



# **San Bernardino Valley Water Conservation District**

Helping Nature Store Our Water

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2020**



**SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT**

**ANNUAL FINANCIAL REPORT**

**For the year ended June 30, 2020**

**San Bernardino Valley Water Conservation District**  
**Annual Financial Report**  
**For the year ended June 30, 2020**

---

**TABLE OF CONTENTS**

	<b>PAGE</b>
<b>Introductory Section</b>	
Letter of Transmittal .....	i
List of Elected and Appointed Officials .....	ix
<b>Financial Section</b>	
Independent Auditor's Report .....	1
Management's Discussion and Analysis .....	4
<b>Basic Financial Statements</b>	
Statements of Net Position .....	10
Statements of Revenues, Expenses, and Changes in Net Position .....	12
Statements of Cash Flows .....	13
Statements of Fiduciary Net Position - Agency Fund .....	15
Notes to Financial Statements .....	16
<b>Required Supplementary Information</b>	
Schedule of Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date .....	47
Schedule of Contributions – Pension Plan .....	48
Schedule of Changes in the Net OPEB Liability and Related Ratios .....	49
Schedule of Contributions – OPEB .....	50
<b>Supplementary Information</b>	
Schedules of Operating Revenues and Expenses .....	51
Schedules of Wash Plan Additions and Reductions .....	52
<b>Report on Internal Controls and Compliance</b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	53

## **INTRODUCTORY SECTION**



## San Bernardino Valley Water Conservation District

Helping Nature Store Our Water

October 7, 2020

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, 2020, following guidelines set forth by the Governmental Accounting Standards Board. The District is ultimately responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is intended to enhance understanding of the District's financial position and activities for the Board and public.

This report has two sections: (1) Introductory, and (2) Financial. The Introductory section offers general information about the District's organization and current District activities and provides a summary of significant financial results. The Financial Section includes the Independent Auditor's Report, Management's Discussion and Analysis (MD&A) of the District's basic financial statements, and the District's audited basic financial statements with accompanying notes.

Generally Accepted Accounting Principles (GAAP) require that District management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of the (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 began in 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. A five-member publicly elected Board of Directors representing the District's service area provides governance. The District in the past had 7 Divisions but reduced the number to five and transitioned to a five-member Board in December 2013. This reduction assists the Board in continuing to limit expenses and improve the focus and efficiency of the District. The General Manager manages all day-to-day operations of the District following powers established in Resolution 578 and the policies, procedures, strategies, goals, values, and priorities established by the Board of Directors. In addition to the general manager, the District employs eight full-time employees, three in the field, and five in the office. The District also has part-time employees and interns that assist the District with specific tasks and efforts. The District's Board of Directors generally meets once each month. Meetings are publicly noticed. The public and the press often attend Board meetings and District workshops.

In 2013, the Board first approved a Community Strategic Plan which was developed with input from water, mining, and other partners from the communities the District serves. This strategic plan focused on the District's services, efforts, and direction in support of the needs of the District's communities, ratepayers, and partners. Also, the District Priorities are updated each January. The District has also developed Board policy principles to translate the norms, values, and Board desires to staff and the public. The strategic plan was reviewed, and the Board updated the Community Strategic Plan including realigning several goals and objectives in 2017, culminating in the public review and approval by the Board in December 2017.

### **District Services**

The San Bernardino Valley Water Conservation District recharges the groundwater basin protecting and augmenting the safe yield of the San Bernardino Bunker Hill Basin. The District's recharge services benefit the cities, water districts, and groundwater producers within the District's boundaries and beyond.

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 3,600 acres in the Santa Ana River Wash at and below the confluence of the Santa Ana River and Mill Creek. 2019 was an above-average precipitation year both locally and throughout California. As of September 30, 2019, the District had recharged more than 70,000 acre feet of water into the groundwater basin. Imported water funded by the Groundwater Council and flows from the Santa Ana River and Mill Creek made this record possible. Approximately \$70,000 significant efforts were needed to clean and repair basins after significant water recharge.



## **Significant Initiatives**

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

### *Santa Ana River Wash Plan*

The Wash Plan is a long-term environmental and infrastructure planning effort led by the District and a local Task Force for many years. The District worked with the United States Fish and Wildlife Service (Service) completed the Wash Plan Habitat Conservation Plan. This approval in July 2020, results in an approved HCP, Incidental Take Permit and initiates the implementation of the Wash Plan Preserve Area. The 30-year permit significantly improves the habitat for several endangered species, including the San Bernardino kangaroo rat and the Santa Ana River woolly star plant. The approved HCP allows expanded water conservation facilities, mining, transportation, and trails. 2019 and 2020 efforts to complete final documents for the Federal Register list and response to comments were significant. The Wash Plan MOU and Implementing Agreement. After the approval of the HCP, the communities served by the District through the Wash Plan Task Force asked the Board to assist them in obtaining State ESA, Waters, and Federal Waters permits to implement their projects as quickly as possible.



### *Partnership for Active Recharge Transfer Projects*

In 2018, the District approved a partnership agreement to provide conservation easements to San Bernardino Valley Municipal Water District on behalf of the River Habitat Conservation Plan. This Agreement allows the River HCP to use up to 295 acres for habitat mitigation. The Agreement obligates revenue from the conservation easements to the development of new recharge facilities and related uses. This recent activity is one of the most significant in the history of the District and fulfills the Board's highest strategic plan goal. SBVMWD funded half of the acreage to date, and initial engineering and program management efforts are underway to develop additional recharge facilities on District and Flood Control lands. The two agencies and the Groundwater Council form a Policy Committee that meets quarterly to oversee policy issues related to the Agreement.

### Conservation Trust

The District established the San Bernardino Valley Conservation Trust as a public benefit non-profit corporation. This Land Trust now invests and manages the Wash Plan Endowment funds and will hold District and other conservation easements and provide oversight on the implementation of the Wash Plan. The Trust also supports the District's Community Mitigation Program assisting public project and community development in the Wash Plan area.

### Bunker Hill Basin Groundwater Council

The District in 2015 collaborated with the San Bernardino Valley Municipal Water District to establish this collaborative council. The Board supported facilitation, agreement development, and engineering committee support to complete this Board priority. The Groundwater Council's first year of operation was 2018 and has continued each year after that. The Groundwater Council contributes to operations and maintenance costs and purchases of imported water for recharge in the Bunker Hill Basin. The Groundwater Council reduces Groundwater Charge revenue, which is replaced by Groundwater Council revenue. This combination ensures that the groundwater enterprise costs are covered more equitably for all groundwater users.

### Plunge Creek Water and Habitat Conservation

The Proposition 84 Integrated Regional Water Management Planning-funded effort in Plunge Creek completed permitting and procurement with construction beginning in August. The District receives reimbursement funding of up to \$500,000 in grant funds as the project progresses. This significant project is a cooperative project with the U.S. Fish and Wildlife Service that will ultimately develop over 100 acres of new, high-quality San Bernardino kangaroo rat and woolly star habitat, and create an additional 1,600 AF of groundwater recharge per year on District-owned lands. The project construction and reimbursement will be in 2020.

### Mill Creek Diversion Debris Management Design

Longstanding concerns with the management of high storm flows and debris in Mill Creek prompted the Mill Creek Diversion project. The project will reconstruct parts of the facility to bypass large debris and minimize repairs to the facility in severe storms to maintain recharge capacity. Additionally, the facility will reduce future operations and maintenance costs and improve diversion flexibility. This capital project has a complete design and CEQA compliance but requires a USACOE section 408 permit, which often takes several years. The District engaged in an expedited 408 process, and the project construction is expected in 2021, dependent on permitting.

### **Pension and Post-Employment Benefits**

Early in the 2015-2016 fiscal year, the Board approved the payoff of the Unfunded Accrued Actuarial Liability (UAAL) to CalPERS. In the 2017 and later budgets, the Board approved paying any UAAL as identified by CalPERS each year. These amounts are projected and budgeted as a benefit expense. The Board continues to review CalPERS costs as their actuarial assumptions and returns change to fund this benefit liability fully. Additionally, the Board in 2016 converted the OPEB reserve to initiate a CalPERS Employer Trust. The Trust irrevocably holds funds to pay for the limited cost of health care until Medicare. In 2018 and 2019, additional funding has been added to the OPEB Trust based on GASB 75 compliant actuarial analysis for full UAAL payment. In 2019, actuarial consultants again assessed the OPEB costs, including both explicit cost and the implicit subsidy contained in unitary Medical Insurance premiums from the Association of California Water Agency's Joint Powers Insurance Authority. The actuarial consultants calculate OPEB costs each year using age, the most likely investment returns, and other assumptions to





identify the most likely cost of benefits. The Trust now contains over \$500,000 to pay for these benefits' future costs.

### **Continued Policy Development**

While many areas of policy and practice development have been completed since 2010, staff continues to work with the Board to better document the principles, policies, practices, and procedures used by the District. The documentation of these appropriate policies and publication on the District website make financial and policy information readily available to the public. The District maintains its Transparency Certificate of Excellence from the Special District Leadership Foundation (SDLF), affiliated with the California Special District Association.

In 2014, SDLF first recognized SBVWCD with the District of Distinction accreditation. SDLF reaccredited the District in 2017. SDLF will again review the accreditation in 2020. The SDLF committee of volunteers, (consisting of district controllers, finance directors, and certified general managers), check the independent audits and the District's operations to ensure that prudent fiscal practices are followed and that the District's Board of Directors and executive staff have appropriate educational training in public governance and compliance with ethics and harassment prevention training. The Board of Directors and staff have maintained training and compliance to continue the accreditation. Both the Board and staff are proud of these recognitions as they demonstrate the District's commitment to do the public's business transparently and to act as a professional special district measured by the highest standards of best practices and benchmarks.



