

# SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

San Bernardino, California

Basic Financial Statements and Supplementary Information

For the Year Ended June 30, 2020  
(With Comparative Data for Prior Year)



*San Bernardino Valley Municipal Water District*

**Basic Financial Statements and Supplementary Information  
For the Year Ended June 30, 2020  
(With Comparative Data for Prior Year)**

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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  
Scott W. Manno, CPA, CGMA  
Leena Shanbhag, CPA, MST, CGMA  
Bradferd A. Welebir, CPA, MBA, CGMA  
Jenny W. Liu, CPA, MST

### **MANAGERS / STAFF**

Charles De Simoni, CPA  
Gardenya Duran, CPA  
Brianna Schultz, CPA  
Jingjie Wu, CPA  
Evelyn Morentin-Barcena, CPA  
Veronica Hernandez, CPA  
Tara R. Thorp, CPA, MSA  
Laura Arvizu, CPA  
Louis Fernandez, CPA  
Abigail Hernandez Conde, CPA, MSA  
Zoe Xinlu Zhang, CPA, MSA

### **MEMBERS**

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## **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, 2020, 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.

## **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, 2020, 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 2019 financial statements, and we expressed an unmodified opinion in our report dated December 3, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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, the schedule of plan contributions, the schedule of changes in the net OPEB liability and related ratios, and the schedule of OPEB 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 November 20, 2020, 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  
November 20, 2020

**San Bernardino Valley Municipal Water District  
Management's Discussion and Analysis  
June 30, 2020**

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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 353 square miles in southwestern San Bernardino County and a portion of Riverside County. It spans the eastern two-thirds of the San Bernardino Valley, the Crafton Hills, and a portion of the Yucaipa Valley and includes the cities and communities of San Bernardino, Colton, Loma Linda, Redlands, Rialto, Bloomington, Highland, East Highland, Mentone, 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.

**San Bernardino Valley Municipal Water District  
Management's Discussion and Analysis  
June 30, 2020**

**Summary Financial Information and Analysis**

**Condensed Statement of Net Assets**

in millions

	2020	2019	Change
<b>Assets:</b>			
Current and other Noncurrent Assets	\$ 161.82	\$ 148.41	\$ 13.41
Restricted Assets	389.19	341.07	48.12
Capital assets - net	415.73	406.38	9.35
Total Assets	966.74	895.86	70.88
<b>Deferred Outflows of Resources</b>	1.68	3.09	(1.41)
<b>Liabilities:</b>			
Current Liabilities	7.65	7.58	0.07
Payable from Restricted Assets	0.84	1.87	(1.03)
Non-Current Liabilities	13.09	13.21	(0.12)
Total Liabilities	21.58	22.66	(1.08)
<b>Deferred Inflows of Resources</b>	4.04	5.84	(1.80)
<b>Net Position</b>			
Net Investment in Capital Assets	408.47	398.91	9.56
Restricted	388.00	338.85	49.15
Unrestricted	146.33	132.68	13.65
Total Net Position	\$ 942.80	\$ 870.44	\$ 72.36

**Condensed Statement of Revenues, Expenses and Changes in Net Assets**

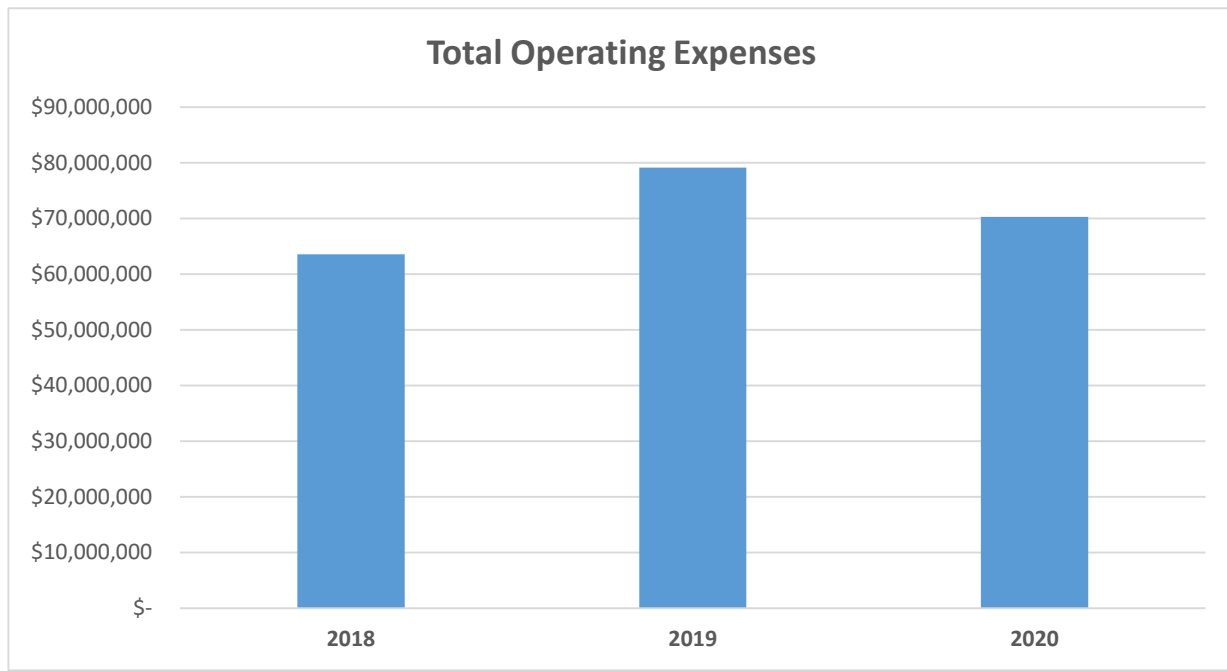
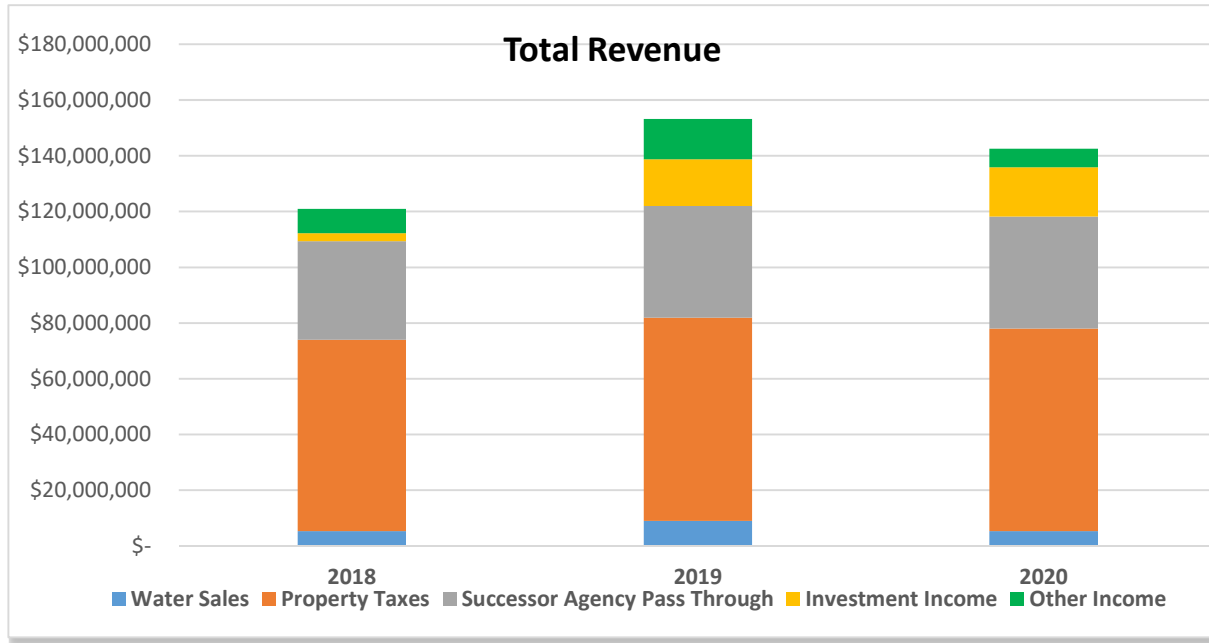
in millions

