



San Bernardino Valley Water Conservation District
Annual Financial Report
For the Fiscal Years Ended June 30, 2012 and 2011



Service Since 1932

San Bernardino Valley Water Conservation District Board of Directors as of June 30, 2012

<u>Name</u>	<u>Division</u>	<u>Title</u>	<u>Current Term Ending</u>
Richard Corneille	1	President	December 14, 2015
Melody Henriques-McDonald	6	Vice-President	December 04, 2013
Clare Henry Day	2	Director	December 04, 2013
Bob Glaubig	3	Director	December 17, 2015
John Longville	4	Director	December 04, 2013
David E. Raley	5	Director	December 04, 2013
Manuel Aranda Jr.	7	Director	December 14, 2015

**San Bernardino Valley Water Conservation District
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San Bernardino Valley Water Conservation District

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Introductory Section



September 28, 2012

Board of Directors
San Bernardino Valley Water Conservation District

Introduction

It is our pleasure to submit the Annual Financial Report for the San Bernardino Valley Water Conservation District (District) for the fiscal years ended June 30, 2012 and 2011 following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

This report is organized into two sections: (1) Introductory and (2) Financial. The Introductory section offers general information about the District's organization and current District activities and reports on a summary of significant financial results. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis of the District's basic financial statements, and the District's audited basic financial statements with accompanying Notes.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditor's Report.

District Structure and Leadership

The San Bernardino Valley Water Conservation District is an independent special district, which operates under the authority of Division 21 of the California Water Code. The origin of the District dates from 1909 when the Water Conservation Association was formed to conserve water in the region. The District was formed in 1932 as the successor agency to the Water Conservation Association by a vote of the people. The District is governed by a seven-member Board of Directors, elected by division from within the District's service area. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The District employs approximately six regular employees, three in the field and three in the office. The District's Board of Directors meets each month. Meetings are publicly noticed and the public and the press are encouraged to attend its meetings and workshops.

District Services

The San Bernardino Valley Water Conservation District recharges the groundwater basin protecting the safe yield of the San Bernardino Bunker Hill Basin and benefits all of the cities, districts and agricultural and non-agricultural groundwater producers within the District's boundaries.

To accomplish the recharge, the District maintains 71 water percolation basins in the Mill Creek and Santa Ana River spreading grounds. The District also plans for, maintains, or leases over 2000 acres in the Santa Ana River Wash at and below the confluence of the Santa Ana River and Mill Creek. Water year 2012 was a dry year; the District recharged all available water for recharge into the groundwater basin which amounted to approximately 11,000 acre feet.

Economic Condition and Outlook

The District is located at a strategic point in the watershed in the East end of the San Bernardino Valley. The Valley has experienced significant economic growth within the Inland Empire over the past few years however, the downturn in building and the larger economy in general greatly impacted the District's revenues. With the overall downturn in building, the District has experienced a reduction in mining royalties collected on aggregate mined from District leased properties. In late 2011, the District negotiated a new land lease and mining agreement with CEMEX which provides for minimum annual guaranteed revenue. The effect of this change is beginning to be realized and will help to mitigate future revenue variability. As the District's water production and Groundwater Charge revenue may be affected by these overall economic conditions, the District's commitment to cost reductions and rate changes have served to reduce the structural deficit.

The broader economic outlook for the Inland Empire is slowly improving from the worst of the prolonged real estate recession. Historically, the Inland Empire will recover somewhat slower than Los Angeles and the Coastal areas of Southern California. The ongoing financial crisis that has impacted the District is forecast to continue for the next few years. The California State budget deficit may also impact the District due to reductions in grants and reduced property tax revenues.

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met with the limited staff at the District. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management. The District accomplishes this with very minimal staffing.

Budgetary Control

The District's Board of Directors annually adopts an operating and capital budget prior to the beginning of the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

In 2011, the District's board of Directors adopted an enterprise model for financial management as well as reserve and other pertinent policies to implement the enterprise model. These changes are intended to provide better internal accountability and provide greater public transparency. Most changes were implemented throughout fiscal year 2011; however, some changes were not made until the budget was approved for fiscal year 2012. As a result, not all reports reflect the full enterprise format. This changeover also limits detailed comparability with prior years. Summary agency-wide reports are still provided and coordinated with prior years.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the “prudent person” standards. The objective of the Investment Policy is safety, liquidity and yield. District funds are invested in the State Treasurer’s Local Agency Investment Fund, the Investment Trust of California (CalTRUST), and an institutional checking accounts.

District Revenues

State law and District policy ensure that all revenues from groundwater charges generated from District production support District operations. Groundwater Charge rates are set in accordance with section 75500 of the California Water Code. Groundwater charges are levied on all groundwater producing agricultural and non-agricultural facilities within the District boundaries. This is the primary component of the District’s revenue. The District has agreements with other entities to seek reimbursement for recharge of water on their behalf. Revenue is also comprised of royalties from aggregate mining, property leases, and interest on reserves.

