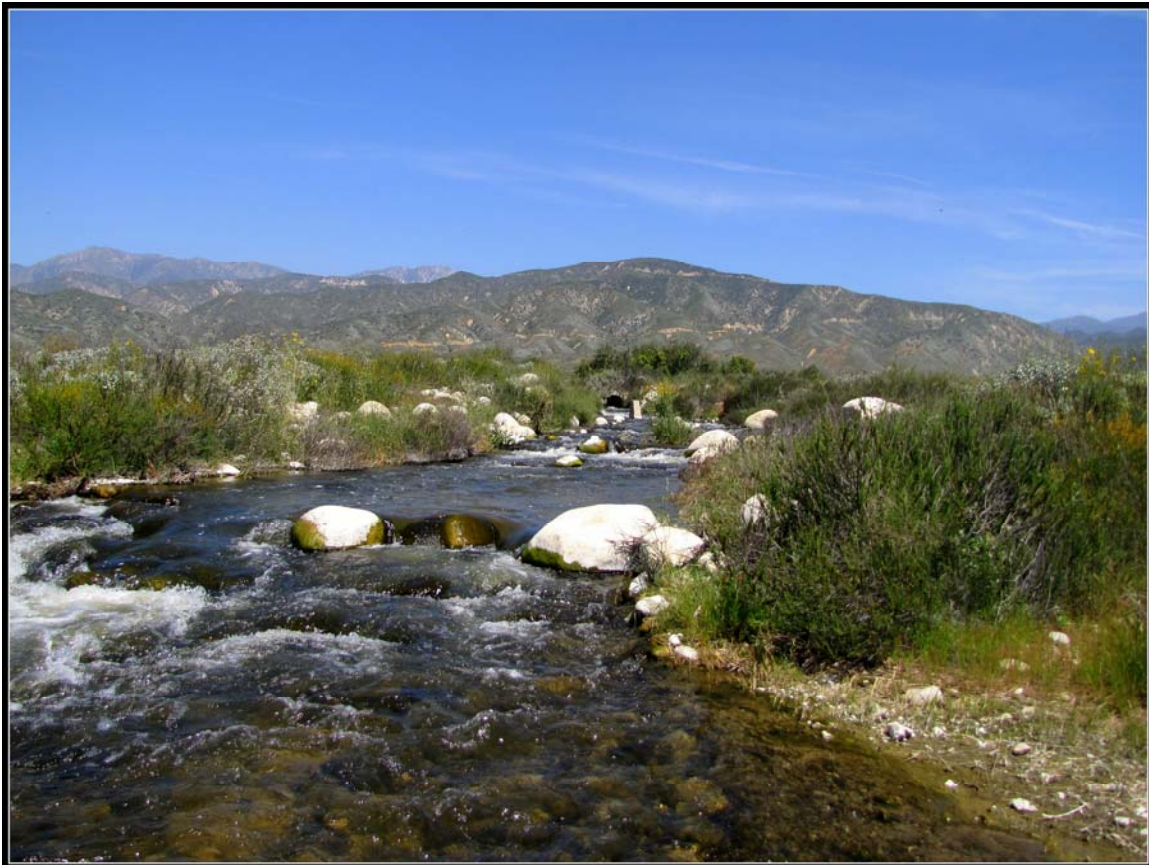




San Bernardino Valley Water Conservation District
Annual Financial Report
For the Fiscal Years Ended June 30, 2013 and 2012



Service Since 1932

San Bernardino Valley Water Conservation District Board of Directors as of June 30, 2013

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

**San Bernardino Valley Water Conservation District
Daniel B. Cozad, General Manager
1630 West Redlands Blvd., Suite A
PO Box 1839
Redlands, California 92373
(909) 793-2503 – www.sbvwd.org**

San Bernardino Valley Water Conservation District

Annual Financial Report

For the Fiscal Years Ended June 30, 2013 and 2012

San Bernardino Valley Water Conservation District
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For the Fiscal Years Ended June 30, 2013 and 2012

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Introductory Section



SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT

Established 1932

1630 West Redlands Boulevard, Suite A
Redlands, CA 92373-8032
(909) 793-2503
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October 9, 2013

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 year ended June 30, 2013 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 the Board and public 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 Auditors' 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 District 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 voluntarily 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 currently governed by a seven-member Board of Directors, elected by division from within the District's service area. The District reduced the number of Divisions to five and will be transitioning to a five member Board between 2013 and 2015.

