SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2017

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ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017

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September 6, 2017

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, 2017 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 the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance the Board and public understanding of the District's financial position and activities.

This report is organized into two sections: (1) Introductory and (2) Financial. The Introductory section offers general information about the District's organization and current District activities and reports on a summary of significant financial results. The Financial section includes the Independent 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.

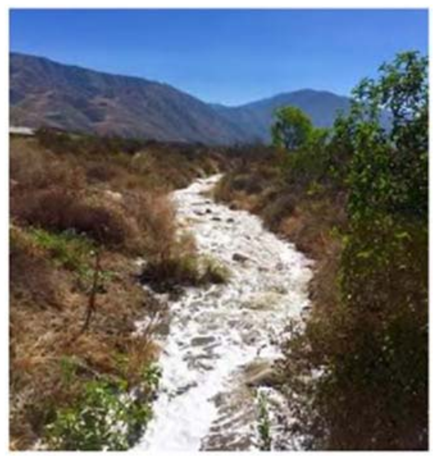
Generally Accepted Accounting Principles (GAAP) require that District management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction 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 dates from 1909 when the Water Conservation Association was voluntarily formed to conserve water in the region. The District was formed in 1932 as the successor agency to the Water Conservation Association by a vote of the people. The District is currently governed by a five-member Board of Directors, elected by division from within the District's service area. The District reduced the number of Divisions to five and transitioned to a five-member Board in December 2013. This assists the Board in continuing to limit their expenses and improve the focus and efficiency of the District.

The General Manager manages the day-to-day operations of the District in accordance with powers established in Resolution 537 and the policies, procedures, goals, values and priorities established by the Board of Directors. In addition to the general manager, the District employs five full time employees, two in the field and three in the office. The District also has several part-time temporary 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 frequently attend Board meetings and District workshops.

In 2013, the Board first approved a Community Strategic Plan which was developed with input from the water, mining and other partners and the communities the District serves. This strategic plan focused on the District's services, efforts and strategic direction in support of the needs of the District's communities, rate payers and partners. The strategic plan was reviewed, updated and reaffirmed in January 2016. In addition, 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.

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



To accomplish the recharge, the District maintains 71 water percolation basins in the Mill Creek and Santa Ana River spreading grounds. The District also plans for, maintains or leases over 3600 acres in the Santa Ana River Wash at and below the confluence of the Santa Ana River and Mill Creek. Water year 2016 was an exceptionally dry year. The District recharged all water that was available. So far 2017 have been an average precipitation year locally. As of September 11, 2017, 26,319 acre feet of local water were recharged into the groundwater basin from the Santa Ana River and Mill Creek. In Northern California record rainfall in most watersheds resulted in significant supplies being available for import to Southern California. Imported water was purchased by local producers and San Bernardino Valley Municipal Water District and resulted in 19,487 acre feet of additional recharge. So far for the water year 45,806 acre feet have been recharged by the District to benefit the Bunker Hill Basin. This total is the second highest total in recent years and the largest amount of imported water ever recharged into the basin by the District.

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

Santa Ana River Wash Plan - The Wash Plan is a long term environmental and infrastructure planning effort that the District has led for many years. The District has been able to work with the United States Fish and Wildlife Service (Service) to make very significant progress toward completion of the Wash Plan Habitat Conservation Plan. This plan will contribute to significant environmental improvements to habitat for several endangered species, including the San Bernardino kangaroo rat and the Santa Ana River woolly star plant in the wash. The plan also allows expanded water conservation facilities, mining, transportation and trails. The communities served by the District are very involved in the effort through the Wash Plan Task Force. Wash Plan efforts were significantly increased to finish the plan for publication in the Federal Register. Critical documents and implementing agreements completed and a memorandum of understanding (MOU) was approved recently by the Board. This MOU provides for payment of contributions and establishes the responsibilities of the participants.

Conservation Trust

Due to restrictions on the ability to invest endowment funds at a competitive rate the District established The San Bernardino Valley Conservation Trust, a public benefit non-profit corporation. This Land Trust will hold conservation easements, manage endowments and provide oversight on the implementation of the Wash Plan.

Groundwater Sustainability Council

In 2015, the Board raised the development of the Groundwater Sustainability Council to a high priority and the District is supporting facilitation, legal agreement development and engineering committee support to advance this priority. This is the opportunity to greatly expand the entities that would offset the groundwater enterprise costs, allowing a more equitable sharing of costs for groundwater recharge.

Plunge Creek Water and Habitat Conservation - The Proposition 84 Integrated Regional Water Management Planning funded effort in Plunge Creek completed engineering design and is headed toward permitting. The District receives reimbursement funding up to $500,000 in grant funds as the project is completed. This significant project is cooperative project with the U.S. Fish and Wildlife Service that ultimately develops about 100 acres of new, high quality San Bernardino kangaroo rat habitat and creates an additional 1,600 AF of groundwater recharge per year on District owned lands. The project is intended to be in construction in 2018, depending on permitting.

Mill Creek Diversion Debris Management Design - The longstanding concerns with management of extreme storm flows in Mill Creek prompted the District to embark on reengineering the Mill Creek Diversion to better handle the large debris and minimize the damage and repair to the facility in severe storms and maintain recharge capacity. Additionally, the facility will reduce future operations and maintenance costs and improve diversion flexibility. This capital project is completing design and beginning permitting. It is expected to be constructed in 2017 or 2018.

