

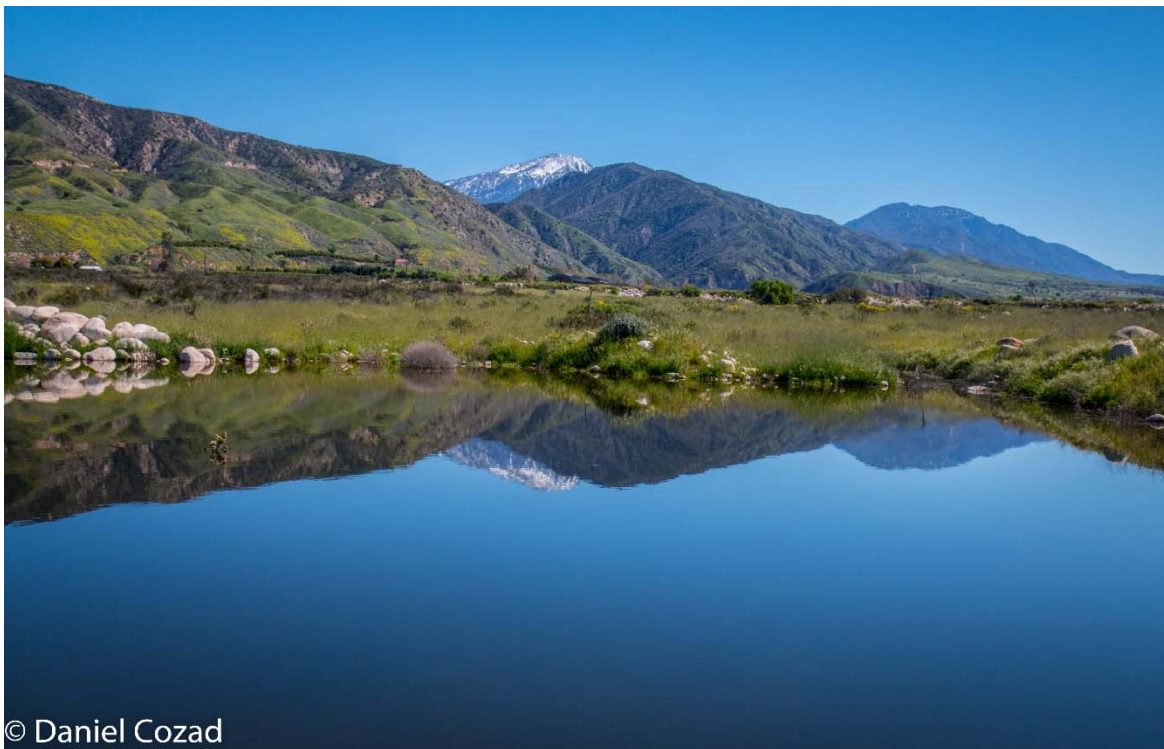


San Bernardino Valley Water Conservation District

Helping Nature Store Our Water

ANNUAL FINANCIAL REPORT

JUNE 30, 2018



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SAN BERNARDINO VALLEY WATER CONSERVATION DISTRICT

ANNUAL FINANCIAL REPORT

For the year ended June 30, 2018

San Bernardino Valley Water Conservation District
Annual Financial Report
For the year ended June 30, 2018

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INTRODUCTORY SECTION



San Bernardino Valley Water Conservation District

Helping Nature Store Our Water

September 18, 2018

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, 2018 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.

1630 W. Redlands Blvd, Suite A
Redlands, CA 92373
Phone: 909.793.2503
Fax: 909.793.0188
www.sbvwd.org Email: info@sbvwd.org

BOARD OF DIRECTORS

Division 1:
Richard Corneille

Division 2:
David E. Raley

Division 3:
T. Milford Harrison

Division 4:
John Longville

Division 5:
Melody McDonald

GENERAL MANAGER

Daniel B. Cozad

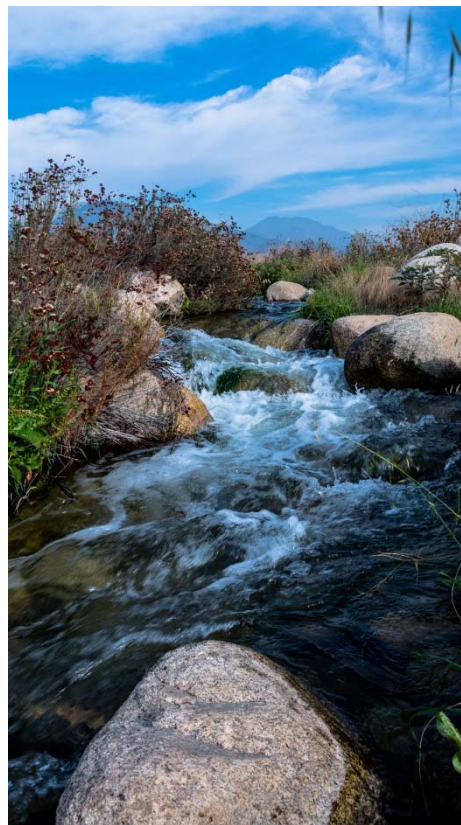
The General Manager manages the day-to-day operations of the District in accordance with powers established in Resolution 558 and the policies, procedures, goals, values and priorities established by the Board of Directors. In addition to the general manager, the District employs five full time employees, two in the field and three in the office. The District also has several part-time employees and interns that assist the District with specific tasks and efforts. The District's Board of Directors generally meets once each month. Meetings are publicly noticed. The public and the press often attend Board meetings and District workshops.

In 2013, the Board first approved a Community Strategic Plan which was developed with input from 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. 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. The strategic plan was reviewed, and the board updated the Community Strategic Plan including realigning several goals and objectives in 2017 culminating in the public review and approval by the Board in December 2017.

District Services

The San Bernardino Valley Water Conservation District recharges the groundwater basin protecting 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 2018 has been a dry year in precipitation locally and throughout California and the West. As of August 23, 2018, 4,583 acre feet of local water were recharged into the groundwater basin from the Santa Ana River and Mill Creek. This is about 17% of last years recharge. Northern California rainfall was also dry but some water was available to import to Southern California. Imported water was purchased by local producers and San Bernardino Valley Municipal Water District and resulted in 8,840 acre feet of additional recharge. So far for the water year 13,424 acre feet have been recharged by the District to benefit the Bunker Hill Basin. This total is about 20% of last year and normal for a dry year.



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 led by the District and a local Task Force for many years. The District has been working with the United States Fish and Wildlife Service (Service) and the California Department of Fish and Wildlife 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 Santa Ana River Wash. The plan permits 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 and staffs the San Bernardino Valley Conservation Trust, a public benefit non-profit corporation. This Land Trust now invests and manages the Wash Plan Endowment and will hold District and other conservation easements, and provide oversight on the implementation of the Wash Plan.