The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. For most of FY 2013 the District employed six regular employees, three in the field and three in the office. The District's Board of Directors generally meets once each month. Meetings are publicly noticed and the public and the press frequently attend its Board meetings and workshops.

In 2013, the Board approved a Community Strategic Plan which was developed with input from the water, mining and other partners and the communities the District serves. This Strategic Plan focused on the District's services, efforts and strategic direction in support of the needs of the District's communities, rate payers and partners

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 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 3600 acres in the Santa Ana River Wash at and below the confluence of the Santa Ana River and Mill Creek. Water year 2013 has been a dry year. The District recharged all water that was available; 7,946 acre feet of water successfully recharged into the groundwater basin for the water year ending September 30, 2013.

Significant Initiatives

The District has several significant initiatives ongoing that are organizationally and financially significant.

Santa Ana River Wash Plan – The Wash Plan is a long term environmental and infrastructure planning effort that the District has led for many years. In 2012 and 2013 the District was able to work with the USFWS to refocus efforts and increase progress toward completion of the Wash Plan Habitat Conservation Plan. This plan will contribute the significant environmental improvements to habitat for several endangered species including the San Bernardino Kangaroo Rat and the Santa Ana River Woolly Star plant in the wash. The plan also allows expanded water conservation facilities, mining, transportation and trails. The communities served by the District are very involved in the effort through the Wash Plan Task Force.

Plunge Creek Water and Habitat Conservation – This project was developed and competed with over 100 projects within the Santa Ana Watershed for Proposition 84 Integrated Regional Water Management Planning funding. The District will receive an allocation of \$500,000 in grant funding if approved by the Department of Water Resources in the fall of 2013 for the project. This significant project planned with the US Fish and Wildlife Service will ultimately develop about 100 acres of new high quality SBKR habitat and create an additional 1,600 AF of groundwater recharge per year on District owned lands.

Enhanced Recharge Project with SBVMWD – The Enhanced Recharge Project is significant to the District because it is a cooperative project with San Bernardino Valley Municipal Water District (SBVMWD). The project will improve and construct additional facilities; basins, canals and related structures on District lands to increase the capacity to recharge water from the Santa Ana River in the years when it is plentiful. This cooperative joint project also allows more effective use of the existing facilities for the benefit of the groundwater basin.

Policy and Practice Documentation – Staff continues to work to better document the policy, practices and procedures used by the District. Many of these good practices and procedures were in place and followed by staff but some were not well documented. In the past the District had benefited from long time staff which passed down practices and procedures. It is important to ensure this knowledge is captured and documented with retirements and other changes in staffing. Examples include the Operations and Maintenance Manual and expanded District policies for budget and reserves. These are important because for the first time in several years contributions to reserves can be made due to savings, one time revenue, and repayment of reimbursements due to the District.

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. The downturn in building caused the District to experience reductions in mining royalties collected on aggregate mined from District leased properties. A 2011 land lease and mining agreement with CEMEX now provides for minimum annual guaranteed revenue. This has shown to be a significant improvement and will help to mitigate revenue variability.

The broader economic outlook for the Inland Empire is now improving from the real estate recession. Housing prices are rising and some development activities are being initiated. Historically, the Inland Empire recovers somewhat slower than Los Angeles and coastal Southern California. The ongoing financial crisis that has impacted the District's mining royalties is likely to impact the District revenue 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 is better documenting its controls and practices and adding efforts to allow the highest level of control possible with its 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 and reporting purposes as well as reserve and other pertinent policies to implement the enterprise model. These changes were intended to provide better internal accountability and provide greater public transparency. In 2012 and 2013, District policies were updated to revisit reserve levels and provide for implementation when revenue was available. The table below shows designated cash and cash equivalent balances after full implementation of these policies.

Fund	2013 Balance
Groundwater Recharge Enterprise	\$1,229,001
Groundwater ER Maintenance Reserve	\$50,000
Land Resources Reserve	\$679,206
Post-employment Expense/CalPERS	\$3,118
Self-Insurance Reserve	\$10,000
General Operating Reserves	<u>\$510,027</u>
Total	\$2,511,352
Prepaid Aggregate Royalty (1 year callable)	\$5,000,000

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 CalTrust Joint Powers Authority, and institutional checking accounts.

