WALNUT VALLEY WATER DISTRICT

FINANCIAL STATEMENTS

For the Year Ended June 30, 2019
# WALNUT VALLEY WATER DISTRICT

## FINANCIAL STATEMENTS

For the Year Ended June 30, 2019

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INDEPENDENT AUDITOR’S REPORT

Board of Directors
Walnut Valley Water District
Walnut, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Walnut Valley Water District (the "District") as of and for the year ended June 30, 2019, 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, 2019 and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the District’s 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 15, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 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, Schedule of the District’s Proportionate Share of the Net Pension Liability, Schedule of Pension Plan Contributions, Schedule of Changes in Net OPEB Liability and related ratios, and the Schedule of OPEB Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming 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 8, 2019 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 8, 2019
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 2019

During the fiscal year ended June 30, 2019, the following highlights affected, or have the potential to affect, the finances of the District.

- The District’s net assets increased $5,675,431.
- During the year, total revenues increased $825,838, or 2.0%, while total expenses decreased $2,093,553 or 5.0%.
- Potable Water Sales, excluding wholesale water sales, totaled 15,472 acre-feet in the current fiscal year, decreasing 10.4%, or 1,800 acre-feet from the previous fiscal year.
- Wholesale water sales totaled 2,566 acre-feet, an increase of 1,413 acre-feet, or 123% from the previous year.
- Lower water sales resulted in a corresponding decrease in water purchases. Water purchases, excluding purchases related to wholesale water sales, totaled 16,275 acre-feet in the current fiscal year, a decrease of 12%, or 2,210 acre-feet from the previous year.
- Recycled water sales totaled 1,784 acre-feet in the current fiscal year, decreasing 24%, or 549 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 $1,010 per acre-foot to $1,040 per acre-foot, an increase of 2.9%, or $30 per acre-foot.
- Effective January 2019, the Board of Directors approved a commodity rate increase. Rates for the Residential Tier 1 increased from $3.16 per unit to $3.27 per unit, an increase of $0.11 or 3.5% and the Residential Tier 2 & 3 increased from $3.58 per unit to $3.69, an increase of $0.11, or 3.1%. The rates for the Multi-Family user class were increased from $3.38 per unit to $3.49 per unit, an increase of $0.11 or 3.3%. The rates for the Commercial, Industrial, Government and Irrigation user class were increased from $3.44 per unit to $3.55 per unit, an increase of $0.11 or 3.2%. In addition, the recycled commodity rate increased from $1.79 per unit to $1.88, an increase of $0.09, or 5.0%. 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 $2,252,643 due primarily to recording grant revenue and funding of capital projects.
- In accordance with GASB 68, the District’s recorded pension liability as of June 30, 2019 was $13,156,366.
In accordance with GASB 75, the District’s recorded OPEB liability as of June 30, 2019 was $6,225,371.

Fiscal Year 2018

During the fiscal year ended June 30, 2018, the following highlights affected, or have the potential to affect, the finances of the District.

- The District’s net assets decreased $7,669,389.
- During the year, total revenues increased $3,957,583, or 10.4%, while total expenses increased $4,695,006, or 12.6%.
- Potable Water Sales, excluding wholesale water sales, totaled 17,272 acre-feet in the current fiscal year, increasing 8.4%, or 1,342 acre-feet from the previous fiscal year.
- Wholesale water sales totaled 1,153 acre-feet, a decrease of 661 acre-feet, or 36.4% from the previous year.
- Higher water sales resulted in a corresponding increase in water purchases. Water purchases, excluding purchases related to wholesale water sales, totaled 18,485 acre-feet in the current fiscal year, an increase of 8.1%, or 1,287 acre-feet from the previous year.
- Recycled water sales totaled 2,333 acre-feet in the current fiscal year, increasing 14.8%, or 301 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 $987 per acre-foot to $1,010 per acre-foot, an increase of 2.3%, or $23 per acre-foot.
- Effective January 2018, the Board of Directors approved a commodity rate increase. Rates for the Residential Tier 1 increased from $2.97 per unit to $3.16 per unit, an increase of $0.19 or 6.4% and the Residential Tier 2 & 3 increased from $3.39 per unit to $3.58, an increase of $0.19, or 5.6%. The rates for the Multi-Family user class were increased from $3.19 per unit to $3.38 per unit, an increase of $0.19 or 6.0%. The rates for the Commercial, Industrial, Government and Irrigation user class were increased from $3.25 per unit to $3.44 per unit, an increase of $0.19 or 5.8%. In addition, the recycled commodity rate increased from $1.71 per unit to $1.79, an increase of $0.08, 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 decreased $176,057, due primarily to the use of stored water that was purchased and paid for in prior years.
- In accordance with GASB 68, the District’s recorded pension liability as of June 30, 2018 was $13,394,625.
- In accordance with GASB 75, the District’s recorded OPEB liability as of June 30, 2018 was $6,544,634.
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.

Statement of Net Assets
The Statement of Net Assets presents the District’s financial position (assets and liabilities) as of June 30, 2019 and 2018. 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, 2019 and 2018, the District had net assets, assets in excess of liabilities, of $139,072,409 and $133,396,978, 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, 2019 and 2018 was $1,457,189 and $2,417,729. After recognition of non-operating revenues, expenses, and capital contributions, the net increase in net assets for years ending June 30, 2019 and 2018 was $5,675,431 and $608,839.

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, 2019, cash and cash equivalents totaled $10,805,863 a decrease of $4,670,566 from the previous fiscal year.

FINANCIAL ANALYSIS OF THE DISTRICT

Our analysis of the District begins on page 13 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, 2019 AND 2018

## Statements of Net Assets

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year 2019</th>
<th>Fiscal Year 2018</th>
<th>Dollar Change</th>
<th>Fiscal Year 2017</th>
<th>Dollar Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td>37,924,415</td>
<td>36,842,086</td>
<td>1,082,329</td>
<td>38,786,390</td>
<td>(1,944,304)</td>
</tr>
<tr>
<td>Restricted Assets</td>
<td>36,402,938</td>
<td>43,613,577</td>
<td>(7,210,639)</td>
<td>33,766,357</td>
<td>9,847,220</td>
</tr>
<tr>
<td>Other Assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,186,761</td>
<td>(2,186,761)</td>
</tr>
<tr>
<td>Capital Assets</td>
<td>112,828,300</td>
<td>104,360,061</td>
<td>8,468,239</td>
<td>103,775,678</td>
<td>584,383</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>187,155,653</td>
<td>184,815,724</td>
<td>2,339,929</td>
<td>178,515,186</td>
<td>6,300,538</td>
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<thead>
<tr>
<th></th>
<th>Fiscal Year 2019</th>
<th>Fiscal Year 2018</th>
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<th>Fiscal Year 2017</th>
<th>Dollar Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deferred Outflow of Resc.:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Deferred Outflow:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension</td>
<td>3,524,924</td>
<td>4,190,404</td>
<td>(665,480)</td>
<td>3,457,480</td>
<td>732,924</td>
</tr>
<tr>
<td>OPEB</td>
<td>2,475,452</td>
<td>1,703,516</td>
<td>771,936</td>
<td>-</td>
<td>1,703,516</td>
</tr>
<tr>
<td><strong>Total Deferred Outflow</strong></td>
<td>6,000,376</td>
<td>5,893,920</td>
<td>106,456</td>
<td>3,457,480</td>
<td>2,436,440</td>
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<thead>
<tr>
<th></th>
<th>Fiscal Year 2019</th>
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<th>Dollar Change</th>
<th>Fiscal Year 2017</th>
<th>Dollar Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>6,278,039</td>
<td>6,059,273</td>
<td>218,766</td>
<td>6,103,722</td>
<td>(44,449)</td>
</tr>
<tr>
<td>Restricted Liabilities</td>
<td>9,959,136</td>
<td>12,424,173</td>
<td>(2,465,037)</td>
<td>3,912,926</td>
<td>8,511,247</td>
</tr>
<tr>
<td><strong>Non Current Liabilities</strong></td>
<td>36,683,534</td>
<td>37,839,878</td>
<td>(1,156,344)</td>
<td>30,165,427</td>
<td>7,674,451</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>52,920,709</td>
<td>56,323,324</td>
<td>(3,402,615)</td>
<td>40,182,075</td>
<td>16,141,249</td>
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<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year 2019</th>
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<th>Dollar Change</th>
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<tr>
<td><strong>Deferred Inflow of Resc.:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Deferred Inflow:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension</td>
<td>1,022,836</td>
<td>802,575</td>
<td>220,261</td>
<td>724,224</td>
<td>78,351</td>
</tr>
<tr>
<td>OPEB</td>
<td>140,075</td>
<td>186,767</td>
<td>(46,692)</td>
<td>-</td>
<td>186,767</td>
</tr>
<tr>
<td><strong>Total Deferred Inflow</strong></td>
<td>1,162,911</td>
<td>989,342</td>
<td>173,569</td>
<td>724,224</td>
<td>265,118</td>
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<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year 2019</th>
<th>Fiscal Year 2018</th>
<th>Dollar Change</th>
<th>Fiscal Year 2017</th>
<th>Dollar Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Investment in Capital Assets</strong></td>
<td>111,794,294</td>
<td>103,174,608</td>
<td>8,619,686</td>
<td>102,444,898</td>
<td>729,710</td>
</tr>
<tr>
<td>Restricted</td>
<td>24,163,164</td>
<td>27,745,464</td>
<td>(3,582,300)</td>
<td>26,408,666</td>
<td>1,336,798</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>3,114,951</td>
<td>2,476,906</td>
<td>638,045</td>
<td>12,212,803</td>
<td>(9,735,897)</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td>$139,072,409</td>
<td>$133,396,978</td>
<td>$5,675,431</td>
<td>$141,066,367</td>
<td>($7,669,389)</td>
</tr>
</tbody>
</table>

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 $139,072,409 and $133,396,978 for the periods ending June 30, 2019 and 2018, respectively.

The largest component of net assets is the District’s net investment in capital assets, which increased over the prior year. Investment in capital assets is presented net of depreciation.
WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

and any outstanding debt used to acquire the assets. The net investment in capital assets includes the District’s Construction in Progress account which totaled $6,777,145, an increase of $494,686 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, 2019, restricted net assets totaled $24,163,164, a decrease of $3,582,300, or 12.9% from the prior year. One of the major factors contributing to this decrease was the expenditures related to the revenue bonds and was partially offset by an increase in the investment in the Puente Basin Water Agency, which is reflected in the financial statements as “Investment in Joint Venture”. For the year, the District’s revenue bonds decreased $5,796,801 and investment in the PBWA, increased by $2,252,643 over the prior fiscal year.