Pension and Post-Employment Benefits - Early in the 2015-2016 fiscal year, the Board approved payoff of the Unfunded Actuarial Liability to CalPERS. Staff implemented this action transferring $722,384 to CalPERS which should save over one million dollars in interest. Additionally, the Board approved the transfer of $41,770 from the OPEB reserve to fund the CalPERS Employer Trust. These actions reduce District debt and significantly reduce future costs of these benefits.

Policy Development - Staff continues to work with the Board to better document the principles, policy, practices and procedures used by the District. The documentation of these proper policies and publication on the District website make financial and policy information easily available to the public. The District continues to update the information to maintain its Transparency Certificate of Excellence from the Special District Leadership Foundation (SDLF), affiliated with the California Special District Association.

In 2014, SDLF recognized SBVWCD with the District of Distinction accreditation. To make the award, the SDLF committee of volunteers, consisting of district controllers, finance directors and certified general managers review the independent audits and the District's operations to ensure 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 our commitment to do the public's business transparently and to act as a professional special district measured by the highest standards and benchmarks.

Economic Condition and Outlook

The District is located at a strategic point in the watershed in the east end of the San Bernardino Valley. The Valley experienced significant economic growth with the rest of the Inland Empire in the mid 2000s and downturn through 2014. The downturn in building and the larger 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 revenue.

In 2016, housing starts and population increased in the area as the economy developed with additional employment. These factors and the increased economic activity in the area increased the limited tax income to the District. State Emergency Drought Regulations reduced water use by residents and thereby reduced groundwater pumping. This reduced District revenue. The implementation of the Wash Plan will also facilitate long-term planning and infrastructure projects benefiting the region and increasing assessed valuation.

Internal Control Structure

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

The District implemented the audit recommendation to treat Board Member compensation as employee compensation for tax purposes in 2016. While necessary, these increased costs and work to implement additional employees and employment taxes for Directors.

Budgetary Control

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

Since 2011, the District has used an enterprise model for financial management and reserve accounting. The District has implemented this and other policies to support this enterprise model. This model provides better internal accountability and provides greater public transparency for the finances of the District. In 2016, several of these policies were updated and revised reserves levels implanted.

Investment Policy

The Board of Directors worked with PFM Financial Management to develop a completely new Statement of Investment Policy to conform 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, various certificates of deposit and California Credit Union Mutual Fund. Changes were instituted to reduce the impact of increasing interest rates on the value of bond investments. Staff has executed these changes and reports to the Board quarterly on the progress, investments 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 is the primary component of the District's revenue. In 2016, these revenues were reduced by State Emergency Conservation Regulations, reducing revenue by almost $100,000. 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.

District Investments and CalPERS Changes

The District's Board authorized changes to reserves and investments during the year. The District completed a new Investment Policy Statement to guide investments given current market conditions and likelihood of increase in interest rates. District staff implemented several changes that affected reserves. The revised investments were made at an ideal time when losses due to higher interest in short term markets were minimal and solid fixed-income certificates of deposits and money market funds replaced more volatile investments. These changes reduced the investments and increased the cash and equivalent funds due to the nature of the investments.

As mentioned in last year's introduction letter, the Board increased the CalPERS payment to pay off the estimated unfunded actuarial liability due to pool changes by CalPERS and transferred the OPEB reserve to the CalPERS OPEB Investment Trust. These prudent financial actions have financial statement consequences shown in this year's financial statements. The CalPERS payment and trust transfer both reduce District reserves but result in significantly lower future costs. This year's financial statements reflect the implementation of GASB 68, and in addition to delaying the audit, change the treatment of CalPERS expenses, investments and liabilities, and resulted in restatement of the 2015 beginning net position.

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.

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

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

Respectfully submitted,

____
Daniel B. Cozad
General Manager

Service Since 1932

San Bernardino Valley Water Conservation District
Board of Directors as of June 30, 2017

Name	Division	Title	Current Team Ending
Richard Corneille	1	President	December 9, 2020
Melody Henriques-McDonald	5	Vice-President	December 11, 2018
T. Milford Harrison	3	Director	December 9, 2020
John Longville	4	Director	December 11, 2018
David E. Raley	2	Director	December 11, 2018

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CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the 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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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.

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, 2017 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.

Other Matters

The financial statements of the District for the year ended June 30, 2016, before the restatement described in Note 13, were audited by another auditor whose report dated November 9, 2016 expressed an unmodified opinion on those statements.

As part of our audit of the 2017 financial statements, we also audited the adjustments described in Note 13 that were applied to restate the 2016 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2016 financial statements of the District other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2016 financial statements as a whole.

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 funding progress - other post-employment benefits plan; 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 September 6, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 48 and 49.

Rogers, Anderson, Malody & Scott, LLP.

September 6, 2017
San Bernardino, California

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, 2017. 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 10.2% or $597,496 in fiscal year 2017 as the result of operations.

The District's operating revenues for fiscal year 2017 were $1,097,541, which was $375,330 less than its operating expenses of $1,472,871. Depreciation expense was $29,607 and net nonoperating income was $1,002,433 resulting in a net change in net position of $597,496.

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.

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, such as changes in federal and state water quality standards.

