

WALNUT VALLEY WATER DISTRICT
FINANCIAL STATEMENTS

For the Year Ended June 30, 2015

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WALNUT VALLEY WATER DISTRICT
FINANCIAL STATEMENTS

For the Year Ended June 30, 2015

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Board of Directors
Walnut Valley Water District
Walnut, California

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Walnut Valley Water District ("District") as of and for the year ended June 30, 2015, 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 an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2015 and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described further in note 16 to the financial statements, during the year ended June 30, 2015, the District implemented Government Accounting Standards Board Statement No. 68. Our opinion is not modified with respect to this matter.

Prior-Year Comparative Information

The financial statements of the Walnut Valley Water District for the fiscal year ended June 30, 2014 were audited by other auditors whose report dated December 15, 2014 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, 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 and the pension schedules 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.

Board of Directors
Walnut Valley Water District
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Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The selected statistical information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no 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 November 13, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Irvine, California
November 13, 2015

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**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

The following discussion and analysis of the financial performance of the Walnut Valley Water District (District) provides an overview of the District's financial activities for the fiscal year. Please read it in conjunction with the basic financial statements and notes to the basic financial statements, which follow this analysis.

FINANCIAL HIGHLIGHTS

Fiscal Year 2015

During the fiscal year ended June 30, 2015, the following highlights impacted, or have the potential to impact, the finances of the District.

- The District's net assets decreased \$10,610,568.
- During the year total revenues increased \$5,252,954, or 12.7%, while total expenses decreased \$5,793,623, or 13.8%.
- Potable Water Sales, excluding wholesale water sales, totaled 17,920 acre-feet in the current fiscal year, decreasing 12.9%, or 2,648 acre-feet from the previous fiscal year.
- Wholesales water sales totaled 1,291 acre-feet, a decrease of 4,970 acre-feet, or 79.4% from the previous year.
- Lower water sales resulted in a corresponding decrease in water purchases. Water purchases totaled 19,961 acre-feet in the current fiscal year, a decrease of 27.2%, or 7,439 acre-feet from the previous year.
- Recycled water sales totaled 2,350 acre-feet in the current fiscal year, decreasing 2.0%, or 48 acre-feet from the previous fiscal year.
- The District is almost 100% dependent on imported water, from the Metropolitan Water District (MWD), to meet its potable demands. During the year the cost of purchased water increased from \$875 per acre-foot to \$899 per acre-foot, an increase of 2.7%, or \$24 per acre-foot.
- Effective January 2015, the Board of Directors approved a commodity rate increase. Rates for the Residential Tier 1 increased from \$2.46 per unit to \$2.69 per unit, an increase of \$0.33 or 13.4% and the Residential Tier 2 & 3 remained unchanged at \$3.08 per unit. The rates for the Multi-Family user class were increased from \$2.77 per unit to \$2.89 per unit, an increase of \$0.12 or 4.3%. The rates for the Commercial, Industrial, Government and Irrigation user class were increased from \$2.81 per unit to \$2.95 per unit, an increase of \$0.14 or 5.0%. In addition, the recycled commodity rate increased from \$1.49 per unit to \$1.56, an increase of \$0.07, or 4.7%. There were also increases to the base charge (meter charge), pump zone surcharges, and fire protection charges.
- The District's equity interest in the Puente Basin Water Agency increased \$6,418,5895, due primarily to construction activities related to the construction of several water reliability projects, entered into jointly with the Rowland Water District, as well as the purchase of water rights. One of the reliability projects was operational during the year and produced 461 acre-feet of potable water.
- The District implemented the reporting requirements of GASB 68, and recorded a net pension liability of \$6,865,131.

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

Fiscal Year 2014

During the fiscal year ended June 30, 2014, the following highlights impacted, or have the potential to impact, the finances of the District.

- The District's net assets increased \$156,809.
- During the year total revenues increased \$8,486,631, or 25.8%, while total expenses increased \$6,550,054, or 18.6%.
- Potable Water Sales, excluding wholesale water sales, totaled 20,568 acre-feet in the current fiscal year, increasing 2.9%, or 571 acre-feet from the previous fiscal year.
- Wholesales water sales totaled 6,261 acre-feet, an increase of 5,098 acre-feet, or 438.0% from the previous year.
- Higher water sales resulted in a corresponding increase in water purchases. Water purchases totaled 27,400 acre-feet in the current fiscal year, an increase of 25.1%, or 5,496 acre-feet from the previous year.
- Recycled water sales totaled 2,398 acre-feet in the current fiscal year, increasing 11.1%, or 240 acre-feet from the previous fiscal year.
- The District is 100% dependent on imported water, from the Metropolitan Water District (MWD), to meet its potable demands. During the year the cost of purchased water increased from \$849 per acre-foot to \$875 per acre-foot, an increase of 3.1%, or \$26 per acre-foot.
- Effective January 2014, the Board of Directors approved a commodity rate increase. Rates for the Residential Tier 1 increased from \$2.16 per unit to \$2.46 per unit, an increase of \$0.30 or 13.9% and the Residential Tier 2 & 3 increased from \$2.70 per unit to \$3.08 per unit, an increase of \$0.38 or 14.1%. The rates for the Multi-Family user class were increased from \$2.56 per unit to \$2.77 per unit, an increase of \$0.21 or 8.2%. The rates for the Commercial, Industrial, Government and Irrigation user class were increased from \$2.61 per unit to \$2.81 per unit, an increase of \$0.20 or 7.7%. There were also increases to the base charge (meter charge) and pump zone surcharges.
- The District's equity interest in the Puente Basin Water Agency increased \$1,978,095, due primarily to construction activities related to two water reliability projects entered into jointly with the Rowland Water District. One of the reliability projects was completed during the year and produced 184 acre-feet of potable water.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements report information about the District using accounting methods similar to those used by private sector companies. The financial statements comprised of the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and Statement of Cash Flows offer short-term and long-term financial information about the District's activities. Each financial statement is identified and defined in this section and analyzed in subsequent sections of MD&A.

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

Statement of Net Assets

The Statement of Net Assets presents the District's financial position (assets and liabilities) as of June 30, 2015 and 2014. The Statement of Net Assets includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. As of June 30, 2015 and 2014, the District had net assets, assets in excess of liabilities, of \$135,221,259 and \$145,831,827, respectively.

Statement of Revenues, Expenses & Changes in Net Assets

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in net Assets. This statement measures the success of the District's operations and can be used to determine whether the District has successfully recovered all of its costs through its user fees and other charges. Revenues are recognized (recorded) when water or services are provided and expenses are recognized when incurred. Operating revenues and expenses are related to the District's core activities (providing water and related services). Revenues and expenses that do not relate directly to the core functions of the District (e.g. interest income, property taxes, site leases, property taxes) are recorded and included on the financial statements as non-operating revenues and expenses. The operating loss for the years ended June 30, 2014 and 2013 was \$1,710,848 and \$1,353,547. After recognition of non-operating revenues, expenses, and capital contributions, the net increase in net assets for years ending June 30, 2015 and 2014 was \$1,257,002 and \$156,809, respectively.

Statement of Cash Flows

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the fiscal year. The statement reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operations, investing, and 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 year. The District's cash equivalents, those assets readily convertible to cash, included money market funds and funds in the Local Agency Investment Fund (LAIF). Cash and cash equivalents does not include the District's investments. During FY 2012-13 the District issued approximately \$20 million in revenue bonds. Proceeds from the sale of these bonds, held in trust, are primarily invested in LAIF and the unspent portion of the proceeds are included in the balance of cash and cash equivalents. As of June 30, 2015, cash and cash equivalents totaled \$16,759,585 a decrease of \$10,446,180 from the previous fiscal year.

FINANCIAL ANALYSIS OF THE DISTRICT

Our analysis of the District begins on page 19 of the financial statements. One of the most important questions to ask about the District's finances is, "Whether the District, as a whole, is better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in net Assets report information about the District's Finances in a way that will help answer that question. Measuring the change in the District's net assets, the difference between assets and liabilities, is one way to measure financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population growth and new or changed government legislation.

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

Statements of Net Assets

**Table A-1
Condensed Statements of Net Assets**

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change	Fiscal Year 2013	Dollar Change
Assets:					
Current Assets	\$ 40,017,586	\$ 39,504,304	\$ 513,282	\$ 42,624,010	\$ (3,119,706)
Restricted Assets	28,878,678	30,421,261	(1,542,583)	29,272,368	1,148,893
Other Assets	682,845	3,305,562	(2,622,717)	3,680,182	(374,620)
Capital Assets	101,737,519	102,812,557	(1,075,038)	102,759,463	53,094
Total Assets	<u>171,316,628</u>	<u>176,043,684</u>	<u>(4,727,056)</u>	<u>178,336,023</u>	<u>(2,292,339)</u>
Deferred Outflow of Resources:					
Deferred Pension Contributions	\$ 790,287	\$ -	\$ 790,287	\$ -	\$ -
Deferred Outflow of Resources	208,764	-	208,764	-	-
Total Deferred Outflow	<u>999,051</u>	<u>-</u>	<u>999,051</u>	<u>-</u>	<u>-</u>
Liabilities:					
Current Liabilities	4,839,933	6,842,615	(2,002,682)	6,876,834	(34,219)
Restricted Liabilities	3,143,742	3,173,194	(29,452)	2,934,917	238,277
Non Current Liabilities	26,641,483	20,196,048	6,445,435	22,849,254	(2,653,206)
Total Current Liabilities	<u>34,625,158</u>	<u>30,211,857</u>	<u>4,413,301</u>	<u>32,661,005</u>	<u>(2,449,148)</u>
Deferred Inflow of Resources:					
Deferred Inflow of Resources	2,339,425	-	2,339,425	-	-
Deferred Inflow - Deferral	129,837	-	129,837	-	-
Total Deferred Inflow	<u>2,469,262</u>	<u>-</u>	<u>2,469,262</u>	<u>-</u>	<u>-</u>
Net Assets:					
Net Investment in Capital Assets	100,091,614	102,351,576	(2,259,962)	102,759,463	(407,887)
Restricted	14,950,173	8,361,253	6,588,920	6,490,227	1,871,026
Unrestricted	20,179,472	35,118,998	(14,939,526)	36,425,328	(1,306,330)
Total Net Assets	<u>\$135,221,259</u>	<u>\$145,831,827</u>	<u>\$ (10,610,568)</u>	<u>\$145,675,018</u>	<u>\$ 156,809</u>

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As seen from Table A-1 the District's net assets exceeded liabilities by \$135,221,259 and \$145,831,827 for the periods ending June 30, 2015 and 2014, respectively.

