 2017. These include:

Project	Approved Contract	Payments To Date	Balance To Complete
Construction of Cactus Basins	\$ 167,454	\$ 31,645	\$ 135,809
Upper Santa Ana River Habitat Conservation Plan	2,320,489	1,928,904	391,585
United State Geological Survey	2,395,070	1,682,256	712,814
Pipeline Pressure Surge Analysis Study	84,800	58,255	26,545
Cactus Basin Project	2,020,000	897,633	1,122,367
Enhanced Recharge Project	1,448,495	592,621	855,874
On Call Grant Services	100,000	23,602	76,398
Cactus Basin & Lytle Creek Turnout Hydroelectric Project	869,660	723,840	145,820
Waterman Turnout Hydroelectric Project	804,240	764,991	39,249
City Creek Turnout & East Valley Water District Plant 134 Hydroelectric Project	725,730	697,580	28,150
Waterman Turnout Hydroelectric Project	248,610	87,014	161,596
City Creek Turnout & East Valley Water District Plant 134 Hydroelectric Project	141,685	118,685	23,000
City Creek Turnout & East Valley Water District Plant 134 Hydroelectric Project	2,675,777	2,511,364	164,413
City Creek Turnout & East Valley Water District Plant 134 Hydroelectric Project	365,000	327,088	37,912
City Creek Turnout & East Valley Water District Plant 134 Hydroelectric Project	32,888	30,522	2,366
Citrus Pump Station Potable Water Supply	490,492	466,436	24,056
San Bernardino Basin and Bunker Hill Conjunctive Use Project	96,617	6,728	89,889
Enhanced Recharge Project	12,917,380	-	12,917,380
Cactus Basin & Lytle Creek Turnout Hydroelectric Project	188,200	116,690	71,510
Cactus Basin & Lytle Creek Turnout Hydroelectric Project	3,830,000	200,000	3,630,000
Cactus Basin & Lytle Creek Turnout Hydroelectric Project	37,925	-	37,925
	<u>\$ 31,960,512</u>	<u>\$ 11,265,854</u>	<u>\$ 20,694,658</u>

San Bernardino Valley Municipal Water District

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2017**

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 2017 to 2035, according to the payment schedule dated June 30, 2017, is estimated as follows:

Transportation charges:	
Capital cost component	\$ 71,884,714
Minimum operations, maintenance, power and replacement component	283,824,496
Variable operations, maintenance, power and replacement component	<u>203,795,854</u>
	559,505,064
Delta water charges	135,313,877
Water system revenue bond surcharge	<u>47,916,336</u>
Total	<u><u>\$ 742,735,277</u></u>

San Bernardino Valley Municipal Water District

Notes to the Basic Financial Statements For the Year Ended June 30, 2017

Note 10: Commitments and Contingencies, (Continued)

Jointly governed organization

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

Santa Ana Watershed Project Authority

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

Condensed financial information for the operation of SAWPA for the fiscal year ended June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Total assets	<u>\$ 175,164,843</u>	<u>\$ 173,051,031</u>
Total deferred outflows of resources	<u>\$ 358,101</u>	<u>\$ 273,547</u>
Total liabilities	<u>\$ 107,830,177</u>	<u>\$ 107,505,347</u>
Total deferred inflows of resources	<u>\$ 525,022</u>	<u>\$ 784,673</u>
Total net position	<u>\$ 67,167,745</u>	<u>\$ 65,034,558</u>
Total revenues	<u>\$ 17,113,620</u>	<u>\$ 15,228,824</u>
Total expenses	<u>\$ (14,980,433)</u>	<u>\$ (14,084,505)</u>
Change in net position	<u>\$ 2,133,187</u>	<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, 2017 was \$377,054.

San Bernardino Valley Municipal Water District

Notes to the Basic Financial Statements For the Year Ended June 30, 2017

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 \$60,941,966 as of June 22, 2016), 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 \$60,941,966 as of June 22, 2016), 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, 2017**

**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</u> <u>6/30/2016</u>	<u>Measurement Date</u> <u>6/30/2015</u>	<u>Measurement Date</u> <u>6/30/2014</u>
Employer's Proportion of the Collective Net Pension Liability ¹	0.17974%	0.21163%	0.08970%
Employer's Proportionate Share of the Collective Net Pension Liability	\$ 6,243,808	\$ 5,805,949	\$ 5,587,972
Employer's Covered Payroll	\$ 2,210,568	\$ 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	282.45%	254.75%	257.96%
Pension Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	76.17%	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.

* Measurement date June 30, 2014 was the first year of implementation, therefore, only three years are presented.

San Bernardino Valley Municipal Water District

**Required Supplementary Information
For the Year Ended June 30, 2017**

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

	<u>Fiscal Year 2016-2017</u>	<u>Fiscal Year 2015-2016</u>	<u>Fiscal Year 2014-2015</u>
Actuarially Determined Contribution	\$ 743,272	\$ 1,563,043	\$ 668,435
Contributions in Relation to the Actuarially Determined Contribution	<u>(1,563,043)</u>	<u>(1,563,043)</u>	<u>(667,131)</u>
Contribution Deficiency (Excess)	<u>\$ (819,771)</u>	<u>\$ -</u>	<u>\$ 1,304</u>
Covered-Employee Payroll	\$ 2,127,895	\$ 2,210,568	\$ 2,279,057
Contributions as a Percentage of Covered-Employee Payroll	73.45%	70.71%	29.27%

* Fiscal year 2014-15 was the first year of implementation, therefore, only three years are presented.

Notes to Schedule:

Change in Benefit Terms: None

Change in Assumptions: None



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**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**

INDEPENDENT AUDITOR'S REPORT

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

MANAGERS / STAFF

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

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 (the District) as of and for the year ended June 30, 2017, 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 14, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
December 14, 2017