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)

				Change 2017		Change 2016	
	2017	2016	2015	Amount	%	Amount	%
Assets:							
Current	$ 9,946	$ 9,762	$ 9,859	$ 184	1.9%	$ (97)	-1.0%
Non-current	2	13	4	(11)	-84.6%	9	225.0%
Capital, net	1,710	1,387	1,251	323	23.3%	136	10.9%
Total assets	11,658	11,162	11,114	496	4.4%	48	0.4%
Deferred outflows of resources							
Pension	689	861	52	(172)	-20.0%	809	1555.8%
Total assets and deferred outflows	12,347	12,023	11,166	324	2.7%	857	7.7%
Liabilities:							
Current	121	300	291	(179)	-59.7%	9	3.1%
Other non-current	5,296	5,808	5,627	(512)	-8.8%	(181)	3.2%
Total liabilities	5,417	6,108	5,918	(691)	-11.3%	(172)	3.2%
Deferred inflows of resources							
Pension	493	75	187	418	557.3%	(112)	-59.9%
Total liabilities and deferred outflows	5,910	6,183	6,105	(273)	-4.4%	(284)	1.3%
Net position (restated):							
Net investment in capital assets	1,710	1,387	1,251	323	23.3%	136	10.9%
Unrestricted	4,727	4,453	3,810	274	6.2%	643	16.9%
Total net position	$ 6,437	$ 5,840	$ 5,061	$ 597	10.2%	$ 779	15.4%

Amounts may not foot due to rounding

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 $6,436,605 and $5,839,109 as of June 30, 2017 and 2016, respectively.

Capital assets represent 26.5% as of June 30, 2017 and 23.7% as of June 30, 2016 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 2017 and 2016, the District showed a positive balance in its unrestricted net position of $4,726,626 and $4,451,720, respectively. The District's investment of 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)

				Change 2017		Change 2016	
	2017	2016	2015	Amount	%	Amount	%
Revenues:							
Operating	$ 1,098	$ 1,128	$ 1,374	$ (30)	-2.7%	$ (246)	-17.9%
Nonoperating	1,114	1,031	933	83	8.1%	98	10.5%
Total revenues	2,212	2,159	2,307	53	2.5%	(148)	-6.4%
Expenses							
Operating	1,473	1,217	1,409	256	21.0%	(192)	-13.6%
Depreciation	30	35	59	(5)	-14.3%	(24)	-40.7%
Nonoperating	112	125	137	(13)	-10.4%	(12)	-8.8%
Total expenses	1,615	1,377	1,605	238	17.3%	(228)	-14.2%
Change in net position	$ 597	$ 782	$ 702	$ (185)	-23.7%	$ 80	11.4%

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 $597,496 and $781,843 in fiscal years ended June 30, 2017 and 2016, respectively.

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

- The District's net position increased 10.2% or $597,496 to $6,436,605 in fiscal year 2017 as the result of operations. In 2016, The District's net position increased 15.4% or $781,843 as a result of operations.

- The District's operating revenues decreased by 2.72% or $30,649 in 2017 primarily due to a decrease in revenue from groundwater assessments. In 2016, the District's operating revenues decreased by 17.9% or $245,604 due to a decrease in revenue from groundwater assessments.

- The District's nonoperating revenues increased by 10.0% or $96,646 in 2017 primarily due to a $34,720 increase in royalty income resulting from increase in existing contracts with minimum annual royalty payments and an increase of $51,412 in other nonoperating revenues and expenses due to Plunge Creek payments. In 2016, the District's nonoperating revenues increased by 10.5% or $97,910 primarily due to a $70,834 increase in existing contracts with minimum annual royalty payments.

- The District's operating expenses increased 20.6% or $256,198 in 2017 primarily due to an increase of $43,484 in actuarial pension expense, a $29,635 increase in OPEB expense and payments to the HCP endowment of $54,042. The District's operating expenses decreased 13.6% or $192,010 in 2016 primarily due to decreases of $156,753 in professional services related to royalty negotiations and decreases of $47,145 in repairs and maintenance for capital projects.

- The District's nonoperating expenses decreased 6.06% or $13,623 in 2017 primarily due to decrease in rental property expenses, including CAM expenses and Redlands Plaza maintenance. In 2016, the District's nonoperating expenses decreased 8.3% or $11,431 primarily due to decrease in rental property expenses including CAM expenses and Redlands Plaza maintenance.

Capital Asset Administration

At the end of fiscal years 2017 and 2016, the District's net investment in capital assets amounted to $1,709,979 and $1,387,389, 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, 2017 total nondepreciable assets include land and $249,209 of construction in progress. Major capital asset additions in 2016 included purchase construction in progress.

Changes in capital assets in 2017 were as follows:

	Balance 2016	Additions	Deletions	Balance 2017
Capital assets:				
Nondepreciable	$ 418,355	$ 366,349	$ -	$ 784,704
Depreciable	2,178,391	17,280	-	2,195,671
Accumulated depreciation	(1,209,357)	(61,039)	-	(1,270,396)
Totals	$ 1,387,389	$ 322,590	$ -	$ 1,709,979

Changes in capital assets in 2016 were as follows:

	Balance 2015	Additions	Deletions	Balance 2016
Capital assets:				
Nondepreciable	$ 238,558	$ 179,797	$ -	$ 418,355
Depreciable	2,152,740	25,651		2,178,391
Accumulated depreciation	(1,140,880)	(68,477)	-	(1,209,357)
Totals	$ 1,250,418	$ 136,971	$ -	$ 1,387,389

District 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 allocated based on enterprise performance and policy targets set by the Board based on benchmarks, best practices and risk. Reserves 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 revises targets or reallocates funds to reserves annually. Additionally, it should be noted that the Prepaid Royalties Reserve/Liability is unearned revenue related to a deposit of funds in anticipation of aggregate mining under the Wash Plan. In 2015, the Board adjusted several reserve levels in anticipation of Capital Projects. In aggregate, reserve levels are at 91% of target levels and decreased 5% from 2015/2016 levels. Reserves that are currently above their target levels include land resources reserve and groundwater recharge enterprise reserve, which contain deferred capital project costs anticipated for future fiscal years.