By far the largest component of net assets is the District's net investment in capital assets which decreased \$2,259,962 during FY 2015. Investment in capital assets is presented net of depreciation and any outstanding debt used to acquire the assets. For the current year this decrease is attributable to the inclusion of outstanding debt related to some of the projects funded from debt proceeds, as well as the retirement of certain assets that were replaced during the year. As of June 30, 2015, the balance of the Construction in Progress account was \$3,221,142 a decrease of \$2,131,656 from the prior year. The District uses these capital assets to provide services to customers within the District's service area.

Restricted net assets are externally restricted by a creditor, through debt covenants or restricted by law or enabling legislation. For the year ended June 30, 2015, restricted net assets totaled \$14,950,173, an increase of \$6,588,920, or 78.8% from the prior year. One of the major factors contributing to this increase was the District's investment in the Puente Basin Water Agency (PBWA), which is reflected on the financial statements as restricted asset "Investment in Joint Venture". For the year, the District's investment in the PBWA, attributable to several water reliability projects, increased \$6,418,595 over the prior fiscal year. These projects are funded jointly by the Walnut Valley Water District and Rowland Water District through the PBWA.

For the year ended June 30, 2014, restricted net assets totaled \$8,361,253, an increase of \$1,871,026, or 28.8% from the prior year. One of the major factors contributing to this increase was the District's investment in the Puente Basin Water Agency (PBWA), which is reflected on the financial statements as restricted asset "Investment in Joint Venture". For the year, the District's investment in the PBWA increased \$1,978,095, attributable to several water reliability projects. These projects are funded jointly by the Walnut Valley Water District and Rowland Water District through the PBWA.

At the end of fiscal years 2015 and 2014, the District showed a positive balance in its unrestricted net assets of \$20,179,472 and \$35,118,998, respectively, which further demonstrates that the overall health of the District remains very strong.

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

Statements of Revenues, Expenses, and Changes in Net Assets

**Table A-2
Condensed Statements of Revenues, Expenses and Changes in Net Assets**

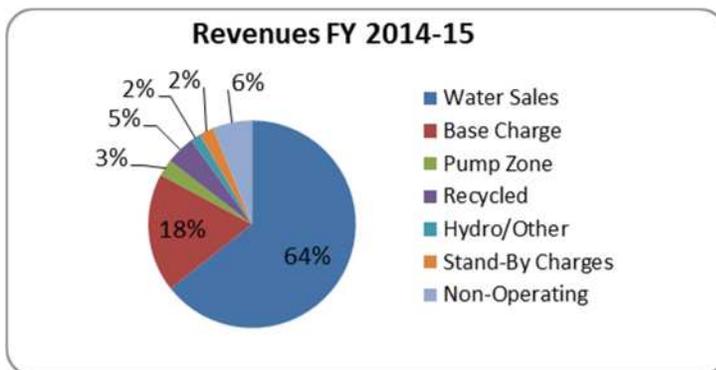
	Fiscal Year 2015	Fiscal Year 2014	Dollar Change	Fiscal Year 2013	Dollar Change
Revenues:					
Operating Revenues	\$ 33,854,771	\$ 39,351,318	\$ (5,496,547)	\$ 31,331,491	\$ 8,019,827
Non-Operating Revenues	2,206,191	1,962,598	243,593	1,495,794	466,804
Total Revenues	<u>36,060,962</u>	<u>41,313,916</u>	<u>(5,252,954)</u>	<u>32,827,285</u>	<u>8,486,631</u>
Expenses:					
Operating Expenses	30,261,703	36,219,892	(5,958,189)	30,275,622	5,944,270
Depreciation	5,303,916	4,484,973	818,943	4,274,258	210,715
Non-Operating Expenses	489,454	1,143,831	(654,377)	748,762	395,069
Total Expenses	<u>36,055,073</u>	<u>41,848,696</u>	<u>(5,793,623)</u>	<u>35,298,642</u>	<u>6,550,054</u>
Net Income (Loss)	5,889	(534,780)	540,669	(2,471,357)	1,936,577
Capital Contributions	1,251,113	691,589	559,524	947,880	(256,291)
Changes in Net Assets	1,257,002	156,809	1,100,193	(1,523,477)	1,680,286
Net Assets, beg. of year (As Restated)	<u>133,964,257</u>	<u>145,675,018</u>	<u>(11,710,761)</u>	<u>147,198,495</u>	<u>(1,523,477)</u>
Net Assets, end of Year	<u>\$ 135,221,259</u>	<u>\$ 145,831,827</u>	<u>\$ (10,610,568)</u>	<u>\$ 145,675,018</u>	<u>\$ 156,809</u>

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**Table A-3
District Revenues**

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change	Fiscal Year 2013	Dollar Change
Operating Revenues:					
Water Sales	\$ 23,209,908	\$ 28,928,906	\$ (5,718,998)	\$ 21,321,391	\$ 7,607,515
Base Charges (Meter Charges)	6,676,754	6,290,973	385,781	6,096,414	194,559
Pump Zone Charges	945,892	1,062,159	(116,267)	994,968	67,191
Recycled Sales	1,632,666	1,701,382	(68,716)	1,555,051	146,331
Other Fees and Charges	532,051	528,838	3,213	509,754	19,084
Hydroelectric Sales	31,916	11,801	20,115	20,936	(9,135)
Stand-By Charges	825,584	827,259	(1,675)	832,977	(5,718)
Total Operating Revenues	<u>33,854,771</u>	<u>39,351,318</u>	<u>(5,496,547)</u>	<u>31,331,491</u>	<u>8,019,827</u>
Non-Operating Revenues:					
Investment Income	383,373	416,449	(33,076)	490,499	(74,050)
Unrealized Gain/(Loss) on Investments	(15,524)	16,912	(32,436)	(410,208)	427,120
Property Tax Revenue	950,932	842,519	108,413	816,199	26,320
Communication Site Leases	270,105	260,091	10,014	251,527	8,564
Other Revenues	445,667	288,654	157,013	306,761	(18,107)
Restricted Revenues	171,638	137,973	33,665	41,016	96,957
Total Non-Operating Revenues	<u>2,206,191</u>	<u>1,962,598</u>	<u>243,593</u>	<u>1,495,794</u>	<u>466,804</u>
Total Revenues	<u>\$ 36,060,962</u>	<u>\$ 41,313,916</u>	<u>\$ (5,252,954)</u>	<u>\$ 32,827,285</u>	<u>\$ 8,486,631</u>

Revenues Fiscal Year 2015



As shown in Table A-3, total revenues for fiscal year 2015 decreased \$5,252,954, or 12.7% for the year. Operating revenues decreased \$5,496,547 or 14.0% and non-operating revenues increased \$243,593 or 12.4%.

Operating Revenues are related to the District's core activities and accounted for 94.0% of total revenues. The most significant decrease, during fiscal year

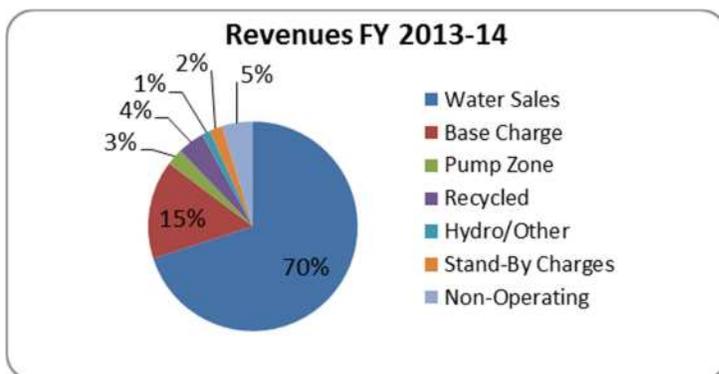
2015, was related to potable water sales. For the year revenues from potable water sales totaled \$23,209,908, a decrease of \$5,718,998 or 19.8% from the prior year. Retail water sales along with wholesale water sales decreased significantly for the year. The decrease for retail water sales was expected, as the State of California is in the 4th year of a severe drought. For the year, retail water sales revenues totaled \$22,051,074, a decrease of \$1,376,967, or 5.9% for the year. Wholesale water sales, which can vary

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MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

significantly year to year, totaled \$1,158,834, a decrease of \$4,342,031 or 78.9%, over the prior fiscal year. In addition, the pump zone charges, which are assessed on the units of water sold, also decreased. For the year the revenues related to the pump zone charges totaled \$945,892, a decrease of \$116,267, or 11.0%. Similar to potable water sales revenues, recycled water revenues also decreased. For the year recycled water sales revenue decreased \$68,716 or 4.0% during the year. Although total revenues decreased for the year, the decrease in revenues was partially offset by an increase in water rates which was approved by the Board and became effective January 2015.

Revenues that do not relate directly to the core functions of the District (e.g. interest income, property taxes, site leases) are recorded and included on the financial statements as non-operating revenues. For fiscal year 2015, non-operating revenue totaled \$2,206,191, an increase of \$243,593, or 12.4% over the prior year. The most significant changes for non-operating revenues were related to property tax income and other revenues. For the year, property tax income increased \$108,413, or 12.9% from the prior year. Other revenues totaled \$445,667, an increase of \$157,013 or 54.4% over the prior year. A significant portion of this increase was related to the receipt of a premium adjustment related to the District's property and liability insurance. A total of \$92,161 was refunded to the District during the year.

Revenues Fiscal Year 2014



As shown in Table A-3, total revenues for fiscal year 2014 increased \$8,486,631, or 25.8% for the year. Operating revenues increased \$8,019,827 or 25.6% and non-operating revenues increased \$466,804 or 31.2%.