Bunker Hill Basin Groundwater Council

The District and SBVMWD initiated development of a collaborative council in 2015. The Board supporting facilitation, legal agreement development and engineering committee support to advance this Board priority. The Groundwater Council has greatly expanded the entities that contribute to operations and maintenance costs and purchase water for recharge in the Bunker Hill Basin. The Groundwater Council was implemented in 2018 and will reduce Groundwater Charge Revenue and institute the new Groundwater Council revenue that will offset the groundwater enterprise costs providing more equitable groundwater recharge cost share.

Plunge Creek Water and Habitat Conservation - The Proposition 84 Integrated Regional Water Management Planning funded effort in Plunge Creek is completing permitting and we are planning for procurement and construction. 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 and Woolly star 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 winter 2018, depending on final permitting.

Mill Creek Diversion Debris Management Design - The longstanding concerns with management of high storm flows and debris in Mill Creek prompted the Mill Creek Diversion project. The project will reconstruct parts of the facility to pass large debris and minimize the needed repairs 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 has a complete design and CEQA compliance but unfortunately requires a USACOE section 408 permit which often takes several years. The District engaged in an expedited \$408 process and the project is now expected to be constructed in 2019 or 2020.

Pension and Post-Employment Benefits - Early in the 2015-2016 fiscal year, the Board approved payoff of the Unfunded Accrued Actuarial Liability (UAAL) to CalPERS. In the 2017 budget the Board approved paying any UAAL as identified by CalPERS each year. These small amounts are projected and budgeted as a benefit expense. Additionally, the Board in 2016 converted the OPEB reserve to initiate a CalPERS Employer Trust. The Trust irrevocably holds funds to pay for the limited cost of health care until Medicare. GASB 75 compliant actuarial analysis were performed this year and a higher UAAL was identified. These prudent 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 recertified to maintain its Transparency Certificate of Excellence from the Special District Leadership Foundation (SDLF), affiliated with the California Special District Association.

In 2014, SDLF first recognized SBVWCD with the District of Distinction accreditation. SDLF reaccredited the District in 2017. 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 best practices, 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 significant downturn through 2014. The downturn 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. Housing starts and population has increased in the area as the economy improved in 2016-2018. These factors and the general increase in economic activity in the area increased the limited tax income to the District. The 2016 State Emergency Drought Regulations reduced water use by residents and thereby reduced groundwater pumping. This reduced District revenue in 2017. With the lifting of Emergency Regulations groundwater pumping has increased, especially with the very low precipitation in 2018. New housing is being developed, home prices have greatly increased and additional development is planned for the area. The implementation of the Wash Plan will also facilitate long-term infrastructure projects benefiting the region. These changes will likely continue to increase assessed valuation to and remittances to the County of San Bernardino.

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 Board approved a consolidated Procurement and Purchasing Policy in 2018 and continues to make changes to District Financial Reports. The District's internal control structure is designed to provide reasonable assurance that these objectives are met with the limited staff at the District. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management. The District also continues to better document its controls and practices and adding efforts to allow the highest level of control possible with its minimal staffing. The District implements all auditor recommendations.

Budgetary Control

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

Since 2011, the District has used an enterprise model for financial management and reserve accounting. The Enterprise model provides better internal accountability and allows greater public transparency for the finances of the District. The Board reviews and revises these policies and target reserves levels each year.



Investment Policy

The Board of Directors worked with PFM Financial Management resulting in the current Statement of Investment Policy which conforms to state law, District ordinances and prudent money management. The Investment Policy assures safety, liquidity and yield. District funds are invested in the State Treasurer's Local Agency Investment Fund, the CalTrust Joint Powers Authority, various certificates of deposit and California Credit Union (CCU) Mutual Fund. Changes to the CCU Mutual Fund have resulted in an overweight funding in that category and staff transferred and closed the CCU Mutual Fund account. The Board receives quarterly reports on all investment balances and returns.

District Revenues

State law and District policy ensure that all revenues from groundwater charges generated from District groundwater production support District operations. Groundwater charge rates are set in accordance with section 75500 of the California Water Code. Groundwater charges are levied on all groundwater producing agricultural and non-agricultural facilities within the District boundaries. This has been the primary component of the District's revenue. After implementation of the Groundwater Council, much of the revenue historically paid through the Groundwater Charge will come from contributions from the Groundwater Council. The Groundwater Charge will continue to be assessed on all producers who are not members of the Groundwater Council.

The District has agreements with other entities for payment or reimbursement for the cost of recharge of water on their behalf. Revenue from royalties on aggregate mining, property leases, easements and interest on reserves complete the non-rate revenues of the District. The District has been working with CEMEX to renew its lease. Staff is also working with leaseholder, Robertson's Ready Mix to begin mining on District land before the completion of the Wash Plan to retire the prepaid royalty.

District Investments

The District's Board authorized changes to reserves and investments during the year. Staff implemented the Investment Policy Statement making investments and moving funds mostly as Certificated of Deposit (CD) terms expired. Funds on loan to the Wash Plan to complete permitting were to be repaid by permittees were absorbed by the Conservation Trust, who holds funds to partially repay the loan when called. CD interest rates are increasing especially with the laddered CDs in the Districts portfolio. The District will continue to monitor rates and opportunities to generate funding from investments.

Audit and Financial Reporting

State laws require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Rogers, Anderson, Malody & Scott, LLP has conducted the audit of the District's financial statements. Their unmodified Independent Auditor's Report is in the financial section.

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



San Bernardino Valley Water Conservation District

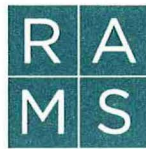
Helping Nature Store Our Water

San Bernardino Valley Water Conservation District Board of Directors as of June 30, 2018

<u>Name</u>	<u>Division</u>	<u>Title</u>	<u>Current Team Ending</u>
Richard Corneille	1	President	December 9, 2020
Melody Henriques-McDonald	5	Vice-President	December 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

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

FINANCIAL SECTION



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

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

Independent Auditor's Report

PARTNERS

Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Kirk A. Franks, CPA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Bradford A. Welebir, CPA, MBA, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)

MANAGERS / STAFF

Jenny Liu, CPA, MST
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA
Gardenya Duran, CPA
Brianna Schultz, CPA
Lisa Dongxue Guo, CPA, MSA
Samuel Singery, CPA
Jing Wu, CPA

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, 2018, 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.



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Quality Center

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California Society of
Certified Public Accountants

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, 2018 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.

Emphasis of a Matter

Change in Accounting Principle

As discussed in Note 1 of the financial statements, the District adopted provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pension*. Our opinion is not modified with respect to this matter.

Prior year Comparative Information

We have previously audited the District's 2017 financial statements, and we expressed an unmodified opinion in our report dated September 6, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

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

Other Information

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

The schedules of operating revenues and expenses and schedules of Wash Plan additions and reductions are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating revenues and expenses and schedules of Wash Plan additions and reductions are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

September 18, 2018
San Bernardino, California

San Bernardino Valley Water Conservation District

Management's Discussion and Analysis

For the year ended June 30, 2018

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, 2018. 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 6.8% or \$638,169 in fiscal year 2018 as the result of operations.