Reserve	Target	Balance	% Funded
Groundwater Recharge Enterprise	$ 1,250,000	$ 1,557,975	125%
Groundwater ER Maintenance	250,000	250,000	100%
GWA Rate Stabilization	400,000	82,617	21%
Redlands Plaza	81,418	186,395	229%
Land Resources	816,743	656,084	80%
Prepaid Royalties	5,000,000	5,000,000	100%
PERS/Post Employment Expense Trust	45,500	-	0%
Self Insurance	50,000	30,000	60%
Capital Improvement/Equipment	750,000	760,000	101%
General Fund	1,211,566	386,561	32%
Compensated Absences	107,000	107,000	100%
Total	$ 9,962,227	$ 9,016,632	91%

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.sbvwcd.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, 2017 (with comparative data for 2016)

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$ 4,139,821	$ 4,537,811
Investments	4,876,811	4,606,548
Accrued interest receivable	4,708	1,777
Accounts receivable, net:	134,773	85,656
Assessments receivable - groundwater charges	347,127	392,260
Notes receivable	1,006	957
Due from other governments	419,160	113,361
Prepaid expenses	21,800	23,651
Total current assets	9,945,206	9,762,021
Noncurrent assets:		
Notes receivable	2,456	3,463
Other post-employment benefits asset	-	9,610
Capital assets, not being depreciated:		
Land and land improvements	535,495	219,383
Construction in progress	249,209	198,972
Capital assets, being depreciated, net:		
Buildings and improvements	580,924	612,193
Equipment	94,198	100,085
Spreading basins	250,153	256,756
Total noncurrent assets	1,712,435	1,400,462
Total assets	11,657,641	11,162,483
Deferred outflows of resources		
Deferred outflows of resources - actuarial	619,763	49,381
Deferred outflows of resources - contributions	69,418	811,213
Total deferred outflows of resources	689,181	860,594
Total assets and deferred outflows of resources	12,346,822	12,023,077

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

	2017	2016
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	$ 48,590	$ 221,431
Accrued wages and related payables	36,339	46,326
Customer deposits for rentals	13,651	17,848
Compensated absences payable	22,521	14,529
Total current liabilities	121,101	300,134
Noncurrent liabilities:		
Unearned revenue	5,000,000	5,000,000
Other post-employment benefits liability	20,025	-
Net pension liability	206,530	743,026
Compensated absences payable	69,771	65,637
Total noncurrent liabilities	5,296,326	5,808,663
Total liabilities	5,417,427	6,108,797
Deferred inflows of resources		
Deferred inflows of resources - actuarial	492,790	75,171
Total deferred inflows of resources	492,790	75,171
Total liabilities and deferred inflows of resources	5,910,217	6,183,968
Net position		
Net investment in capital assets	1,709,979	1,387,389
Unrestricted	4,726,626	4,451,720
Total net position	$ 6,436,605	$ 5,839,109

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, 2017 (with comparative data for 2016)

	2017	2016
Operating revenues		
Groundwater assessments	$ 697,531	$ 733,288
Operating agreements	370,010	364,902
Services to other agencies	30,000	30,000
Total operating revenues	1,097,541	1,128,190
Operating expenses		
District operations	1,190,570	1,013,751
Regional programs	79,159	25,359
General and administrative	203,142	177,563
Total operating expenses	1,472,871	1,216,673
Operating income before depreciation expense	(375,330)	(88,483)
Depreciation expense	29,607	35,461
Operating income (loss)	(404,937)	(123,944)
Nonoperating revenues and (expenses)		
Property taxes	104,135	112,976
Investment earnings	68,604	71,609
Royalties	640,617	605,897
Rental property income	217,975	209,238
Rental property expense	(112,013)	(125,636)
Other nonoperating revenues and expenses	83,115	31,703
Total nonoperating revenues	1,002,433	905,787
Change in net position	597,496	781,843
Net position, beginning of year, restated (See Note 13)	5,839,109	5,057,266
Net position, end of year	$ 6,436,605	$ 5,839,109

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, 2017 (with comparative data for 2016)

	2017	2016
Cash flows from operating activities		
Cash received from groundwater assessments and other agencies	$ 1,142,674	$ 1,168,296
Cash payments for services and supplies	(725,861)	(1,504,506)
Cash payments to employees for salaries and wages	(833,690)	(462,588)
Proceeds from royalty income	591,643	643,019
Proceeds from rental revenue, net of expenses	133,197	127,225
Other operating	83,115	35,198
Net cash provided by operating activities	391,078	6,644
Cash flows from noncapital financing activities		
Property taxes	103,992	112,851
Advances to Wash Plan	(305,799)	(151,520)
Net cash used for noncapital financing activities	(201,807)	(38,669)
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(383,629)	(170,667)
Net cash used for capital and related financing activities	(383,629)	(170,667)
Cash flows from investing activities		
Payments received on notes receivable	958	911
Purchase of investments	(515,263)	(1,680,911)
Proceeds from investments	245,000	5,250,000
Investment income	65,673	57,975
Net cash (used for) provided by investing activities	(203,632)	3,627,975
Net (decrease) increase in cash and cash equivalents	(397,990)	3,425,283
Cash and cash equivalents, beginning of year	4,537,811	1,112,528
Cash and cash equivalents, end of year	$ 4,139,821	$ 4,537,811