### **2019 Economic Condition**

The District sits at a strategic point in the watershed in the east end of the San Bernardino Valley. The Valley experienced significant economic growth with the rest of the Inland Empire into the mid-2000s and a considerable downturn through 2014. The downturn in building and the broader economy greatly impacted the District's revenues. In 2015, the District successfully moved to a market-based royalty for mining revenues, which with minimum guarantees, will reduce volatility in income. Housing starts, and the population in the area has increased as the economy improved in 2016-2019. These factors and the general increase in economic activity in the region increased the limited tax income to the District.

### **Staff and District Impacts of COVID 19 Pandemic**

While not part of the year under audit, Spring 2020 brought significant changes to the operations of all public agencies in California. The District in February developed an Extreme Flu Plan as COVID 19 was impacting areas across the globe and implemented its three-phase approach as the virus became active in the area. The staff has continued all essential activities and primarily works from home where possible. Construction and field operations are conducted with protective equipment and precautions to avoid or minimize exposure and maximize employee safety. Impacts on revenue have mostly been limited to the Redlands Plaza Enterprise tenants being unable to pay lease payments. Higher expenses have been limited but will impact operating enterprises and their reserves.

## **2020-2021 Economic Outlook**

Overall economic activity has dropped globally and in the Inland Empire during the COVID 19 Pandemic and is generally expected to be impacted with a slow recovery through the remainder of fiscal 2020-2021. General business impacts and housing starts have been delayed, and the higher costs due to the pandemic response, forest fires and other priorities are significant to the overall economy. While residential property prices have continued to rise slowly, commercial real estate, especially in the retail sector, has declined. City budgets have been significantly impacted by the COVID 19 emergency and may affect the overall economy.

Due to the implementation of the Wash Plan, long-term infrastructure projects and investment benefiting the region will occur over the next few years. These investments and overall economic improvement will likely mitigate assessed valuation and lower remittances to the County of San Bernardino and the cities income. The Wash Plan also facilitated the development of Community Mitigation Program in partnership with the San Bernardino Valley Conservation Trust, helping the local public and private projects mitigate impacts and comply with resource agency and CEQA requirements. This partnership may increase income from Conservation Easement Sales. Additionally, the Groundwater Council revenue has expanded as additional membership during implementation.

## **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 provides adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The Board approved a consolidated Procurement and Purchasing Policy in 2018 and continues to improve the clarity of District Financial Reports. 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 also continues to document its controls and practices better and adding efforts to allow the highest level of control possible with its minimal staffing. The District implements all auditor recommendations.

## **Budgetary Control**

The District's Board of Directors annually adopts an operating and capital budget before 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. The District also purchases equipment and issues licenses to reduce operating costs in partnership with the private sector.

Since 2011, the District has used an enterprise model for financial management and reserve accounting. The Enterprise model provides clear internal accountability and furthers public transparency into District finances. The Board reviews and revises the reserve and other policies, target reserve levels, and investment of the reserves every year.

## **Investment Policy**

In 2019, the Board of Directors revised the existing Statement of Investment Policy with support of PFM Financial Management. This change added some additional investment opportunities that were needed for the management of the Active Recharge Transfer Project capital. The revised Agreement conforms to state law, District ordinances, and prudent money management. The Investment Policy assures safety, liquidity, and yield. District funds are invested in the State Treasurer's Local Agency Investment Fund, the CalTrust Joint Powers Authority, California Asset Management Program (CAMP), various certificates of deposit, and California Credit Union (CCU) Mutual Fund. The Board receives quarterly reports on all investment balances and returns.

## **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 has been the primary component of the District's revenue. The Groundwater Council has now replaced much of the income historically paid through the Groundwater Charge.

Additionally, because a larger number of entities produce this, it is more stable than when collected through the Groundwater Charge. The Groundwater Charge continues to be assessed on all producers who are not members of the Groundwater Council. The District has agreements with other entities for payment or reimbursement for the cost of recharge of water on their behalf. Revenue from royalties on aggregate mining, property leases, easements, and interest on reserves complete the non-rate revenues of the District. The District expects to renew its CEMEX mining lease in 2020. Staff is also working with the leaseholder, Robertson's Ready Mix, to begin mining on District land after Wash Plan and other permits to retire the prepaid royalty.

## **District Investments**

The District's Board authorized changes to reserves and investments during the year. Staff implemented the Investment Policy Statement making investments and moving funds mostly as Certificated of Deposit (CD) terms expired. Funds (on loan to the Wash Plan to complete permitting were to be repaid by permittees) were absorbed by the Conservation Trust, which holds funds to repay the loan when called. CD interest rates are significantly decreasing, and capital projects are occurring, so funds are being deladdered in the District's portfolio. The District will continue to monitor rates and opportunities to generate funding from investments.

## **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 Rogers, Anderson, Malody & Scott, LLP has conducted the audit of the District's financial statements. Their unmodified Independent Auditor's Report is in the financial section of this report.


**Other References**

More information is contained in the Management's Discussion and Analysis section, and the Notes to the Basic Financial Statements documentation is found in the financial section of the report.

**Acknowledgments**

The combined efforts of District staff accomplished the preparation of this report. We appreciate the dedicated efforts and professionalism shown by both Rogers, Anderson, Malody & Scott, LLP, and team. We would also like to thank the members of the Ad Hoc Audit Committee and the Board of Directors for their continued support in the planning and implementation of the San Bernardino Valley Water Conservation District's fiscal policies.

Respectfully submitted,



---

Daniel B. Cozad  
General Manager



# San Bernardino Valley Water Conservation District

Helping Nature Store Our Water

## San Bernardino Valley Water Conservation District Board of Directors as of June 30, 2020

<u>Name</u>	<u>Division</u>	<u>Title</u>	<u>Current Team Ending</u>
Richard Corneille	1	President	December 9, 2020
Melody Henriques-McDonald	5	Vice-President	December 12, 2022
Robert Stewart	3	Director	December 11, 2020
John Longville	4	Director	December 11, 2022
David E. Raley	2	Director	December 12, 2022

**San Bernardino Valley Water Conservation District**  
**Daniel B. Cozad, General Manager**  
**1630 West Redlands Blvd., Suite A**  
**Redlands, California 92373**  
**(909) 793-2503 - [www.sbvxcd.org](http://www.sbvxcd.org)**

## **FINANCIAL SECTION**



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

735 E. Carnegie Dr. Suite 100  
San Bernardino, CA 92408  
909 889 0871 T  
909 889 5361 F  
ramscca.net

## *Independent Auditor's Report*

### **PARTNERS**

Brenda L. Odle, CPA, MST  
Terry P. Shea, CPA  
Scott W. Manno, CPA, CGMA  
Leena Shanbhag, CPA, MST, CGMA  
Bradferd A. Welebir, CPA, MBA, CGMA  
Jenny W. Liu, CPA, MST

### **MANAGERS / STAFF**

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

**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 business-type activities and the fiduciary fund of the San Bernardino Valley Water Conservation District (District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the minimum audit requirements of the California State Controller's Office under Code Section 26909. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

### **MEMBERS**

American Institute of  
Certified Public Accountants

*PCPS The AICPA Alliance  
for CPA Firms*

*Governmental Audit  
Quality Center*

*Employee Benefit Plan  
Audit Quality Center*

California Society of  
Certified Public Accountants



Proud Member of  
**AlliottGlobalAlliance™**

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 District'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 District'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 business-type activities and the fiduciary fund of the District, as of June 30, 2020 and, where applicable, the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Prior year Comparative Information***

We have previously audited the District's 2019 financial statements, and we expressed an unmodified opinion in our report dated September 3, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of proportionate share of the net pension liability and related ratios; contributions; and changes in net OPEB liability and related ratios; contributions; as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.



We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other 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 additions and reductions 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 additions and reductions 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 additions and reductions 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 on it.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

*Rogers, Anderson, Malody & Scott, LLP.*

October 7, 2020  
San Bernardino, California

# **San Bernardino Valley Water Conservation District**

## **Management's Discussion and Analysis**

### **For the year ended June 30, 2020**

---

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 year ended June 30, 2020. 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 15.8% or \$1,227,742 in fiscal year 2020 as the result of overall operations.

The District's operating revenues for fiscal year 2020 were \$1,764,518, which was \$372,580 less than its operating expenses of \$2,137,098. Depreciation expense was \$37,237 and net nonoperating income was \$1,637,559 resulting in a net change in net position of \$1,227,742.

#### **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.

The statement of cash flows 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, noncapital 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.

In addition, the financial statements include a statement of fiduciary net position - agency fund, which reports the assets and liabilities of the Wash Plan. The annual report also includes required supplementary information and other supplementary information.

# San Bernardino Valley Water Conservation District

## Management's Discussion and Analysis

### For the year ended June 30, 2020

#### Financial Analysis of the District

The analysis in this section is focused on the primary activities of the District and does not include agency fund balances and activities, such as the Wash Plan.

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 two statements report the District's *net position* and changes in it. One 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 nonfinancial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation and regulation. Changes in state waterboard rules for wetlands and dredge and fill materials could impact District costs.

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.