At the end of fiscal years 2019 and 2018, the District showed a positive balance in its unrestricted net assets of $3,114,951 and $2,476,906, respectively, which further demonstrates that the overall health of the District remains very strong.

**Statements of Revenues, Expenses, and Changes in Net Assets**

Table A-2

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year 2019</th>
<th>Fiscal Year 2018</th>
<th>Dollar Change</th>
<th>Fiscal Year 2017</th>
<th>Dollar Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenues</td>
<td>$ 37,912,508</td>
<td>$ 38,210,311</td>
<td>($297,803)</td>
<td>$ 34,916,303</td>
<td>$ 3,294,008</td>
</tr>
<tr>
<td>Non-Operating Revenues</td>
<td>4,814,766</td>
<td>3,691,125</td>
<td>1,123,641</td>
<td>3,027,550</td>
<td>663,575</td>
</tr>
<tr>
<td><strong>Total Revenues:</strong></td>
<td>42,727,274</td>
<td>41,901,436</td>
<td>825,838</td>
<td>37,943,853</td>
<td>3,957,583</td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>34,149,759</td>
<td>35,341,232</td>
<td>(1,191,473)</td>
<td>31,827,660</td>
<td>3,513,572</td>
</tr>
<tr>
<td>Depreciation</td>
<td>5,219,938</td>
<td>5,286,808</td>
<td>(66,870)</td>
<td>5,109,038</td>
<td>177,770</td>
</tr>
<tr>
<td>Non-Operating Expenses</td>
<td>640,600</td>
<td>1,475,810</td>
<td>(835,210)</td>
<td>472,146</td>
<td>1,003,664</td>
</tr>
<tr>
<td><strong>Total Expenses:</strong></td>
<td>40,010,297</td>
<td>42,103,850</td>
<td>(2,093,553)</td>
<td>37,408,844</td>
<td>4,695,006</td>
</tr>
<tr>
<td><strong>Net Income (Loss):</strong></td>
<td>2,716,977</td>
<td>(202,414)</td>
<td>2,919,391</td>
<td>535,009</td>
<td>(737,423)</td>
</tr>
<tr>
<td>Capital Contributions</td>
<td>2,958,454</td>
<td>811,253</td>
<td>2,147,201</td>
<td>3,046,034</td>
<td>(2,234,781)</td>
</tr>
<tr>
<td>Changes in Net Assets</td>
<td>5,675,431</td>
<td>608,839</td>
<td>5,066,592</td>
<td>5,381,043</td>
<td>(2,972,204)</td>
</tr>
<tr>
<td>Net Assets, Beg. of Year</td>
<td>133,396,978</td>
<td>141,066,367</td>
<td>(7,669,389)</td>
<td>137,485,324</td>
<td>3,581,043</td>
</tr>
<tr>
<td>Prior Period Adjustment</td>
<td>(GASB 75)</td>
<td></td>
<td>(8,278,228)</td>
<td></td>
<td>(8,278,228)</td>
</tr>
<tr>
<td>Net Assets, End of Year</td>
<td>$139,072,409</td>
<td>$133,396,978</td>
<td>$5,675,431</td>
<td>$141,066,367</td>
<td>$(7,669,389)</td>
</tr>
</tbody>
</table>
As shown in Table A-3, total revenues for fiscal year 2019 increased $825,838 or 2.0% for the year. Operating revenues decreased $297,803, or 0.8% and non-operating revenues increased $1,123,641, or 30.4%.

Operating Revenues are related to the District’s core activities and accounted for 88.7% of total revenues. For the year, revenues from retail water sales totaled $22,984,324, a decrease of $1,555,236, or 6.3% from the prior year. The decrease in retail water sales was unexpected, as water sales were lower than expected due to higher than anticipated rainfall. In addition, the decreased revenues are reflective of a rate increase approved by the Board in 2019. Wholesale water sales, which can vary significantly from year to year, totaled $3,206,218 an increase of $1,404,551, or 78% from the prior year. Similar to potable water sales revenues, recycled water revenues also decreased. For the year, recycled water sales revenue decreased $291,840, or 15.2% during the 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 2019, non-operating revenues totaled $4,814,766, an

WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

Revenues Fiscal Year 2019

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year 2019</th>
<th>Fiscal Year 2018</th>
<th>Dollar Change</th>
<th>Fiscal Year 2017</th>
<th>Dollar Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water Sales</td>
<td>$22,984,324</td>
<td>$24,539,560</td>
<td>$(1,555,236)</td>
<td>$21,547,547</td>
<td>$2,992,013</td>
</tr>
<tr>
<td>Water Sales (Wholesale)</td>
<td>3,206,218</td>
<td>1,801,667</td>
<td>1,404,551</td>
<td>1,717,089</td>
<td>84,578</td>
</tr>
<tr>
<td>Base Charges (Meter Charges)</td>
<td>7,701,303</td>
<td>7,487,409</td>
<td>213,894</td>
<td>7,285,380</td>
<td>202,029</td>
</tr>
<tr>
<td>Pump Zone Charges</td>
<td>921,359</td>
<td>1,000,112</td>
<td>(78,753)</td>
<td>869,345</td>
<td>130,767</td>
</tr>
<tr>
<td>Drought Rate Surcharges</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Recycled Sales</td>
<td>1,634,443</td>
<td>1,926,283</td>
<td>(291,840)</td>
<td>1,609,661</td>
<td>316,622</td>
</tr>
<tr>
<td>Other Fees and Charges</td>
<td>605,425</td>
<td>608,694</td>
<td>(3,269)</td>
<td>546,368</td>
<td>62,326</td>
</tr>
<tr>
<td>Hydroelectric Sales</td>
<td>22,250</td>
<td>24,072</td>
<td>(1,822)</td>
<td>10,534</td>
<td>13,538</td>
</tr>
<tr>
<td>Stand-By Charges</td>
<td>837,186</td>
<td>822,514</td>
<td>14,672</td>
<td>815,294</td>
<td>13,538</td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td>37,912,508</td>
<td>38,210,311</td>
<td>(297,803)</td>
<td>34,916,303</td>
<td>3,294,008</td>
</tr>
</tbody>
</table>

| **Non-Operating Revenues:** |                  |                  |              |                  |              |
| Investment Income       | 758,284          | 480,549          | 277,735      | 466,112          | 14,437       |
| Unrealized Gain/(Loss) on Investments | 1,028,369 | (571,357) | 1,599,726 | 539,145 | (32,212) |
| PropertyTax Revenue     | 1,098,378        | 999,707          | 98,671       | 985,113          | 14,594       |
| Communication Site Leases| 298,106          | 284,851          | 13,255       | 277,607          | 7,244        |
| Amount Received for Annexation Fees | - | - | - | - | - |
| Other Revenues          | 316,715          | 283,048          | 32,667       | 271,604          | 12,244       |
| Share of Joint Venture Income | 874,098 | (139,606) | 1,013,704 | (8,092) | (131,514) |
| **Restricted Revenues** | 440,816          | 2,353,133        | (1,912,317)  | 1,574,351        | 778,782      |

**Total Non-Operating Revenues** | 4,814,766 | 3,691,125 | 1,123,641 | 3,027,550 | 663,575

**Total Revenues** | $42,727,274 | $41,901,436 | $825,838 | $37,943,853 | $3,957,583

Revenues FY 2018-19

![Pie chart showing revenue distribution]
increase of $1,123,641, or 30.4% over the prior year. The most significant changes for non-operating revenues related to the share of joint venture income, unrealized gain on investment and a decrease in restricted revenues. The District’s investment in the PBWA, attributable to several water reliability projects, increased by $1,013,704 from the prior fiscal year. Unrealized gain on investments increased $1,599,726 from the prior fiscal year. During fiscal year 2019, the District collected $158,360 in developer related fees, a decrease of $1,981,291 from the prior year.

**Revenues Fiscal Year 2018**

As shown in Table A-3, total revenues for fiscal year 2018 increased $3,957,583 or 10.4% for the year. Operating revenues increased $3,294,008, or 9.4% and non-operating revenues increased $663,575, or 21.9%.

Operating Revenues are related to the District’s core activities and accounted for 91.2% of total revenues. For the year, revenues from retail water sales totaled $24,539,560, an increase of $2,992,013, or 13.9% from the prior year. The increase in retail water sales was expected, as the drought in the State of California ended resulting in higher sales than in the previous year. In addition, the increased revenues are reflective of a rate increase approved by the Board in 2018. Also, the impact of the rate increase and higher water sales, resulted in higher revenues collected from the base charges and pump zone surcharges. Due to the end of the drought, the Board elected not to continue the drought rate surcharge, which decreased $515,085, or 100% from the prior year. Wholesale water sales, which can vary significantly from year to year, totaled $1,801,667 an increase of $84,578, or 4.9% from the prior year. Similar to potable water sales revenues, recycled water revenues also increased. For the year, recycled water sales revenue increased $316,622, or 19.7% during the 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 2018, non-operating revenues totaled $3,691,125, an increase of $663,575, or 21.9% over the prior year. The most significant changes for non-operating revenues related to the share of joint venture income and restricted revenues. The District’s investment in the PBWA, attributable to several water reliability projects, decreased by $131,514 from the prior fiscal year. During fiscal year 2018, the District collected $2,353,133 in developer related fees, an increase of $778,782 from the prior year.
As shown in Table A-4, total expenses for fiscal year 2019 decreased $2,093,553, or 5.0%. Operating expenses decreased $1,258,343, or 3.1% and non-operating expenses decreased by $835,210.

Operating expenses accounted for 98.4% of total expenses. The most significant decrease for fiscal year 2019 was for source of supply related expenses, which accounted for 52.5% of total expenses, and decreased $505,494, or 2.4% from the previous fiscal year. The District is almost 100% dependent on imported water to meet its demands. The decrease in source of supply expenses was expected due to lower water sales during the year. Consumer Accounts totaled $1,910,756 for the year, a decrease of $181,011 or 8.7% related primarily to District retirements. Administration & General totaled $4,892,522 for the year, a decrease of $273,306 or 5.3%. This decrease was primarily attributable to a decrease in wages and benefits from retirements. 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 on the number of projects and the scope and complexity of those projects. For the year, operating expenses capitalized totaled $665,464.