Audit and Financial Reporting

State Laws require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Charles Z. Fedak & Company, CPAs has conducted the audit of the District’s financial statements. Their unqualified Independent Auditor’s Report appears in the Financial Section.

Other References

More information is contained in the Management’s Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

Acknowledgements

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Ad Hoc Audit Committee and the Board of Directors for their continued support in planning and implementation of the San Bernardino Valley Water Conservation District’s fiscal policies.

Respectfully submitted,

Daniel B. Cozad
General Manager

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Financial Section



Charles Z. Fedak, CPA, MBA
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Independent Auditor's Report

Board of Directors
San Bernardino Valley Water Conservation District
Redlands, California

We have audited the accompanying financial statements of the San Bernardino Valley Water Conservation District (District) as of and for the fiscal years ended June 30, 2012 and 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the San Bernardino Valley Water Conservation District as of June 30, 2012 and 2011, and the respective changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 28, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. This report can be found on page 33.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 10 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.

Independent Auditor's Report, continued

We have applied certain limited procedures to the required supplementary information, on page 30, 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 audits 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The introductory section on pages 1 through 3 and the supplemental information on pages 31 through 32 are presented for purposes of additional analysis and are not required parts of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on the section.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPA's – An Accountancy Corporation

Cypress, California

September 28, 2012

San Bernardino Valley Water Conservation District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2012 and 2011

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the San Bernardino Valley Water Conservation District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net assets increased 2.7% or \$76,259 to \$2,958,889 in fiscal year 2012 as the result of operations. In 2011, the District's net assets decreased 4.8 % or \$145,659 to \$2,882,630 as the result of operations.
- The District's operating revenues increased 36.0% or \$227,024 in 2012 primarily due to a \$69,726 increase in groundwater assessments and a \$157,298 increase in water spreading revenues. In 2011, the District's operating revenues increased 36.3% or \$168,113 primarily due to an increase in groundwater assessments.
- The District's non-operating revenues increase by 12.0% or \$54,720 in 2012 due primarily to a \$153,958 increase in royalty revenues and a \$38,858 increase in rental income that was offset by a \$160,343 decrease in other non-operating revenues. In 2011, non-operating revenues increased by 37.0% or \$122,955 due primarily to a \$180,441 increase in miscellaneous revenues that was offset by a decrease in royalty income of \$29,260 and a decrease in rental income of \$10,060.
- The District's operating expenses increased 1.3% or \$13,469 in 2012 primarily due to increases in staff salaries of \$41,894, equipment costs of \$56,255, and election related Director's fees and expenses of \$31,490, which was offset by a decrease in professional services expense in the amount of \$113,636. In 2011, operating expenses decreased 48.8% or \$1,011,955 in 2011 primarily due to decreases in professional services expenses of \$315,365, benefits expenses of \$138,690, staff salaries expenses of \$276,675, regional program expenses of \$170,131, and general and administrative expenses of \$89,183.
- The District's non-operating expenses increased 84.3% or \$52,119 in 2012 primarily due to a \$34,198 increase in rental property expense and a \$20,222 decrease in the fair-market value of investments at fiscal year-end. In 2011, non-operating expenses decreased 27.7% or \$23,718 primarily due to a \$19,980 decrease in rental property expense.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period.

San Bernardino Valley Water Conservation District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2012 and 2011

Required Financial Statements, Continued

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the District in a way that helps answer this question.

These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net assets* and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 16 through 29.

Statements of Net Assets

Condensed Statements of Net Assets

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Assets:			
Current assets	\$ 6,688,131	6,737,318	(49,187)
Capital assets, net	<u>1,373,408</u>	<u>1,460,704</u>	<u>(87,296)</u>
Total assets	\$ <u>8,061,539</u>	<u>8,198,022</u>	<u>(136,483)</u>
Liabilities:			
Current liabilities	\$ 51,840	112,620	(60,780)
Non-current liabilities	<u>5,050,810</u>	<u>5,202,772</u>	<u>(151,962)</u>
Total liabilities	<u>5,102,650</u>	<u>5,315,392</u>	<u>(212,742)</u>
Net assets:			
Invested in capital assets	1,373,408	1,460,704	(87,296)
Unrestricted	<u>1,585,481</u>	<u>1,421,926</u>	<u>163,555</u>
Total net assets	<u>2,958,889</u>	<u>2,882,630</u>	<u>76,259</u>
Total liabilities and net assets	\$ <u>8,061,539</u>	<u>8,198,022</u>	<u>(136,483)</u>

San Bernardino Valley Water Conservation District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2012 and 2011

Statement of Net Assets, Continued

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$2,958,889 and \$2,882,630 as of June 30, 2012 and 2011, respectively.

By far the largest portion of the District's net assets, 46.4% as of June 30, 2012 and 50.7% as of June 30, 2011, reflects the District's investment in capital assets (net of accumulated depreciation). The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2012 and 2011, the District showed a positive balance in its unrestricted net assets of \$1,585,481 and \$1,421,926, respectively, which may be utilized in future years.