Operating Revenues are related to the District's core activities and accounted for 95.2% of total revenues. The most significant increases, during fiscal year

2014, were related to potable and recycled water sales. For the year, revenues from potable water sales totaled \$28,928,906, an increase of \$7,607,515 or 35.7%. This increase was the result of higher water sales by volume (acre-feet), particularly wholesale water sales, as well an increase in the water rate that was approved and became effective in January 2014. Wholesale water sales, which can vary significantly year to year, totaled \$5,500,865, an increase of \$4,507,566, over the prior fiscal year. Similar to potable water sales revenues, recycled water revenues also increased \$146,331 or 9.4% during the year. The increased revenues related to recycled water sales were attributable solely to an increase in the sales volume (acre-foot). For the year, recycled sales increased 240 acre-feet or 11.1% over the prior year.

Revenues that do not relate directly to the core functions of the District (e.g. interest income, property taxes, site leases) are recorded and included on the financial statements as non-operating revenues. For fiscal year 2014, non-operating revenue totaled \$1,962,598, an increase of \$466,804, or 31.2% over the prior year. The most significant changes for non-operating revenues were related to investment income, unrealized gain on investments, and restricted revenues. For the year, investment income decreased \$74,050, or 15.1% from the prior year. This decrease was the result of declining investment yields, as well as a decrease in the associated cash and investment balances. The District also saw a significant increase in the unrealized

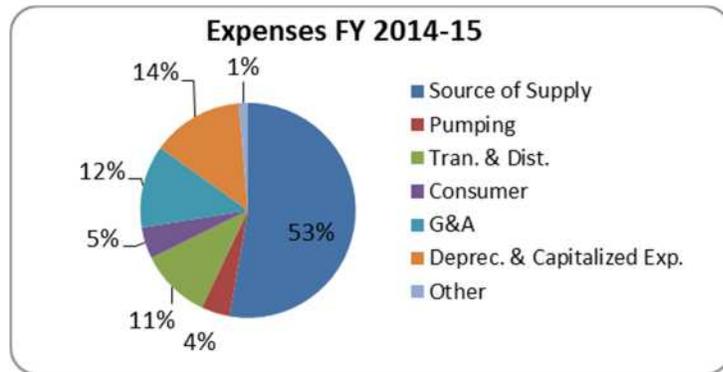
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MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

gain on investments. Accounting standards require that the District's investments be adjusted annually to current market values. For fiscal year 2014, the market adjustment or unrealized gain was \$16,912, an increase of \$427,120 from fiscal year 2013. In addition, there was an increase of \$96,957 related to restricted revenues. The increase was due in part to an increase in developer related fees collected during the year. During fiscal year 2014, the District collected \$89,405 in developer related fees, an increase of \$81,464 from the prior year.

**Table A-4
District Expenses**

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change	Fiscal Year 2013	Dollar Change
Operating Expenses:					
Source of Supply	\$ 19,012,134	\$ 24,716,865	\$ (5,704,731)	\$ 19,142,158	\$ 5,574,707
Pumping	1,551,831	1,522,225	29,606	1,415,584	106,641
Transmission & Distribution	3,854,786	4,148,061	(293,275)	3,919,828	228,233
Consumer Accounts	1,693,976	1,713,168	(19,192)	1,592,601	120,567
Administrative & General	4,493,281	4,644,398	(151,117)	4,640,032	4,366
Operating Expenses Capitalized	(344,305)	(524,825)	180,520	(434,581)	(90,244)
Depreciation	5,303,916	4,484,973	818,943	4,274,258	210,715
Total Operating Expenses	35,565,619	40,704,865	(5,139,246)	34,549,880	6,154,985
Non-Operating Expenses:					
Interest Expense	422,504	422,882	(378)	-	422,882
Other	66,950	720,949	(653,999)	748,762	(27,813)
Total Non-Operating Expenses	489,454	1,143,831	(654,377)	748,762	395,069
Total Expenses	\$ 36,055,073	\$ 41,848,696	\$ (5,793,623)	\$ 35,298,642	\$ 6,550,054

Expenses Fiscal Year 2015



As shown in Table A-4, total expenses for fiscal year 2015 decreased \$5,793,623, or 13.8%. Operating expenses decreased \$5,139,246, or 12.6% and non-operating expenses decreased \$654,377.

Operating expenses accounted for 98.6% of total expenses. The most significant decrease for fiscal year 2015 was for source of supply related expenses, which accounted for 52.7% of total expenses, and

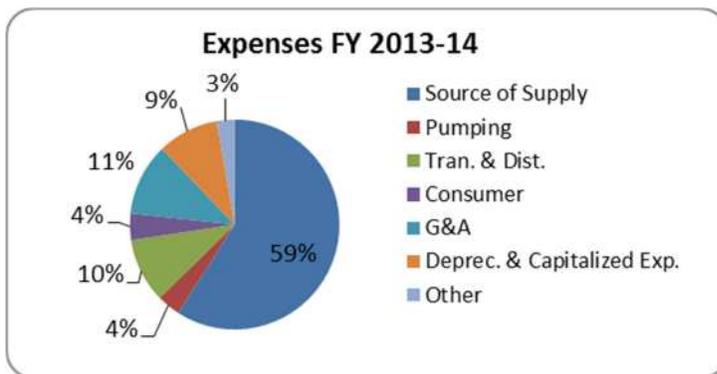
decreased \$5,704,731, or 23.1% over the previous fiscal year. The District is almost 100% dependent on imported water to meet its demands. As a result of lower sales, the District purchased less imported water

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

which is reflected in the source of supply expenses. During fiscal year 2015, the District purchased 19,961 acre-feet of water, a decrease of 7,439 acre-feet or 27.2%. Transmission and Distribution costs totaled \$3,854,786 for the year, a decrease of \$293,275, or 7.1%. This decrease was primarily attributable to lower costs related to the repair and maintenance of the District's transmission and distribution system. Administrative and general expense totaled \$4,493,281 for the year a decrease of \$151,117, or 3.3%. One of the major decreases related to recognition of the additional OPEB (Other Post-Employment Benefits) expense which decreased annual OPEB the District's OPEB costs which decreased approximately \$120,000 from the prior year. Operating expenses capitalized represent the labor and other District forces capitalized as part of various capital projects. These costs can vary from year to year depending of the number of projects and the scope and complexity of those projects. For the year operating expenses capitalized decreased \$180,520, or 34.4%.

Non-operating expenses are not related to the District's core activities and accounted for 1.4% of total expenses for the year. Non-operating expenses decreased \$654,377 for fiscal year 2015. The major difference was related to costs associated with the PBWA Water Reliability Project. This was a one-time cost, not recurring in subsequent years. Net interest related to the District's 2013 Series A Water Revenue Bonds, totaled \$681,301. A portion of the interest, \$258,797, was capitalized in accordance with accounting standards. The balance of \$422,504, was recorded as an expense.

Expenses Fiscal Year 2014



As shown in Table A-4, total expenses for fiscal year 2014 increased \$6,550,054, or 18.6%. Operating expenses increased \$6,154,985, or 17.8% and non-operating expenses increased \$395,069.

Operating expenses accounted for 97.3% of total expenses. The most significant increase for fiscal year 2014 was for source of supply related expenses, which accounted for 59.1% of total expenses, and

increased \$5,574,707, or 29.1% over the previous fiscal year. This increase was related to an increase in the cost of purchased water coupled with an increase in the amount of water purchased. During fiscal year 2014 the cost of water increased from \$849 per acre-foot to \$875 per acre-foot, a \$26 increase, or 3.1%. In addition, the District purchased 27,400 acre-feet of water during the year, an increase of 5,496 acre-feet or 25.1%. For the year pumping expenses totaled \$1,522,225, an increase of \$106,641, or 7.5%. This increase was attributable to higher power costs as a result of increased pumping activities (water deliveries) as well as an increase in the cost of power. For the year electric power totaled \$868,783, an increase of \$133,757, or 18.2%. Transmission and Distribution costs totaled \$4,148,061 for the year, an increase of \$228,233, or 5.8%. This increase was attributable to an increase in wages and benefits related to the hiring of operations employees for positions that were unfilled for a portion of the prior year. In addition outside services, materials and supplies related to the repair and maintenance of the District's system also increased for the year. Consumer accounts expense totaled \$1,713,168 for the year, an increase of \$120,567, or 7.6%. This

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

increase was primarily attributable to expected increases in salaries and benefits expenses. For the year salaries and benefits allocated to customer accounts costs increased \$116,685, or 9.6%.

Non-operating expenses are not related to the District's core activities and accounted for approximately 2.7% of total expenses for the year. Non-operating expenses increased \$395,069 for fiscal year 2014. The major difference for the year was the payment of interest related to the District's 2013 Series A Water Revenue Bonds. Net interest for the year totaled \$677,691. A portion of the interest, \$254,809, was capitalized in accordance with accounting standards. The balance of \$422,882, was recorded as an expense.

Capital Asset Administration

Fiscal Year 2015

As of June 30, 2015, the District had invested \$194,930,868 in capital assets. This represents a \$3,022,985, or 1.6% increase in capital assets compared to the prior year. During construction, project costs are accumulated and reported as construction in progress. Upon completion, the associated costs of the project are transferred to the appropriate asset category and depreciated. During fiscal year 2015, \$4,292,477 in costs was added to construction in progress and \$6,424,133 related to various projects were completed and transferred to the appropriate asset category. In addition to the current year additions, the District also retired or disposed of assets in the amount of \$1,269,492.

Fiscal Year 2014

As of June 30, 2014, the District had invested \$191,907,883 in capital assets. This represents a \$4,360,935, or 2.3% increase in capital assets compared to the prior year. During construction, project costs are accumulated and reported as construction in progress. Upon completion, the associated costs of the project are transferred to the appropriate asset category and depreciated. During fiscal year 2014, \$4,497,146 in costs was added to construction in progress and \$6,492,775 related to various projects were completed and transferred to the appropriate asset category. In addition to the current year additions, the District also retired or disposed of assets in the amount of \$177,129.