Non-operating expenses are not related to the District’s core activities and accounted for 1.6% of total expenses for the year. Non-operating expenses decreased $835,210 for fiscal year 2019 primarily due to the loss recorded on the disposition of assets.
Expenses Fiscal Year 2018

As shown in Table A-4, total expenses for fiscal year 2018 increased $4,695,006, or 12.6%. Operating expenses increased $3,691,342, or 10.0% and non-operating expenses increased by $1,003,664. Operating expenses accounted for 96.5% of total expenses. The most significant increase for fiscal year 2018 was for source of supply related expenses, which accounted for 51.1% of total expenses, and increased $2,108,027, or 10.9% from the previous fiscal year. The District is almost 100% dependent on imported water to meet its demands. The increase in source of supply expenses was expected due to higher water sales during the year coupled with an increase in the cost of imported water purchased. Transmission and Distribution costs totaled $5,280,765 for the year, an increase of $681,842, or 14.8%. This increase was primarily attributable to an increase in the costs related to the repair and maintenance of the District’s transmission and distribution system, as well as an increase in wage and benefit expenses. Administrative and General expenses totaled $5,165,828 for the year, an increase of $247,501, or 5.0%. This increase was expected as a result of the normal cost increases related to wage and benefit expenses. 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 on the number of projects and the scope and complexity of those projects. For the year, operating expenses capitalized totaled $415,196.

Non-operating expenses are not related to the District’s core activities and accounted for 3.5% of total expenses for the year. Non-operating expenses increased $1,003,664 for fiscal year 2018 primarily due to the loss recorded on the disposition of assets.
WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

Table A-5
Capital Assets

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Fiscal Year 2019</th>
<th>Fiscal Year 2018</th>
<th>Dollar Change</th>
<th>Fiscal Year 2017</th>
<th>Dollar Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Master Plan</td>
<td>$ 1,167,489</td>
<td>$ 1,167,489</td>
<td>$ -</td>
<td>$ 1,167,489</td>
<td>$ -</td>
</tr>
<tr>
<td>Terminal Storage</td>
<td>26,128,123</td>
<td>26,128,123</td>
<td>$ -</td>
<td>25,785,547</td>
<td>$ 342,576</td>
</tr>
<tr>
<td>Pumping Equipment</td>
<td>18,365,119</td>
<td>17,882,584</td>
<td>482,535</td>
<td>17,583,765</td>
<td>298,819</td>
</tr>
<tr>
<td>Transmission &amp; Distribution</td>
<td>125,078,127</td>
<td>120,395,870</td>
<td>4,682,257</td>
<td>116,497,657</td>
<td>3,898,213</td>
</tr>
<tr>
<td>PWR Capacity Rights</td>
<td>1,274,036</td>
<td>927,774</td>
<td>346,262</td>
<td>927,774</td>
<td>$ -</td>
</tr>
<tr>
<td>Hydroelectric</td>
<td>665,393</td>
<td>665,393</td>
<td>$ -</td>
<td>665,393</td>
<td>$ -</td>
</tr>
<tr>
<td>Recycled Water System</td>
<td>27,244,936</td>
<td>27,258,471</td>
<td>(13,535)</td>
<td>25,525,377</td>
<td>1,733,094</td>
</tr>
<tr>
<td>General Plant &amp; Equipment</td>
<td>11,281,571</td>
<td>6,221,477</td>
<td>5,060,094</td>
<td>5,579,885</td>
<td>641,592</td>
</tr>
<tr>
<td>Non-Depreciable Assets</td>
<td>5,154,638</td>
<td>2,634,347</td>
<td>2,520,291</td>
<td>2,634,347</td>
<td>$ -</td>
</tr>
<tr>
<td>Construction in Progress</td>
<td>6,777,145</td>
<td>6,282,459</td>
<td>494,686</td>
<td>7,519,989</td>
<td>(1,237,530)</td>
</tr>
<tr>
<td>Total Capital Assets</td>
<td>223,136,577</td>
<td>209,563,987</td>
<td>13,572,590</td>
<td>203,887,223</td>
<td>5,676,764</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>(110,308,277)</td>
<td>(105,203,926)</td>
<td>(5,104,351)</td>
<td>(100,111,545)</td>
<td>(5,092,381)</td>
</tr>
<tr>
<td>Net Capital Assets</td>
<td>$112,828,300</td>
<td>$104,360,061</td>
<td>$8,468,239</td>
<td>$103,775,678</td>
<td>$584,383</td>
</tr>
</tbody>
</table>

Capital Asset Administration

Fiscal Year 2019

As of June 30, 2019, the District had invested $223,136,577 in capital assets. This represents a $13,572,590, or 6.5% 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 2019, $13,677,523 in costs were added to construction in progress and $13,193,462 related to various completed projects was 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 $115,558.

Fiscal Year 2018

As of June 30, 2018, the District had invested $209,563,987 in capital assets. This represents a $5,676,764, or 2.8% 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 2018, $6,837,000 in costs were added to construction in progress and $8,074,530 related to various completed projects was 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 $216,691.
### Debt Administration

#### Fiscal Year 2019

During the year, the District’s long-term debt related to the 2013 Series A Water Revenue Bonds decreased $465,000. As of June 30, 2019, the District had spent approximately $17.6 million of the proceeds on various capital projects. The District expects to spend the remaining funds, approximately $2.3 million, over the next two 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, 2019, the District has outstanding $1,181,489 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.

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’s recorded Net Pension Liability was $13,156,366.

Additionally, beginning in 2018, the District was required to implement Government Accounting Standard Board Statement 75 (GASB 75). GASB 75 requires that the District record the Net OPEB Liability in the financial statements. For the year, the District’s recorded a Net Pension Liability was $6,225,371.

#### Fiscal Year 2018

During the year, the District’s long-term debt related to the 2013 Series A Water Revenue Bonds decreased $445,000. As of June 30, 2018, the District had spent approximately $10.7 million of the proceeds on various capital projects. The District expects to spend the
remaining funds, approximately $9.2 million, over the next two 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, 2018, the District has outstanding $1,187,156 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.

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’s recorded Net Pension Liability was $13,394,625.

Additionally, beginning in 2018, the District was required to implement Government Accounting Standard Board Statement 75 (GASB 75). GASB 75 requires that the District record the Net OPEB Liability in the financial statements. For the year, the District’s recorded a Net Pension Liability was $6,544,634.

<table>
<thead>
<tr>
<th>Table A-7</th>
<th>Fiscal Year 2019 Budget vs. Fiscal Year 2018 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues:</td>
<td>Budget 2020</td>
</tr>
<tr>
<td>Water Sales - General</td>
<td>$34,837,628</td>
</tr>
<tr>
<td>Water Sales - Recycled</td>
<td>1,909,548</td>
</tr>
<tr>
<td>Standby Charges</td>
<td>825,000</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>1,900,620</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>39,472,796</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>34,466,856</td>
</tr>
<tr>
<td>Debt &amp; Interest Payment</td>
<td>1,234,500</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>35,701,356</td>
</tr>
<tr>
<td>Change in Net Assets</td>
<td>$3,771,440</td>
</tr>
</tbody>
</table>

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 2020 budget. These indicators were taken into consideration when adopting the District’s budget. It should be noted that certain revenues and expenses such as 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

### Statement of Net Position

**June 30, 2019**  
(with comparative information for the prior year)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and investments (Note 2)</td>
<td>$27,537,878</td>
<td>$26,700,858</td>
</tr>
<tr>
<td>Accounts receivable:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td>4,223,750</td>
<td>4,128,379</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>248,115</td>
<td>168,060</td>
</tr>
<tr>
<td>Other</td>
<td>1,285,476</td>
<td>1,279,817</td>
</tr>
<tr>
<td>Stored water</td>
<td>3,575,180</td>
<td>3,575,180</td>
</tr>
<tr>
<td>Materials inventory</td>
<td>655,028</td>
<td>548,480</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>398,988</td>
<td>441,312</td>
</tr>
<tr>
<td><strong>TOTAL CURRENT ASSETS</strong></td>
<td>$37,924,415</td>
<td>$36,842,086</td>
</tr>
<tr>
<td><strong>RESTRICTED ASSETS:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and investments (Note 2)</td>
<td>19,747,091</td>
<td>29,182,977</td>
</tr>
<tr>
<td>Investment in joint venture (Note 9)</td>
<td>16,645,075</td>
<td>14,389,932</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>10,772</td>
<td>40,668</td>
</tr>
<tr>
<td><strong>TOTAL RESTRICTED ASSETS</strong></td>
<td>$36,402,938</td>
<td>$43,613,577</td>
</tr>
<tr>
<td><strong>CAPITAL ASSETS (Note 3):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital assets not being depreciated</td>
<td>11,931,783</td>
<td>8,916,806</td>
</tr>
<tr>
<td>Capital assets being depreciated</td>
<td>211,204,794</td>
<td>200,647,181</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(110,308,277)</td>
<td>(105,203,926)</td>
</tr>
<tr>
<td><strong>NET CAPITAL ASSETS</strong></td>
<td>112,828,300</td>
<td>104,360,061</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>$187,155,653</td>
<td>$184,815,724</td>
</tr>
<tr>
<td><strong>DEFERRED OUTFLOW OF RESOURCES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred outflow of resources - pension (Note 5)</td>
<td>3,524,924</td>
<td>4,190,404</td>
</tr>
<tr>
<td>Deferred outflow of resources - OPEB (Note 6)</td>
<td>2,475,452</td>
<td>1,703,516</td>
</tr>
<tr>
<td><strong>TOTAL DEFERRED OUTFLOW OF RESOURCES</strong></td>
<td>$6,000,376</td>
<td>$5,893,920</td>
</tr>
</tbody>
</table>