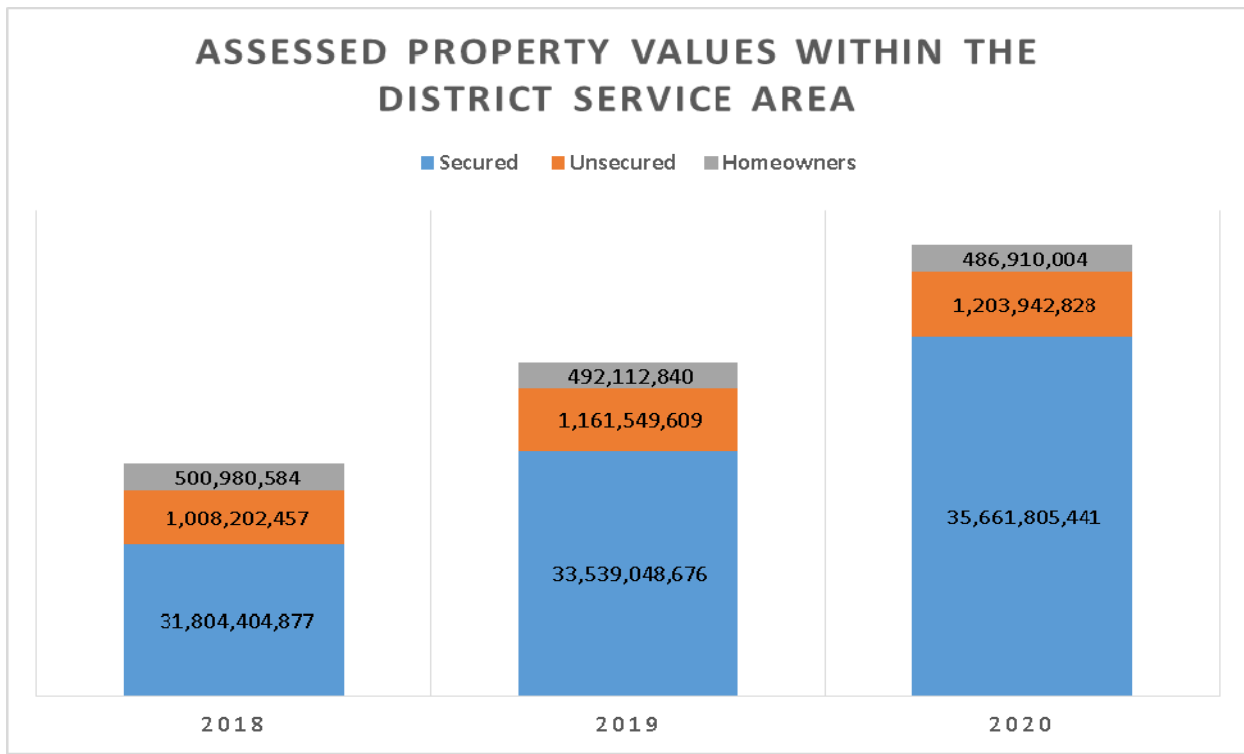
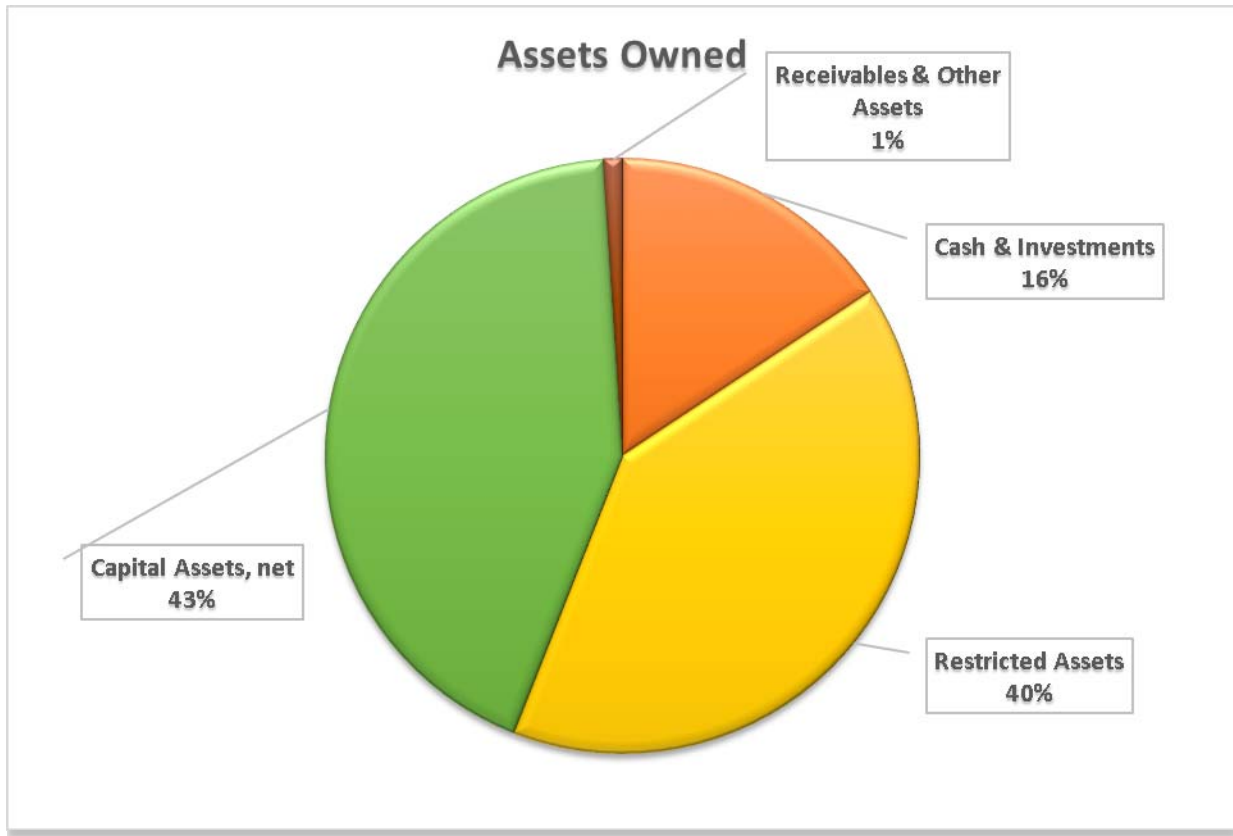
	2020	2019	Change
<b>Operating Revenues</b>	\$ 10.00	\$ 22.83	\$ (12.83)
<b>Operating Expenses</b>	70.32	79.14	(8.82)
<b>Nonoperating Revenues (Expenses)</b>	132.18	129.90	2.28
<b>Contributions in aid of Construction</b>	0.50	0.52	(0.02)
<b>Change in Net Position</b>	72.36	74.11	(1.75)
<b>Net Position, Beginning of Year</b>	870.44	796.33	74.11
<b>Net Position, End of Year</b>	\$ 942.80	\$ 870.44	\$ 72.36

**San Bernardino Valley Municipal Water District  
Management's Discussion and Analysis  
June 30, 2020**

The significant decrease in Operating Revenues is mainly derived from the cost sharing component in fiscal year June 30, 2019 from the San Manuel Band of Mission Indians for the Foothill Pipeline Relocation project. The significant decrease in Operating Expenses mainly pertains to the District paying \$10.00 million toward the Delta Conveyance Project in fiscal year June 30, 2019.