Statements of Revenues, Expenses and Changes in Net Assets

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 858,490	631,466	227,024
Non-operating revenues	509,710	454,990	54,720
Total revenues	<u>1,368,200</u>	<u>1,086,456</u>	<u>281,744</u>
Expenses:			
Operating expenses	1,084,560	1,071,091	13,469
Depreciation expense	105,948	99,224	6,724
Non-operating expenses	113,919	61,800	52,119
Total expenses	<u>1,304,427</u>	<u>1,232,115</u>	<u>72,312</u>
Net income (loss) before capital contributions	63,773	(145,659)	209,432
Capital contributions:	12,486	-	12,486
Change in net assets	76,259	(145,659)	221,918
Net assets, beginning of year	<u>2,882,630</u>	<u>3,028,289</u>	<u>(145,659)</u>
Net assets, end of year	<u>\$ 2,958,889</u>	<u>2,882,630</u>	<u>76,259</u>

The statement of revenues, expenses and changes of net assets shows how the District's net assets changed during the fiscal years. In the case of the District, net assets increased by \$76,259 and decreased by \$145,659 in fiscal years ended June 30, 2012 and 2011, respectively.

A closer examination of the sources of changes in net assets reveals that:

- The District's net assets increased 2.7% or \$76,259 to \$2,958,889 in fiscal year 2012 as the result of operations. In 2011, the District's net assets decreased 4.8 % or \$145,659 to \$2,882,630 as the result of operations.
- The District's operating revenues increased 36.0% or \$227,024 in 2012 primarily due to a \$69,726 increase in groundwater assessments and a \$157,298 increase in water spreading revenues. In 2011, the District's operating revenues increased 36.3% or \$168,113 primarily due to an increase in groundwater assessments.

San Bernardino Valley Water Conservation District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2012 and 2011

Statements of Revenues, Expenses and Changes in Net Assets, Continued

- The District's non-operating revenues increase by 12.0% or \$54,720 in 2012 due primarily to a \$153,958 increase in royalty revenues and a \$38,858 increase in rental income that was offset by a \$160,343 decrease in other non-operating revenues. In 2011, non-operating revenues increase by 37.0% or \$122,955 due primarily to a \$180,441 increase in miscellaneous revenues that was offset by a decrease in royalty income of \$29,260 and a decrease in rental income of \$10,060.
- The District's operating expenses increased 1.3% or \$13,469 in 2012 primarily due to increases in staff salaries of \$41,894, equipment costs of \$56,255, and election related Director's fees and expenses of \$31,490, which was offset by a decrease in professional services expense in the amount of \$113,636. In 2011, operating expenses decreased 48.8% or \$1,011,955 in 2011 primarily due to decreases in professional services expenses of \$315,365, benefits expenses of \$138,690, staff salaries expenses of \$276,675, regional program expenses of \$170,131, and general and administrative expenses of \$89,183.
- The District's non-operating expenses increased 84.3% or \$52,119 in 2012 primarily due to a \$34,198 increase in rental property expense and a \$20,222 decrease in the fair-market value of investments at fiscal year-end. In 2011, non-operating expenses decreased 27.7% or \$23,718 primarily due to a \$19,980 decrease in rental property expense.

Capital Asset Administration

At the end of fiscal years 2012 and 2011, the District's investment in capital assets amounted to \$1,373,408 and \$1,460,704, respectively, net of accumulated depreciation. This investment in capital assets includes land, diversion facilities, recharge basins, buildings, equipment, and vehicles, etc. Major capital assets additions during the year include improvements the District's buildings and equipment.

Changes in capital assets in 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2012</u>
Capital assets:				
Non-depreciable assets	\$ 219,383	-	-	219,383
Depreciable assets	2,118,148	18,652	-	2,136,800
Accumulated depreciation	<u>(876,827)</u>	<u>(105,948)</u>	-	<u>(982,775)</u>
Total capital assets	<u>\$ 1,460,704</u>	<u>(87,296)</u>	<u>-</u>	<u>1,373,408</u>

Changes in capital assets in 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2011</u>
Capital assets:				
Non-depreciable assets	\$ 219,383	-	-	219,383
Depreciable assets	2,039,273	78,875	-	2,118,148
Accumulated depreciation	<u>(777,607)</u>	<u>(99,220)</u>	-	<u>(876,827)</u>
Total capital assets	<u>\$ 1,481,049</u>	<u>(20,345)</u>	<u>-</u>	<u>1,460,704</u>

San Bernardino Valley Water Conservation District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2012 and 2011

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net assets or operating results based on past, present and future events.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please review the District website at www.sbvwd.org or contact the District's General Manager at 1630 West Redlands Blvd, Suite A, PO Box 1839, Redlands, CA 92373

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Basic Financial Statements

San Bernardino Valley Water Conservation District
Statements of Net Assets
June 30, 2012 and 2011