(Continued)
<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CURRENT LIABILITIES (PAYABLE FROM UNRESTRICTED ASSETS):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>4,402,619</td>
<td>4,518,200</td>
</tr>
<tr>
<td>Interest payable</td>
<td>62,042</td>
<td>63,979</td>
</tr>
<tr>
<td>Amounts due to joint venture</td>
<td>105,967</td>
<td>100,486</td>
</tr>
<tr>
<td>Current portion of long term liabilities (Note 4)</td>
<td>795,958</td>
<td>774,919</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>911,453</td>
<td>601,689</td>
</tr>
<tr>
<td></td>
<td><strong>6,278,039</strong></td>
<td><strong>6,059,273</strong></td>
</tr>
<tr>
<td><strong>CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>11,712</td>
<td>3,208</td>
</tr>
<tr>
<td>Deposits (Note 7)</td>
<td>1,814,615</td>
<td>1,768,079</td>
</tr>
<tr>
<td>Construction advances</td>
<td>8,132,809</td>
<td>10,652,886</td>
</tr>
<tr>
<td></td>
<td><strong>9,959,136</strong></td>
<td><strong>12,424,173</strong></td>
</tr>
<tr>
<td><strong>TOTAL CURRENT LIABILITIES</strong></td>
<td><strong>16,237,175</strong></td>
<td><strong>18,483,446</strong></td>
</tr>
<tr>
<td><strong>NON CURRENT LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Installment purchase contract (Note 4)</td>
<td>14,400,000</td>
<td>14,890,000</td>
</tr>
<tr>
<td>Unamortized premium (Note 4)</td>
<td>2,026,266</td>
<td>2,133,382</td>
</tr>
<tr>
<td>Net pension liability (Note 5)</td>
<td>13,156,366</td>
<td>13,394,625</td>
</tr>
<tr>
<td>Net OPEB liability (Note 6)</td>
<td>6,225,371</td>
<td>6,544,634</td>
</tr>
<tr>
<td>Compensated absences (Note 4)</td>
<td>875,531</td>
<td>877,237</td>
</tr>
<tr>
<td></td>
<td><strong>36,683,534</strong></td>
<td><strong>37,839,878</strong></td>
</tr>
<tr>
<td><strong>TOTAL NON CURRENT LIABILITIES</strong></td>
<td><strong>52,920,709</strong></td>
<td><strong>56,323,324</strong></td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td><strong>52,920,709</strong></td>
<td><strong>56,323,324</strong></td>
</tr>
<tr>
<td><strong>DEFERRED INFLOW OF RESOURCES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred inflow of resources - pension (Note 5)</td>
<td>1,022,836</td>
<td>802,575</td>
</tr>
<tr>
<td>Deferred inflow of resources - OPEB (Note 6)</td>
<td>140,075</td>
<td>186,767</td>
</tr>
<tr>
<td></td>
<td><strong>1,162,911</strong></td>
<td><strong>989,342</strong></td>
</tr>
<tr>
<td><strong>TOTAL DEFERRED INFLOW OF RESOURCES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET POSITION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment in capital assets</td>
<td>111,794,294</td>
<td>103,174,608</td>
</tr>
<tr>
<td>Restricted</td>
<td>24,163,164</td>
<td>27,745,464</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>3,114,951</td>
<td>2,476,906</td>
</tr>
<tr>
<td></td>
<td><strong>139,072,409</strong></td>
<td><strong>133,396,978</strong></td>
</tr>
</tbody>
</table>

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, 2019  
(with comparative information for the prior year)

<table>
<thead>
<tr>
<th>Description</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPERATING REVENUES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water sales</td>
<td>$37,075,322</td>
<td>$37,387,797</td>
</tr>
<tr>
<td>Standby charges</td>
<td>837,186</td>
<td>822,514</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING REVENUES</strong></td>
<td>37,912,508</td>
<td>38,210,311</td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source of supply</td>
<td>20,999,925</td>
<td>21,505,419</td>
</tr>
<tr>
<td>Pumping</td>
<td>1,672,204</td>
<td>1,712,649</td>
</tr>
<tr>
<td>Transmission and distribution</td>
<td>5,339,816</td>
<td>5,280,765</td>
</tr>
<tr>
<td>Consumer accounts</td>
<td>1,910,756</td>
<td>2,091,767</td>
</tr>
<tr>
<td>General and administrative</td>
<td>4,892,522</td>
<td>5,165,828</td>
</tr>
<tr>
<td>Depreciation</td>
<td>5,219,938</td>
<td>5,286,808</td>
</tr>
<tr>
<td>Operating expense capitalized during construction period</td>
<td>(665,464)</td>
<td>(415,196)</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING EXPENSES</strong></td>
<td>39,369,697</td>
<td>40,628,040</td>
</tr>
<tr>
<td><strong>OPERATING LOSS</strong></td>
<td>(1,457,189)</td>
<td>(2,417,729)</td>
</tr>
<tr>
<td><strong>NONOPERATING REVENUES (EXPENSES):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>2,069,109</td>
<td>122,673</td>
</tr>
<tr>
<td>Property taxes</td>
<td>1,098,378</td>
<td>999,707</td>
</tr>
<tr>
<td>Other revenues</td>
<td>614,821</td>
<td>568,700</td>
</tr>
<tr>
<td>Share of joint venture income (loss)</td>
<td>874,098</td>
<td>(139,606)</td>
</tr>
<tr>
<td>Gain (loss) on disposal of capital assets</td>
<td>18,098</td>
<td>(798,859)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(658,698)</td>
<td>(676,951)</td>
</tr>
<tr>
<td><strong>TOTAL NONOPERATING REVENUES (EXPENSES)</strong></td>
<td>4,015,806</td>
<td>75,664</td>
</tr>
<tr>
<td><strong>GAIN (LOSS) BEFORE CAPITAL CONTRIBUTIONS</strong></td>
<td>2,558,617</td>
<td>(2,342,065)</td>
</tr>
<tr>
<td><strong>CAPITAL CONTRIBUTIONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developer Fees</td>
<td>2,958,454</td>
<td>811,253</td>
</tr>
<tr>
<td>Acreage and water supply and reservoir capacity fees</td>
<td>158,360</td>
<td>2,139,651</td>
</tr>
<tr>
<td><strong>TOTAL CAPITAL CONTRIBUTIONS</strong></td>
<td>3,116,814</td>
<td>2,950,904</td>
</tr>
<tr>
<td><strong>CHANGES IN NET POSITION</strong></td>
<td>5,675,431</td>
<td>608,839</td>
</tr>
<tr>
<td><strong>NET POSITION - BEGINNING OF YEAR, AS RESTATED</strong></td>
<td>133,396,978</td>
<td>132,788,139</td>
</tr>
<tr>
<td><strong>NET POSITION - END OF YEAR</strong></td>
<td>$139,072,409</td>
<td>$133,396,978</td>
</tr>
</tbody>
</table>

See Notes to Basic Financial Statements
WALNUT VALLEY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019
(with comparative information for the prior year)

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH FLOWS FROM OPERATING ACTIVITIES:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts from customers</td>
<td>$ 37,817,137</td>
<td>$ 37,917,254</td>
</tr>
<tr>
<td>Other income received</td>
<td>622,193</td>
<td>722,781</td>
</tr>
<tr>
<td>Payments to suppliers of goods and services</td>
<td>(24,890,808)</td>
<td>(24,021,494)</td>
</tr>
<tr>
<td>Payments to joint venture</td>
<td>(1,375,564)</td>
<td>(1,663,990)</td>
</tr>
<tr>
<td>Payments to employees</td>
<td>(8,526,833)</td>
<td>(8,532,754)</td>
</tr>
<tr>
<td>Payment to OPEB trust</td>
<td>(1,089,731)</td>
<td>(1,095,860)</td>
</tr>
<tr>
<td><strong>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</strong></td>
<td><strong>2,556,394</strong></td>
<td><strong>3,325,937</strong></td>
</tr>
<tr>
<td>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property taxes received</td>
<td>1,091,595</td>
<td>999,707</td>
</tr>
<tr>
<td><strong>NET CASH PROVIDED (USED) BY NONCAPITAL AND RELATED FINANCING ACTIVITIES</strong></td>
<td><strong>1,091,595</strong></td>
<td><strong>999,707</strong></td>
</tr>
<tr>
<td>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition and construction of capital assets</td>
<td>(13,677,523)</td>
<td>(6,837,000)</td>
</tr>
<tr>
<td>Principal paid on long-term debt</td>
<td>(465,000)</td>
<td>(445,000)</td>
</tr>
<tr>
<td>Interest paid on long-term debt</td>
<td>(767,751)</td>
<td>(785,550)</td>
</tr>
<tr>
<td>Proceeds from sale of assets</td>
<td>7,444</td>
<td>-</td>
</tr>
<tr>
<td>Acreage and water supply and reservoir capacity fees</td>
<td>158,360</td>
<td>2,139,651</td>
</tr>
<tr>
<td>Construction advances received</td>
<td>478,665</td>
<td>9,849,533</td>
</tr>
<tr>
<td><strong>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</strong></td>
<td><strong>(14,265,805)</strong></td>
<td><strong>3,921,634</strong></td>
</tr>
<tr>
<td>CASH FLOWS FROM INVESTING ACTIVITIES:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(18,341,050)</td>
<td>(13,800,199)</td>
</tr>
<tr>
<td>Sales of investments</td>
<td>22,269,350</td>
<td>5,996,735</td>
</tr>
<tr>
<td>Interest received on cash and investments</td>
<td>2,018,950</td>
<td>65,411</td>
</tr>
<tr>
<td><strong>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</strong></td>
<td><strong>5,947,250</strong></td>
<td><strong>(7,738,053)</strong></td>
</tr>
<tr>
<td><strong>NET INCREASE IN CASH AND CASH EQUIVALENTS</strong></td>
<td><strong>(4,670,566)</strong></td>
<td><strong>509,225</strong></td>
</tr>
<tr>
<td>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</td>
<td><strong>15,476,429</strong></td>
<td><strong>14,967,204</strong></td>
</tr>
<tr>
<td>CASH AND CASH EQUIVALENTS - END OF YEAR</td>
<td><strong>$ 10,805,863</strong></td>
<td><strong>$ 15,476,429</strong></td>
</tr>
</tbody>
</table>

(Continued)

See Notes to Basic Financial Statements

22
WALNUT VALLEY WATER DISTRICT
STATEMENT OF CASH FLOWS
(Continued)

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RECONCILIATION TO AMOUNTS REPORTED ON</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>THE STATEMENT OF CASH FLOWS:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reported on the Statement of Net Assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets - cash and investments</td>
<td>$ 27,537,878</td>
<td>$ 26,700,858</td>
</tr>
<tr>
<td>Restricted assets - cash and investments</td>
<td>19,747,091</td>
<td>29,182,977</td>
</tr>
<tr>
<td>Investments not considered cash and cash equivalents</td>
<td>(36,479,106)</td>
<td>(40,407,406)</td>
</tr>
<tr>
<td><strong>CASH AND CASH EQUIVALENTS - END OF YEAR</strong></td>
<td>$ 10,805,863</td>
<td>$ 15,476,429</td>
</tr>
</tbody>
</table>

| **RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** |            |            |
| Operating loss               | $ (1,457,189) | $ (2,417,729) |
| Depreciation                 | 5,219,938     | 5,286,808   |
| Other revenues               | 614,821       | 735,650     |
| Share of joint venture income (loss) | 874,098       | (139,606)   |
| Change in assets and liabilities |            |            |
| (Increase) decrease in accounts receivables - water | (95,371) | (293,057) |
| (Increase) decrease in accounts receivables - other | 7,372       | 154,081     |
| (Increase) decrease in materials inventory | (106,548) | (59,524)    |
| (Increase) decrease in prepaid expenses | 42,324       | (37,233)    |
| (Increase) decrease in investment in joint venture | (2,255,143) | 176,057     |
| (Increase) decrease in deferred outflow of resources | (106,456) | (2,436,440) |
| Increase (decrease) in accounts payable | (107,077) | 1,981,740   |
| Increase (decrease) in amounts due to joint venture | 5,481       | (1,700,441) |
| Increase (decrease) in other current liabilities | 309,764      | (369,359)   |
| Increase (decrease) in compensated absences | (5,667)      | (80,405)    |
| Increase (decrease) in OPEB liability | (319,263)    | 453,167     |
| Increase (decrease) in net pension liability | (238,259) | 1,807,110   |
| Increase (decrease) in deferred inflow of resources | 173,569     | 265,118     |
| **NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | $ 2,556,394 | $ 3,325,937 |

There were no significant noncash investing, capital and financing activities during the fiscal year ended June 30, 2019 and 2018.
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. 61. 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, deferred outflows of resources liabilities, deferred inflows of resources, 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 Change 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.
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 Change 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.
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 acquisition 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
- **Telemetering 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.
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 2019, 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, 2019 compensated absences payable in the amount of $1,181,489 was included as long-term liabilities.