The District's operating revenues for fiscal year 2018 were \$1,348,126, which was \$331,346 less than its operating expenses of \$1,679,472. Depreciation expense was \$33,030 and net nonoperating income was \$1,002,545 resulting in a net change in net position of \$638,169.

Required Financial Statements

This annual report consists of a series of financial statements. The statement of net position, statement of revenues, expenses, and changes in net position and statement of cash flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The statement of net position includes all of the District's investments in resources (assets and deferred outflows) and the obligations to creditors (liabilities and deferred inflows). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness.

The statement of cash flows provides information about the District's cash receipts and cash payments during the reporting period. The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, noncapital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

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

San Bernardino Valley Water Conservation District

Management's Discussion and Analysis

For the year ended June 30, 2018

Financial Analysis of the District

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

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The statement of net position and the statement of revenues, expenses and changes in net position report information about the District in a way that helps answer this question.

These two statements report the District's *net position* and changes in it. One can think of the District's net position - the difference between assets and deferred outflows less liabilities and deferred inflows - as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other nonfinancial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation and regulation. Changes in state waterboard rules for wetlands and dredge and fill materials could impact District costs.

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on the pages as listed in the table of contents.

Condensed Statements of Net Position (in thousands)

	2018	2017	2016	Change 2018		Change 2017	
				Amount	%	Amount	%
Assets:							
Current	\$ 10,591	\$ 9,946	\$ 9,762	\$ 645	6.5%	\$ 184	1.9%
Non-current	1	2	13	(1)	-50.0%	(11)	-84.6%
Capital, net	1,809	1,710	1,387	99	5.8%	323	23.3%
Total assets	12,401	11,658	11,162	743	6.4%	496	4.4%
Deferred outflow s of resources							
Pension	510	689	861	(179)	-26.0%	(172)	-20.0%
Total assets and deferred outflow s	12,911	12,347	12,023	564	4.6%	324	2.7%
Liabilities:							
Current	174	121	300	53	43.8%	(179)	-59.7%
Other non-current	5,556	5,483	5,808	73	1.3%	325	-5.6%
Total liabilities	5,730	5,604	6,108	126	2.2%	146	-8.3%
Deferred inflow s of resources							
Pension	294	493	75	(199)	-40.4%	418	557.3%
Total liabilities and deferred outflow s	6,024	6,097	6,183	(73)	-1.2%	564	-1.4%
Net position (restated):							
Net investment in capital assets	1,809	1,710	1,387	99	5.8%	323	23.3%
Unrestricted	5,078	4,540	4,453	538	11.9%	87	2.0%
Total net position	\$ 6,887	\$ 6,250	\$ 5,840	\$ 637	10.2%	\$ 410	7.0%

Amounts may not foot due to rounding

San Bernardino Valley Water Conservation District

Management's Discussion and Analysis

For the year ended June 30, 2018

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 \$6,887,844 and \$6,249,675 as of June 30, 2018 and 2017, respectively.

Capital assets represent 26.3% as of June 30, 2018 and 27.4% as of June 30, 2017 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 2018 and 2017, the District showed a positive balance in its unrestricted net position of \$5,078,775 and \$4,539,696, 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)

	2018	2017	2016	Change 2018		Change 2017	
				Amount	%	Amount	%
Revenues:							
Operating	\$ 1,348	\$ 1,098	\$ 1,128	\$ 250	22.8%	\$ (30)	-2.7%
Nonoperating	1,130	1,114	1,031	16	1.4%	83	8.1%
Total revenues	2,478	2,212	2,159	266	12.0%	53	2.5%
Expenses							
Operating	1,680	1,473	1,217	207	14.1%	256	21.0%
Depreciation	33	30	35	3	10.0%	(5)	-14.3%
Nonoperating	127	112	125	15	13.4%	(13)	-10.4%
Total expenses	1,840	1,615	1,377	225	13.9%	238	17.3%
Change in net position	\$ 638	\$ 597	\$ 782	\$ 41	6.9%	\$ (185)	-23.7%

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 \$638,169 and \$597,496 in fiscal years ended June 30, 2018 and 2017, respectively.

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

- The District's net position increased 10.2% or \$638,169 to \$6,887,844 in fiscal year 2018 as the result of operations. In 2017, The District's net position increased 10.6% or \$597,496 as a result of operations.

San Bernardino Valley Water Conservation District
Management's Discussion and Analysis
For the year ended June 30, 2018

- The District's operating revenues increased by 22.8% or \$250,585 in 2018 primarily due to increased revenue from groundwater charge assessments. In 2017, the District's operating revenues decreased by 2.7% or \$30,649 due to decreased production resulting in decreased revenue from groundwater charge assessments.
- The District's nonoperating revenues increased by 1.72% or \$15,334 in 2018 primarily due to a \$45,190 increase in property taxes due to increased collections and assessments, a \$29,967 increase in investment income due to higher returns, a \$24,610 increase in royalty income from existing contracts and a decrease of \$75,658 in Plunge Creek revenue. In 2017, the District's nonoperating revenues increased by 10.0% or \$96,646 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.
- The District's operating expenses increased 14.0% or \$206,601 in 2018 primarily due to an increase of \$71,572 in professional services, a \$41,626 increase in Plunge Creek professional services, an increase in legal fees of \$45,106 and an increase of \$71,526 in salaries and wages. The increases were offset by a decrease of \$77,006 in regional programs. 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 nonoperating expenses increased 13.6% or \$15,222 in 2018 primarily due to increase in rental property expenses, including CAM expenses and Redlands Plaza maintenance. In 2017, the District's nonoperating expenses decreased 6.06% or \$13,623 primarily due to decrease in rental property expenses, including CAM expenses and Redlands Plaza maintenance.

Capital Asset Administration

At the end of fiscal years 2018 and 2017, the District's net investment in capital assets amounted to \$1,809,069 and \$1,709,979, 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, 2018 total nondepreciable assets include land and \$272,739 of construction in progress. Major capital asset additions in 2017 included purchase construction in progress.