#### 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 the pages as listed in the table of contents.

#### Condensed Statements of Net Position (in thousands)

	2020	2019	2018	Change 2020		Change 2019	
				Amount	%	Amount	%
<b>Assets:</b>							
Current	\$ 27,273	\$ 26,174	\$ 10,591	\$ 1,099	4.2%	\$ 15,583	147.1%
Non-current	1	1	1	-	0.0%	-	0.0%
Capital, net	5,568	5,389	1,809	179	3.3%	3,580	197.9%
Total assets	32,842	31,564	12,401	1,278	4.0%	19,163	154.5%
<b>Deferred outflow of resources</b>							
Pension	479	397	510	82	20.7%	(113)	-22.2%
Total assets and deferred outflow	33,321	31,961	12,911	1,360	4.3%	19,050	147.5%
<b>Liabilities:</b>							
Current	244	163	174	81	49.7%	(11)	-6.3%
Other non-current	23,872	23,892	5,556	(20)	-0.1%	18,336	330.0%
Total liabilities	24,116	24,055	5,730	61	0.3%	18,325	319.8%
<b>Deferred inflow of resources</b>							
Pension	230	159	294	71	44.7%	(135)	-45.9%
Total liabilities and deferred outflow	24,346	24,214	6,024	132	0.5%	18,190	302.0%
<b>Net position (restated):</b>							
Net investment in capital assets	5,562	5,381	1,809	181	3.4%	3,572	197.5%
Unrestricted	3,413	2,366	5,078	1,047	44.3%	(2,712)	-53.4%
Total net position	\$ 8,975	\$ 7,747	\$ 6,887	\$ 1,228	15.9%	\$ 860	12.5%

Amounts may not foot due to rounding

**San Bernardino Valley Water Conservation District**  
**Management's Discussion and Analysis**  
**For the year ended June 30, 2020**

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 by \$8,975,083 and \$7,747,341 as of June 30, 2020 and 2019, respectively.

Capital assets represent 62.0% as of June 30, 2020 and 69.5% as of June 30, 2019 of the total net position. Capital assets provide services to groundwater producers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2020 and 2019, the District showed a positive balance in its unrestricted net position of \$3,413,342 and \$2,366,669, respectively. The District's investment of cash reserve funds represents the largest portion of the District's net position which may be utilized in future years for capital project or operations costs in accordance with the District's reserve policy.

**Condensed Statements of Revenues, Expenses and Changes in Net Position**  
**(in thousands)**

	2020	2019	2018	Change 2020		Change 2019	
				Amount	%	Amount	%
<b>Revenues:</b>							
Operating	\$ 1,765	\$ 1,444	\$ 1,348	\$ 321	22.2%	\$ 96	7.1%
Nonoperating	1,784	1,277	1,130	507	39.7%	147	13.0%
<b>Total revenues</b>	<b>3,549</b>	<b>2,721</b>	<b>2,478</b>	<b>828</b>	<b>30.4%</b>	<b>243</b>	<b>9.8%</b>
<b>Expenses</b>							
Operating	2,137	1,696	1,680	441	26.0%	16	1.0%
Depreciation	37	37	33	-	0.0%	4	12.1%
Nonoperating	147	129	127	18	14.0%	2	1.6%
<b>Total expenses</b>	<b>2,321</b>	<b>1,862</b>	<b>1,840</b>	<b>459</b>	<b>24.7%</b>	<b>22</b>	<b>1.2%</b>
<b>Change in net position</b>	<b>\$ 1,228</b>	<b>\$ 859</b>	<b>\$ 638</b>	<b>\$ 369</b>	<b>43.0%</b>	<b>\$ 221</b>	<b>34.6%</b>

Amounts may not foot due to rounding

The statement of revenues, expenses, and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, net position increased by \$1,227,742 and \$859,497 in fiscal years ended June 30, 2020 and 2019, respectively.

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

- The District's net position increased 15.8% or \$1,227,742 to \$8,975,083 in fiscal year 2020 as the result of operations. In 2019, the District's net position increased 12.5% or \$859,497 as a result of operations.

**San Bernardino Valley Water Conservation District**  
**Management’s Discussion and Analysis**  
**For the year ended June 30, 2020**

---

- The District’s operating revenues increased by 22.2% or \$320,044 in 2020 primarily due to increased revenue from groundwater charge assessments. In 2019, the District’s operating revenues increased by 7.1% or \$96,348 due to increased groundwater charge assessments.
- The District’s nonoperating revenues increased by 39.7% or \$507,374 in 2020 primarily due to a \$220,330 increase in investment earnings and a \$235,582 increase in royalties income from existing contracts. The District’s nonoperating revenues increased by 13.0% or \$147,386 in 2019 primarily due to a \$19,385 increase in property taxes due to increased collections and assessments, a \$138,840 increase in investment income due to higher returns, a \$21,028 decrease in royalty income from existing contracts.
- The District’s operating expenses increased 26.0% or \$441,085 in 2020 primarily due to an increase of \$31,987 in professional services, an increase in field operations of \$153,327, an increase of \$201,659 in salaries and wages and benefits (\$89,810 increase in pension expense) and an increase in repairs of \$49,500. The increases were offset by a decrease of \$5,762 in Director’s fees and expenses. The District’s operating expenses increased 1.0% or \$16,541 in 2019 primarily due to a decrease of \$46,808 in professional services, an increase in field operations of \$13,586 and an increase of \$94,127 in salaries and wages. The increases were offset by a decrease of \$29,596 in administrative expenses and a decrease of \$12,049 in Director’s fees and expenses.
- The District’s nonoperating expenses increased 14.4% or \$18,459. The increase is primarily due to an increase in administrative costs of \$8,619 and several other smaller increases in various expenses. In 2019, the District’s nonoperating expenses increased 1.0% or \$1,288.

**Capital Asset Administration**

At the end of fiscal years 2020 and 2019, the District’s net investment in capital assets amounted to \$5,561,741 and \$5,380,672, respectively. This investment in capital assets includes land, diversion facilities, recharge basins, buildings, equipment, and vehicles. Major capital asset additions during the year included improvements to the Districts buildings and purchase of office equipment. At June 30, 2020 total nondepreciable assets include land of \$4,120,341 and \$345,779 of construction in progress. Major capital asset additions in 2020 included a dump truck purchase for \$72,459 and the reroofing of Redlands Plaza for \$79,950.

Changes in capital assets in 2020 were as follows:

	Balance 2019	Additions	Deletions	Balance 2020
Capital assets:				
Nondepreciable	\$ 4,397,868	\$ 68,252	\$ -	\$ 4,466,120
Depreciable	2,364,526	187,396	-	2,551,922
Accumulated depreciation	(1,381,722)	(74,579)	-	(1,456,301)
	<u>\$ 5,380,672</u>	<u>\$ 181,069</u>	<u>\$ -</u>	<u>\$ 5,561,741</u>
Totals	<u>\$ 5,380,672</u>	<u>\$ 181,069</u>	<u>\$ -</u>	<u>\$ 5,561,741</u>

**San Bernardino Valley Water Conservation District  
Management's Discussion and Analysis  
For the year ended June 30, 2020**

Changes in capital assets in 2019 were as follows:

	Balance 2018	Additions	Deletions	Balance 2019
Capital assets:				
Nondepreciable	\$ 808,234	\$3,589,634	\$ -	\$ 4,397,868
Depreciable	2,309,747	54,779	-	2,364,526
Accumulated depreciation	(1,308,912)	(72,810)	-	(1,381,722)
Totals	<u>\$ 1,809,069</u>	<u>\$3,571,603</u>	<u>\$ -</u>	<u>\$ 5,380,672</u>

**District Cash Reserves**

The District builds, maintains and uses reserves to prepare for expected and unexpected costs. In accordance with the District's reserve policy, funds are accumulated and allocated based on enterprise performance and policy targets set by the Board based on benchmarks, best practices and risk. Reserves, from time to time, may greatly exceed the minimums or targets set by the Board for many reasons. Likewise, some reserves fall below the target level, because they are intended to be funded over many years and have not yet been fully funded. The Board annually reviews the reserve policy and revises targets or reallocates funds to reserves. Additionally, it should be noted that the Prepaid Royalties Liability is unearned revenue related to a deposit of funds in anticipation of aggregate mining under the Wash Plan. The Active Recharge Transfer Projects are also unearned revenue related to the anticipated mitigation requirements for the Upper Santa Ana River Habitat Conservation Plan. Beginning in 2015, the Board began adjusting several reserve levels in anticipation of Capital Projects. In aggregate, reserve levels are at 53% of target levels and decreased 43% from 2017/2018 levels. Reserves that are currently above their target levels include groundwater recharge enterprise reserve, groundwater ER maintenance reserve, and Redlands plaza reserve, which contain deferred capital project costs anticipated for future fiscal years.

<u>Reserve</u>	<u>Target</u>	<u>Balance</u>	<u>% Funded</u>
Groundwater Recharge Enterprise Reserve	\$ 1,250,000	\$ 2,503,621	200%
Groundwater ER Maintenance Reserve	250,000	350,000	140%
GWA Rate Stabilization	200,000	177,777	89%
Redlands Plaza Reserve	81,418	85,192	105%
Land Resources Reserve	816,743	(2,909,633)	-356%
General Liability Fund Reserve	1,250,000	559,067	45%
Self Insurance Reserve	50,000	40,000	80%
Compensated Absences Reserve	120,227	107,000	89%
Capital Improvement/Equipment Reserve	750,000	760,000	101%
Prepaid Royalties Reserve	5,000,000	5,000,000	100%
Active Recharge Transfer Projects	<u>36,875,000</u>	<u>18,485,460</u>	50%
Total	<u>\$ 46,643,388</u>	<u>\$ 25,158,484</u>	54%

**San Bernardino Valley Water Conservation District  
Management's Discussion and Analysis  
For the year ended June 30, 2020**

---

**Conditions Affecting Current Financial Position**

Management is unaware of any conditions which could have a significant impact on the District's current financial position, 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](http://www.sbvwd.org) or contact the District's General Manager at 1630 West Redlands Blvd., Suite A, Redlands, CA 92373.