**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, 2019, 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.
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 Change 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).

**Fair Value Measurements**

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

- **Level 1** - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

- **Level 2** - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in markets that are inactive;
  - Inputs other than quoted prices that are observable for the asset or liability;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- **Level 3** - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect the District’s own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the District’s own data.
1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

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, 2017
- Measurement Date (MD)    June 30, 2018
- Measurement Period (MP)  June 30, 2017 to June 30, 2018

**Other Postemployment Benefits (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District’s plan (OPEB Plan), the assets of which are held by the Public Agency Retirement System (PARS), and additions to/deductions from the OPEB Plan’s fiduciary net position have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.
1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>June 30, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measurement Date</td>
<td>June 30, 2018</td>
</tr>
<tr>
<td>Measurement Period</td>
<td>July 1, 2017 to June 30, 2018</td>
</tr>
</tbody>
</table>

**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 District has two items that qualify for reporting in this category, deferred outflow of resources for pension and deferred outflow of resources for OPEB.

**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 District has two items that qualify for reporting in this category, deferred inflow of resources for pension and deferred inflow of resources for OPEB.

**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.
2. **CASH AND INVESTMENTS**

**Cash and Investments**

Cash and investments as of June 30, 2019 are reported in the accompanying financial statements as follows:

<table>
<thead>
<tr>
<th>Financial Statement Classification:</th>
<th>Unrestricted:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cash and investments $ 27,537,878</td>
</tr>
<tr>
<td>Restricted:</td>
<td></td>
</tr>
<tr>
<td>Cash and investments</td>
<td>19,747,091</td>
</tr>
<tr>
<td>Total</td>
<td>$ 47,284,969</td>
</tr>
</tbody>
</table>

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

- Cash on hand $ 3,200
- Deposits 2,137,362
- Investments 45,144,407
- Total cash and investments $ 47,284,969

**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.
### 2. Cash and Investments (Continued)

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

*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.
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, 2019:
2. **CASH AND INVESTMENTS (Continued)**

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Minimum Rating</th>
<th>12 Months or Less</th>
<th>12 - 24 Months</th>
<th>25 - 60 Months</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Government</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sponsored Agency Securities</td>
<td>N/A</td>
<td>$17,181,228</td>
<td>-</td>
<td>-</td>
<td>17,181,228</td>
</tr>
<tr>
<td>United States Treasury Notes</td>
<td>N/A</td>
<td>2,355,929</td>
<td>6,307,680</td>
<td>-</td>
<td>8,663,609</td>
</tr>
<tr>
<td>Corporate Notes</td>
<td>AA</td>
<td>1,001,894</td>
<td>-</td>
<td>-</td>
<td>1,001,894</td>
</tr>
<tr>
<td>Supranational Obligations</td>
<td>AA</td>
<td>1,200,862</td>
<td>-</td>
<td>-</td>
<td>1,200,862</td>
</tr>
<tr>
<td>Local Agency Investment Fund</td>
<td></td>
<td>1,120,590</td>
<td>-</td>
<td>-</td>
<td>1,120,590</td>
</tr>
</tbody>
</table>

**Total**                                        |                |                   |                |               | 45,144,407   |

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:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Minimum Rating</th>
<th>Legal Rating</th>
<th>Aaa</th>
<th>AA - A</th>
<th>Unrated</th>
<th>Exempt</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Government</td>
<td>N/A</td>
<td>AA</td>
<td>Aaa</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>17,181,228</td>
</tr>
<tr>
<td>United States Treasury Notes</td>
<td>N/A</td>
<td>AA</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>9,610,995</td>
</tr>
<tr>
<td>Corporate Notes</td>
<td>AA</td>
<td>AA</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8,663,609</td>
</tr>
<tr>
<td>Supranational Obligations</td>
<td>AA</td>
<td>AA</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,001,894</td>
</tr>
<tr>
<td>Local Agency Investment Fund</td>
<td>N/A</td>
<td>AA</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>7,566,091</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>Aaa</td>
<td>Aaa</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,120,590</td>
</tr>
</tbody>
</table>

**Total**                                        |                |              |     |        |         |        | 45,144,407   |
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:

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Investment Type</th>
<th>June 30, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal National Mortgage</td>
<td>United States Government</td>
<td>$5,423,835</td>
</tr>
<tr>
<td>Association</td>
<td>Sponsored Agency Securities</td>
<td></td>
</tr>
<tr>
<td>Federal Home Loan Mortgage</td>
<td>United States Government</td>
<td>2,435,376</td>
</tr>
<tr>
<td>Corporation</td>
<td>Sponsored Agency Securities</td>
<td></td>
</tr>
<tr>
<td>Federal Home Loan Bank</td>
<td>United States Government</td>
<td>998,804</td>
</tr>
<tr>
<td></td>
<td>Sponsored Agency Securities</td>
<td></td>
</tr>
</tbody>
</table>

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 at fair value.
2. **CASH AND INVESTMENTS (Continued)**

**Fair Value Measurement**

The District categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The District has the following recurring fair value measurements as of June 30, 2019:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Government</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sponsored Agency Securities</td>
<td>$</td>
<td>17,181,228</td>
<td>-</td>
<td>17,181,228</td>
</tr>
<tr>
<td>United States Treasury Notes</td>
<td>-</td>
<td>9,610,995</td>
<td>-</td>
<td>9,610,995</td>
</tr>
<tr>
<td>Corporate Notes</td>
<td>-</td>
<td>8,663,609</td>
<td>-</td>
<td>8,663,609</td>
</tr>
<tr>
<td>Supranational Obligations</td>
<td>-</td>
<td>1,001,894</td>
<td>-</td>
<td>1,001,894</td>
</tr>
<tr>
<td>Total Investments</td>
<td>$</td>
<td>36,457,726</td>
<td>-</td>
<td>36,457,726</td>
</tr>
</tbody>
</table>
3. **CAPITAL ASSETS**

Changes in capital assets for the year ended June 30, 2019 are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance at July 1, 2018</th>
<th>Additions</th>
<th>Deletions</th>
<th>Balance at June 30, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital assets, not being depreciated</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$2,627,709</td>
<td>$2,520,291</td>
<td>-</td>
<td>$5,148,000</td>
</tr>
<tr>
<td>Water rights</td>
<td>6,638</td>
<td></td>
<td></td>
<td>6,638</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>6,282,459</td>
<td>13,677,523</td>
<td>(13,182,837)</td>
<td>6,777,145</td>
</tr>
<tr>
<td><strong>Total capital assets, not being depreciated</strong></td>
<td>$8,916,806</td>
<td>16,197,814</td>
<td>(13,182,837)</td>
<td>$11,931,783</td>
</tr>
<tr>
<td><strong>Capital assets, being depreciated</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Master plan</td>
<td>1,167,489</td>
<td></td>
<td></td>
<td>1,167,489</td>
</tr>
<tr>
<td>Terminal storage</td>
<td>26,128,123</td>
<td></td>
<td></td>
<td>26,128,123</td>
</tr>
<tr>
<td>Pumping equipment</td>
<td>17,882,584</td>
<td>482,535</td>
<td></td>
<td>18,365,119</td>
</tr>
<tr>
<td>Transmission and distribution</td>
<td>120,395,900</td>
<td>4,682,227</td>
<td></td>
<td>125,078,127</td>
</tr>
<tr>
<td>PWR capacity</td>
<td>927,744</td>
<td>346,292</td>
<td></td>
<td>1,274,036</td>
</tr>
<tr>
<td>Hydroelectric</td>
<td>665,393</td>
<td></td>
<td></td>
<td>665,393</td>
</tr>
<tr>
<td>Recycled water system</td>
<td>27,258,471</td>
<td>8,799</td>
<td>(22,334)</td>
<td>27,244,936</td>
</tr>
<tr>
<td>General plant</td>
<td>6,221,477</td>
<td>5,153,318</td>
<td>(93,224)</td>
<td>11,281,571</td>
</tr>
<tr>
<td><strong>Total capital assets, being depreciated</strong></td>
<td>$200,647,181</td>
<td>10,673,171</td>
<td>(115,558)</td>
<td>$211,204,794</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Master plan</td>
<td>(1,103,858)</td>
<td>(34,723)</td>
<td>-</td>
<td>(1,138,581)</td>
</tr>
<tr>
<td>Terminal storage</td>
<td>(20,123,211)</td>
<td>(871,301)</td>
<td>-</td>
<td>(20,994,512)</td>
</tr>
<tr>
<td>Pumping equipment</td>
<td>(9,661,880)</td>
<td>(569,792)</td>
<td>-</td>
<td>(10,231,672)</td>
</tr>
<tr>
<td>Transmission and distribution</td>
<td>(58,733,705)</td>
<td>(2,339,991)</td>
<td>-</td>
<td>(61,073,696)</td>
</tr>
<tr>
<td>PWR capacity</td>
<td>(549,833)</td>
<td>(375,365)</td>
<td>-</td>
<td>(925,198)</td>
</tr>
<tr>
<td>Hydroelectric</td>
<td>(504,922)</td>
<td>(17,653)</td>
<td>-</td>
<td>(522,575)</td>
</tr>
<tr>
<td>Recycled water system</td>
<td>(10,029,453)</td>
<td>(557,182)</td>
<td>22,334</td>
<td>(10,564,301)</td>
</tr>
<tr>
<td>General plant</td>
<td>(4,497,064)</td>
<td>(453,902)</td>
<td>93,224</td>
<td>(4,857,742)</td>
</tr>
<tr>
<td><strong>Total accumulated depreciation</strong></td>
<td>(105,203,926)</td>
<td>(5,219,909)</td>
<td>115,558</td>
<td>(110,308,277)</td>
</tr>
<tr>
<td><strong>Total capital assets, being depreciated, net</strong></td>
<td>$95,443,255</td>
<td>5,453,262</td>
<td>-</td>
<td>$100,896,517</td>
</tr>
<tr>
<td><strong>Total capital assets, net</strong></td>
<td>$104,360,061</td>
<td>21,651,076</td>
<td>(13,182,837)</td>
<td>$112,828,300</td>
</tr>
</tbody>
</table>
4. **LONG-TERM DEBT**