Below is a comparison of Revenue and Operating Expenses over the past three fiscal years







**San Bernardino Valley Municipal Water District  
Management's Discussion and Analysis  
June 30, 2020**

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The increase in Net Position included an operating loss of \$60.31 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 Nonoperating revenues increased by \$2.13 million over the prior year. Total property taxes received decreased by \$.27 million. The assessed values within the District's service area experienced a 6.1% increase over the prior year and the Board voted to reduce the State Water Project Debt Service Tax Rate by one cent to \$.1425/\$100 of Assessed Value. Successor Agency Pass through Payments increased by \$.17 million over the prior year. Interest income increased over the prior year by \$.82 million and Grant income increased by \$1.40 million over the prior year.

**Categories of Net Position**

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

Net Investment in Capital Assets

At June 30, 2020, the amount the District had invested in capital assets, net of related debt was \$408.47 million. This balance was obtained by combining Construction in Progress of \$7.38 million with Capital Assets in Service, net of Accumulated Depreciation and Amortization of \$408.35 million and minus the Certificates of Participation of \$7.26 million.

Restricted Net Position – Debt Service

The District has restricted Net Position of \$388.00 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 \$358.00 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 2021 to 2035, according to a payment schedule dated June 30, 2020 is estimated to total \$1.02 billion.

Unrestricted Net Position

The District had unrestricted Net Position of \$146.33 million at June 30, 2020. The Board of Directors has designated \$25.00 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  
June 30, 2020**

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Construction in Progress (CIP)

The projects still in progress at June 30, 2020 included Riverside Groundwater Aquifer Storage Project, Design and Construction of Hydroelectric Plants and the Enhanced Recharge Project 1B.

Capital Assets

The District made payments to the Department of Water Resources during the year totaling \$56.35 million net of credits and refunds for participation rights in the State Water Project. This was a decrease of \$9.75 million over the prior year mainly attributable to contributions for the Delta Conveyance and increases in variable costs of energy for water purchased through the State of Water Project during the fiscal year June 30, 2020. Additional information on capital assets can be found in the notes to the financial statements.

Certificates of Participation

The District issued \$8.57 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 reaffirmed in August 2017. Bond proceeds were used to build the Baseline Feeder Well Replacement Project. Additional information on the Certificate can be found in the notes to the financial statements.

Net Pension and Other Post-Employment Benefits Liability

During fiscal year ended June 30, 2020 the District recorded a Net Pension Liability in the amount of \$2.93 million. During fiscal year ended June 30, 2020 the District recorded a Net Other Post-Employment Benefits Liability in the amount of \$3.10 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, 2020**

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

<b>ASSETS</b>	2020	2019
Current assets:		
Cash and cash equivalents	\$ 26,688,166	\$ 21,106,506
Investments	125,153,197	115,067,889
Property taxes receivable	76,804	49,673
Accounts receivable	3,412,457	3,802,054
Accrued interest receivable	658,840	971,042
Current portion of other receivable	236,390	229,536
Current portion of notes receivable	761,100	1,061,100
Total current assets - unrestricted	156,986,954	142,287,800
Restricted assets:		
Cash and cash equivalents	57,293,296	64,445,035
Investments	328,156,911	271,910,077
Total restricted cash and investments	385,450,207	336,355,112
Property taxes receivable	1,080,638	1,387,785
Accrued interest receivable	1,423,384	1,848,490
Water bank inventory	1,237,314	1,479,070
Total restricted assets	389,191,543	341,070,457
Noncurrent assets:		
Capital assets:		
Capital assets in service	247,330,042	245,784,237
Accumulated depreciation	(62,595,579)	(57,917,584)
Capital assets, net	184,734,463	187,866,653
Participation rights in State Water Project facilities (at cost)	401,872,114	379,280,330
Accumulated amortization	(178,257,908)	(164,537,180)
Participation rights in State Water Project facilities - net	223,614,206	214,743,150
Total capital assets, net of accumulated depreciation and amortization	408,348,669	402,609,803
Construction in progress	7,383,987	3,763,241
Total capital assets, net	415,732,656	406,373,044
Other noncurrent assets:		
Other receivables, net of current portion	137,086	380,331
Notes receivable, net of current portion	4,516,442	5,655,328
Water stock	88,500	88,500
Deposit on land	86,975	1,975
Total noncurrent assets	420,561,659	412,499,178
Total assets	966,740,156	895,857,435
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related	1,036,368	2,134,121
Other post-employment benefits related	645,575	952,084
Total deferred outflows of resources	1,681,943	3,086,205

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

*San Bernardino Valley Municipal Water District*

**Statement of Net Position, (Continued)**  
**June 30, 2020**  
**(With Comparative Data for Prior Year)**

<b>LIABILITIES</b>	<u>2020</u>	<u>2019</u>
Current liabilities:		
Payables from current assets - unrestricted:		
Accounts payable	\$ 1,145,690	\$ 2,388,234
Accrued employee benefits	800,401	773,184
Accrued interest payable	150,022	153,922
Unearned revenue	5,172,775	3,898,677
Deposits	178,627	171,088
Certificates of participation, current portion	205,000	195,000
Total payables from current assets - unrestricted	<u>7,652,515</u>	<u>7,580,105</u>
Payable from restricted assets:		
Accounts payable	462,203	1,492,215
Santa Ana River restoration/recovery trust fund	378,683	378,084
Total payables from current assets - restricted	<u>840,886</u>	<u>1,870,299</u>
Non-current liabilities:		
Certificates of participation, non-current portion	6,950,000	7,155,000
Premium on certificates of participation, net	108,365	113,525
Net pension liability	2,931,878	2,277,589
Net other post-employment benefits liability	3,095,591	3,666,965
Total non-current liabilities	<u>13,085,834</u>	<u>13,213,079</u>
Total liabilities	<u>21,579,235</u>	<u>22,663,483</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension related	51,258	1,103,160
Other post-employment benefits related	3,990,712	4,735,619
Total deferred inflows of resources	<u>4,041,970</u>	<u>5,838,779</u>
<b>NET POSITION</b>		
Net investment in capital assets	408,469,291	398,909,519
Restricted:		
Debt service - State Water Project	383,250,782	334,712,249
Debt service - Devil Canyon-Castaic	4,744,854	4,138,986
Unrestricted	146,335,967	132,680,624
Total net position	<u>\$ 942,800,894</u>	<u>\$ 870,441,378</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  
For the Year Ended June 30, 2020  
(With Comparative Data for Prior Year)**