## **BASIC FINANCIAL STATEMENTS**



**San Bernardino Valley Water Conservation District**  
**Statements of Net Position**  
**June 30, 2020 (with comparative data for 2019)**

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,307,952	\$ 19,564,145
Investments	23,850,532	5,272,907
Accrued interest receivable	14,027	19,051
Accounts receivable, net:	336,048	148,067
Assessments receivable - groundwater charges	280,119	221,223
Notes receivable	1,086	1,058
Due from other governments	1,381,882	850,388
Prepaid expenses	<u>101,129</u>	<u>97,292</u>
 Total current assets	 <u>27,272,775</u>	 <u>26,174,131</u>
Noncurrent assets:		
Notes receivable	7,827	9,619
Capital assets, not being depreciated:		
Land and land improvements	4,120,341	4,081,100
Construction in progress	345,779	316,768
Capital assets, being depreciated, net:		
Buildings and improvements	712,735	641,906
Equipment	152,533	103,942
Spreading basins	<u>230,353</u>	<u>236,956</u>
 Total noncurrent assets	 <u>5,569,568</u>	 <u>5,390,291</u>
 Total assets	 <u>32,842,343</u>	 <u>31,564,422</u>
<b>Deferred outflows of resources</b>		
Deferred outflows of resources - pension	280,516	175,207
Deferred outflows of resources - OPEB	<u>200,079</u>	<u>222,021</u>
 Total deferred outflows of resources	 <u>480,595</u>	 <u>397,228</u>
 Total assets and deferred outflows of resources	 <u>33,322,938</u>	 <u>31,961,650</u>

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

**San Bernardino Valley Water Conservation District**  
**Statements of Net Position**  
**June 30, 2020 (with comparative data for 2019)**

(continued)

	<u>2020</u>	<u>2019</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 167,323	\$ 90,018
Accrued wages and related payables	18,310	36,486
Customer deposits for rentals	11,947	9,326
Compensated absences payable	<u>46,778</u>	<u>27,583</u>
Total current liabilities	<u>244,358</u>	<u>163,413</u>
Noncurrent liabilities:		
Unearned revenue	23,436,714	23,439,025
Net other post-employment benefits liability (asset)	(9,242)	117,906
Net pension liability	324,184	238,734
Compensated absences payable	<u>120,227</u>	<u>96,226</u>
Total noncurrent liabilities	<u>23,871,883</u>	<u>23,891,891</u>
Total liabilities	<u>24,116,241</u>	<u>24,055,304</u>
<b>Deferred inflows of resources</b>		
Deferred inflows of resources - pension	98,468	-
Deferred inflows of resources - OPEB	<u>133,146</u>	<u>159,005</u>
Total deferred inflows of resources	<u>231,614</u>	<u>159,005</u>
<b>Net position</b>		
Net investment in capital assets	5,561,741	5,380,672
Unrestricted	<u>3,413,342</u>	<u>2,366,669</u>
Total net position	<u>\$ 8,975,083</u>	<u>\$ 7,747,341</u>

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

**San Bernardino Valley Water Conservation District**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the year ended June 30, 2020 (with comparative data for 2019)**

	<u>2020</u>	<u>2019</u>
<b>Operating revenues</b>		
Groundwater assessments	\$ 1,288,681	\$ 1,019,269
Operating agreements	407,062	395,205
Services to other agencies	<u>68,775</u>	<u>30,000</u>
Total operating revenues	<u>1,764,518</u>	<u>1,444,474</u>
<b>Operating expenses</b>		
District operations	1,927,584	1,489,024
Regional programs	3,952	5,000
General and administrative	<u>205,562</u>	<u>201,989</u>
Total operating expenses	<u>2,137,098</u>	<u>1,696,013</u>
Operating loss before depreciation expense	(372,580)	(251,539)
Depreciation expense	<u>37,237</u>	<u>37,608</u>
Operating income (loss)	<u>(409,817)</u>	<u>(289,147)</u>
<b>Nonoperating revenues and (expenses)</b>		
Property taxes	179,755	168,710
Investment earnings	447,940	227,610
Royalties	870,781	645,199
Rental property income	205,209	204,505
Rental property expense	(146,982)	(128,523)
Other nonoperating revenues and expenses	<u>80,856</u>	<u>31,143</u>
Total nonoperating revenues/(expenses)	<u>1,637,559</u>	<u>1,148,644</u>
Change in net position	1,227,742	859,497
Net position, beginning of year	<u>7,747,341</u>	<u>6,887,844</u>
Net position, end of year	<u>\$ 8,975,083</u>	<u>\$ 7,747,341</u>

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

**San Bernardino Valley Water Conservation District**  
**Statements of Cash Flows**  
**For the year ended June 30, 2020 (with comparative data for 2019)**

	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>		
Cash received from groundwater assessments and other agencies	\$ 1,703,311	\$ 1,602,060
Cash payments for services and supplies	(735,351)	(676,689)
Cash payments to employees for salaries and wages	(1,325,785)	(1,223,483)
Proceeds from royalty income	682,800	599,856
Proceeds from rental revenue, net of expenses	98,190	107,310
Other operating	80,856	31,143
Net cash provided by operating activities	<u>504,021</u>	<u>440,197</u>
<b>Cash flows from noncapital financing activities</b>		
Property taxes	179,755	168,710
Advances to Wash Plan	(531,494)	(273,384)
Net cash used for noncapital financing activities	<u>(351,739)</u>	<u>(104,674)</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisition and construction of capital assets	(285,578)	(3,644,413)
Advance for conservation easement acquisitions	-	18,437,500
Net cash provided by (used) for capital and related financing activities	<u>(285,578)</u>	<u>14,793,087</u>
<b>Cash flows from investing activities</b>		
Payments received on notes receivable	1,764	1,563
Advances on notes receivable	-	(9,785)
Purchase of investments	(19,035,191)	(842,276)
Proceeds from investments	457,566	735,000
Investment income	452,964	213,997
Net cash provided by (used) for investing activities	<u>(18,122,897)</u>	<u>98,499</u>
Net increase (decrease) in cash and cash equivalents	(18,256,193)	15,227,109
Cash and cash equivalents, beginning of year	<u>19,564,145</u>	<u>4,337,036</u>
Cash and cash equivalents, end of year	<u>\$ 1,307,952</u>	<u>\$ 19,564,145</u>

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

**San Bernardino Valley Water Conservation District**  
**Statements of Cash Flows**  
**For the year ended June 30, 2020 (with comparative data for 2019)**

(continued)

	<u>2020</u>	<u>2019</u>
<b>Reconciliation of operating income (loss)</b>		
<b>to net cash provided by</b>		
<b>operating activities</b>		
Operating income (loss)	\$ (409,817)	\$ (289,147)
Adjustments to reconcile operating income (loss)		
to net cash provided by operating activities:		
Depreciation	37,237	37,608
Abandoned construction in progress	29,930	-
Royalty income	682,800	599,856
Rental revenue, net of expenses	98,190	107,310
Miscellaneous income	80,856	31,143
(Increase) decrease in assets and deferred		
outflows of resources:		
Assessments receivable - groundwater charges	(58,896)	156,061
Prepaid expenses	(3,837)	(72,418)
Deferred outflows of resources - pension	(105,309)	121,398
Deferred outflows of resources - OPEB	21,942	(8,524)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	77,305	(4,949)
Accrued wages and related payables	(18,176)	(649)
Deferred revenues	(2,311)	1,525
Compensated absences payable	43,196	23,541
Net other post-employment benefits liability	(127,148)	(100,601)
Net pension liability	85,450	(27,427)
Deferred inflows of resources - pension	98,468	-
Deferred inflows of resources - OPEB	(25,859)	(134,530)
Net cash provided by operating activities	<u>\$ 504,021</u>	<u>\$ 440,197</u>
<b>Noncash, investing, capital and financing activities</b>		
Change in fair value of investments	<u>\$ 22,177</u>	<u>\$ 41,930</u>

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

**San Bernardino Valley Water Conservation District**  
**Statements of Fiduciary Net Position - Agency Fund**  
**June 30, 2020 (with comparative data for 2019)**

---

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Due from other entities	<u>\$ 1,381,882</u>	<u>\$ 850,388</u>
Total assets	<u><u>\$ 1,381,882</u></u>	<u><u>\$ 850,388</u></u>
<b>Liabilities</b>		
Advances from District for Wash Plan	<u>\$ 1,381,882</u>	<u>\$ 850,388</u>
Total liabilities	<u><u>\$ 1,381,882</u></u>	<u><u>\$ 850,388</u></u>

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

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***A. 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 water 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 are extracted through more than 200 producing wells by more than 50 different producers.

The District is governed by a five-member Board of Directors elected by the citizens residing within the District's service boundaries.

The District also has 2 members on the San Bernardino Valley Conservation Trust (the Trust) board of directors. The Trust is a nonprofit 501(c)(3) charitable trust. The Trust does not meet the definition of a component unit, so none of the Trust's financial information is presented in these financial statements.

***B. 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 groundwater assessments, 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 nonoperating revenues and expenses.

The District also maintains a fiduciary fund for reporting the Wash Plan assets and liabilities. A Task Force was established under the leadership of the District to coordinate land uses within the wash area. The members include the District, the County of San Bernardino, the Cities of Highland and Redlands, the San Bernardino Valley Municipal Water District, East Valley Water District and two aggregate miners. The Wash Plan is accounted for as an agency fund.

Both the enterprise fund and the fiduciary fund report using an economic resources measurement focus.

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***C. 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.

***D. Net Position***

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

- (1) ***Net Investment in Capital Assets*** - Net investment in capital assets 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.
- (2) ***Restricted*** - Restricted consists of assets that have restrictions placed on 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.
- (3) ***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.

The District's policy is to first apply disbursements to restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

***E. 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.

***F. 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.



**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***G. Investments***

Investments are stated at fair value based on quoted market prices. 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. Investments held in external investment pools are valued at net asset value.

***H. 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 December 10. The second installment is due on February 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 in the period for which they are levied.