Changes in capital assets in 2018 were as follows:

	Balance 2017	Additions	Deletions	Balance 2018
Capital assets:				
Nondepreciable	\$ 784,704	\$ 23,530	\$ -	\$ 808,234
Depreciable	2,195,671	141,390	(27,314)	2,309,747
Accumulated depreciation	(1,270,396)	(65,830)	27,314	(1,308,912)
Totals	<u>\$ 1,709,979</u>	<u>\$ 99,090</u>	<u>\$ -</u>	<u>\$ 1,809,069</u>

San Bernardino Valley Water Conservation District
Management's Discussion and Analysis
For the year ended June 30, 2018

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	<u>\$ 1,387,389</u>	<u>\$ 322,590</u>	<u>\$ -</u>	<u>\$ 1,709,979</u>

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 accumulated and allocated based on enterprise performance and policy targets set by the Board based on benchmarks, best practices and risk. Reserves, from time to time, may greatly exceed the minimums or targets set by the Board for many reasons. Likewise, some reserves fall below the target level, because they are intended to be funded over many years and have not yet been fully funded. The Board annually reviews the reserve policy and revises targets or reallocates funds to reserves. Additionally, it should be noted that the Prepaid Royalties Liability is unearned revenue related to a deposit of funds in anticipation of aggregate mining under the Wash Plan. Beginning in 2015, the Board began adjusting several reserve levels in anticipation of Capital Projects. In aggregate, reserve levels are at 91% of target levels and decreased 5% from 2016/2017 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	\$ 1,738,025	139%
Groundwater ER Maintenance	250,000	250,000	100%
GWA Rate Stabilization	200,000	200,000	100%
Redlands Plaza	81,418	104,884	129%
Land Resources	816,743	793,903	97%
Prepaid Royalties	5,000,000	5,000,000	100%
Self Insurance	50,000	35,000	70%
Capital Improvement/Equipment	750,000	760,000	101%
General Liability	1,250,000	513,855	41%
Compensated Absences	100,268	107,000	107%
Total	<u>\$ 9,748,429</u>	<u>\$ 9,502,667</u>	97%

San Bernardino Valley Water Conservation District
Management's Discussion and Analysis
For the year ended June 30, 2018

Conditions Affecting Current Financial Position

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

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please review the District website at www.sbvwd.org 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, 2018 (with comparative data for 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,337,036	\$ 4,139,821
Investments	5,165,631	4,876,811
Accrued interest receivable	5,438	4,708
Accounts receivable, net:	102,724	134,773
Assessments receivable - groundwater charges	377,284	347,127
Notes receivable	1,058	1,006
Due from other governments	577,004	419,160
Prepaid expenses	<u>24,874</u>	<u>21,800</u>
Total current assets	<u>10,591,049</u>	<u>9,945,206</u>
Noncurrent assets:		
Notes receivable	1,397	2,456
Capital assets, not being depreciated:		
Land and land improvements	535,495	535,495
Construction in progress	272,739	249,209
Capital assets, being depreciated, net:		
Buildings and improvements	647,048	580,924
Equipment	110,228	94,198
Spreading basins	<u>243,559</u>	<u>250,153</u>
Total noncurrent assets	<u>1,810,466</u>	<u>1,712,435</u>
Total assets	<u>12,401,515</u>	<u>11,657,641</u>
Deferred outflows of resources		
Deferred outflows of resources - actuarial	440,373	619,763
Deferred outflows of resources - contributions	<u>69,728</u>	<u>69,418</u>
Total deferred outflows of resources	<u>510,101</u>	<u>689,181</u>

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

San Bernardino Valley Water Conservation District**Statements of Net Position****(continued)****June 30, 2018 (with comparative data for 2017)**

	<u>2018</u>	<u>2017</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 94,967	\$ 48,590
Accrued wages and related payables	37,135	36,339
Customer deposits for rentals	13,199	13,651
Compensated absences payable	<u>29,121</u>	<u>22,521</u>
Total current liabilities	<u>174,422</u>	<u>121,101</u>
Noncurrent liabilities:		
Unearned revenue	5,000,000	5,000,000
Net other post-employment benefits liability	218,507	206,955
Net pension liability	266,161	206,530
Compensated absences payable	<u>71,147</u>	<u>69,771</u>
Total noncurrent liabilities	<u>5,555,815</u>	<u>5,483,256</u>
Total liabilities	<u>5,730,237</u>	<u>5,604,357</u>
Deferred inflows of resources		
Deferred inflows of resources - actuarial	<u>293,535</u>	<u>492,790</u>
Total deferred inflows of resources	<u>293,535</u>	<u>492,790</u>
Net position		
Net investment in capital assets	1,809,069	1,709,979
Unrestricted	<u>5,078,775</u>	<u>4,539,696</u>
Total net position	<u>\$ 6,887,844</u>	<u>\$ 6,249,675</u>

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

San Bernardino Valley Water Conservation District
Statements of Revenues, Expenses, and Changes in Net Position
For the year ended June 30, 2018 (with comparative data for 2017)

	2018	2017
Operating revenues		
Groundwater assessments	\$ 937,755	\$ 697,531
Operating agreements	380,371	370,010
Services to other agencies	30,000	30,000
Total operating revenues	1,348,126	1,097,541
Operating expenses		
District operations	1,434,517	1,190,570
Regional programs	2,153	79,159
General and administrative	242,802	203,142
Total operating expenses	1,679,472	1,472,871
Operating loss before depreciation expense	(331,346)	(375,330)
Depreciation expense	33,030	29,607
Operating income (loss)	(364,376)	(404,937)
Nonoperating revenues and (expenses)		
Property taxes	149,325	104,135
Investment earnings	88,770	68,604
Royalties	666,227	640,617
Rental property income	209,643	217,975
Rental property expense	(127,235)	(112,013)
Other nonoperating revenues and expenses	15,815	83,115
Total nonoperating revenues/(expenses)	1,002,545	1,002,433
Change in net position	638,169	597,496
Net position, beginning of year, restated (See Note 13)	6,249,675	5,652,179
Net position, end of year	\$ 6,887,844	\$ 6,249,675

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, 2018 (with comparative data for 2017)

	2018	2017
Cash flows from operating activities		
Cash received from groundwater assessments and other agencies	\$ 1,317,969	\$ 1,142,674
Cash payments for services and supplies	(636,684)	(725,861)
Cash payments to employees for salaries and wages	(939,705)	(833,690)
Proceeds from royalty income	698,276	591,643
Proceeds from rental revenue, net of expenses	114,756	133,197
Other operating	10,392	83,115
	<u>565,004</u>	<u>391,078</u>
Net cash provided by operating activities		
Cash flows from noncapital financing activities		
Property taxes	149,325	103,992
Advances to Wash Plan	(157,844)	(305,799)
	<u>(8,519)</u>	<u>(201,807)</u>
Net cash used for noncapital financing activities		
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(164,920)	(383,629)
Proceeds from disposal of capital assets	5,423	-
	<u>(159,497)</u>	<u>(383,629)</u>
Net cash used for capital and related financing activities		
Cash flows from investing activities		
Payments received on notes receivable	1,007	958
Purchase of investments	(1,178,820)	(515,263)
Proceeds from investments	890,000	245,000
Investment income	88,040	65,673
	<u>(199,773)</u>	<u>(203,632)</u>
Net cash used for investing activities		
Net increase (decrease) in cash and cash equivalents	197,215	(397,990)
Cash and cash equivalents, beginning of year	4,139,821	4,537,811
Cash and cash equivalents, end of year	<u>\$ 4,337,036</u>	<u>\$ 4,139,821</u>