District Revenues

State law and District policy ensure that all revenues from groundwater charges generated from District groundwater 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 for payment or reimbursement for recharge of water on their behalf. In 2012 a cooperative agreement for the implementation of the Enhanced Recharge facilities was implemented and this agreement provides land lease funding as well as groundwater operations funding, which replaces a component of reimbursement revenue from SBVMWD. Revenue from royalties on aggregate mining, property leases, easements, and interest on reserves complete the non-rate revenue. In 2013, easements to allow the Department of Water Resources to build an extension to the State Water Project, EBX-2, contributed significant one time revenue to the District.

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 for the past few years. Their unmodified 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 as well as support and oversight by the firm of Rogers, Anderson, Malody, and Scott. We appreciate the dedicated efforts and professionalism of the staff of 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

Financial Section



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the San Bernardino Valley Water Conservation District (District) as of and for the years ended June 30, 2013 and 2012, 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 opinions on these 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. Those standards require that we plan and perform the audits 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2013 and 2012, and the respective changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 11 and schedule of funding progress on page 30 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, schedules of operating revenues and expenses, and schedules of Wash Plan revenues and expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of operating revenues and expenses, and schedules of Wash Plan revenues and expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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 schedules of operating revenues and expenses, and schedules of Wash Plan revenues and expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not 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 October 9, 2013, 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 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. This report can be found on pages 33 and 34.

Charles Z. Fedak & Company, CPAs - An Accountancy Corporation

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

Cypress, California

October 9, 2013

San Bernardino Valley Water Conservation District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

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, 2013 and 2012. 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 position increased 45.7% or \$1,353,055 to \$4,311,944 in fiscal year 2013 as the result of operations. In 2012, The District's net position increased 2.7% or \$76,259 to \$2,958,889 as the result of operations.
- The District's operating revenues increased 84.00% or \$721,048 in 2013 primarily due to a \$224,958 increase in groundwater assessments and a one-time payment \$496,090 related to water spreading activities. In 2012, the District's operating revenues increased 36.0% or \$227,024 primarily due to a \$69,726 increase in groundwater assessments and a \$157,298 increase in water spreading revenues.
- The District's non-operating revenues increased by 83.00% or \$422,788 in 2013 due primarily to a \$52,876 increase in property tax revenues, a \$63,848 increase in royalty revenues, and a \$311,818 increase in other non-operating revenues related to a one-time payment for the East Branch Extension II Easement Condemnation. In 2012, the District's non-operating revenues increased by 12.0% or \$54,720 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.
- The District's operating expenses decreased 14.1% or \$152,844 in 2013 primarily due to decreases in maintenance expenses of \$73,110, professional services of \$28,591, and employee benefits costs of \$16,747. In 2012, the District's operating expenses increased 1.3% or \$13,469 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.
- The District's non-operating expenses increased 10.0% or \$11,361 in 2013 primarily due to a \$16,368 decrease the fair-market value of investments at year-end, a \$6,702 increase in rental property expense which was offset by an \$11,709 decrease in interest expense. In 2012, 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.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position 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 Position includes all of the District's investments in resources (assets and deferred outflows) and the obligations to creditors (liabilities and deferred inflows). 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 Position. 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.

San Bernardino Valley Water Conservation District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Required Financial Statements, Continued

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.

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 Position and the Statement of Revenues, Expenses and Changes in Net Position 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 position* and changes in it. You can think of the District's net position – the difference between assets and deferred outflows less liabilities and deferred inflows – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is 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 17 through 29.