	2020	2019
<b>OPERATING REVENUES</b>		
Water sales	\$ 5,385,294	\$ 9,026,976
Other operating revenues	4,618,913	13,798,141
	<u>10,004,207</u>	<u>22,825,117</u>
<b>OPERATING EXPENSES</b>		
Source of supply:		
Operations, maintenance, power and replacement	26,614,337	32,840,004
Purchased water	7,928,599	12,666,432
	<u>34,542,936</u>	<u>45,506,436</u>
Administrative and general:		
Salaries	3,233,383	3,018,770
Retirement and benefits	1,840,859	1,117,192
Payroll taxes	220,035	206,169
Consultants	5,062,586	6,492,853
Legal and accounting	773,398	946,792
Outside services	43,674	45,000
Office supplies and expense	188,341	211,473
Dues and subscriptions	361,924	337,183
Water conservation, public education and information	769,088	794,948
Field improvements	157,176	118,286
Maintenance and repair	1,138,779	868,538
Utilities	976,240	972,911
Inland Empire Brine Line fees	1,725,845	1,559,394
Insurance	110,285	100,070
Auto and travel	112,564	111,499
Lodging and meals	42,894	28,149
Taxes and licenses	315,811	55,866
Tax collection fee	279,302	280,121
	<u>17,352,184</u>	<u>17,265,214</u>
Other operating expenses:		
Depreciation and amortization	18,422,283	16,370,588
	<u>70,317,403</u>	<u>79,142,238</u>
<b>OPERATING LOSS</b>	<u>(60,313,196)</u>	<u>(56,317,121)</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, 2020  
(With Comparative Data for Prior Year)**

	<u>2020</u>	<u>2019</u>
<b>NONOPERATING REVENUES</b>		
Revenues:		
Property taxes:		
Debt service	\$ 62,243,369	\$ 62,993,006
General purpose distribution	10,362,514	9,878,362
Successor Agency pass through	40,264,726	40,091,468
Investment income	17,578,974	16,757,586
Grant income	2,028,543	630,125
Gain on disposal of capital assets	5,872	-
	<u>132,483,998</u>	<u>130,350,547</u>
Expenses:		
Contribution	16,000	140,000
Interest expense	294,884	302,684
	<u>310,884</u>	<u>442,684</u>
Total nonoperating revenues	<u>132,173,114</u>	<u>129,907,863</u>
Income before contributions	71,859,918	73,590,742
Contributions in aid of construction	499,598	519,185
	<u>72,359,516</u>	<u>74,109,927</u>
Change in net position	72,359,516	74,109,927
Net position - beginning of year	<u>870,441,378</u>	<u>796,331,451</u>
Net position - end of year	<u>\$ 942,800,894</u>	<u>\$ 870,441,378</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, 2020  
(With Comparative Data for Prior Year)**

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from water sales	\$ 7,048,989	\$ 7,456,983
Cash received from other operating activities	4,618,913	13,798,141
Cash paid for source of supply	(34,301,180)	(35,470,072)
Cash paid to other suppliers	(14,621,142)	(23,963,284)
Cash paid for employees' wages, taxes and benefits	(5,576,692)	(5,531,027)
Net cash used for operating activities	<u>(42,831,112)</u>	<u>(43,709,259)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Property taxes received - general purpose distribution	10,335,383	9,954,376
Successor Agency pass through received	40,501,117	40,328,255
Grant funds received	2,028,543	1,260,000
Net cash provided by noncapital financing activities	<u>52,865,043</u>	<u>51,542,631</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Property taxes received - debt service	62,550,516	62,496,120
Proceeds from sale of capital assets	5,872	-
Proceeds from contribution in aid of construction	499,598	519,185
Payments towards condemnation fund	(85,000)	-
Proceeds from collection of notes receivable	1,555,194	1,259,561
Acquisition of capital assets	(24,161,149)	(40,574,008)
Payments for construction in progress	(3,322,528)	(13,198,433)
Contribution	(16,000)	(140,000)
Principal payments on debt	(195,000)	(190,000)
Interest paid	(303,944)	(311,644)
Net cash provided by capital and related financing activities	<u>36,527,559</u>	<u>9,860,781</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(238,590,168)	(187,879,806)
Redemption of investments	172,257,982	141,718,168
Investment income	18,200,617	7,017,652
Net cash used for investing activities	<u>(48,131,569)</u>	<u>(39,143,986)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(1,570,079)</u>	<u>(21,449,833)</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>85,551,541</u>	<u>107,001,374</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 83,981,462</u>	<u>\$ 85,551,541</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, 2020  
(With Comparative Data for Prior Year)**

	2020	2019
<b>RECONCILIATION TO STATEMENTS OF NET POSITION</b>		
Current assets:		
Cash and cash equivalents - current	\$ 26,688,166	\$ 21,106,506
Cash and cash equivalents - restricted	57,293,296	64,445,035
	<u>\$ 83,981,462</u>	<u>\$ 85,551,541</u>
 <b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES</b>		
Operating loss	\$ (60,313,196)	\$ (56,317,121)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation and amortization	18,422,283	16,370,588
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	389,597	1,769,897
Water bank inventory	241,756	-
Deferred outflows of resources pension related	1,097,753	2,432,689
Deferred outflows of resources other post-employment benefits related	306,509	(823,732)
Increase (decrease) in:		
Accounts payable	(2,570,774)	(1,043,437)
Accrued employee benefits	27,217	56,486
Unearned revenue	1,281,637	(3,300,290)
Net pension liability	654,289	(417,215)
Net other post-employment benefits liability	(571,374)	(408,875)
Deferred inflows of resources pension related	(1,051,902)	(2,041,688)
Deferred inflows of resources other post-employment benefits related	(744,907)	13,439
	<u>\$ (42,831,112)</u>	<u>\$ (43,709,259)</u>
 <b>SCHEDULE OF NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Construction in progress additions included in accounts payable	\$ 298,218	\$ 283,459
Construction in progress reclassified to notes receivable	-	3,246,299

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, 2020**

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#### **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.

The District has elected to follow all pronouncements of the Governmental Accounting Standards Board (GASB).

##### ***Use of estimates***

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

##### ***Cash and cash equivalents***

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

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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**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, 2020. There were no allowances for uncollectible accounts to be netted with accounts receivable for 2020. 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, 2020**

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**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 Voya Financial 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, 2020**

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**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 on 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 of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis. 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.

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.

	<u>Fiscal Year 2020</u>	<u>Fiscal Year 2019</u>
Valuation Date (VD)	June 30, 2018	June 30, 2017
Measurement Date (MD)	June 30, 2019	June 30, 2018
Measurement Period (MP)	July 1, 2018 to June 30, 2019	July 1, 2017 to June 30, 2018

***Other post-employment benefits (OPEB)***

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 75 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

	<u>Fiscal Year 2020</u>	<u>Fiscal Year 2019</u>
Valuation Date (VD)	June 30, 2018	June 30, 2018
Measurement Date (MD)	June 30, 2019	June 30, 2018
Measurement Period (MP)	July 1, 2018 to June 30, 2019	July 1, 2017 to June 30, 2018

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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

***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 and other post-employment benefits 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 and other post-employment benefits related deferred inflows of resources.