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

**Table A-5
Capital Assets**

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change	Fiscal Year 2013	Dollar Change
Asset Category:					
Master Plan	\$ 1,167,489	\$ 1,167,489	\$ -	\$ 1,167,489	\$ -
Terminal Storage	25,737,802	25,737,802	-	25,737,802	-
Pumping Equipment	15,653,655	16,518,174	(864,519)	16,518,174	-
Transmission & Distribution	112,954,496	110,350,697	2,603,799	104,679,379	5,671,318
PWR Capacity Rights	927,774	927,774	-	927,774	-
Hydroelectric	624,409	624,409	-	624,409	-
Recycled Water System	24,582,167	21,672,141	2,910,026	20,879,432	792,709
General Plant & Equipment	7,427,587	6,922,252	505,335	7,029,715	(107,463)
Non- Depreciable Assets	2,634,347	2,634,347	-	2,634,347	-
Construction in Progress	3,221,142	5,352,798	(2,131,656)	7,348,427	(1,995,629)
Total Capital Assets	194,930,868	191,907,883	3,022,985	187,546,948	4,360,935
Accumulated Depreciation	(93,193,349)	(89,095,326)	(4,098,023)	(84,787,485)	(4,307,841)
Net Capital Assets	\$ 101,737,519	\$ 102,812,557	\$ (1,075,038)	\$ 102,759,463	\$ 53,094

Debt Administration

Fiscal Year 2015

During the year, the District's long-term debt related to the 2013 Series A Water Revenue Bonds decreased \$405,000. As of June 30, 2015, the District had spent approximately \$8.4 million of the proceeds on various capital projects. The District expects to spend the remaining funds, approximately \$10.8 million, over the next three years. The proceeds will be used to finance District projects as well as the District's share of capital facilities to be owned by the PBWA. The rate covenants related to the debt require that the net revenues of the District be equal to at least 125% of the annual debt service payments.

As of June 30, 2015, the District has outstanding \$1,091,625 related to compensated absences, amounts owed to District employees for accrued sick and vacation time. The District has set aside cash reserves for the payment of this obligation.

Additionally, beginning in 2015, the District was required to implement Government Accounting Standard Board Statement 68 (GASB 68). GASB 68 requires that the District record the Net Pension Liability in the financial statements. For the year, the District recorded a Net Pension Liability of \$6,865,131.

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

Fiscal Year 2014

During the year, the District’s long-term debt related to the 2013 Series A Water Revenue Bonds decreased \$383,895. As of June 30, 2014, the District had spent approximately \$1.1 million of the proceeds on various capital projects. The District expects to spend the remaining funds, approximately \$18.9 million, over the next four years. The proceeds will be used to finance District projects as well as the District’s share of capital facilities to be owned by the PBWA. The rate covenants related to the debt require that the net revenues of the District be equal to at least 125% of the annual debt service payments.

As of June 30, 2014, the District has outstanding \$992,076 related to compensated absences, amounts owed to District employees for accrued sick and vacation time. The District has set aside cash reserves for the payment of this obligation.

**Table A-6
Long-Term Debt**

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change	Fiscal Year 2013	Dollar Change
Long Term Debt:					
2013 Series A Revenue Bonds	\$ 16,645,000	\$ 17,050,000	\$ (405,000)	\$ 17,300,000	\$ (250,000)
Unamortized Premium	2,454,727	2,561,843	(107,116)	2,668,959	(107,116)
Net Refunding Certificates	19,099,727	19,611,843	(512,116)	19,968,959	(357,116)
Compensated Absences	1,091,625	992,076	99,549	970,606	21,470
Net Pension Liability	6,865,131	-	6,865,131	-	-
Total Long-Term Debt	<u>\$ 27,056,483</u>	<u>\$ 20,603,919</u>	<u>\$ 6,452,564</u>	<u>\$ 20,939,565</u>	<u>\$ (335,646)</u>

Economic Factors and Next Year’s Budget and Rates

The District’s Board of Directors and management considered many factors, including purchased water costs, water rates and fees, when setting the fiscal year 2016 budget. These indicators were taken into consideration when adopting the District’s budget. It should be noted that certain revenues and expenses such a restricted revenues, and non-cash expenses such as depreciation expense, OPEB expense etc. are not included in the budget and have been excluded for comparative purposes.

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

Fiscal Year 2016 Budget vs. Fiscal Year 2015 Actual

	Budget 2016	Fiscal Year 2015	Dollar Change
Revenues:			
Water Sales - General	\$ 28,214,643	\$ 31,364,605	\$ (3,149,962)
Water Sales - Recycled	1,501,497	1,632,666	(131,169)
Standby Charges	825,000	825,584	(584)
Other Revenues	1,641,300	2,202,485	(561,185)
Total Revenues	<u>32,182,440</u>	<u>36,025,340</u>	<u>(3,842,900)</u>
Expenses:			
Operating Expenses	28,536,888	30,518,913	(1,982,025)
Debt & Interest Payment	1,234,350	1,232,450	1,900
Total Expenses	<u>29,771,238</u>	<u>31,751,363</u>	<u>(1,980,125)</u>
Net Income	<u>\$ 2,411,202</u>	<u>\$ 4,273,977</u>	<u>\$ (1,862,775)</u>

WALNUT VALLEY WATER DISTRICT

STATEMENT OF NET POSITION

June 30, 2015

(with comparative information for the prior year)

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and investments (Note 2)	\$ 32,449,768	\$ 30,142,869
Accounts receivable:		
Water	2,767,201	4,317,706
Accrued interest	89,160	93,413
Other	1,428,792	1,679,790
Stored water	2,469,729	2,469,729
Materials inventory	476,306	475,283
Prepaid expenses	336,630	325,514
TOTAL CURRENT ASSETS	40,017,586	39,504,304
RESTRICTED ASSETS:		
Cash and investments (Note 2)	18,420,688	26,379,721
Investment in joint venture (Note 9)	10,450,257	4,031,668
Interest receivable	7,733	9,872
TOTAL RESTRICTED ASSETS	28,878,678	30,421,261
CAPITAL ASSETS (Note 3):		
Capital assets not being depreciated	5,855,489	7,987,145
Capital assets being depreciated	189,075,379	183,920,738
Less accumulated depreciation	(93,193,349)	(89,095,326)
NET CAPITAL ASSETS	101,737,519	102,812,557
OTHER ASSETS:		
Construction advances (Note 4)	71,230	86,205
Net OPEB asset (Note 13)	611,615	2,871
Prepaid retirement contribution (Note 9c)	-	3,219,357
TOTAL OTHER ASSETS	682,845	3,308,433
TOTAL ASSETS	171,316,628	\$ 176,046,555
DEFERRED OUTFLOW OF RESOURCES (Note 6)		
Deferred pension contributions	790,287	-
Deferred outflow of resources - actuarial	208,764	-
TOTAL DEFERRED OUTFLOW OF RESOURCES	999,051	-

(Continued)

WALNUT VALLEY WATER DISTRICT
STATEMENT OF NET POSITION
(Continued)

	2015	2014
LIABILITIES		
CURRENT LIABILITIES (PAYABLE FROM UNRESTRICTED ASSETS):		
Accounts payable	1,689,317	3,112,715
Interest payable	68,279	68,954
Due to other governments	-	249,910
Amounts due to joint venture	1,794,911	2,621,944
Current portion of long term debt	415,000	405,000
Other current liabilities	872,426	384,092
	4,839,933	6,842,615
CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS):		
Accounts payable	2,956	2,681
Deposits (Note 7)	1,483,640	1,338,980
Construction advances	1,657,146	1,831,533
	3,143,742	3,173,194
TOTAL CURRENT LIABILITIES	7,983,675	10,015,809
NON CURRENT LIABILITIES		
Installment purchase contract (Note 5)	16,230,000	16,645,000
Unamortized premium (Note 5)	2,454,727	2,561,843
Net pension liability (Note 6)	6,865,131	-
Compensated absences (Note 5)	1,091,625	992,076
	26,641,483	20,198,919
TOTAL NON CURRENT LIABILITIES	26,641,483	20,198,919
TOTAL LIABILITIES	34,625,158	30,214,728
DEFERRED INFLOW OF RESOURCES (Note 6)		
Deferred inflow of resources - actuarial	2,339,425	-
Deferred inflow of resources - additional deferral	129,837	-
	2,469,262	-
NET POSITION		
Net investment in capital assets	100,091,614	102,351,576
Restricted	14,950,173	8,361,253
Unrestricted	20,179,472	35,118,998
	\$ 135,221,259	\$ 145,831,827

See Notes to Basic Financial Statements

WALNUT VALLEY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGE IN NET POSITION

For the Year Ended June 30, 2015
(with comparative information for the prior year)

	2015	2014
OPERATING REVENUES:		
Water sales	\$ 32,997,271	\$ 38,512,258
Hydroelectric sales	31,916	11,801
Standby charges	825,584	827,259
TOTAL OPERATING REVENUES	33,854,771	39,351,318
OPERATING EXPENSES:		
Source of supply	19,012,134	24,716,865
Pumping	1,551,831	1,522,225
Transmission and distribution	3,854,786	4,148,061
Consumer accounts	1,693,976	1,713,168
General and administrative	4,493,281	4,644,398
Depreciation	5,303,916	4,484,973
Operating expense capitalized during construction period	(344,305)	(524,825)
TOTAL OPERATING EXPENSES	35,565,619	40,704,865
OPERATING LOSS	(1,710,848)	(1,353,547)
NONOPERATING REVENUES (EXPENSES):		
Investment income	416,825	481,929
Property taxes	950,932	842,519
Other revenues	711,035	540,248
Share of joint venture income (loss)	4,737	(28,086)
Gain (loss) on disposal of capital assets	(66,950)	8,502
Interest expense	(422,504)	(422,882)
Contributions to other agencies	-	(692,868)
TOTAL NONOPERATING REVENUES (EXPENSES)	1,594,075	729,362
LOSS BEFORE CAPITAL CONTRIBUTIONS	(116,773)	(624,185)
CAPITAL CONTRIBUTIONS		
Developer Fees	1,251,113	691,589
Acreage supply and reservoir capacity fees	122,662	89,405
TOTAL CAPITAL CONTRIBUTIONS	1,373,775	780,994
CHANGES IN NET ASSETS	1,257,002	156,809
NET POSITION - BEGINNING OF YEAR, AS RESTATED (Note 16)	133,964,257	145,675,018
NET POSITION - END OF YEAR	\$ 135,221,259	\$ 145,831,827