The change in long-term debt for the year ended June 30, 2019, is as follows:

<table>
<thead>
<tr>
<th>Compensated absences</th>
<th>Balance July 1, 2018</th>
<th>Additions</th>
<th>Retirements</th>
<th>Balance June 30, 2019</th>
<th>Due Within One Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Installment purchase contract</td>
<td>1,187,156</td>
<td>301,759</td>
<td>(307,426)</td>
<td>1,181,489</td>
<td>305,958</td>
</tr>
<tr>
<td>Unamortized premium</td>
<td>15,355,000</td>
<td>-</td>
<td>(465,000)</td>
<td>14,890,000</td>
<td>490,000</td>
</tr>
<tr>
<td>Total long-term debt</td>
<td>2,133,382</td>
<td>-</td>
<td>(107,116)</td>
<td>2,026,266</td>
<td>-</td>
</tr>
</tbody>
</table>

**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.

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.
4. **LONG-TERM DEBT (Continued)**

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

<table>
<thead>
<tr>
<th>Year Ending</th>
<th>Principal</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>$ 490,000</td>
<td>744,500</td>
</tr>
<tr>
<td>2021</td>
<td>510,000</td>
<td>720,000</td>
</tr>
<tr>
<td>2022</td>
<td>535,000</td>
<td>694,500</td>
</tr>
<tr>
<td>2023</td>
<td>565,000</td>
<td>667,750</td>
</tr>
<tr>
<td>2024</td>
<td>595,000</td>
<td>639,500</td>
</tr>
<tr>
<td>2025-2029</td>
<td>3,435,000</td>
<td>2,722,000</td>
</tr>
<tr>
<td>2030-2034</td>
<td>4,390,000</td>
<td>1,772,250</td>
</tr>
<tr>
<td>2035-2038</td>
<td>4,370,000</td>
<td>559,500</td>
</tr>
<tr>
<td><strong>Total Payments</strong></td>
<td><strong>$ 14,890,000</strong></td>
<td><strong>8,520,000</strong></td>
</tr>
</tbody>
</table>

5. **PENSION PLAN**

**Plan Description**

All qualified permanent and probationary employees are eligible to participate in the District’s 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. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**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.
5. **PENSION PLAN (Continued)**

The Plans’ provisions and benefits in effect at June 30, 2019, are summarized as follows:

<table>
<thead>
<tr>
<th>Hire date</th>
<th>Tier 1</th>
<th>Tier 2</th>
<th>PER L</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before 10/01/2010</td>
<td>2.7 % @55</td>
<td>2.0% @55</td>
<td>2.0% @62</td>
</tr>
<tr>
<td>On or after 10/01/2010, before 01/01/2013</td>
<td>5 years service</td>
<td>5 years service</td>
<td>5 years service</td>
</tr>
<tr>
<td>On or after 01/01/2013</td>
<td>Minimum age 50</td>
<td>Minimum age 50</td>
<td>Minimum age 52</td>
</tr>
</tbody>
</table>

**Contribution Description**

Section 20814(c) of the California Public Employees’ Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

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

The June 30, 2017 valuation was rolled forward to determine the June 30, 2018 total pension liability, based on the following actuarial methods and assumptions:
5. **PENSION PLAN (Continued)**

<table>
<thead>
<tr>
<th>Actuarial Cost Method</th>
<th>Entry Age Normal in accordance with the requirements of GASB Statement No. 68</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Actuarial Assumptions</strong></td>
<td></td>
</tr>
<tr>
<td>Discount Rate</td>
<td>7.15%</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.50%</td>
</tr>
<tr>
<td>Salary Increases</td>
<td>Varies by Entry Age and Service</td>
</tr>
<tr>
<td>Mortality Rate Table¹</td>
<td>Derived using CalPERS’ Membership Data for all funds</td>
</tr>
<tr>
<td>Post Retirement Benefit Increase</td>
<td>Contract COLA up to 2.0% until Purchasing Power Protection Allowance, 2.50% thereafter</td>
</tr>
</tbody>
</table>

¹The mortality table used was developed based on CalPERS’ specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP2016. For more details on this table, please refer to the 2017 experience study report.

All other actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report may be accessed on the CalPERS website at [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

**Discount Rate**

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

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 (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds’ asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF 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
5. **PENSION PLAN (Continued)**

was then set equal 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. The target allocation shown was adopted by the Board effective on July 1, 2015.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>New Strategic Allocation</th>
<th>Real Return Years 1 - 10&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Real Return Years 11+&lt;sup&gt;2&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equity</td>
<td>47.0%</td>
<td>4.90%</td>
<td>5.38%</td>
</tr>
<tr>
<td>Global Fixed Income</td>
<td>19.0</td>
<td>0.80</td>
<td>2.27</td>
</tr>
<tr>
<td>Inflation Sensitive</td>
<td>6.0</td>
<td>0.60</td>
<td>1.39</td>
</tr>
<tr>
<td>Private Equity</td>
<td>12.0</td>
<td>6.60</td>
<td>6.63</td>
</tr>
<tr>
<td>Real Estate</td>
<td>11.0</td>
<td>2.80</td>
<td>5.21</td>
</tr>
<tr>
<td>Infrastructure and Forestland</td>
<td>3.0</td>
<td>3.90</td>
<td>5.36</td>
</tr>
<tr>
<td>Liquidity</td>
<td>2.0</td>
<td>(0.40)</td>
<td>(0.90)</td>
</tr>
</tbody>
</table>

<sup>1</sup>An expected inflation of 2.5% used for this period  
<sup>2</sup>An expected inflation of 3.0% used for this period

**Allocation of Net Pension Liability and Pension Expense to Individual Employers**

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

<table>
<thead>
<tr>
<th>Increase (Decrease)</th>
<th>Total Pension Liability (a)</th>
<th>Plan Fiduciary Net Position (b)</th>
<th>Net Pension Liability (c) = (a) - (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Balance at: 6/30/2017 (VD)</td>
<td>49,761,811</td>
<td>36,367,186</td>
</tr>
<tr>
<td></td>
<td>Balance at: 6/30/2018 (MD)</td>
<td>51,943,674</td>
<td>38,787,308</td>
</tr>
<tr>
<td></td>
<td>Net Changes during 2017-18</td>
<td>2,181,863</td>
<td>2,420,122</td>
</tr>
</tbody>
</table>

The District’s net pension liability for the plan is measured as the proportionate share of the net pension liability. The net pension liability of the plan is measured as of June 30, 2018, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The District’s proportion of the net pension liability was based on a projection of the District’s long term share of
5. **PENSION PLAN (Continued)**

contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District’s proportionate share of the net pension liability for the plan as of June 30, 2017 and 2018 was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Miscellaneous Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion – June 30, 2017</td>
<td>0.311%</td>
</tr>
<tr>
<td>Proportion – June 30, 2018</td>
<td>0.308%</td>
</tr>
<tr>
<td>Change – Increase (Decrease)</td>
<td>(0.003)%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Discount Rate – 1% (6.15%)</th>
<th>Current Discount Rate (7.15%)</th>
<th>Discount Rate + 1% (8.15%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan’s Net Pension Liability</td>
<td>$20,182,848</td>
<td>13,156,366</td>
<td>7,356,120</td>
</tr>
</tbody>
</table>

**Subsequent Events**

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

**Amortization of Deferred Outflows and Deferred Inflows of Resources**

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

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows to be recognized in future pension expense.
5. **PENSION PLAN (Continued)**

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amortization Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net difference between projected and actual earnings on pension plan investments</td>
<td>5 year straight-line amortization</td>
</tr>
<tr>
<td>All other amounts</td>
<td>Straight-line amortization over the expected average remaining service lifetime (EARSL of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.</td>
</tr>
</tbody>
</table>

The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments is amortized over a five-year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period, and the remaining Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments at the measurement date is to be amortized over the remaining four-year period. The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments in the Schedule of Collective Pension Amounts represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

Deferred outflows of resources and deferred inflows of resources relating to Differences Between Expected and Actual Experience, Changes of Assumptions and employer-specific amounts should be amortized over the EARSL of members provided with pensions through the Plan. The EARSL for the Plan for the June 30, 2018 measurement date is 3.8 years, which was obtained by dividing the total services years by the total number of participants (active, inactive, and retired) in the Plan. Inactive employees and retirees have remaining service lifetimes equal to 0. 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, 2019, the District recognized pension expense of $1,953,738.
5. **PENSION PLAN (Continued)**

As of June 30, 2019, the District reports deferred outflow and deferred inflow of resources related to pensions as follows:

<table>
<thead>
<tr>
<th>Differences between Expected and Actual Experience</th>
<th>Deferred Outflows of Resources</th>
<th>Deferred Inflows of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes of Assumptions</td>
<td>$ 504,787</td>
<td>171,776</td>
</tr>
<tr>
<td>Differences between Projected and Actual Investment Earnings Adjustment due to Differences in Proportions</td>
<td>1,499,856</td>
<td>367,588</td>
</tr>
<tr>
<td>Change in Employer's Proportions</td>
<td>65,042</td>
<td>-</td>
</tr>
<tr>
<td>Differences between Employer's Contributions and Proportionate Share of Contributions</td>
<td>148,975</td>
<td>72,154</td>
</tr>
<tr>
<td>Pension Contributions Made Subsequent to Measurement Date</td>
<td>-</td>
<td>411,318</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 1,306,264</td>
<td>1,022,836</td>
</tr>
</tbody>
</table>

The $1,306,264 reported as contributions made subsequent to the measurement date will be recognized as a reduction of net pension liability for the fiscal year ending June 30, 2020. Amounts reported as deferred outflows and deferred inflows of resources in the previous chart, including the employer-specific item, will be recognized in future pension expense as follows:

<table>
<thead>
<tr>
<th>Measurement period Ended June 30:</th>
<th>Deferred Outflows/(Inflows) of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$ 1,179,890</td>
</tr>
<tr>
<td>2020</td>
<td>612,985</td>
</tr>
<tr>
<td>2021</td>
<td>(478,709)</td>
</tr>
<tr>
<td>2022</td>
<td>(118,342)</td>
</tr>
</tbody>
</table>
6. 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.

Employees Covered

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

- Active employees: 54
- Inactive employees or beneficiaries currently receiving benefits: 40
- Inactive employees entitled to, but not yet receiving benefits: -
- Total: 94

Contributions

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. For the fiscal year ended June 30, 2019, the District’s cash contributions were $1,089,731 in payments to the trust and the estimated implied subsidy was $102,000. In addition, the District contributed $598,001 of its funds in the form of retiree payments paid by the District for retirees for total payments of $1,789,732.