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*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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**Note 2: Cash, Cash Equivalents, and Investments**

Cash, cash equivalents, and investments as of June 30, 2020 are classified in the accompanying financial statements as follows:

	<u>2020</u>
Statement of Net Position:	
Current assets:	
Cash in bank and on hand	\$ 4,537,087
Cash in Local Agency Investment Fund	22,151,079
Total cash and cash equivalents	<u>26,688,166</u>
Investments	<u>125,153,197</u>
Total unrestricted	<u>151,841,363</u>
Restricted:	
Cash in bank	9,006,990
Cash in Local Agency Investment Fund	47,552,601
Cash held by trustee	355,022
Cash held in trust	378,683
Total cash and cash equivalents	<u>57,293,296</u>
Investments	<u>328,146,911</u>
Department of Water Resources bonds	10,000
Total investments	<u>328,156,911</u>
Total restricted	<u>385,450,207</u>
Total cash and cash equivalents and investments	<u>\$ 537,291,570</u>

Cash, cash equivalents, and investments as of June 30, 2020 consisted of the following:

Cash on hand	\$ 350
Deposits with financial institutions	14,277,432
Cash in Local Agency Investment Fund	69,703,680
Investments	<u>453,310,108</u>
Total cash and cash equivalents and investments	<u>\$ 537,291,570</u>

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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

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

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

<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	\$ 75,000,000
JPA Pools/CAMP	N/A	None	None
Medium-Term Notes	5 years	30%	None
Money Market Funds	N/A	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, 2020**

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

***Interest rate risk, (Continued)***

As of June 30, 2020, 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	\$ 42,340,829	\$ -	\$ 15,103,722	\$ 27,237,107	\$ -
JPA Pools/CAMP	83,893,220	83,893,220	-	-	-
Municipal Bonds	3,596,399	3,380,627	205,772	-	10,000
U.S. Treasury Bills, Notes and					
Bonds	200,252,395	-	96,734,496	103,517,898	-
Negotiable Certificates of Deposit	36,693,991	18,220,590	7,340,283	11,133,119	-
Medium-Term Notes	86,431,955	26,983,572	37,568,854	20,176,249	1,703,281
Money Market Funds	101,319	101,319	-	-	-
<b>Total investments</b>	<b>\$ 453,310,108</b>	<b>\$ 132,579,327</b>	<b>\$ 156,953,127</b>	<b>\$ 162,064,374</b>	<b>\$ 1,713,281</b>

***Disclosures relating to credit risk***

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

Credit ratings of investments as of June 30, 2020 were as follows:

Investment type	Amount	Minimum legal rating	Rating as of year end				
			AAA	AA	A	BBB	Not rated
Federal Agency							
Securities	\$ 42,340,829	N/A	\$ -	\$ 42,340,829	\$ -	\$ -	\$ -
JPA Pools/CAMP	83,893,220	N/A	83,893,220	-	-	-	-
Municipal Bonds	3,596,399	N/A	-	3,380,627	205,772	-	10,000
U.S. Treasury Bills, Notes and							
Bonds	200,252,395	N/A	-	200,252,395	-	-	-
Negotiable Certificates of Deposit	36,693,991	A	-	14,303,499	20,456,607	-	1,933,885
Medium-Term Notes	86,431,955	A	352,156	14,302,638	60,261,579	9,669,134	1,846,448
Money Market Funds	101,319	AAA	101,319	-	-	-	-
<b>Total investments</b>	<b>\$ 453,310,108</b>		<b>\$ 84,346,695</b>	<b>\$ 274,579,988</b>	<b>\$ 80,923,958</b>	<b>\$ 9,669,134</b>	<b>\$ 3,790,333</b>



# San Bernardino Valley Municipal Water District

## Notes to the Basic Financial Statements For the Year Ended June 30, 2020

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### 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, 2020 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>	<u>Percentage of Portfolio</u>
Federal Home Loan Mortgage Corp.	Federal Agency Securities	\$ 26,173,603	7.09%

#### **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, 2020, \$14,474,292, of the District's demand deposits with financial institutions were in excess of federal depository insurance limits. As of June 30, 2020, 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, 2020**

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

##### ***Investment in State Investment Pool***

The District is a voluntary participant in the Local Agency Investment Fund (LAIF), which is part of the Pooled Money Investment Account that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in LAIF 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 \$69,703,680 as of June 30, 2020. 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 \$75,000,000 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>.

##### ***Investment in California Asset Management Program***

The District is a voluntary participant in the California Asset Management Program (CAMP), which was established as a nontaxable investment portfolio under provisions of the California Joint Exercise of Powers Act to provide California Public Agencies with comprehensive investment management services. There are no minimum deposit requirements or limits on deposits and withdrawals. Dividends from net investment income are declared on a daily basis and paid on the last day of the month. Dividends paid are automatically reinvested in each account by the purchase of additional shares. The contract creating the program specifies the types of investments that can be made by the investment portfolio with available cash: U.S. Government securities, securities of federally sponsored agencies, repurchase agreements, banker's acceptances, negotiable certificates of deposit and commercial paper. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by CAMP which was \$83,893,220 as of June 30, 2020.

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

At June 30, 2020, 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.

Investments in the Local Agency Investment Fund are not subject to the fair value hierarchy.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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

***Fair value measurements, (Continued)***

The District has the following fair value measurements as of June 30, 2020:

Investments by Fair Value Level	Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
U.S. Treasury Bills, Notes and Bonds	\$ 200,252,395	\$ 200,252,395	\$ -	\$ -
Federal Agency Securities	42,340,829	-	42,340,829	-
Negotiable Certificates of Deposit	36,693,991	-	36,693,991	-
Medium-Term Notes	86,431,955	-	86,431,955	-
Total investments by fair value level	365,719,170	\$ 200,252,395	\$ 165,466,775	\$ -
Investments measured at the Net Asset Value (NAV)				
JPA Pools/CAMP	83,893,220			
Municipal Bonds	3,596,399			
Money market mutual funds	101,319			
Total	\$ 453,310,108			

The District's investment in the Local Agency Investment Fund of \$69,703,680 is measured at amortized cost which approximated fair value.

The District's investment in the California Asset Management Program of \$83,893,220 is measured at amortized cost which approximated fair value.

**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 9,453 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, 2020:

	Acre-feet	Inventory cost
Balance at June 30, 2019	11,300	\$ 1,479,070
Additions	-	-
Reductions	(1,847)	(241,756)
Balance at June 30, 2020	9,453	\$ 1,237,314

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

**Note 4: Capital Assets**

Summaries of changes in capital assets in service for the year ended June 30, 2020 were as follows:

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020
Capital assets, not being depreciated:				
Land, right of ways, and pipeline capacity	\$ 30,986,065	\$ 558,944	\$ -	\$ 31,545,009
Construction in progress	3,763,241	3,620,746	-	7,383,987
Total capital assets, not being depreciated	<u>34,749,306</u>	<u>4,179,690</u>	<u>-</u>	<u>38,928,996</u>
Capital assets, being depreciated:				
Buildings	6,289,596	423,366	-	6,712,962
Distribution lines	195,934,337	500,296	-	196,434,633
Brine line	7,121,795	-	-	7,121,795
Furniture, fixtures and equipment	1,328,218	51,122	-	1,379,340
Vehicles	425,988	35,637	23,560	438,065
Yucaipa Dam	3,698,238	-	-	3,698,238
Total capital assets, being depreciated	<u>214,798,172</u>	<u>1,010,421</u>	<u>23,560</u>	<u>215,785,033</u>
Less accumulated depreciation	<u>(57,917,584)</u>	<u>(4,701,555)</u>	<u>(23,560)</u>	<u>(62,595,579)</u>
Total capital assets, being depreciated, net	<u>156,880,588</u>	<u>(3,691,134)</u>	<u>-</u>	<u>153,189,454</u>
Participation rights in State Water Project Facilities	379,280,330	22,591,784	-	401,872,114
Less accumulated amortization	<u>(164,537,180)</u>	<u>(13,720,728)</u>	<u>-</u>	<u>(178,257,908)</u>
Participation rights in State Water Project Facilities, net	<u>214,743,150</u>	<u>8,871,056</u>	<u>-</u>	<u>223,614,206</u>
Total capital assets, net	<u>\$ 406,373,044</u>	<u>\$ 9,359,612</u>	<u>\$ -</u>	<u>\$ 415,732,656</u>

Depreciation and amortization expense for the year ended June 30, 2020 was \$18,422,283.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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**Note 5: Notes Receivable**

Notes receivable at June 30, 2020 consisted of the following:

	<u>2020</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 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 date hereof.	17,841
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.	2,586,782

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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**Note 5: Notes Receivable, (Continued)**

The District entered into a loan agreement with West Valley Water District in December 2016 for the amount of approximately \$4.36 million for the construction, operation and maintenance of the Lytle Creek Turnout and the Roemer Hydroelectric Station. Interest is accrued 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.