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

San Bernardino Valley Water Conservation District
Statements of Cash Flows **(continued)**
For the Year Ended June 30, 2017 (with comparative data for 2016)

	2017	2016
Reconciliation of operating income (loss) to cash provided by operating activities		
Operating income (loss)	$ (404,937)	$ (123,944)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	29,607	35,461
Additional pension funding	-	(722,384)
Pension expense	52,536	(10,359)
Royalty income	591,643	643,019
Rental revenue, net of expenses	133,197	127,225
Miscellaneous income	83,115	35,198
(Increase) decrease in assets:		
Assessments receivable - groundwater charges	45,133	40,106
Prepaids	1,851	(616)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(172,841)	(15,390)
Accrued wages and related payables	(9,987)	21,021
Compensated absences	12,126	8,918
Other post-employment benefits payable	29,635	(31,611)
Net cash provided by operating activities	$ 391,078	$ 6,644
Noncash, investing, capital and financing activities		
Change in fair value of investments	$ (9,745)	$ 11,857

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, 2017 (with comparative data for 2016)

	2017	2016
Assets		
Due from other entities	$ 419,160	$ 220,979
Total assets	419,160	220,979
Liabilities		
Advances from District for Wash Plan	419,160	220,979
Total liabilities	$ 419,160	$ 220,979

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

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.

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.

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.

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.

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 recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	40-50 years
Vehicles and equipment	5-10 years
Office equipment	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

In government-wide financial statements and enterprise fund financial statements, pension plans are required to be recognized and disclosed using the accrual basis of accounting. In general, the District recognizes a net pension liability, which represents the District's proportionate share of the excess of the total pension liability *over* the fiduciary net position of the pension plan reflected in the actuarial report provided by California Public Employees' Retirement System (CalPERS). The net pension liability is measured as of June 30, 2016.

Changes in the net pension liability are recorded in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Net Pension Liability (continued)

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

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2017 and 2016 are classified in the statements of net position as follows:

	2017	2016
Current assets:		
Cash and cash equivalents	$ 4,139,821	$4,537,811
Investments	4,876,811	4,606,548
Total cash and investments	$ 9,016,632	$9,144,359

Cash and investments as of June 30, 2017 and 2016 consisted of the following:

Deposits with financial institutions	$ 416,584	$ 839,373
Money market mutual funds	3,272,269	3,250,386
Deposits held with California Local Agency Investment Fund	450,969	448,052
Certificates of deposit	1,873,008	1,626,284
Deposits held with CalTrust Short-term fund	3,003,802	2,980,264
Total cash and investments	$ 9,016,632	$9,144,359

2. CASH AND INVESTMENTS (continued)

As of June 30, 2017 and 2016, the District's authorized deposits had the following average maturities:

	2017	2016
Deposits held with California Local Agency Investment Fund	194 days	167 days
Certificates of deposit	411 days	709 days
Deposits held with CalTrust Short-term fund	343 days	387 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.

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, 2017, the District's cost basis in LAIF was $450,848 and its net asset value was $450,969. At June 30, 2016, the District's cost basis in LAIF was $447,931 and its net asset value was $448,052.

2. CASH AND INVESTMENTS (continued)

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, 2017 and 2016. The 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, 2017 was $3,002,557, and its net asset value (withdrawal value) was $3,003,802. The average cost of the District's investment in the Short-Term Fund as of June 30, 2016 was $2,976,035 and its net value (withdrawal value) was $2,980,264.

D. 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).

2. CASH AND INVESTMENTS (continued)

E. 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.

F. Credit Risk

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

	Minimum legal rating	Rating as of year end
California Local Agency Investment Fund	None	Not rated
Investment Trust of California (CalTrust Short-term fund)	None	Aaf/S1+

G. 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, 2017.

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. The District's investments in external investment pools are valued at net asset value.

4. CAPITAL ASSETS

Changes in capital assets for 2017 were as follows:

	Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017
Capital assets not being depreciated:				
Land and land improvements	$ 219,383	$ 316,112	$ -	$ 535,495
Construction in progress	198,972	50,237	-	249,209
Total capital assets not being depreciated	418,355	366,349	-	784,704
Capital assets being depreciated:				
Buildings	1,180,550	-	-	1,180,550
Improvements	114,023	-	-	114,023
Vehicles and equipment	133,229	-	-	133,229
Office equipment	141,366	-	-	141,366
Field equipment	258,498	17,280	-	275,778
Equipment	20,533	-	-	20,533
Spreading basins	330,192	-	-	330,192
Total capital assets being depreciated	2,178,391	17,280	-	2,195,671
Less accumulated depreciation:				
Buildings and improvements	(682,380)	(31,269)	-	(713,649)
Equipment	(453,541)	(23,167)	-	(476,708)
Spreading basins	(73,436)	(6,603)	-	(80,039)
Total accumulated depreciation	(1,209,357)	(61,039)	-	(1,270,396)
Net capital assets being depreciated	969,034	(43,759)	-	925,275
Net capital assets	$1,387,389	$ 322,590	$ -	$ 1,709,979

4. CAPITAL ASSETS (continued)

Changes in capital assets for 2016 were as follows:

	Balance at July 1, 2015	Additions	Deletions	Balance at June 30, 2016
Capital assets not being depreciated:				
Land and land improvements	$ 219,383	$ -	$ -	$ 219,383
Construction in progress	19,175	179,797	-	198,972
Total capital assets not being depreciated	238,558	179,797	-	418,355
Capital assets being depreciated:				
Buildings	1,176,739	3,811	-	1,180,550
Improvements	97,367	16,656	-	114,023
Vehicles and equipment	133,229	-	-	133,229
Office equipment	137,432	3,934	-	141,366
Field equipment	258,498	-	-	258,498
Equipment	19,283	1,250	-	20,533
Spreading basins	330,192	-	-	330,192
Total capital assets being depreciated	2,152,740	25,651	-	2,178,391
Less accumulated depreciation:				
Buildings and improvements	(646,109)	(36,271)	-	(682,380)
Equipment	(427,939)	(25,602)	-	(453,541)
Spreading basins	(66,832)	(6,604)	-	(73,436)
Total accumulated depreciation	(1,140,880)	(68,477)	-	(1,209,357)
Net capital assets being depreciated	1,011,860	(42,826)	-	969,034
Net capital assets	$1,250,418	$ 136,971	$ -	$ 1,387,389

5. COMPENSATED ABSENCES

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

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due within one year
Compensated absences	$ 80,166	$ 39,139	$(27,013)	$ 92,292	$ 22,521

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Due within one year
Compensated absences	$ 71,248	$ 37,110	$(28,192)	$ 80,166	$ 14,529

6. 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.

7. DEFINED BENEFIT PENSION PLAN

A. General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's Cost-Sharing Multiple-Employer Defined Benefit Employee 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.

7. DEFINED BENEFIT PENSION PLAN (continued)

A. General Information about the Pension Plan (continued)

Benefits Provided

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

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

The Plan's provisions and benefits, in effect at June 30, 2017, are summarized as follows:

	Prior to January 1, 2013	On or after January 1, 2013
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
Required employer contribution rates	10.069%	10.069%

Contributions

Section 20814(c) of the 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.

7. DEFINED BENEFIT PENSION PLAN (continued)

A. General Information about the Pension Plan (continued)

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, 2017 were $69,418. The actual employer payments of $811,213 made to CalPERS by the District during the measurement period ended June 30, 2016 (fiscal year ended June 30, 2016) differed from the District's proportionate share of the employer's contributions of $119,268 by $692,945, which is being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

B. Net Pension Liability

The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2016 using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases (1)	3.3% - 14.2%
Investment Rate of Return (2)	7.65%
Mortality Rate Table (3)	Derived using CALPERS'
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

(1) Annual increases vary by category, entry age, and duration of service

(2) Net of pension plan investment and administrative expenses; includes inflation

(3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

7. DEFINED BENEFIT PENSION PLAN (continued)

B. Net Pension Liability (continued)

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

Change of Assumptions

There were no changes of assumptions.

C. Discount Rate

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS' website under the GASB 68 section.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the PERF asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

7. DEFINED BENEFIT PENSION PLAN (continued)

C. Discount Rate (continued)

The following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2015.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10[1]	Real Return Years 11+[2]
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	(0.55%)	(1.05%)
Total	100%		

[1] An expected inflation of 2.5% used for this period

[2] An expected inflation of 3.0% used for this period

Pension Plan Fiduciary Net Position

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

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

7. DEFINED BENEFIT PENSION PLAN (continued)

D. Proportionate Share of Net Pension Liability

As of June 30, 2017 and 2016, the District reported net pension liabilities for its proportionate share of the net pension liability of $206,530 and $743,026, respectively.

	2017	2016
Total pension liability	$ 3,409,293	$ 3,321,355
Fiduciary net position	3,202,763	2,578,329
Net pension liability	$ 206,530	$ 743,026

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

	Plan total pension liability	Plan fiduciary net position	Plan net pension liability
Balance at: 6/30/2015 (Valuation Date)	$ 3,321,355	$ 2,578,329	$ 743,026
Balance at: 6/30/2016 (Measurement Date)	3,409,293	3,202,763	206,530
Net changes during 2015-2016	87,938	624,434	(536,496)

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The local government'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. The District's proportionate share of the net pension liability for the Plan as of June 30, 2015 and 2016 was as follows:

	2017	2016
Proportionate share - June 30, 2014		0.02447%
Proportionate share - June 30, 2015	0.02708%	0.02708%
Proportionate share - June 30, 2016	0.00595%	
Change	-0.02113%	0.00261%

7. DEFINED BENEFIT PENSION PLAN (continued)

D. Proportionate Share of Net Pension Liability (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 for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower or one-percentage point higher than the current rate:

June 30, 2017	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
District's proportionate share of the net pension liability	$ 665,527	$ 206,530	$ (172,808)

June 30, 2016	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
District's proportionate share of the net pension liability	$ 1,195,351	$ 743,026	$ 369,580

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

7. DEFINED BENEFIT PENSION PLAN (continued)

D. Proportionate Share of Net Pension Liability (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 the Plan for the 2015-16 measurement period is 3.7 years, which was obtained by dividing the total service years of 475,689 (the sum of remaining service lifetimes of the active employees) by 127,009 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

E. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017 and 2016, the District recognized pension expense of $52,536 and $78,470, respectively. At June 30, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	2017	
	Deferred outflows of resources	Deferred inflows of resources
Pension contributions subsequent to the measurement date	$ 69,418	$ -
Difference in actual vs projected contributions	487,610	-
Changes in assumptions	-	(20,360)
Difference between expected and actual experience	2,151	(730)
Net difference between projected and actual earnings on pension plan investments	130,002	-
Changes in proportion	-	(471,700)
Totals	$ 689,181	$ (492,790)

7. DEFINED BENEFIT PENSION PLAN (continued)

E. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions (continued)

