

WALNUT VALLEY WATER DISTRICT
FINANCIAL STATEMENTS
For the Year Ended June 30, 2017

(This page intentionally left blank)

WALNUT VALLEY WATER DISTRICT
FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis (Required Supplementary Information)	5
Basic Financial Statements:	
Statement of Net Position	19
Statement of Revenues, Expenses and Change in Net Position	21
Statement of Cash Flows	22
Notes to Basic Financial Statements	25
Required Supplementary Information:	
Schedule of the District's Proportionate Share of the Net Pension Liability	55
Schedule of Plan Contributions	56
Selected Statistical Information:	
Miscellaneous Information	58

(This page intentionally left blank)

Board of Directors
Walnut Valley Water District
Walnut, California

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Walnut Valley Water District ("District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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, 2017 and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the District's 2016 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated December 5, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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 and schedule of plan 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 December 14, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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
December 14, 2017

(This page intentionally left blank)

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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 2017

During the fiscal year ended June 30, 2017, the following highlights affected, or have the potential to affect, the finances of the District.

- The District's net assets increased \$3,581,043.
- During the year, total revenues increased \$82,878, or .02%, while total expenses increased \$1,158,497, or 3.2%.
- Potable Water Sales, excluding wholesale water sales, totaled 15,930 acre-feet in the current fiscal year, increasing 5.2%, or 782 acre-feet from the previous fiscal year.
- Wholesale water sales totaled 1,814 acre-feet, a decrease of 1,416 acre-feet, or 43.8% 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 17,197 acre-feet in the current fiscal year, an increase of 8.1%, or 1,293 acre-feet from the previous year.
- Recycled water sales totaled 2,032 acre-feet in the current fiscal year, increasing 6.3%, or 120 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 \$918 per acre-foot to \$987 per acre-foot, an increase of 7.5%, or \$69 per acre-foot.
- Effective January 2017, the Board of Directors approved a commodity rate increase. Rates for the Residential Tier 1 increased from \$2.85 per unit to \$2.97 per unit, an increase of \$0.12 or 4.2% and the Residential Tier 2 & 3 increased from \$3.25 per unit to \$3.39, an increase of \$0.14, or 4.3%. The rates for the Multi-Family user class were increased from \$3.06 per unit to \$3.19 per unit, an increase of \$0.13 or 4.2%. The rates for the Commercial, Industrial, Government and Irrigation user class were increased from \$3.12 per unit to \$3.25 per unit, an increase of \$0.13 or 4.2%. In addition, the recycled commodity rate increased from \$1.63 per unit to \$1.71, an increase of \$0.08, or 4.9%. 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 \$282,518, due primarily to construction activities related to the construction of several water reliability projects, entered into jointly with the Rowland Water District.
- In accordance with GASB 68, the District's recorded pension liability as of June 30, 2017 was \$11,587,515.

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

Fiscal Year 2016

During the fiscal year ended June 30, 2016, the following highlights impacted, or have the potential to impact, the finances of the District.

- The District's net assets increased \$2,264,065.
- During the year total revenues increased \$1,800,013, or 5.0%, while total expenses increased \$195,274, or .5%.
- Potable Water Sales, excluding wholesale water sales, totaled 15,148 acre-feet in the current fiscal year, decreasing 15.5%, or 2,772 acre-feet from the previous fiscal year.
- Wholesale water sales totaled 3,230 acre-feet, an increase of 1,939 acre-feet, or 150.1% 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 15,905 acre-feet in the current fiscal year, a decrease of 14.8%, or 2,761 acre-feet from the previous year.
- Recycled water sales totaled 1,912 acre-feet in the current fiscal year, decreasing 18.6%, or 438 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 \$899 per acre-foot to \$918 per acre-foot, an increase of 2.1%, or \$19 per acre-foot.
- Effective January 2016, the Board of Directors approved a commodity rate increase. Rates for the Residential Tier 1 increased from \$2.69 per unit to \$2.85 per unit, an increase of \$0.16 or 5.9% and the Residential Tier 2 & 3 increased from \$3.08 per unit to \$3.25, an increase of \$0.17, or 5.5%. The rates for the Multi-Family user class were increased from \$2.89 per unit to \$3.06 per unit, an increase of \$0.17 or 5.8%. The rates for the Commercial, Industrial, Government and Irrigation user class were increased from \$2.95 per unit to \$3.12 per unit, an increase of \$0.17 or 5.7%. In addition, the recycled commodity rate increased from \$1.56 per unit to \$1.63, an increase of \$0.07, or 4.5%. 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 \$3,833,214, due primarily to construction activities related to the construction of several water reliability projects, entered into jointly with the Rowland Water District, as well as the transfer of stored water from the member agencies to Puente Basin Water Agency.
- During the year the District collected \$1,065,457 in annexation fees related to a large development in the District's service area.
- In accordance with GASB 68, the District's recorded pension liability as of June 30, 2016 was \$8,978,245.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

Statement of Net Assets

The Statement of Net Assets presents the District's financial position (assets and liabilities) as of June 30, 2017 and 2016. 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, 2017 and 2016, the District had net assets, assets in excess of liabilities, of 141,066,367 and \$137,485,324, 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, 2017 and 2016 was \$2,020,395 and \$1,818,654. After recognition of non-operating revenues, expenses, and capital contributions, the net increase in net assets for years ending June 30, 2017 and 2016 was \$3,581,043 and \$2,264,065.

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, 2017, cash and cash equivalents totaled \$14,967,204 a decrease of \$2,626,731 from the previous fiscal year.

FINANCIAL ANALYSIS OF THE DISTRICT

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

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

Statements of Net Assets

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

	Fiscal Year 2017	Fiscal Year 2016	Dollar Change	Fiscal Year 2015	Dollar Change
Assets:					
Current Assets	\$ 38,786,390	\$ 38,145,917	\$ 640,473	\$ 40,017,586	\$ (1,871,669)
Restricted Assets	33,766,357	32,640,961	1,125,396	28,878,678	3,762,283
Other Assets	2,186,761	1,289,229	897,532	682,845	606,384
Capital Assets	103,775,678	101,765,353	2,010,325	101,737,519	27,834
Total Assets	<u>178,515,186</u>	<u>173,841,460</u>	<u>4,673,726</u>	<u>171,316,628</u>	<u>2,524,832</u>
Deferred Outflow of Resc.:					
Deferred Pension Contrib.	1,097,578	989,753	107,825	790,287	199,466
Deferred Outflow of Resc.	2,359,902	840,437	1,519,465	208,764	631,673.00
Total Deferred Outflow	<u>3,457,480</u>	<u>1,830,190</u>	<u>1,627,290</u>	<u>999,051</u>	<u>831,139.00</u>
Liabilities:					
Current Liabilities	6,103,722	4,994,685	1,109,037	4,839,933	154,752
Restricted Liabilities	3,912,926	3,792,423	120,503	3,143,742	648,681
Non Current Liabilities	30,165,427	28,063,332	2,102,095	26,641,483	1,421,849
Total Current Liabilities	<u>40,182,075</u>	<u>36,850,440</u>	<u>3,331,635</u>	<u>34,625,158</u>	<u>2,225,282</u>
Deferred Inflow of Resc.:					
Deferred Inflow of Resc.	724,224	1,335,886	(611,662)	2,339,425	(1,003,539.00)
Deferred Inflow - Deferral	-	-	-	129,837	(129,837.00)
Total Deferred Inflow	<u>724,224</u>	<u>1,335,886</u>	<u>(611,662)</u>	<u>2,469,262</u>	<u>(1,133,376.00)</u>
Net Assets:					
Net Investment in Capital Assets	102,444,898	100,431,959	2,012,939	100,288,527	143,432
Restricted	26,408,666	25,114,227	1,294,439	22,127,989	2,986,238
Unrestricted	12,212,803	11,939,138	273,665	12,804,743	(865,605)
Total Net Assets	<u>\$ 141,066,367</u>	<u>\$ 137,485,324</u>	<u>\$ 3,581,043</u>	<u>\$ 135,221,259</u>	<u>\$ 2,264,065</u>

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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 \$141,066,367 and \$137,485,324 for the periods ending June 30, 2017 and 2016, respectively.