	\$ 2,672,919
	<u>6,865,763</u>
Less allowance for uncollectible accounts	(1,588,221)
Less current portion of notes receivable	<u>(761,100)</u>
Total notes receivable, net of current portion	<u><u>\$ 4,516,442</u></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, 2020, total unearned revenue amounted to \$5,172,775.

**Note 7: Certificates of Participation**

**Project Finance Agreements (direct placement)**

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. Construction activities funded by the 2011A Certificates of Participation were completed as of June 30, 2013.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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**Note 7: Certificates of Participation, (Continued)**

**Project Finance Agreements (direct placement), (Continued)**

The following is a summary of bonds payable for the year ended June 30, 2020:

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020	Due within one year
2011A Certificates of Participation	\$ 7,350,000	\$ -	\$ (195,000)	\$ 7,155,000	\$ 205,000
Premium on certificates of participation	113,525	-	(5,160)	108,365	-
Total certificates of participation, net	<u>\$ 7,463,525</u>	<u>\$ -</u>	<u>\$ (200,160)</u>	<u>\$ 7,263,365</u>	<u>\$ 205,000</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
2021	\$ 205,000	\$ 295,944	\$ 500,944
2022	215,000	287,544	502,544
2023	225,000	278,744	503,744
2024	230,000	269,644	499,644
2025	240,000	260,244	500,244
2026-2030	1,360,000	1,145,820	2,505,820
2031-2035	1,660,000	839,413	2,499,413
2036-2040	2,060,000	443,169	2,503,169
2041-2042	<u>960,000</u>	<u>42,437</u>	<u>1,002,437</u>
Totals	<u>\$ 7,155,000</u>	<u>\$ 3,862,959</u>	<u>\$ 11,017,959</u>

The District repaid \$490,944 during the year ended June 30, 2020, of which \$195,000 related to principal payments and \$295,944 related to imputed interest.

In the event of default or termination, the District has agreed, upon demand, to immediately repay the Trustee or the Owners of not less than a majority in aggregate principal amount of Certificates at the time Outstanding will be entitled an amount equal to unpaid installment payments, including accrued interest thereon, and all penalty assessments due. In the event of default or termination, interest shall accrue at the rate or rates applicable to the installment payments.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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**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 safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. 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, at [www.calpers.ca.gov](http://www.calpers.ca.gov).

***Benefits provided***

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

The 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, 2020 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%	7.5%
Required employer contribution rates	16.413%	9.945%	7.528%



**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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

**A. General information about the pension plan**

***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. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions. Employer Contributions to the Plan for the fiscal year ended June 30, 2020 were \$709,684. The actual employer payments of \$601,348 made to CalPERS by the District during the measurement period ended June 30, 2019 differed from the District's proportionate share of the employer's contributions of \$1,144,970 by \$543,622, which is being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

**B. Net pension liability**

The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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

**B. Net pension liability, (Continued)**

***Actuarial methods and assumptions used to determine total pension liability***

	<u>Miscellaneous</u>
Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB 68
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table <sup>(1)</sup>	Derived using CALPERS' membership data for all Funds
Post Retirement Benefit Increase	The lesser of contract COLA or 2.50% until purchasing power protection allowance floor on purchasing power applies, 2.50% thereafter.

(1) The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

All other actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website, at [www.calpers.ca.gov](http://www.calpers.ca.gov).

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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

**B. Net pension liability, (Continued)**

***Long-term Expected Rate of Return***

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 cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 rounded 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 adjusted to account for assumed administrative expenses.

The expected real rates of return by asset class are as follows:

<b>Asset Class<sup>1</sup></b>	<b>Current Target Allocation</b>	<b>Real Return Years 1 - 10<sup>2</sup></b>	<b>Real Return Years 11+<sup>3</sup></b>
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	-	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	-	(0.92%)
Total	100%		

<sup>1</sup> In the System's CAFR, fixed income is included in global debt securities; liquidity is included in short-term investments; inflation assets are included in both global equity securities and global debt securities.

<sup>2</sup> An expected inflation of 2.0% used for this period

<sup>3</sup> An expected inflation of 2.92% used for this period

***Change of assumptions***

There were no changes in assumptions.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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

**B. Net pension liability, (Continued)**

***Discount rate***

The discount rate used to measure the total pension liability for PERF C was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***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](http://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.

**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 Liability	Plan Fiduciary Net Position	Plan Net Pension Liability
Balance at: 6/30/2018 (VD)	\$ 29,069,675	\$ 26,792,086	\$ 2,277,589
Balance at: 6/30/2019 (MD)	30,564,128	27,632,250	2,931,878
Net changes during 2018-19	\$ 1,494,453	\$ 840,164	\$ 654,289

Valuation Date (VD), Measurement Date (MD)

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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

**C. Proportionate share of net pension liability, (Continued)**

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, 2019, 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, 2018 rolled forward to June 30, 2019 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, at [www.calpers.ca.gov](http://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 Miscellaneous Plan as of the June 30, 2018 and 2019 measurement dates was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2018	0.06043%
Proportion - June 30, 2019	<u>0.07321%</u>
Change - Increase (Decrease)	0.01278%

***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 7.15 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 (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Miscellaneous Tier 1 Plan's Net Pension Liability (Asset)	\$ 7,042,847	\$ 2,931,878	\$ (461,436)

***Subsequent events***

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

***Amortization of Deferred Outflows and Deferred Inflows of Resources***

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.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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

**C. Proportionate share of net pension liability, (Continued)**

***Amortization of Deferred Outflows and Deferred Inflows of Resources, (Continued)***

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

Net difference between projected and actual earnings on pension plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lives (EARSL) 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 PERF C for the measurement period ending June 30, 2019 is 3.8 years, which was obtained by dividing the total service years of 530,470 (the sum of remaining service lifetimes of the active employees) by 140,593 (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, 2018), the District's net pension liability for the plan was \$2,277,589. For the measurement period ending June 30, 2019 (the measurement date), the District incurred a pension expense of \$1,409,825 for the Plan.

As of June 30, 2020, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes of Assumptions	\$ 90,246	\$ -
Differences between Expected and Actual Experience	187,854	-
Differences between Projected and Actual Earnings	-	51,258
Differences between Employer's Contributions and Proportionate Share of Contributions	402	-
Change in Employer's Proportion	48,182	-
Pension Contributions Subsequent to Measurement Date	709,684	-
	<u>\$ 1,036,368</u>	<u>\$ 51,258</u>

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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

**D. Pension expense and deferred outflows and deferred inflows of resources related to pensions (Continued)**

These amounts above are net of outflows and inflows recognized in the 2018-19 measurement period expense. Contributions subsequent to the measurement date of \$709,684 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:

<b>Measurement Period Ended June 30:</b>	<b>Deferred Outflows/(Inflows) of Resources, Net</b>
2021	\$ 235,589
2022	28,054
2023	1,425
2024	10,358
2025	-
Remaining	-

**E. Payable to the pension plan**

At June 30, 2020, the District reported a payable of \$-0- for the outstanding amount of contributions to the pension plan required for the year then ended.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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**Note 9: Other-Post Employment Benefits (OPEB)**

***Plan description***

The District offers a health care plan to active and retired employees, as well as their qualified dependents. 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 [www.calpers.ca.gov](http://www.calpers.ca.gov).

