

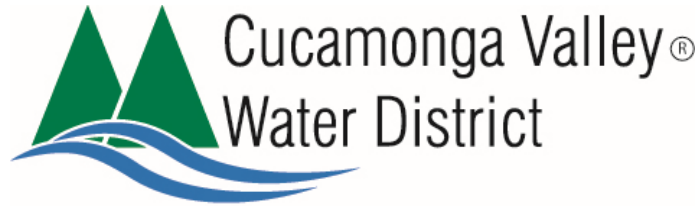
Cucamonga Valley®  
Water District

*Service Beyond Expectation*

# Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2016  
Rancho Cucamonga, CA





*Service Beyond Expectation*

## **Comprehensive Annual Financial Report**

### **Fiscal Year Ending**

June 30, 2016

## **CUCAMONGA VALLEY WATER DISTRICT**

10440 Ashford Street  
Rancho Cucamonga, CA 91730

General Manager/CEO  
*Martin E. Zvirbulis, PE*

Assistant General Manager/  
Chief Financial Officer  
*Carrie Corder, CPA*

Assistant General Manager  
*Jo Lynne Russo-Pereyra*

Assistant General Manager/  
Chief Operating Officer  
*John Bosler, PE*

Prepared by Finance Division:

Finance Manager  
*Chad Brantley, CPA*

Accounting Supervisor  
*Agnes Boros, CPA*

Senior Accountant  
*Jennifer Fillinger, CPA*

**Cucamonga Valley Water District  
Comprehensive Annual Financial Report  
Fiscal Year Ending June 30, 2016**

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**Financial Section**

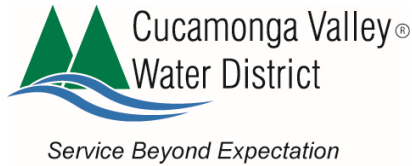
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# **Introductory Section**





**CUCAMONGA VALLEY WATER DISTRICT**  
10440 Ashford Street  
Rancho Cucamonga, CA 91730  
(909) 987-2591 Fax (909) 476-8032

Martin E. Zvirbulis  
Secretary / General Manager/CEO

November 3, 2016

Members of the Board of Directors  
Cucamonga Valley Water District

## **Introduction**

State law requires that every general-purpose government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2016.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Lance, Soll & Lungard, LLP has issued an unmodified (“clean”) opinion on the District’s financial statements for the year ended June 30, 2016. The independent auditor’s report is located at the front of the financial section of this report.

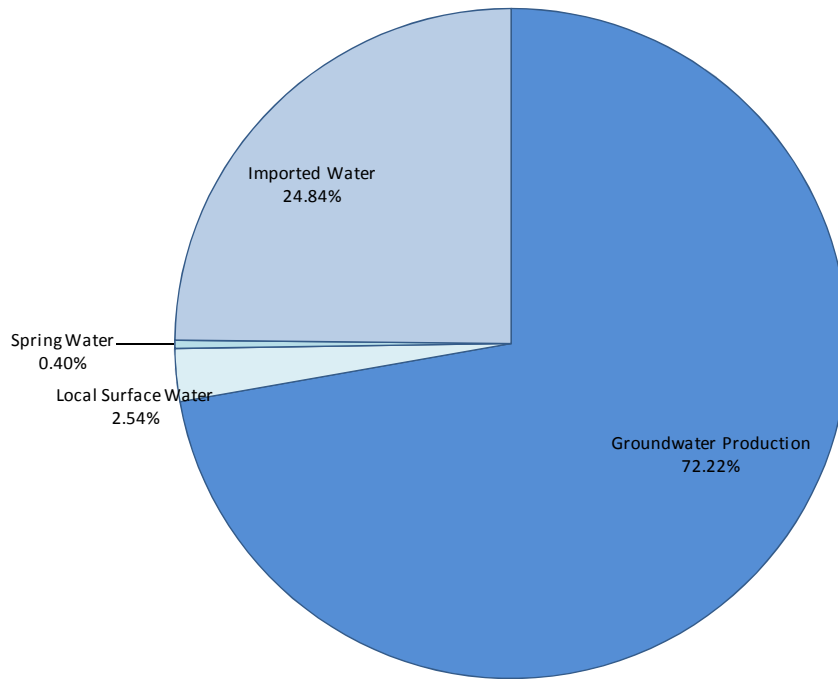
Management’s discussion and analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

## **Profile of the District**

The Cucamonga Valley Water District (the “District” or “CVWD”) is an independent special district that operates under the authority of Division 12 of the California Water Code. The District was incorporated on March 25, 1955, and is governed by a five-member, elected Board of Directors. The District provides water, wastewater, and recycled water services to a population of approximately 190,000 within its 47 square mile service area, which is located in the western area of San Bernardino County, California. The District encompasses the majority of the community of Rancho Cucamonga and portions of the cities of Fontana, Ontario, Upland, and some of the unincorporated areas of San Bernardino County.

Residential customers make up approximately 89% of the District’s customer base and consume approximately 57% of the water produced annually by the District. The District currently has a total of 29 groundwater wells, of which 21 are in service with a maximum production capacity of approximately 37,292 gallons per minute (or an annual production equivalent of 60,152 acre-feet). In addition, the District has surface and subsurface water rights in four local canyon watersheds with an annual production in 2016 of 1,146 acre-feet. Lastly, untreated imported water from the Sacramento-San Joaquin River Delta through the State Water Project makes up the third source of water available to the District. In 2016, the District purchased 9,682 acre-feet of imported water. The following chart illustrates the water production sources.

### Water Production FYE 2016



Uncertainty due to the drought may impact the Metropolitan Water District of Southern California (MWD or Metropolitan) service area and main supply sources, as well as the court order decisions affecting State Water Project operations has raised the possibility that Metropolitan may not have access to the supplies necessary to meet total demands at some point in the future and may have to allocate shortages in supplies to the member agencies. As a result, the District has secured local groundwater resources from other purveyors in the Chino Basin for future use and has increased its use of recycled water.

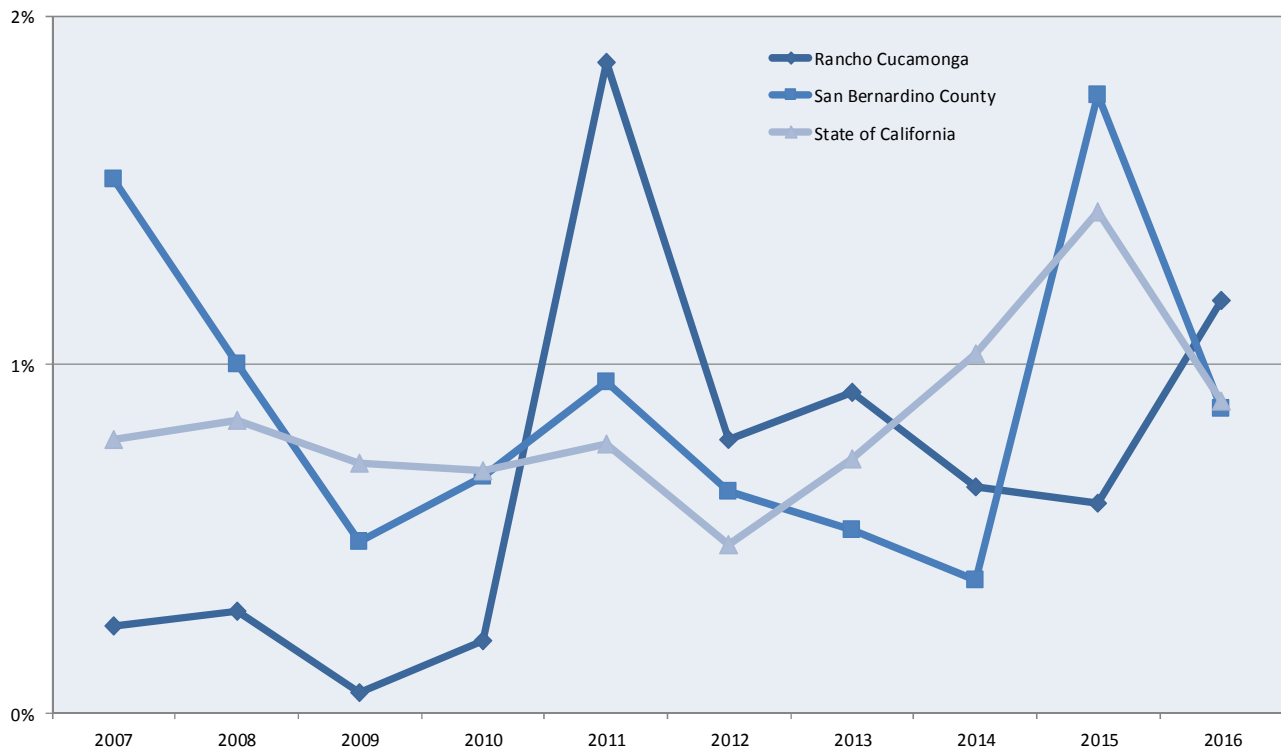
#### Fiscal Management

The District Board of Directors annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District’s enterprise functions, including the Water Utility Fund, Sewer Utility Fund, and Recycled Water Utility Fund. The budget and reporting treatment applied to each fund is consistent with the accrual basis of accounting and the financial statement basis. Each year the District adopts a balanced budget.

#### Local Economy

The District office is located in the City of Rancho Cucamonga in San Bernardino County. Rancho Cucamonga is considered a premiere city in the Inland Empire area of California. The District population is projected to increase to approximately 215,100 in 2035, when the District is expected to be fully built out. The community is located 37 miles east of downtown Los Angeles. The following chart highlights the growth of the City of Rancho Cucamonga, the County of San Bernardino, and the State of California.

### 10 Year Population Growth Rate Rancho Cucamonga vs County & State



The economics of the communities served by the District are heavily influenced by a multitude of factors. Historically, the construction industry has led the job growth in the Inland Empire. Since the economic downturn, construction industry job growth has improved; however, it has still not fully recovered. On the other hand, growth in logistics has led to job creation in the land-rich Inland Empire. In addition, the health care and manufacturing industries have also demonstrated job growth in the Inland Empire.

The Inland Empire consists of 52 cities within the counties of Riverside and San Bernardino. As far as the number of customers served by the District the top two cities are Rancho Cucamonga and Fontana. In 2016, the California Department of Finance released population data that indicates that the City of Fontana is second largest in the region followed by the City of Rancho Cucamonga as third. The San Bernardino Assessor’s office reported that the City of Rancho Cucamonga has the second highest assessed valuation in the region followed by Fontana as the fifth highest. Clearly, these two cities served by CVWD are strong contributors to the economic engine of the Inland Empire.

According to the State of California Employment Development Department, in 2006 the unemployment rate in Rancho Cucamonga was at a ten-year low of 3.1%. However, unemployment rates increased to a high of 9.4% in 2010. Unemployment has since fallen to a rate of 4.8% in June of 2016, which is lower than the region as well as the State of California.

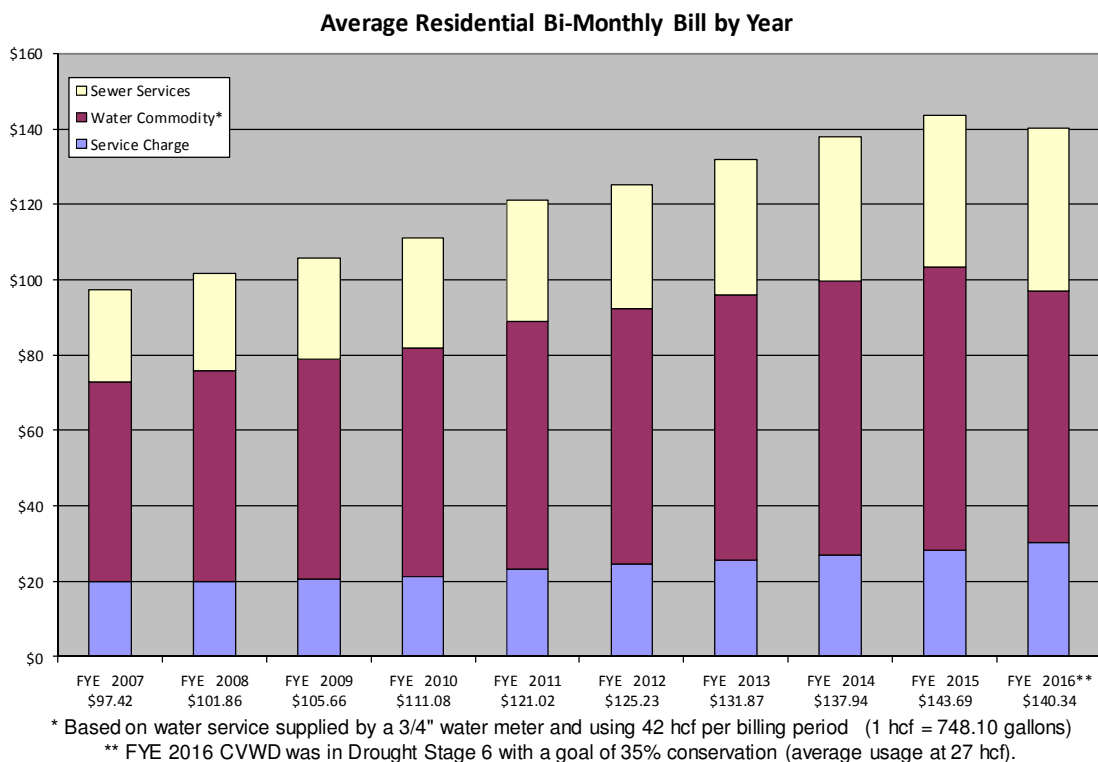
California’s water supply continues to be a concern due to drought conditions and projected population increases. This concern has increased interest in recycled water for groundwater replenishment purposes. The District has expanded and will continue to expand its conservation efforts and the use of local sources such as groundwater and canyon water. Such expansions will decrease the District’s dependence on imported water and increase water source reliability. The District will also continue to work with local and regional water suppliers in planning and constructing other water delivery systems throughout its service area.

## Service Beyond Expectation

During the past five fiscal years, the District's customer base has grown slowly at around 0.34% per year. Water production increased each year from 2011 through 2014 but fell significantly in 2015 and further still in 2016. Improvements in economic conditions and less rainfall in 2013 and 2014 contributed to the increased demand for water in those years causing annual usage per customer to rise as high as 1.09 acre-feet. However, in 2015 water production per customer fell to 0.97 acre-feet and to 0.78 acre-feet for 2016. This decrease in water usage is consistent with the statewide drought messaging that began in August 2014 and culminated with the Governor's executive order on April 1, 2015.

During the fiscal years 2011 through 2014, water sales revenues increased by approximately 9.3% per year on average, then fell by 9.0% in 2015, and increased by 2.8% in 2016. The increase in 2016 was caused by customer conservation that was slightly less than the conservation target set by the California State Water Resources Control Board (SWRCB). From 2011 to 2015 water rates increased about 5% per year. In FY2016, the District entered Drought Stage 6 in order to comply with the conservation target set by the SWRCB. Drought Stage 6 caused a 58% increase in water rates. For FY2017 the SWRCB has allowed water purveyors to self-certify their supply of water in order to set their own needed level of conservation. CVWD is able to certify a 3-year water supply that does not require any mandatory conservation. For this reason, staff are budgeting a reduction in rates of 27% to Drought Stage 1 prices. Meter charge revenue has increased by approximately 6.8% per year on average and water service revenue has increased 1.8% per year on average.

The District's policy direction ensures that all revenues from user charges generated from District customers must support all District operations including capital project funding. The District does not receive property tax subsidies. Water, recycled water, and sewer rates are user charges imposed on customers for services and are the primary component of the District's revenue. Water and recycled water rates are composed of a fixed meter charge and a commodity (usage) charge. Sewer rates are billed based on a unit of measure called an equivalent dwelling unit (EDU), which is equal to the average amount of wastewater flow from a single-family household. The District bills each residential customer a fixed charge for each EDU. The following chart illustrates the average bi-monthly utility bill.



### Long-term Financial Planning

The District’s financial plan includes the establishment of reserve funds in accordance with the District’s Reserve and Benchmark Policy. Reserve funds are set to ensure the continued orderly operation of the District’s water, recycled water and sewer systems, the provision of services to customers at established levels, and the continued stability of the District’s rate structure. The District has committed to the following funds and objectives in the Reserve Policy; as of June 30, 2016.

1. The District will strive to adopt balanced budgets in all operating funds.
2. Capital Reserves are established to provide funds for capital facility and equipment replacement.
3. Liquidity Reserves are established to safeguard the financial flexibility and stability of the District and to maintain stable customer charges and rates.
4. Restricted Reserves are maintained to comply with restrictions imposed by outside sources such as creditors, grantors, contributors, laws, or regulations.

### Debt Administration

The District has earned and maintained for 2016 a debt rating of “AA+” on the Certificates of Participation and “AA” on the Revenue Bonds from Standard and Poor’s. The District’s outstanding debt as of June 30, 2016 consists of three Certificate of Participation Issuances (C.O.P.’s) and three Revenue Bonds, as follows:

Year of Issuance	Use of Proceeds
2009 C.O.P.’s	Provided funds for construction of the Frontier Project, well and reservoir acquisition, and other improvements to District facilities.
2009 Clean Renewable Energy Bonds	Provided funding related to renewable energy installations in the District's Frontier Project building
2011 C.O.P.’s	Provided funds to defease the 2000 C.O.P.’s and the 2001 C.O.P.’s.
2012 Revenue Bonds	Provided funds for construction of improvements to water treatment plants and other District facilities.
2014 Revenue Bonds	Provided funds for construction of improvements to water treatment plants and other District facilities. Also used to payoff 2003 C.O.P.
2016 Revenue Bonds	Provided funds to payoff 2006 C.O.P. and a portion of the 2009 C.O.P.

### Relevant Financial Policies

#### Internal Control Structure

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

## Major Initiatives

The activities of the Board and staff at the District are driven by our mission statement, ***To Provide High-Quality, Safe, and Reliable Drinking Water and Wastewater Services, While Practicing Good Stewardship of Natural and Financial Resources.***

In addition to our mission, major District initiatives are guided by our Strategic Vision. The Strategic Vision was developed nearly eight years ago and is continually re-tooled to ensure it is reflective of our changing environment, opportunities and trends within our industry.

In 2012, the District refined its focus and direction to identify what areas are of great importance to our organization, customers and stakeholders. The primary areas of focus include ***Service, Water and People.*** ***Service*** relates to the identification of the needs of our customers and stakeholders that meets and exceeds their expectations. ***Water*** is the essential service that our organization provides and our ability to provide it consistently and at a reasonable price is imperative. The District has upgraded the treatment processes at the Lloyd Michael Water Treatment Plant (LMWTP), which will ensure our ability to meet changing regulatory requirements while continuing to provide high quality water to our customers. ***People*** are identified as the customers that we serve and the dedicated staff that provides the services to support our mission. Externally, key areas of focus include communication, education and outreach. Internally, succession planning, training and improving communication with employees is essential to our continued success. It is apparent that programs that develop effective leadership skills and encourage high performance and personal accountability are essential to prepare the next generation of leaders in our organization and industry.

## Award for Excellence in Financial Reporting

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Cucamonga Valley Water District for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2015. This was the fourteenth consecutive year that the District has received this prestigious award. In order to be awarded a Certificate of Achievement, the District published an easily readable and efficiently organized CAFR. This report satisfied both generally accepted accounting principles (GAAP) and applicable legal requirements.

GFOA financial reporting guidelines and standards exceed the minimum disclosure requirements of state law, and provide for maximum disclosure to the public. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## Acknowledgements

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the service of the District's customers. The contributions made by Chad Brantley, Finance Manager, Agnes Boros, Accounting Supervisor, and Jennifer Fillinger, Senior Accountant, deserve special recognition. We would also like to thank and recognize the members of the Board of Directors and especially the Finance Committee members for their continued support in planning and implementation of the Cucamonga Valley Water District's fiscal policies.

Respectfully submitted,



Martin Zvirbulis  
General Manager/CEO



Carrie Corder  
Assistant General Manager / CFO

# ***Cucamonga Valley Water District Board of Directors and Executive Staff***



**James V. Curatalo, *President***



**Luis Cetina, *Vice President***



**Oscar Gonzalez, *Director***



**Randall James Reed, *Director***



**Kathleen Tiegs, *Director***

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**Martin Zvirbulis  
*General Manager/CEO***



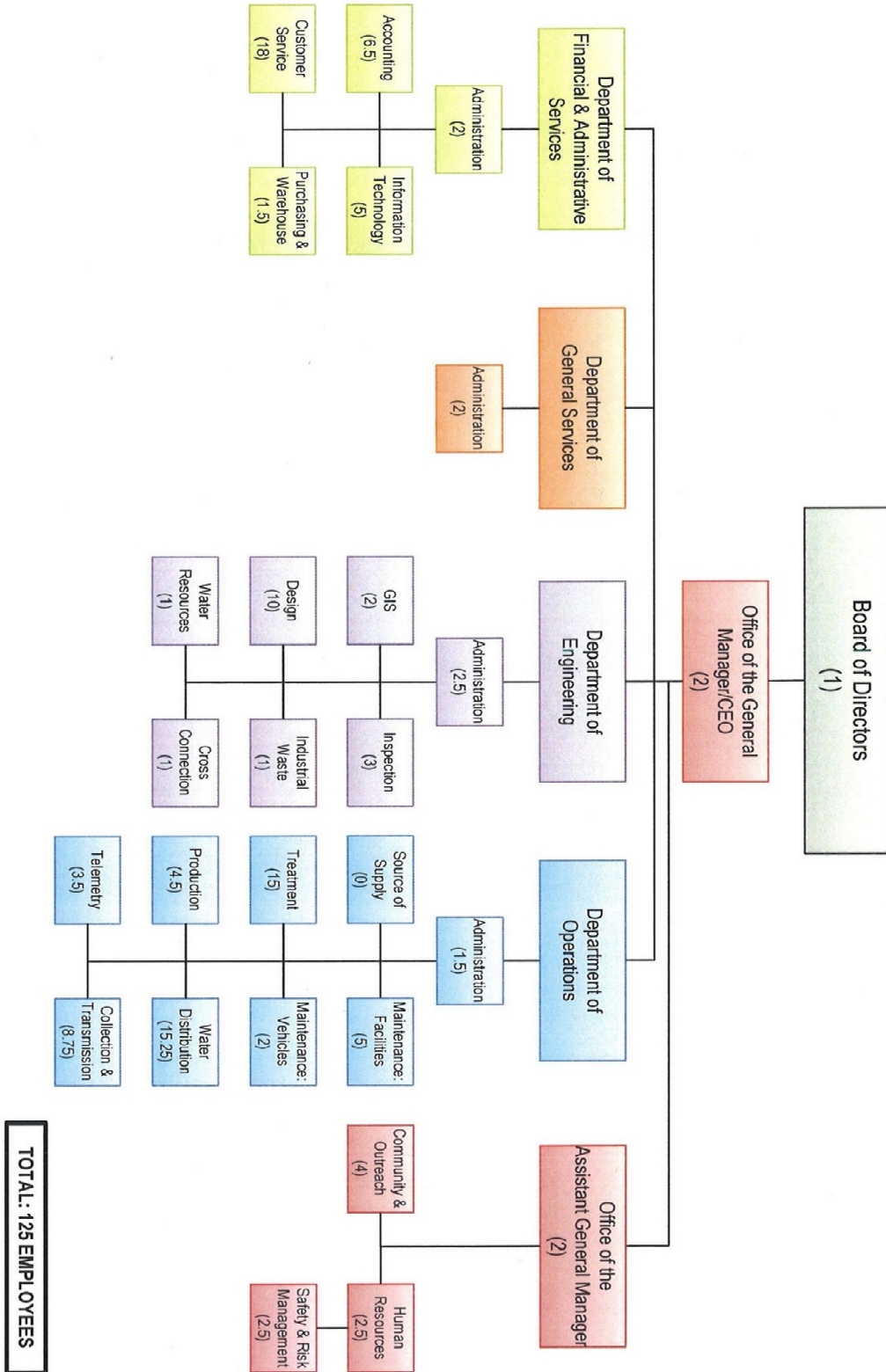
**Jo Lynne Russo-Pereyra  
*Assistant General Manager***



**John Bosler  
*Assistant General Manager / COO***



**Carrie Corder  
*Assistant General Manager / CFO***



# Our Mission

To provide high quality, safe and reliable water and wastewater services, while practicing good stewardship of natural and financial resources.