***I. 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.

***J. Concentrations***

The District has two primary sources of revenue. One is the groundwater charge levied to entities that 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 in District property. The level of building activity in the region may have significant impact on royalties from mining activities.

***K. Receivables***

The allowance for doubtful accounts is \$-0- because management believes all receivables are collectible.

# San Bernardino Valley Water Conservation District

## Notes to Financial Statements

June 30, 2020 (with comparative data for 2019)

---

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **L. 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 measured at acquisition value at the date of acquisition. 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	5-10 years
Field equipment	5-10 years
Spreading basins	50+ years
Improvements	
Structural	40 years
Furnishings	10 years

#### **M. Budgetary Policies**

The District adopts an annual nonappropriated 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.

#### **N. Net Pension Liability**

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

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

Valuation Date (VD)	June 30, 2018
Measurement Date (MD)	June 30, 2019
Measurement Period (MP)	July 1, 2018 to June 30, 2019

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***O. Other Postemployment Benefits (OPEB)***

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

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date June 30, 2019  
 Measurement Date June 30, 2020  
 Measurement Period July 1, 2019 to June 30, 2020

**2. CASH AND INVESTMENTS**

Cash and investments as of June 30, 2020 and 2019 are classified in the statements of net position as follows:

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 1,307,952	\$ 19,564,145
Investments	<u>23,850,532</u>	<u>5,272,907</u>
 Total cash and investments	 <u>\$ 25,158,484</u>	 <u>\$ 24,837,052</u>

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**2. CASH AND INVESTMENTS (continued)**

Cash and investments as of June 30, 2020 and 2019 consisted of the following:

	2020	2019
Deposits with financial institutions	\$ 1,179,136	\$ 19,451,029
Deposits held with California Local Agency Investment Fund	128,816	113,117
Certificates of deposit	1,919,592	2,140,512
Deposits held with fiscal agents:		
California Asset Management Program	18,717,876	-
CalTrust Short-term fund	3,213,064	3,132,394
 Total cash and investments	 \$ 25,158,484	 \$ 24,837,052

As of June 30, 2020 and 2019, the District's authorized deposits had the following average maturities:

	2020	2019
Deposits held with California Local Agency Investment Fund	191 days	173 days
Certificates of deposit	312 days	639 days
Deposits held with fiscal agents:		
California Asset Management Program	53 days	54 days
CalTrust Short-term fund	321 days	347 days

**A. 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 (Code), the District may invest in 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;
- Investment Trust of California - CalTrust;
- Checking accounts or passbook savings account demand deposits; and
- 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 the District's allowable deposits or investments or address the specific types of risk to which the government is exposed, including its exposure to a concentration of credit risk.

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**2. CASH AND INVESTMENTS (continued)**

***B. Investment in State Investment Pool***

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the Code under the oversight of the Treasurer of the State of California. The net asset value of the District's investment in this pool is reported in the accompanying financial statements at amounts based on the District's pro rata share of the net asset 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. At June 30, 2020, the District's investment in LAIF was \$128,816. At June 30, 2019, the District's investment in LAIF was \$113,117.

***C. Investment Trust of California (CalTrust)***

CalTrust is organized as a Joint Powers Authority established by public agencies in California for the purpose of pooling and investing local agency funds. A Board of Trustees supervises and administers the investment program of the Trust. CalTrust has four pools: money market account, short-term, medium-term and long-term. The District has deposits in the Short-Term Fund as of June 30, 2020 and 2019. The District is a voluntary participant in CalTrust. District's investments in these pools are reported in the accompanying financial statements at net asset value based on the District's pro rata share of the respective pools as reported by CalTrust. The average cost of the District's investment in the Short-Term Fund as of June 30, 2020 was \$3,183,352, and its net asset value (withdrawal value) was \$3,213,064. The average cost of the District's investment in the Short-Term Fund as of June 30, 2019 was \$3,124,860, and its net asset value (withdrawal value) was \$3,132,394.

***D. California Asset Management Pool (CAMP)***

The District is a voluntary participant in the California Asset Management Program (CAMP), which was established as a nontaxable investment portfolio under provisions of the California Joint Exercise of Powers Act to provide California Public Agencies with comprehensive investment management services. There are no minimum deposit requirements or limits on deposits and withdrawals. Dividends from net investment income are declared on a daily basis and paid on the last day of the month. Dividends paid are automatically reinvested in each account by the purchase of additional shares. The contract creating the program specifies the types of investments that can be made by the investment portfolio with available cash: U.S. Government securities, securities of federally sponsored agencies, repurchase agreements, banker's acceptances, negotiable certificates of deposit and commercial paper. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by CAMP which was \$18,717,876 as of June 30, 2020. The District did not have any investments in CAMP in 2019.

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**2. CASH AND INVESTMENTS (continued)**

***E. 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 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 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).

***F. 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.

***G. 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.

# San Bernardino Valley Water Conservation District

## Notes to Financial Statements

June 30, 2020 (with comparative data for 2019)

---

### 2. CASH AND INVESTMENTS (continued)

#### G. Credit Risk (continued)

Presented below is the minimum rating required by (where applicable) the Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

	<u>Minimum legal rating</u>	<u>Rating as of year end</u>
California Local Agency Investment Fund	None	Not rated
Investment Trust of California (CalTrust Short-term fund)	None	AAf
California Asset Management Program	None	AAAm
Certificates of Deposit	A/A-1	Not rated

#### H. Concentrations of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer beyond that stipulated by the 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 the District's total investments at June 30, 2020.

### 3. FAIR VALUE MEASUREMENTS

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and
- Level 3: Investments reflect prices based on unobservable sources.

The District does not have any investments subject to the fair value hierarchy.

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**4. COMPENSATED ABSENCES**

The changes to compensated absences balances for the years ended June 30 were as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Due within one year
Compensated absences	\$ 123,809	\$ 77,670	\$ (34,474)	\$ 167,005	\$ 46,778

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Due within one year
Compensated absences	\$ 100,268	\$ 47,082	\$ (23,541)	\$ 123,809	\$ 27,583

**5. UNEARNED REVENUE**

In 1993, the District entered into a lease agreement for the extraction of rock, sand and gravel from Section 7 property within the Wash Plan area. The District received a \$5,000,000 prepayment against future rentals and royalties on 12,000,000 tons of material to be earned when mining was initiated. The lease commencement date was December 31, 2002, but due to delays in the Wash Plan, the agreement was subsequently amended in 2003. This amendment linked the commencement of operations to the approval of the Wash Plan. The initial term of the lease is for ten years with four successive five-year renewal periods. The lease agreement requires a minimum annual rent of \$1,000,000 after the initial prepayment is exhausted. In the event the lessee is unable to obtain necessary permits for operations within the Wash Plan area, the prepaid \$5,000,000 would then become refundable without interest, upon a one-year notice.

The District entered into an agreement with another government in which the District received \$18,437,500. The monies are obligated for capital construction projects for the anticipated habitat mitigation requirements for the Upper Santa Ana River Habitat Conservation Plan (River HCP). An additional amount of \$18,437,500 will be paid when certain conditions have been met. Please see the agreement for additional details.



**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**6. CAPITAL ASSETS**

Changes in capital assets for 2020 were as follows:

	Balance at July 1, 2019	Additions	Deletions	Balance at June 30, 2020
Capital assets not being depreciated:				
Land and land improvements	\$ 4,081,100	\$ 39,241	\$ -	\$ 4,120,341
Construction in progress	316,768	58,941	(29,930)	345,779
	<u>4,397,868</u>	<u>98,182</u>	<u>-</u>	<u>4,466,120</u>
Total capital assets not being depreciated				
Capital assets being depreciated:				
Structures and improvements	1,212,300	27,650	-	1,239,950
Improvements	213,823	84,727	-	298,550
Vehicles and equipment	151,837	72,459	-	224,296
Office equipment	146,947	-	-	146,947
Field equipment	288,894	2,560	-	291,454
Equipment	20,533	-	-	20,533
Spreading basins	330,192	-	-	330,192
	<u>2,364,526</u>	<u>187,396</u>	<u>-</u>	<u>2,551,922</u>
Total capital assets being depreciated				
Less accumulated depreciation:				
Buildings and improvements	(784,217)	(41,548)	-	(825,765)
Equipment	(504,269)	(26,428)	-	(530,697)
Spreading basins	(93,236)	(6,603)	-	(99,839)
	<u>(1,381,722)</u>	<u>(74,579)</u>	<u>-</u>	<u>(1,456,301)</u>
Total accumulated depreciation				
Net capital assets being depreciated	<u>982,804</u>	<u>112,817</u>	<u>-</u>	<u>1,095,621</u>
Net capital assets	<u>\$ 5,380,672</u>	<u>\$ 210,999</u>	<u>\$ -</u>	<u>\$ 5,561,741</u>

Depreciation expense was allocated as follows for the June 30, 2020 fiscal year:

Depreciation expense:	
District operations	\$ 37,237
Redlands Plaza (included in property expense)	<u>37,342</u>
Total depreciation expense	<u>\$ 74,579</u>

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**6. CAPITAL ASSETS (continued)**

Changes in capital assets for 2019 were as follows:

	Balance at July 1, 2018	Additions	Deletions	Balance at June 30, 2019
Capital assets not being depreciated:				
Land and land improvements	\$ 535,495	\$ 3,545,605	\$ -	\$ 4,081,100
Construction in progress	272,739	44,029	-	316,768
	<u>808,234</u>	<u>3,589,634</u>	<u>-</u>	<u>4,397,868</u>
Total capital assets not being depreciated				
Capital assets being depreciated:				
Structures and improvements	1,180,550	31,750	-	1,212,300
Improvements	213,823	-	-	213,823
Vehicles and equipment	151,837	-	-	151,837
Office equipment	146,947	-	-	146,947
Field equipment	265,865	23,029	-	288,894
Equipment	20,533	-	-	20,533
Spreading basins	330,192	-	-	330,192
	<u>2,309,747</u>	<u>54,779</u>	<u>-</u>	<u>2,364,526</u>
Total capital assets being depreciated				
Less accumulated depreciation:				
Buildings and improvements	(747,325)	(36,892)	-	(784,217)
Equipment	(474,954)	(29,315)	-	(504,269)
Spreading basins	(86,633)	(6,603)	-	(93,236)
	<u>(1,308,912)</u>	<u>(72,810)</u>	<u>-</u>	<u>(1,381,722)</u>
Total accumulated depreciation				
Net capital assets being depreciated	<u>1,000,835</u>	<u>(18,031)</u>	<u>-</u>	<u>982,804</u>
Net capital assets	<u>\$ 1,809,069</u>	<u>\$ 3,571,603</u>	<u>\$ -</u>	<u>\$ 5,380,672</u>

Depreciation expense was allocated as follows for the June 30, 2019 fiscal year:

Depreciation expense:	
District operations	\$ 37,608
Redlands Plaza (included in property expense)	<u>35,202</u>
Total depreciation expense	<u>\$ 72,810</u>

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**7. DEFINED BENEFIT PENSION PLAN**

***General Information about the Pension Plan***

*Plan Description*

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

*Benefits Provided*

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

The Plan operates under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plan's authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**7. DEFINED BENEFIT PENSION PLAN (continued)**

The Plan's provisions and benefits in effect at June 30, 2019 are summarized as follows:

	<u>Prior to January 1, 2013</u>	<u>On or after January 1, 2013</u>
Benefit formula	2.5% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.000%	50% of the total normal cost
Current required employer contribution rates	11.432%	6.985%

*Contributions*

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions. Employer Contributions to the Plan for the fiscal year ended June 30, 2020 were \$119,349. The actual employer payments of \$78,252 made to CalPERS by the District during the measurement period ended June 30, 2019 differed from the District's proportionate share of the employer's contributions of \$149,392 by \$(71,140), which is being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

***Net Pension Liability***

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

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**7. DEFINED BENEFIT PENSION PLAN (continued)**

*Actuarial Methods and Assumptions Used to Determine Total Pension Liability*

The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by entry age and service
Mortality Rate Table (1)	Derived using CALPERS' membership data for all Funds
Post Retirement Benefit Increase	The lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance floor on purchasing power applies, 2.50% thereafter.

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

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

*Change of Assumptions*

There were no changes in assumptions.

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**7. DEFINED BENEFIT PENSION PLAN (continued)**

***Long-term expected rate of return***

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The following table reflects long-term expected real rate of return by asset class:

<u>Asset Class<sup>1</sup></u>	<u>Assumed asset allocation</u>	<u>Real return years 1 - 10<sup>2</sup></u>	<u>Real return years 11+<sup>3</sup></u>
Global equity	50.00%	4.80%	5.98%
Fixed income	28.00%	1.00%	2.62%
Inflation assets	0.00%	0.77%	1.81%
Private equity	8.00%	6.30%	7.23%
Real assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	(0.92%)
Total	<u>100%</u>		

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

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

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

# San Bernardino Valley Water Conservation District

## Notes to Financial Statements

June 30, 2020 (with comparative data for 2019)

---

### 7. DEFINED BENEFIT PENSION PLAN (continued)

#### *Discount Rate*

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

#### *Pension Plan Fiduciary Net Position*

Information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in CalPERS' audited financial statements, which are publicly available reports that can be obtained at CalPERS' website, at [www.calpers.ca.gov](http://www.calpers.ca.gov). The plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and Other Post-Employment Benefits (OPEB) expense included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

#### ***Proportionate Share of Net Pension Liability***

As of June 30, 2020 and 2019, the District reported net pension liabilities for its proportionate share of the net pension liability of \$324,184 and \$238,734, respectively.

	<u>2020</u>	<u>2019</u>
Total pension liability	\$ 3,929,545	\$ 3,663,691
Fiduciary net position	<u>3,605,361</u>	<u>3,424,957</u>
Net pension liability	<u>\$ 324,184</u>	<u>\$ 238,734</u>

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**7. DEFINED BENEFIT PENSION PLAN (continued)**

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

	<u>Plan total</u> <u>pension liability</u>	<u>Plan fiduciary</u> <u>net position</u>	<u>Plan net</u> <u>pension</u> <u>liability</u>
Balance at: 6/30/2018 (Valuation Date)	\$ 3,663,691	\$ 3,424,957	\$ 238,734
Balance at: 6/30/2019 (Measurement Date)	3,929,545	3,605,361	324,184
Net change during 2018-2019	265,854	180,404	85,450

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2019, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. The District's proportion of the net pension liability was determined by CalPERS using the output from the Actuarial Valuation System and the fiduciary net position, as provided in the CalPERS Public Agency Cost-Sharing Allocation Methodology Report, which is a publicly available report that can be obtained at CalPERS' website, at [www.calpers.ca.gov](http://www.calpers.ca.gov). The District's proportionate share of the net pension liability for the Miscellaneous Plan as of June 30, 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>
Proportionate share - June 30, 2017		0.00675%
Proportionate share - June 30, 2018	0.00633%	0.00633%
Proportionate share - June 30, 2019	0.00810%	
Change	0.00177%	-0.00042%



**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**7. DEFINED BENEFIT PENSION PLAN (continued)**

*Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

June 30, 2020	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
District's proportionate share of the net pension liability	<u>\$ 852,720</u>	<u>\$ 324,184</u>	<u>\$ (112,085)</u>
June 30, 2019	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
District's proportionate share of the net pension liability	<u>\$ 734,326</u>	<u>\$ 238,734</u>	<u>\$ (170,369)</u>

*Subsequent Events*

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

*Recognition of Gains and Losses*

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

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

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

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

# San Bernardino Valley Water Conservation District

## Notes to Financial Statements

June 30, 2020 (with comparative data for 2019)

---

### 7. DEFINED BENEFIT PENSION PLAN (continued)

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the Public Agency Cost-Sharing Multiple-Employer Plan (PERF C).

The EARSL for PERF C for the measurement period ending June 30, 2018 is 3.8 years, which was obtained by dividing the total service years of 530,470 (the sum of remaining service lifetimes of the active employees) by 140,593 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

#### ***Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions***

For the year ended June 30, 2020 and 2019, the District recognized pension expense of \$197,958 and \$92,184, respectively. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	2020	
	Deferred outflows of resources	Deferred inflows of resources
Pension contributions subsequent to the measurement date	\$ 119,349	\$ -
Difference in actual vs projected contributions	-	92,801
Changes in assumptions	9,979	-
Difference between expected and actual experience	20,771	-
Net difference between projected and actual earnings on pension plan investments	-	5,667
Changes in proportion	130,417	-
Totals	<u>\$ 280,516</u>	<u>\$ 98,468</u>

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**7. DEFINED BENEFIT PENSION PLAN (continued)**

The District reported \$119,349 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized as pension expense as follows:

Years ending June 30,	Amount
2021	\$ 44,368
2022	16,849
2023	336
2024	1,146
2025	-
Remaining	-

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	2019	
	Deferred outflows of resources	Deferred inflows of resources
Pension contributions subsequent to the measurement date	\$ 78,252	\$ -
Difference in actual vs projected contributions	60,074	-
Changes in assumptions	20,546	-
Difference between expected and actual experience	6,043	-
Net difference between projected and actual earnings on pension plan investments	1,180	-
Changes in proportion	9,112	-
Totals	<u>\$ 175,207</u>	<u>\$ -</u>

The District reported \$78,252 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the upcoming fiscal year.

***Payable to the Pension Plan***

At June 30, 2020, the District reported a payable of \$11,928 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**8. OTHER POST-EMPLOYMENT BENEFITS PAYABLE**

***General Information about the Plan***

*Plan Description*

The District offers 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. The plan does not issue separate financial statements. The plan is an agent multiple-employer post-employment plan.

*Employees Covered by Benefit Terms*

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

	<u>2020</u>
Active plan members	7
Retirees and beneficiaries receiving benefits	-
Separated plan members entitled to but not yet receiving benefits	<u>-</u>
	<u><u>7</u></u>

*Benefits and Contributions*

The contribution requirements of plan members and the District are established and may be amended by the District. Contributions are calculated using the alternative measurement method. The District contributes 100% of the retiree and dependent up to the current maximum cost of \$1,702 per month. For the fiscal year ended June 30, 2020, the District's cash contributions were \$143,532 in payments to the trust. Other contributions included \$14,691 in unreimbursed benefits paid and \$10,133 in implicit contributions.

In fiscal year 2016, the District created a California Employer's Retiree Benefit Trust (CERBT) with California Public Employees Retirement System (CalPERS) for the purpose of prefunding obligations for past services.

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**8. OTHER POST-EMPLOYMENT BENEFITS PAYABLE (continued)**

***Net OPEB Liability***

The District's net OPEB liability was measured as of June 30, 2020 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2019. The data entered as economic assumptions and member data to calculate the actuarial present value of future benefits for each individual. This projection uses the assumed retirement age for members of the plan and the employer's portion of health insurance premiums for current retirees and spouses as a statistical base to forecast the cost of future benefits. The projections differentiate between members who are Medicare eligible and those who are not. Premiums are inflated using future insurance premium increase assumptions.

The assumed retirement age for active members and their spouses is adjusted to reflect any eligibility requirement, such as a vesting period, by entering an eligible retirement age in the member data for each active member.