***Employees covered***

As of the June 30, 2019 actuarial valuation, the following current and former employees were covered by the benefit terms under the Plan:

Active employees	27
Inactive employees or beneficiaries currently receiving benefits	9
Total	<u>36</u>

***Contributions***

The Plan and its contribution requirements are established by Ordinance and may be amended by Board action to update the original ordinance. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2020, the District's cash contributions were \$558,104 in payments to the CalPERS' California Employer's Retiree Benefit Trust (CERBT).



*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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

***Net OPEB liability***

The District's net OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2018, based on the following actuarial methods and assumptions:

Actuarial Assumptions:

Discount Rate	6.73%
Inflation	2.26%
Salary Increases	3.25% annual increases
Investment Rate of Return	6.73%
Mortality Rate	The mortality rates used in this valuation are those used in the CalPERS 2017 experience study.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term expected real rate of return</u>
Equity	43%	5.43%
Fixed Income	49%	1.63%
REIT's	8%	5.06%
Cash	0%	0.00%
Total	<u>100%</u>	

***Discount rate***

The discount rate used to measure the total OPEB liability was 6.73 percent. The projection of cash flows used to determine the discount rate assumed that District's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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

***Changes in the OPEB Liability (Asset)***

The changes in the net OPEB liability for the Plan are as follows:

	<u>Total OPEB Liability (a)</u>	<u>Plan Fiduciary Net Position (B)</u>	<u>Net OPEB Liability (c)= (a) - (b)</u>
<b>Balance at June 30, 2019</b> (Measurement Date June 30, 2018)	\$ 5,711,219	\$ 2,044,254	\$ 3,666,965
<b>Changes recognized for the measurement period:</b>			
Service Cost	117,741	-	117,741
Interest	387,786	-	387,786
Plan experience differences	(48,509)	-	(48,509)
Contributions - employer	-	886,035	(886,035)
Net investment income	-	142,801	(142,801)
Benefit payments	(136,035)	(136,035)	-
Administrative expenses	-	(444)	444
<b>Net Changes</b>	<u>320,983</u>	<u>892,357</u>	<u>(571,374)</u>
<b>Balance at June 30, 2020</b> (Measurement Date June 30, 2019)	<u>\$ 6,032,202</u>	<u>\$ 2,936,611</u>	<u>\$ 3,095,591</u>

***Sensitivity of the Net OPEB Liability to changes in the discount rate***

The following presents the net OPEB liability of the District's if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2019:

	<b>Discount Rate - 1%</b> <b>5.73%</b>	<b>Current Discount Rate</b> <b>6.73%</b>	<b>Discount Rate + 1%</b> <b>7.73%</b>
Net OPEB Liability	\$ 3,981,408	\$ 3,095,591	\$ 2,368,239

***Sensitivity of the Net OPEB Liability to changes in the health care cost trend rates***

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2019:

	<b>1% Decrease</b>	<b>Current Healthcare Cost Trend Rates</b>	<b>1% Increase</b>
Net OPEB Liability	\$ 2,294,394	\$ 3,095,591	\$ 4,001,206

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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

***OPEB plan fiduciary net position***

CalPERS issues a publicly available CERBT financial report that may be obtained from the CalPERS' website at [www.calpers.ca.gov](http://www.calpers.ca.gov).

***Recognition of deferred outflows and deferred inflows of resources***

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

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

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

Net difference between projected and actual earnings on OPEB plan investments	5 years
All other amounts	For assumption changes and experience gains/losses, we assumed Average Future Working Lifetime, averages over all active and retirees (retirees are assumed to have no future working years)

***OPEB expense and deferred outflows/inflows of resources related to OPEB***

For the fiscal year ended June 30, 2020, the District recognized OPEB expense of \$432,213. As of fiscal year ended June 30, 2020, the District reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 558,104	\$ -
Changes of assumptions	-	3,947,333
Differences between expected and actual experience	64,668	43,379
Net difference between projected and actual earnings on OPEB plan investments	22,803	-
Total	<u>\$ 645,575</u>	<u>\$ 3,990,712</u>

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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

***OPEB expense and deferred outflows/inflows of resources related to OPEB, (Continued)***

The \$558,104 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2019 measurement date will be recognized as a reduction of the net OPEB liability in the upcoming year. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as expense as follows:

<b>Fiscal Year Ended June 30:</b>	<b>Deferred Outflows/(Inflows) of Resources</b>
2021	\$ (775,794)
2022	(775,796)
2023	(775,410)
2024	(778,045)
2025	(727,385)
Thereafter	(70,811)

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*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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**Note 10: Commitments and Contingencies**

***Construction contracts***

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves. The District has committed to \$3,239,129 in open construction contracts as of June 30, 2020. These include:

Project	Approved Contract	Payments To Date	Balance To Complete
Cactus Basin Project	\$ 2,020,000	\$ 897,633	\$ 1,122,367
Waterman Turnout Hydroelectric Project	981,610	924,918	56,692
Enhanced Recharge Project Phase 1B	3,596,260	1,560,260	2,036,000
Enhanced Recharge Phase 1A, Basin Lining Improvements	94,025	69,955	24,070
	\$ 6,691,895	\$ 3,452,766	\$ 3,239,129

***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 2020 to 2035, according to the payment schedule dated June 30, 2020, is estimated as follows:

Transportation charges:	
Capital cost component	\$ 74,986,855
Minimum operations, maintenance, power and replacement component	304,114,421
Variable operations, maintenance, power and replacement component	187,884,010
	566,985,286
Delta water charges	131,665,965
Water system revenue bond surcharge	36,804,447
Off Aqueduct power facilities charges	221,764
East branch extension capital cost	288,462,033
Total	\$ 1,024,139,495

## San Bernardino Valley Municipal Water District

### Notes to the Basic Financial Statements For the Year Ended June 30, 2020

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#### Note 10: Commitments and Contingencies, (Continued)

##### *Jointly governed organization*

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

##### Santa Ana Watershed Project Authority

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

Condensed financial information for the operation of SAWPA for the fiscal year ended June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Total assets	<u>\$ 176,927,279</u>	<u>\$ 177,074,117</u>
Total deferred outflows of resources	<u>\$ 1,482,258</u>	<u>\$ 1,621,887</u>
Total liabilities	<u>\$ 106,512,749</u>	<u>\$ 109,700,671</u>
Total deferred inflows of resources	<u>\$ 337,312</u>	<u>\$ 318,374</u>
Total net position	<u>\$ 71,559,476</u>	<u>\$ 68,676,959</u>
Total revenues	<u>\$ 22,110,403</u>	<u>\$ 19,708,720</u>
Total expenses	<u>\$ (19,227,886)</u>	<u>\$ (20,492,576)</u>
Change in net position	<u>\$ 2,882,517</u>	<u>\$ (783,856)</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 2017, 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, 2020 was \$378,683.

*San Bernardino Valley Municipal Water District*

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2020**

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**Note 12: Risk Management**

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

Property loss - Insured up to \$100,000,000 per occurrence (total insurable value of \$73,028,872 as of June 20, 2019), 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 \$73,028,872 as of June 20, 2019), 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.