## Vision

Description	Key Characteristics
<b>People</b> – Our staff is innovative, self-managed, and takes pride of ownership in their work product and providing exceptional service ensuring highly satisfied customers and stakeholders.	<ul style="list-style-type: none"> <li>• Innovative</li> <li>• Purposeful</li> <li>• Empowered</li> <li>• Well-informed</li> <li>• Invested</li> </ul>
<b>Service</b> – We are a servant-oriented organization and provide “Service Beyond Expectation” to our internal and external customers.	<ul style="list-style-type: none"> <li>• Dependable</li> <li>• Responsive</li> <li>• Pride in Quality and Standards</li> <li>• Concierge Model of Service</li> <li>• Value</li> </ul>
<b>Water</b> – We provide a high quality, sustainable water supply that is safe and reliable, while being delivered at a cost effective price.	<ul style="list-style-type: none"> <li>• Cost-Effective</li> <li>• High Quality</li> <li>• Sustainable</li> <li>• Reliable and diversified</li> <li>• Stewardship</li> </ul>



## Culture & Values

Description	Key Characteristics
<b>Accountability</b> – We take ownership of our actions and look for innovative solutions based ideas to improve our effectiveness and service to customers.	<ul style="list-style-type: none"> <li>• Ownership</li> <li>• Solution based thinking</li> <li>• Innovation</li> <li>• Shared responsibility</li> </ul>
<b>Communication</b> – We encourage an open form of communication that provides employees and customers with information to improve their knowledge about our business operations.	<ul style="list-style-type: none"> <li>• Timely, fluid messaging</li> <li>• Two-way communication</li> <li>• Listening</li> <li>• Focused and personalized</li> <li>• Technology driven</li> </ul>
<b>Customer Service</b> – Our internal and external customer service is provided with a cooperative and collaborative approach, exceeding customer expectations.	<ul style="list-style-type: none"> <li>• Internal/External</li> <li>• Cooperative and collaborative</li> <li>• Responsive team approach</li> <li>• Service Beyond Expectation</li> </ul>



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

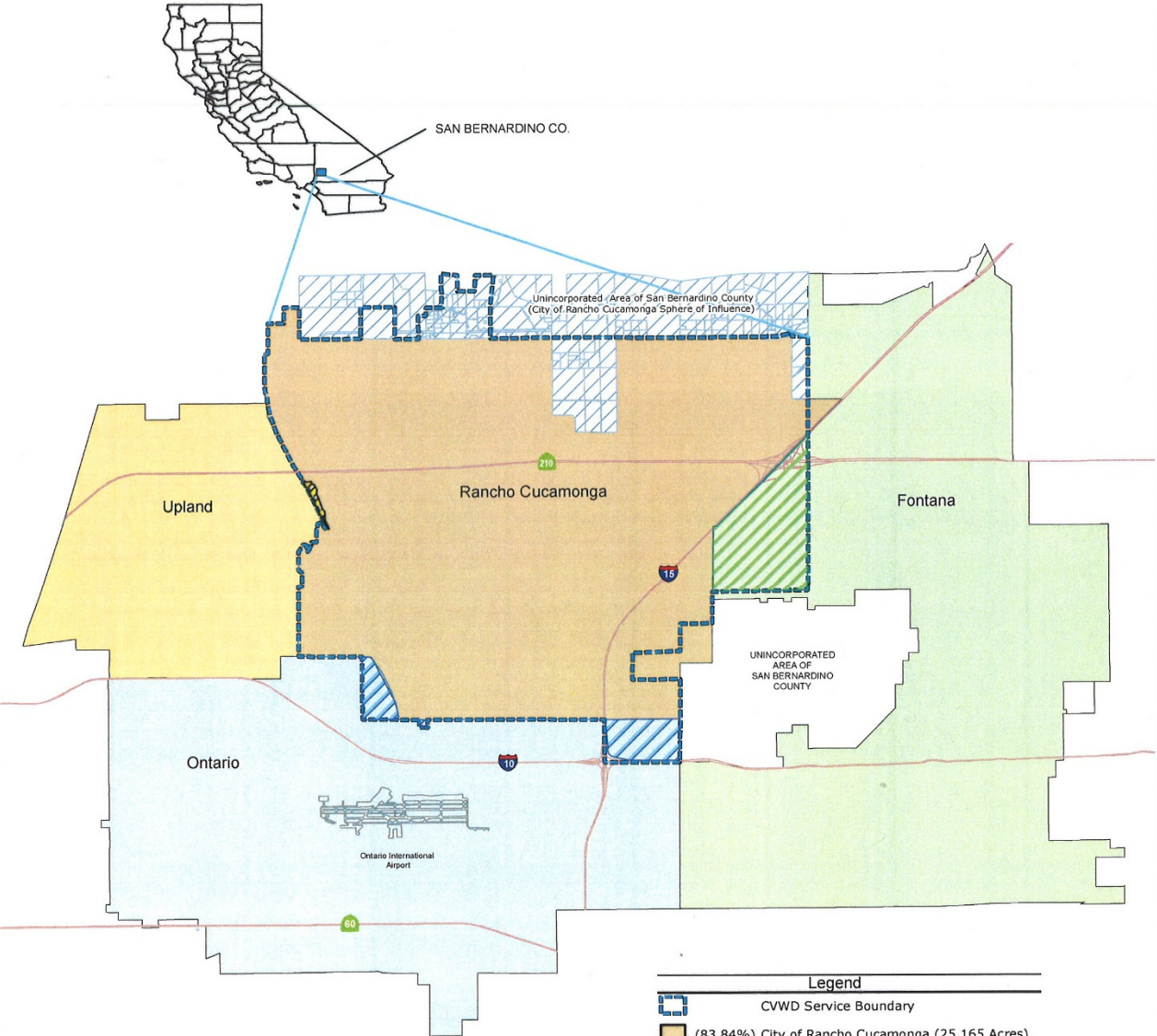
**Cucamonga Valley Water District  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO

### Cucamonga Valley Water District District Boundary



Legend	
	CVWD Service Boundary
	(83.84%) City of Rancho Cucamonga (25,165 Acres)
	(5.54%) City of Fontana (1,663 Acres)
	(4.43%) City of Ontario (1,329 Acres)
	(0.14%) City of Upland (42 Acres)
	(6.05%) Rancho Cucamonga S. O. I. (1,817 Acres)
Total Service Area = 30,016 Acres or 47 Square Miles ±	



Updated: 10/12/2016

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# **Financial Section**



## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Cucamonga Valley Water District  
Rancho Cucamonga, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements Cucamonga Valley Water District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. 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 opinions.



To the Board of Directors  
Cucamonga Valley Water District  
Rancho Cucamonga, California

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Cucamonga Valley Water District (the District) as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and related ratios, 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 opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2016 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.

Brea, California  
October 27, 2016

## CUCAMONGA VALLEY WATER DISTRICT

### *Management's Discussion and Analysis*

For the Year Ended June 30, 2016

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This section of the District's annual financial report presents our analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the basic financial statements, which follow this section.

#### **Financial Highlights**

- The District's net position increased by \$15,585 thousand or 5.29 percent.
- During the year the District's revenues increased 1.02 percent to \$84,704 thousand, while expenses decreased 4.51 percent to \$72,129.
- Capital contributions to the District amounted to \$3,010 thousand.

#### **Overview of the Financial Statements**

The discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: Financial Statements and Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### **Required Financial Statements**

The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position (page 10) 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. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position (page 11). This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows (pages 12 and 13). The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash 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 reporting period.

#### **Financial Analysis of the District**

Our analysis of the District begins on page 10 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 Position, and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that will help answer this question. Measuring the change in the District's net position - the difference between assets and liabilities - is one way to measure financial health. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation.

**Condensed Statement of Net Position**

To begin our analysis, a summary of the District's Statements of Net Position are presented in Table A-1.

TABLE A-1  
Condensed Statements of Net Position  
(In thousands of dollars)

	<b>Fiscal Year 2016</b>	<b>Fiscal Year 2015</b>	<b>Dollar Change</b>	<b>Total Percent Change</b>
Current and Noncurrent Assets	\$ 149,894	\$ 133,909 <sup>(1)</sup>	\$ 15,985	11.94%
Capital Assets	417,344	409,431	7,913	1.93%
<b>Total Assets</b>	<b>567,238</b>	<b>543,340</b>	<b>23,898</b>	<b>4.40%</b>
Deferred outflows of resources	9,298	5,795	3,503	60.45%
Long-term Liabilities	220,941	220,358	583	0.26%
Other Liabilities	40,081	30,868	9,213	29.85%
<b>Total Liabilities</b>	<b>261,022</b>	<b>251,226</b>	<b>9,796</b>	<b>3.90%</b>
Deferred inflows of resources	5,470	3,450	2,020	N/A
Net investment in Capital Assets	230,276	219,737	10,539	4.80%
Unrestricted	79,768	74,722 <sup>(1)</sup>	5,046	6.75%
<b>Total Net Position</b>	<b>\$ 310,044</b>	<b>\$ 294,459</b>	<b>\$ 15,585</b>	<b>5.29%</b>

Note (1) Beginning Net Position and assets have been restated due to prior period adjustments, see Note 20 to the basic financial statements.

As can be seen from the table above, net position increased \$15,585 thousand to \$310,044 thousand in fiscal year 2016, up from \$294,459 thousand in fiscal year 2015. The increase in Current and Noncurrent Assets can be primarily attributed to an increase in cash and cash equivalents and investments which is due to funds being held for future capital improvement projects. Capital Assets increased due to the investment of Revenue Bond proceeds and reserve funds in capital improvement projects. Short term liabilities increased due primarily to increases in both Accounts Payable for capital improvement projects in process at fiscal year-end and the Intergovernmental Payable (Note 8).

**CUCAMONGA VALLEY WATER DISTRICT***Management's Discussion and Analysis, continued*

For the Year Ended June 30, 2016

**Statement of Revenues, Expenses and Changes in Net Position**

TABLE A-2  
Condensed Statements of Revenues, Expenses and Changes in Net Position  
(In thousands of dollars)

	Fiscal Year 2016	Fiscal Year 2015	Dollar Change	Total Percent Change
Operating Revenues:				
Water Sales	\$ 47,914	\$ 45,901 <sup>(1)</sup>	\$ 2,013	4.39%
Meter Charges	14,596	13,236 <sup>(1)</sup>	1,360	10.28%
Water Services	1,267	1,244	23	1.85%
Sewer Services	17,422	16,101 <sup>(1)</sup>	1,321	8.20%
Nonoperating Revenues:				
Investment income	1,570	755	815	107.95%
Rent and lease revenue	437	405	32	7.90%
Gain on disposal of assets	-	84	(84)	(100.00)%
Other nonoperating revenue	<u>1,498</u>	<u>6,124</u>	<u>(4,626)</u>	<u>(75.54)%</u>
Total Revenues	<u>84,704</u>	<u>83,850</u>	<u>854</u>	<u>1.02%</u>
Operating Expenses:				
Source of supply	11,287	17,671	(6,384)	(36.13)%
Pumping operations	6,485	6,933	(448)	(6.46)%
Water treatment	4,381	3,270	1,111	33.98%
Transmission and distribution	3,284	3,399	(115)	(3.38)%
Collection and transmission	14,243	13,325	918	6.89%
Customer accounts	2,266	2,173	93	4.28%
General and administrative	11,134	10,473	661	6.31%
Depreciation and amortization	11,361	10,337	1,024	9.91%
Nonoperating Expenses:				
Interest expense	6,052	6,815	(763)	(11.20)%
Amortization of deferred bond costs and refunding	225	151	74	49.01%
Loss on disposal of assets	6	-	6	100.00%
Other nonoperating expenses	<u>1,405</u>	<u>985</u>	<u>420</u>	<u>42.64%</u>
Total Expenses	<u>72,129</u>	<u>75,532</u>	<u>(3,403)</u>	<u>(4.51)%</u>
Net Income/(Loss) Before				
Capital Contributions	12,575	8,318	4,257	51.18%
Capital Contributions	<u>3,010</u>	<u>2,627</u>	<u>383</u>	<u>14.58%</u>
Changes in Net Position	15,585	10,945	4,640	42.39%
Beginning Net Position	<u>294,459</u> <sup>(1)</sup>	<u>283,514</u> <sup>(1)</sup>	<u>10,945</u>	<u>3.86%</u>
Ending Net Position	<u>\$ 310,044</u>	<u>\$ 294,459</u>	<u>\$ 15,585</u>	<u>5.29%</u>

Note (1) Amounts restated due to prior period adjustments

## CUCAMONGA VALLEY WATER DISTRICT

Management's Discussion and Analysis, continued

For the Year Ended June 30, 2016

While the Statement of Net Position shows the change in financial position, the Statement of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of these changes. As can be seen in Table A-2 on page 5, net income before capital contributions of \$12,575 thousand and capital contributions of \$3,010 thousand were the sources of the increase in Net Position of \$15,585 thousand in fiscal year 2016.

A closer examination of the source of changes in net position reveals that the District's revenues increased by \$854 thousand to \$84,704 thousand in fiscal year 2016 from \$83,850 thousand in fiscal year 2015 due primarily to increases in operating revenues. In particular, water sales increased \$2,013 thousand due to the implementation of Drought Rates in order to meet the State Government mandated water conservation program that remained in effect through June 30, 2016. Meter charges increased \$1,360 thousand due to a slight increase in customer connections and a rate increase. Non-operating revenue decreased \$4,626 thousand due to a one-time grant received in the prior year. The decrease in operating expenses is due primarily to a decrease in the amount of imported water purchased driven by lower water consumption. The prior period adjustment, decreasing beginning Net Position by \$7,046 thousand, is due to a correction of an error in estimating unbilled revenue at the end of prior fiscal year (see Note 20 to Basic Financial Statements).

### Operating Revenues – Water Sales

TABLE A-2a  
Water Sales  
(In thousands of dollars)

	<b>Fiscal Year 2016</b>	<b>Fiscal Year 2015</b>	<b>Dollar Change</b>	<b>Total Percent Change</b>
Customer Type:				
Domestic	\$ 31,654	\$ 28,564 <sup>(1)</sup>	\$ 3,090	10.82%
Irrigation and Landscape	11,650	11,323 <sup>(1)</sup>	327	2.89%
Other Water Agencies	-	2,893	(2,893)	(100.00)%
Industrial	4,195	2,170 <sup>(1)</sup>	2,025	93.32%
Construction	132	633 <sup>(1)</sup>	(501)	(79.15)%
Canyon Source Water	<u>283</u>	<u>318</u>	<u>(35)</u>	(11.01)%
Total Water Sales	<u>\$ 47,914</u>	<u>\$ 45,901</u>	<u>\$ 2,013</u>	4.39%

Note (1) Amounts restated due to prior period adjustments.

Domestic water sales for the fiscal year 2016 increased \$3,090 thousand due to the net result of increasing water rates to Drought Stage 6 and the decreasing water consumption due to the State Government mandated water conservation in effect throughout the fiscal year. Water consumption by industrial customers did not decrease at the same rate as domestic, irrigation and landscape customers. Sales to other water agencies decreased \$2,893 thousand since there were no sales to San Gabriel Valley Water Company. Construction water sales decreased \$501 due to a reduction in the use of water for building activity in the service area.

## CUCAMONGA VALLEY WATER DISTRICT

Management's Discussion and Analysis, continued

For the Year Ended June 30, 2016

### Capital Asset Administration

At June 30, 2016, the District had invested \$417,344 thousand in a broad range of infrastructure as shown in Table A-3.

TABLE A-3  
Capital Assets  
(In thousands of dollars)

	Fiscal Year 2016	Fiscal Year 2015	Dollar Change	Total Percent Change
Non-Depreciable Assets:				
Land	\$ 6,876	\$ 4,565	\$ 2,311	50.62%
Water Rights	92,908	92,908	-	0.00%
Construction in Progress	<u>8,434</u>	<u>59,545</u>	<u>(51,111)</u>	(85.84)%
Total Non-Depreciable Assets	<u>108,218</u>	<u>157,018</u>	<u>(48,800)</u>	(31.08)%
Depreciable Assets:				
Intangibles	298	298	-	0.00%
Source of Supply	24,579	24,229	350	1.44%
Pumping Plant	21,618	18,134	3,484	19.21%
Transmission and Distribution	202,299	192,343	9,956	5.18%
Treatment plant	110,576	59,121	51,455	87.03%
General Water	47,832	47,220	612	1.30%
Wastewater Reclamation	5,753	5,570	183	3.29%
Pumping Station	105	105	-	0.00%
Collection and Transmission	69,036	67,827	1,209	1.78%
General Sewer	9,444	9,345	99	1.06%
General Frontier Project	<u>105</u>	<u>105</u>	<u>-</u>	0.00%
Total Depreciable Assets	491,645	424,297	67,348	15.87%
Less: Accumulated Depreciation	<u>(182,519)</u>	<u>(171,884)</u>	<u>(10,635)</u>	(6.19)%
Net Depreciable Assets	<u>309,126</u>	<u>252,413</u>	<u>56,713</u>	22.47%
Total Capital Assets, Net	<u>\$ 417,344</u>	<u>\$ 409,431</u>	<u>\$ 7,913</u>	1.93%

The following is a summary of some of the major improvements to the system during fiscal year 2016. This year's major capital asset additions include (in thousands of dollars):

Various water treatment facilities	\$ 51,455
Various water distribution mains	10,017
Pumps and pumping equipment	3,484
Land purchase	2,312
Buildings and equipment	1,383
Various sewer collection and transmission mains	1,210
Wells	350
Recycled water distribution mains and connections	182
Various developer water and sewer infrastructure	136

## CUCAMONGA VALLEY WATER DISTRICT

Management's Discussion and Analysis, continued

For the Year Ended June 30, 2016

In table A-4, the District's fiscal year 2017 Capital Budget is \$34,138 thousand for capital projects, principally for upgrading the automated meter reading network, meter replacements, groundwater treatment, pumps and pumping equipment, new water and sewer mains, and reservoir improvements. The District believes these projects can be financed from available resources provided by projected cash flows and proceeds from debt issuances. More information about the District's Capital Assets is presented in Note 5 of the Notes to Basic Financial Statements.

TABLE A-4  
Fiscal Year 2017 Capital Budget  
(In thousands of dollars)

Depreciable Assets:		
Source of Supply	\$	590
Pumping Plant		3,818
Reservoirs		3,023
Transmission and Distribution		4,741
Treatment plant		6,321
General Water		9,538
Recycled Water Distribution		300
Sewer Collection and Transmission		5,573
General Sewer		<u>234</u>
Total Depreciable Assets		34,138
Less: Accumulated Depreciation		<u>(8,150)</u>
Total Fiscal Year 2017 Capital Budget, Net	\$	<u>25,988</u>

### Debt Administration

During the year, the District's long-term debt increased \$1,152 thousand which can be attributed the normal debt principal repayments and the defeasance of the 2006 and partial defeasance of the 2009 Certificates of Participation through the issuance of the 2016 Revenue Bonds. Additional information on long term debt is presented in Note 7 to Basic Financial Statements.

TABLE A-5  
Long-Term Debt  
(In thousands of dollars)

	Fiscal Year 2016	Fiscal Year 2015	Dollar Change
Net Certificates of Participation	\$ 119,533	\$ 146,875	\$ (27,342)
Net Revenue Bonds	73,202	53,505	19,697
Leases Payable	10,533	3,457	7,076
Loan Payable	484	519	(35)
Compensated Absences	1,845	1,777	68
Net OPEB Obligation	3,510	3,083	427
Net CalPERS Pension Plan Obligation	17,999	15,885	2,114
Net PARS Pension Plan Obligation	-	598	(598)
Net Excess Benefit Plan Obligation	1,265	1,520	<u>(255)</u>
Total Long-term debt	<u>\$ 228,371</u>	<u>\$ 227,219</u>	<u>\$ 1,152</u>

## CUCAMONGA VALLEY WATER DISTRICT

Management's Discussion and Analysis, continued

For the Year Ended June 30, 2016

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### Economic Factors and Next Year's Budget and Rates

The District's Board of Directors and management considered many factors when setting the fiscal year 2016 budget, user fees, and charges. These indicators were taken into consideration when adopting the District's budget for year 2017.