See Notes to Basic Financial Statements

WALNUT VALLEY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015
(with comparative information for the prior year)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 35,778,550	\$ 38,729,101
Other income received	711,035	540,248
Payments to suppliers of goods and services	(23,014,328)	(29,171,393)
Payments to joint venture	(8,148,110)	(1,600,869)
Payments to employees	(7,350,349)	(8,000,274)
Payment to OPEB trust	(1,008,705)	(2,683,055)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(3,031,907)	(2,186,242)
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Property taxes received	988,291	901,803
NET CASH PROVIDED (USED) BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	988,291	901,803
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(4,050,530)	(4,493,393)
Principal paid on long-term debt	(405,000)	(250,000)
Interest paid on long-term debt	(775,593)	(720,122)
Acreage supply and reservoir capacity fees	-	89,405
Construction advances received	1,199,388	796,388
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,031,735)	(4,577,722)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(10,417,781)	(5,885,399)
Sales of investments	10,399,761	10,320,533
Interest received on cash and investments	423,217	543,313
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	405,197	4,978,447
NET INCREASE IN CASH AND CASH EQUIVALENTS	(5,670,154)	(883,714)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	27,205,765	28,089,479
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 21,535,611	\$ 27,205,765

(Continued)

WALNUT VALLEY WATER DISTRICT
STATEMENT OF CASH FLOWS
(Continued)

	2015	2014
RECONCILIATION TO AMOUNTS REPORTED ON THE STATEMENT OF CASH FLOWS:		
Reported on the Statement of Net Assets:		
Current assets - cash and investments	\$ 32,449,768	\$ 30,142,869
Restricted assets - cash and investments	18,420,688	26,379,721
Investments not considered cash and cash equivalents	<u>(29,334,845)</u>	<u>(29,316,825)</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 21,535,611</u>	<u>\$ 27,205,765</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating loss	\$ (1,710,848)	\$ (1,353,547)
Depreciation	5,303,916	4,484,973
Gain on disposal of assets	-	8,502
Other revenues	711,035	540,248
Share of joint venture income (loss)	4,737	(28,086)
Change in assets and liabilities		
(Increase) decrease in accounts receivables - water	1,550,505	(591,313)
(Increase) decrease in accounts receivables - other	213,639	(194,973)
(Increase) decrease in materials inventory	(1,023)	(64,035)
(Increase) decrease in stored water	-	(595,000)
(Increase) decrease in prepaid expenses	(11,116)	298,614
(Increase) decrease in investment in joint venture	(6,418,589)	(1,978,095)
(Increase) decrease in advance for construction	14,975	30,719
(Increase) decrease in deferred outflow of resources	(267,027)	-
Increase (decrease) in accounts payable	(1,423,123)	(1,897,734)
Increase (decrease) in amounts due to joint venture	(827,033)	2,609,349
Increase (decrease) in other current liabilities	488,334	(84,180)
Increase (decrease) in compensated absences	99,549	21,470
Increase (decrease) in due to other governments	(249,910)	(1,363,944)
Increase (decrease) in other post employment benefits	(608,744)	(2,162,560)
Increase (decrease) in deposits	144,660	133,350
Increase (decrease) in net pension liability	(2,515,106)	-
Increase (decrease) in deferred inflow of resources	<u>2,469,262</u>	<u>-</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (3,031,907)</u>	<u>\$ (2,186,242)</u>

There were no noncash investing, capital and financing activities during fiscal year ended June 30, 2015

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WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Organization

Walnut Valley Water District (the "District") was organized on July 10, 1952 under the provisions of Division 13 of the California Water Code. The District's purposes are to finance, construct, operate and maintain a water system to serve properties within its boundaries.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Statement No. 14. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the primary government appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the primary government. Accordingly, the District does not have any component units reported within the funds of the District.

Uniform Accounting System

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. This system permits separate accounting for each established fund, for purposes of complying with applicable legal provisions, Board of Director's ordinances and resolutions, and other requirements.

Basic Financial Statements

The basic financial statements are comprised of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows, and the Notes to Financial Statements.

Basis of Presentation

The accounts of the District are an enterprise fund. An enterprise fund is a Proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

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

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Under the economic measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Net Position

In the Statement of Net Position, net position is classified in the following categories:

- Net Investment in Capital Assets - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.
- Restricted net position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted net position - This amount is all net positions that do not meet the definition of "net investment in capital assets" or "restricted net position".

When both restricted and unrestricted resources are available for use, the District may use restricted resources or unrestricted resources based on the Board's discretion.

Revenues and Expenses

Operating revenues, such as charges for services (water sales), 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. Non-operating revenues, such as property taxes and assessments, and investment income, result from non-exchange transactions or ancillary activities in which the District receives value without directly giving equal value in exchange.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

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

Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Inventory and Stored Water

Inventory, which consists primarily of construction materials, is valued at the lower of cost or market. Cost is determined using the first-in, first-out method. The stored water is reported at cost.

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 \$5,000. Contributed assets are recorded at estimated fair market value at the date of contribution. 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. The District capitalizes internal engineering and overhead costs applicable to self-constructed assets.

Depreciation

The provision for depreciation is computed using the straight-line method over the estimated service lives of the property, plant and equipment. Estimated service lives for the District's classes of capital assets are as follows:

Wells	30 years
Terminal storage	30 years
Telemetry SCADA equipment	20 years
Pumping, transmission facilities and meters	20 - 60 years
PWR Capacity	75 years
Recycled water system	30 years
General structures	30 years
Office equipment/GIS	5 - 7 years
Vehicles and equipment	7 years
Master plan	7 years

No depreciation is recorded for land, certain water rights, or construction in progress.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

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

Property Taxes

Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent of county-wide assessed valuations. This one percent is allocated pursuant to state law to the appropriate units of local government.

For fiscal year 2015, the property tax calendar is as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Date:	First Installment - November 10 Second Installment - February 10
Delinquent Date:	First Installment - December 10 Second Installment - April 10

Maintenance Costs

All expenses for maintenance and repairs of property, including renewals of minor items, are charged to the appropriate maintenance expense accounts. A betterment or replacement of a unit of property is accounted for as an addition or retirement of capital assets.

Income Tax Status

The District's income is exempt from income tax under the provisions of Internal Revenue Code Section 115 and the related California provisions. Accordingly, no income tax provision has been made.

Long-Term Debt

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

Accumulated unpaid vacation, sick pay, and other employee benefit amounts are accrued when vested. At June 30, 2015 compensated absences payable in the amount of \$1,091,625 was included as long-term debt.

Claims and Judgments

When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the District records the estimated loss, net of any insurance coverage under its participation in the Joint Power Insurance Authority program. At June 30, 2015, in the opinion of the District's legal counsel, the District had no material claims which would require loss provision in the financial statements. Small dollar claims and judgments are recorded as expenses when paid.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

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

Investments

Investments are stated at fair value (quoted market price or the best available estimates thereof). Net increase (decrease) in the fair value of investments, which consists of realized gains (losses) and the unrealized gains (losses), is shown in the statement of revenues, expenses, and changes in net position.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents have been defined as demand deposits, money market mutual funds, and external cash management pools (local agency investment fund).

Restricted Assets

Amounts shown as restricted assets have been restricted by either bond indentures, external constraints, or laws and regulations of other governments.

Restricted Liabilities

Certain liabilities which are currently payable have been classified as current liabilities payable from restricted assets and assets have been restricted for their payment.

Accounts Receivable

The District extends credit to customers in the normal course of operations. Management has evaluated the accounts and believes they are all collectible. Management evaluates all accounts receivable and if it is determined that they are uncollectible they are written off as a bad debt expense.

Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, 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 due and payable in accordance with the benefit terms. Investments are reported at fair value.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

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

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, 2013
Measurement Date (MD)	June 30, 2014
Measurement Period (MP)	June 30, 2013 to June 30, 2014

Deferred outflows of resources

When applicable, the statement of net position and balance sheet will report a separate section for deferred outflows of resources. Deferred outflows of resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, are not recognized as an expense or expenditure until that time. The Agency only has two items that qualify for reporting in this category, deferred pension contribution and actuarially determined pension items.

Deferred inflows of resources

When applicable, the statement of net position and the balance sheet will report a separate section for deferred inflows of resources. Deferred inflows of resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as an inflow of resources (revenue) until that time. The Agency only has one item that qualifies for reporting in this category related to actuarially determined pension items.

Prior year information

Certain data has been presented for the prior year. Such data does not represent a complete presentation in accordance with generally accepted accounting principles, but has been presented for comparative purposes only.

Reclassification

Selected information regarding the prior year has been included in the accompanying financial statements and notes to basic financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

2. **CASH AND INVESTMENTS**

Cash and Investments

Cash and investments as of June 30, 2015 are reported in the accompanying financial statements as follows:

Financial Statement Classification:

Unrestricted:	
Cash and investments	\$ 32,449,768
Restricted:	
Cash and investments	<u>18,420,668</u>
Total	<u>\$ 50,870,456</u>

Cash and investments as of June 30, 2015 consisted of the following:

Cash on hand	\$ 2,500
Deposits	3,595,374
Investments	<u>47,272,582</u>
Total cash and investments	<u>\$ 50,870,456</u>

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

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

2. CASH AND INVESTMENTS (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
United States Treasury Obligations	5 years	None	None
United States Government Sponsored Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	20%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

N/A - Not Applicable

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

2. CASH AND INVESTMENTS (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Obligations	None	None	None
United States Government Sponsored Agency Securities	None	None	None
Money Market Funds	None	None	None
Certificates of Deposit	None	None	None
Investment Agreements	None	None	None
Commercial Paper	None	None	None
Local Agency Obligations	None	None	None
Bankers Acceptances	1 year	None	None
Repurchase Agreements	30 days	None	None
Asset Backed Securities	5 years	None	None
Mortgage Backed Securities	5 years	20%	None
Medium Term Notes	3 years	None	None
Local Agency Investment Fund (LAIF)	None	None	None
Shares in California Common Law Trust	None	None	None

Disclosures Relating to 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 is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity at June 30, 2015:

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

2. CASH AND INVESTMENTS (Continued)

<u>Investment Type</u>	<u>Remaining Maturity (in months)</u>			<u>Total</u>
	12 Months or <u>Less</u>	12 – 24 <u>Months</u>	25 – 60 <u>Months</u>	
Money Market Fund	\$ 11,962	-	-	11,962
United States Government Sponsored Agency Securities	2,584,079	4,318,099	8,491,737	15,393,915
United States Treasury Notes	-	1,392,503	4,819,875	6,212,377
Corporate Notes	1,811,379	1,818,096	4,086,579	7,716,054
Local Agency Investment Fund	7,153,510	-	-	7,153,510
Held by Bond Trustee:				
Money Market Mutual Fund	121,557	-	-	121,557
Local Agency Investment Fund	<u>10,663,206</u>	<u>-</u>	<u>-</u>	<u>10,663,206</u>
	<u>\$22,345,693</u>	<u>7,528,697</u>	<u>17,398,191</u>	<u>47,272,582</u>

Generally, 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 by Standard and Poor's required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type:

<u>Investment Type</u>	<u>Mini- mum Legal Rating</u>	<u>AA A</u>	<u>Aa1 Aa2 Aa3 A2 A1</u>	<u>Unrated</u>	<u>Not Required to be Rated</u>	<u>Total</u>
United States Government Sponsored Agency Securities	N/A	\$15,393,915	-	-	-	15,393,515
United States Treasury Notes	N/A	-	-	-	6,212,377	6,212,377
Corporate Notes	A	760,149	6,955,905	-	-	7,716,054
Local Agency Investment Fund	N/A	-	-	17,816,717	-	17,816,717
Money Market Mutual Funds	Aaa	<u>133,519</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>133,519</u>
		<u>\$16,287,583</u>	<u>6,955,905</u>	<u>17,816,717</u>	<u>6,212,377</u>	<u>47,272,582</u>

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

2. CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

Investments in any one issuer that represents 5% or more of total District's investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>June 30, 2015</u>
Federal Home Loan Bank	United States Government Sponsored Agency Securities	\$4,642,302
Federal Home Loan Mortgage Corporation	United States Government Sponsored Agency Securities	3,678,015
Federal National Mortgage Association	United States Government Sponsored Agency Securities	4,533,457
Federal Farm Credit Bank	United States Government Sponsored Agency Securities	1,960,125

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 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 California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District's deposits are collateralized as required by California Law.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

3. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2015 are as follows:

	<u>Balance at July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2015</u>
Capital assets, not being depreciated				
Land	\$ 2,627,709	-	-	2,627,709
Water rights	6,638	-	-	6,638
Construction in progress	<u>5,352,798</u>	<u>4,292,477</u>	<u>(6,424,133)</u>	<u>3,221,142</u>
Total capital assets, not being depreciated	<u>7,987,145</u>	<u>4,292,477</u>	<u>(6,424,133)</u>	<u>5,855,489</u>
Capital assets, being depreciated				
Master plan	1,167,489	-	-	1,167,489
Terminal storage	25,737,802	-	-	25,737,802
Pumping equipment	16,518,174	184,444	(1,048,963)	15,653,655
Transmission and distribution	110,350,697	2,603,799	-	112,954,496
PWR capacity	927,774	-	-	927,774
Hydroelectric	624,409	-	-	624,409
Recycled water system	21,672,141	2,910,026	-	24,582,167
General plant	<u>6,922,252</u>	<u>725,864</u>	<u>(220,529)</u>	<u>7,427,587</u>
Total capital assets, being depreciated	<u>183,920,738</u>	<u>6,424,133</u>	<u>(1,269,492)</u>	<u>189,075,379</u>
Less accumulated depreciation:				
Master plan	(769,385)	(112,909)	-	(882,294)
Terminal storage	(16,689,524)	(853,826)	-	(17,543,350)
Pumping equipment	(8,676,587)	(474,235)	985,368	(8,165,454)
Transmission and distribution	(48,021,947)	(2,957,636)	-	(50,979,583)
PWR capacity	(433,541)	(29,073)	-	(462,614)
Hydroelectric	(438,040)	(15,610)	-	(453,650)
Recycled water system	(8,108,516)	(542,563)	-	(8,651,079)
General plant	<u>(5,957,786)</u>	<u>(318,064)</u>	<u>220,525</u>	<u>(6,055,325)</u>
Total accumulated depreciation	<u>(89,095,326)</u>	<u>(5,303,916)</u>	<u>1,205,893</u>	<u>(93,193,349)</u>
Total capital assets, being depreciated, net	<u>94,825,412</u>	<u>1,120,217</u>	<u>(63,599)</u>	<u>95,882,030</u>
Total capital assets, net	<u>\$ 102,812,557</u>	<u>5,412,694</u>	<u>(6,487,732)</u>	<u>101,737,519</u>

The above amounts include capitalized interest of \$652,941, with \$258,796 of interest being capitalized during the year ended June 30, 2015.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

4. CONSTRUCTION ADVANCES

In 1988, the District advanced \$458,683 of the funding on behalf of Valencia Heights Mutual Water Company for the construction of the Badillo Grand transmission main. In return, the District will receive semi-annual payments of \$16,219 principal plus interest (accrued at an annual rate of 4.47% through 2010 and effective February 1, 2011 the interest rate is to be determined based on the average interest rate earned on the District's investments plus .5%) through February 1, 2018 from Valencia Heights Mutual Water Company for the repayment of the advance. Construction advances to be received at June 30, 2015 were \$71,230.

5. LONG-TERM DEBT

The change in long-term debt for the year ended June 30, 2015, is as follows:

	Balance <u>July 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2015</u>	Due Within <u>One Year</u>
Compensated absences	\$ 992,076	279,520	(179,971)	1,091,625	198,030
Installment purchase contract	17,050,000	-	(405,000)	16,645,000	415,000
Unamortized premium	<u>2,561,843</u>	<u>-</u>	<u>(107,116)</u>	<u>2,454,727</u>	<u>-</u>
Total long-term debt	<u>\$20,603,919</u>	<u>279,520</u>	<u>(692,087)</u>	<u>20,191,352</u>	<u>415,000</u>

Installment Purchase Contract

On March 1, 2013, the Puente Basin Water Agency (“Agency”) issued \$17,300,000 of 2013 Series A Water Revenue Bonds. The Bonds will be used to finance certain capital facilities of the District, as well as the District’s share of capital facilities to be owned by the Agency. Under terms of the Installment Purchase Contract associated with the Bonds, the District makes semiannual installment purchase payments that are equal in amount and timing to the principal and interest payments that are paid on a semiannual basis by the Agency to the holders of the Bonds.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

5. LONG-TERM DEBT (Continued)

The bonds were issued at a premium of \$2,695,738 which will be amortized over the life of the debt service. Interest is payable on December 1st and June 1st of each year, and principal is payable June 1st of each year commencing June 1, 2014 with interest rates ranging from 1.0% to 5.0%. The Bonds are scheduled to mature on June 1, 2038. The rate covenants of the Installment Purchase Contract require that net revenues of the District for each fiscal year be equal to at least 125% of the annual debt service payments required for that fiscal year.

Future annual debt service requirements of the District are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 415,000	819,350
2017	430,000	802,750
2018	445,000	785,550
2019	465,000	767,750
2020	490,000	744,500
2021-2025	2,825,000	3,331,500
2026-2030	3,610,000	2,550,250
2031-2035	4,610,000	1,552,750
2036-2038	<u>3,355,000</u>	<u>341,000</u>
Total payments	<u>\$16,645,000</u>	<u>11,695,400</u>

6. PENSION PLAN

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. This report is a publically available valuation report that can be obtained at CalPERS' website under Forms and Publications.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

6. PENSION PLAN (Continued)

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Tier 1	Tier 2	PERL
Hire date	Before 10/01/2010	On or after 10/01/2010 before 01/01/2013	On or after 01/01/2013
Benefit formula	2.7% @55	2.0% @55	2.0% @62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	minimum age 50	minimum age 50	Minimum age 52
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.43% to 2.0%	1.0% to 2.0%
Required employee contribution rates	17.857%	12.434%	6.70%
Required employer contribution rates	8.00%	7.00%	6.50%

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 the 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. For the measurement period ended June 30, 2014 (the measurement date), the active employee contribution rate is 7.947 and 6.891 percent of annual pay, and the average employer's contribution rate is 16.867 and 11.709 percent of annual payroll for the 1st Tier and 2nd Tier plans, respectively. Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution. The June 30, 2015 total pension liability was based on the following actuarial methods and assumptions:

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

6. PENSION PLAN (Continued)

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses: includes Inflation

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the PERF. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

6. **PENSION PLAN (Continued)**

In determining the long-term expected rate of return, staff 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 returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below 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. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10¹	Real Return Years 11+²
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

¹An expected inflation of 2.5% used for this period

²An expected inflation of 3.0% used for this period

Allocation of Net Pension Liability and Pension Expense to Individual Employers

A key aspect of GASB 68 pertaining to cost-sharing employers is the establishment of an approach to allocate the net pension liability and pension expense to the individual employers within the risk pool. Paragraph 49 of GASB 68 indicates that for pools where contribution rates within the pool are based on separate relationships, the proportional allocation should reflect those relationships. The allocation method utilized by CalPERS determines the employer's share by reflecting these relationships. Employer liability and asset-related information are used where available, and proportional allocations of individual employer amounts as of the valuation date are used where not available.

- (1) In determining a cost-sharing employer's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date. The risk pool's fiduciary net position (FNP) subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

6. PENSION PLAN (Continued)

(2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date. Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date.

Note: for purposes of FNP in this step (2) and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2014 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period.

(3) The individual employer's TPL, FNP and NPL are also calculated at the valuation date.

(4) Two ratios are created by dividing the employer's individual TPL and FNP from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.

(5) The employer's TPL as of the measurement date is equal to the TPL generated in (2) multiplied by the TPL ratio generated in (4).

The employer's FNP as of the measurement date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

(6) The employer's NPL at the measurement date is the difference between the TPL and FNP calculated in (5).