**Note 13: COVID-19 Consideration**

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders for all but those deemed essential services. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders. As a result, the outbreak has caused uncertainty in the financial markets. The District is carefully monitoring the situation and evaluating its options during this time. It is possible that this matter may negatively impact the District, however, the ultimate financial impact and duration cannot be estimated at this time, and no adjustments have been made to these financial statements as a result of this uncertainty.

*San Bernardino Valley Municipal Water District*

**Required Supplementary Information  
 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>Employer's Proportion of the Collective Net Pension Liability<sup>1</sup></u>	<u>Employer's Proportionate Share of the Collective Net Pension Liability</u>	<u>Employer's Covered Payroll</u>	<u>Employer's Proportionate Share of the Collective Net Pension Liability as a Percentage of the Employer's Covered Payroll</u>	<u>Pension's Plans Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
6/30/2014	0.08970%	\$ 5,587,972	\$ 2,166,220	258%	77%
6/30/2015	0.21163%	5,805,949	2,279,057	255%	77%
6/30/2016	0.17974%	6,243,808	2,210,568	282%	76%
6/30/2017	0.06836%	2,694,804	2,127,895	127%	90%
6/30/2018	0.06043%	2,277,589	2,252,665	101%	92%
6/30/2019	0.07321%	2,931,878	2,761,632	106%	90%

<sup>1</sup> 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.

\* Historical information is required only for measurement periods for which GASB 68 is applicable. Future years' information will be displayed up to 10 years as needed as information becomes available.



*San Bernardino Valley Municipal Water District*

**Required Supplementary Information  
Schedule of Plan Contributions  
Last 10 years\***

Fiscal Year	Contractually Determined Contributions	Contributions in Relation to the Contractually Determined Contributions	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014-15	\$ 654,436	\$ (654,436)	\$ -	\$ 2,279,057	28.72%
2015-16	1,563,043	(1,563,043)	-	2,210,568	70.71%
2016-17	4,308,248	(4,308,248)	-	2,127,895	202.47%
2017-18	380,370	(380,370)	-	2,252,665	16.89%
2018-19	601,348	(601,348)	-	2,761,632	21.78%
2019-20	709,684	(709,684)	-	2,907,350	24.41%

\* Historical information is required only for measurement periods for which GASB 68 is applicable. Future years' information will be displayed up to 10 years as needed as information becomes available.

**Notes to Schedule:**

Change in Benefit Terms: None

Changes in Assumptions: There were no changes in assumptions in 2019. In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

*San Bernardino Valley Municipal Water District*

**Required Supplementary Information  
Schedule of Changes in the Net OPEB Liability and Related Ratios as of the Measurement Date  
Last 10 years\***

For the Measurement Period Ended June 30

Measurement Date	2017	2018	2019
<b>Total OPEB Liability</b>			
Service Cost	\$ 415,185	\$ 153,033	\$ 117,741
Interest on the Total OPEB Liability	317,872	409,717	387,786
Actual and expected experience difference	(1,955)	87,576	(48,509)
Changes in assumptions	(5,400,852)	(802,057)	-
Changes in benefit terms	-	-	-
Benefit payments	(126,972)	(141,570)	(136,035)
<b>Net change in Total OPEB Liability</b>	<b>(4,796,722)</b>	<b>(293,301)</b>	<b>320,983</b>
<b>Total OPEB Liability - beginning</b>	<b>10,801,242</b>	<b>6,004,520</b>	<b>5,711,219</b>
<b>Total OPEB Liability - ending (a)</b>	<b>6,004,520</b>	<b>5,711,219</b>	<b>6,032,202</b>
<b>Plan Fiduciary Net Position</b>			
Contribution - employer	2,026,972	141,570	886,035
Net investment income	28,815	116,588	142,801
Benefit payments	(126,972)	(141,570)	(136,035)
Administrative expense	(135)	(1,014)	(444)
<b>Net change in Plan Fiduciary Net Position</b>	<b>1,928,680</b>	<b>115,574</b>	<b>892,357</b>
<b>Plan Fiduciary Net Position - beginning</b>	<b>-</b>	<b>1,928,680</b>	<b>2,044,254</b>
<b>Plan Fiduciary Net Position - ending (b)</b>	<b>1,928,680</b>	<b>2,044,254</b>	<b>2,936,611</b>
<b>Net OPEB Liability - ending (a) - (b)</b>	<b>\$ 4,075,840</b>	<b>\$ 3,666,965</b>	<b>\$ 3,095,591</b>
Plan fiduciary net position as a percentage of the total OPEB liability	32.12%	35.79%	48.68%
Covered-employee payroll <sup>(1)</sup>	2,127,895	2,252,665	2,763,767
Net OPEB liability as a percentage of covered-employee payroll <sup>(1)</sup>	191.54%	162.78%	112.01%

**Notes to schedule:**

(1) Covered-employee payroll represented above is based on covered-employee payroll provided by the employer. GASB 75 defines covered-employee payroll as the total payroll of employees that are provided OPEBs through the OPEB plan. Contributions are not based on a measure of pay, therefore, covered-employee payroll is used in this schedule.

Mortality Improvement: The mortality rates used in this valuation are those used in the 2017 CalPERS experience study.

\* Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

Fiscal Year 2017-18 was the first year of implementation.

*San Bernardino Valley Municipal Water District*

**Required Supplementary Information  
Schedule of OPEB Plan Contributions  
Last 10 years\***

Fiscal Year Ended June 30	2018	2019	2020
Actuarially Determined Contributions (ADC) <sup>(2)</sup>	\$ 529,151	\$ 438,901	\$ 388,949
Contribution in relation to the ADC (Excess)/deficiency	<u>(128,352)</u>	<u>(866,580)</u>	<u>(618,244)</u>
	<u>\$ 400,799</u>	<u>\$ (427,679)</u>	<u>\$ (229,295)</u>
Covered-employee payroll <sup>(3)</sup>	\$ 2,252,665	\$ 2,763,767	\$ 2,907,350
Contribution as a percentage of covered-employee payroll <sup>(3)</sup>	5.70%	31.36%	21.26%

<sup>2</sup> Employers setting a discount rate based on the assumption that assets will be sufficient to cover all future benefit payments under the plan are assumed to annually make contributions equal to the actuarially determined contribution.

<sup>3</sup> Covered-employee payroll represented above is based on covered-employee payroll provided by the employer. GASB 75 defines covered-employee payroll as the total payroll of employees that are provided benefits through the OPEB plan. Contributions are not based on a measure of pay, therefore, covered-employee payroll is used in this schedule.

**Notes to Schedule:**

Actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2020 were from the June 30, 2019 actuarial valuation.

**Methods and assumptions used to determine contributions:**

Actuarial Cost Method	Entry Age Normal
Amortization Methodology	Straight-line amortization. For assumption changes and experience gains/losses: Average Future Working Lifetime averages over all actives and retirees (retirees are assumed to have no future working years). For asset gains and losses: 5 years.
Asset Valuation Method	Market value
Discount Rate	6.73%
Inflation	2.26%
Payroll Growth	3.25% per annum, in aggregate
Investment Rate of Return	6.73% per annum
Healthcare Trend Rates	6.90% initial, decreasing to 5.00% in 2028 and later
Retirement Age	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	Pre-retirement mortality probability based on 2017 CalPERS 1997-2011 Experience Study covering CalPERS participants. Post-retirement mortality probability based on CalPERS Experience Study 2007-2011 covering participants in CalPERS.

\* Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.



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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*

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

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, 2020, 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 November 20, 2020.

### ***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.

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  
November 20, 2020