TABLE A-6  
Fiscal Year 2016 Actual vs. Fiscal Year 2017 Budget  
(In thousands of dollars)

	<b>Actual Fiscal Year 2016</b>	<b>Budget Fiscal Year 2017</b>	<b>Dollar Change</b>	<b>Total Percent Change</b>
Operating Revenues	\$ 81,199	\$ 82,784	\$ 1,585	1.95%
Nonoperating Revenues	<u>3,505</u>	<u>2,219</u>	<u>(1,286)</u>	(36.69)%
Total Revenues	<u>84,704</u>	<u>85,003</u>	<u>299</u>	0.35%
Depreciation Expense	11,361	8,150	(3,211)	(28.26)%
Other Operating Expenses	53,080	59,524	6,444	12.14%
Nonoperating Expenses	<u>7,688</u>	<u>15,220</u>	<u>7,532</u>	97.97%
Total Expenses	<u>72,129</u>	<u>82,894</u>	<u>10,765</u>	14.92%
Net Income/(Loss) Before Capital Contributions	12,575	2,109	(10,466)	(83.23)%
Capital Contributions	<u>3,010</u>	<u>2,499</u>	<u>(511)</u>	(16.98)%
Changes in Net Position	15,585	4,608	(10,977)	(70.43)%
Beginning Net Position	<u>294,459</u> <sup>(1)</sup>	<u>310,044</u>	<u>15,585</u>	5.29%
Total Net Position	<u>\$ 310,044</u>	<u>\$ 314,652</u>	<u>\$ 4,608</u>	1.49%

Note (1) Beginning Net Position restated due to prior period adjustments

### Contacting the District's Assistant General Manager / CFO

This financial report is designed to provide our customers and creditors with a general overview of the District finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Carrie Corder, Assistant General Manager/CFO, at (909) 987-2591.

# CUCAMONGA VALLEY WATER DISTRICT

## Statement of Net Position

June 30, 2016

	Water Utility Fund	Sewer Utility Fund	Recycled Water Utility Fund	Frontier Project Foundation	Totals
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents (note 2)	\$ 20,320,600	\$ 7,409,309	\$ -	\$ 27,614	\$ 27,757,523
Investments (note 2)	28,078,037	31,409,328	-	-	59,487,365
Customer receivables, net	11,902,197	1,651,573	168,643	-	13,722,413
Accounts receivable	459,839	756,436	-	4,375	1,220,650
Due from other funds (note 6)	550,312	-	-	-	550,312
Accrued interest	171,704	54,661	-	-	226,365
Prepaid expense and deposit	636,731	90,504	934	-	728,169
Inventories	726,876	-	-	-	726,876
<b>TOTAL CURRENT ASSETS</b>	<b>62,846,296</b>	<b>41,371,811</b>	<b>169,577</b>	<b>31,989</b>	<b>104,419,673</b>
<b>NONCURRENT ASSETS:</b>					
Restricted Cash and cash equivalents (note 2 & 3)	12,416,949	11,594,817	-	-	24,011,766
Water in storage (note 4)	20,141,287	-	-	-	20,141,287
Prepaid bond insurance	581,238	-	-	-	581,238
Net pension asset (note 15)	604,375	120,741	14,883	-	739,999
Capital assets (note 5):					
Non-depreciable capital assets	108,085,362	129,790	2,934	-	108,218,086
Depreciable capital assets, net	262,020,779	42,188,920	4,907,140	9,305	309,126,144
<b>TOTAL NONCURRENT ASSETS</b>	<b>403,849,990</b>	<b>54,034,268</b>	<b>4,924,957</b>	<b>9,305</b>	<b>462,818,520</b>
<b>TOTAL ASSETS</b>	<b>466,696,286</b>	<b>95,406,079</b>	<b>5,094,534</b>	<b>41,294</b>	<b>567,238,193</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>					
Pension plans deferred outflows	4,491,032	927,912	95,578	-	5,514,522
Deferred charge on refunding	3,783,323	-	-	-	3,783,323
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>8,274,355</b>	<b>927,912</b>	<b>95,578</b>	<b>-</b>	<b>9,297,845</b>
<b>LIABILITIES:</b>					
Current:					
Accounts payable	7,621,512	3,597,433	91,530	18,567	11,329,042
Interest payable	2,801,412	-	-	-	2,801,412
Accrued expense payable	2,292,777	47,737	4,418	-	2,344,932
Unearned revenue	321,280	-	-	-	321,280
Customer deposits	2,324,781	-	-	-	2,324,781
Due to other funds (note 6)	-	-	550,312	-	550,312
Intergovernmental payable (note 8)	-	11,594,817	-	-	11,594,817
Water Held for Inland Empire Utilities Agency (note 9)	1,384,074	-	-	-	1,384,074
Lease payable (note 7)	1,546,326	-	-	-	1,546,326
Compensated absences payable (note 7)	780,042	144,720	20,368	-	945,130
Certificates of participation (note 7)	3,519,286	-	-	-	3,519,286
Revenue bonds (note 7)	1,385,000	-	-	-	1,385,000
Loans Payable (note 7)	-	-	34,435	-	34,435
<b>Total current liabilities</b>	<b>23,976,490</b>	<b>15,384,707</b>	<b>701,063</b>	<b>18,567</b>	<b>40,080,827</b>
Noncurrent:					
Net other post-employment benefits obligation (notes 7 & 17)	2,818,811	639,935	51,373	-	3,510,119
Net pension liability (notes 7)	15,642,255	3,377,990	243,028	-	19,263,273
Lease payable (note 7)	8,987,030	-	-	-	8,987,030
Compensated absences payable (note 7)	742,407	137,736	19,386	-	899,529
Certificates of participation, net (note 7)	116,013,584	-	-	-	116,013,584
Revenue bonds, net (note 7)	71,817,601	-	-	-	71,817,601
Loans Payable (note 7)	-	-	449,973	-	449,973
<b>Total noncurrent liabilities</b>	<b>216,021,688</b>	<b>4,155,661</b>	<b>763,760</b>	<b>-</b>	<b>220,941,109</b>
<b>TOTAL LIABILITIES</b>	<b>239,998,178</b>	<b>19,540,368</b>	<b>1,464,823</b>	<b>18,567</b>	<b>261,021,936</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>					
Pension plans deferred inflows (notes 7)	4,443,316	951,775	74,907	-	5,469,998
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>4,443,316</b>	<b>951,775</b>	<b>74,907</b>	<b>-</b>	<b>5,469,998</b>
<b>NET POSITION:</b>					
Net investment in capital assets (note 10)	183,037,586	42,318,710	4,910,074	9,305	230,275,675
Unrestricted (note 11)	47,491,561	33,523,138	(1,259,692)	13,422	79,768,429
<b>TOTAL NET POSITION</b>	<b>\$ 230,529,147</b>	<b>\$ 75,841,848</b>	<b>\$ 3,650,382</b>	<b>\$ 22,727</b>	<b>\$ 310,044,104</b>

See accompanying independent auditors' report and notes to the basic financial statements

# CUCAMONGA VALLEY WATER DISTRICT

## Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2016

	Water Utility Fund	Sewer Utility Fund	Recycled Water Utility Fund	Frontier Project Foundation	Totals
<b>OPERATING REVENUES:</b>					
Water Sales	\$ 47,111,498	\$ -	\$ 802,804	\$ -	\$ 47,914,302
Meter Charges	14,482,824	-	113,147	-	14,595,971
Water Services	1,266,310	-	354	-	1,266,664
Sewer Services	-	17,421,827	-	-	17,421,827
<b>TOTAL OPERATING REVENUES</b>	<u>62,860,632</u>	<u>17,421,827</u>	<u>916,305</u>	<u>-</u>	<u>81,198,764</u>
<b>OPERATING EXPENSES:</b>					
Source of supply	10,910,630	-	376,033	-	11,286,663
Pumping operations	6,485,127	-	-	-	6,485,127
Water treatment	4,380,765	-	-	-	4,380,765
Transmission and distribution	3,284,454	-	30	-	3,284,484
Collection and transmission	-	14,240,864	-	-	14,240,864
Customer accounts	1,960,677	302,009	3,610	-	2,266,296
General and administrative	9,139,955	1,626,073	268,672	99,418	11,134,118
Depreciation and amortization	9,543,513	1,692,532	114,044	11,217	11,361,306
<b>TOTAL OPERATING EXPENSES</b>	<u>45,705,121</u>	<u>17,861,478</u>	<u>762,389</u>	<u>110,635</u>	<u>64,439,623</u>
<b>NET OPERATING INCOME (LOSS)</b>	<u>17,155,511</u>	<u>(439,651)</u>	<u>153,916</u>	<u>(110,635)</u>	<u>16,759,141</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>					
Investment income	1,185,142	384,639	-	-	1,569,781
Taxes and assessments	35	-	-	-	35
Rent and lease revenue	437,184	-	-	-	437,184
Interest expense	(6,052,051)	-	(384)	-	(6,052,435)
Amortization of deferred charge on refunding	(225,345)	-	-	-	(225,345)
Gain (loss) on disposal of assets	(5,256)	(897)	-	-	(6,153)
Other nonoperating revenues	1,348,844	19,873	28,373	101,358	1,498,448
Other nonoperating expenses	(1,165,889)	(236,543)	(2,875)	-	(1,405,307)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>(4,477,336)</u>	<u>167,072</u>	<u>25,114</u>	<u>101,358</u>	<u>(4,183,792)</u>
<b>NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	12,678,175	(272,579)	179,030	(9,277)	12,575,349
CAPITAL CONTRIBUTIONS (note 12)	2,654,149	355,785	-	-	3,009,934
<b>CHANGE IN NET POSITION</b>	15,332,324	83,206	179,030	(9,277)	15,585,283
<b>NET POSITION - BEGINNING</b>	222,245,565	75,766,293	3,460,598	32,004	301,504,460
<b>PRIOR PERIOD ADJUSTMENT (NOTE 20)</b>	(7,048,742)	(7,651)	10,754	-	(7,045,639)
<b>NET POSITION - ENDING</b>	<u>\$ 230,529,147</u>	<u>\$ 75,841,848</u>	<u>\$ 3,650,382</u>	<u>\$ 22,727</u>	<u>\$ 310,044,104</u>

See accompanying independent auditors' report and notes to the basic financial statements

# CUCAMONGA VALLEY WATER DISTRICT

## Statement of Cash Flows

For the Year Ended June 30, 2016

	Water Utility Fund	Sewer Utility Fund	Recycled Water Utility Fund	Frontier Project Foundation	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Receipts from customers	\$ 66,498,723	\$ 17,385,389	\$ 922,792	\$ -	\$ 84,806,904
Receipts from others	9,358	-	-	-	9,358
Payment to suppliers	(27,297,908)	(14,411,630)	(460,262)	(84,281)	(42,254,081)
Payment to employees	(7,729,657)	(1,601,577)	(153,852)	-	(9,485,086)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>31,480,516</u>	<u>1,372,182</u>	<u>308,678</u>	<u>(84,281)</u>	<u>33,077,095</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>					
Due to (due from) other funds	142,571	-	(142,571)	-	-
Other noncapital financing activities	1,348,844	19,873	28,373	39,233	1,436,323
Taxes and assessments	35	-	-	-	35
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>1,491,450</u>	<u>19,873</u>	<u>(114,198)</u>	<u>39,233</u>	<u>1,436,358</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Proceeds from debt issuance	19,783,186	-	-	-	19,783,186
Principal payments - Certificates of Participation	(28,111,335)	-	-	-	(28,111,335)
Principal payments - lease payable	(1,139,607)	-	-	-	(1,139,607)
Principal payments - loan payable	-	-	(34,409)	-	(34,409)
Interest expense	(8,537,031)	-	(384)	-	(8,537,415)
Capital fees collected for/(paid to) Inland Empire Utilities Agency	-	4,439,726	-	-	4,439,726
Additions to utility plant	(16,141,140)	(523,340)	(156,812)	-	(16,821,292)
Other capital and related financing activities	(1,009,075)	(236,543)	(2,875)	-	(1,248,493)
Cash contributions received in aid of construction	2,604,149	270,285	-	-	2,874,434
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(24,334,853)</u>	<u>3,950,128</u>	<u>(194,480)</u>	<u>-</u>	<u>(20,579,205)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Investment income	1,659,624	542,072	-	-	2,201,696
Purchases of investments	(22,882,636)	(7,627,545)	-	-	(30,510,181)
Proceeds from sales and maturities of investments	18,009,819	2,580,173	-	-	20,589,992
Rent and lease revenue	437,184	-	-	-	437,184
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>(2,776,009)</u>	<u>(4,505,300)</u>	<u>-</u>	<u>-</u>	<u>(7,281,309)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	5,861,104	836,883	-	(45,048)	6,652,939
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>26,876,445</u>	<u>18,167,243</u>	<u>-</u>	<u>72,662</u>	<u>45,116,350</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 32,737,549</u>	<u>\$ 19,004,126</u>	<u>\$ -</u>	<u>\$ 27,614</u>	<u>\$ 51,769,289</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION:</b>					
Cash and cash equivalents	\$ 20,320,600	\$ 7,409,309	\$ -	\$ 27,614	\$ 27,757,523
Cash and cash equivalents - restricted	12,416,949	11,594,817	-	-	24,011,766
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u>\$ 32,737,549</u>	<u>\$ 19,004,126</u>	<u>\$ -</u>	<u>\$ 27,614</u>	<u>\$ 51,769,289</u>

(continued on next page)

See accompanying independent auditors' report and notes to the basic financial statements

# CUCAMONGA VALLEY WATER DISTRICT

## Statement of Cash Flows, continued

For the Year Ended June 30, 2016

	Water Utility Fund	Sewer Utility Fund	Recycled Water Utility Fund	Frontier Project Foundation	Totals
<b>RECONCILIATION OF OPERATING</b>					
<b>INCOME (LOSS) TO NET CASH</b>					
<b>PROVIDED (USED) BY</b>					
<b>OPERATING ACTIVITIES:</b>					
Operating income (Loss)	\$ 10,106,769	\$ (447,302)	\$ 164,670	\$ (110,635)	\$ 9,713,502
Depreciation and amortization	9,543,513	1,692,532	114,044	11,217	11,361,306
Changes in assets and liabilities:					
(Increase) Decrease in customer receivables, net	3,191,875	(91,600)	(4,267)	-	3,096,008
(Increase) Decrease in accounts receivable	6,794,472	62,813	-	-	6,857,285
(Increase) Decrease in prepaid expense and deposits	27,996	3,762	716	-	32,474
(Increase) Decrease in inventories	1,421,941	-	-	-	1,421,941
(Increase) Decrease in water in storage	(2,559,367)	-	-	-	(2,559,367)
Increase (Decrease) in accounts payable	2,644,975	291,436	15,141	15,137	2,966,689
Increase (Decrease) in accrued expense payable	(370,285)	(120,701)	(4,245)	-	(495,231)
Increase (Decrease) in deferred revenue	9,358	-	-	-	9,358
Increase (Decrease) in deposits payable	700,486	-	-	-	700,486
Increase (Decrease) in compensated absences payable	65,173	(14,167)	16,820	-	67,826
Increase (Decrease) in net other post-employment benefits obligation	328,922	82,060	15,520	-	426,502
Increase (Decrease) in net pension plans obligations plan obligation	(425,312)	(86,651)	(9,721)	-	(521,684)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b><u>\$ 31,480,516</u></b>	<b><u>\$ 1,372,182</u></b>	<b><u>\$ 308,678</u></b>	<b><u>\$ (84,281)</u></b>	<b><u>\$ 33,077,095</u></b>
<b>NONCASH INVESTING, CAPITAL AND</b>					
<b>FINANCING ACTIVITIES:</b>					
Contributions in aid of construction	\$ 50,000	\$ 85,500	\$ -	\$ -	\$ 135,500
Changes in fair value of investments	513,904	171,301	-	-	685,205
Amortization of deferred bond costs and refunding	(225,345)	-	-	-	(225,345)
<b>NET NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b><u>\$ 338,559</u></b>	<b><u>\$ 256,801</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 595,360</u></b>

See accompanying independent auditors' report and notes to the basic financial statements

## CUCAMONGA VALLEY WATER DISTRICT

### *Notes to the Basic Financial Statements*

June 30, 2016

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#### **(1) Reporting Entity and Summary of Significant Accounting Policies**

##### **A. Organization and Operations of the Reporting Entity**

The reporting entity Cucamonga Valley Water District (“District”) includes the accounts of the District, the Cucamonga Public Facilities Corporation, the Cucamonga Valley Water District Financing Authority and Frontier Project Foundation.

The District was incorporated as Cucamonga County Water District in March of 1955, under the provisions of the County Water District Law, Division 12 of the California Water Code. In fiscal year 2003-2004, the name of the District was changed to Cucamonga Valley Water District. The District’s 47 square mile service area lies in western San Bernardino County and includes the City of Rancho Cucamonga, portions of the cities of Fontana, Upland, Ontario and some unincorporated areas.

During 1987-88, the Cucamonga Public Facilities Corporation (“Corporation”) was formed to issue Certificates of Participation (C.O.P.’s). The Corporation transfers C.O.P. proceeds to the District in exchange for notes receivable bearing the same terms as the C.O.P.’s. The District’s five (5) member Board of Directors is appointed as the Cucamonga Public Facilities Corporation’s governing board. In the combined financial statements, interfund transactions between the Corporation and District have been eliminated. Amounts eliminated include \$119,532,870 in interfund receivable/payable on the statement of net position, \$3,906,249 in interest expense and \$13,269 in investment income on the statement of revenues, expenses and changes in net position, and \$7,587,523 in interest expense on the statement of cash flows. Separate financial statements are not available.

During 2012, the Cucamonga Valley Water District Financing Authority (“Financing Authority”) was formed to issue Revenue Bonds. The Financing Authority transfers Revenue Bond proceeds to the District in exchange for notes receivable bearing the same terms as the Revenue Bonds. The District’s five (5) member Board of Directors is appointed as the Financing Authority’s governing board. In the combined financial statements, interfund transactions between the Financing Authority and District have been eliminated. Amounts eliminated include \$73,202,601 in interfund receivable/payable on the statement of net position, \$2,145,802 in interest expense and \$14,296 in investment income on the statement of revenues, expenses and changes in net position, and \$949,508 in interest expense on the statement of cash flows. Separate financial statements are available by the District.

The Frontier Project Foundation (“Foundation”) is a nonprofit public benefit corporation formed for the purposes of (i) creating an interactive indoor and outdoor educational center to demonstrate current and future building design methods and techniques that promote resource conservation, (ii) aiding, promoting and advancing the principles of sustainable design in California living and working environments, (iii) educating residents and business owners of the surrounding communities on how to incorporate sustainable design standards in their residence and businesses, (iv) engaging in other activities in furtherance of the purposes for which the Foundation was formed, and (v) receiving, investing and utilizing funds and property acquired through solicitation of contributions, donations, grants, gifts, bequests and the like for the purposes for which the Foundation was formed. The Foundation is governed by a Board of Directors, which consists of the District’s Board of Directors and up to four additional members appointed by the District’s Board of Directors. Currently, the District’s Board of Directors has chosen not to fill any of the four open positions. Separate financial statements are available by the District.

# CUCAMONGA VALLEY WATER DISTRICT

## Notes to the Basic Financial Statements

June 30, 2016

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### (1) Reporting Entity and Summary of Significant Accounting Policies, continued

#### A. Organization and Operation of the Reporting Entity, continued

The criteria used in determining the scope of the reporting entity is based on the provisions of GASB Statement No. 14 and the amendments 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 District 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 District. The District has accounted for the Corporation, the Financing Authority, and Foundation as "blended" component units. Despite being legally separate, these entities are so intertwined with the District that they are in substance, part of the District's operations. Accordingly, the balances and transactions of the Corporation and the Financing Authority are reported within the Water Utility Fund of the District, while the Foundation is accounted for in its own fund. Separate financial statements are not issued for the Corporation. The separate financial statements of the Financing Authority or the Foundation may be obtained from the District's office.

#### B. Basis of Accounting and Measurement Focus

The District reports its activities as a set of proprietary funds. This means that the District utilizes the economic resources measurement focus which emphasizes limitations on the use of net position. This is similar to a private-sector business. Revenues and expenses are recognized on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flow takes place.

Operating revenues, such as charges for services (water sales, sewer services and water services) 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. Nonoperating revenues, such as property taxes and investment income, result from nonexchange transactions or ancillary activities in which the District gives (receives) value without directly receiving (giving) equal value in exchange.

When both restricted and unrestricted resources are available for use, the District uses restricted resources and then unrestricted resources.

The funds of the District are described below:

**Water Utility Fund** – This fund is used to account for the operations of the District's water system and related revenues.

**Sewer Utility Fund** – This fund is used to account for the operations of the District's wastewater system and related revenues.

**Recycled Water Utility Fund** – This fund is used to account for the operations of the District's recycled water system and related revenues.

**Frontier Project Foundation** – This fund is used to account for the activities related to the Frontier Project Foundation.

#### C. Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"* (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

## CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2016

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### (1) Reporting Entity and Summary of Significant Accounting Policies, continued

#### C. Financial Reporting, continued

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net position replaces the balance sheet and reports assets, liabilities, and the difference between them as net position, not equity. A statement of revenues, expenses and changes in net position replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

The District adopted GASB Statement No. 62, Codification of Accounting and Financial Reporting for Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which established accounting and financial reporting standards for financial statements of state and local governments.

#### D. Operating and Nonoperating Revenues and Expenses

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the distribution and transmission of potable and recycled water to users, and the operation and maintenance of the sewer network within the District. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### E. Assets, Liabilities and Net Position

##### 1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles (GAAP) in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

##### 2. Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of 3 months or less.

##### 3. Investments and Investment Policy

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The District participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to change in interest rates.

## CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2016

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### (1) Reporting Entity and Summary of Significant Accounting Policies, continued

#### E. Assets, Liabilities and Net Position, continued

##### 4. Customer Receivables

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

##### 5. Inventory

Materials and supplies inventory consists primarily of water meters, pipe and pipefittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using a weighted average method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

##### 6. Prepaid Expense and Deposit

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

##### 7. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost (or estimated historical cost) and updated for additions and retirements during the year. Donated assets are recorded at their fair market value as of the date received. The District maintains a capitalization threshold of \$5,000. 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 cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

- Intangible Plant – 40 years
- Source of Supply Plant – 50 years
- Pumping Plant – 10 to 20 years
- Treatment Plant – 40 years
- Collection, Transmission and Distribution Plant – 50 years
- General Plant – 5 to 50 years

##### 8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District only has two items that qualify for reporting in this category on the Statement of Net Position. The first item is the pension plan deferred outflows, which are the difference between expected and actual experience, the net difference between projected and actual earnings on pension plan investments and the employer contributions for the current fiscal year. The second item is a deferred charge on refunding which results from the difference in the net carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**CUCAMONGA VALLEY WATER DISTRICT**

*Notes to the Basic Financial Statements, continued*

June 30, 2016

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**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**E. Assets, Liabilities and Net Position, continued**

**8. Deferred Outflows/Inflows of Resources, continued**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as inflow of resources in the period that the amounts become available. The District has one item that qualifies for reporting in this category on the Statement of Net Position. Pension plan deferred inflows result from the change in assumptions, the difference between expected and actual experience and the difference between projected and actual earnings on the assets invested in the pension plan.

**9. Compensated Absences**

The District's policy is to permit employees to accumulate a maximum of 200 hours of vacation and an unlimited amount of sick leave. Accumulated vacation time is accrued for the District's obligation to the employees for the amount owed up to the maximum of 200 hours. Sick leave is accrued at 50% of the earned balance in keeping with the District's policy of 50% pay out upon retirement or death of the employee. Upon retirement, the remaining 50% sick leave balance is reported to CalPERS for application to the employee's service credit.

**10. Long-Term Debt**

Long-term debt and other financial obligations are reported as liabilities in the appropriate funds. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**11. Net Pension Liability**

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

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, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	July 1, 2014 to June 30, 2015

**12. Restricted Assets and Amounts Payable from Restricted Assets**

Amounts shown as restricted assets have been restricted by bond indentures or are to be used for specified purposes based on contract provisions, such as bonded debt service. Certain liabilities which are currently payable have been classified as current liabilities payable from restricted assets since assets have been restricted for their payment.

## CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2016

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### (1) Reporting Entity and Summary of Significant Accounting Policies, continued

#### E. Assets, Liabilities and Net Position, continued

##### 13. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets.
- **Restricted Net Position** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – This component of net position consists of net position that does not meet the definition of *restricted* or *net investment in capital assets*

##### 14. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the District financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

##### 15. Water Sales

Water sales are billed on a bi-monthly cyclical basis. Estimated unbilled water revenue through June 30 has been accrued at year-end.

##### 16. Capital Contributions

Contributions in aid of construction represent cash and utility plant additions contributed to the District by property owners or developers desiring services that require capital expenditures or capacity commitment. In accordance with Governmental Accounting Standards Board Statement No. 33, the capital contributions are recorded on the Statement of Revenues, Expenses and Changes in Net Position.

The following special charges levied by the District against newly-connecting customers are being accounted for as contributions in aid of construction:

Water Development Fees: Range from \$9,116 to \$729,246 based on meter size.

Sewer Development Fees: Range from \$1,239 to \$99,140 based on meter size.

##### 17. Budgetary Policies

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

## CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2016

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### (1) Reporting Entity and Summary of Significant Accounting Policies, continued

#### E. Assets, Liabilities and Net Position, continued

##### 18. Effect of New Accounting Standards

During the fiscal year ended June 30, 2016 the District implemented the following Governmental Accounting Standards Board (GASB) standards:

##### **GASB Statement No. 72 – Fair Value Measurement and Application**

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair values measurements. The requirements of this Statement are effective for financial statement reporting periods beginning after June 15, 2015.

The GASB has issued pronouncements prior to June 30, 2016 that have effective dates that may impact future financial presentations; however, the impact of the implementation of each of the statements below to the District's financial statements has not been addressed at this time.

##### **GASB Statement No. 73 – Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.**

The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016.

### (2) Cash and Investments

Cash and investments are reported in the accompanying statement of net position as follows:

Unrestricted:		
Cash and cash equivalents	\$	27,757,523
Investments		59,487,365
Restricted:		
Cash and cash equivalents with fiscal agent		<u>24,011,766</u>
Total cash and investments	\$	<u><u>111,256,654</u></u>

## CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2016

### (2) Cash and Investments, continued

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

Cash on hand	\$	4,100
Deposits with financial institutions		4,313,092
Investments		106,939,462
	\$	<u>111,256,654</u>

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

The table below identifies the investment types that are authorized by the District in accordance with 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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
United States (U.S.) Treasury Obligations	5 years	100%	None
U.S. Agency Securities	5 years	100%	None
Banker's Acceptances	180 days	20%	30%
Negotiable Certificates of Deposits	5 years	30%	None
Time Certificates of Deposits	1 year	30%	None
Commercial Paper	270 days	40%	10%
Medium-Term Corporate Notes	5 years	30%	None
Local Agency Investment Fund (LAIF)	N/A	100%	\$40,000,000
Repurchase Agreements	90 days	10%	None
Money Market Funds	N/A	20%	None
State and Local Agencies Notes or Bonds	5 years	30%	None
Supranational	5 years	30%	None

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

#### **Investments Authorized by Debt Agreements**

Investments 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. Investments authorized for funds held by bond trustee include, U.S. Treasury Obligations, U.S. Government Sponsored Enterprise Securities, the California Local Agency Investment Fund, Guaranteed Investment Contracts, Commercial Paper, Local Agency Bonds, Banker's Acceptance and Money Market Mutual Funds. There were no limitations on the maximum amount that can be invested in one issuer, maximum percentage allowed or the maximum maturity of an investment, except for the maturity of Banker's Acceptance which are limited to one year.

## CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2016

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### (2) Cash and Investments, continued

#### ***Custodial Credit Risk***

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The 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. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

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 had deposits with a bank balance of \$5,471,619 as of June 30, 2016. Of the bank balance, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name. The District CFO may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the FDIC.

#### ***Investment in State Investment Pool***

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not rated by a nationally recognized statistical rating organization, but, as stated previously, it is regulated by the California Government Code, and is therefore exempt from rating requirements.

#### ***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 will be to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**CUCAMONGA VALLEY WATER DISTRICT**

Notes to the Basic Financial Statements, continued

June 30, 2016

**(2) Cash and Investments, continued**

Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations and their fair value measurement levels are provided by the following table that shows the distribution of the District’s investments by maturity date:

Investment Type	Remaining Maturity (in Months)			Total	Level		
	12 Months or Less	13 - 24 Months	25 - 60 Months		1	2	3
U.S. Agency Securities:							
Federal National Mortgage Association	\$ -	\$ 2,007,920	\$ 4,096,598	\$ 6,104,518	\$ 6,104,518	\$ -	\$ -
Federal Home Loan Mortgage Corporation	-	-	590,813	590,813	590,813	-	-
Federal Agricultural Mortgage Corporation	-	2,007,860	-	2,007,860	2,007,860	-	-
U.S. Treasuries	-	957,343	25,089,783	26,047,126	26,047,126	-	-
Municipal Bonds	-	953,257	-	953,257	-	953,257	-
Medium-term Corporate Notes	1,010,677	5,584,223	7,561,763	14,156,663	-	14,156,663	-
Negotiable Certificates of Deposit	3,447,662	5,000,000	-	8,447,662	-	8,447,662	-
Supranational Obligations	-	-	1,153,945	1,153,945	-	1,153,945	-
Local Agency Investment Fund (LAIF)	35,295,400	-	-	35,295,400	-	35,295,400	-
Money Market Funds	25,523	-	-	25,523	-	25,523	-
Cash with fiscal agent:							
Local Agency Investment Fund (LAIF)	4,738,204	-	-	4,738,204	-	4,738,204	-
Money Market Funds	7,418,491	-	-	7,418,491	-	7,418,491	-
	<u>\$ 51,935,957</u>	<u>\$ 16,510,603</u>	<u>\$ 38,492,902</u>	<u>\$ 106,939,462</u>	<u>\$ 34,750,317</u>	<u>\$ 72,189,145</u>	<u>\$ -</u>

Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Municipal bonds, corporate notes and CD’s, supranational obligations, local agency investments and money market funds classified in Level 2 of the fair value hierarchy are valued using a matrix pricing model. Matrix pricing is used to value securities based on the securities’ relationship to benchmark quoted prices.

**Credit Risk**

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 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.

Investment Type	Minimum Legal Rating	Rating	6/30/2016
U.S. Agency Securities:			
Federal National Mortgage Association	AA+	AA+	\$ 6,104,518
Federal Home Loan Mortgage Corporation	AA+	AA+	590,813
Federal Agricultural Mortgage Corporation	AA+	AA+	2,007,860
U.S. Treasuries	AA+	AA+	26,047,126
Municipal Bonds	A	A	953,257
Medium-term Corporate Notes	A	AAA	250,997
		AA+	2,447,260
		AA-	4,292,630
		AA	76,226
		A+	929,295
		A	3,392,842
		A-	1,965,000
		BBB+	802,413
Negotiable Certificates of Deposit	N/A	N/A	8,447,662
Supranational Obligations	A	AAA	1,153,945
Local Agency Investment Fund (LAIF)	N/A	N/A	35,295,400
Money Market Funds	A	AAA	25,523
Cash with fiscal agent:			
Local Agency Investment Fund (LAIF)	N/A	N/A	4,738,204
Money Market Funds	A	AAA	7,418,491
			<u>\$ 106,939,462</u>

## CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2016

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### (2) Cash and Investments, continued

#### Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District's investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>	<u>Percent of Investments</u>
Federal National Mortgage Association	U.S. Agency Securities	\$ 6,104,518	5.71%

### (3) Restricted Assets

Restricted assets were provided by, and are to be used for, the following:

<u>Funding Source</u>	<u>Use</u>	<u>Amount</u>
Sewer Facility Fees	Construction of Sewer Treatment Facility (Note 8)	\$ 11,594,817
Debt service reserves	Funds held in reserve for outstanding debt	2,119,872
Debt Proceeds	Construction of specific assets outlined in issues	<u>10,297,077</u>
		<u>\$ 24,011,766</u>

### (4) Water in Storage

The District is entitled to water in the Chino Basin. To accommodate future growth, the District has purchased additional water from other purveyors within the Basin, which is stored in the Basin. The water is intended for use in future years. As of June 30, 2016, the District's unsold water purchases amounted to \$20,141,287.

# CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2016

## (5) Capital Assets

Changes in capital assets for the year were as follows:

	Balance July 1, 2015	Additions/ Transfers	Retirements/ Transfers	Balance June 30, 2016
<b>Non-Depreciable Assets:</b>				
Water:				
Land	\$ 4,564,556	\$ 2,311,531	\$ -	\$ 6,876,087
Water rights	92,907,569	-	-	92,907,569
Construction in progress	58,524,636	15,759,820	(65,982,750)	8,301,706
Sewer:				
Construction in progress	992,814	182,863	(1,045,887)	129,790
Recycled Water:				
Construction in progress	27,637	156,811	(181,514)	2,934
Total non-depreciable assets	<u>157,017,212</u>	<u>18,411,025</u>	<u>(67,210,151)</u>	<u>108,218,086</u>
<b>Depreciable assets:</b>				
Water:				
Intangibles	170,295	-	-	170,295
Source of supply	24,228,690	350,495	-	24,579,185
Pumping plant	18,133,894	3,484,342	-	21,618,236
Transmission and distribution	192,342,734	10,016,577	(60,468)	202,298,843
Treatment plant	59,121,106	51,454,683	-	110,575,789
Office buildings and equipment	47,220,066	1,120,419	(508,036)	47,832,449
Sewer:				
Intangibles	127,819	-	-	127,819
Pumping station	104,726	-	-	104,726
Collection and transmission	67,826,656	1,209,580	-	69,036,236
Office buildings and equipment	9,345,299	262,284	(163,533)	9,444,050
Recycled Water:				
Waste water reclamation	5,565,988	181,515	-	5,747,503
General recycled water	5,000	-	-	5,000
Frontier Project Foundation:				
Office equipment	105,274	-	-	105,274
Total depreciable assets	<u>424,297,547</u>	<u>68,079,895</u>	<u>(732,037)</u>	<u>491,645,405</u>
<b>Less: accumulated depreciation</b>				
Water:				
Intangibles	(114,061)	(4,944)	-	(119,005)
Source of supply	(6,804,880)	(486,116)	-	(7,290,996)
Pumping plant	(8,945,894)	(672,966)	-	(9,618,860)
Transmission and distribution	(70,897,156)	(4,241,821)	60,468	(75,078,509)
Treatment plant	(31,385,500)	(2,517,650)	-	(33,903,150)
General water	(17,926,261)	(1,620,017)	502,780	(19,043,498)
Sewer:				
Intangibles	(64,703)	(3,195)	-	(67,898)
Pumping station	(55,822)	(4,383)	-	(60,205)
Collection and transmission	(30,513,844)	(1,319,689)	-	(31,833,533)
General sewer	(4,359,646)	(365,264)	162,635	(4,562,275)
Recycled Water:				
Waste water reclamation	(726,319)	(114,044)	-	(840,363)
General recycled water	(5,000)	-	-	(5,000)
Frontier Project Foundation:				
General Frontier Project	(84,752)	(11,217)	-	(95,969)
Total accumulated depreciation	<u>(171,883,838)</u>	<u>(11,361,306)</u>	<u>725,883</u>	<u>(182,519,261)</u>
Total depreciable assets, net	<u>252,413,709</u>	<u>56,718,589</u>	<u>(6,154)</u>	<u>309,126,144</u>
Total capital assets, net	<u>\$ 409,430,921</u>	<u>\$ 75,129,614</u>	<u>\$ (67,216,305)</u>	<u>\$ 417,344,230</u>

Capital asset additions include \$2,323,977 in capitalized interest. The total amount of interest incurred for the year ended June 30, 2016 was \$6,052,435.

**CUCAMONGA VALLEY WATER DISTRICT**

Notes to the Basic Financial Statements, continued

June 30, 2016

**(6) Interfund Receivables, Payables, and Transfers**

The composition of interfund balances as of June 30, 2016, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Utility Fund	Recycled Water Utility Fund	<u>\$ 550,312</u>

**(7) Long-term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2016, are as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2016</u>	<u>Current Portion</u>
Certificates of participation	\$ 138,714,285	\$ -	\$(26,599,286)	\$ 112,114,999	\$ 3,519,286
Deferred bond premium	8,160,527	-	(742,656)	7,417,871	-
Net certificates of participation	146,874,812	-	(27,341,942)	119,532,870	3,519,286
Revenue Bonds	48,605,000	19,940,000	(1,340,000)	67,205,000	1,385,000
Deferred bond premium	4,900,530	1,343,351	(246,280)	5,997,601	-
Net Revenue Bonds	53,505,530	21,283,351	(1,586,280)	73,202,601	1,385,000
CalPERS Pension Plan Obligation (Note 14)	15,884,848	2,113,745	-	17,998,593	-
PARS Pension Plan Obligation (Note 15)	597,810	-	(597,810)	-	-
Excess Benefit Plan Obligation (Note 16)	1,520,054	-	(255,374)	1,264,680	-
Net Pension Liability	18,002,712	2,113,745	(853,184)	19,263,273	-
Leases payable	3,456,963	8,216,000	(1,139,607)	10,533,356	1,546,326
Loan Payable	518,817	-	(34,409)	484,408	34,435
Compensated absences	1,776,833	1,012,956	(945,130)	1,844,659	945,130
Net OPEB Obligation (note 17)	3,083,617	1,414,502	(988,000)	3,510,119	-
	<u>\$ 227,219,284</u>	<u>\$ 34,040,554</u>	<u>\$(32,888,552)</u>	<u>\$ 228,371,286</u>	<u>\$ 7,430,177</u>

Certificates of participation principal balances for the year ended June 30, 2016 are as follows:

2009 Certificates of Participation	\$ 9,185,000
2011 Certificates of Participation	102,725,000
2009 Clean Renewable Energy Bonds	204,999
	<u>\$ 112,114,999</u>

Revenue Bond principal balances for the year ended June 30, 2016 are as follows:

2012 Revenue Bonds	\$ 35,755,000
2014 Revenue Bonds	11,510,000
2016 Revenue Bonds	19,940,000
	<u>\$ 67,205,000</u>

**CUCAMONGA VALLEY WATER DISTRICT**

*Notes to the Basic Financial Statements, continued*

June 30, 2016

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**(7) Long-term Liabilities, continued**

Leases Payable principal balances for the year ended June 30, 2016 are as follows:

2007 Fixed Network Meter Replacement	\$	1,159,446
2010 Fixed Network Meter Replacement		1,528,766
2016 Fixed Network Meter Replacement		<u>7,845,144</u>
	\$	<u>10,533,356</u>

**2009 Certificates of Participation**

In April 2009, the Cucamonga Public Facilities Corporation issued Certificates of Participation in the amount of \$27,960,000. The proceeds were used to fund the acquisition and construction of certain capital improvements and equipment, to provide for a reserve fund, and to pay for the costs of issuance.

The 2009 Certificates of Participation are scheduled to mature annually on September 1, 2010 to September 1, 2020 in amounts ranging from \$1,420,000 to \$2,005,000. Interest is payable semiannually on March 1 and September 1 of each year with interest rates ranging from 2% to 5.625%.

Debt service requirements on the 2009 Certificates of Participation are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,685,000	\$ 614,675	\$ 2,299,675
2018	1,755,000	541,488	2,296,488
2019	1,825,000	456,375	2,281,375
2020	1,915,000	255,500	2,170,500
2021	<u>2,005,000</u>	<u>50,125</u>	<u>2,055,125</u>
	<u>\$ 9,185,000</u>	<u>\$ 1,918,163</u>	<u>\$ 11,103,163</u>

**2011 Certificates of Participation**

In August 2011, the Cucamonga Public Facilities Corporation issued Certificates of Participation in the amount of \$109,475,000. The proceeds of the Certificates were used to defease the 2000 Certificates of Participation outstanding in the amount of \$84,860,000 and to defease the 2001 Certificates of Participation outstanding in the amount of \$33,315,000.

The deferred amount on the refunding (the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt) was \$3,477,217. At June 30, 2016 the remaining unamortized deferred amount of \$2,762,045 on the refunding is shown as a deferred outflow of resources.

The advance refunding resulted in an economic gain of \$10,690,420 (difference between the present value of the annual debt service payments between old and new debt) and a decrease in debt service payments of \$14,234,377.

The 2011 Certificates are scheduled to mature annually on September 1, 2016 to September 1, 2036 in amounts ranging from \$1,655,000 to \$8,315,000. Interest is payable semi-annually on March 1 and September 1 of each year ranging from 0.25% to 5.375%.

**CUCAMONGA VALLEY WATER DISTRICT***Notes to the Basic Financial Statements, continued*

June 30, 2016

**(7) Long-term Liabilities, continued**

Debt service requirements on the 2011 Certificates of Participation are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,805,000	\$ 5,085,988	\$ 6,890,988
2018	1,880,000	5,012,287	6,892,287
2019	1,945,000	4,935,788	6,880,788
2020	2,015,000	4,861,662	6,876,662
2021	2,085,000	4,790,163	6,875,163
2022-2026	21,130,000	21,919,869	43,049,869
2027-2031	35,860,000	14,450,625	50,310,625
2032-2036	36,005,000	4,780,568	40,785,568
	<u>\$ 102,725,000</u>	<u>\$ 65,836,950</u>	<u>\$ 168,561,950</u>

**2009 Clean Renewable Energy Bonds**

In April 2009, the Cucamonga Public Finance Corporation issued Certificates of Participation in the amount \$410,000 under the provisions of the American Recovery and Reinvestment Act ("Act"). Under the Act, public agencies may issue Clean Renewable Energy Bonds ("CREBs"), which are interest-free loans for projects that promote clean renewable energy. In return for their investments, investors are allowed a tax credit under this provision. Since the investor is making money in the form of a tax credit, no imputed interest will be calculated. The proceeds were used to fund renewable energy initiatives related to the construction of the Frontier Project building.

The 2009 Clean Renewable Energy Bonds are scheduled to mature annually on September 1, 2016 through September 1, 2022 in the amount of \$29,286.

Debt service requirements on the 2009 Clean Renewable Energy Bonds are as follows:

<u>Year</u>	<u>Principal</u>
2017	\$ 29,286
2018	29,286
2019	29,286
2020	29,285
2021	29,285
2022-2023	58,571
	<u>\$ 204,999</u>

**2012 Revenue Bonds**

In October 2012, the Cucamonga Valley Water District Financing Authority issued Revenue Bonds in the amount of \$37,885,000. The proceeds were used to fund the acquisition and construction of certain capital improvements and equipment, and to pay for the costs of issuance.

**CUCAMONGA VALLEY WATER DISTRICT***Notes to the Basic Financial Statements, continued*

June 30, 2016

**(7) Long-term Liabilities, continued**

The 2012 Revenue Bonds are scheduled to mature annually on September 1, 2016 to September 1, 2042 in amounts ranging from \$690,000 to \$2,215,000. Interest is payable semiannually on March 1 and September 1 of each year with interest rates ranging from 2.5% to 4%.

Debt service requirements on the 2012 Certificates of Participation are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 760,000	\$ 1,510,387	\$ 2,270,387
2018	795,000	1,479,288	2,274,288
2019	825,000	1,446,888	2,271,888
2020	860,000	1,413,188	2,273,188
2021	895,000	1,378,087	2,273,087
2022-2026	5,055,000	6,311,837	11,366,837
2027-2031	6,010,000	5,350,137	11,360,137
2032-2036	7,135,000	4,227,938	11,362,938
2037-2041	9,095,000	2,263,875	11,358,875
2042-2043	4,325,000	218,875	4,543,875
	<u>\$ 35,755,000</u>	<u>\$ 25,600,500</u>	<u>\$ 61,355,500</u>

**2014 Revenue Bonds**

In October 2012, the Cucamonga Valley Water District Financing Authority issued Revenue Bonds in the amount of \$12,150,000. The proceeds were used to fund the acquisition and construction of certain capital improvements and equipment, to refund the outstanding 2003 Certificates of Participation, and to pay for the costs of issuance.