<i>Assets</i>	2012	2011
Current assets:		
Cash and cash equivalents (note 2)	\$ 6,194,467	6,360,057
Accounts Receivable	30,000	-
Assessments receivable	295,155	259,051
Interest receivable	5,103	7,446
Advances to Wash Plan (note 3)	161,906	110,764
Prepaid expense	1,500	-
Total current assets	<u>6,688,131</u>	<u>6,737,318</u>
Non-current assets:		
Capital assets not being depreciated (note 4)	219,383	219,383
Depreciable capital assets (note 4)	1,154,025	1,241,321
Total non-current assets	<u>1,373,408</u>	<u>1,460,704</u>
Total assets	<u>\$ 8,061,539</u>	<u>8,198,022</u>
<hr/> <i>Liabilities</i> <hr/>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 23,032	35,397
Accrued wages and related payables	9,593	18,735
Customer deposits	4,717	5,825
Long-term liabilities – due in less than one year:		
Compensated absences (note 5)	14,498	39,934
Pension-related debt (note 7)	-	12,729
Total current liabilities	<u>51,840</u>	<u>112,620</u>
Non-current liabilities:		
Deferred revenue (note 6)	5,000,000	5,000,000
Long-term liabilities – due in more than one year:		
Compensated absences (note 5)	48,848	29,864
Other post-employment benefits payable (note 9)	1,962	962
Pension-related debt (note 7)	-	171,946
Total non-current liabilities	<u>5,050,810</u>	<u>5,202,772</u>
Total liabilities	<u>5,102,650</u>	<u>5,315,392</u>
Net assets: (note 10)		
Investment in capital assets	1,373,408	1,460,704
Unrestricted	1,585,481	1,421,926
Total net assets	<u>2,958,889</u>	<u>2,882,630</u>
Total net assets and liabilities	<u>\$ 8,061,539</u>	<u>8,198,022</u>

See accompanying notes to the basic financial statements

San Bernardino Valley Water Conservation District
Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Groundwater assessments	\$ 671,192	601,466
Water spreading operations	157,298	-
Services for other agencies	<u>30,000</u>	<u>30,000</u>
Total operating revenues	<u>858,490</u>	<u>631,466</u>
Operating expenses:		
Water spreading operations	889,821	900,990
Regional programs	1,028	2,194
General and administrative	<u>193,711</u>	<u>167,907</u>
Total operating expenses	<u>1,084,560</u>	<u>1,071,091</u>
Operating loss before depreciation expense	(226,070)	(439,625)
Depreciation expense	<u>(105,948)</u>	<u>(99,224)</u>
Operating loss	<u>(332,018)</u>	<u>(538,849)</u>
Non-operating revenue(expense):		
Property taxes	76,976	79,880
Royalty income	201,064	47,106
Rental income	159,824	120,966
Interest earnings	55,030	29,879
Decrease in fair-market value of investments	(20,222)	-
Rental property expense	(81,957)	(47,759)
Interest expense	(11,740)	(14,041)
Other non-operating revenue(expense), net	<u>16,816</u>	<u>177,159</u>
Total non-operating revenues, net	<u>395,791</u>	<u>393,190</u>
Capital contributions:		
Grant revenue	<u>12,486</u>	-
Total capital contributions	<u>12,486</u>	-
Change in net assets	76,259	(145,659)
Net assets, beginning of year	<u>2,882,630</u>	<u>3,028,289</u>
Net assets, end of year	<u>\$ 2,958,889</u>	<u>2,882,630</u>

See accompanying notes to the basic financial statements

San Bernardino Valley Water Conservation District
Statements of Cash Flows
For the Fiscal Year Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from groundwater assessments and other agencies	\$ 792,386	594,415
Cash paid to employees for salaries and wages	(439,116)	(372,770)
Cash paid to vendors and suppliers for materials and services	(678,417)	(529,005)
Net cash used in operating activities	(325,147)	(307,360)
Cash flows from capital financing activities:		
Acquisition of capital assets	(18,652)	(78,875)
Net cash used in capital financing activities	(18,652)	(78,875)
Cash flows from non-capital financing activities:		
Property taxes	76,976	79,880
Royalty income	201,064	47,106
Rental revenue, net	77,867	73,207
Grants	12,486	-
Advances to Wash Plan	(51,142)	(68,875)
Principal payment on pension debt	(184,675)	(6,662)
Interest paid on pension debt	(11,740)	(14,041)
Net cash provided by non-capital financing activities	120,836	110,615
Cash flows from investing activities:		
Interest earnings	57,373	21,793
Net cash provided by investing activities	57,373	21,793
Net decrease in cash	(165,590)	(253,827)
Cash and cash equivalent at the beginning of year	6,360,057	6,613,884
Cash and cash equivalent at the end of year	\$ 6,194,467	6,360,057

Continued on next page

See accompanying notes to the basic financial statements

San Bernardino Valley Water Conservation District
Statements of Cash Flows, continued
For the Fiscal Year Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ <u>(332,018)</u>	<u>(538,849)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	105,948	99,224
Other, net	(3,406)	164,625
Changes in assets and liabilities		
(Increase) decrease in assets:		
Accounts receivable	(30,000)	-
Assessments receivable	(36,104)	(37,051)
Prepaid expense	(1,500)	10,830
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(12,365)	(25,988)
Accrued wages and related payables	(9,142)	10,584
Customer deposits	(1,108)	-
Compensated absences	(6,452)	8,303
Other post employment benefits payable	<u>1,000</u>	<u>962</u>
Total adjustments	<u>6,871</u>	<u>231,489</u>
Net cash used in operating activities	\$ <u><u>(325,147)</u></u>	<u><u>(307,360)</u></u>
Non-cash investing, capital and financing transactions:		
Change in fair-market value of investments	\$ <u><u>10,357</u></u>	<u><u>9,865</u></u>