Statements of Net Position

Condensed Statements of Net Position

	2013	2012	Change
Assets:			
Current assets	\$ 8,143,031	6,688,131	1,454,900
Capital assets, net	1,283,635	1,373,408	(89,773)
Total assets	9,426,666	8,061,539	1,365,127
Liabilities:			
Current liabilities	52,289	54,840	(2,551)
Non-current liabilities	5,062,433	5,050,810	11,623
Total liabilities	5,114,722	5,105,650	9,072
Net position:			
Net investment in capital assets	1,283,635	1,373,408	(89,773)
Unrestricted	3,028,309	1,585,481	1,442,828
Total net position	\$ 4,311,944	2,958,889	1,353,055

San Bernardino Valley Water Conservation District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Statements of Net Position, Continued

As noted earlier, the total net position of the District may serve over time as a useful indicator of a government's financial position. In the case of the District, assets plus deferred outflows of the District exceeded liabilities plus deferred inflows \$4,311,944 and \$2,958,889 as of June 30, 2013 and 2012, respectively.

By far the largest portion of the District's net position, 29.8% as of June 30, 2013 and 46.4% as of June 30, 2012, 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 2013 and 2012, the District showed a positive balance in its unrestricted net Position of \$3,028,309 and \$1,585,481, respectively, which may be utilized in future years.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 1,579,538	858,490	721,048
Non-operating revenues	932,498	509,710	422,788
Total revenues	<u>2,512,036</u>	<u>1,368,200</u>	<u>1,143,836</u>
Expenses:			
Operating expenses	931,716	1,084,560	(152,844)
Depreciation expense	101,985	105,948	(3,963)
Non-operating expenses	125,280	113,919	11,361
Total expenses	<u>1,158,981</u>	<u>1,304,427</u>	<u>(145,446)</u>
Net income before capital contributions	1,353,055	63,773	1,289,282
Capital contributions:	-	12,486	(12,486)
Change in net position	1,353,055	76,259	1,276,796
Net position, beginning of year	<u>2,958,889</u>	<u>2,882,630</u>	<u>(145,659)</u>
Net position, end of year	<u>\$ 4,311,944</u>	<u>2,958,889</u>	<u>1,353,055</u>

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the fiscal years. In the case of the District, net position increased by \$1,353,055 and \$76,259 in fiscal years ended June 30, 2013 and 2012, respectively.

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

- The District's net position increased 45.7% or \$1,353,055 to \$4,311,944 in fiscal year 2013 as the result of operations. In 2012, The District's net position increased 2.7% or \$76,259 to \$2,958,889 as the result of operations.
- The District's operating revenues increased 84.00% or \$721,048 in 2013 primarily due to a \$224,958 increase in groundwater assessments and a one-time payment \$496,090 related to water spreading activities. In 2012, the District's operating revenues increased 36.0% or \$227,024 primarily due to a \$69,726 increase in groundwater assessments and a \$157,298 increase in water spreading revenues.

San Bernardino Valley Water Conservation District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

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

- The District's non-operating revenues increased by 83.00% or \$422,788 in 2013 due primarily to a \$52,876 increase in property tax revenues, a \$63,848 increase in royalty revenues, and a \$311,818 increase in other non-operating revenues related to a one-time payment for the East Branch Extension II Easement Condemnation. In 2012, the District's non-operating revenues increased by 12.0% or \$54,720 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.
- The District's operating expenses decreased 14.1% or \$152,844 in 2013 primarily due to decreases in maintenance expenses of \$73,110, professional services of \$28,591, and employee benefits costs of \$16,747. In 2012, the District's operating expenses increased 1.3% or \$13,469 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.
- The District's non-operating expenses increased 10.0% or \$11,361 in 2013 primarily due to a \$16,368 decrease the fair-market value of investments at year-end, a \$6,702 increase in rental property expense which was offset by an \$11,709 decrease in interest expense. In 2012, 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.

Capital Asset Administration

At the end of fiscal years 2013 and 2012, the District's investment in capital assets amounted to \$1,283,635 and \$1,373,408, 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 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2013</u>
Capital assets:				
Non-depreciable assets	\$ 219,383	-	-	219,383
Depreciable assets	2,136,800	12,212	(25,866)	2,123,146
Accumulated depreciation	(982,775)	(101,985)	25,866	(1,058,894)
Total capital assets	<u>\$ 1,373,408</u>	<u>(89,773)</u>	<u>-</u>	<u>1,283,635</u>

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	(876,827)	(105,948)	-	(982,775)
Total capital assets	<u>\$ 1,460,704</u>	<u>(87,296)</u>	<u>-</u>	<u>1,373,408</u>

San Bernardino Valley Water Conservation District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