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, 2018 (with comparative data for 2017)

	2018	2017
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ (364,376)	\$ (404,937)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	33,030	29,607
Net pension liability related activity	39,456	52,536
Net OPEB related activity	11,552	29,635
Royalty income	698,276	591,643
Rental revenue, net of expenses	114,756	133,197
Miscellaneous income	10,392	83,115
(Increase) decrease in assets:		
Assessments receivable - groundwater charges	(30,157)	45,133
Prepaid expenses	(3,074)	1,851
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	46,377	(172,841)
Accrued wages and related payables	796	(9,987)
Compensated absences payable	7,976	12,126
Net cash provided by operating activities	<u>\$ 565,004</u>	<u>\$ 391,078</u>
Noncash, investing, capital and financing activities		
Change in fair value of investments	<u>\$ (9,931)</u>	<u>\$ (9,745)</u>

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

San Bernardino Valley Water Conservation District
Statements of Fiduciary Net Position - Agency Fund
June 30, 2018 (with comparative data for 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Due from other entities	<u>\$ 577,004</u>	<u>\$ 419,160</u>
Total assets	<u>577,004</u>	<u>419,160</u>
Liabilities		
Advances from District for Wash Plan	<u>577,004</u>	<u>419,160</u>
Total liabilities	<u><u>\$ 577,004</u></u>	<u><u>\$ 419,160</u></u>

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

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2018 (with comparative data for 2017)

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.

San Bernardino Valley Water Conservation District

Notes to Financial Statements

June 30, 2018 (with comparative data for 2017)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Accounting Pronouncements

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

D. Net Position

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

- (1) ***Net Investment in Capital Assets*** - Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- (2) ***Restricted*** - Restricted consists of assets that have restrictions placed on their use by external constraints imposed either by creditors (debt covenants), grantors, contributors or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- (3) ***Unrestricted*** - Unrestricted consists of any remaining balance of the District's net position that do not meet the definition of restricted or net investment in capital assets.

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

E. Use of Estimates

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

F. Cash and Cash Equivalents

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

San Bernardino Valley Water Conservation District

Notes to Financial Statements

June 30, 2018 (with comparative data for 2017)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Investments

Investments are stated at fair value based on quoted market prices. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value and any gains or losses realized upon the liquidation or sale of investments. Investments held in external investment pools are valued at net asset value.

H. Property Taxes and Assessments

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

The District assesses its property taxes through the County tax rolls. Property taxes are recognized as revenue in the period for which they are levied.

I. Compensated Absences

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

J. Concentrations

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

K. Receivables

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

San Bernardino Valley Water Conservation District

Notes to Financial Statements

June 30, 2018 (with comparative data for 2017)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Capital Assets

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

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

M. Budgetary Policies

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

N. Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

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

Valuation Date (VD)	June 30, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

San Bernardino Valley Water Conservation District

Notes to Financial Statements

June 30, 2018 (with comparative data for 2017)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Implementation of new accounting principle

GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for other postemployment benefits (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures.

This pronouncement has been implemented for purposes of measuring the net OPEB liability and any related deferred outflows/inflows of resources related to OPEB, and OPEB expense/expenditures.

P. Other Postemployment Benefits (OPEB)

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

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

Valuation Date June 30, 2018

Measurement Date June 30, 2018

Measurement Period July 1, 2017 to June 30, 2018

2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2018 and 2017 are classified in the statements of net position as follows:

	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 4,337,036	\$4,139,821
Investments	<u>5,165,631</u>	<u>4,876,811</u>
Total cash and investments	<u>\$ 9,502,667</u>	<u>\$9,016,632</u>

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2018 (with comparative data for 2017)

2. CASH AND INVESTMENTS (continued)

Cash and investments as of June 30, 2018 and 2017 consisted of the following:

Deposits with financial institutions	\$ 835,998	\$ 416,584
Money market mutual funds	3,045,717	3,272,269
Deposits held with California Local Agency Investment Fund	455,321	450,969
Certificates of deposit	2,117,518	1,873,008
Deposits held with CalTrust Short-term fund	<u>3,048,113</u>	<u>3,003,802</u>
Total cash and investments	<u>\$ 9,502,667</u>	<u>\$9,016,632</u>

As of June 30, 2018 and 2017, the District's authorized deposits had the following average maturities:

	<u>2018</u>	<u>2017</u>
Deposits held with California Local Agency Investment Fund	193 days	194 days
Certificates of deposit	637 days	411 days
Deposits held with CalTrust Short-term fund	347 days	343 days

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

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

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

The District's investment policy is to apply the prudent-person rule: investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The District's investment policy does not contain any specific provisions intended to limit the District's allowable deposits or investments or address the specific types of risk to which the government is exposed, including its exposure to a concentration of credit risk.

San Bernardino Valley Water Conservation District

Notes to Financial Statements

June 30, 2018 (with comparative data for 2017)

2. CASH AND INVESTMENTS (continued)

B. Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the Code under the oversight of the Treasurer of the State of California. The net asset value of the District's investment in this pool is reported in the accompanying financial statements at amounts based on the District's pro rata share of the net asset value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. At June 30, 2018, the District's cost basis in LAIF was \$456,176 and its net asset value was \$455,321. At June 30, 2017, the District's cost basis in LAIF was \$450,848 and its net asset value was \$450,969.

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, 2018 and 2017. 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, 2018 was \$3,049,877, and its net asset value (withdrawal value) was \$3,048,113. 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.

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.

San Bernardino Valley Water Conservation District

Notes to Financial Statements

June 30, 2018 (with comparative data for 2017)

2. CASH AND INVESTMENTS (continued)

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).

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.

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

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, 2018.

San Bernardino Valley Water Conservation District

Notes to Financial Statements

June 30, 2018 (with comparative data for 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. COMPENSATED ABSENCES

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

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due within one year
Compensated absences	<u>\$ 92,292</u>	<u>\$ 46,039</u>	<u>\$(38,063)</u>	<u>\$ 100,268</u>	<u>\$ 29,121</u>

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

5. UNEARNED REVENUE

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

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2018 (with comparative data for 2017)

6. CAPITAL ASSETS

Changes in capital assets for 2018 were as follows:

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018
Capital assets not being depreciated:				
Land and land improvements	\$ 535,495	\$ -	\$ -	\$ 535,495
Construction in progress	249,209	23,530	-	272,739
Total capital assets not being depreciated	784,704	23,530	-	808,234
Capital assets being depreciated:				
Buildings	1,180,550	-	-	1,180,550
Improvements	114,023	99,800	-	213,823
Vehicles and equipment	133,229	36,009	(17,401)	151,837
Office equipment	141,366	5,581	-	146,947
Field equipment	275,778	-	(9,913)	265,865
Equipment	20,533	-	-	20,533
Spreading basins	330,192	-	-	330,192
Total capital assets being depreciated	2,195,671	141,390	(27,314)	2,309,747
Less accumulated depreciation:				
Buildings and improvements	(713,649)	(33,676)	-	(747,325)
Equipment	(476,708)	(25,560)	27,314	(474,954)
Spreading basins	(80,039)	(6,594)	-	(86,633)
Total accumulated depreciation	(1,270,396)	(65,830)	27,314	(1,308,912)
Net capital assets being depreciated	925,275	75,560	-	1,000,835
Net capital assets	\$ 1,709,979	\$ 99,090	\$ -	\$ 1,809,069