The largest component of net assets is the District's net investment in capital assets, which increased slightly over the prior year. Investment in capital assets is presented net of depreciation 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 \$7,519,989, an increase of \$242,071 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, 2017, restricted net assets totaled \$26,408,666, an increase of \$1,294,439, or 5.2% from the prior year. One of the major factors contributing to this increase was the District's investment in the Puente Basin Water Agency (PBWA), which is reflected on the financial statements as restricted asset "Investment in Joint Venture." For the year, the District's investment in the PBWA, attributable to several water reliability projects, increased by \$282,518 over the prior fiscal year. These projects are funded jointly by the Walnut Valley Water District and Rowland Water District through the PBWA.

At the end of fiscal years 2017 and 2018, the District showed a positive balance in its unrestricted net assets of \$12,212,803 and \$11,939,138, respectively, which further demonstrates that the overall health of the District remains very strong.

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

Statements of Revenues, Expenses, and Changes in Net Assets

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

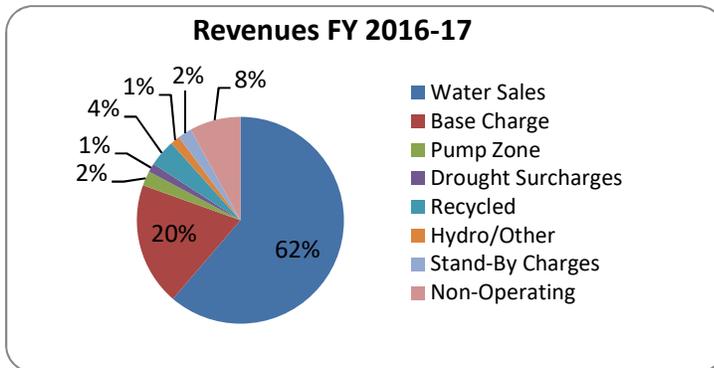
	Fiscal Year 2017	Fiscal Year 2016	Dollar Change	Fiscal Year 2015	Dollar Change
Revenues:					
Operating Revenues	\$ 34,916,303	\$ 33,924,726	\$ 991,577	\$ 33,854,771	\$ 69,955
Non-Operating Revenues	3,027,550	3,936,249	(908,699)	2,206,191	1,730,058
Total Revenues	<u>37,943,853</u>	<u>37,860,975</u>	<u>82,878</u>	<u>36,060,962</u>	<u>1,800,013</u>
Expenses:					
Operating Expenses	31,827,660	30,721,847	1,105,813	30,261,703	460,144
Depreciation	5,109,038	5,021,533	87,505	5,303,916	(282,383)
Non-Operating Expenses	472,146	506,967	(34,821)	489,454	17,513
Total Expenses	<u>37,408,844</u>	<u>36,250,347</u>	<u>1,158,497</u>	<u>36,055,073</u>	<u>195,274</u>
Net Income (Loss)	535,009	1,610,628	(1,075,619)	5,889	1,604,739
Capital Contributions	3,046,034	653,437	2,392,597	1,251,113	(597,676)
Changes in Net Assets	3,581,043	2,264,065	1,316,978	1,257,002	1,007,063
Net Assets, Beg. of Year	137,485,324	135,221,259	2,264,065	145,831,827	(10,610,568)
Prior Period Adjustment (GASB 68)	-	-	-	(11,867,570)	11,867,570
Net Assets, End of Year	<u>\$ 141,066,367</u>	<u>\$ 137,485,324</u>	<u>\$ 3,581,043</u>	<u>\$ 135,221,259</u>	<u>\$ 2,264,065</u>

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

**Table A-3
District Revenues**

	Fiscal Year 2017	Fiscal Year 2016	Dollar Change	Fiscal Year 2015	Dollar Change
Operating Revenues:					
Water Sales	\$ 21,547,547	\$ 19,480,267	\$ 2,067,280	\$ 22,051,074	\$ (2,570,807)
Water Sales (Wholesale)	1,717,089	2,987,014	(1,269,925)	1,158,834	1,828,180
Base Charges (Meter Charges)	7,285,380	7,094,212	191,168	6,676,754	417,458
Pump Zone Charges	869,345	797,989	71,356	945,892	(147,903)
Drought Rate Surcharges	515,085	730,020	(214,935)	-	730,020
Recycled Sales	1,609,661	1,497,329	112,332	1,632,666	(135,337)
Other Fees and Charges	546,368	527,674	18,694	532,051	(4,377)
Hydroelectric Sales	10,534	(10,000)	20,534	31,916	(41,916)
Stand-By Charges	815,294	820,221	(4,927)	825,584	(5,363)
Total Operating Revenues	34,916,303	33,924,726	991,577	33,854,771	69,955
Non-Operating Revenues:					
Investment Income	466,112	434,884	31,228	383,373	51,511
Unrealized Gain/(Loss) on Investments	(539,145)	335,729	(874,874)	(15,524)	351,253
Property Tax Revenue	985,113	943,033	42,080	950,932	(7,899)
Communication Site Leases	277,607	284,011	(6,404)	270,105	13,906
Amount Received for Annexation Fees	-	1,065,457	(1,065,457)	-	1,065,457
Other Revenues	271,604	210,384	61,220	440,930	(230,546)
Share of Joint Venture Income	(8,092)	315,763	(323,855)	4,737	311,026
Restricted Revenues	1,574,351	346,988	1,227,363	171,638	175,350
Total Non-Operating Revenues	3,027,550	3,936,249	(908,699)	2,206,191	1,730,058
Total Revenues	\$ 37,943,853	\$ 37,860,975	\$ 82,878	\$ 36,060,962	\$ 1,800,013

Revenues Fiscal Year 2017



As shown in Table A-3, total revenues for fiscal year 2017 increased \$82,878 or .02% for the year. Operating revenues increased \$991,577, or 2.9% and non-operating revenues decreased \$908,699, or 23.1%.