	2016	
	Deferred outflows of resources	Deferred inflows of resources
Pension contributions subsequent to the measurement date		
Normal contribution	$ 88,829	$ -
Additional contribution	722,384	-
Changes in assumptions	-	31,672
Difference between expected and actual experience	3,348	-
Net difference between projected and actual earnings on pension plan investments	-	15,878
Changes in proportion	46,033	390
Difference between employer contributions and proportionate share of contributions	-	27,231
Totals	$ 860,594	$ 75,171

The District reported $69,418 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
2018	$ 11,880
2019	12,735
2020	61,750
2021	40,608
2022	-
Remaining	-

F. Payable to the Pension Plan

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

8. OTHER POST-EMPLOYMENT BENEFITS PAYABLE

A. Plan Description - Eligibility

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

Membership in the Other Post-Employment Benefits (OPEB) plan consisted of the following members as of June 30:

	2017	2016	2015
Active plan members	7	6	6
Retirees and beneficiaries receiving benefits	-	-	-
Separated plan members entitled to but not yet receiving benefits	-	-	-
	7	6	6

B. Plan Description - Benefits

The District offers post-employment medical benefits to retired employees who satisfy the eligibility requirements. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any medical plan available through the District. The contribution requirements of eligible retired employees and the District are established and may be amended by the Board of Directors. The plan does not issue separate financial statements.

C. Funding Policy and Annual Other Post-Employment Costs

The District's annual OPEB expense is calculated based on the *Annual Required Contribution (ARC) of the Employer,* an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The District has elected to calculate the ARC and related information using the alternative measurement method as permitted by GASBS 45 for employer plans with fewer than one hundred total plan members.

8. OTHER POST-EMPLOYMENT BENEFITS PAYABLE (continued)

C. Funding Policy and Annual Other Post-Employment Costs (continued)

The District previously funded the Plan on a pay-as-you-go basis. During the year ended June 30, 2017, a contribution was made to an OPEB trust. The District will pay up to 100% of the cost of the post-employment benefit plan. The District has established reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost. The District's annual OPEB cost for the current year and two preceding years for the Plan are shown below:

	2017	2016	2015
Annual OPEB expense			
Annual required contribution	$ 39,845	$ 9,404	$ 9,348
Interest on net OPEB obligation	(384)	880	491
Adjustment to annual required contribution	333	(125)	(125)
Total annual OPEB cost (expense)	39,794	10,159	9,714
Contributions made	(10,159)	(41,770)	-
Increase in net OPEB obligation	29,635	(31,611)	9,714
Net OPEB obligation (asset), beginning of year	(9,610)	22,001	12,287
Net OPEB obligation (asset), end of year	$ 20,025	$ (9,610)	$ 22,001

The District's current-year OPEB cost has been recognized as a part of the general and administrative expenses in the accompanying statement of revenues, expenses, and changes in net position.

D. Funded Status

The funded status of the Plan as of June 30, 2017 and 2016, based on the July 1, 2017 actuarial valuation, is as follows:

	2017	2016
Actuarial accrued liability (AAL)	$ 215,567	$ 32,423
Actuarial value of trust assets	59,305	41,770
Unfunded (funded) actuarial accrued liability	$ 156,262	$ (9,347)
Funded ratio (actuarial vale of trust assets/AAL)	28%	129%

8. OTHER POST-EMPLOYMENT BENEFITS PAYABLE (continued)

E. Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of employee turnover, retirement, mortality, as well as economic assumptions regarding claim costs per retiree, healthcare inflation, and interest rates. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multi-year trend information about whether the unfunded actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

Valuation date	July 1, 2017
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level percent of payroll amortization
Remaining amortization period	22 years as of the valuation date
Asset valuation method	30 year smoothed market
Actuarial Assumptions	
Investment rate of return	4.00%
Projected salary increase	4.00%
Inflation - discount rate	4.00%
Individual salary growth	4.00%
Medical Insurance Premium Increases	
Years 1 and 2	7.00%
Years 3, 4 and 5	6.00%
Year 6	5.00%
Years 7-10	4.00%
Years 11-21	3.00%
Thereafter	3.00%

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, 2019.

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

Year	Rents	Royalties	Total
2018	$ 58,677	$ 586,000	$ 644,677
2019	8,249	586,000	594,249
2020	-	201,333	201,333
Totals	$ 66,926	$ 1,373,333	$ 1,440,259

The District is the lessee of a copier with monthly payments of $335. Future minimum rentals to be paid on noncancelable leases as of June 30 were as follows:

Year	Amount
2018	$ 4,024
2019	3,020
Total	$ 7,044

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, 2017:

- General Liability: pooled self-insured up to $5 million per claim with excess purchased insurance up to $60 million. The general liability policy has no deductible.
- Auto Liability: pooled self-insured up to $5 million per claim with excess purchased insurance up to $60 million. The auto liability policy has a deductible of $500 for licensed vehicles and $1,000 for mobile equipment.
- Public Official Liability: pooled self-insured up to $5 million per claim with excess purchased insurance up to $60 million. The public official liability policy has no deductible.

10. RISK MANAGEMENT (continued)

- Property: pooled self-insured up to $100,000 per claim with excess purchased insurance up to $150 million. The property policy has a deductible of $1,000. 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
- Employer's Liability: pooled self-insured up to $2 million with excess of $2 million SIR.

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

The GASB has issued several pronouncements prior to June 30, 2017 that have effective dates that may impact future financial presentations.

A. Governmental Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions.* This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements will be significant.