Depreciation expense was allocated as follows for the June 30, 2018 fiscal year:

Depreciation expense:	
District operations	\$ 33,030
Redlands Plaza (included in property expense)	32,800
Total depreciation expense	<u>\$ 65,830</u>

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2018 (with comparative data for 2017)

6. CAPITAL ASSETS (continued)

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

Depreciation expense was allocated as follows for the June 30, 2017 fiscal year:

Depreciation expense:	
District operations	\$ 29,607
Redlands Plaza (included in property expense)	31,432
Total depreciation expense	<u>\$ 61,039</u>

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2018 (with comparative data for 2017)

7. DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description

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

Benefits Provided

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

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

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2018 (with comparative data for 2017)

7. DEFINED BENEFIT PENSION PLAN (continued)

General Information about the Pension Plan (continued)

The Plan's provisions and benefits in effect at June 30, 2018 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
Current required employer contribution rates	10.110%	6.842%

Contributions

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

Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions. Employer Contributions to the Plan for the fiscal year ended June 30, 2018 were \$69,728. The actual employer payments of \$69,418 made to CalPERS by the District during the measurement period ended June 30, 2017 differed from the District's proportionate share of the employer's contributions of \$124,584 by \$(55,166), which is being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

Net Pension Liability

The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2018 (with comparative data for 2017)

7. DEFINED BENEFIT PENSION PLAN (continued)

Net Pension Liability (continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases (1)	3.3% - 14.2%
Investment Rate of Return (2)	7.65%
Mortality Rate Table (3)	Derived using CALPERS' membership data for all Funds
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.

All other actuarial assumptions used in the June 30, 2016 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.

Change of Assumptions

In fiscal year 2016-17, the financial reporting discount rate for the PERF C was lowered from 7.65 percent to 7.15 percent.

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2018 (with comparative data for 2017)

7. DEFINED BENEFIT PENSION PLAN (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), the amortization and smoothing periods adopted by the Board in 2013 were used. For the Plan, the crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF C. The crossover test results can be found on CalPERS' website, at www.calpers.ca.gov.

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

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

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2018 (with comparative data for 2017)

7. DEFINED BENEFIT PENSION PLAN (continued)

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, 2014.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10¹	Real Return Years 11+²
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	(0.40%)	(0.90%)
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.

San Bernardino Valley Water Conservation District

Notes to Financial Statements

June 30, 2018 (with comparative data for 2017)

7. DEFINED BENEFIT PENSION PLAN (continued)

Proportionate Share of Net Pension Liability

As of June 30, 2018 and 2017, the District reported net pension liabilities for its proportionate share of the net pension liability of \$266,161 and \$206,530, respectively.

	2018	2017
Total pension liability	\$ 3,558,877	\$ 3,409,293
Fiduciary net position	3,292,716	3,202,763
Net pension liability	<u>\$ 266,161</u>	<u>\$ 206,530</u>

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: 6/30/2016 (Valuation Date)	\$ 3,409,293	\$ 3,202,763	\$ 206,530
Balance at: 6/30/2017 (Measurement Date)	3,558,877	3,292,716	266,161
Net change during 2016-2017	149,584	89,953	59,631

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, 2017, 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, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension liability was determined by CalPERS using the output from the Actuarial Valuation System and the fiduciary net position, as provided in the CalPERS Public Agency Cost-Sharing Allocation Methodology Report, which is a publicly available report that can be obtained at CalPERS' website, at www.calpers.ca.gov. The District's proportionate share of the net pension liability for the Miscellaneous Plan as of June 30, 2018 and 2017 was as follows:

	2018	2017
Proportionate share - June 30, 2015		0.02708%
Proportionate share - June 30, 2016	0.00595%	0.00595%
Proportionate share - June 30, 2017	0.00675%	
Change	0.00080%	-0.02113%

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2018 (with comparative data for 2017)

7. DEFINED BENEFIT PENSION PLAN (continued)

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

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
June 30, 2018			
District's proportionate share of the net pension liability	<u>\$ 755,673</u>	<u>\$ 266,161</u>	<u>\$ (139,262)</u>
	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
June 30, 2017			
District's proportionate share of the net pension liability	<u>\$ 665,527</u>	<u>\$ 206,530</u>	<u>\$ (172,808)</u>

Subsequent Events

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

Recognition of Gains and Losses

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

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

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

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

San Bernardino Valley Water Conservation District

Notes to Financial Statements

June 30, 2018 (with comparative data for 2017)

7. DEFINED BENEFIT PENSION PLAN (continued)

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 2016-17 measurement period is 3.8 years, which was obtained by dividing the total service years of 490,088 (the sum of remaining service lifetimes of the active employees) by 130,595 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

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

For the year ended June 30, 2018 and 2017, the District recognized pension expense of \$39,766 and \$121,954, respectively. At June 30, 2018 and 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	2018	
	Deferred outflows of resources	Deferred inflows of resources
Pension contributions subsequent to the measurement date	\$ 69,728	\$ -
Difference in actual vs projected contributions	269,607	-
Changes in assumptions	137,180	-
Difference between expected and actual experience	-	(15,951)
Net difference between projected and actual earnings on pension plan investments	33,586	-
Changes in proportion	-	(277,584)
Totals	<u>\$ 510,101</u>	<u>\$ (293,535)</u>

San Bernardino Valley Water Conservation District

Notes to Financial Statements

June 30, 2018 (with comparative data for 2017)

7. DEFINED BENEFIT PENSION PLAN (continued)

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

	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	<u>\$ 689,181</u>	<u>\$ (492,790)</u>

The District reported \$69,728 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
2019	\$ 37,200
2020	82,064
2021	47,514
2022	(19,940)
2023	-
Remaining	-

Payable to the Pension Plan

At June 30, 2018, the District reported a payable of \$5,693 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

San Bernardino Valley Water Conservation District

Notes to Financial Statements

June 30, 2018 (with comparative data for 2017)

8. OTHER POST-EMPLOYMENT BENEFITS PAYABLE

General Information about the Plan

Plan Description

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

Employees Covered by Benefit Terms

As of the June 30, 2018 valuation, the following current and former employees were covered by the benefit terms under the plan:

	<u>2018</u>
Active plan members	7
Retirees and beneficiaries receiving benefits	-
Separated plan members entitled to but not yet receiving benefits	<u>-</u>
	<u><u>7</u></u>

Benefits and Contributions

The contribution requirements of plan members and the District are established and may be amended by the District. Contributions are calculated using the alternative measurement method. The District contributes 100% of the retiree and dependent up to the current maximum cost of \$1,702 per month. For the fiscal year ended June 30, 2018, the District's cash contributions were \$37,767 in payments to the trust. In fiscal year 2016, the District created a California Employer's Retiree Benefit Trust (CERBT) with California Public Employees Retirement System (CalPERS) for the purpose of prefunding obligations for past services.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation using the alternative measurement method dated June 30, 2018. The data entered as economic assumptions and member data to calculate the actuarial present value of future benefits for each individual. This projection uses the assumed retirement age for members of the plan and the employer's portion of health insurance premiums for current retirees and spouses as a statistical base to forecast the cost of future benefits. The projections differentiate between members who are Medicare eligible and those who are not. Premiums are inflated using future insurance premium increase assumptions. The life expectancy and thus the number of years benefits are projected to be received, is estimated based on the Expectation of Life by Age and Sex in the U.S. table prepared by the National Center for Health Statistics and updated in 2015.