Operating Revenues are related to the District's core activities and accounted for 92.0% of total revenues. For the year, revenues from retail water sales totaled \$21,547,547, an increase of \$2,067,280, or

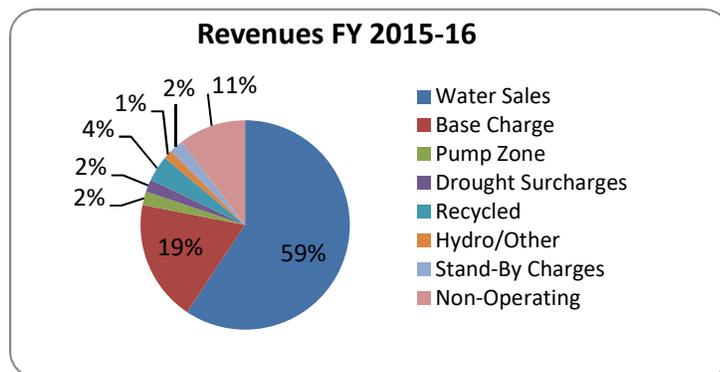
10.6% from the prior year. The increase in retail water sales was expected, as the drought in the State of California ended resulting in higher sales than in the previous year. In addition, the increased revenues are reflective of a rate increase approved by the Board in 2017. Also, the impact of the rate increase and higher

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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 \$214,935, or 29.4% from the prior year. Wholesale water sales, which can vary significantly from year to year, totaled \$1,717,089 a decrease of \$1,269,925, or 42.5% from the prior year. Similar to potable water sales revenues, recycled water revenues also increased. For the year, recycled water sales revenue increased \$112,332, or 7.5% 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 2017, non-operating revenues totaled \$3,027,550, a decrease of \$908,699, or 23.1% over the prior year. The most significant changes for non-operating revenues related to the unrealized loss on investments, and annexation fees collected. Accounting standards require that the District's investments be adjusted to reflect current market values. For fiscal year 2017, the market adjustment or unrealized loss on investments was \$539,145, a decrease of \$874,874 from the prior year. In addition, during FY 2015-16 the District collected \$1,065,457 in annexation fees related to a large development in the District's service area. No annexation fees were collected during the current fiscal year.

Revenues Fiscal Year 2016



As shown in Table A-3, total revenues for fiscal year 2016 increased \$1,800,013 or 4.8% for the year. Operating revenues increased \$69,655, or .2% and non-operating revenues increased \$1,730,058, or 78.4%.

Operating Revenues are related to the District's core activities and accounted for 89.6% of total revenues. For the year, revenues from retail water sales totaled

\$19,480,267, a decrease of \$2,570,807, or 11.7% from the prior year. The decrease in retail water sales was expected, as the State of California is in the 5th year of a severe drought. The decrease in retail sales was in part offset by an increase in wholesale water sales. Wholesale water sales, which can vary significantly year to year, totaled \$2,987,014 an increase of \$1,828,180, or 157.8% over the prior year. In addition, during the year, in response to the ongoing drought, the District implemented a drought rate surcharge which accounted for \$730,020 in revenue. Similar to retail water sales, the pump zone charges, which are assessed on the units of water sold, also decreased for the year. For the year, the revenues related to the pump zone charges totaled \$797,989, a decrease of \$147,903, or 15.6%. The District did see an increase in revenues from the base charges as a result of a rate increase, which was approved and became effective in January 2016. Similar to potable water sales revenues, recycled water revenues also decreased. For the year, recycled water sales revenue decreased \$135,337, or 8.3% 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 2016, non-operating revenues totaled \$3,936,249, an increase of \$1,730,058, or 78.4% over the prior year. The most significant changes for non-operating revenues were related to the unrealized gain on investments,

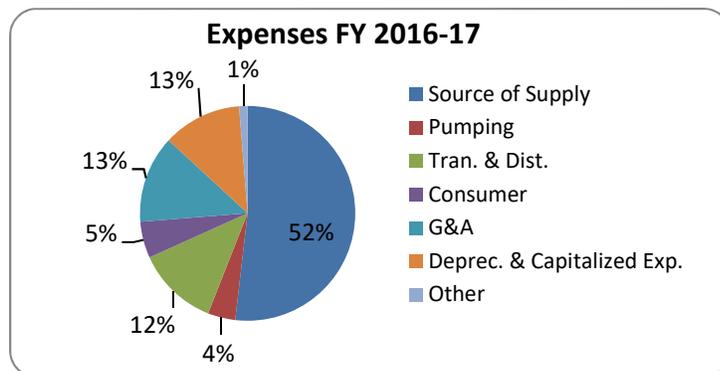
**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

annexation fees, and the District's share of joint venture income. Accounting standards require that the District's investments be adjusted annually to reflect current market values. For fiscal year 2016, the market adjustment or unrealized gain on investments was \$335,729, an increase of \$351,253 over the prior year. In addition, the District collected \$1,065,457 in annexation fees related to a large development in the District's service area. No annexation fees were collected in the prior year. Lastly, income derived from the District's investment in the Puente Basin Water Agency amounted to \$315,763, and increase of \$311,026 over the prior year.

**Table A-4
District Expenses**

	Fiscal Year 2017	Fiscal Year 2016	Dollar Change	Fiscal Year 2015	Dollar Change
Operating Expenses:					
Source of Supply	\$ 19,397,392	\$ 18,694,558	\$ 702,834	\$ 19,012,134	\$ (317,576)
Pumping	1,540,557	1,507,275	33,282	1,551,831	(44,556)
Transmission & Distribution	4,598,923	4,167,820	431,103	3,854,786	313,034
Consumer Accounts	2,042,953	1,967,633	75,320	1,693,976	273,657
Administrative & General	4,918,327	4,682,473	235,854	4,493,281	189,192
Operating Expenses Capitalized	(670,492)	(297,912)	(372,580)	(344,305)	46,393
Depreciation	5,109,038	5,021,533	87,505	5,303,916	(282,383)
Total Operating Expenses	36,936,698	35,743,380	1,193,318	35,565,619	177,761
Non-Operating Expenses:					
Interest Expense	386,321	377,577	8,744	422,504	(44,927)
Other	85,825	129,390	(43,565)	66,950	62,440
Total Non-Operating Expenses	472,146	506,967	(34,821)	489,454	17,513
Total Expenses	\$ 37,408,844	\$ 36,250,347	\$ 1,158,497	\$ 36,055,073	\$ 195,274

Expenses Fiscal Year 2017



As shown in Table A-4, total expenses for fiscal year 2017 increased \$1,158,497, or 3.2%. Operating expenses increased \$1,193,318, or 3.3% and non-operating expenses decreased slightly by \$34,821.

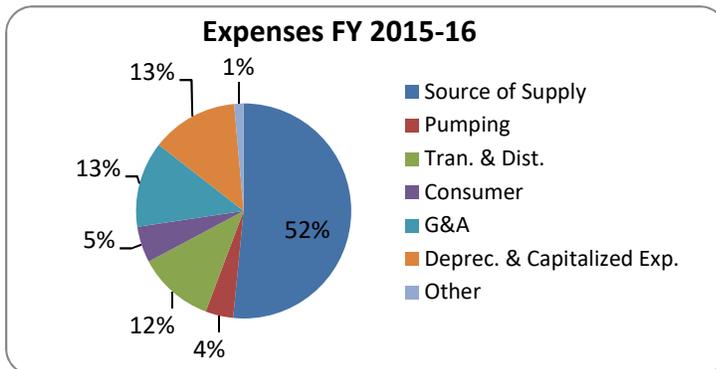
Operating expenses accounted for 98.7% of total expenses. The most significant decrease for fiscal year 2017 was for source of supply related expenses, which accounted for 51.8% of total expenses, and increased \$702,834, or 3.8% from the previous fiscal year. The District is almost 100% dependent on

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

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 \$4,598,923 for the year, an increase of \$431,103, or 10.3%. 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 and an increase in wage and benefit expenses. Administrative and general expenses totaled \$4,918,327 for the year, an increase of \$235,854, 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 increased \$372,580.