See accompanying notes to the basic financial statements

San Bernardino Valley Water Conservation District
Statements of Fiduciary Net Assets - Agency Fund
For the Fiscal Year Ended June 30, 2012 and 2011

<i>Assets</i>	2012	2011
Cash and cash equivalents	\$ -	29,443
Due from other governments	161,906	81,321
Total assets	\$ 161,906	110,764
<i>Liabilities</i>		
Due to other governments	\$ 161,906	110,764
Total liabilities	\$ 161,906	110,764

See accompanying notes to the basic financial statements

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012 and 2011

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The San Bernardino Valley Water Conservation District (District) was formed in 1932 under the statutory authority of the California Water Code. Its function is to conduct water spreading operations by capturing flood flows of the Santa Ana River and Mill Creek. Spreading enables the water to percolate into the groundwater basin for the benefit of all producers.

The District is comprised of approximately 50,000 acres of land. Within its boundaries are several municipal water purveyors, public utilities, and other (mutual and private) companies who supply water needs. The source of such water is the groundwater basin underlying the District, of which an average of 150,000 acre-feet per year is extracted through some 300 producing wells by approximately 150 different producers.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 14, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units* (an amendment of No. 14). The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012 and 2011

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

C. Financial Reporting, continued

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the District, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The District has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

D. Assets, Liabilities and Net Assets

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

3. Investments

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.

4. Property Taxes and Assessments

Secured property taxes are levied against real property and are due and payable in two equal installments. The first installment is due on November 1 and becomes delinquent if not paid by April 10. Unsecured personal property taxes are due on July 1 each year. These taxes become delinquent if not paid by August 31.

The District assesses its property taxes through the County tax rolls. Property taxes are recognized as revenue when they are both measurable and available.

5. Compensated Absences

The District records the cost of vested vacation and sick leave as it is earned. Vacation pay is payable to employees at the time vacation is taken or upon termination of employment. Employees may receive payment for unused sick leave upon termination according to a predetermined vesting schedule.

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012 and 2011

D. Assets, Liabilities and Net Assets, Continued

6. Concentrations

The District has two primary sources of revenue. One is the groundwater charge levied to entities who extract water from the groundwater basin underlying the District. The amount of rainfall in the area as well as additional allocations of state project water to the neighboring water districts can have a significant effect on the amount of water extracted. The second major source of revenue is from mining activities on District property. The level of building activity in the region may have significant impact on mining revenues.

7. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$1,000 and an estimated useful life of five years. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Buildings – 40-50 years
- Vehicles and equipment – 5 – 10 years
- Office equipment – 3 – 10 years
- Field equipment – 5 – 10 years
- Spreading basins – 50+ years
- Improvements
 - Structural – 40 years
 - Furnishings – 10 years

8. Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

9. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Net Investment in Capital Assets** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *net investment in capital assets*.

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012 and 2011

(2) Cash and Investments

Cash and investments as of June 30, are classified in the Statement of Net Assets as follows:

	2012	2011
Statement of Net Assets:		
Cash and cash equivalents	\$ <u>6,194,467</u>	<u>6,360,057</u>
Agency Fund:		
Cash and cash equivalents	<u>-</u>	<u>29,443</u>
Total cash and cash equivalents	<u>\$ <u>6,194,467</u></u>	<u><u>6,389,500</u></u>

Cash and investments as of June 30, consist of the following:

	2012	2011
Cash on hand	\$ -	200
Deposits with financial institutions	219,030	122,014
Deposits held with the California Local Agency Investment Fund	443,109	6,267,286
Deposits held with the CalTRUST Medium-Term Fund	<u>5,532,328</u>	<u>-</u>
Total cash and investments	<u>\$ <u>6,194,467</u></u>	<u><u>6,389,500</u></u>

As of June 30, the District's authorized deposits had the following maturities:

	2012	2011
California Local Agency Investment Fund	268 days	237 days
Investment Trust of California (CalTRUST Medium-Term Fund)	675 days	581 days

Investments Authorized by the California Government Code and the District's Investment Policy

Under provisions of the District's investment policy, and in accordance with Section 53601 of the California Government Code, the District may invest the following types of investments:

- Securities of the U. S. Government, or its agencies
- Certificates of deposit (or time deposits) placed with commercial banks and/or savings and loan companies
- State of California – Local Agency Investment Fund (LAIF)
- Investment Trust of California – CalTRUST
- Checking accounts or passbook savings account demand deposits
- Money market mutual funds

The District's investment policy is to apply the prudent-person rule: 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 does not contain any specific provisions intended to limit its exposure to a concentration of credit risk.