The valuation was based on the following actuarial methods and assumptions:

Discount rate	6.50%
Inflation	2.75%
Salary increases	3.25%
Investment rate of return	6.50%
Mortality	Those published in the 2017 study of the CalPERS system using data from 1997 to 2015, adjusted back 15 years of Scale MP 2016 to central year 2015.
Pre-retirement turnover healthcare trend rate	7.0% 2020 6.5% 2021 6.0% 2022 5.5% 2023 5.0% thereafter

***Discount Rate***

The expected long-term investment return assumptions were developed for each of the three asset allocation strategies using a building block approach based as well as taking into account the expected inflation rate, short and long term real return expectations, and the expected cash flows of a hypothetical large plan.

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**8. OTHER POST-EMPLOYMENT BENEFITS PAYABLE (continued)**

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected rate of return</u>
Global equity	59%	4.80%
Fixed income	25%	1.10%
Treasury inflation protected securities	5%	0.25%
Real estate investment trusts	8%	3.20%
Commodities	3%	1.50%
	<u>100%</u>	

***Changes in the Net OPEB Liability***

The changes in the net OPEB liability for the Plan are as follows as of June 30, 2020:

	<u>Total OPEB Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net OPEB Liability/(Asset) (c)= (a) - (b)</u>
<b>Balance at June 30, 2019</b> (Valuation Date June 30, 2019)	\$ 461,195	\$ 343,289	\$ 117,906
<b>Changes recognized for the measurement period:</b>			
Service cost	25,626	-	25,626
Interest cost	30,837	-	30,837
Contributions - employer	-	168,356	(168,356)
Net investment income	-	26,973	(26,973)
Assumption changes	-	-	-
Plan experience	-	-	-
Investment experience	-	(11,534)	11,534
Benefit payments	(24,824)	(24,824)	-
Administrative expenses	-	(184)	184
<b>Net Changes</b>	<u>31,639</u>	<u>158,787</u>	<u>(127,148)</u>
<b>Balance at June 30, 2020</b> (Measurement Date June 30, 2020)	<u>\$ 492,834</u>	<u>\$ 502,076</u>	<u>\$ (9,242)</u>

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**8. OTHER POST-EMPLOYMENT BENEFITS PAYABLE (continued)**

The changes in the net OPEB liability for the Plan are as follows as of June 30, 2019:

	<u>Total OPEB Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net OPEB Liability/(Asset) (c)= (a) - (b)</u>
<b>Balance at June 30, 2018</b> (Valuation Date June 30, 2018)	\$ 320,444	\$ 101,937	\$ 218,507
<b>Changes recognized for the measurement period:</b>			
Service cost	41,893	-	41,893
Interest cost	18,117	-	18,117
Changes of assumptions	-	-	-
Plan experience differences	-	-	-
Contributions - employer	-	218,507	(218,507)
Net investment income	-	10,556	(10,556)
Assumption changes	245,741	-	245,741
Plan experience	(165,000)	-	(165,000)
Investment experience	-	12,415	(12,415)
Benefit payments	-	-	-
Administrative expenses	-	(126)	126
<b>Net Changes</b>	<u>140,751</u>	<u>241,352</u>	<u>(100,601)</u>
<b>Balance at June 30, 2019</b> (Measurement Date June 30, 2019)	<u>\$ 461,195</u>	<u>\$ 343,289</u>	<u>\$ 117,906</u>

***Sensitivity of the Net OPEB Liability to Changes in the Discount Rate***

The following presents the net OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2020 and 2019:

<u>2020</u>	<u>Discount rate -1%</u>	<u>Assumed discount rate</u>	<u>Discount rate +1%</u>
Net OPEB liability/(asset)	<u>\$ 17,417</u>	<u>\$ (9,242)</u>	<u>\$ (33,707)</u>
<u>2019</u>	<u>Discount rate -1%</u>	<u>Assumed discount rate</u>	<u>Discount rate +1%</u>
Net OPEB liability	<u>\$ 144,228</u>	<u>\$ 117,906</u>	<u>\$ 3,732</u>

**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**8. OTHER POST-EMPLOYMENT BENEFITS PAYABLE (continued)**

***Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates***

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2020 and 2019:

2020	Healthcare cost trend -1%	Healthcare cost trend assumed	Healthcare cost trend +1%
Net OPEB liability/(asset)	<u>\$ 237,492</u>	<u>\$ (9,242)</u>	<u>\$ 199,038</u>
2019	Healthcare cost trend -1%	Healthcare cost trend assumed	Healthcare cost trend +1%
Net OPEB liability	<u>\$ 237,492</u>	<u>\$ 117,906</u>	<u>\$ 199,038</u>

***Net OPEB Plan Fiduciary Net Position***

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

***Net OPEB Expense Related to Net OPEB Liability***

For the fiscal year ended June 30, 2020 and 2019, the District recognized OPEB expense of \$37,291 and \$54,890 respectively. As of fiscal year ended June 30, 2020, the District reported the following deferred outflows/inflows of resources related to its Net OPEB Liability (there were none in the prior fiscal year):

	Deferred outflows of resources	Deferred inflows of resources
Changes in assumptions	\$ 198,301	\$ -
Differences between expected and actual experience	-	133,146
Net difference between projected and actual earnings on investments	<u>1,778</u>	<u>-</u>
Total	<u>\$ 200,079</u>	<u>\$ 133,146</u>



**San Bernardino Valley Water Conservation District**  
**Notes to Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**8. OTHER POST-EMPLOYMENT BENEFITS PAYABLE (continued)**

The District reported \$-0- as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the upcoming fiscal year. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized as OPEB expense as follows:

Years ending June 30,	Amount
2021	\$ 7,617
2022	7,617
2023	7,617
2024	10,099
2025	7,793
Remaining	26,190

**9. 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 District is the lessor of commercial building space under operating leases expiring in various years through the year ending June 30, 2025. The cost of the associated assets is \$1,277,658 with a net book value of \$621,908.

Future minimum rents and royalties to be received on non-cancelable leases as of June 30 are as follows:

<u>Year</u>	<u>Rents</u>	<u>Royalties</u>	<u>Total</u>
2021	\$ 153,129	\$ 229,166	\$ 382,295
2022	137,308	-	137,308
2023	120,851	-	120,851
2024	55,818	-	55,818
2025	21,695	-	21,695
Totals	<u>\$ 488,801</u>	<u>\$ 229,166</u>	<u>\$ 717,967</u>

# San Bernardino Valley Water Conservation District

## Notes to Financial Statements

June 30, 2020 (with comparative data for 2019)

---

### 10. 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 and is a member of the ACWA Joint Powers Insurance Authority. The following is a summary of the insurance coverage carried by the District as of June 30, 2020:

- *General, Auto and Public Official Liability*: pooled self-insured up to \$5 million per claim with excess purchased insurance up to \$60 million. The none of the policies has a deductible;
- *Property*: pooled self-insured up to \$100,000 per claim with excess purchased insurance up to \$500 million. The property policy has a deductible of \$1,000 for real and personal property and mobile equipment. Licensed vehicles and trailers have a \$500 deductible. Boiler and machinery deductibles vary in accordance with the type of property;
- *Crime, Computer Fraud, Forgery, and Dishonesty Coverage*: pooled self-insured up to \$100,000 per claim with a \$1,000 deductible;
- *Workers' Compensation*: pooled self-insured up to \$2 million per accident or employee by disease with excess from \$2 million to statutory requirements; and
- *Cyber Liability*: \$3 million per claim, \$5 million aggregate.

### 11. GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS ISSUED, NOT YET EFFECTIVE

The GASB has issued several pronouncements prior to June 30, 2020 that have effective dates that may impact future financial presentations.

#### *Governmental Accounting Standards Board Statement No. 84*

In January 2017, the GASB issued Statement No. 84 *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The provisions of this Statement are effective for periods beginning after December 15, 2019. 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. 87*

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The provisions of this Statement are effective for periods beginning after December 15, 2020. 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 Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**11. GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS ISSUED,  
NOT YET EFFECTIVE (continued)**

*Governmental Accounting Standards Board Statement No. 89*

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The provisions of this Statement are effective for fiscal years beginning after December 15, 2020. 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. 90*

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interest*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of this Statement are effective for fiscal years beginning after December 15, 2019. 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. 91*

In August 2018, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The provisions of this Statement are effective for fiscal years beginning after December 15, 2021. 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. 92*

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve consistency of authoritative literature by addressing practice issues that have been identified during the implementation and application of previous guidance. Certain provisions of this Statement are effective for fiscal years beginning after June 15, 2021. Other provisions are effective for reporting periods beginning after June 15, 2021. 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. 93*

In May 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The provisions of this Statement are effective for fiscal years beginning after June 15, 2021. 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 Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**11. GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS ISSUED,  
NOT YET EFFECTIVE (continued)**

*Governmental Accounting Standards Board Statement No. 94*

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Partnerships*. The primary objectives of this Statement is to improve financial reporting by addressing issues related to these arrangements. The provisions of this Statement are effective for fiscal years beginning after June 15, 2022. 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. 95*

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the Covid-19 pandemic by postponing the effective dates of certain pronouncements. The provisions of this Statement are effective immediately.

*Governmental Accounting Standards Board Statement No. 96*

In May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. The primary objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The provisions of this Statement are effective for fiscal years beginning after June 15, 2022. 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. 97*

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plan. Certain provisions are effective immediately (no effect on the 2020 financial statements). Other provisions of this Statement are effective for fiscal years beginning after June 15, 2021. 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 Financial Statements**  
**June 30, 2020 (with comparative data for 2019)**

---

**12. 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.

*Covid-19*

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders for all but those deemed essential services. While the business disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders. As a result, the outbreak has caused uncertainty in the financial markets. Although the District's services are considered essential, the District's office was closed to the public, certain other services transitioned to online-only, but because the District's major revenue sources are only indirectly impacted by these events, it is probable that this matter will have a limited negative impact on the District. The ultimate financial impact and duration cannot be estimated at this time.