Non-operating expenses are not related to the District’s core activities and accounted for 1.3% of total expenses for the year. Non-operating expenses decreased \$43,565 for fiscal year 2017.

Expenses Fiscal Year 2016



As shown in Table A-4, total expenses for fiscal year 2016 increased \$195,274, or .5%. Operating expenses increased \$177,761, or .5% and non-operating expenses increased slightly by \$17,513.

Operating expenses accounted for 98.6% of total expenses. The most significant decrease for fiscal year 2016 was for source of supply related expenses, which accounted for 51.6% of total expenses, and

decreased \$317,576, or 1.7% from the previous fiscal year. The District is almost 100% dependent on imported water to meet its demands. As a result of slightly lower total sales, the District purchased less imported water, which is reflected in the source of supply expenses. Transmission and Distribution costs totaled \$4,167,820 for the year, an increase of \$313,034, or 8.1%. 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 and an increase in wage and benefit expenses. For the year, consumer accounts expense increased \$273,657, or 16.2% from the prior year. This increase was related primarily to higher wage and benefits expenses and banking fees. The wage and benefits expense was expected to increase, as the customer service department added one employee that in the prior year worked in a different department. Also, in January 2016, the District implemented a new online credit card payment system. The new system, as approved by the Board, moved from a “customer pay” model, which required that customers pay a small convenience fee when paying by a credit card, to a “District absorb” model in which all fees are absorbed and paid by the District. For the year, banking fees increased \$44,792 over the prior year. Administrative and general expenses totaled \$4,682,473 for the year, an increase of \$189,192, or 4.2%. This increase was expected as a result of the normal cost increases related to wage and benefit expenses. In addition, the District saw a significant increase in advertising and printing expenses related to the increased outreach efforts related to the continued drought. 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

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

depending on the number of projects and the scope and complexity of those projects. For the year, operating expenses capitalized decreased \$46,393.

Non-operating expenses are not related to the District's core activities and accounted for 1.4% of total expenses for the year. Non-operating expenses increased \$17,513 for fiscal year 2016.

**Table A-5
Capital Assets**

	Fiscal Year 2017	Fiscal Year 2016	Dollar Change	Fiscal Year 2015	Dollar Change
Asset Category:					
Master Plan	\$ 1,167,489	\$ 1,167,489	\$ -	\$ 1,167,489	\$ -
Terminal Storage	25,737,802	25,737,802	-	25,737,802	-
Pumping Equipment	17,583,766	15,701,824	1,881,942	15,653,655	48,169
Transmission & Distribution	116,497,653	113,296,479	3,201,174	112,954,496	341,983
PWR Capacity Rights	927,774	927,774	-	927,774	-
Hydroelectric	665,393	665,393	-	624,409	40,984
Recycled Water System	25,573,123	24,600,985	972,138	24,582,167	18,818
General Plant & Equipment	5,579,887	5,271,912	307,975	7,427,587	(2,155,675)
Non- Depreciable Assets	2,634,347	2,634,347	-	2,634,347	-
Construction in Progress	7,519,989	7,277,918	242,071	3,221,142	4,056,776
Total Capital Assets	203,887,223	197,281,923	6,605,300	194,930,868	2,351,055
Accumulated Depreciation	(100,111,545)	(95,516,570)	(4,594,975)	(93,193,349)	(2,323,221)
Net Capital Assets	\$ 103,775,678	\$ 101,765,353	\$ 2,010,325	\$ 101,737,519	\$ 27,834

Capital Asset Administration

Fiscal Year 2017

As of June 30, 2017, the District had invested \$203,887,223 in capital assets. This represents a \$6,605,300, or 3.3% increase in capital assets compared to the prior year. During construction, project costs are accumulated and reported as construction in progress. Upon completion, the associated costs of the project are transferred to the appropriate asset category and depreciated. During fiscal year 2017, \$6,961,314 in costs were added to construction in progress and \$6,719,243 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 \$599,887.

Fiscal Year 2016

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

As of June 30, 2016, the District had invested \$197,281,923 in capital assets. This represents a \$2,351,055, or 1.2% 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 2016, \$5,180,959 in costs was added to construction in progress and \$1,124,183 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 \$2,836,815.

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

	Fiscal Year 2017	Fiscal Year 2016	Dollar Change	Fiscal Year 2015	Dollar Change
Long Term Debt:					
2013 Series A Revenue Bonds	\$ 15,800,000	\$ 16,230,000	\$ (430,000)	\$ 16,645,000	\$ (415,000)
Unamortized Premium	2,240,497	2,347,613	(107,116)	2,454,727	(107,114)
Net Refunding Certificates	18,040,497	18,577,613	(537,116)	19,099,727	(522,114)
Compensated Absences	1,267,561	1,140,157	127,404	1,091,625	48,532
Net Pension Liability	11,587,515	8,978,245	2,609,270	6,865,131	2,113,114
Total Long-Term Debt	<u>\$ 30,895,573</u>	<u>\$ 28,696,015</u>	<u>\$ 2,199,558</u>	<u>\$ 27,056,483</u>	<u>\$ 1,639,532</u>

Debt Administration

Fiscal Year 2017

During the year, the District's long-term debt related to the 2013 Series A Water Revenue Bonds decreased \$430,000. As of June 30, 2017, the District had spent approximately \$10.6 million of the proceeds on various capital projects. The District expects to spend the remaining funds, approximately \$9.2 million, over the next three years. The proceeds will be used to finance District projects as well as the District's share of capital facilities to be owned by the PBWA. The rate covenants related to the debt require that the net revenues of the District be equal to at least 125% of the annual debt service payments.

As of June 30, 2017, the District has outstanding \$1,267,561 related to compensated absences, amounts owed to District employees for accrued sick and vacation time. The District has set aside cash reserves for the payment of this obligation.

Additionally, beginning in 2015, the District was required to implement Government Accounting Standard Board Statement 68 (GASB 68). GASB 68 requires that the District record the Net Pension Liability in the financial statements. For the year, the District's recorded a Net Pension Liability was \$11,587,515.

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

Fiscal Year 2016

During the year, the District’s long-term debt related to the 2013 Series A Water Revenue Bonds decreased \$415,000. As of June 30, 2016, the District had spent approximately \$10.2 million of the proceeds on various capital projects. The District expects to spend the remaining funds, approximately \$9.7 million, over the next three years. The proceeds will be used to finance District projects as well as the District’s share of capital facilities to be owned by the PBWA. The rate covenants related to the debt require that the net revenues of the District be equal to at least 125% of the annual debt service payments.

As of June 30, 2016, the District has outstanding \$1,140,157 related to compensated absences, amounts owed to District employees for accrued sick and vacation time. The District has set aside cash reserves for the payment of this obligation.

Additionally, beginning in 2015, the District was required to implement Government Accounting Standard Board Statement 68 (GASB 68). GASB 68 requires that the District record the Net Pension Liability in the financial statements. For the year, the District’s recorded a Net Pension Liability was \$8,978,245.