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012 and 2011

(2) Cash and Investments, Continued

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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 (unless so waived by the governmental unit). 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. Of the bank balances, up to \$250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) 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 Code and the District's investment policy contains legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

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 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 term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide for cash flow requirements and liquidity needed for operations.

Credit Risk

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, or debt agreements, and the actual rating as of year-end for each investment type.

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012 and 2011

(2) Cash and Investments, Continued

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments at June 30, 2012 and 2011, respectively.

(3) Advance to Wash Plan

The District provides various funding for Wash Plan operations on behalf of interested parties. Amounts are to be reimbursed to the District based on the Plan's formative agreement.

Changes in advances to Wash Plan at June 30, were as follows:

	<u>2011</u>	<u>Advances</u>	<u>Receipts</u>	<u>2012</u>
\$	110,764	51,142	-	161,906
<hr/>				
	<u>2010</u>	<u>Advances</u>	<u>Receipts</u>	<u>2011</u>
\$	41,889	68,875	-	110,764

(4) Capital Assets

Changes in capital assets for 2012 were as follows:

	<u>Balance</u> <u>2011</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance</u> <u>2012</u>
Non-depreciable assets:				
Land	\$ 219,383	-	-	219,383
Total non-depreciable assets	219,383	-	-	219,383
Depreciable assets:				
Buildings	1,169,347	5,500	-	1,174,847
Vehicles and equipment	140,484	-	-	140,484
Office equipment	174,534	-	-	174,534
Field equipment	195,549	13,152	-	208,701
Concrete basins	330,192	-	-	330,192
Improvements	94,404	-	-	94,404
Equipment	13,638	-	-	13,638
Total depreciable assets	2,118,148	18,652	-	2,136,800
Less accumulated depreciation:				
Total accumulated depreciation:	(876,827)	(105,948)	-	(982,775)
Total accumulated depreciation:	(876,827)	(87,296)	-	(982,775)
Total capital assets, net	\$ 1,460,704			1,373,408

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012 and 2011

(4) Capital Assets, Continued

Changes in capital assets for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2012</u>
Non-depreciable assets:				
Land	\$ 219,383	-	-	219,383
Total non-depreciable assets	<u>219,383</u>	<u>-</u>	<u>-</u>	<u>219,383</u>
Depreciable assets:				
Buildings	1,169,347	5,500	-	1,174,847
Vehicles and equipment	140,484	-	-	140,484
Office equipment	174,534	-	-	174,534
Field equipment	195,549	13,152	-	208,701
Spreading basins	330,192	-	-	330,192
Improvements	94,404	-	-	94,404
Equipment	13,638	-	-	13,638
Total depreciable assets	<u>2,118,148</u>	<u>18,652</u>	<u>-</u>	<u>2,136,800</u>
Less accumulated depreciation:	<u>(876,827)</u>	<u>(105,948)</u>	<u>-</u>	<u>(982,775)</u>
Total accumulated depreciation:	<u>(876,827)</u>	<u>(87,296)</u>	<u>-</u>	<u>(982,775)</u>
Total capital assets, net	<u>\$ 1,460,704</u>			<u>1,373,408</u>

(5) Compensated Absences

The changes to compensated absences balances at June 30, were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2012</u>	<u>Current</u>	<u>Long Term</u>
\$	69,798	49,201	(55,653)	63,346	14,498	48,848
	<u>Balance 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2011</u>	<u>Current</u>	<u>Long Term</u>
\$	61,495	44,757	(36,454)	69,798	39,934	29,864

(6) Long-Term Debt

Deferred Revenue

During the fiscal year ended June 30, 1993, the District entered into an agreement for the extraction of rock, sand and gravel from its Section 7 property (Wash Area). As part of this agreement, the District received a \$5,000,000 prepayment against future rentals and royalties to be received. The lease terms initially called for a commencement date of December 31, 2002. The agreement was subsequently amended during the fiscal year ended June 30, 2003 and restated the date for the commencement of operations within the Wash Area to be upon the Wash Plan, which is currently slated for the fiscal year 2012-2013 or later. The initial term of the lease is for ten years with four successive five-year renewal periods, minimum annual rent of \$1,000,000, and a minimum aggregate excavation of 12,000,000 tons of material. In the event the lease is unable to obtain necessary permits for operations within the Wash Area within four years of commencement date, the amounts prepaid would then become refundable without interest, upon a one year notice.

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012 and 2011

(7) Pension-Related Debt

At of June 30, 2003, CalPERS implemented risk pooling for the District's multiple-employer public employee defined benefit pension plan. As a result, the District Plan converted from an agent multiple-employer plan to a cost sharing multiple-employer plan.

A portion of the District's annual required contributions are actuarially determined and shared by all employers of the risk pool, the District is also required to make payments to a Side Fund which was created when the District entered the risk pool. The responsibility for funding the Side Fund is specific to the District and is not shared by all employers in the Plan. Therefore, the Side Fund falls under the definition of pension-related debt, as described in GASB Statement No. 27. The payments on the Side Fund represent principal and interest payments on the pension-related debt. Interest is reported as interest expense and the principal is reported as a reduction of the liability. In 2012, the District paid off the remaining balance of the Side Fund.