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2013 (VD)	\$38,179,474	28,799,237	9,380,237
Balance at: 6/30/2014 (MD)	40,451,521	33,586,390	6,865,131
Net Changes during 2013-14	2,272,047	4,787,153	(2,515,106)

The net pension liability of the plan is measured as of June 30, 2014, 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, 2013 rolled forward to June 30, 2014 using standard update procedures. The proportion of the net pension liability to the pension plans total liability is actuarially determined. The proportionate share of the net pension liability as of June 30, 2013 and 2014 was as follows:

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

6. PENSION PLAN (Continued)

	Tier I	Tier II
Proportion – June 30, 2013	99.58%	4.20%
Proportion – June 30, 2014	99.58%	4.20%
Change – Increase (Decrease)	0.00%	0.00%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.50 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 (6.50 percent) or 1 percentage-point higher (8.50 percent) than the current rate:

	Discount Rate – 1% (6.5%)	Current Discount Rate (7.5%)	Discount Rate + 1% (8.5%)
Plan's Net Pension Liability	\$12,231,540	6,865,131	2,411,521

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, deferred inflows and deferred outflows of resources related to pensions 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 inflows and deferred outflows 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 average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired as of the beginning of the measurement period).

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).

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

6. PENSION PLAN (Continued)

The EARSL for the Plan was 3.8 years, which was obtained by dividing the total service years of 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants). Note that inactive employees entitled to but not receiving benefits and inactive employees receiving benefits 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, 2015, the District recognized a pension expense of \$570,156 for the Plan. As of June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 790,288	0
Net Difference between Projected and Actual Earnings on Pension Plan Investments	0	(2,307,002)
Adjustment due to Differences in Proportions	208,764	(32,423)
Total	\$ 999,052	(2,339,425)

\$790,288 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

In addition to the figures shown in the table above, each employer is required to recognize an employer-specific type of deferred inflows and deferred outflows. At June 30, 2015, the unamortized balance of the deferral is \$129,837. This is derived from the difference between actual contributions made by the employer and the employer's proportionate share of the risk pool's total contributions. This deferral and the corresponding amortization amount are calculated separately by each employer. The employer's pension expense is adjusted for the amortization of this additional deferral. This item is required to be amortized over the plan's Expected Average Remaining Service Lives (EARSL).

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

6. **PENSION PLAN (Continued)**

Amounts reported as deferred outflows and deferred inflows of resources in the previous chart, including the employer-specific item but excluding the deferred outflow of resources related to contributions subsequent to the measurement date, will be recognized in future pension expense as follows:

Measurement Period Ending June 30	Deferred Outflows/(Inflows) of Resources
2015	\$ 560,140
2016	560,140
2017	563,466
2018	576,752

7. **DEPOSITS**

Deposits have been received for:

Customer deposits for water service	\$ 1,385,104
Meters and other construction	<u>98,536</u>
Total Deposits	<u>\$ 1,483,640</u>

8. **JOINT POWERS INSURANCE AUTHORITY**

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (the "Authority").

Description of the Authority

The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Section 6500 et. seq. The Authority's purpose is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

At June 30, 2015, the District participated in the Authority's self-insurance programs as follows:

Property Loss - Insured up to insurable value with \$2,500 deductible for buildings and personal property, a \$1,000 deductible for mobile equipment, and \$500 deductible for licensed vehicles; the Authority is self-insured up to \$100,000 per occurrence for property losses and excess insurance coverage has been purchased.

General Liability - Insured up to \$60,000,000 subject to certain limitations including policy aggregate limits with \$0 deductible; the Authority is self-insured

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

8. **JOINT POWERS INSURANCE AUTHORITY (Continued)**

up to \$2,000,000 per occurrence and excess insurance coverage of \$60,000,000 has been purchased.

Auto Liability - Insured up to \$60,000,000 subject to certain limitations including policy aggregate limits with \$0 deductible; the Authority is self-insured up to \$2,000,000 per occurrence and excess insurance coverage of \$60,000,000 has been purchased.

Workers' Compensation - Insured to statutory amounts per occurrence; the Authority is self-insured up to \$2,000,000 per occurrence and excess insurance coverage to the statutory amount has been purchased.

Public Officials' and Employees' Errors and Omissions - Insured up to \$60,000,000 subject to certain limitations including policy aggregate limits; the Authority is self-insured up to \$2,000,000 per occurrence and excess insurance coverage of \$60,000,000 has been purchased.

In addition to the above, the Authority has insurance coverage as follows:

Fidelity Bonds - The Authority is self-insured to \$100,000 with \$1,000 deductible.

The District pays annual premiums for these coverages. They are subject to retrospective adjustments based on claims expended. The nature and amount of these adjustments cannot be estimated and are charged to expenses as invoiced. There were no instances in the past three years where a settlement exceeded the District's coverage.

9. **JOINT VENTURES**

Puente Basin Water Agency

The District is a member of the Puente Basin Water Agency (the "Agency"). The Agency was created April 1, 1971 by the execution of a Joint Powers Agreement between Rowland Water District and Walnut Valley Water District. The agreement was made pursuant to Article 1, Chapter 5, Division 7, and Title 1 of the Government Code of the State of California. The Agency was organized for the purpose of protection and utilization of the local, imported, and recycled water supply within the Puente Basin. The Agency is governed by an appointed board of Commissioners consisting of four members.

Since the Agency undertakes projects of interest to the District, an ongoing financial interest exists. Furthermore, the District has an ongoing financial responsibility because the Agency's continued existence depends on continued funding by the District. The District's equity in the Puente Basin Water Agency is reflected in the accompanying Statement of Net Position as an investment in joint venture.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

9. **JOINT VENTURES (Continued)**

The Walnut Valley Water District performs the administration and operating functions of the Agency. The District purchased \$9,888,735 in water from the Agency in the year ended June 30, 2015.

Pomona-Walnut-Rowland Joint Water Line Commission

The District is also a member of the Pomona-Walnut-Rowland Joint Water Line Commission (the "Commission"). The Commission was formed under the Joint Powers Agreement of 1956 between the City of Pomona, the Walnut Valley Water District and the Rowland Water District for the purpose of acquiring, constructing, maintaining, repairing, managing, operating and controlling a water transmission pipeline for the benefit of the member agencies. The agreement shall continue for fifty years unless terminated earlier in accordance with the provisions of the agreement, or unless mutually rescinded by member agencies. It may also be extended as the member agencies so desire. On December 21, 2006, the members extended the agreement for twenty years.

9. **JOINT VENTURES (Continued)**

The Commission purchases water for resale to the member agencies at a price sufficient to provide reserve funds for emergencies. In addition, the member agencies are billed for the cost of maintenance and operation of the pipeline.

Since the Commission undertakes projects of interest to the District, an ongoing financial interest exists. Furthermore, the District has an ongoing financial responsibility because the Commission's continued existence depends on continued funding by the District. The District's equity in the Pomona-Walnut-Rowland Joint Water Line Commission is reflected in the accompanying Statement of Net Position, within capital assets. In addition to its equity interest in the Commission, the District also has an undivided interest in certain capacity rights associated with the Water Line.

This undivided interest is reported in the accompanying financial statements as PWR capacity rights that are included as an intangible asset in the capital assets note of the accompanying financial statements. The Walnut Valley Water District performs the administration and operating functions of the Commission.

10. **BENEFIT ASSESSMENT DISTRICT**

Beginning with the tax year 1982-83, the District elected to levy a standby charge on all lands within the District. This standby charge is calculated on the size of each parcel, with a minimum of \$14 for any parcel one-quarter of an acre or less in size. The proceeds of this charge can be used at the discretion of the Board of Directors, but have been specifically earmarked to defray the costs of maintenance, replacement, and construction of facilities.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

11. ACREAGE SUPPLY AND RESERVOIR CAPACITY FEES

Every applicant that requests water service from any of the District's lines or works or requests a modification of service or change in land use, with respect to the land to be served, is assessed by the District an acreage supply charge which is computed at a per-acre rate. The charge is \$1,465 per acre, with a minimum parcel charge of \$50.

Reservoir capacity fees are charged for the purpose of accumulating funds for the construction of future water storage. The current charges are:

Residential -	\$750.00 per acre or fraction thereof rounded to the nearest hundredth or \$300.00 per family unit or equivalent, whichever is greater.
Commercial -	\$1,000.00 per acre or fraction thereof rounded to the nearest hundredth.
Industrial -	\$1,613.00 per acre or fraction thereof rounded to the nearest hundredth.

12. DEFERRED COMPENSATION PLAN

The District has adopted a deferred compensation plan in accordance with Internal Revenue Code Section 457 for its eligible employees and Director-employees elected or appointed to the District's Board of Directors on or after July 1, 1994. Eligible participants may execute an individual agreement with the District for amounts earned by them to be paid at a future date when certain circumstances are met. These circumstances are termination by reason of death, disability, resignation, retirement or unforeseeable emergency. In 2015, employees up to the age of 50 may contribute up to 100% of their annual compensation into the deferred compensation plan but not to exceed \$18,000. Those employees age 50 or older may contribute up to 100% of their annual compensation but not exceed \$24,000. In accordance with GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" these deferred compensation plan assets are not included in the financial statements. The assets associated with this plan are not reflected in the accompanying financial statements because the District is not holding the assets of the plan. The District's involvement with respect to the funds withheld from employee paychecks is to remit those funds to an independent third party that holds those funds on behalf of the employees. Plan assets are subject to the investment direction provided by each employee for his or her account.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

13. **OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

Plan Description

The District provides retiree health benefits through the Association of California Water Agencies (ACWA) Health Program. In general, to be eligible for retiree health benefits, an employee must retire from PERS on or after age 50 with at least 5 years of service (15 years of service for employee hired on or after July 1, 2005). The District's financial obligation varies based on an eligible retiree's date of hire. For eligible retirees hired prior to March 1, 1989, the District provides full coverage for medical, dental, vision and Medicare Part B premiums for the retiree and any covered spouse. For eligible retirees hired on or after March 1, 1989, the District provides full coverage for medical, dental vision and Medicare Part B premiums for the retiree only. Coverage for an eligible spouse is also available to these retirees but is subject to a vesting schedule which varies by employee group. In addition to health benefits, the District also provides some life insurance coverage for retired employees.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District, District's Board of Directors, and/or the employee associations. Currently, contributions are not required from plan members. The District has established a trust for the purpose of holding funds that have been irrevocably contributed by the District toward funding of its OPEB obligation. This trust is being administered by Public Agency Retirement Services

(PARS). Annually, the Board of Directors determines the amount that the District will fund to this trust. During the year ended June 30, 2015, the District contributed \$1,008,705 of cash to the trust. In addition, the District contributed \$451,206 of its funds in the form of retiree premiums paid by the District for retirees.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities of the plan over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Retiree Health Plan:

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

13. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Annual required contribution	\$ 851,211
Contributions to OPEB Trust	1,008,705
Retiree premiums paid by the District	<u>451,206</u>
Increase in net OPEB asset	608,744
Net OPEB Asset, beginning of year	<u>2,871</u>
Net OPEB Asset, end of year	<u>\$ 611,615</u>

Three-Year Trend Information

The District's annual OPEB cost, the percentage of annual OPEB costs contributed to the plan and the net OPEB obligation for 2013 and the preceding two years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Costs Contributed</u>	<u>Net OPEB Asset (Obligation)</u>
6/30/13	\$ 1,112,618	121.69%	(2,159,689)
6/30/14	977,209	321.30%	2,841
6/30/15	851,167	171.52%	611,615

Funded Status and Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (AAAL) (a)</u>	<u>Actuarial Value of Assets (b)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (a) – (b)</u>	<u>Funded Ratio (b)/(a)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage Of Covered Payroll [(a)-(b)]/(c)</u>
07/01/07	\$10,578,573	-	10,578,573	0.00%	4,226,376	250.30%
07/01/10	\$13,226,385	-	13,226,385	0.00%	4,213,429	313.91%
07/01/13	\$12,141,279	887,247	11,254,032	7.31%	4,210,556	267.28%

As of July 1, 2013, the most recent actuarial valuation date, the plan is partially funded. The actuarial accrued liability for benefits was \$12,141,279, and the actuarial value of assets was \$887,247, resulting in an unfunded actuarial accrued liability (UAAL) of \$11,254,032. The covered payroll (annual payroll of active employees covered by the plan) was \$4,210,556 and the ratio of the UAAL to the covered payroll was 267.28%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of employee turnover, retirement, mortality, as well as economic assumptions regarding claim costs per retiree, healthcare inflation and interest rates. Amounts determined regarding

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

13. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the July 1, 2013 actuarial investment valuation, the entry age normal cost method was used. The actuarial assumptions included an interest rate of 7% per annum, a projected salary increase of 3.25% per annum and a health inflation rate of 4% per annum. The unfunded actuarial liability is being funded as a level of percentage of projected payroll on an open basis. The remaining amortization period as of July 1, 2013 was 25 years.

14. NET POSITION

Restricted Net Position

The Net Position reported as net investment in capital assets consists of capital assets reduced by related debt. Restricted Net Position consists of the following at June 30, 2015:

<u>Funding Source</u>	<u>Restricted Use</u>	<u>Restricted Assets</u>	<u>Liabilities</u>	<u>Restricted Net Position</u>
Reservoir capacity charge (RCC)	Construction of water storage facilities	\$3,398,253	-	3,398,253
Acreage supply charge (ASC)	Construction of water storage facilities	839,176	-	839,176
Payment to joint venture	Activities of the Puente Basin Water Agency	10,450,257	-	10,450,257
Deposits from customers	Water deposits	1,473,654	1,483,640	(9,986)
Deposits from developers	Construction	1,657,146	1,657,146	-
Revenue Bonds	2013 Series A Revenue Bonds	10,792,496	10,784,763	7,733
Badillo/Grand surcharge	Repair and maintenance of the Badillo/Grand transmission line	<u>267,696</u>	<u>2,956</u>	<u>264,740</u>
		<u>\$28,878,678</u>	<u>13,928,505</u>	<u>14,950,173</u>

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

14. NET POSITION (Continued)

The District's Investment in Joint Venture is restricted to the uses determined by the Board of Directors of the joint venture.

Unrestricted assets, although not legally restricted, have been reserved pursuant to Board determined levels for various purposes. While these reserves may not be externally restricted, the Board adopted this policy in its desire to provide a stable and equitable rate structure. The reserves at June 30, 2015 consisted of:

	<u>June 30, 2015</u>
Replacement	\$16,898,058
Capital improvements	1,931,735
Employee liabilities	1,061,119
Rate stabilization	1,281,603
Project Reserve	816,375
Badillo Grand catastrophic insurance	<u>500,000</u>
Total reserves	<u>\$22,488,890</u>

15. CONSTRUCTION COMMITMENTS

The following material construction commitments existed at June 30, 2015:

<u>Description</u>	<u>Contract Amount</u>	<u>Expended to Date</u>	<u>Remaining Balance</u>	<u>Funding Source</u>
ACE-Nogales Grade Sep. Water Facility Relocation	\$ 640,477	504,035	136,442	Replacement
Walnut Hills Estates Tract	134,957	95,450	39,507	Developer
Lemon Avenue Interchange	15,880	12,505	3,375	Developer
Grand Ave/Route 10 Extension	<u>49,656</u>	-	49,656	General
Valley Boulevard	<u>43,765</u>	5,687	38,078	Developer
Sylvan Glen Seismic Upgrade	<u>66,523</u>	<u>47,792</u>	<u>18,731</u>	Replacement
Total	<u>\$ 951,258</u>	<u>665,469</u>	<u>285,789</u>	

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

16. PRIOR PERIOD ADJUSTMENT

The accompanying financial statements reflect certain prior period adjustments as set forth below:

	<u>Net Position at beginning of year</u>
As previously reported	\$145,831,827
GASB 68 implementation	<u>(11,867,570)</u>
As restated	<u>\$133,964,257</u>

During the year the District implemented GASB 68 resulting in recording a net pension liability and deferred outflow of resources as a prior period adjustment. It is not practical to restate the 2014 partial comparative financial information due to the unavailability of information.

17. SUBSEQUENT EVENTS

On August 14, 2015, the District received approval from the Local Agency Formation Commission for the County of Los Angeles to annex certain property to Standard Pacific.

REQUIRED SUPPLEMENTARY INFORMATION

WALNUT VALLEY WATER DISTRICT

Required Supplementary Information

Pension Schedules

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY**

Last 10 Fiscal Years*

	Measurement Date 6/30/2014
Plan's Proportion of the Net Pension Liability (Asset)	0.11033%
Plan's Proportionate Share of the Net Pension Liability	\$6,865,131
Plan's Covered-Employee Payroll	\$4,450,159
Plan's Proportionate Share of the Net Pension Liability as a percentage of its Covered Payroll	154.26%
Plan's Proportionate Share of the Fiduciary Net Position as a percentage of the Plan's Total Pension Liability	83.03%
Plan's Proportionate Share of Aggregate Employer Contributions	\$908,231

**The District implemented GASB 68 for the fiscal year ended June 30, 2015. As a result, information prior to that reporting period is not available.*

WALNUT VALLEY WATER DISTRICT

Required Supplementary Information

Pension Schedules

SCHEDULE OF PLAN CONTRIBUTIONS

Last 10 Fiscal Years*

	<u>Fiscal Year 2014-15</u>
Actuarially Determined Contribution	\$790,287
Contributions in Relation to the Actuarially Determined Contribution	(790,287)
Contribution Deficiency (Excess)	<u>\$0</u>
Covered-Employee Payroll	\$4,513,309
Contributions as a Percentage of Covered-Employee Payroll	17.51%

NOTES TO SCHEDULE

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes). Employers that have done so may need to report this information as a separate liability in their financial statement as CalPERS considers such amounts to be separately financed employer-specific liabilities. These employers should consult with their auditors.

Changes of Assumptions: None

**The District implemented GASB 68 for the fiscal year ended June 30, 2015. As a result, information prior to that reporting period is not available.*

SELECTED STATISTICAL INFORMATION

WALNUT VALLEY WATER DISTRICT

MISCELLANEOUS INFORMATION

Year Ended June 30, 2015

Area Serviced

The District provides service to an area which covers approximately 17,900 acres located in Los Angeles County, west of the City of Pomona. At the present time, the District boundary encompasses an area consisting of approximately 18,951 acres, which includes undeveloped land. The District's boundaries encompass a majority of the City of Walnut; portions of the Cities of Pomona, West Covina and Industry; all of Diamond Bar; and the eastern half of Rowland Heights, which is an unincorporated area.

The District's water supply is obtained from Metropolitan Water District through a member agency, Three Valleys Municipal Water District.

The Delivery System

The delivery system presently consists of approximately 371 miles of water mains, ranging in size from 4 inches to 51 inches, and storage facilities consisting of 28 reservoirs with capacities of 1 million to 8 million gallons totaling approximately 89 million gallons. The service area is monitored by a SCADA system that records reservoir levels, system pressures and pump operations. The District currently serves approximately 26,500 consumers through service connections of 5/8 of an inch to 10 inches in size. The District owns and operates a 182 kilowatt hydroelectric generating station. Power generated by this station is sold to Southern California Edison Company. The District also provides water for landscape irrigation purposes. The recycled water is delivered through a separate distribution system comprised of approximately 33 miles of water mains, three production wells, a pumping plant, hydro pneumatic station, and two reservoirs with a combined capacity of 4 million gallons.

Administrative headquarters, along with maintenance and repair shops and storage of materials and supplies, are located on 4.5 acres of District-owned land at 271 South Brea Canyon Road, Walnut, California.

WALNUT VALLEY WATER DISTRICT
MISCELLANEOUS INFORMATION

(Continued)

Personnel

The District is governed by a Board of Directors consisting of five members who are elected to staggered four-year terms. From among its members, the Board appoints a president, one or more vice presidents, and such other positions as it deems necessary.

District operations are supervised by an appointed general manager who also serves as a secretary-treasurer. Assessor-collector functions are performed for the District by the County of Los Angeles. The District had 74 employees on June 30, 2015 consisting of 22 field persons, 24 office and engineering persons, 14 managerial staff, and 14 part-time student interns. All qualified employees are covered by group life and health insurance, pension benefits, sick leave, and vacation plans.

The Board of Directors and officers of the District are as follows:

<u>Name</u>	<u>Board Member</u>	<u>Officer</u>
Theodore L. Ebenkamp	Member	President
Scarlett P. Kwong	Member	First Vice President
Allen L. Wu	Member	Second Vice President
Barbar A. Carrera	Member	Director
Edwin M. Hilden	Member	Assistant Treasurer
James D. Ciampa		Legal Counsel
Michael K. Holmes		General Manager/ Secretary
Brian P. Teuber		Treasurer