**Table A-7
Fiscal Year 2018 Budget vs. Fiscal Year 2017 Actual**

	Budget 2018	Fiscal Year 2017	Dollar Change
Revenues:			
Water Sales - General	\$ 33,185,711	\$ 32,480,813	\$ 704,898
Water Sales - Recycled	1,693,665	1,609,661	84,004
Standby Charges	825,000	815,290	9,710
Other Revenues	1,626,750	1,792,358	(165,608)
Total Revenues	<u>37,331,126</u>	<u>36,698,122</u>	<u>633,004</u>
Expenses:			
Operating Expenses	32,537,952	31,206,418	1,331,534
Debt & Interest Payment	<u>1,230,550</u>	<u>1,232,750</u>	<u>(2,200)</u>
Total Expenses	<u>33,768,502</u>	<u>32,439,168</u>	<u>1,329,334</u>
Net Income	<u>\$ 3,562,624</u>	<u>\$ 4,258,954</u>	<u>\$ (696,330)</u>

Economic Factors and Next Year’s Budget and Rates

The District’s Board of Directors and management considered many factors, including purchased water costs, water rates and fees, when setting the fiscal year 2018 budget. These indicators were taken into consideration when adopting the District’s budget. It should be noted that certain revenues and expenses

**WALNUT VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

such a restricted revenues, and non-cash expenses such as depreciation expense, OPEB expense etc. are not included in the budget and have been excluded for comparative purposes.

WALNUT VALLEY WATER DISTRICT

STATEMENT OF NET POSITION

June 30, 2017

(with comparative information for the prior year)

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and investments (Note 2)	\$ 28,390,246	\$ 32,508,531
Accounts receivable:		
Water	3,835,322	3,300,024
Accrued interest	131,998	113,336
Other	1,960,609	1,369,556
Stored water	3,575,180	-
Materials inventory	488,956	485,206
Prepaid expenses	404,079	369,264
TOTAL CURRENT ASSETS	38,786,390	38,145,917
RESTRICTED ASSETS:		
Cash and investments (Note 2)	19,180,900	18,344,294
Investment in joint venture (Note 8)	14,565,989	14,283,471
Interest receivable	19,468	13,196
TOTAL RESTRICTED ASSETS	33,766,357	32,640,961
CAPITAL ASSETS (Note 3):		
Capital assets not being depreciated	10,154,336	9,912,265
Capital assets being depreciated	193,732,887	187,369,658
Less accumulated depreciation	(100,111,545)	(95,516,570)
NET CAPITAL ASSETS	103,775,678	101,765,353
OTHER ASSETS:		
Net OPEB asset (Note 12)	2,186,761	1,289,229
TOTAL OTHER ASSETS	2,186,761	1,289,229
TOTAL ASSETS	178,515,186	173,841,460
DEFERRED OUTFLOW OF RESOURCES (Note 5)		
Deferred pension contributions	1,097,578	989,753
Deferred outflow of resources - actuarial	2,359,902	840,437
TOTAL DEFERRED OUTFLOW OF RESOURCES	3,457,480	1,830,190

(Continued)

WALNUT VALLEY WATER DISTRICT
STATEMENT OF NET POSITION
(Continued)

	2017	2016
LIABILITIES		
CURRENT LIABILITIES (PAYABLE FROM UNRESTRICTED ASSETS):		
Accounts payable	2,536,138	2,763,616
Interest payable	65,463	66,896
Amounts due to joint venture	1,800,927	1,039,055
Current portion of long term debt	730,146	632,683
Other current liabilities	971,048	492,435
	6,103,722	4,994,685
CURRENT LIABILITIES (PAYABLE FROM RESTRICTED ASSETS):		
Accounts payable	3,530	3,124
Deposits (Note 6)	1,674,990	1,599,238
Construction advances	2,234,406	2,190,061
	3,912,926	3,792,423
TOTAL CURRENT LIABILITIES	10,016,648	8,787,108
NON CURRENT LIABILITIES		
Installment purchase contract (Note 4)	15,355,000	15,800,000
Unamortized premium (Note 4)	2,240,497	2,347,613
Net pension liability (Note 5)	11,587,515	8,978,245
Compensated absences (Note 4)	982,415	937,474
	30,165,427	28,063,332
TOTAL NON CURRENT LIABILITIES	30,165,427	28,063,332
TOTAL LIABILITIES	40,182,075	36,850,440
DEFERRED INFLOW OF RESOURCES (Note 5)		
Deferred inflow of resources - actuarial	724,224	1,335,886
	724,224	1,335,886
NET POSITION		
Net investment in capital assets	102,444,898	100,431,959
Restricted	26,408,666	25,114,227
Unrestricted	12,212,803	11,939,138
	141,066,367	137,485,324
TOTAL NET POSITION	\$ 141,066,367	\$ 137,485,324

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, 2017
(with comparative information for the prior year)

	2017	2016
OPERATING REVENUES:		
Water sales	\$ 34,101,009	\$ 33,104,505
Standby charges	815,294	820,221
TOTAL OPERATING REVENUES	34,916,303	33,924,726
OPERATING EXPENSES:		
Source of supply	19,397,392	18,694,558
Pumping	1,540,557	1,507,275
Transmission and distribution	4,598,923	4,167,820
Consumer accounts	2,042,953	1,967,633
General and administrative	4,918,327	4,682,473
Depreciation	5,109,038	5,021,533
Operating expense capitalized during construction period	(670,492)	(297,912)
TOTAL OPERATING EXPENSES	36,936,698	35,743,380
OPERATING LOSS	(2,020,395)	(1,818,654)
NONOPERATING REVENUES (EXPENSES):		
Investment income	1,635	824,415
Property taxes	985,113	943,033
Amounts received for annexation	-	1,065,457
Other revenues	549,212	494,395
Share of joint venture income (loss)	(8,092)	315,763
Gain (loss) on disposal of capital assets	(85,825)	(129,390)
Interest expense	(386,321)	(377,577)
TOTAL NONOPERATING REVENUES (EXPENSES)	1,055,722	3,136,096
GAIN (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(964,673)	1,317,442
CAPITAL CONTRIBUTIONS		
Developer Fees	3,046,034	653,437
Acreage and water supply and reservoir capacity fees	1,499,682	293,186
TOTAL CAPITAL CONTRIBUTIONS	4,545,716	946,623
CHANGES IN NET ASSETS	3,581,043	2,264,065
NET POSITION - BEGINNING OF YEAR	137,485,324	135,221,259
NET POSITION - END OF YEAR	\$ 141,066,367	\$ 137,485,324

WALNUT VALLEY WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017
(with comparative information for the prior year)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 33,807,426	\$ 33,355,873
Other income received	491,653	640,989
Payments to suppliers of goods and services	(22,712,229)	(22,123,417)
Payments to joint venture	(3,103,918)	(1,803,578)
Payments to employees	(8,153,814)	(7,624,045)
Payment to OPEB trust	(1,148,451)	(1,077,469)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(819,333)	1,368,353
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Property taxes received	978,330	926,905
NET CASH PROVIDED (USED) BY NONCAPITAL AND RELATED FINANCING ACTIVITIES	978,330	926,905
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(6,739,589)	(4,667,775)
Principal paid on long-term debt	(430,000)	(415,000)
Interest paid on long-term debt	(960,469)	(730,624)
Proceeds from sale of assets	-	9,111
Acreage and water supply and reservoir capacity fees	1,499,682	293,186
Construction advances received	3,212,999	2,403,437
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(3,417,377)	(3,107,665)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(13,062,919)	(10,997,865)
Sales of investments	13,178,722	7,073,820
Interest received on cash and investments	515,846	794,776
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	631,649	(3,129,269)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(2,626,731)	(3,941,676)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	17,593,935	21,535,611
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 14,967,204	\$ 17,593,935

(Continued)

WALNUT VALLEY WATER DISTRICT
STATEMENT OF CASH FLOWS

(Continued)