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 Position
June 30, 2013 and 2012

	2013	2012
Current assets:		
Cash and cash equivalents (note 2)	\$ 7,511,352	6,194,467
Accrued interest receivable	3,378	5,103
Accounts receivable	45,361	30,000
Assessments receivable – groundwater charge	380,585	295,155
Advances to Wash Plan (note 3)	188,365	161,906
Prepaid expenses and other	13,990	1,500
Total current assets	8,143,031	6,688,131
Non-current assets:		
Capital assets – not being depreciated (note 4)	219,383	219,383
Capital assets – being depreciated (note 4)	1,064,252	1,154,025
Total non-current assets	1,283,635	1,373,408
Total assets	9,426,666	8,061,539
Current liabilities:		
Accounts payable and accrued expenses	10,535	23,032
Accrued wages and related payables	15,358	9,593
Customer deposits for water service	6,767	4,717
Long-term liabilities – due in one year:		
Compensated absences (note 5)	19,629	14,498
Total current liabilities	52,289	51,840
Non-current liabilities:		
Unearned revenue (note 6)	5,000,000	5,000,000
Long-term liabilities – due in more than one year:		
Compensated absences (note 5)	59,315	48,848
Other post-employment benefits payable (note 8)	3,118	1,962
Total non-current liabilities	5,062,433	5,050,810
Total liabilities	5,114,722	5,102,650
Net position:		
Net investment in capital assets	1,283,635	1,373,408
Unrestricted (note 9)	3,028,309	1,585,481
Total net position	\$ 4,311,944	2,958,889

See accompanying notes to the basic financial statements

San Bernardino Valley Water Conservation District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Groundwater assessments	\$ 896,150	671,192
Water spreading operations	653,388	157,298
Services for other agencies	30,000	30,000
Total operating revenues	1,579,538	858,490
Operating expenses:		
Water spreading operations	773,563	889,821
Regional programs	6,750	1,028
General and administrative	151,403	193,711
Total operating expenses	931,716	1,084,560
Operating income(loss) before depreciation expense	647,822	(226,070)
Depreciation expense	(101,985)	(105,948)
Operating income(loss)	545,837	(332,018)
Non-operating revenue(expense):		
Property taxes	129,852	76,976
Investment earnings	45,343	55,030
Decrease in fair-market value of investments	(36,590)	(20,222)
Royalty income	264,912	201,064
Rental income	163,757	159,824
Rental property expense	(88,659)	(81,957)
Interest expense	(31)	(11,740)
Other non-operating revenue(expense), net	328,634	16,816
Total non-operating revenues, net	807,218	395,791
Net income before capital contributions	1,353,055	63,773
Capital contributions:		
Capital grants – State	-	12,486
Total capital contributions	-	12,486
Change in net position	1,353,055	76,259
Net position, beginning of year	2,958,889	2,882,630
Net position, end of year	\$ 4,311,944	2,958,889

See accompanying notes to the basic financial statements

San Bernardino Valley Water Conservation District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from groundwater assessments and other agencies	\$ 1,579,538	792,386
Cash paid to vendors and suppliers for materials and services	(340,949)	(678,417)
Cash paid to employees for salaries and wages	(399,932)	(439,116)
Net cash provided by(used in) operating activities	838,657	(325,147)
Cash flows from capital financing activities:		
Acquisition of capital assets	(12,212)	(18,652)
Net cash used in capital financing activities	(12,212)	(18,652)
Cash flows from non-capital financing activities:		
Proceeds from property taxes	129,852	76,976
Proceeds from royalty income	264,912	201,064
Proceeds from rental revenue, net	75,098	77,867
Proceeds from capital grants	-	12,486
Advances to Wash Plan	(26,459)	(51,142)
Principal paid on pension debt	-	(184,675)
Interest paid on pension debt	(31)	(11,740)
Net cash provided by non-capital financing activities	443,372	120,836
Cash flows from investing activities:		
Interest and investment earnings	47,068	57,373
Net cash provided by investing activities	47,068	57,373
Net increase(decrease) in cash and cash equivalents	1,316,885	(165,590)
Cash and cash equivalents, beginning of year	6,194,467	6,360,057
Cash and cash equivalents, end of year	\$ 7,511,352	6,194,467