The 2014 Revenue Bonds are scheduled to mature annually on September 1, 2016 to September 1, 2029 in amounts ranging from \$605,000 to \$1,575,000. Interest is payable semiannually on March 1 and September 1 of each year with interest rates ranging from 2.5% to 5%.

Debt service requirements on the 2014 Certificates of Participation are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 625,000	\$ 494,838	\$ 1,119,838
2018	655,000	469,238	1,124,238
2019	675,000	439,263	1,114,263
2020	710,000	408,188	1,118,188
2021	735,000	379,288	1,114,288
2022-2026	4,675,000	1,236,065	5,911,065
2027-2030	3,435,000	264,695	3,699,695
	<u>\$ 11,510,000</u>	<u>\$ 3,691,575</u>	<u>\$ 15,201,575</u>

## CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2016

### (7) Long-term Liabilities, continued

#### 2016 Revenue Bonds

In February 2016, the Cucamonga Valley Water District Financing Authority issued Revenue Bonds in the amount of \$19,940,000. The proceeds were used to pay off the outstanding Cucamonga Valley Water District 2006 Certificates of Participation, a portion of the 2009 Certificates of Participation, and to pay costs incurred in connection with the issuance of the bonds. The 2016 Revenue Bonds are scheduled to mature annually on September 1, 2017 to September 1, 2036 in amounts ranging from \$395,000 to \$9,250,000. Interest is payable semiannually on March 1 and September 1 of each year with interest rates ranging from 3% to 5%. The advance refunding resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$ 4,122,694 and a reduction of cash flow payments of approximately \$ 4,967,314.

Debt service requirements on the 2016 Certificates of Participation are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 788,131	\$ 788,131
2018	395,000	752,763	1,147,763
2019	435,000	736,162	1,171,162
2020	455,000	718,363	1,173,363
2021	485,000	697,137	1,182,137
2022-2026	4,905,000	2,447,188	7,352,188
2027-2031	-	2,198,812	2,198,812
2032-2036	4,015,000	1,910,063	5,925,063
2037	9,250,000	144,531	9,394,531
	<u>\$ 19,940,000</u>	<u>\$ 10,393,150</u>	<u>\$ 30,333,150</u>

#### 2007 Fixed Network Meter Replacement Capital Lease Payable

The District entered into an agreement dated December 17, 2007 with LaSalle Bank National Bank Association to finance the purchase of certain equipment related to the District's fixed network retrofit and meter exchange program in the amount of \$5,720,765. The lease purchase agreement required semi-annual payments on June 17 and December 17 of each year of \$354,268 at an interest rate of 4.26%.

On December 17, 2010, the District refinanced the lease with Chase Equipment Finance. The total amount refinanced was \$4,292,371. The lease refinance agreement requires quarterly payments of \$170,608 at an interest rate of 2.98%.

Debt service requirements on the 2007 fixed network meter replacement capital lease payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 655,156	\$ 27,275	\$ 682,431
2018	504,290	7,533	511,823
	<u>\$ 1,159,446</u>	<u>\$ 34,808</u>	<u>\$ 1,194,254</u>

**CUCAMONGA VALLEY WATER DISTRICT***Notes to the Basic Financial Statements, continued*

June 30, 2016

**(7) Long-term Liabilities, continued*****2010 Fixed Network Meter Replacement Capital Lease Payable***

The District entered into an agreement dated October 1, 2010 with Chase Equipment Finance to finance the purchase of certain equipment related to the District's fixed network retrofit and meter exchange program in the amount of \$2,200,000. The lease purchase agreement requires quarterly payments of \$47,659 at an interest rate of 3.59%.

Debt service requirements on the 2010 fixed network meter replacement capital lease payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 137,591	\$ 53,044	\$ 190,635
2018	142,597	48,038	190,635
2019	147,786	42,849	190,635
2020	153,163	37,472	190,635
2021	158,736	31,899	190,635
2021-2025	788,893	68,965	857,858
	<u>\$ 1,528,766</u>	<u>\$ 282,267</u>	<u>\$ 1,811,033</u>

***2016 Fixed Network Meter Replacement Capital Lease Payable***

The District entered into an agreement dated November 13, 2015 with Chase Equipment Finance to finance the purchase of certain equipment related to the District's fixed network retrofit and meter exchange program in the amount of \$8,216,000. As of June 30, 2016, equipment in the amount of \$1,720,850 had been purchased. The lease purchase agreement requires quarterly payments of \$228,483 at an interest rate of 2.12%.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 753,579	\$ 160,352	\$ 913,931
2018	769,683	144,249	913,932
2019	786,130	127,802	913,932
2020	802,929	111,003	913,932
2021	820,087	93,845	913,932
2022-2026	3,912,736	199,956	4,112,692
	<u>\$ 7,845,144</u>	<u>\$ 837,207</u>	<u>\$ 8,682,351</u>

***Church Street Lateral Loan Payable***

The District entered into an agreement dated November 24, 2009 with Inland Empire Utilities Agency (IEUA) for the construction of a recycled water pipeline. A portion of the pipeline was for the purpose of IEUA's Regional Recycled Water system and a portion was for the purpose of the District's recycled water connections. The entire project is to be funded by a State of California Revolving Fund (SRF) loan, obtained by IEUA, which offers low interest rates for the purpose of constructing infrastructure. The District paid for the construction costs and was subsequently reimbursed by IEUA in the amount of \$2,441,548. IEUA obtained two grants for the project. The amounts of the grants were \$344,760 and \$615,822. The grants were received from the California State Water Resources Control Board and the United States Bureau of Reclamation respectively.

**CUCAMONGA VALLEY WATER DISTRICT***Notes to the Basic Financial Statements, continued*

June 30, 2016

**(7) Long-term Liabilities, continued**

The District's portion of the grants was \$461,939. The District's portion of the pipeline amounted to \$690,648, which is payable by the District in annual installments of \$34,532 including interest at .074%.

Debt service requirements on the Church Street Lateral loan payable are as follows:

<u>Year</u>	<u>Principal</u>
2017	\$ 34,435
2018	34,460
2019	34,486
2020	34,507
2021	34,537
2022-2026	173,068
2027-2030	<u>138,915</u>
	<u>\$ 484,408</u>

**(8) Intergovernmental Payable**

The District, along with other agencies in the area, has an agreement with the Inland Empire Utilities Agency (IEUA) to share in construction costs of regional sewer treatment facilities. Construction costs are paid by tax increments each year by IEUA. If these tax increments do not cover the construction costs, the various agencies involved will be billed their allocated percentage. The District collects sewer facilities fees that by this agreement must be paid to IEUA when billed. The District is allowed to earn interest on any sewer facilities fees collected until remitted to IEUA. The District's liability for collected but unremitted sewer facilities fees at June 30, 2016 is \$11,594,817.

**(9) Water Held for Inland Empire Utilities Agency**

The District entered into an agreement dated March 1, 2016 with the Inland Empire Utilities Agency (IEUA) in which IEUA will pay for the purchase and delivery of Metropolitan Water District imported water to the District. The District in return will account for an equivalent volume of Chino Basin groundwater to IEUA within the District's existing Excess Carryover Storage Account. The District's liability for this water held for IEUA at June 30, 2016 is \$1,384,074.

**(10) Net Investment in Capital Assets**

Investment in capital assets, net of related debt, at June 30, 2016, consisted of the following:

Non-depreciable capital assets	\$ 108,218,086
Depreciable capital assets, net	309,126,144
Lease payable - current portion	(1,546,326)
Certificates of participation - current portion	(3,519,286)
Revenue bonds - current portion	(1,385,000)
Lease payable - non-current portion	(8,987,030)
Certificates of participation - non-current portion	(116,013,584)
Revenue bonds - non-current portion	(71,817,601)
Revenue bonds - unspent portion with trustee	12,416,949
Deferred charge - refunding of certificates of participation	<u>3,783,323</u>
	<u>\$ 230,275,675</u>

## CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2016

### (11) Designation of Unrestricted Net Position

The District has adopted a Reserve Policy to establish designations of unrestricted net position. The designations established at June 30, 2016 are as follows:

Reserve Types	Fund		
	Water	Sewer	Recycled Water
Designated			
Bond Proceeds	\$ 12,416,949	N/A	N/A
Development Fees	7,401,058	1,450,219	72,079
Capital			
Facility & Equipment Replacement	21,828,610	17,698,000	-
Emergency	7,402,000 <sup>(1)</sup>	846,000 <sup>(1)</sup>	98,000 <sup>(1)</sup>
Administrative	1,648,000	82,000	-
Local Water Resource Development	2,000,000	N/A	N/A
Liquidity			
Operating	18,404,363 <sup>(2)</sup>	7,868,000 <sup>(2)</sup>	411,000 <sup>(2)</sup>
Rate Stabilization	10,310,722 <sup>(3)</sup>	N/A	N/A
Water Banking	3,720,000 <sup>(4)</sup>	N/A	N/A

Note (1) Emergency Reserve: The funding target is a minimum of 1% and a maximum of 2% of the capital assets in the fund.

Note (2) Operating Reserve: The funding target is a minimum of 20% and a maximum of 50% of the budgeted total operating expenses in the fund.

Note (3) Rate Stabilization Reserve: The funding target is a minimum of \$2,200,000 and a maximum of 25% of the Water Fund operating income.

Note (4) Water Banking Reserve: The funding target is a minimum of \$2,500,000 and a maximum equal to the cost of purchasing 5,000 acre feet of Metropolitan Water District Tier 2 imported water.

### (12) Capital Contributions

Capital contributions for the fiscal year ending June 30, 2016 were as follows:

Developer fees	\$ 2,874,434
Developer donated assets	<u>135,500</u>
Total Contributed Capital	<u>\$ 3,009,934</u>

### (13) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in three 457 Deferred Compensation Programs (Programs). The purpose of these Programs is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by the District's three deferred compensation plans at June 30, 2016 amounted to \$4,550,934.

The District has implemented GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net position.

**CUCAMONGA VALLEY WATER DISTRICT**

*Notes to the Basic Financial Statements, continued*

June 30, 2016

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**(14) Defined Benefit Pension Plan**

***Plan Description***

The District contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the District. Copies of PERS annual financial report may be obtained from their executive Office at 400 P Street, Sacramento, CA, 95814.

***Benefits Provided***

Employees are eligible for benefits under the plan in one of three tiers. Employees hired before January 10, 2011 are in Tier 1, employees hired after January 11, 2011 are in Tier 2, and employees hired after January 1, 2013 are in Tier 3. The benefit formula for employees in Tier 1 is 2.5% at 55, the benefit formula for employees in Tier 2 is 2.0% at 60, and the benefit formula for employees in Tier 3 is 2.0% at 62. The final average compensation period is 12 months for employees in Tier 1, and 36 months for employees in Tiers 2 and 3. Beneficiaries in all tiers are current receiving a 2% cost of living adjustment (COLA).

Employees Covered Table:

Inactive employees or beneficiaries current receiving benefits:	370
Inactive employees entitled to but not yet receiving benefits:	143
Active employees	<u>118</u>
Total:	631

***Contribution Description***

Section 20814(c) of the California Public Employees’ Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. 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. For the measurement period ended June 30, 2015 (the measurement date), the average active employee contribution rate is 8% for Tier 1 employees and 7% for Tier 2 and 3 employees. Tier 1 employees pay 3% of the 8% required contribution and Tier 2 employees pay 3% of their 7% required contribution. The District makes the remaining portion of the contributions required of District Tier 1 and 2 employees on their behalf and for their account. Tier 3 employees must pay the full 7% share. The employer’s contribution rate is 18.922% of annual payroll. Employer contribution rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

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

For the measurement period ended June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2014 and the June 30, 2015 total pension liabilities were based on the following actuarial methods and assumptions:

**CUCAMONGA VALLEY WATER DISTRICT**

*Notes to the Basic Financial Statements, continued*

June 30, 2016

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**(14) Defined Benefit 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
Investment Rate of Return	7.65% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
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

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

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

***Change of Assumptions***

GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension administrative expense. The discount rate of 7.50 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for June 30, 2015 measurement date is without reduction of pension plan administrative expense.

***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 a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. 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.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expenses) to 7.65 percent.

**CUCAMONGA VALLEY WATER DISTRICT**

*Notes to the Basic Financial Statements, continued*

June 30, 2016

**(14) Defined Benefit Pension Plan, continued**

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years.

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

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<b>Asset Class</b>	<b>New Strategic Allocation</b>	<b>Real Return Years 1 - 10 (1)</b>	<b>Real Return Years 11+ (2)</b>
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period

***Pension Plan Fiduciary Net Position***

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

**CUCAMONGA VALLEY WATER DISTRICT**

Notes to the Basic Financial Statements, continued

June 30, 2016

**(14) Defined Benefit Pension Plan, continued**

**Changes in the Net Pension Liability**

The following table shows the changes in net pension liability recognized over the measurement period.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Assets)
	(a)	(b)	(c)=(a)-(b)
Balance at: 6/30/2014 (Valuation Date) (1)	\$ 66,724,360	\$ 50,839,512	\$ 15,884,848
Changes Recognized for the Measurement Period:			
Service Cost	1,489,827		1,489,827
Interest on the Total Pension Liability	5,013,228		5,013,228
Changes of Benefit Terms			-
Changes of Assumptions	(1,378,724)		(1,378,724)
Difference between Expected and Actual Experience	623,559		623,559
Contribution from the Employer		1,653,572	(1,653,572)
Contributions from Employees		899,150	(899,150)
Net Investment Income (2)		1,140,016	(1,140,016)
Benefit Payments including Refunds of Employee Contributions	(2,363,439)	(2,363,439)	-
Administrative Expense		(58,593)	58,593
Net Changes During 2014-15	3,384,451	1,270,706	2,113,745
Balance at: 6/30/2015 (Measurement Date) (1)	\$ 70,108,811	\$ 52,110,218	\$ 17,998,593

- (1) The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. This may differ from the plan assets reported in the funding actuarial valuation report
- (2) Net of administrative expenses.

**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/(Assets) \$	28,692,065	\$ 17,998,593	\$ 9,289,628

**Subsequent Events**

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

## CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2016

### (14) Defined Benefit Pension Plan, continued

#### *Recognition of Gains and Losses*

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

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

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

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

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired).

The EARSL for the Plan for the 2014-15 measurement period is 5.0 years, which was obtained by dividing the total service years of 1,267 (the sum of remaining service lifetimes of the active employees) by 253 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

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

As of the end of the measurement period (June 30, 2015), the net pension liability/(asset) is \$17,998,593. For the measurement period ending June 30, 2015 (the measurement date), the District incurred a pension expense/(income) of \$1,900,821 for the Plan.

As of June 30, 2016, the District has deferred outflows and inflows of resources related to pensions as follows:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Change in Assumptions	\$ -	\$ (1,102,979)
Difference between Expected and Actual Experience	498,847	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	2,200,727	(2,587,568)
Contributions subsequent to the Measurement Date	2,314,320	-
<b>Total</b>	<b>\$ 5,013,894</b>	<b>\$ (3,690,547)</b>

The amounts above are net of outflows and inflows recognized in the 2014-15 measurement period expense.

**CUCAMONGA VALLEY WATER DISTRICT**

Notes to the Basic Financial Statements, continued

June 30, 2016

**(14) Defined Benefit Pension Plan, continued**

\$2,314,320 will be recognized as reduction to the Net Pension Liability in the following measurement period, the remaining amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Measurement Period ended June 30:	Deferred Outflows/(Inflows) of Resources
2016	\$ (463,374)
2017	(463,374)
2018	(463,373)
2019	399,148
2020	-
Thereafter	-

**(15) Retirement Enhancement Plan**

**Plan Description**

Effective July 1, 2003, the District established the PARS Retirement Enhancement Plan (the "Plan"), a defined benefit retirement plan, to provide a supplemental retirement benefit to the employee's pension benefit from CALPERS. The Plan is currently funded through PARS, a multiple agency trust. Benefit provisions and all other requirements are established by state statute and the District. Copies of the PARS audited GAAP basis annual financial report may be obtained by writing to PO Box 12919, Newport Beach, CA 92658-2919.

**Eligibility and Benefit**

An employee is eligible to receive the Plan's benefit at retirement if employed by the District at July 1, 2003, is at least age 50 and has at least 20 years of service or 5 years of service on or after July 1, 2003. Employees hired on or after January 1, 2011 are not eligible for the Plan.

The monthly retirement benefit is equal to the difference between 1) and 2) below:

- 1) Benefit Service x Final Pay x PARS Age Factor
- 2) Benefit Service x Final Pay x CalPERS Age Factor

The CalPERS Age Factor is defined as the 2.5% at 55 Local Miscellaneous Member benefit age factor used by CalPERS determined at your age of retirement. The PARS Age Factor is determined at your age of retirement under CalPERS. Both factors by CalPERS retirement age are presented in the following table:

Retirement Age	CalPERS Age Factor	PARS Age Factor	REP
50	2.000%	2.000%	0.000%
51	2.100%	2.140%	0.040%
52	2.200%	2.280%	0.080%
53	2.300%	2.420%	0.120%
54	2.400%	2.560%	0.160%
55+	2.500%	2.700%	0.200%

Benefits are payable as a life annuity for the lifetime of the eligible employee subject to a 2% annual cost-of-living increase. Two Optional Forms of payments are also available.

**CUCAMONGA VALLEY WATER DISTRICT**

*Notes to the Basic Financial Statements, continued*

June 30, 2016

**(15) Retirement Enhancement Plan, continued**

Employees Covered Table:

Inactive employees or beneficiaries current receiving benefits:	1
Active employees	98
Total:	99

***Contribution Description***

The District currently funds the Plan through the PARS trust. As of June 30, 2015, the market value of Plan assets is \$5,249,145. The actuarial value of asset method smooths past asset gains and losses over five years. The actuarial value of Plan assets at June 30, 2015 is \$5,260,331. The unfunded actuarial accrued liability/ (surplus) is (\$739,999). The funded status of the Plan on an accrued liability basis is 116.37% at June 30, 2015 an increase from the 89.54% reported in the June 30, 2013 valuation.

The annual required contribution for the 2014/2015 fiscal year is \$229,000 which is calculated at a rate of 2.85% of annual payroll. This amount is comprised of the present value of benefits accruing in the current fiscal year (normal cost) plus a 13-year amortization (on a level-percentage of pay basis) of the unfunded actuarial accrued liability/(surplus) at June 30, 2014. Thus, it represents a means to expense the Plan's liabilities in an orderly manner. The net pension obligation at the end of the fiscal year will reflect any contributions made during the fiscal period by the District. The District contributed \$181,815 and \$229,000 respectively in fiscal years 2014-15 and 2015-16. Contributions were taken from current fiduciary pension assets.

In addition to being updated for new census and asset information, the valuation reflects an update to the demographic (mortality and retirement) assumptions to reflect rates from the most recent CalPERS experience study.

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

For the measurement period ended June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2014 and the June 30, 2015 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 73
Actuarial Assumptions	
Discount Rate	3.80%
Inflation	2.75%
Salary Increases	3.0% per annum, in aggregate
Investment Rate of Return	N/A
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Assumed to increase 2% per year

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

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

## CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2016

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### (15) Retirement Enhancement Plan, continued

Changes since the prior valuation:

- The discount rate increased from 5.00% to 6.75% to reflect updated capital market assumptions.
- The salary increase assumption was updated to reflect the 2014 CalPERS experience study.
- The increase rate for the IRC 415 and 401(a)(17) limits changed from 3.00% to 2.75% to match the assumed inflation rate.
- An assumption regarding spouse information was added for simplification.

#### **Pension Plan Fiduciary Net Position**

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. We have determined that the amount of the actuarial liability for the Plan as of June 30, 5 the measurement date, is \$4,520,332. This amount represents the present value of all Plan benefits projected to be paid by the District for current and future retirees. If the District were to place this amount in a fund earning interest at the rate of 6.75% per year, and all other actuarial assumptions were met, the fund would have enough to pay all expected benefits. This includes Plan benefits for the current retirees as well as for the current active employees expected to retire in the future. This plan was closed to employees hired after January 11, 2011, therefore, the valuation does not consider employees not yet hired as of the valuation date.

If the amount of the actuarial liability is apportioned into past service, current service and future service components, the past service component (actuarial accrued liability) is \$5,716,471, and the current service component (service cost) is \$167,923. The remaining liability reflects the service components (not yet accrued liability) to be accrued in future fiscal years.

#### **Discount Rate**

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<b>Asset Class</b>	<b>Strategic Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
U.S. Equity	36.06%	5.52%
International Equity	18.94%	5.78%
Fixed Income	43.27%	2.12%
Real Estate and Alternatives	0.00%	4.12%
Cash and Equivalents	1.73%	0.82%

**CUCAMONGA VALLEY WATER DISTRICT**

Notes to the Basic Financial Statements, continued

June 30, 2016

**(15) Retirement Enhancement Plan, continued**

**Changes in the Net Pension Liability**

The following table shows the changes in net pension liability recognized over the measurement period.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Assets) (c)=(a)-(b)
Balance at: 6/30/2014 (Valuation Date)	\$ 5,716,471	\$ 5,118,661	\$ 597,810
Changes Recognized for the Measurement Period:			
Service Cost	167,923		167,923
Interest on the Total Pension Liability	291,019		291,019
Difference between Expected and Actual Experience	(59,276)		(59,276)
Changes of Assumptions	(1,467,793)		(1,467,793)
Changes of Benefit Terms			-
Contribution from the Employer		181,815	(181,815)
Contributions from Employees			-
Net Investment Income		116,980	(116,980)
Benefit Payments including Refunds of Employee Contributions	(128,012)	(128,012)	-
Administrative Expense		(29,113)	29,113
Net Changes During 2014-15	(1,196,139)	141,670	(1,337,809)
Balance at: 6/30/2015 (Measurement Date)	\$ 4,520,332	\$ 5,260,331	\$ (739,999)

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

The annual required contribution is highly sensitive to some of the assumptions used in the valuation. To the extent that a single or a combination of assumptions is not met the future liability may fluctuate significantly from its current measurement.