**REQUIRED SUPPLEMENTARY INFORMATION**

**San Bernardino Valley Water Conservation District**  
**Schedule of Proportionate Share of the Net Pension Liability and**  
**Related Ratios as of the Measurement Date**  
**Last 10 Fiscal Years \***

	Measurement date					
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Employer's Proportion of the Collective Net Pension Liability <sup>1</sup>	0.00810%	0.00633%	0.00675%	0.00595%	0.02708%	0.00892%
Employer's Proportionate Share of the Collective Net Pension Liability	\$ 324,184	\$ 238,734	\$ 266,161	\$ 206,530	\$ 743,026	\$ 555,348
Employer's Covered Payroll	\$ 979,060	\$ 758,985	\$ 709,190	\$ 689,423	\$ 577,644	\$ 553,862
Employer's Proportionate Share of the Collective Net Pension Liability as a Percentage of the Employer's Covered Payroll	33.11%	31.45%	37.53%	29.96%	128.63%	100.27%
Pension Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	77.73%	77.69%	75.39%	75.87%	79.89%	83.03%

<sup>1</sup> Proportion of the net pension liability represents the plan's proportion of PERF C, which includes both the Miscellaneous and Safety Risk Pools excluding the 1959 Survivors Risk Pool.

\* Historical information is required only for measurement periods for which GASB No. 68 is applicable. GASB No. 68 was implemented in the fiscal year ended June 30, 2015 with a measurement date of June 30, 2014.

**San Bernardino Valley Water Conservation District**  
**Schedule of Contributions – Pension Plan**  
**Last 10 Fiscal Years \***  
**June 30, 2020**

---

	Fiscal Year						
	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Actuarially Determined Contribution	\$ 119,349	\$ 78,252	\$ 69,728	\$ 69,418	\$ 88,829	\$ 52,231	\$ 76,810
Contributions in Relation to the Actuarially Determined Contribution	(119,349)	(78,252)	(69,728)	(69,418)	(88,829)	(52,231)	(76,810)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 979,060	\$ 758,985	\$ 709,190	\$ 689,423	\$ 577,644	\$ 553,862	\$ 502,836
Contributions as a Percentage of Covered Payroll	12.19%	10.31%	9.83%	10.07%	15.38%	9.43%	15.28%

*Notes to Schedule:*

Change in Benefit Terms: None

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

\* Historical information is required only for measurement periods for which GASB No. 68 is applicable. GASB No. 68 was implemented in the fiscal year ended June 30, 2015 with a measurement date of June 30, 2014.



**San Bernardino Valley Water Conservation District**  
**Schedule of Changes in the Net OPEB Liability and Related Ratios**  
**For the Year Ended June 30, 2020**

	Measurement period		
	June 30, 2020	June 30, 2019	June 30, 2018
<b>Total OPEB Liability</b>			
Service Cost	\$ 25,626	\$ 41,893	\$ 40,871
Interest on the Total OPEB Liability	30,837	18,117	13,313
Actual and expected experience difference	-	(165,000)	-
Changes in assumptions	-	245,741	-
Benefit payments	(24,824)	-	-
<b>Net change in Total OPEB Liability</b>	31,639	140,751	54,184
<b>Total OPEB Liability - beginning</b>	461,195	320,444	266,260
<b>Total OPEB Liability - ending (a)</b>	<u>\$ 492,834</u>	<u>\$ 461,195</u>	<u>\$ 320,444</u>
<b>Plan Fiduciary Net Position</b>			
Contribution - employer	\$ 168,356	\$ 218,507	\$ 37,767
Net investment income	15,439	22,971	4,900
Benefit payments	(24,824)	-	-
Administrative expense	(184)	(126)	(35)
<b>Net change in Plan Fiduciary Net Position</b>	158,787	241,352	42,632
<b>Plan Fiduciary Net Position - beginning</b>	343,289	101,937	59,305
<b>Plan Fiduciary Net Position - ending (b)</b>	<u>\$ 502,076</u>	<u>\$ 343,289</u>	<u>\$ 101,937</u>
<b>Net OPEB Liability - ending (a) - (b)</b>	<u>\$ (9,242)</u>	<u>\$ 117,906</u>	<u>\$ 218,507</u>
Plan fiduciary net position as a percentage of the total OPEB liability	101.88%	74.43%	31.81%
Covered employee payroll	\$ 970,271	\$ 758,985	\$ 707,053
Net OPEB liability as a percentage of covered employee payroll	-0.95%	15.53%	30.90%

\* Historical information is required only for measurement periods for which GASB No. 75 is applicable. GASB No. 75 was implemented in the fiscal year ended June 30, 2018 with a measurement date of June 30, 2018.

**San Bernardino Valley Water Conservation District**  
**Schedule of Contributions – OPEB**  
**For the Year Ended June 30, 2020**

---

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Actuarially Determined Contribution	\$ 43,693	\$ 54,851	\$ 37,767
Contributions in Relation to the Actuarially Determined Contribution	<u>(168,356)</u>	<u>(218,507)</u>	<u>(37,767)</u>
Contribution Deficiency (Excess)	<u>\$ (124,663)</u>	<u>\$ (163,656)</u>	<u>\$ -</u>
 Covered Payroll	 \$ 970,271	 \$ 758,985	 \$ 707,053
 Contributions as a Percentage of Covered Payroll	 17.35%	 28.79%	 5.34%

**Notes to Schedule:**

*Change in Benefit Terms:* None

*Methods and assumptions used to determine contribution rates:*

Actuarial cost method	Entry age
Amortization method	Level % of payroll
Amortization period	29 years
Asset valuation method	Market value of assets
Inflation	2.75%
Salary increases	2.50%
Investment rate of return	5.00%
 Mortality	 CalPers 2017 experience study
 Pre-retirement turnover healthcare trend rate	 7.0% 2020 6.5% 2021 6.0% 2022 5.5% 2023 5.0% 2024 5.0% thereafter

Historical information is required only for measurement periods for which GASB No. 75 is applicable. GASB No. 75 was implemented in the fiscal year ended June 30, 2018 with a measurement date of June 30, 2018.

## **SUPPLEMENTARY INFORMATION**

**San Bernardino Valley Water Conservation District**  
**Schedules of Operating Revenues and Expenses**  
**For the year ended June 30, 2020 (with comparative data for 2019)**

	<u>2020</u>	<u>2019</u>
<b>Operating revenues</b>		
Groundwater assessments		
Groundwater charge assessments - agricultural	\$ 141,818	\$ 68,120
Groundwater charge assessments - nonagricultural	1,146,863	951,149
Operating agreements		
Enhanced recharge agreement	407,062	395,205
Services to other agencies	68,775	30,000
	<u>1,764,518</u>	<u>1,444,474</u>
Total operating revenues		
<b>Operating expenses</b>		
District operations		
Professional services	352,728	320,741
Field operations	206,239	52,912
Utilities	20,768	18,681
Salaries/staff	844,885	759,591
Benefits	453,464	337,099
Repairs and maintenance	49,500	-
<b>Total District operations</b>	<u>1,927,584</u>	<u>1,489,024</u>
Regional programs		
Regional programs LAFCO contribution	3,952	5,000
<b>Total regional programs</b>	<u>3,952</u>	<u>5,000</u>
General and administrative		
Directors' fees and expenses	89,124	94,886
Staff travel and education	11,497	13,888
Insurance	24,667	23,845
Other administrative	80,274	69,370
<b>Total general and administrative</b>	<u>205,562</u>	<u>201,989</u>
Total operating expenses	<u>2,137,098</u>	<u>1,696,013</u>
Operating income (loss) before depreciation expense	(372,580)	(251,539)
Depreciation expense	37,237	37,608
Operating income (loss)	<u>\$ (409,817)</u>	<u>\$ (289,147)</u>

**San Bernardino Valley Water Conservation District**  
**Schedules of Wash Plan Additions and Reductions**  
**For the year ended June 30, 2020 (with comparative data for 2019)**

---

	<u>2020</u>	<u>2019</u>
Beginning cash and (due from other entities)	<u>\$ (850,388)</u>	<u>\$ (577,004)</u>
Additions	<u>-</u>	<u>-</u>
Reductions		
Professional services	209,310	165,759
Legal expenses	66,086	4,875
Allocated District expenses:		
Salaries and benefits	<u>256,098</u>	<u>102,750</u>
Total reductions	<u>531,494</u>	<u>273,384</u>
Ending cash (due from other entities)	<u><u>\$ (1,381,882)</u></u>	<u><u>\$ (850,388)</u></u>

## **REPORT ON INTERNAL CONTROL AND COMPLIANCE**



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

735 E. Carnegie Dr. Suite 100  
San Bernardino, CA 92408  
909 889 0871 T  
909 889 5361 F  
ramscpa.net

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

**PARTNERS**

Brenda L. Odle, CPA, MST  
Terry P. Shea, CPA  
Scott W. Manno, CPA, CGMA  
Leena Shanbhag, CPA, MST, CGMA  
Bradferd A. Welebir, CPA, MBA, CGMA  
Jenny W. Liu, CPA, MST

*Independent Auditor's Report*

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

**MANAGERS / STAFF**

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

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), which comprise the statement of net position as of June 30, 2020, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 7, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 District'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.

**MEMBERS**

American Institute of  
Certified Public Accountants

*PCPS The AICPA Alliance  
for CPA Firms*

*Governmental Audit  
Quality Center*

*Employee Benefit Plan  
Audit Quality Center*

California Society of  
Certified Public Accountants



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 audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

*Rogers, Anderson, Malody & Scott, LLP.*

October 7, 2020  
San Bernardino, California