Net OPEB Liability

The District’s net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2018, based on the following actuarial methods and assumptions:
6. OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)

<table>
<thead>
<tr>
<th>Actuarial Cost Method:</th>
<th>Entry Age Normal</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Actuarial Assumptions:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount Rate</td>
<td>6.25%</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.75%</td>
</tr>
<tr>
<td>Salary Increases</td>
<td>3.25% per annum, including inflation</td>
</tr>
<tr>
<td>Investment Rate of Return</td>
<td>6.25%, net of OPEB plan investment expense, including inflations</td>
</tr>
<tr>
<td>Mortality Rate&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>Derived from the 2014 CalPERS OPEB Assumptions Model</td>
</tr>
<tr>
<td>Pre-Retirement Turnover&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>Derived using CalPERS’ Membership Data for all funds</td>
</tr>
<tr>
<td>Healthcare Trend Rate</td>
<td>Medical premiums assumed to increase 5.5% in 2018, and 5% in 2019 and all later years. Dental and vision premiums are assumed to increase 4% per year. Medicare Part B premiums are assumed to increase 3% per year after 2018.</td>
</tr>
</tbody>
</table>

Notes:

<sup>(1)</sup> Pre-retirement mortality information was derived from data collected during 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality information was derived from the 2007 to 2011 CalPERS Experience Study. The Experience Study Reports may be accessed on the CalPERS website [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

<sup>(2)</sup> The pre-retirement turnover information was developed based on CalPERS’ specific data. For more details, please refer to the 2007 to 2011 Experience Study Report. The Experience Study Report may be accessed on the CalPERS website [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

**Discount Rate**

The long-term expected rate of return on OPEB plan investments was 6.25%, which was PARS’ mean estimate of long-term investment returns on its OPEB portfolio. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan’s target allocation as of June 30, 2018 are summarized in the following table.
6. **OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)**

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

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation</th>
<th>Long-Term expected real rate of return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Income</td>
<td>35.0%</td>
<td>1.75%</td>
</tr>
<tr>
<td>Equities</td>
<td>60.0%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Cash</td>
<td>5.0%</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td></td>
</tr>
</tbody>
</table>

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

**Changes in the OPEB Liability**

The changes in the net OPEB liability for the Plan are as follows:

<table>
<thead>
<tr>
<th>Increase (Decrease )</th>
<th>Total OPEB Liability</th>
<th>Plan Fiduciary Net position</th>
<th>Net OPEB Liability/(Asset)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>(b)</td>
<td>(c) = (a) - (b)</td>
<td></td>
</tr>
</tbody>
</table>

Balance at June 30, 2018

<table>
<thead>
<tr>
<th>Increase (Decrease )</th>
<th>Total OPEB Liability</th>
<th>Plan Fiduciary Net position</th>
<th>Net OPEB Liability/(Asset)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>(b)</td>
<td>(c) = (a) - (b)</td>
<td></td>
</tr>
</tbody>
</table>

Changes recognized for the measurement period:

- Service cost: 207,344
- Interest: 912,011
- Differences between actual and expected experience: 261,666
- Changes of assumptions: 479,432
- Contributions - employer: 1,684,754
- Net investment income: 494,962
- Benefit payments: -
- Administrative expense: -
- Net Changes: 1,271,559

Balance at June 30, 2019

<table>
<thead>
<tr>
<th>Increase (Decrease )</th>
<th>Total OPEB Liability</th>
<th>Plan Fiduciary Net position</th>
<th>Net OPEB Liability/(Asset)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>(b)</td>
<td>(c) = (a) - (b)</td>
<td></td>
</tr>
</tbody>
</table>

$15,640,256 $9,414,885 $6,225,371
6. **OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)**

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

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

<table>
<thead>
<tr>
<th></th>
<th>1% Decrease (5.25%)</th>
<th>Current Discount Rate (6.25%)</th>
<th>1% Increase (7.25%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net OPEB Liability</td>
<td>$8,601,645</td>
<td>$6,225,371</td>
<td>$4,297,109</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th></th>
<th>1% Decrease (4.00%HMO/ PPO)</th>
<th>Current Healthcare Cost Trend Rates (5.00%HMO/ PPO)</th>
<th>1% Increase (6.00%HMO/ PPO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net OPEB Liability</td>
<td>$4,190,963</td>
<td>$6,225,371</td>
<td>$8,750,726</td>
</tr>
</tbody>
</table>

**OPEB Plan Fiduciary Net Position**

The PARS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the Public Agency Retirement Services, 4350 Von Karman Avenue, Newport Beach, CA, 90620.

**Recognition of Deferred Outflows and Deferred Inflows of Resources**

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.
6. **OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)**

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

| Net difference between projected and actual earnings on OPEB plan investments | 5 years |
| All other amounts | Expected average remaining service lifetime (EARSL) |

**OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB**

<table>
<thead>
<tr>
<th>Description</th>
<th>Deferred Outflows of Resources</th>
<th>Deferred Inflows of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes of assumptions</td>
<td>$437,377</td>
<td>-</td>
</tr>
<tr>
<td>Differences between expected and actual experiences</td>
<td>238,713</td>
<td>-</td>
</tr>
<tr>
<td>Net difference between projected and actual investment earnings</td>
<td>9,630</td>
<td>140,075</td>
</tr>
<tr>
<td>Contributions subsequent to measurement date</td>
<td>1,789,732</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,475,452</strong></td>
<td><strong>140,075</strong></td>
</tr>
</tbody>
</table>

For the fiscal year ended June 30, 2019, the District recognized OPEB expense of $633,079. As of fiscal year ended June 30, 2019, the District reported deferred outflows of resources related to OPEB from the following sources:
6. **OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)**

The $1,789,452 reported as deferred outflows of resources related to the contributions subsequent to the June 30, 2018 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2020. Amounts reported as deferred outflows and deferred inflows of resources in the previous chart, including the employer-specific item, will be recognized in future OPEB expense as follows:

<table>
<thead>
<tr>
<th>Fiscal Year Ended June 30:</th>
<th>Deferred Outflows/(Inflows) of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>$ 20,723</td>
</tr>
<tr>
<td>2021</td>
<td>20,723</td>
</tr>
<tr>
<td>2022</td>
<td>20,724</td>
</tr>
<tr>
<td>2023</td>
<td>67,417</td>
</tr>
<tr>
<td>2024</td>
<td>65,008</td>
</tr>
<tr>
<td>Thereafter</td>
<td>351,050</td>
</tr>
</tbody>
</table>

7. **DEPOSITS**

Deposits have been received for:

- Customer deposits for water service $ 1,707,131
- Meters and other construction $ 107,484
- Total deposits $ 1,814,615

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, 2019, 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
8. **JOINT POWERS INSURANCE AUTHORITY (Continued)**

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 up to $5,000,000 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 $5,000,000 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 $5,000,000 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
9. **JOINT VENTURES (Continued)**

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.

The Walnut Valley Water District performs the administration and operating functions of the Agency. The District purchased $10,567,380 in water from the Agency in the year ended June 30, 2019.

**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.

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.

**Spadra Basin Groundwater Sustainability Agency**

The District is a member of the Spadra Basin Groundwater Sustainability Agency (the "Spadra"). Spadra was created February 28, 2017 by the execution of an agreement between the City of Pomona and the Walnut Valley Water District. The agreement was made pursuant to the Sustainable Groundwater Management Act of 2014 of the Government Code of the State of California. Spadra was organized to provide groundwater management for the Spadra Basin, which was previously unmanaged. Spadra is governed by an appointed Executive Committee consisting of two members.
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.

11. **ACREAGE AND WATER 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 and a water supply charge which is computed at a per-acre rate. The acreage supply charge is $1,465 per acre, with a minimum parcel charge of $50. The water supply charge is $2,810 per acre multiplied by project demands.

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 2017, 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.
13. **NET POSITION**

**Restricted Net Position**

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, 2019:

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Restricted Use</th>
<th>Restricted Assets</th>
<th>Restricted Liabilities</th>
<th>Restricted Net Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reservoir Capacity Charge</td>
<td>Construction of water storage facilities</td>
<td>$3,186,242</td>
<td>-</td>
<td>3,186,242</td>
</tr>
<tr>
<td>Acreage Supply Charge</td>
<td>Construction of water storage facilities</td>
<td>1,842,378</td>
<td>-</td>
<td>1,842,378</td>
</tr>
<tr>
<td>Investment in Joint Venture</td>
<td>PBWA</td>
<td>16,642,575</td>
<td>-</td>
<td>16,642,575</td>
</tr>
<tr>
<td>Investment in Joint Venture</td>
<td>Spadra Basin</td>
<td>2,500</td>
<td>-</td>
<td>2,500</td>
</tr>
<tr>
<td>Badillo Grand Surcharge</td>
<td>Repair and maintenance of the Badillo Grand Line</td>
<td>296,894</td>
<td>11,712</td>
<td>285,182</td>
</tr>
<tr>
<td>Deposits from Customers</td>
<td>Water Deposits</td>
<td>1,795,181</td>
<td>1,795,181</td>
<td>-</td>
</tr>
<tr>
<td>Deposit from Developers</td>
<td>Construction of Capital Facilities</td>
<td>8,132,809</td>
<td>8,132,809</td>
<td>-</td>
</tr>
<tr>
<td>Revenue Bonds</td>
<td>2013 Series A Revenue Bonds</td>
<td>2,310,844</td>
<td>2,300,072</td>
<td>10,772</td>
</tr>
<tr>
<td>Water Supply Charge</td>
<td>Construction of water storage facilities</td>
<td>2,193,515</td>
<td>-</td>
<td>2,193,515</td>
</tr>
</tbody>
</table>

**Total reserves** $36,402,938

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

**Unrestricted Net Position**

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, 2019 consisted of:

<table>
<thead>
<tr>
<th>June 30, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating reserve</td>
</tr>
<tr>
<td>Replacement</td>
</tr>
<tr>
<td>Capital improvements</td>
</tr>
<tr>
<td>Employee liabilities</td>
</tr>
<tr>
<td>Rate stabilization</td>
</tr>
<tr>
<td>Project Reserve</td>
</tr>
<tr>
<td>Badillo Grand catastrophic insurance</td>
</tr>
</tbody>
</table>

Total reserves $21,305,284
14. **COMMITMENTS AND CONTINGENT LIABILITIES**

Construction commitments as of June 30, 2019 are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Contract Amount</th>
<th>Expended to Date</th>
<th>Remaining Balance</th>
<th>Funding Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Casing Extension @ Grand Ave/Route 10</td>
<td>$49,656</td>
<td>$17,509</td>
<td>32,147</td>
<td>Developer</td>
</tr>
<tr>
<td>Industry Business Center-East/West</td>
<td>1,530,091</td>
<td>970,180</td>
<td>559,911</td>
<td>Developer</td>
</tr>
<tr>
<td>8” R/W Main Loop on Lemon Ave.</td>
<td>318,185</td>
<td></td>
<td>318,185</td>
<td>Replacement</td>
</tr>
<tr>
<td>Total</td>
<td><strong>$1,897,932</strong></td>
<td><strong>987,689</strong></td>
<td><strong>910,243</strong></td>
<td></td>
</tr>
</tbody>
</table>