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 6.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.75 percent) or 1 percentage-point higher (7.75 percent) than the current rate:

	Discount Rate - 1% (5.75%)	Current Discount Rate (6.75%)	Discount Rate +1% (7.75%)
Plan's Net Pension Liability/(Assets) \$	(19,499) \$	(739,999) \$	(1,323,281)

**Subsequent Events**

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

**Recognition of Gains and Losses**

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

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

**CUCAMONGA VALLEY WATER DISTRICT**

Notes to the Basic Financial Statements, continued

June 30, 2016

**(15) Retirement Enhancement Plan, continued**

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

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

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

As of the end of the measurement period (July 1, 2015), the net pension liability/(asset) is (\$739,999). For the measurement period ending June 30, 2015 (the measurement date), the District incurred a pension expense/(income) of \$49,455 for the Plan.

As of June 30, 2016, the District has deferred outflows and inflows of resources related to pensions as follows:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Change in Assumptions	\$ -	\$ (1,262,507)
Difference between Expected and Actual Experience	-	(50,986)
Net Difference between Projected and Actual Earnings on Pension Plan		
Investments	108,044	-
Contributions subsequent to the Measurement Date	229,000	-
<b>Total</b>	<b>\$ 337,044</b>	<b>\$ (1,313,493)</b>

The amounts above are net of outflows and inflows recognized in the 2014-15 measurement period expense.

\$229,000 will be recognized as reduction to the Net Pension Liability in the following measurement period, the remaining amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

<b>Measurement Period ended June 30:</b>	<b>Deferred Outflows/(Inflows) of Resources</b>
2017	\$ (186,565)
2018	(186,565)
2019	(186,565)
2020	(186,565)
2021	(213,576)
Thereafter	(245,613)

**CUCAMONGA VALLEY WATER DISTRICT**

*Notes to the Basic Financial Statements, continued*

June 30, 2016

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**(16) Excess Benefit Plan**

***Plan Description***

Effective January 1, 2011, the District established the Excess Benefit Plan (the "Plan") to provide a benefit to participants in the PARS Retirement Enhancement Plan (REP) whose benefit is limited due to the dollar limitation under Section 415 of the Internal Revenue Code. The plan is an agent multiple employer plan. Benefit provisions and all other requirements are established by state statute and the District. Copies of the PARS audited GAAP basis annual financial report may be obtained by writing to PO Box 12919, Newport Beach, CA 92658-2919.

***Eligibility***

Eligibility for the Plan requires participation in the REP. In general, the Plan will pay a benefit equal to the full REP benefit if the benefit payable under CalPERS is greater than the applicable dollar limitation at retirement. In addition, the Plan will pay a benefit equal to a portion of the REP benefit, if the combined REP and CalPERS benefit is greater than the applicable dollar limit at retirement. Employees hired on or after January 1, 2011 are not eligible for the Plan.

***Funding Policy***

The Plan is unfunded and benefits under the Plan are paid through the general fund of the District or through an Excess Benefit Plan Trust (the "Trust") that has been set up by the District through PARS. The Trust is a grantor trust held by the District subject to the claims of the District's creditors. As of June 30, 2015, the market value of assets in the Trust is \$4,192.

Employees Covered Table:

Inactive employees or beneficiaries current receiving benefits:	1
Active employees	<u>98</u>
Total:	99

***Contribution Description***

The annual required contribution for the 2014-2015 fiscal year is \$24,360. This amount is comprised of estimated benefit payables for the current fiscal year. The net pension obligation at the end of the fiscal year will reflect any benefit payments made during the fiscal period by the District.

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

For the measurement period ended June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2015 total pension liabilities were based on the following actuarial methods and assumptions:

## CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2016

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### (16) Excess Benefit Plan, continued

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 73
Actuarial Assumptions	
Discount Rate	3.80%
Inflation	2.75%
Salary Increases	3.0% per annum, in aggregate
Investment Rate of Return	N/A
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Assumed to increase 2% per year

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

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

Changes in assumptions since the prior valuation:

- The discount rate increased from 3.75% to 3.80% based on bond index rates.
- The salary increase assumption was updated to reflect the 2014 CalPERS experience study.
- The increase rate for the IRC 415 and 401(a)(17) limits changed from 3.00% to 2.75% to match the assumed inflation rate.
- An assumption regarding spouse information was added for simplification.

#### **Market Value of Plan Assets**

The Plan is unfunded and benefits under the Plan are paid through the general fund of the District or through an Excess Benefit Plan Trust (the "Trust") that has been set up by the District through PARS. The Trust is a grantor trust held by the District subject to the claims of the District's creditors. In the previous year the market value of this asset was included in the Plan Fiduciary Net Position. Based on GASB 73 these assets were removed from the calculation of current year net pension liability.

#### **Pension Plan Fiduciary Net Position**

We have determined that the amount of the actuarial liability for the Plan as of June 30, 2015, the measurement date, is \$1,264,680. This amount represents the present value of all Plan benefits projected to be paid by the District for current and future retirees. If the District were to place this amount in a fund earning interest at the rate of 3.80% per year, and all other actuarial assumptions were met, the fund would have enough to pay all expected benefits. This includes Plan benefits for the current retirees as well as for the current active employees expected to retire in the future. This plan was closed to employees hired after January 11, 2011, therefore, the valuation does not consider employees not yet hired as of the valuation date.

**CUCAMONGA VALLEY WATER DISTRICT**

Notes to the Basic Financial Statements, continued

June 30, 2016

**(16) Excess Benefit Plan, continued**

If the amount of the actuarial liability is apportioned into past service, current service and future service components, the past service component (actuarial accrued liability) is \$1,520,054, and the current service component (service cost) is \$70,173. The remaining liability reflects the service components (not yet accrued liability) to be accrued in future fiscal years.

**Changes in the Net Pension Liability**

The following table shows the changes in net pension liability recognized over the measurement period.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Assets) (c)=(a)-(b)
Balance at: 6/30/2014 (Valuation Date)	\$ 1,523,457	\$ 3,403	\$ 1,520,054
Changes Recognized for the Measurement Period:			
Service Cost	70,173		70,173
Interest on the Total Pension Liability	59,298		59,298
Difference between Expected and Actual Experience	153,569		153,569
Changes of Assumptions	(517,106)		(517,106)
Changes of Benefit Terms			-
Contribution from the Employer			-
Contributions from Employees			-
Net Investment Income			-
Benefit Payments including Refunds of Employee Contributions	(24,711)		(24,711)
Administrative Expense			-
Adjustment for GASB 73	-	(3,403)	3,403
Net Changes During 2014-15	(258,777)	(3,403)	(255,374)
Balance at: 6/30/2015 (Measurement Date)	\$ 1,264,680	\$ -	\$ 1,264,680

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

The annual required contribution is highly sensitive to some of the assumptions used in the valuation. To the extent that a single or a combination of assumptions is not met the future liability may fluctuate significantly from its current measurement.

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 3.80 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 (2.80 percent) or 1 percentage-point higher (4.80 percent) than the current rate:

	Discount Rate - 1% (2.80%)	Current Discount Rate (3.80%)	Discount Rate +1% (4.80%)
Plan's Net Pension Liability/(Assets) \$	1,507,805	1,264,680	1,072,555

**Subsequent Events**

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

**CUCAMONGA VALLEY WATER DISTRICT***Notes to the Basic Financial Statements, continued*

June 30, 2016

**(16) Excess Benefit Plan, continued*****Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions***

As of the end of the measurement period (June 30, 2015), the net pension liability/(asset) is \$1,264,680. For the measurement period ending June 30, 2015 (the measurement date), the District incurred a pension expense/(income) of \$96,916 for the Plan.

As of June 30, 2016, the District has deferred outflows and inflows of resources related to pensions as follows:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Change in Assumptions	\$ -	\$ (465,958)
Difference between Expected and Actual Experience	138,379	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	-
Contributions subsequent to the Measurement Date	25,205	-
<b>Total</b>	<b>\$ 163,584</b>	<b>\$ (465,958)</b>

The amounts above are net of outflows and inflows recognized in the 2014-15 measurement period expense.

\$25,205 will be recognized as reduction to the Net Pension Liability in the following measurement period, the remaining amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

<b>Measurement Period ended June 30:</b>	<b>Deferred Outflows/(Inflows) of Resources</b>
2017	\$ (35,958)
2018	(35,958)
2019	(35,958)
2020	(35,958)
2021	(35,958)
Thereafter	(147,789)

**CUCAMONGA VALLEY WATER DISTRICT**

*Notes to the Basic Financial Statements, continued*

June 30, 2016

**(17) Other Post-Employment Benefits**

***Plan Description***

The District administers a single-employer defined benefit healthcare plan which provides medical insurance benefits to eligible retirees and their eligible dependents in accordance with District ordinances.

***Eligibility***

Employees are eligible for retiree health care benefits according to the following matrix:

	<u>Minimum Age at Retirement</u>	<u>Years of Service with District</u>	<u>Coverage Provided</u>
Tier 1 - Hired Before 11/1/2006 and Executives	50	10	Employee Only
Tier 2 - Hired Between 11/1/2006 & 1/1/2011	50	25	Employee Only
Tier 3 - Hired Before 11/1/2011 and Executives	60	15	Employee and Dependents
Tier 4 - Hired Between 11/1/2006 & 1/1/2011 and Executives	50	20	Employee and Dependents Health
Tier 5 - Hired After 1/1/2011	-	5	Reimbursement Account

Employees hired on or after January 1, 2011 are enrolled in a defined contribution health savings plan after five years of employment.

**Employees Covered Table:**

Inactive employees or beneficiaries with coverage	36
Inactive employees or beneficiaries without coverage	6
Active employees or beneficiaries with coverage	76
Active employees or beneficiaries without coverage	<u>21</u>
Total:	139

***Funding Policy***

Retirees must pay the portion of the coverage, if any, not covered by their benefits. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the District’s Board of Directors. District assets designated for OPEB are invested in California Employers’ Retiree Benefits Trust (CERBT) Strategy 1, which is a GASB 45 qualified irrevocable trust under IRC Section 115 and administered by CalPERS. Annual contributions by the District are equal to at least 75% of the Annual Required Contribution (ARC). Benefit payments equal to the annual direct plus implicit subsidy are paid from the trust. For fiscal year 2016, the District contributed \$988,000 to the plan, including \$381,192 for current premiums (approximately 84% of the total premiums) and an additional \$666,672 to prefund. Plan members receiving benefits contributed \$59,864, or approximately 16% of the total premiums.

***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.

# CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2016

## (17) Other Post-Employment Benefits, continued

Actuarial Cost Method	Liabilities are based on the Entry Age Normal level percent of pay cost method.	
Actuarial Assumptions		
Discount Rate	6.75%	
Investment Rate of Return		
General District Assets	3.75%	
Irrevocable Trust Assets	7.28% (CERBT Strategy 1)	
Inflation Rate	2.75% (General)	4.00% (CPI Medical Care)
Payroll Growth Rate (1)	3.00%	
Healthcare Trend Rates	Annual increases per capita claims costs and plan premium:	
	Year Ending	Medical Coverage
	30-Jun	
	2016	8.25%
	2017	7.25%
	2018	6.75%
	2019	6.00%
	2020-2052	5.30%
	2053-2075	Transition to ultimate rate
	2076+	4.40%
	<ul style="list-style-type: none"> <li>• Medicare Part B premiums are assumed to increase 5.0% annually.</li> <li>• Dental and vision premiums are assumed to increase 4.0% annually.</li> <li>• To apply the Entry Age Normal actuarial cost method, annual medical, Medicare Part B, dental and vision perium cost increases between each participant's entry age and the valuation date are assumed to be 8.25%, 5.0%, 4.0% and 4.0%, respectively.</li> </ul>	
Increases in Direct Subsidy	Assumed to increase with healthcare trend rates	

(1) Annual Payroll Growth Rate was based on CalPERS' 2014 experience study report

### Assumption changes:

- The discount rate was changed from 7.00% to 6.75% based on updated expectations of long-term returns on trust and general District assets.
- Healthcare, dental and vision trend rates were reset to reflect updated cst increase expectations.
- Medicare per capita claims costs were updated to reflect recent experience.
- Retirement, disability, mortality and salary increase rates were updated from the rates used in the 6/30/2012 CalPERS Public Agency Miscellaneous actuarial valuation to rates used in the 6/30/2014 CalPERS Public Agency Miscellaneous actuarial valuation.
- The percent of future retirees eligible for retiree only direct subsidy assumed to elect coverage at retirement changed from 50% to 100% to reflect recent plan experience.
- The inflation assumption was changed from 2.80% to 2.75% based on an updated historical analysis of inflation rates and forward-looking market expectations.
- The percent of retirees electing a spouse has changed to 65% to reflect updated expectations based on recent plan experience. The prior valuation assumed that 100% of future retirees currently covering a spouse would elect spouse coverage at retirement, and 80% of future retirees currently waiving coverage who elect coverage at retirement would elect a spouse. The above percentages were reduced by 50% if spouse coverage was only available on a self-pay basis.
- The percent of future retirees electing non-spouse dependent coverage at retirement changed from 10% to 0% to reflect updated expectations based on recent plan experience.

## CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2016

### (17) Other Post-Employment Benefits, continued

#### Discount Rate

The June 30, 2015 actuarial valuation included a 6.75% discount rate. This rate is based on a blend of the long-term expected return on (1) plan assets to the extent they are projected to be sufficient to pay plan benefits, and (2) employer general assets to the extent that projected plan assets are insufficient to pay plan benefits.

The expected plan asset return (if any) is based on a blend of the plan's expected asset class returns and target asset allocation, which was based on CERBT investment Strategy 1 and was provided by CalPERS. The expected employer asset return is based on an estimate of short-term investments, using the average 25-year historical return of the Local Agency Investment Fund (LAIF) as a reference.

#### Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. GASB 45 accounting rules require selection of a method for amortizing the unfunded actuarial accrued liability (UAAL) when calculating the ARC and Annual OPEB Cost. For the current valuation, the District has elected to amortize the UAAL as a level percentage of payroll over a 30-year closed period. As of June 30, 2015, the remaining amortization period is twenty-two 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:

Annual required contribution	\$	1,414,502
Interest on net OPEB obligation		123,345
(Adjustment to annual required contribution)		<u>(123,345)</u>
Annual OPEB cost (expense)		1,414,502
Contributions made		<u>(988,000)</u>
Increase in net OPEB obligation		426,502
Net OPEB obligation - beginning of year		<u>3,083,617</u>
Net OPEB obligation - end of year	\$	<u><u>3,510,119</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 (the year of implementation) and 2016 were as follows:

Fiscal Year	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	1,377,152	74.9%	2,670,315
2015	1,373,302	74.9%	3,083,617
2016	1,414,502	69.8%	3,510,119

#### Funded Status and Funding Progress

As of June 30, 2015, the most recent actuarial valuation date, the plan was 27.4% funded. The actuarial accrued liability for benefits was \$16,728,353, the actuarial value of assets was \$4,584,369 and the unfunded actuarial accrued liability (UAAL) was \$12,143,984. The covered payroll (annual payroll of active employees covered by the plan) was \$8,003,311 and the ratio of the UAAL to the covered payroll was 151.7%.

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 future

## CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2016

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### (17) Other Post-Employment Benefits, continued

employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, 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.

### (18) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has purchased various insurance policies to manage the potential liabilities that may occur from the previously named sources and is a member of the Association of California Water Agencies Joint Powers Insurance Authority (“Authority”). The Authority is a risk-pooling, self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Authority is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2016, the District participated in the liability and property programs of the Authority as follows:

**Property Loss:** Insured up to replacement value with \$25,000 deductible per occurrence for buildings, personal property, fixed equipment, and catastrophic coverage. The deductible for mobile equipment is \$5,000. The deductible on vehicles is \$5,000. The boiler and machinery deductible varies on incident. There is a \$150,000,000 program limit with replacement value. These deductible vary based on the property type. The Authority is self-insured up to \$100,000 per occurrence and has purchased excess insurance coverage in the amount of \$50,000,000.

**General Liability:** The District is insured for general liability through ACWA/JPIA up to \$2,000,000 per occurrence, and ACWA/JPIA has purchased additional coverage from commercial insurers, subject to policy aggregate limits.

**Auto Liability:** The District is insured for automobile liability through ACWA/JPIA up to \$2,000,000 per occurrence, and ACWA/JPIA has purchased additional coverage from commercial insurers, subject to policy aggregate limits.

**UST Pollution Liability:** The District is insured for underground storage tank liability through ACWA/JPIA with \$10,000 deductible per occurrence. The Authority is self-insured up to \$500,000 per occurrence and has purchased excess insurance coverage in the amount of \$3,000,000,000 subject to a \$75,000 aggregate expense limit.

**Public Officials’ and Employees’ Errors and Omissions:** The District is insured for through ACWA/JPIA up to \$2,000,000 per occurrence, and ACWA/JPIA has purchased additional coverage from commercial insurers, subject to policy aggregate limits.

**Workers Compensation:** The District is insured to statutory requirements.

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

**Fidelity Coverage:** \$100,000 total insurance with a \$1,000 deductible covering public employee dishonesty, forgery or alteration, and computer fraud.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal year and there were no reductions in the District’s insurance coverage during the years ending June 30, 2016, 2015 and 2014. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2016, 2015 and 2014.

## CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2016

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### (19) Commitments and Contingencies

#### Construction Commitments

The District has entered into several material construction contracts. The following schedule lists the major contractual commitments as of June 30, 2016:

Project	Vendor	Amount
Water Treatment Plant Expansion Construction	SSC Construction, Inc.	\$ 4,030,715
Automatic Meter Reader Network	Itron	4,025,110
Meter Replacement	National Meter & Automation	3,050,923
Construction of Groundwater Well	Southwest Pump & Drilling	1,571,319

#### Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

#### Litigation

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

San Bernardino Valley Municipal Water District et al. vs. San Gabriel Valley Water Company et al., San Bernardino Superior Court Case No. CIV DS1311085. This case was filed September 12, 2013, and alleges that defendants San Gabriel Water Company and Fontana Union Water Company have extracted more water from the Rialto-Colton Groundwater Basin than permitted under a 1961 decree. It alleges damages in an unknown amount and also seeks an injunction and other remedies. The case is currently in the discovery stage.

The District is not a named party to the lawsuit, but it is potentially affected by the lawsuit in three ways: (1) The District is the majority owner of Fontana Union Water Company. (2) The District is entitled to a portion of the water pumped by San Gabriel Water Company from the Rialto-Colton Basin, and is compensated by San Gabriel Water Company for that water. Thus, if San Gabriel Water Company and Fontana Union Water Company are forced to reduce pumping, the District will lose revenue. (3) Under Fontana Union Water Company's approved bankruptcy reorganization plan, if its production of water in the Rialto-Colton Basin is limited by court order, the District is obligated to reduce its water production from the Chino Basin. This may in turn force the District to Purchase more expensive water.

On October 13, 2014, the District's Board of Directors agreed to intervene in the lawsuit with the goal to assist the parties to reach a resolution. The defendants in the lawsuit are contesting the matter vigorously. The District believes there are meritorious defenses. However, the District's attorney is unable to characterize the likelihood of an unfavorable outcome as either probable or remote. Similarly, the attorney is unable to estimate the amount or range of potential loss, should an unfavorable outcome occur.

### (20) Prior Period Adjustment

The beginning net position has been decreased by \$7,045,639 to correct the calculation of estimated unbilled water sales revenues (revenues earned as of June 30<sup>th</sup> but not yet billed to the customer). District staff discovered and corrected the error in the current fiscal year, but the cumulative effect from previous fiscal years required a restatement to beginning net position.

**CUCAMONGA VALLEY WATER DISTRICT**

*Notes to the Basic Financial Statements, continued*

June 30, 2016

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## **Required Supplementary Information**

**CUCAMONGA VALLEY WATER DISTRICT**

*Defined Benefit Pension Plan (PERS)*

*Schedule of Changes in Net Pension Liability and Related Ratios*

As of June 30, for the Last Ten Fiscal Years (1)

<b>MEASUREMENT PERIOD</b>	<b>2015</b>	<b>2016</b>
<b>TOTAL PENSION LIABILITY</b>		
Service Cost	\$ 1,503,857	\$ 1,489,827
Interest	4,682,615	5,013,228
Changes of Benefits Terms	-	-
Changes in Assumptions	-	(1,378,724)
Difference Between expected and Actual Experience	-	623,559
Benefit Payments, Including Refunds of employee Contributions	(2,290,095)	(2,363,439)
<b>Net Change in Total Pension Liability</b>	<b>\$ 3,896,377</b>	<b>\$ 3,384,451</b>
Total Pension Liability - Beginning	62,827,983	66,724,360
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 66,724,360</b>	<b>\$ 70,108,811</b>
<b>PLAN FIDUCIARY NET POSITION</b>		
Contribution - Employer	\$ 1,517,017	\$ 1,653,572
Contribution - Employee	734,040	899,150
Net Investment Income	7,556,918	1,140,016
Benefit Payments, Including Refunds of Employee Contributions	(2,290,095)	(2,363,439)
Administrative Expense	-	(58,593)
<b>Net Change in Fiduciary Net Position</b>	<b>\$ 7,517,880</b>	<b>\$ 1,270,706</b>
Plan Fiduciary Net Position - Beginning	43,321,632	50,839,512
Plan Fiduciary Net Position - Ending (b)	<b>\$ 50,839,512</b>	<b>\$ 52,110,218</b>
<b>Plan Net Pension Liability/(Assets) - Ending (a) - (b)</b>	<b>\$ 15,884,848</b>	<b>\$ 17,998,593</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>76.19%</b>	<b>74.33%</b>
Covered-Employee Payroll	\$ 9,082,284	\$ 9,362,786
<b>Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll</b>	<b>174.90%</b>	<b>192.24%</b>

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

(2) Net of administrative expenses.

**Notes to Schedule:**

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: The discount rate was changed from 7.5 percent (net of administrative expense ) to 7.65 percent

**CUCAMONGA VALLEY WATER DISTRICT***Defined Benefit Pension Plan (PERS)**Schedule of Plan Contributions*

As of June 30, for the Last Ten Fiscal Years (1)

	<u>2015</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 2,246,194	\$ 2,314,320
Contribution in Relation to the Actuarially Determined Contribution	<u>(2,246,194)</u>	<u>(2,314,320)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	9,362,786	9,584,870
Contributions as a Percentage of Covered-Employee Payroll	23.99%	24.15%

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

**Note to Schedule:**

Valuation Date: June 30, 2013

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost method
Amortization method	Level percentage of payroll, closed
Assets valuation method	Market Value
Inflation	2.75%
Salary Increases	3.30% to 14.20%
Payroll growth	3.00%
Investment rate of return	7.50% net of pension investment and administrative expenses, including inflation.