B. Governmental Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 *Irrevocable Split Interest Agreements.* This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The provisions of this Statement are effective for periods beginning after December 15, 2016. It appears as though this will have no impact on the District at this time.

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

C. Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). The provisions of this Statement are effective for fiscal years beginning after June 15, 2018. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

D. 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, 2018. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

E. Governmental Accounting Standards Board Statement No. 85

In March 2017, the GASB issued Statement No. 85 *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

F. Governmental Accounting Standards Board Statement No. 86

In May 2017, the GASB issued Statement No. 86 *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

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

G. 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, 2019. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

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.

13. PRIOR PERIOD RESTATEMENTS

The District's net position was restated as follows:

District	
Net position, beginning of year, as previously stated	$ 5,060,644
CIP expensed in 2016 rather than capitalized	34,781
District expenses charged to the Fiduciary Fund in 2016	(38,159)
Net position, beginning of year, restated	$ 5,057,266

Agency Fund	
Due from other entities, beginning of year, as previously stated	$ 138,912
Expenses from prior year recorded twice	(107,618)
District expenses charged to the Fiduciary Fund in 2016	38,159
Due from other entities, beginning of year, restated	$ 69,453

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, 2016	June 30, 2015	June 30, 2014
Employer's Proportion of the Collective Net Pension Liability[1]	0.00595%	0.02708%	0.00892%
Employer's Proportionate Share of the Collective Net Pension Liability	$ 206,530	$ 743,026	$ 555,348
Employer's Covered Payroll[2]	$ 577,644	$ 553,862	$ 502,836
Employer's Proportionate Share of the Collective Net Pension Liability as a Percentage of the Employer's Covered Payroll	35.75%	134.15%	110.44%
Pension Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	77.63%	93.94%	83.03%

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

[2] Covered payroll is defined as the payroll on which contributions to a pension plan are based, in accordance with GASB 82.

* 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
Last 10 Fiscal Years *
June 30, 2017

	Fiscal Year			
	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Actuarially Determined Contribution	$ 69,418	$ 88,829	$ 52,231	$ 76,810
Contributions in Relation to the Actuarially Determined Contribution	(69,418)	(88,829)	(52,231)	(76,810)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered Payroll[1]	$ 689,423	$ 577,644	$ 553,862	$ 502,836
Contributions as a Percentage of Covered Payroll	10.07%	15.38%	9.43%	15.28%

[1] Covered payroll is defined as the payroll on which contributions to a pension plan are based, in accordance with GASB 82.

Notes to Schedule:

Change in Benefit Terms: None
Change in Assumptions: None

* 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 Funding Progress - Other Post-Employment Benefits Plan
For the Year Ended June 30, 2017

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll [(b-a)/c]
11/01/11	$ -	$ 3,118	$ 3,118	0.0%	$ 429,422	0.73%
07/01/14	-	32,423	32,423	0.0%	630,544	5.14%
07/01/17	59,305	215,567	156,262	27.5%	752,712	20.76%

OTHER POST-EMPLOYMENT BENEFIT

1. CHANGE IN BENEFIT TERMS

The pension figures presented do not include any liability impact that may have resulted from Plan changes that occurred after June 30, 2013, as they have minimal cost impact.

2. CHANGES IN ASSUMPTIONS

There were no changes in assumptions.

SUPPLEMENTARY INFORMATION

San Bernardino Valley Water Conservation District
Schedules of Operating Revenues and Expenses
For the Year Ended June 30, 2017 (with comparative data for 2016)

	2017	2016
Operating revenues		
Groundwater assessments		
Groundwater charge assessments - agricultural	$ 29,333	$ 53,715
Groundwater charge assessments - nonagricultural	668,198	679,573
Operating agreements		
Enhanced recharge agreement	370,010	364,902
Services to other agencies	30,000	30,000
Total operating revenues	1,097,541	1,128,190
Operating expenses		
District operations		
Professional services	206,036	204,295
Field operations	37,168	29,866
Utilities	17,515	22,365
Salaries/staff	593,837	492,527
Benefits	324,163	263,364
Repairs and maintenance	11,851	1,334
Total District operations	1,190,570	1,013,751
Regional programs		
Regional programs LAFCO contribution	-	359
Wash Plan contribution	117	-
HCP endowment	54,042	-
Regional River HCP contribution	25,000	25,000
Total regional programs	79,159	25,359
General and administrative		
Directors' fees and expenses	93,135	74,543
Staff travel and education	7,063	7,042
Insurance	25,988	26,280
Other administrative	76,956	69,698
Total general and administrative	203,142	177,563
Total operating expenses	1,472,871	1,216,673
Operating income (loss) before depreciation expense	(375,330)	(88,483)
Depreciation expense	29,607	35,461
Operating income (loss)	$ (404,937)	$ (123,944)

San Bernardino Valley Water Conservation District
Schedules of Wash Plan Additions and Reductions
For the Year Ended June 30, 2017 (with comparative data for 2016)

	2017	2016
Beginning cash and (due from other entities), restated	$ (220,979)	$ 69,453
Additions	97,500	-
Reductions		
Professional services	148,565	82,110
Legal expenses	21,977	81,239
Allocated District expenses:		
Salaries and benefits	125,139	127,083
Total reductions	295,681	290,432
Ending cash (due from other entities)	$ (419,160)	$ (220,979)

REPORT ON INTERNAL CONTROLS AND COMPLIANCE

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the San Bernardino Valley Water Conservation District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 6, 2017.

Internal Control over Financial Reporting

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

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.

September 6, 2017
San Bernardino, California