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.
REQUIRED SUPPLEMENTARY INFORMATION
WALNUT VALLEY WATER DISTRICT

Required Supplementary Information

Schedule of Pension Plan Contributions

LAST TEN FISCAL YEARS*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of the Collective Net Pension Liability</td>
<td>0.30750%</td>
<td>0.31069%</td>
<td>0.31394%</td>
<td>0.31285%</td>
<td>0.11033%</td>
</tr>
<tr>
<td>Proportionate Share of the Collective Net Pension Liability</td>
<td>$13,156,366</td>
<td>$13,394,625</td>
<td>$11,587,515</td>
<td>$8,978,245</td>
<td>$6,865,131</td>
</tr>
<tr>
<td>Covered Payroll</td>
<td>$4,910,186</td>
<td>$4,830,559</td>
<td>$4,211,665</td>
<td>$4,513,309</td>
<td>$4,450,159</td>
</tr>
<tr>
<td>Proportionate Share of the Collective Net Pension Liability as a Percentage of Covered Payroll</td>
<td>267.94%</td>
<td>277.29%</td>
<td>275.13%</td>
<td>198.92%</td>
<td>154.26%</td>
</tr>
<tr>
<td>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</td>
<td>77.69%</td>
<td>73.08%</td>
<td>77.51%</td>
<td>80.92%</td>
<td>83.03%</td>
</tr>
</tbody>
</table>

Notes to Schedule:

Benefit changes. There were no changes to benefit terms that applied to all members of the Public Agency Pool. However, individual employers in the Plan may have provided a benefit improvement to their employees by granting Two Years Additional Service Credit to member retiring during a specified time period (a.k.a. Golden Handshakes).

Changes of assumptions. In 2015, the discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense. In 2017, the discount rate was changed from 7.65 percent to 7.15 percent. In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017.

*Fiscal year 2015 was the first year of implementation, therefore only five years are shown.*
WALNUT VALLEY WATER DISTRICT

Required Supplementary Information

Schedule of Pension Plan Contributions

Notes to Schedule

Valuation Date: 6/30/2017

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method  
Amortization Method  
Asset Valuation Method  
Discount Rate  
Projected Salary Increase  
Inflation  
Payroll Growth  
Individual Salary Growth

*Fiscal year 2015 was the first year of implementation; therefore, only five years are shown.
**Notes to schedule**

**Changes in assumptions:** In 2018, the discount rate was changed from 6.48 percent to 6.25 percent to reflect changes in the expected returns of the underlying investment classes.

Historical information is required for measurement periods for which GASB 75 is applicable. Future years’ information will be displayed up to 10 years as information becomes available.
WALNUT VALLEY WATER DISTRICT

Required Supplementary Information

Schedule of OPEB Contributions

**LAST TEN FISCAL YEARS**

<table>
<thead>
<tr>
<th>Fiscal Year Ended June 30</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarially Determined Contribution (ADC)</td>
<td>$1,684,754</td>
<td>$1,662,734</td>
</tr>
<tr>
<td>Contributions in relation to the ADC</td>
<td>$(1,789,732)</td>
<td>$(1,703,516)</td>
</tr>
<tr>
<td>Contribution deficiency (excess)</td>
<td>$(104,978)</td>
<td>$(40,782)</td>
</tr>
<tr>
<td>Covered-employee payroll</td>
<td>$4,905,666</td>
<td>$4,900,008</td>
</tr>
<tr>
<td>Contributions as a percentage of covered-employee payroll</td>
<td>36.48%</td>
<td>34.77%</td>
</tr>
</tbody>
</table>

**Notes to Schedule**

Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2019 were from the June 30, 2016 actuarial valuation.

Methods and assumptions used to determine contributions:

- Actuarial Cost Method: Entry Age Normal
- Asset Valuation Method: Market value
- Inflation: 3.00%
- Salary Increases: 3.25% per annum, in aggregate
- Investment Rate of Return: 6.25% per annum net of OPEB plan investment
- Healthcare cost-trend rates: 5% in 2019 and all later years
  - Dental and vision premiums are assumed to increase 4% per year
  - Medicare Part B premiums are assumed to increase 3% after 2018

*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.*
SELECTED STATISTICAL INFORMATION
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 470 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 27,000 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 40 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.
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 57 employees on June 30, 2019 consisting of 23 operations, 24 office and engineering persons, 9 managerial staff, and 1 part-time student intern. 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:

<table>
<thead>
<tr>
<th>Name</th>
<th>Board Member</th>
<th>Officer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jerry Tang</td>
<td>Member</td>
<td>Director</td>
</tr>
<tr>
<td>Theresa Lee</td>
<td>Member</td>
<td>First Vice President</td>
</tr>
<tr>
<td>Scarlett P. Kwong</td>
<td>Member</td>
<td>Second Vice President</td>
</tr>
<tr>
<td>Edwin M. Hilden</td>
<td>Member</td>
<td>President</td>
</tr>
<tr>
<td>Theodore L. Ebenkamp</td>
<td>Member</td>
<td>Assistant Treasurer</td>
</tr>
<tr>
<td>James Ciampa</td>
<td></td>
<td>Legal Counsel</td>
</tr>
<tr>
<td>Erik Hitchman</td>
<td></td>
<td>General Manager/</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chief Engineer</td>
</tr>
<tr>
<td>Brian Teuber</td>
<td></td>
<td>Assistant General Manager</td>
</tr>
</tbody>
</table>
INDEPENDENT ACCOUNTANTS’ REPORT
ON APPLYING AGREED-UPON PROCEDURES

On March 1, 2013, the Puente Basin Water Agency ("Agency") issued 2013 Series A Water Revenue Bonds. The proceeds of the Bonds are to be used to finance certain capital facilities of the Walnut Valley Water District ("District"), as well as finance 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 will make semiannual installment purchase payments that are in line with the debt service requirements of the Bonds. The District is also responsible for satisfying certain other bond covenants associated with the Bonds, including the debt service coverage requirement.

We have performed the procedures enumerated below, which were agreed to by the management of the District, solely to assist the District in reviewing the Debt Service Coverage Calculation for the year ending June 30, 2019 prepared in accordance with the Rate Covenant requirements of the Puente Basin Water Agency 2013 Series A Water Revenue Bonds. The District is responsible for the preparation of the debt service coverage calculation. The sufficiency of these procedures is solely the responsibility of the management of the Walnut Valley Water District. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results of those procedures are as follows:

1. The bond covenants of the Puente Basin Water Agency 2013 Series A Water Revenue Bonds describe the Debt Service Coverage requirement as follows: "...the District will, at all times while any Installment Payments remain Outstanding, to the maximum extent permitted by law, fix, prescribe and collect rates, fees and charges and manage the operation of the Water System for each Fiscal Year so as to yield Net Revenues during such Fiscal Year equal to at least 125% of the Annual Debt Service in such Fiscal Year". Net Revenues were defined in the bond covenants as follows: "...for any period of calculation, all System Revenues during such period less all of the Maintenance and Operation Costs during such period".

We obtained the District’s Debt Service Coverage Calculation for the fiscal year ended June 30, 2019. The Calculation is included as Exhibit 1. We compared the format of the calculation to the requirements as defined in the bond covenants.

Results: We noted no exceptions as a result of our procedures.
2. We obtained the audited financial statements of the District for the year ended June 30, 2019. We compared the financial information presented on the Calculation to the District’s audited financial statements.

Results: We noted no exceptions as a result of our procedures.

3. We reviewed the mathematical accuracy of the Calculation.

Results: We noted no exceptions as a result of our procedures.

4. We compared the Debt Service Coverage percentage as determined by the Calculation for compliance with the Debt Service Coverage percentage requirement as identified in the bond covenants.

Results: We noted no exceptions as a result of our procedures.

5. Legal counsel was consulted regarding the proper application of definitions set forth in the installment purchase agreement with respect to capitalized labor and noncash OPEB accruals.

Results: Legal counsel supported the positions taken in the accompanying computation to exclude capitalized labor and noncash OPEB and pension accruals from the operations and maintenance costs included in the computation.

* * * * *

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the calculation. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of the Walnut Valley Water District and is not intended to be and should not be used by anyone other than those specified parties.

Irvine, California
November 8, 2019
Walnut Valley Water District
Computation of Net Revenue and Revenue Coverage Requirement
PBWA Water Revenue Bonds, 2013 Series A (Walnut Valley Water District Project)

<table>
<thead>
<tr>
<th>FY 2018-19</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue</td>
<td>$ 37,912,508</td>
</tr>
<tr>
<td>Other revenues</td>
<td>2,471,483</td>
</tr>
<tr>
<td>Total System Revenues</td>
<td>40,383,991</td>
</tr>
<tr>
<td>Operations &amp; Maintenance Expenses</td>
<td>(33,550,440)</td>
</tr>
<tr>
<td><strong>NET REVENUE</strong></td>
<td><strong>$ 6,833,551</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ANNUAL DEBT SERVICE REQUIREMENTS:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal</td>
<td>$ 465,000</td>
</tr>
<tr>
<td>Interest</td>
<td>767,750</td>
</tr>
<tr>
<td><strong>ANNUAL DEBT SERVICE REQUIREMENT</strong></td>
<td>1,232,750</td>
</tr>
<tr>
<td><strong>COVERAGE RATIO REQUIRED</strong></td>
<td>125.00%</td>
</tr>
<tr>
<td><strong>TOTAL ANNUAL COVERAGE REQUIREMENT</strong></td>
<td>1,540,938</td>
</tr>
<tr>
<td><strong>LESS NET REVENUE</strong></td>
<td>6,833,551</td>
</tr>
<tr>
<td><strong>EXCESS OF NET REVENUE OVER</strong></td>
<td></td>
</tr>
<tr>
<td><strong>ANNUAL COVERAGE REQUIREMENT</strong></td>
<td><strong>$ 5,292,614</strong></td>
</tr>
<tr>
<td><strong>ACTUAL COVERAGE RATIO</strong></td>
<td>554.33%</td>
</tr>
</tbody>
</table>

Notes:
1. For purposes of the above computation, the cost of retiree health insurance has been included in operations and maintenance costs when premiums are paid by the District. Noncash accruals associated with future payments have not been included in the amount of operations and maintenance costs shown above.

2. For purposes of the above computation, the cost of labor and other costs that have been capitalized as a part of the cost of acquiring capital assets has been excluded from operations and maintenance costs.