San Bernardino Valley Water Conservation District

Notes to Financial Statements

June 30, 2018 (with comparative data for 2017)

8. OTHER POST-EMPLOYMENT BENEFITS PAYABLE (continued)

Net OPEB Liability (continued)

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

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

Discount rate	5.00%
Inflation	2.50%
Salary increases	2.50%
Investment rate of return	5.00%
Mortality	Life expectancy come from the Life Expectancy Table from the National center for Health Statistics updated in 2015
Pre-retirement turnover healthcare trend rate	7% 2019 6% 2020 6% 2021 6% 2022 5% 2023 5% 2024 3.5% thereafter

Discount Rate

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

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

San Bernardino Valley Water Conservation District
Notes to Financial Statements
June 30, 2018 (with comparative data for 2017)

8. OTHER POST-EMPLOYMENT BENEFITS PAYABLE (continued)

Discount Rate (continued)

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

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected rate of return</u>
Global equity	57%	5.25%
Fixed income	27%	2.25%
Treasury inflation protected securities	5%	1.25%
Real estate investment trusts	8%	4.50%
Commodities	3%	1.25%
	<u>100%</u>	

Changes in the Net OPEB Liability

The changes in the net OPEB liability for the Plan are as follows as of June 30, 2018:

	<u>Total OPEB Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net OPEB Liability/(Asset) (c)= (a) - (b)</u>
Balance at June 30, 2017 (Valuation Date June 30, 2017)	<u>\$ 266,260</u>	<u>\$ 59,305</u>	<u>\$ 206,955</u>
Changes recognized for the measurement period:			
Service Cost	40,871	-	40,871
Interest	13,313	-	13,313
Contributions - employer	-	37,767	(37,767)
Net investment income	-	4,900	(4,900)
Benefit payments	-	-	-
Administrative expenses	-	(35)	35
Net Changes	<u>54,184</u>	<u>42,632</u>	<u>11,552</u>
Balance at June 30, 2018 (Measurement Date June 30, 2018)	<u>\$ 320,444</u>	<u>\$ 101,937</u>	<u>\$ 218,507</u>

The changes in the net OPEB liability for the Plan as of June 30, 2017 is not available and therefore is not presented.

San Bernardino Valley Water Conservation District

Notes to Financial Statements

June 30, 2018 (with comparative data for 2017)

8. OTHER POST-EMPLOYMENT BENEFITS PAYABLE (continued)

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

The following presents the net OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2018:

	Discount rate -1%	Assumed discount rate	Discount rate +1%
Net OPEB liability	\$ 237,492	\$ 218,507	\$ 199,038

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

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2018:

	Healthcare cost trend -1%	Healthcare cost trend assumed	Healthcare cost trend +1%
Net OPEB liability	\$ 192,669	\$ 218,507	\$ 247,848

Net OPEB Plan Fiduciary Net Position

CalPERS issues a publicly available CERBT financial report that may be obtained from the CalPERS' website at www.calpers.ca.gov.

Net OPEB Expense Related to Net OPEB Liability

For the fiscal year ended June 30, 2018, the District recognized OPEB expense of \$49,319. As of fiscal year ended June 30, 2018, the District did not report any deferred outflows/inflows of resources related to its Net OPEB Liability.

San Bernardino Valley Water Conservation District

Notes to Financial Statements

June 30, 2018 (with comparative data for 2017)

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, 2024. The cost of the associated assets is \$984,020 with a net book value of \$466,392.

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

<u>Year</u>	<u>Rents</u>	<u>Royalties</u>	<u>Total</u>
2019	\$ 117,136	\$ 586,000	\$ 703,136
2020	109,909	201,333	311,242
2021	113,675	-	113,675
2022	96,179	-	96,179
2023	77,966	-	77,966
2024	11,086	-	11,086
Totals	<u>\$ 525,951</u>	<u>\$ 787,333</u>	<u>\$ 1,313,284</u>

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:

<u>Year</u>	<u>Amount</u>
2019	<u>\$ 3,020</u>
Total	<u>\$ 3,020</u>

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, 2018:

- 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.

San Bernardino Valley Water Conservation District

Notes to Financial Statements

June 30, 2018 (with comparative data for 2017)

10. RISK MANAGEMENT (continued)

- 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.
- 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. 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.

B. 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.

C. 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.

San Bernardino Valley Water Conservation District

Notes to Financial Statements

June 30, 2018 (with comparative data for 2017)

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

D. Governmental Accounting Standards Board Statement No. 88

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of this Statement are effective for fiscal years beginning after June 15, 2018. Since the District has no debt, the impact of the implementation of this Statement to the District's financial statements will be minimal.

E. Governmental Accounting Standards Board Statement No. 89

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

The District's net position was restated as follows due to the implementation of GASBS 75:

District	Amount
Net position, beginning of year 2017, as previously stated	\$ 5,839,109
Retroactive change in accounting principle	<u>(186,930)</u>
Net position, beginning of year 2017, restated	<u>\$ 5,652,179</u>

GASBS 75 requires a retroactive restatement of net position for the earliest period presented. This restatement has resulted in an \$186,930 decrease in the fiscal year 2017 net position. The restatement does not include any related deferred inflows or outflows.

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, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Employer's Proportion of the Collective Net Pension Liability ¹	0.00675%	0.00595%	0.02708%	0.00892%
Employer's Proportionate Share of the Collective Net Pension Liability	\$ 266,161	\$ 206,530	\$ 743,026	\$ 555,348
Employer's Covered Payroll ²	\$ 689,423	\$ 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	38.61%	35.75%	134.15%	110.44%
Pension Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	75.39%	75.87%	79.89%	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 – Pension Plan
Last 10 Fiscal Years *
June 30, 2018

	Fiscal Year			
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Actuarially Determined Contribution	\$ 69,728	\$ 69,418	\$ 88,829	\$ 52,231
Contributions in Relation to the Actuarially Determined Contribution	(69,728)	(69,418)	(88,829)	(52,231)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll ¹	\$ 709,190	\$ 689,423	\$ 577,644	\$ 553,862
Contributions as a Percentage of Covered Payroll	9.83%	10.07%	15.38%	9.43%

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: For measurement date 6/30/2017, the discount rate was changed from 7.65 percent (net of administrative expenses) to 7.15 percent. For measurement date 6/30/2015, the discount rate was changed from 7.5 percent (net of administrative expenses) to 7.65 percent.