	2017	2016
RECONCILIATION TO AMOUNTS REPORTED ON THE STATEMENT OF CASH FLOWS:		
Reported on the Statement of Net Assets:		
Current assets - cash and investments	\$ 28,390,246	\$ 32,508,531
Restricted assets - cash and investments	19,180,900	18,344,294
Investments not considered cash and cash equivalents	(32,603,942)	(33,258,890)
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 14,967,204	\$ 17,593,935
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating loss	\$ (2,020,395)	\$ (1,818,654)
Depreciation	5,109,038	5,021,533
Other revenues	549,212	494,395
Share of joint venture income (loss)	(8,092)	315,763
Change in assets and liabilities		
(Increase) decrease in accounts receivables - water	(535,298)	(532,823)
(Increase) decrease in accounts receivables - other	(57,559)	75,364
(Increase) decrease in materials inventory	(3,750)	(8,900)
(Increase) decrease in stored water	(3,575,180)	2,469,729
(Increase) decrease in prepaid expenses	(34,815)	(32,634)
(Increase) decrease in investment in joint venture	(282,518)	(3,833,214)
(Increase) decrease in advance for construction	-	71,230
(Increase) decrease in deferred outflow of resources	(1,627,290)	(831,139)
Increase (decrease) in accounts payable	(227,072)	415,827
Increase (decrease) in amounts due to joint venture	761,872	(755,856)
Increase (decrease) in other current liabilities	478,613	3,106
Increase (decrease) in compensated absences	127,404	48,532
Increase (decrease) in other post employment benefits	(897,532)	(677,614)
Increase (decrease) in deposits	(573,579)	(36,030)
Increase (decrease) in net pension liability	2,609,270	2,113,114
Increase (decrease) in deferred inflow of resources	(611,662)	(1,133,376)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (819,333)	\$ 1,368,353

There were no noncash investing, capital and financing activities during fiscal year ended June 30, 2017 and 2016

(This page intentionally left blank)

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

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 Changes in Net Position, the Statement of Cash Flows, and the Notes to Financial Statements.

Basis of Presentation

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

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

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

Measurement Focus and Basis of Accounting

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

Net Position

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

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

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

Revenues and Expenses

Operating revenues, such as charges for services (water sales), result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as property taxes and assessments, and investment income, result from non-exchange transactions or ancillary activities in which the District receives value without directly giving equal value in exchange.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Inventory and Stored Water

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

Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Contributed assets are recorded at estimated 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
Telemetry SCADA equipment	20 years
Pumping, transmission facilities and meters	20 - 60 years
PWR Capacity	75 years
Recycled water system	30 years
General structures	30 years
Office equipment/GIS	5 - 7 years
Vehicles and equipment	7 years
Master plan	7 years

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

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

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

For fiscal year 2017, 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, 2017 compensated absences payable in the amount of \$1,267,561 was included as long-term debt.

Claims and Judgments

When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the District records the estimated loss, net of any insurance coverage under its participation in the Joint Power Insurance Authority program. At June 30, 2017, in the opinion of the District's legal counsel, the District had no material claims which would require loss provision in the financial statements. Small dollar claims and judgments are recorded as expenses when paid.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

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

Investments

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

Cash and Cash Equivalents

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

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 input 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.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

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, 2015
Measurement Date (MD)	June 30, 2016
Measurement Period (MP)	June 30, 2015 to June 30, 2016

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 only has two items that qualify for reporting in this category, deferred pension contribution and actuarially determined pension items.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 only has one item that qualifies for reporting in this category related to actuarially determined pension items.

Prior year information

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

Reclassification

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

Estimates

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

2. CASH AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2017 are reported in the accompanying financial statements as follows:

Financial Statement Classification:	
Unrestricted:	
Cash and investments	\$ 28,390,246
Restricted:	
Cash and investments	<u>19,180,900</u>
Total	<u>\$ 47,571,146</u>

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

2. CASH AND INVESTMENTS (Continued)

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

Cash on hand		\$ 3,200
Deposits		2,889,465
Investments		<u>44,678,481</u>
Total cash and investments		<u>\$ 47,571,146</u>

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

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

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

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

N/A - Not Applicable

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

2. CASH AND INVESTMENTS (Continued)

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.

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity at June 30, 2017:

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

2. CASH AND INVESTMENTS (Continued)

<u>Investment Type</u>	<u>Remaining Maturity (in months)</u>			<u>Total</u>
	<u>12 Months or Less</u>	<u>12 – 24 Months</u>	<u>25 – 60 Months</u>	
United States Government				
Sponsored Agency Securities	\$ 674,541	2,858,994	11,408,211	14,941,746
United States Treasury Notes	299,814	2,123,352	7,000,498	9,423,664
Corporate Notes	2,671,801	2,942,731	2,624,001	8,238,533
Local Agency Investment Fund	2,766,946	-	-	2,766,946
Held by Bond Trustee:				
Money Market Mutual Fund	1,051,310	-	-	1,051,310
Local Agency Investment Fund	<u>8,256,282</u>	<u>-</u>	<u>-</u>	<u>8,256,282</u>
	<u>\$ 15,720,694</u>	<u>7,925,077</u>	<u>21,032,710</u>	<u>44,678,481</u>

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

<u>Investment Type</u>	<u>Minimum Legal</u>	<u>Aaa</u>	<u>AA - A</u>	<u>Unrated</u>	<u>Not Required</u>	<u>Total</u>
	<u>Rating</u>				<u>to be Rated</u>	
United States Government						
Sponsored Agency Securities	N/A	\$ 14,941,745	-	-	-	14,941,745
United States Treasury Notes	N/A	-	-	-	9,423,664	9,423,664
Corporate Notes	A	993,842	7,244,691	-	-	8,238,533
Local Agency Investment Fund	N/A	-	-	11,023,229	-	11,023,229
Money Market Mutual Funds	Aaa	<u>1,051,310</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,051,310</u>
		<u>\$ 16,986,897</u>	<u>7,244,691</u>	<u>11,023,229</u>	<u>9,423,664</u>	<u>44,678,481</u>

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

2. CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

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

<u>Issuer</u>	<u>Investment Type</u>	<u>June 30, 2017</u>
Federal Home Loan Bank	United States Government Sponsored Agency Securities	\$4,413,654
Federal Home Loan Mortgage Corporation	United States Government Sponsored Agency Securities	2,405,430
Federal National Mortgage Association	United States Government Sponsored Agency Securities	4,572,948
Federal Farm Credit Bank	United States Government Sponsored Agency Securities	2,953,703

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.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

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, 2017:

		<u>Fair Value Hierarchy</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	
United States Government					
Sponsored Agency Securities	\$ -	14,941,745	-	14,941,745	
United States Treasury Notes	-	9,423,664	-	9,423,664	
Corporate Notes	-	8,238,533	-	8,238,533	
	<u>-</u>	<u>8,238,533</u>	<u>-</u>	<u>8,238,533</u>	
 Total Investments	 \$ -	 <u>32,603,942</u>	 <u>-</u>	 <u>32,603,942</u>	

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

3. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2017 are as follows:

	Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017
Capital assets, not being depreciated				
Land	\$ 2,627,709	-	-	2,627,709
Water rights	6,638	-	-	6,638
Construction in progress	<u>7,277,918</u>	<u>6,961,314</u>	<u>(6,719,243)</u>	<u>7,519,989</u>
Total capital assets, not being depreciated	<u>9,912,265</u>	<u>6,961,314</u>	<u>(6,719,243)</u>	<u>10,154,336</u>
Capital assets, being depreciated				
Master plan	1,167,489	-	-	1,167,489
Terminal storage	25,737,802	-	-	25,737,802
Pumping equipment	15,701,824	1,881,942	-	17,583,766
Transmission and distribution	113,296,479	3,708,277	(507,103)	116,497,653
PWR capacity	927,774	-	-	927,774
Hydroelectric	665,393	-	-	665,393
Recycled water system	24,600,985	986,067	(13,929)	25,573,123
General plant	<u>5,271,912</u>	<u>386,830</u>	<u>(78,855)</u>	<u>5,579,887</u>
Total capital assets, being depreciated	<u>187,369,658</u>	<u>6,963,116</u>	<u>(599,887)</u>	<u>193,732,887</u>
Less accumulated depreciation				
Master plan	(966,102)	(80,097)	-	(1,046,199)
Terminal storage	(18,402,878)	(859,518)	-	(19,262,396)
Pumping equipment	(8,615,807)	(507,813)	-	(9,123,620)
Transmission and distribution	(53,654,108)	(2,746,250)	426,910	(55,973,448)
PWR capacity	(491,687)	(29,073)	-	(520,760)
Hydroelectric	(469,602)	(17,660)	-	(487,262)
Recycled water system	(8,998,857)	(511,941)	8,297	(9,502,501)
General plant	<u>(3,917,529)</u>	<u>(356,685)</u>	<u>78,855</u>	<u>(4,195,359)</u>
Total accumulated depreciation	<u>(95,516,570)</u>	<u>(5,109,037)</u>	<u>514,062</u>	<u>(100,111,545)</u>
Total capital assets, being depreciated, net	<u>91,853,088</u>	<u>1,854,079</u>	<u>(85,825)</u>	<u>93,621,342</u>
Total capital assets, net	<u>\$ 101,765,353</u>	<u>8,815,393</u>	<u>(6,805,068)</u>	<u>103,775,678</u>

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

4. LONG-TERM DEBT

The change in long-term debt for the year ended June 30, 2017, is as follows:

	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year
Compensated absences	\$ 1,140,157	407,351	(279,947)	1,267,561	285,146
Installment purchase contract	16,230,000	-	(430,000)	15,800,000	445,000
Unamortized premium	2,347,613	-	(107,116)	2,240,497	-
Total long-term debt	\$ 19,717,770	407,351	(817,063)	19,308,058	730,146

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.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

4. LONG-TERM DEBT (Continued)

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

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 445,000	785,550
2019	465,000	767,750
2020	490,000	744,500
2021	510,000	720,000
2022	535,000	694,500
2023-2027	3,120,000	3,041,750
2028-2032	3,980,000	2,180,250
2033-2037	5,080,000	1,080,250
2038	<u>1,175,000</u>	<u>58,750</u>
Total payments	<u>\$15,800,000</u>	<u>10,073,300</u>

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.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

5. **PENSION PLAN (Continued)**

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

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

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, 2015 valuation was rolled forward to determine the June 30, 2016 total pension liability, based on the following actuarial methods and assumptions:

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

5. PENSION PLAN (Continued)

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ¹	Derived using CalPERS' Membership Data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

¹The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report

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

Change of Assumption - There were no changes of assumptions for the year ended June 30, 2017.

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

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

5. PENSION PLAN (Continued)

(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 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.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 ¹	Real Return Years 11+ ²
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	1.0	(0.55)	(1.05)

¹An expected inflation of 2.5% used for this period

²An expected inflation of 3.0% used for this period

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

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2015 (VD)	\$42,671,185	33,692,941	8,978,244
Balance at: 6/30/2016 (MD)	45,199,052	33,611,537	11,587,515
Net Changes during 2015-16	2,527,867	(81,404)	2,609,271

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

5. PENSION PLAN (Continued)

The District’s net pension liability for the plan is measured as the proportionate share of the net pension liability. The net pension liability of the plan is measured as of June 30, 2016, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation of June 30, 2015 rolled forward to June 30, 2016 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 contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Districts’s proportionate share of the net pension liability for the plan as of June 30, 2015 and 2016 was as follows:

	Miscellaneous Plan
Proportion – June 30, 2015	0.313%
Proportion – June 30, 2016	0.314%
Change – Increase (Decrease)	0.001%

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 7.65 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 (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate – 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
Plan’s Net Pension Liability	\$17,672,716	11,587,515	6,558,399

Subsequent Events – In December 2016, the CalPERS Board of Administration voted to lower the discount rate from 7.5 percent to 7.0 percent over the next three years. For public agencies, the discount rate changes approved by the Board for the next three fiscal years ending June 30, 2019, 2020, and 2021 are 7.375%, 7.25%, and 7.00%, respectively.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

5. **PENSION PLAN (Continued)**

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.

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

Net difference between projected and actual earnings on pension plan investments	5 year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARSL) of all members that are provided with pensions (active, inactive, and retired) as of the beginning of the measurement period

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, 2016 measurement date is 3.7 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, 2017, the District recognized pension expense of \$1,467,896.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

5. PENSION PLAN (Continued)

As of June 30, 2017, the District reports deferred outflow and deferred inflow of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 32,787	\$ 8,088
Changes of Assumptions	0	310,196
Differences between Projected and Actual Investment Earnings	1,574,950	0
Adjustment due to Differences in Proportions	0	0
Change in Employer's Proportions	752,165	0
Differences between Employer's Contributions and Proportionate Share of Contributions	0	405,940
Pension Contributions Made Subsequent to Measurement Date	1,097,578	0
Total	\$ 3,457,480	\$ 724,224

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:

Measurement period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2018	\$ 209,723
2019	198,714
2020	777,030
2021	450,211

6. DEPOSITS

Deposits have been received for:

Customer deposits for water service	\$ 1,572,097
Meters and other construction	<u>102,893</u>
Total Deposits	<u>\$ 1,674,990</u>

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

7. **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, 2017, the District participated in the Authority's self-insurance programs as follows:

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

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

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

8. **JOINT VENTURES**

Puente Basin Water Agency

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

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

The Walnut Valley Water District performs the administration and operating functions of the Agency. The District purchased \$9,582,525 in water from the Agency in the year ended June 30, 2017.

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.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

8. **JOINT VENTURES (Continued)**

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.

9. **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.

10. **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.

11. **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

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

11. **DEFERRED COMPENSATION PLAN (Continued)**

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.

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

Plan Description

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

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District, District's Board of Directors, and/or the employee associations. Currently, contributions are not required from plan members. The District has established a trust for the purpose of holding funds that have been irrevocably contributed by the District toward funding of its OPEB obligation. This trust is being administered by Public Agency Retirement Services (PARS). Annually, the Board of Directors determines the amount that the District will fund to this trust. During the year ended June 30, 2017, the District contributed \$1,148,451 of cash to the trust. In addition, the District contributed \$459,795 of its funds in the form of retiree premiums paid by the District for retirees.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

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

funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities of the plan over a period not to exceed thirty years.