Changes in the pension-related debt at June 30, is as follows:

Changes in pension related debt for 2012 were as follows:

<u>2011</u>	<u>Additions</u>	<u>Payments</u>	<u>2012</u>
184,675	-	(184,675)	-
<u>184,675</u>	<u>-</u>	<u>(184,675)</u>	<u>-</u>

Changes in pension related debt for 2011 were as follows:

<u>2010</u>	<u>Additions</u>	<u>Payments</u>	<u>2011</u>
191,337	-	(6,662)	184,675
<u>191,337</u>	<u>-</u>	<u>(6,662)</u>	<u>184,675</u>

(8) Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the Agency. Copies of CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA, 95814.

Funding Policy

The contribution rate for plan members in the CalPERS, under funding Policy 2.5% at 55 Risk Pool Retirement Plan is 7% of their annual covered salary and is paid 85% by the District. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2011, 2010 and 2009 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. At fiscal year ended June 30, 2012 and 2011, the District did not have an unfunded pension liabilities. For Fiscal years 2011, 2010 and 2009, the District's annual contributions for the CalPERS plan were equal to the Agencies required and actual contributions for each fiscal year as follows:

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012 and 2011

(8) Defined Benefit Pension Plan, Continued

Three Year Trend Information:

Three Year Trend Information:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2009-2010	149,714	100%	-	13.320%
2010-2011	50,376	100%	-	13.897%
2011-2012	60,204	100%	-	14.532%

(9) Other Post –Employment Benefits Payable

The District implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the District are set forth below.

Plan Description – Eligibility

The District pays the level set by the Board for Employees for the cost of health insurance for retirees under the plans offered by the District until the retiree qualifies for Medicare, subject to limits determined by the Board of the District.

Membership in the OPEB plan consisted of the following members as of June 30:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Active plan members	5	5	8
Retirees and beneficiaries receiving benefits	-	-	-
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	<u>5</u>	<u>5</u>	<u>8</u>

Plan Description – Benefits

The District offers post-employment medical benefits to retired employees who satisfy the eligibility requirements. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any medical plan available through the District. The contribution requirements of eligible retired employees and the District are established and may be amended by the Board of Directors

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 0.2% of the annual covered payroll.

The District will pay up to 100% of the cost of the post-employment benefit plan. The District funds the plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012 and 2011

(9) Other Post –Employment Benefits Payable, Continued

Annual Cost

For the year ended June 30, 2012, the District’s ARC cost was \$1,000 based on a 30 year amortization of the unfunded actuarial liability. The District’s net OPEB obligation amounted to \$1,000 for the year ended June 30, 2012. The District contributed \$3,118 to reserves for future costs to fully fund its current liability for retirement medical benefits as of June 30, 2012. The District intends to budget this

The balance at June 30, consists of the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 1,000	962	-
Interest on net OPEB obligation	-	-	-
Adjustment to annual required contribution	-	-	-
Total annual OPEB expense	<u>1,000</u>	<u>962</u>	<u>-</u>
Change in net OPEB payable obligation:			
Age adjusted contributions made	-	-	-
Total change in net OPEB payable obligation	<u>1,000</u>	<u>962</u>	<u>-</u>
OPEB payable – beginning of year	<u>962</u>	<u>-</u>	<u>-</u>
OPEB payable – end of year	<u>\$ 1,962</u>	<u>962</u>	<u>-</u>

contribution for future years based on its reserve policy.

The District’s annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2012 and the two preceding years were as follows:

<i>Three-Year History of Net OPEB Obligation</i>				
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Age Adjusted Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation Payable</u>
2012	\$ 1,000	-	0.00%	\$ 1,000
2011	962	-	0.00%	962
2010*	-	-	0.00%	-

* The information for the two preceding years is unavailable.
GASB No. 45 was implemented in fiscal year 2011.

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012 and 2011

(10) Net Assets

Calculation of net assets as of June 30, were as follows:

	2012	2011
Unrestricted net assets:		
Non-spendable net assets:		
Prepaid expenses	\$ 1,500	-
Total non-spendable net assets	1,500	-
Spendable net assets:		
Spendable net assets	1,583,981	1,421,926
Total spendable net assets	1,583,981	1,421,926
Total unrestricted net assets	1,585,481	1,421,926
Total net assets	\$ 2,958,889	2,882,630

(11) Lease Agreements

The District is the lessor, in various lease agreements, providing for the excavation and removal of rock, gravel, sand, and other materials from District property. Monthly lease payments are generally based on tonnage of materials removed, subject to annual minimum amounts.

The Redlands Plaza Enterprise Fund is the lessor of commercial building space under operating leases expiring in various years through the year ending in calendar year June 30, 2016.