Retirement age The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.

Mortality The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

**CUCAMONGA VALLEY WATER DISTRICT**

Retirement Enhancement Pension Plan (PARS)

Schedule of Changes in Net Pension Liability and Related Ratios

As of June 30, for the Last Ten Fiscal Years (1)

MEASUREMENT PERIOD	2015	2016
<b>TOTAL PENSION LIABILITY</b>		
Service Cost	\$ 155,755	\$ 167,923
Interest	275,262	291,019
Difference Between expected and Actual Experience	-	(59,276)
Changes in Assumptions	-	(1,467,793)
Changes of Benefits Terms	-	-
Benefit Payments, Including Refunds of employee Contributions	(128,070)	(128,012)
<b>Net Change in Total Pension Liability</b>	<b>\$ 302,947</b>	<b>\$ (1,196,139)</b>
Total Pension Liability - Beginning	5,413,524	5,716,471
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 5,716,471</b>	<b>\$ 4,520,332</b>
<b>PLAN FIDUCIARY NET POSITION</b>		
Contribution - Employer	\$ -	\$ 181,815
Contribution - Employee	-	-
Net Investment Income	642,211	116,980
Benefit Payments, Including Refunds of Employee Contributions	(105,433)	(128,012)
Administrative Expense	(51,373)	(29,113)
<b>Net Change in Fiduciary Net Position</b>	<b>\$ 485,405</b>	<b>\$ 141,670</b>
Plan Fiduciary Net Position - Beginning	4,633,256	5,118,661
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b>\$ 5,118,661</b>	<b>\$ 5,260,331</b>
<b>Plan Net Pension Liability/(Assets) - Ending (a) - (b)</b>	<b>\$ 597,810</b>	<b>\$ (739,999)</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>89.54%</b>	<b>116.37%</b>
Covered-Employee Payroll	\$ 8,222,919	\$ 8,237,008
<b>Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll</b>	<b>7.27%</b>	<b>-8.98%</b>

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

(2) Net of administrative expenses.

**Notes to Schedule:**

Benefit Changes: There were no changes in benefits

Changes of Assumptions:

- \* The discount rate increased from 5.00% to 6.75% to reflect updated capital market assumptions.
- \* The salary increase assumption was updated to reflect 2014 CalPERS experience study.
- \* The increase rate for IRC 415 and 401(a)(17) limits changed from 3.00% to 2.75% to match the assumed inflation rate.
- \* An assumption regarding spouse information was added for simplification.

**CUCAMONGA VALLEY WATER DISTRICT**  
*Retirement Enhancement Pension Plan (PARS)*  
*Schedule of Plan Contributions*  
As of June 30, for the Last Ten Fiscal Years (1)

	<u>2015</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 181,815	\$ 229,000
Contribution in Relation to the Actuarially Determined Contribution	(181,815)	(229,000)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	8,237,008	8,006,799
Contributions as a Percentage of Covered-Employee Payroll	2.21%	2.86%

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

**Note to Schedule:**

Valuation Date: June 30, 2015

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	13 years
Assets valuation method	5-year
Inflation	2.75%
Salary Increases	3.0% per annum, in aggregate
Investment rate of return	6.75% net of pension investment and administrative expenses, including inflation.

Retirement age The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.

Mortality The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

**CUCAMONGA VALLEY WATER DISTRICT**

*Excess Benefit Pension Plan*

*Schedule of Changes in Net Pension Liability and Related Ratios*

As of June 30, for the Last Ten Fiscal Years (1)

	<u>2015</u>	<u>2016</u>
<b>TOTAL PENSION LIABILITY</b>		
Service Cost	\$ 59,051	\$ 70,173
Interest	55,507	59,298
Difference Between expected and Actual Experience	-	153,569
Changes in Assumptions	-	(517,106)
Changes of Benefits Terms	-	-
Benefit Payments, Including Refunds of employee Contributions	(24,485)	(24,711)
<b>Net Change in Total Pension Liability</b>	<b>\$ 90,073</b>	<b>\$ (258,777)</b>
Total Pension Liability - Beginning	1,433,384	1,523,457
<b>Total Pension Liability - Ending (a)</b>	<b>\$ 1,523,457</b>	<b>\$ 1,264,680</b>
<b>PLAN FIDUCIARY NET POSITION</b>		
Contribution - Employer	\$ 22,330	\$ -
Contribution - Employee	-	-
Net Investment Income	106	-
Benefit Payments, Including Refunds of Employee Contributions	(24,226)	-
Other Changes in Fiduciary Net Position	(48)	(3,403)
<b>Net Change in Fiduciary Net Position</b>	<b>\$ (1,838)</b>	<b>\$ (3,403)</b>
Plan Fiduciary Net Position - Beginning	5,241	3,403
Plan Fiduciary Net Position - Ending (b)	\$ 3,403	\$ -
<b>Plan Net Pension Liability/(Assets) - Ending (a) - (b) (2)</b>	<b>\$ 1,520,054</b>	<b>\$ 1,264,680</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<b>0.22%</b>	<b>0.00%</b>
<b>Covered-Employee Payroll</b>	\$ 8,222,919	\$ 8,237,008
<b>Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll</b>	<b>18.49%</b>	<b>15.35%</b>

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

(2) Plan Fiduciary Net Position balance at previous fiscal year end included pension assets. Under GASB 73, pension assets subject to District's creditors should be reported as assets of the District rather than Plan Fiduciary Net Position.

**Notes to Schedule:**

Benefit Changes: There were no changes in benefits

Changes of Assumptions:

- \* The discount rate increased from 3.75% to 3.80% based on bond index rates.
- \* The salary increase assumption was updated to reflect 2014 CalPERS experience study.
- \* The increase rate for IRC 415 and 401(a)(17) limits changed from 3.00% to 2.75% to match the assumed inflation rate.
- \* An assumption regarding spouse information was added for simplification.

**CUCAMONGA VALLEY WATER DISTRICT**

*Excess Benefit Pension Plan*

*Schedule of Plan Contributions*

As of June 30, for the Last Ten Fiscal Years (1)

	<b>2015</b>	<b>2016</b>
Actuarially Determined Contribution	\$ 24,711	\$ 25,205
Contribution in Relation to the Actuarially Determined Contribution	(24,711)	(25,205)
Contribution Deficiency (Excess)	\$ -	\$ -
Covered-Employee Payroll	8,237,008	8,006,799
Contributions as a Percentage of Covered-Employee Payroll	0.30%	0.31%

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only one year is shown.

**Note to Schedule:**

Valuation Date: June 30, 2015

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Assets valuation method	5-year
Inflation	2.75%
Salary Increases	Varies by entry age and service
Investment rate of return	N/A

Retirement age: The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.

Mortality: The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

# CUCAMONGA VALLEY WATER DISTRICT

## Other Post-Employment Benefits Plan

### Schedule of Funding Progress

For the Year Ended June 30, 2016

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#### **Schedule of Funding Progress**

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. The schedule of funding progress, presented below presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

<u>Actuarial Valuation Date</u>	<u>Entry Age Normal Accrued Liability [A]</u>	<u>Actuarial Value of Assets [B]</u>	<u>Unfunded Liability (Excess Assets) [A-B]</u>	<u>Funded Ratio [B/A]</u>	<u>Annual Covered Payroll [C]</u>	<u>Liability (Excess Assets) as a % of Payroll [(A-B)/C]</u>
June 30, 2011	13,320,000	1,416,000	11,904,000	10.6%	8,213,000	144.9%
June 30, 2013	14,955,000	2,813,000	12,142,000	18.8%	7,907,000	153.6%
June 30, 2015	16,728,353	4,584,369	12,143,984	27.4%	8,003,311	151.7%

# **Statistical Section**



# CUCAMONGA VALLEY WATER DISTRICT

## Statistical Section

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This part of the District’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District’s overall financial health.

### Table of Contents

	<u>Page No.</u>
Financial Trends These schedules contain information to help the reader understand how the District’s financial performance and well-being have changed over time.	60-63
Revenue Capacity These schedules contain information to help the reader assess the District’s most significant own-source revenue, water sales.	65-67
Debt Capacity These schedules present information to help the reader assess the affordability of the District’s current levels of outstanding debt and the District’s ability to issue additional debt in the future.	68-69
Demographic Information These schedules offer demographic indicators to help the reader understand the environment within which the District’s financial activities take place.	70-71
Operating Information These schedules contains service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the service provided by the District.	72-73

## CUCAMONGA VALLEY WATER DISTRICT

### Changes in Net Position and Net Position by Component

Last Ten Fiscal Years

	Fiscal Year			
	2007	2008	2009	2010
<b>Changes in net position:</b>				
Operating revenues (see Schedule 2)	\$ 54,829,916	\$ 57,450,068	\$ 55,672,904	\$ 61,108,993
Operating expenses (see Schedule 3)	(50,379,152)	(54,977,001)	(57,386,251)	(60,061,448)
Operating income(loss)	4,450,764	2,473,067	(1,713,347)	1,047,545
Non-operating revenues(expenses)				
Investment income	4,122,607	3,102,442	2,093,797	1,938,155
Taxes and assessments	506	47	39	38
Rent and lease revenue	212,077	209,525	199,636	246,329
Interest expense	(7,501,456)	(7,666,073)	(8,144,911)	(8,915,969)
Amortization of deferred charge on refunding	(176,783)	(174,390)	(179,187)	(193,578)
Gain (loss) on disposal of assets	25,328	(466,311)	89,965	335,387
Other nonoperating revenues	3,671,174	4,322,277	1,828,633	6,122,507
Other nonoperating expenses	(1,089,950)	(2,759,643)	(1,281,167)	(4,045,032)
Total non-operating revenues(expenses), net	(736,497)	(3,432,126)	(5,393,195)	(4,512,163)
Net income before capital contributions	3,714,267	(959,059)	(7,106,542)	(3,464,618)
Capital contributions	16,641,858	4,006,780	1,484,108	2,845,995
<b>Changes in net position</b>	<b>\$ 20,356,125</b>	<b>\$ 3,047,721</b>	<b>\$ (5,622,434)</b>	<b>\$ (618,623)</b>
<b>Net position by component:</b>				
Net investment in capital assets	\$208,455,979	\$214,232,848	\$217,733,045	\$207,808,294
Unrestricted	68,120,050	65,390,902	55,215,878	64,522,006
<b>Total net position</b>	<b>\$276,576,029</b>	<b>\$279,623,750</b>	<b>\$272,948,923</b> <sup>(1)</sup>	<b>\$272,330,300</b>

#### Notes:

- (1) The District made a prior period adjustment of (\$1,052,393).
- (2) The District made a net prior period adjustment of (\$67,589).
- (3) The District made a net prior period adjustment of (\$20,395,643).
- (4) The District made a prior period adjustment of (\$7,045,639).

**SOURCE:** Cucamonga Valley Water District – Accounting Division

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 65,781,091	\$ 74,705,240	\$ 77,575,410	\$ 83,426,225	\$ 77,904,102	\$ 81,198,764
(58,192,485)	(61,486,795)	(62,940,607)	(67,892,079)	(67,584,114)	(64,439,623)
<u>7,588,606</u>	<u>13,218,445</u>	<u>14,634,803</u>	<u>15,534,146</u>	<u>10,319,988</u>	<u>16,759,141</u>
892,000	743,118	208,488	929,941	755,174	1,569,781
11	11	10	12	35	35
214,842	243,668	278,934	375,700	405,027	437,184
(8,137,741)	(7,502,696)	(8,493,530)	(7,321,681)	(6,814,957)	(6,052,435)
(199,334)	82,749	(8,643)	303,225	(150,560)	(225,345)
223,398	21,935	31,565	(16,526)	84,155	(6,153)
1,315,961	2,054,305	900,483	1,634,133	6,124,244	1,498,448
(947,727)	(945,085)	(979,443)	(1,460,637)	(984,585)	(1,405,307)
<u>(6,638,590)</u>	<u>(5,301,995)</u>	<u>(8,062,136)</u>	<u>(5,555,833)</u>	<u>(581,467)</u>	<u>(4,183,792)</u>
950,016	7,916,450	6,572,667	9,978,313	9,738,521	12,575,349
<u>1,931,751</u>	<u>1,404,950</u>	<u>3,164,707</u>	<u>5,352,641</u>	<u>2,627,376</u>	<u>3,009,934</u>
<u>\$ 2,881,767</u>	<u>\$ 9,321,400</u>	<u>\$ 9,737,374</u>	<u>\$ 15,330,954</u>	<u>\$ 12,365,897</u>	<u>\$ 15,585,283</u>
\$206,948,235	\$215,183,046	\$248,304,834	\$212,123,526	\$219,737,010	\$230,275,675
68,263,832	69,350,421	45,898,418	97,410,680	81,767,450	79,768,429
<u>\$275,212,067</u>	<u>\$284,533,467</u>	<u>\$294,203,252</u> <sup>(2)</sup>	<u>\$309,534,206</u>	<u>\$301,504,460</u> <sup>(3)</sup>	<u>\$310,044,104</u> <sup>(4)</sup>

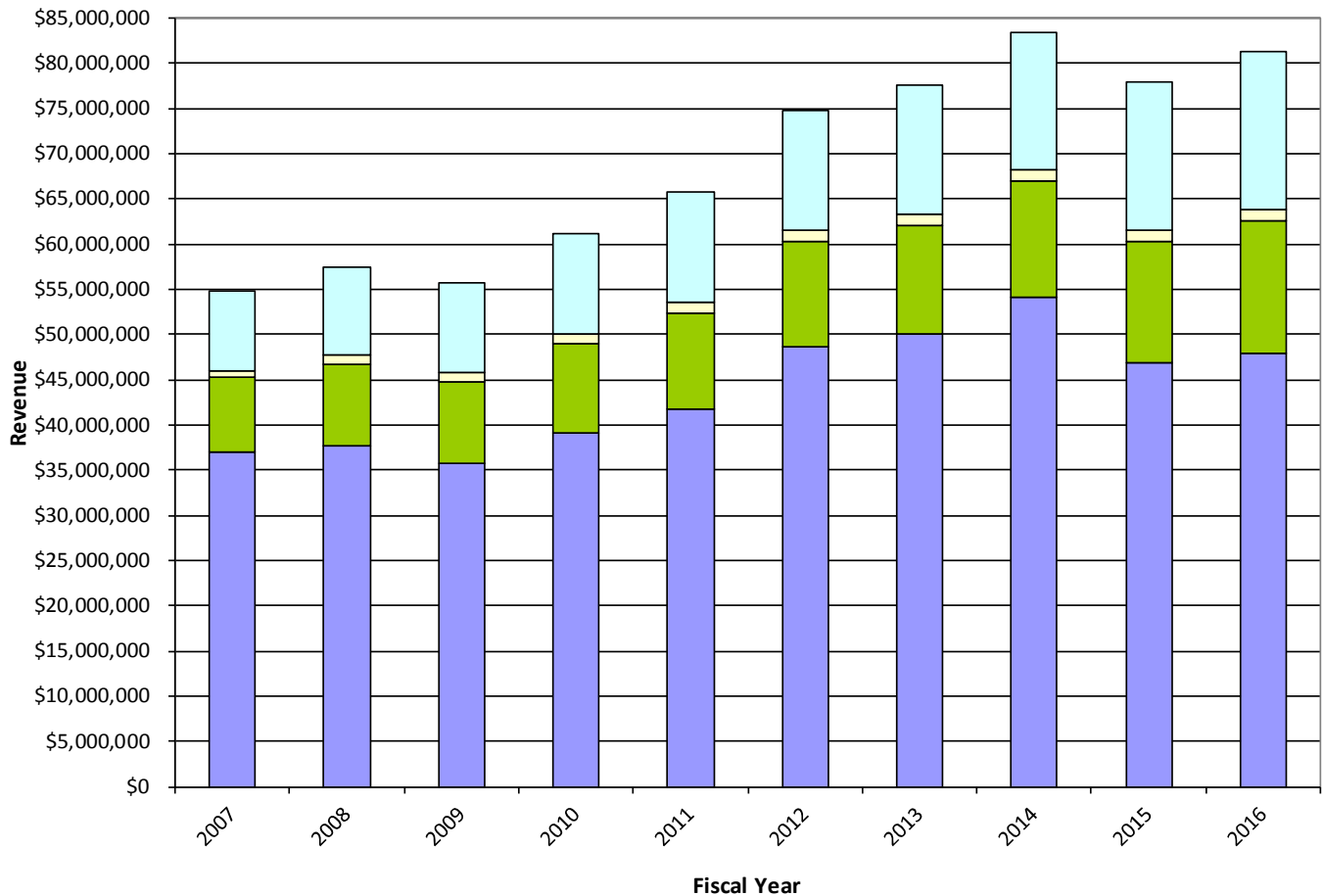
# CUCAMONGA VALLEY WATER DISTRICT

## Operating Revenue by Source

Last Ten Fiscal Years

Schedule 2

Fiscal Year	Water Sales	Meter Charges	Water Services	Sewer Services	Total Operating Revenue
2007	\$ 36,936,005	\$ 8,249,983	\$ 851,431	\$ 8,792,497	\$ 54,829,916
2008	37,743,239	9,001,080	1,022,487	9,683,262	57,450,068
2009	35,682,801	9,051,765	1,026,873	9,911,465	55,672,904
2010	39,134,526	9,809,685	1,047,195	11,117,587	61,108,993
2011	41,676,752	10,647,664	1,154,225	12,302,450	65,781,091
2012	48,675,139	11,532,573	1,291,048	13,206,480	74,705,240
2013	49,983,058	12,122,798	1,229,893	14,239,661	77,575,410
2014	54,134,874	12,814,590	1,248,185	15,228,576	83,426,225
2015	46,811,236	13,442,140	1,243,752	16,406,974	77,904,102
2016	47,914,302	14,595,971	1,266,664	17,421,827	81,198,764



SOURCE: Cucamonga Valley Water District – Accounting Division

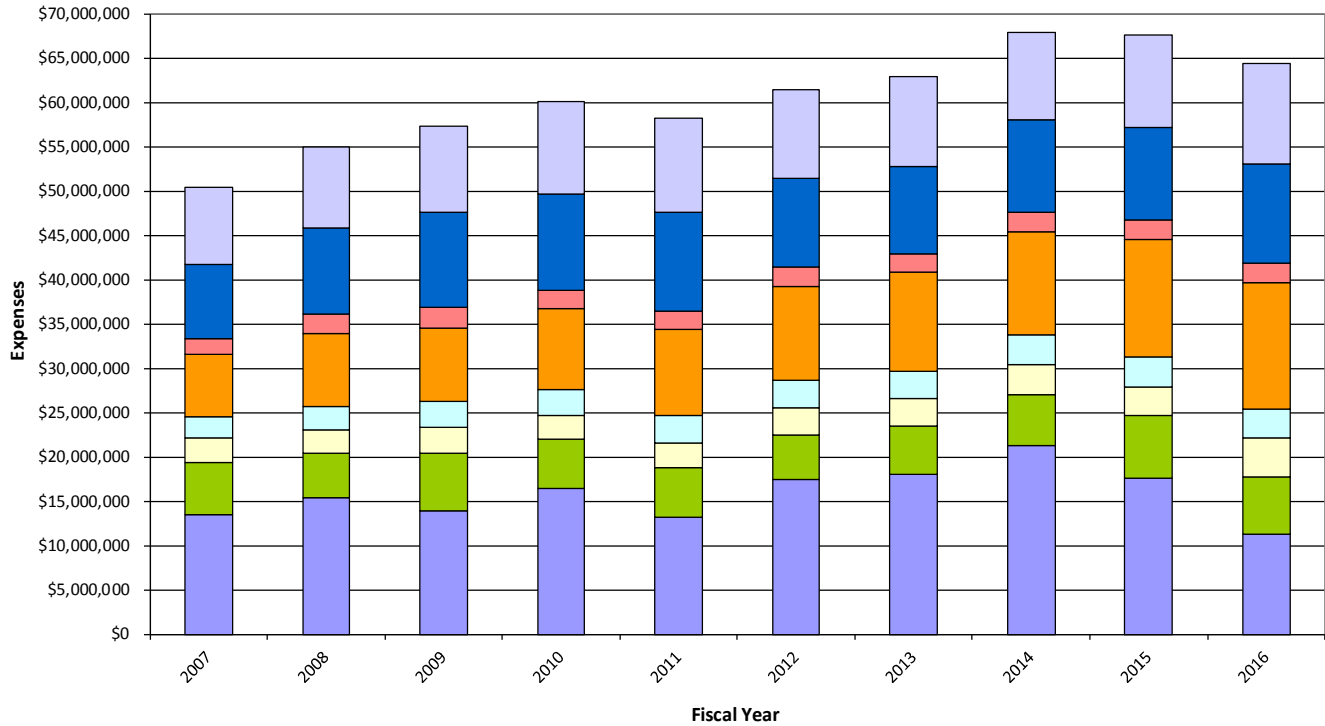
# CUCAMONGA VALLEY WATER DISTRICT

## Operating Expenses by Activity

Last Ten Fiscal Years

Schedule 3

Fiscal Year	Source of Supply	Pumping Operations	Water Treatment	Transmission and Distribution	Collection and Transmission	Customer Accounts	General and Administrative	Depreciation and Amortization	Total Operating Expenses
2007	\$ 13,499,965	\$ 5,946,376	\$ 2,667,204	\$ 2,353,289	\$ 7,080,358	\$ 1,747,498	\$ 8,491,462	\$ 8,593,000	\$ 50,379,152
2008	15,410,729	4,944,428	2,747,185	2,573,217	8,281,559	2,139,143	9,723,052	9,157,688	54,977,001
2009	13,999,196	6,426,333	2,900,825	2,928,555	8,344,368	2,301,799	10,776,455	9,708,720	57,386,251
2010	16,387,130	5,659,006	2,674,214	2,828,207	9,174,247	2,080,551	10,915,992	10,342,101	60,061,448
2011	13,188,936	5,625,091	2,733,477	3,125,140	9,679,819	2,071,599	11,213,478	10,554,945	58,192,485
2012	17,506,123	4,908,418	3,161,739	3,134,960	10,547,211	2,134,887	10,030,142	10,063,315	61,486,795
2013	18,006,105	5,491,422	3,134,158	3,104,700	11,116,847	2,044,545	9,840,029	10,202,801	62,940,607
2014	21,286,846	5,707,682	3,431,498	3,436,889	11,622,712	2,115,655	10,479,755	9,811,042	67,892,079
2015	17,671,304	6,932,863	3,269,903	3,399,409	13,326,807	2,172,880	10,473,636	10,337,312	67,584,114
2016	11,286,663	6,485,127	4,380,765	3,284,484	14,240,864	2,266,296	11,134,118	11,361,306	64,439,623