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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of operating income(loss) to net cash provided by(used in)operating activities:		
Operating income(loss)	\$ <u>545,837</u>	<u>(332,018)</u>
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Depreciation expense	101,985	105,948
Other non-operating revenues(expenses), net	292,044	(3,406)
Changes in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable	(15,361)	(30,000)
Assessments receivable – groundwater charge	(85,430)	(36,104)
Prepaid expenses and other	(12,490)	(1,500)
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	(12,497)	(12,365)
Accrued wages and related payables	5,765	(9,142)
Customer deposits for water service	2,050	(1,108)
Compensated absences	15,598	(6,452)
Other post-employment benefits payable	<u>1,156</u>	<u>1,000</u>
Total adjustments	<u>292,820</u>	<u>6,871</u>
Net cash provided by(used in) operating activities	\$ <u><u>838,657</u></u>	<u><u>(325,147)</u></u>
Non-cash investing, capital and financing transactions:		
Change in fair-market value of investments	\$ <u><u>(16,368)</u></u>	<u><u>10,357</u></u>

See accompanying notes to the basic financial statements

San Bernardino Valley Water Conservation District
Statements of Fiduciary Net Position - Agency Fund
For the Fiscal Year Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets:		
Cash and cash equivalents	\$ -	-
Due from other governments	<u>188,365</u>	<u>161,906</u>
Total assets	<u>188,365</u>	<u>161,906</u>
Liabilities:		
Due to other governments	<u>188,365</u>	<u>161,906</u>
Total liabilities	<u>188,365</u>	<u>161,906</u>
Net position:		
Unrestricted	<u><u>\$ -</u></u>	<u><u>-</u></u>

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, 2013 and 2012

Note 1 – Summary of Significant Accounting Policies

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 District is governed by a seven-member board of directors elected by the citizens residing within the District's service boundaries.

Basis of Accounting

The accounting records of the District are maintained on the accrual basis of accounting. Under this method, revenues are recognized in the period earned and expenses are recognized in the period incurred. 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.

Operating revenues and expenses 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 are reported as non-operating revenues and expenses.

Accounting Pronouncements

The financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting, including:

Governmental Accounting Standards Board Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements. This standard addresses 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.

Governmental Accounting Standards Board 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*.

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013 and 2012

Note 1 – Summary of Significant Accounting Policies, (continued)

Governmental Accounting Standards Board 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.

Governmental Accounting Standards Board 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.

Governmental Accounting Standards Board 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.

Net Position

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

Net Investment in Capital Assets – Investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – Restricted consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.

Unrestricted – Unrestricted consists of any remaining balance of the District’s net position 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, 2013 and 2012

Note 1 – Summary of Significant Accounting Policies, (continued)

Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, and disclose material contingent liabilities existing at the date of the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all cash and cash deposits, investment in the State Treasurer's Local Agency Investment Fund, and other investments with initial maturities of less than 90 days at the date of purchase to be cash and cash equivalents in the presentation of the District's financial statements.

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.

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.

Compensated Absences

District employees earn vacation and sick leave in varying amounts based on length of service. 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.

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.

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013 and 2012

Note 1 – Summary of Significant Accounting Policies, (continued)

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

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.

Note 2 – Cash and Investments

Cash and investments as of June 30, are classified in the Statements of Net Position as follows:

	<u>2013</u>	<u>2012</u>
Statements of Net Position:		
Cash and cash equivalents	\$ <u>7,511,352</u>	<u>6,194,467</u>

Cash and cash equivalents as of June 30, consist of the following:

	<u>2013</u>	<u>2012</u>
Cash on hand – undeposited funds	\$ 32,940	-
Deposits with financial institutions	992,498	219,030
Deposits held with the California Local Agency Investment Fund	444,261	443,109
Deposits held with the CalTRUST Medium-Term Fund	<u>6,041,653</u>	<u>5,532,328</u>
Total cash and cash equivalents	\$ <u>7,511,352</u>	<u>6,194,467</u>

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

	<u>2013</u>	<u>2012</u>
California Local Agency Investment Fund	278 days	268 days
Investment Trust of California (CalTRUST Medium-Term Fund)	741 days	675 days

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013 and 2012

Note 1 – Summary of Significant Accounting Policies, (continued)

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.