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

San Bernardino Valley Water Conservation District
Schedule of Changes in the Net OPEB Liability and Related Ratios
For the Year Ended June 30, 2018

Measurement Period	June 30, 2018
Total OPEB Liability	
Service Cost	\$ 40,871
Interest on the Total OPEB Liability	13,313
Benefit payments	-
Net change in Total OPEB Liability	54,184
Total OPEB Liability - beginning	266,260
Total OPEB Liability - ending (a)	<u>\$ 320,444</u>
 Plan Fiduciary Net Position	
Contribution - employer	\$ 37,767
Net investment income	4,900
Benefit payments	-
Administrative expense	(35)
Net change in Plan Fiduciary Net Position	42,632
Plan Fiduciary Net Position - beginning	59,305
Plan Fiduciary Net Position - ending (b)	<u>\$ 101,937</u>
 Net OPEB Liability - ending (a) - (b)	<u>\$ 218,507</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	32.58%
 Covered employee payroll	\$ 707,053
 Net OPEB liability as a percentage of covered employee payroll	30.90%

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

San Bernardino Valley Water Conservation District
Schedule of Contributions – OPEB
For the Year Ended June 30, 2018

<u>Fiscal Year</u>	<u>June 30, 2018</u>
Actuarially Determined Contribution	\$ 39,845
Contributions in Relation to the Actuarially Determined Contribution	(37,767)
Contribution Deficiency (Excess)	<u>\$ 2,078</u>
Covered Payroll	\$ 707,053
Contributions as a Percentage of Covered Payroll	5.34%

Notes to Schedule:

Change in Benefit Terms: None

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level % of payroll
Amortization period	22 years
Asset valuation method	30 year smooth market
Inflation	2.50%
Salary increases	2.50%
Investment rate of return	5.00%
Mortality	Life expectancy come from the Life Expectancy Table from the National center for Health Statistics updated in 2015
Pre-retirement turnover healthcare trend rate	7% 2019 6% 2020 6% 2021 6% 2022 5% 2023 5% 2024 3.5% thereafter

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

SUPPLEMENTARY INFORMATION

San Bernardino Valley Water Conservation District
Schedules of Operating Revenues and Expenses
For the year ended June 30, 2018 (with comparative data for 2017)

	2018	2017
Operating revenues		
Groundwater assessments		
Groundwater charge assessments - agricultural	\$ 39,501	\$ 29,333
Groundwater charge assessments - nonagricultural	898,254	668,198
Operating agreements		
Enhanced recharge agreement	380,371	370,010
Services to other agencies	30,000	30,000
	<u>1,348,126</u>	<u>1,097,541</u>
Total operating revenues		
	<u>1,348,126</u>	<u>1,097,541</u>
Operating expenses		
District operations		
Professional services	367,549	206,036
Field operations	39,326	37,168
Utilities	20,053	17,515
Salaries/staff	665,464	593,837
Benefits	334,021	324,163
Repairs and maintenance	8,104	11,851
Total District operations	<u>1,434,517</u>	<u>1,190,570</u>
Regional programs		
Regional programs LAFCO contribution	2,153	-
Wash Plan contribution	-	117
HCP endowment	-	54,042
Regional River HCP contribution	-	25,000
Total regional programs	<u>2,153</u>	<u>79,159</u>
General and administrative		
Directors' fees and expenses	106,935	93,135
Staff travel and education	11,148	7,063
Insurance	25,753	25,988
Other administrative	98,966	76,956
Total general and administrative	<u>242,802</u>	<u>203,142</u>
Total operating expenses	<u>1,679,472</u>	<u>1,472,871</u>
Operating income (loss) before depreciation expense	(331,346)	(375,330)
Depreciation expense	33,030	29,607
Operating income (loss)	<u>\$ (364,376)</u>	<u>\$ (404,937)</u>

San Bernardino Valley Water Conservation District
Schedules of Wash Plan Additions and Reductions
For the year ended June 30, 2018 (with comparative data for 2017)

	<u>2018</u>	<u>2017</u>
Beginning cash and (due from other entities)	<u>\$ (419,160)</u>	<u>\$ (220,979)</u>
Additions	<u>-</u>	<u>97,500</u>
Reductions		
Professional services	33,166	148,565
Legal expenses	19,308	21,977
Allocated District expenses:		
Salaries and benefits	<u>105,370</u>	<u>125,139</u>
Total reductions	<u>157,844</u>	<u>295,681</u>
Ending cash (due from other entities)	<u><u>\$ (577,004)</u></u>	<u><u>\$ (419,160)</u></u>

REPORT ON INTERNAL CONTROL AND COMPLIANCE



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

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

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

PARTNERS

Brenda L. Odle, CPA, MST
Terry P. Shea, CPA
Kirk A. Franks, CPA
Scott W. Manno, CPA, CGMA
Leena Shanbhag, CPA, MST, CGMA
Bradford A. Welebir, CPA, MBA, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)

MANAGERS / STAFF

Jenny Liu, CPA, MST
Seong-Hyea Lee, CPA, MBA
Charles De Simoni, CPA
Gardenya Duran, CPA
Brianna Schultz, CPA
Lisa Dongxue Guo, CPA, MSA
Samuel Singery, CPA
Jing Wu, CPA

Independent Auditor's Report

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), which comprise the statement of net position as of June 30, 2018, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 18, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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.



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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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as item 2018-001.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings in which the finding is reported. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 18, 2018
San Bernardino, California

Schedule of Findings

Observation

During our audit, we noted certain discrepancies between the actual allocation of investments and the established investment policies adopted by the Board in the most current investment policy, as well as State law. The District's policy and State law allows for 20% of the total portfolio be invested money market funds. Currently, the District has 32% of its portfolio in money market funds. The purpose of the adoption of an investment policy is to set forth the overall investment philosophy of the District as decided by its governing board (in accordance with State law as well). The policy should be the guiding rule and it should be followed without exception.

Recommendation

We suggest the District take steps to correct this as soon as possible and ensure that the investment policy is followed as stated. An investment policy is a very effective means of protecting the assets of the District, and we suggest that a procedure be implemented to be certain that it is carried out

District's response

District Management has moved all funds from the California Credit Union Money Market Account. The investment was not characterized initially as a Money Market Account but was restructured by California Credit Union during a merger with another Credit Union in the past couple years. Except for interest earned, no funds have been added since the initial funding. The overweight condition in this investment type was remedied on August 1, 2018.