Minimum future rentals to be received on non-cancelable leases as of June 30, are as follows:

Year	Redlands Plaza
2013	\$ 119,325
2014	95,443
2015	92,064
2016	50,980
2017	14,275
	\$ 372,087

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012 and 2011

(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. The District is insured for a variety of potential exposures. The following is a summary of the insurance policies carried by the District as of June 30, 2012:

- Property: Actual property loss varying by property type with a \$1,000 deductible.
- Vehicles/Mobile Equipment: Actual property loss varying by equipment with a \$500/\$1000 deductible.
- General Liability: \$1,000,000 excess insurance per occurrence.
- Auto Liability: \$1,000,000
- Crime, Computer Fraud, Forgery, and Dishonesty coverage: \$100,000 per claim with a \$1,000 deductible.
- Employers Liability: \$2,000,000 per accident employee by disease
- Workers compensation: \$2,000,000 each accident or each employee by disease.

(13) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2012, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 60

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard address how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 61

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity, Omnibus*. This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*. This statement is effective for financial statements for periods beginning after June 15, 2012. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012 and 2011

(13) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

Governmental Accounting Standards Board Statement No. 62

In December 2010, The GASB issued Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the “FASB and AICPA pronouncements.” This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

Governmental Accounting Standards Board Statement No. 63

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement is effective for financial statements for periods beginning after December 15, 2012. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 64

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. This standard is designed to improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or swap counterparty’s credit support provider, is replaced. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 65

In March 2012, the GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012 and 2011

(13) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

Governmental Accounting Standards Board Statement No. 66

In March 2012, the GASB issued Statement No. 66 – *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

(13) Commitments and Contingencies

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

(14) Subsequent Events

Events occurring after June 30, 2012 have been evaluated for possible adjustment to the financial statements or disclosure as of September 28, 2012, which is the date the financial statements were available to be issued.

Required Supplementary Information

San Bernardino Valley Water Conservation District
Schedule of Funding Status – Other Post-Employment Benefits Obligation
For the Fiscal Year Ended June 30, 2012

Funded Status and Funding Progress of the Plan

Required Supplemental Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
11/1/2011	-	3,118	3,118	0.00%	429,422	0.73%

* The information for the two preceding years is unavailable.
 GASB No. 45 was implemented in fiscal year 2011.

The most recent valuation (dated November 1, 2011) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$3,118. There are no plan assets because the District funds on a pay-as-you-go basis. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2011 was \$429,422. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 0.73%.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	November 1, 2011
Actuarial cost method	Entry age normal actuarial cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	30 Years as of the valuation date
Asset valuation method	30 Year smoothed market
Actuarial assumptions:	
Investment rate of return	4.00%
Projected salary increase	3.00%
Inflation - discount rate	4.00%
Individual salary growth	3.00%

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Supplemental Information

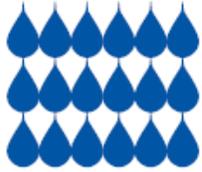
San Bernardino Valley Water Conservation District
Schedules of Operating Revenues and Expenses
For the Fiscal Year Ended June 30, 2012 and 2011

	2012	2011
Operating revenues:		
Groundwater assessments:		
Groundwater charge assessment – Agricultural	\$ 81,436	65,686
Groundwater charge assessment – Non-Agricultural	589,756	535,780
Water spreading operations	157,298	-
Services for other agencies	30,000	30,000
	<u>858,490</u>	<u>631,466</u>
Operating expenses:		
Water spreading operations:		
Professional services	167,750	281,386
Field Operations	30,899	31,476
Vehicle operations	3,512	1,374
Utilities	26,601	24,088
Benefits	175,040	174,796
Salaries/staff	405,891	363,997
Equipment	80,128	23,873
	<u>889,821</u>	<u>900,990</u>
Regional programs:		
Regional programs LAFCO contribution	1,028	2,194
	<u>1,028</u>	<u>2,194</u>
General and administrative:		
Administrative expense	2,972	6,693
Director's fees/expense	123,721	92,231
General and administrative	58,632	46,393
Insurance	8,386	22,590
	<u>193,711</u>	<u>167,907</u>
Total operating expenses	<u>1,084,560</u>	<u>1,071,091</u>
Operating loss before depreciation expense	(226,070)	(439,625)
Depreciation expense	(105,948)	(99,224)
	<u>(332,018)</u>	<u>(538,849)</u>
Operating loss	\$ (332,018)	(538,849)

San Bernardino Valley Water Conservation District
Schedules of Wash Plan Revenues and Expenses
For the Fiscal Years Ended June 30, 2012 and 2011

	2012	2011
Revenues:		
Wash Plan – EIS	\$ -	33,693
Interest income	-	3
	-	33,696
Expenses:		
Professional services	40,298	34,720
Environmental services	6,294	9,898
Legal expenses	4,550	23,147
Other	-	994
	\$ 51,142	68,875

Report on Internal Controls and Compliance



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Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
San Bernardino Valley Water Conservation District
Redlands, California

We have audited the basic financial statements of the San Bernardino Valley Water Conservation District (District) as of and for the years ended June 30, 2012 and 2011 and have issued our report thereon dated September 28, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPA's - An Accountancy Corporation
Cypress, California
September 28, 2012