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.

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013 and 2012

Note 2 – Cash and Investments, (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value 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.

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, 2013 and 2012, respectively.

Note 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>2012</u>	<u>Advances</u>	<u>Receipts</u>	<u>2013</u>
\$	161,906	26,459	-	188,365
	<u>2011</u>	<u>Advances</u>	<u>Receipts</u>	<u>2012</u>
\$	110,764	51,142	-	161,906

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013 and 2012

Note 4 – Capital Assets

Changes in capital assets for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2013</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	1,174,847	-	-	1,174,847
Vehicles and equipment	140,484	-	-	140,484
Office equipment	174,534	6,567	(25,866)	155,235
Field equipment	208,701	-	-	208,701
Spreading basins	330,192	-	-	330,192
Improvements	94,404	-	-	94,404
Equipment	13,638	5,645	-	19,283
Total depreciable assets	<u>2,136,800</u>	<u>12,212</u>	<u>(25,866)</u>	<u>2,123,146</u>
Less accumulated depreciation:	<u>(982,775)</u>	<u>(101,985)</u>	<u>25,866</u>	<u>(1,058,894)</u>
Total depreciable assets, net	<u>1,154,025</u>	<u>(89,773)</u>	<u>-</u>	<u>1,064,252</u>
Total capital assets, net	<u>\$ 1,373,408</u>			<u>1,283,635</u>

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 depreciable assets, net	<u>1,241,321</u>	<u>(87,296)</u>	<u>-</u>	<u>1,154,025</u>
Total capital assets, net	<u>\$ 1,460,704</u>			<u>1,373,408</u>

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013 and 2012

Note 5 – Compensated Absences

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

<u>Balance</u> <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2013</u>	<u>Current</u>	<u>Long Term</u>
\$ 63,346	35,639	(20,041)	78,944	19,629	59,315

<u>Balance</u> <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2012</u>	<u>Current</u>	<u>Long Term</u>
\$ 69,798	49,201	(55,653)	63,346	14,498	48,848

Note 6 – Unearned Revenue

During the fiscal year ended June 30, 1993, the District entered into a lease 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 was slated for fiscal years 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.

Note 7 – 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 2013, 2012 and 2011 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, 2013 and 2012, the District did not have an unfunded pension liabilities. For Fiscal years 2013, 2012 and 2011, 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, 2013 and 2012

Note 7 – Defined Benefit Pension Plan, (continued)

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>
2010-2011	\$ 50,376	100%	-	13.897%
2011-2012	63,658	100%	-	14.532%
2012-2013	67,671	100%	-	19.171%

Note 8 – 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>2013</u>	<u>2012</u>	<u>2011</u>
Active plan members	6	5	5
Retirees and beneficiaries receiving benefits	-	-	-
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	<u>6</u>	<u>5</u>	<u>5</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, 2013 and 2012

Note 8 – Other Post-Employment Benefits Payable, (continued)

Annual Cost

For the year ended June 30, 2013, the District's ARC cost was \$1,156 based on a 30 year amortization of the unfunded actuarial liability. The District's net OPEB obligation amounted to \$1,156 for the year ended June 30, 2013. The District contributed \$3,118 to reserves for future costs to fully fund its current liability for retirement medical benefits as of June 30, 2013. The District intends to budget this contribution for future years based on its reserve policy.

The balance at June 30, consists of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 1,156	1,000	962
Interest on net OPEB obligation	-	-	-
Adjustment to annual required contribution	-	-	-
Total annual OPEB expense	<u>1,156</u>	<u>1,000</u>	<u>962</u>
Change in net OPEB payable obligation:			
Age adjusted contributions made	-	-	-
Total change in net OPEB payable obligation	<u>1,156</u>	<u>1,000</u>	<u>962</u>
OPEB payable – beginning of year	<u>1,962</u>	<u>962</u>	<u>-</u>
OPEB payable – end of year	<u><u>\$ 3,118</u></u>	<u><u>1,962</u></u>	<u><u>962</u></u>

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 2013 and the two preceding years were as follows:

<u>Three-Year History of Net OPEB Obligation</u>				
<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>
2013	\$ 1,156	-	0.00%	\$ 3,118
2012	1,000	-	0.00%	1,000
2011	962	-	0.00%	962

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013 and 2012

Note 9 – Net Position

The balance at June 30, consists of the following:

	2013	2012
Non-spendable unrestricted net position:		
Prepaid expenses	\$ 13,990	1,500
Total non-spendable unrestricted net position:	13,990	1,500
Spendable unrestricted net position	3,014,319	1,583,981
Total unrestricted net position	\$ 3,028,309	1,585,481

Note 10 – 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, 2017.