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

Annual required contribution	\$ 709,656
Interest on net OPEB Asset	83,542
Adjustment to annual required contribution	<u>84,602</u>
Annual OPEB Cost	710,715
Contributions to OPEB Trust	1,148,451
Retiree premiums paid by the District	<u>459,795</u>
Increase in net OPEB asset	897,531
Net OPEB Asset, beginning of year	<u>1,289,229</u>
Net OPEB Asset, end of year	<u><u>\$ 2,186,761</u></u>

Three-Year Trend Information

The District's annual OPEB cost, the percentage of annual OPEB costs contributed to the plan and the net OPEB obligation for 2017 and the preceding two years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Costs Contributed</u>	<u>Net OPEB Asset (Obligation)</u>
6/30/15	\$ 851,167	171.52%	611,615
6/30/16	828,627	181.31%	1,289,229
6/30/17	710,715	226.29%	2,186,761

Funded Status and Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (AAAL) (a)</u>	<u>Actuarial Value of Assets (b)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) (a) – (b)</u>	<u>Funded Ratio (b)/(a)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage Of Covered Payroll [(a)-(b)]/(c)</u>
07/01/10	\$13,226,385	-	13,226,385	0.00%	4,213,429	313.91%
07/01/13	\$12,141,279	887,247	11,254,032	7.31%	4,210,556	267.28%
07/01/16	\$13,804,306	6,050,105	7,754,201	43.8%	4,748,838	163.29%

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

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

As of July 1, 2016, the most recent actuarial valuation date, the plan is partially funded. The actuarial accrued liability for benefits was \$13,804,306, and the actuarial value of assets was \$6,050,105, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,754,201. The covered payroll (annual payroll of active employees covered by the plan) was \$4,748,838 and the ratio of the UAAL to the covered payroll was 163.29%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of employee turnover, retirement, mortality, as well as economic assumptions regarding claim costs per retiree, healthcare inflation and interest rates. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the July 1, 2016 actuarial investment valuation, the entry age normal cost method was used. The actuarial assumptions included an interest rate of 6.48% per annum, a projected salary increase of 3.25% per annum and a health inflation rate of 4% per annum. The unfunded actuarial liability is being funded as a level of percentage of projected payroll on an open basis. The remaining amortization period as of July 1, 2016 was 30 years.

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

13. NET POSITION

Restricted Net Position

The Net Position reported as net investment in capital assets consists of capital assets reduced by related debt. Restricted Net Position consists of the following at June 30, 2017:

<u>Funding Source</u>	<u>Restricted Use</u>	<u>Restricted Assets</u>	<u>Liabilities</u>	<u>Restricted Net Position</u>
Reservoir Capacity Charge	Construction of water storage facilities	\$ 3,432,519	-	3,432,519
Acreage Supply Charge	Construction of water storage facilities	1,306,377	-	1,306,377
Investment in Joint Venture	PBWA	14,565,989	-	14,565,989
Badillo Grand Surcharge	Repair and maintenance of the Badillo Grand Line	281,481	3,124	278,357
Deposits from Customers	Water Deposits	1,660,147	1,599,238	60,909
Deposit from Developers	Construction of Capital Facilities	2,234,406	2,190,061	44,345
Revenue Bonds	2013 Series A Revenue Bonds	9,327,061	3,444,765	5,882,296
Water Supply Charge	Construction of water storage facilities	<u>958,377</u>	<u>120,503</u>	<u>837,874</u>
		<u>\$ 33,766,357</u>	<u>7,357,691</u>	<u>26,408,666</u>

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, 2017 consisted of:

	<u>June 30, 2017</u>
Operating reserve	\$ 4,639,000
Replacement	12,561,399
Capital improvements	1,112,830
Employee liabilities	2,119,755
Rate stabilization	1,541,603
Project Reserve	967,232
Badillo Grand catastrophic insurance	<u>500,000</u>
Total reserves	<u>\$ 23,441,819</u>

WALNUT VALLEY WATER DISTRICT

Notes to Basic Financial Statements

(Continued)

14. COMMITMENTS AND CONTINGENT LIABILITIES

Construction commitments as of June 30, 2017 are as follows:

<u>Description</u>	<u>Contract Amount</u>	<u>Expended to Date</u>	<u>Remaining Balance</u>	<u>Funding Source</u>
ACE-Nogales Grade Sep. Water Facility Relocation	\$ 564,351	70,865	493,486	Replacement
Recycled Water Well #5	602,693	598,493	4,200	Developer
Meadow Pass Rd. Main Ext Ph.II	388,286	41,294	346,992	Acreage Supply
Fernhollow Pump Station	<u>1,185,875</u>	<u>1,181,984</u>	<u>3,891</u>	Reservoir Capacity
	<u>\$ 2,741,205</u>	<u>1,892,636</u>	<u>848,569</u>	

The District is involved in pending lawsuits of a nature common to many similar agencies. District management estimates that the potential claims against the District, not covered by insurance resulting from such litigation, would not materially affect the basic financial statements of the District.

REQUIRED SUPPLEMENTARY INFORMATION

WALNUT VALLEY WATER DISTRICT

Required Supplementary Information

Pension Schedules

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

Last 10 Fiscal Years*

	Measurement Date 6/30/2016	Measurement Date 6/30/2015	Measurement Date 6/30/2014
Proportion of the Collective Net Pension Liability	0.31394%	0.31285%	0.11033%
Proportionate Share of the Collective Net Pension Liability	\$11,587,515	\$8,978,245	\$6,865,131
Covered Payroll	\$ 4,211,665	\$4,513,309	\$4,450,159
Proportionate Share of the Collective Net Pension Liability as percentage of Covered payroll	275.13%	198.92%	154.26%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.51%	80.92%	83.03%

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). Employers that have done so may need to report this information as a separate liability in their financial statement as CalPERS considers such amounts to be separately financed employer-specific liabilities. These employers should consult with their auditors.

Changes of assumptions. 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. There were no changes of assumptions in 2016.

**Fiscal year 2015 was the first year of implementation, therefore only three years are shown.*

WALNUT VALLEY WATER DISTRICT

Required Supplementary Information

Pension Schedules

SCHEDULE OF PLAN CONTRIBUTIONS

Last 10 Fiscal Years*

	Fiscal Year <u>2016-17</u>	Fiscal Year <u>2015-16</u>	Fiscal Year <u>2014-15</u>
Actuarially Determined Contribution	\$ 1,097,578	\$ 989,753	\$ 790,287
Contributions in Relation to the			
Actuarially Determined Contribution	<u>(1,097,578)</u>	<u>(989,753)</u>	<u>(790,287)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
 Covered Payroll	 \$ 4,830,559	 \$ 4,211,665	 \$ 4,513,309
 Contributions as a Percentage of Covered Payroll	 22.72%	 23.50%	 17.51%

Notes to Schedule

Valuation Date: 6/30/2014

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Discount Rate	7.50%
Projected Salary Increase	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

**Fiscal year 2015 was the first year of implementation; therefore, only three years are shown.*

SELECTED STATISTICAL INFORMATION

WALNUT VALLEY WATER DISTRICT

MISCELLANEOUS INFORMATION

Year Ended June 30, 2017

Area Serviced

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

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

The Delivery System

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

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

WALNUT VALLEY WATER DISTRICT
MISCELLANEOUS INFORMATION

(Continued)

Personnel

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

District operations are supervised by an appointed general manager who also serves as a secretary-treasurer. Assessor-collector functions are performed for the District by the County of Los Angeles. The District had 73 employees on June 30, 2017 consisting of 22 field persons, 23 office and engineering persons, 15 managerial staff, and 13 part-time student interns. All qualified employees are covered by group life and health insurance, pension benefits, sick leave, and vacation plans.

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

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