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

Year	Amount
2014	\$ 147,535
2015	137,755
2016	98,181
2017	63,089
	\$ 446,560

Note 11 – 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, 2013:

- Property: Up to the scheduled value of the property with a \$1,000 deductible.
- Vehicles/Mobile Equipment: \$1,000,000 in the aggregate per occurrence with a \$500 deductible / vehicles and \$1000 deductible / equipment.
- General Liability: \$1,000,000 in the aggregate per occurrence with a \$1,000 deductible.
- 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.

San Bernardino Valley Water Conservation District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013 and 2012

Note 12 – Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2013, that have effective dates that may impact future financial presentations.

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.

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 – Government Combinations and Disposals of Government Operations. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. 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, 2013 and 2012

Note 12 – Governmental Accounting Standards Board Statements Issued, Not Yet Effective

Governmental Accounting Standards Board Statement No. 70

In April 2013, the GASB issued Statement No. 70 – Accounting and Financial Reporting for Non-exchange Guarantees. Provisions of this Statement require that governments that extend non-exchange financial guarantees to recognize a liability when qualitative factors and historic data, if any, indicate that it is more likely than not that the government will be required to make a payments on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

(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, 2013 have been evaluated for possible adjustment to the financial statements or disclosure as of October 9, 2013, which is the date the financial statements were available to be issued.

Required Supplementary Information

San Bernardino Valley Water Conservation District
Schedule of Funding Progress – Other Post-Employment Benefits Obligation
For the Fiscal Year Ended June 30, 2013

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

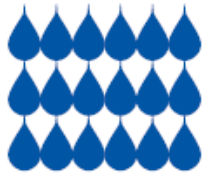
San Bernardino Valley Water Conservation District
Schedules of Operating Revenues and Expenses
For the Fiscal Year Ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Groundwater assessments:		
Groundwater charge assessment – Agricultural	\$ 987	81,436
Groundwater charge assessment – Non-Agricultural	895,163	589,756
Water spreading operations	653,388	157,298
Services for other agencies	30,000	30,000
Total operating revenues	1,579,538	858,490
Operating expenses:		
Water spreading operations:		
Professional services	139,159	167,750
Field Operations	31,840	30,899
Vehicle operations	3,724	3,512
Utilities	27,015	26,601
Benefits	158,293	175,040
Salaries/staff	406,514	405,891
Repairs and maintenance	7,018	80,128
Total water spreading operations	773,563	889,821
Regional programs:		
Regional programs LAFCO contribution	6,750	1,028
Total regional programs	6,750	1,028
General and administrative:		
Administrative expense	6,238	2,972
Director's fees/expense	95,319	123,721
General and administrative	46,294	58,632
Insurance	3,552	8,386
Total general and administrative	151,403	193,711
Total operating expenses	931,716	1,084,560
Operating income(loss) before depreciation expense	647,822	(226,070)
Depreciation expense	(101,985)	(105,948)
Operating income (loss)	\$ 545,837	(332,018)

San Bernardino Valley Water Conservation District
Schedules of Wash Plan Revenues and Expenses
For the Fiscal Years Ended June 30, 2013 and 2012

	2013	2012
Revenues	\$ -	-
	\$ -	-
Expenses:		
Professional services	\$ 16,870	40,298
Environmental services	-	6,294
Legal expenses	9,590	4,550
	\$ 26,460	51,142

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, 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 financial statements of the San Bernardino Valley Water Conservation District (District), as of and for the years June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated October 9, 2013.

Internal Control Over Financial Reporting

In planning and performing our audits 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 audits, 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*.

**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*, (continued)**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the district's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles Z. Fedak = Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPA's - An Accountancy Corporation
Cypress, California
October 9, 2013