SOURCE: Cucamonga Valley Water District – Accounting Division

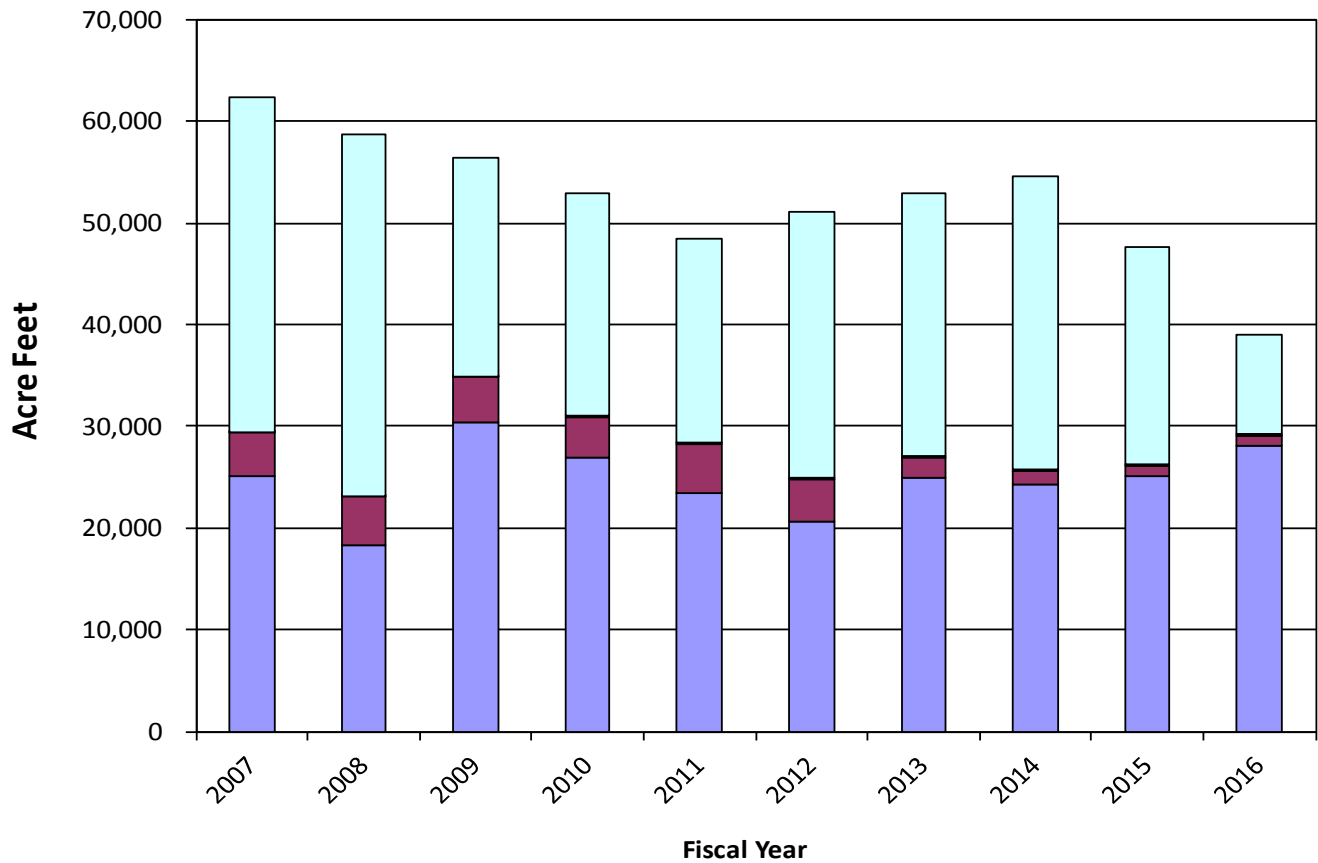
**CUCAMONGA VALLEY WATER DISTRICT**

*Water Production in Acre Feet*

Last Ten Fiscal Years

Schedule 4

Fiscal Year	Source				Total Production
	Groundwater	Local Surface Water	Spring Water	Imported Water	
2007	25,095	4,249	119	32,825	62,288
2008	18,335	4,769	78	35,454	58,636
2009	30,359	4,479	102	21,465	56,405
2010	26,864	4,034	170	21,782	52,850
2011	23,415	4,902	188	19,994	48,499
2012	20,723	4,070	159	26,144	51,096
2013	25,015	1,921	146	25,846	52,928
2014	24,230	1,388	216	28,825	54,659
2015	25,055	1,076	216	21,306	47,653
2016	28,151	990	156	9,682	38,979



**SOURCE:** Cucamonga Valley Water District – Production Division

# CUCAMONGA VALLEY WATER DISTRICT

## Water Rate History Last Ten Fiscal Years

Schedule 5

Fiscal Year	Water Rate per HCF <sup>(1)</sup>						
	Tiered Water Rates <sup>(2)(3)</sup>				Non-Residential	Gov't Irrigation	Temp/Constr.
	Tier 1	Tier 2	Tier 3	Tier 4			
2007	N/A	N/A	N/A	N/A	1.26	1.134	2.52
2008	1.33	N/A	N/A	N/A	1.33	1.197	2.66
2009	1.33	1.40	1.45	1.50	1.41	1.269	2.82
2010	1.35	1.47	1.57	1.67	1.49	1.341	2.98
2011	1.40	1.60	1.80	2.00	N/A	N/A	3.34
2012	1.43	1.66	1.92	2.17	N/A	N/A	3.42
2013	1.46	1.72	2.05	2.35	N/A	N/A	3.60
2014	1.49	1.78	2.19	2.54	N/A	N/A	3.78
2015	1.52	1.84	2.34	2.75	N/A	N/A	3.98
2016	2.34	2.55	3.09	5.68	N/A	N/A	5.34

	Tier Allocation in HCF by Meter Size <sup>(3)</sup>								
	3/4 inch	1 inch	1 1/2 inch	2 inch	3 inch	4 inch	6 inch	8 inch	10 inch
Tier 1	1-10	1-17	1-33	1-53	1-100	1-167	1-333	1-533	1-800
Tier 2	11-40	18-67	34-133	54-213	101-400	168-667	334-1,333	534-2,133	801-3,200
Tier 3	41-100	68-167	134-333	214-533	401-1,000	668-1,667	1,334-3,333	2,134-5,333	3,201-8,000
Tier 4	> 100	> 167	> 333	> 533	> 1,000	> 1,667	> 3,333	> 5,333	> 8,000

Fiscal Year	Meter Charge Rates (bi-monthly)								
	3/4 inch	1 inch	1 1/2 inch	2 inch	3 inch	4 inch	6 inch	8 inch	10 inch
2007	20.00	33.50	66.50	105.50	213.25	333.25	800.00	1,066.50	1,600.00
2008	20.00	33.50	66.50	105.50	213.25	333.25	800.00	1,066.50	1,600.00
2009	20.60	34.40	68.60	109.80	206.00	343.40	686.60	1,098.60	1,648.00
2010	21.22	35.43	70.66	113.09	212.18	353.70	707.20	1,131.56	1,697.44
2011	23.34	38.98	77.73	124.41	233.42	389.11	777.99	1,244.83	1,867.36
2012	24.51	40.93	81.62	130.63	245.09	408.57	816.89	1,307.07	1,960.73
2013	25.73	42.98	85.70	137.17	257.35	429.00	857.73	1,372.42	2,058.76
2014	27.02	45.13	89.98	144.02	270.21	450.44	900.62	1,441.05	2,161.70
2015	28.37	47.38	94.48	151.22	283.72	472.97	945.65	1,513.10	2,269.79
2016	30.35	50.58	101.16	161.86	303.48	505.80	1,011.60	1,618.57	2,427.85

**Notes:**

(1) HCF = 100 Cubic Feet = 748 gallons

(2) In 2008, the District adopted a tiered rate structure for residential customers. Prior to 2008, residential customers were charged a uniform rate equal to non-residential customers. Usage is based on a bi-monthly billing period. Non-residential customers are charged a uniform rate based on the average rate paid by residential customers.

(3) In 2010, the District adopted a tiered rate structure for all customers except temporary/construction customers. The tier structure is based on meter sizes. From 2008 to 2010, only residential customers were billed on the tiered rate structure and the 3/4" tier allocation was used for all residential customers regardless of meter size.

SOURCE: Cucamonga Valley Water District – Accounting Division

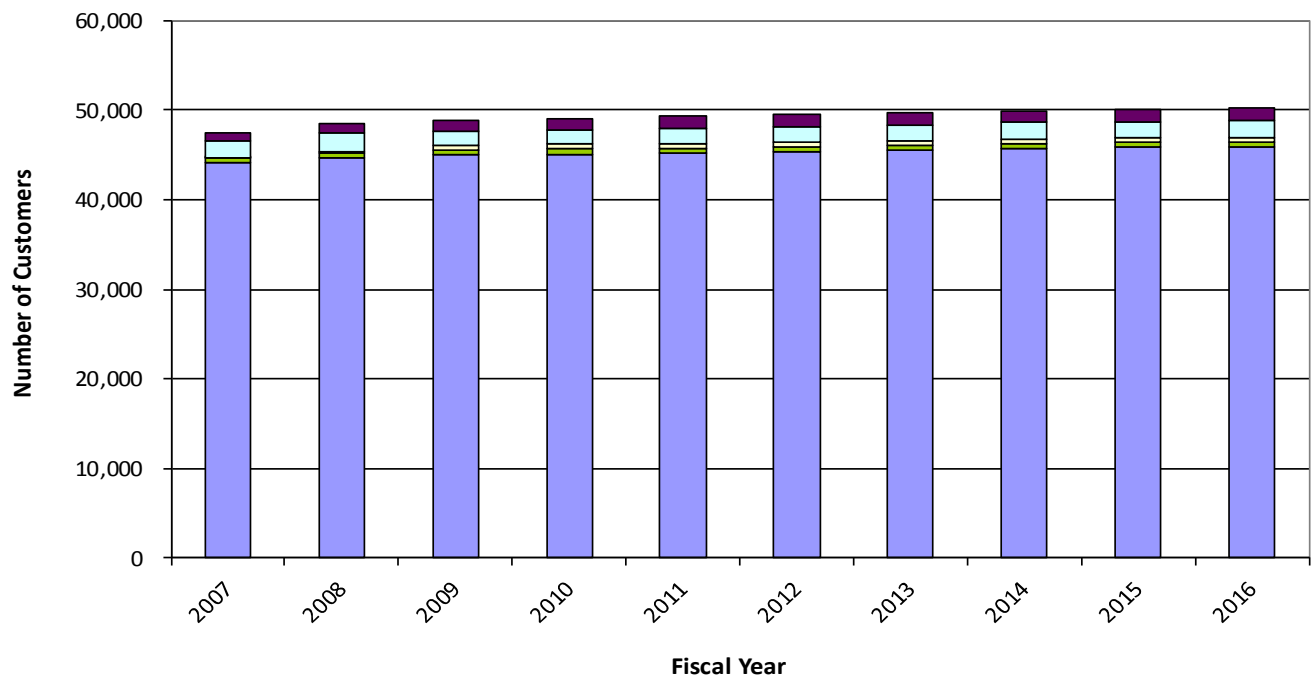
# CUCAMONGA VALLEY WATER DISTRICT

## Water Service Accounts

Last Ten Fiscal Years

Schedule 6

Fiscal Year	Customer Type					Total
	Domestic	Industrial	Government Irrigation	Landscape/Parkway	Fire Lines	
2007	44,140	538	31	1,847	948	47,504
2008	44,739	538	31	2,087	1,090	48,485
2009	44,987	538	551	1,570	1,145	48,791
2010	45,114	536	532	1,629	1,299	49,110
2011	45,164	536	514	1,777	1,315	49,306
2012	45,325	536	512	1,790	1,325	49,488
2013	45,557	536	511	1,807	1,333	49,744
2014	45,747	537	505	1,828	1,340	49,957
2015	45,876	538	507	1,808	1,354	50,083
2016	45,941	538	507	1,821	1,359	50,166



**Note:** Number of customers as of June 30 of fiscal year.

**SOURCE:** Cucamonga Valley Water District – Accounting Division

# CUCAMONGA VALLEY WATER DISTRICT

## Principal Water Customers

Current Fiscal Year and Nine Years Ago

Schedule 7

Customer	2016			2007		
	Annual Usage (HCF)	Percentage of Total	Rank	Annual Usage (HCF)	Percentage of Total	Rank
City of Rancho Cucamonga	579,116	3.60%	1	1,047,190	4.16%	1
County of San Bernardino	217,624	1.35%	2	267,604	1.06%	4
City of Fontana	167,951	1.04%	3	487,413	1.94%	2
Etiwanda School District	130,337	0.81%	4	188,665	0.75%	6
Tamco Steel	125,574	0.78%	5	146,540	0.58%	10
Frito Lay	108,487	0.67%	6	169,265	0.67%	8
Alta Loma School District	89,697	0.56%	7	N/A	N/A	N/A
Chaffey College	84,452	0.52%	8	181,253	0.72%	7
Lewis Management Corporation	80,478	0.50%	9	331,757	1.32%	3
Nestle Waters North America	80,224	0.50%	10	N/A	N/A	N/A
Inland Rock Company	N/A	N/A	N/A	192,363	0.76%	5
Empire Lakes Golf Course	N/A	N/A	N/A	162,560	0.65%	9
Oak Creek Ranch Golf Club, Inc.	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>1,663,940</b>	<b>10.34%</b>		<b>3,174,610</b>	<b>12.61%</b>	
<b>Total Water Consumed (HCF)</b>	<b>16,098,052</b>	<b>100.00%</b>		<b>25,179,449</b>	<b>100.00%</b>	

HCF = 100 cubic feet

**SOURCE:** Cucamonga Valley Water District – Accounting Division

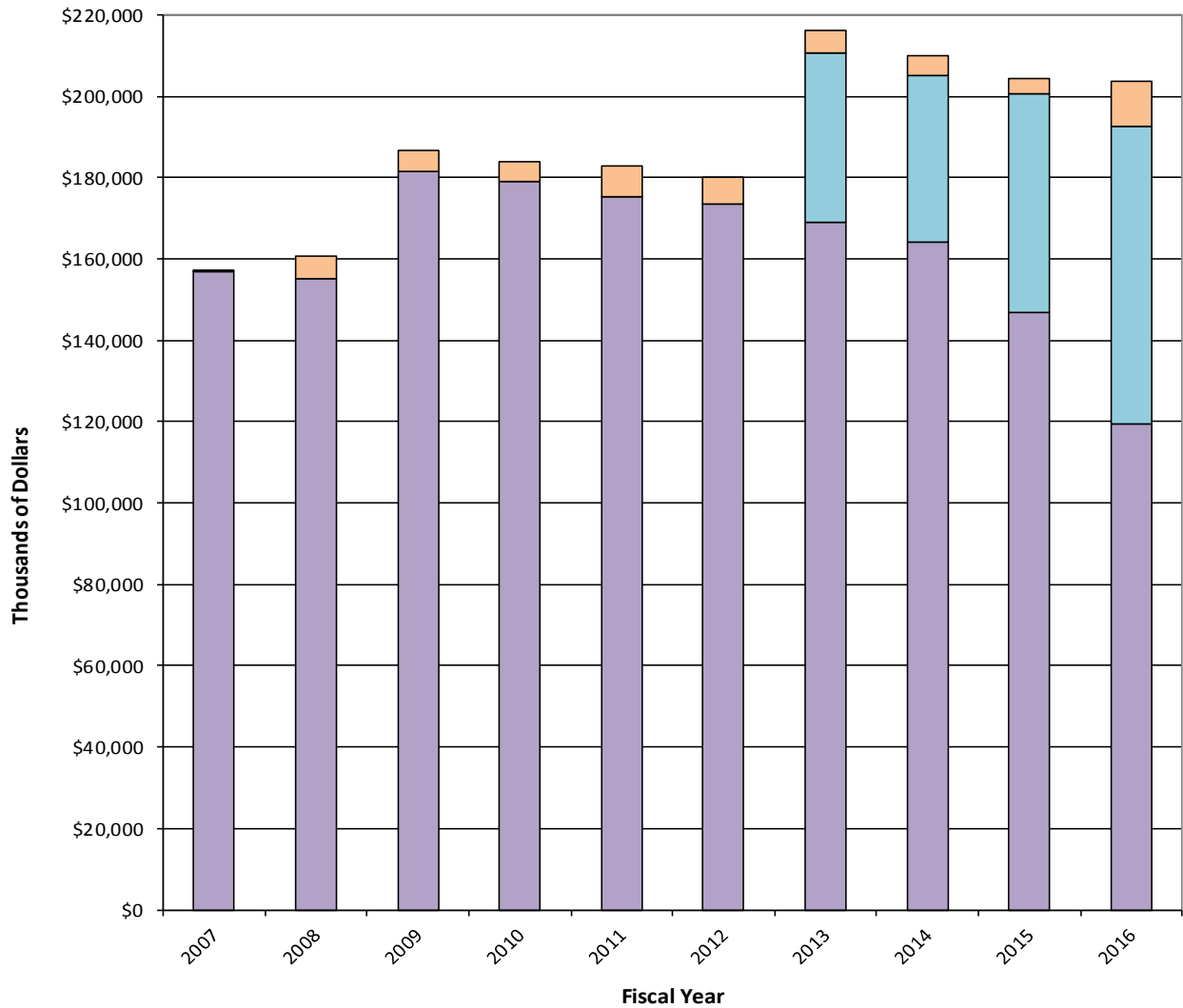
# CUCAMONGA VALLEY WATER DISTRICT

## Ratio of Outstanding Debt

Last Ten Fiscal Years

Schedule 8

Fiscal Year	Certificates of Participation (In Thousands)	Revenue Bonds (In Thousands)	Capital Lease and Loan (In Thousands)	Total		
				Debt (In Thousands)	\$ Per Capita	As a Share of Personal Income
2007	156,965	-	196	157,161	957.16	3.16%
2008	155,155	-	5,585	160,740	976.13	3.20%
2009	181,325	-	5,383	186,708	1,133.18	3.90%
2010	179,006	-	4,775	183,781	1,113.14	3.79%
2011	175,171	-	7,663	182,834	1,090.24	3.64%
2012	173,498	-	6,425	179,923	1,061.50	3.33%
2013	168,860	41,615	5,535	216,010	1,262.79	3.82%
2014	164,184	40,797	4,756	209,737	1,217.29	3.66%
2015	146,875	53,506	3,976	204,357	1,174.03	N/A
2016	119,533	73,203	11,018	203,753	1,162.64	N/A



N/A - Data not available for time period

**NOTE:** Amounts in thousands of dollars, except for per capita amounts and percentages.

**SOURCE:** Cucamonga Valley Water District – Accounting Division

**CUCAMONGA VALLEY WATER DISTRICT***Debt Coverage*

Last Ten Fiscal Years

Schedule 9

Fiscal Year	Gross Revenues <sup>(1)</sup>	Operating Expenses <sup>(2)</sup>	Net Available Revenues	Debt Service			Coverage Ratio
				Principal	Interest	Total	
2007	61,701,693	33,243,062	28,458,631	1,750,000	7,501,456	9,251,456	3.08
2008	56,734,579	35,790,012	20,944,567	1,810,000	7,666,073	9,476,073	2.21
2009	49,436,612	37,308,718	12,127,894	2,200,000	8,144,911	10,344,911	1.17
2010	58,356,424	38,754,710	19,601,714	2,319,286	8,602,555	10,921,841	1.79
2011	56,402,290	36,121,871	20,280,419	3,834,286	8,637,034	12,471,320	1.63
2012	65,386,200	39,431,891	25,954,309	3,964,286	8,182,797	12,147,083	2.14
2013	67,141,954	40,232,688	26,909,266	4,159,286	8,256,101	12,415,387	2.17
2014	74,855,711	44,836,095	30,019,616	4,954,286	9,211,847	14,166,133	2.12
2015	70,788,304	42,148,489	28,639,815	5,104,286	9,106,864	14,211,150	2.02
2016	69,397,000	36,809,953	32,587,047	4,904,286	8,494,019	13,398,305	2.24

**Notes:**

(1) Gross revenues includes all operating revenue, interest income, other nonoperating revenue (excluding taxes and assessments) and connection fees from the Water and Recycled Water Utility Funds.

(2) Operating expenses less depreciation and amortization for the Water and Recycled Water Utility Funds.

**SOURCE:** Cucamonga Valley Water District – Accounting Division

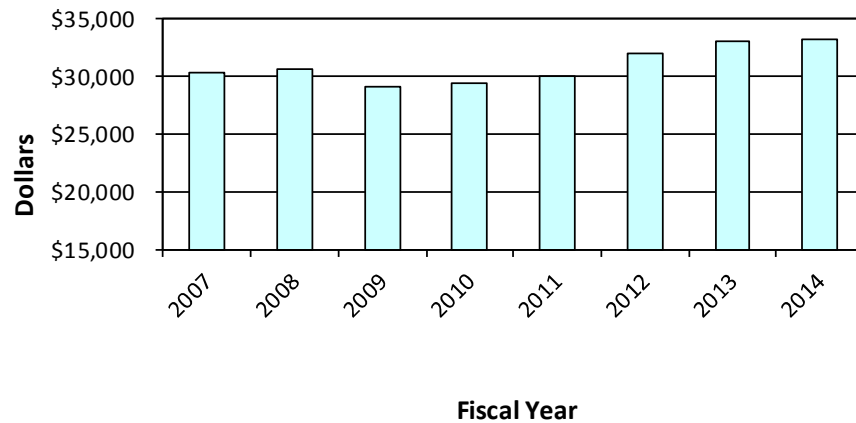
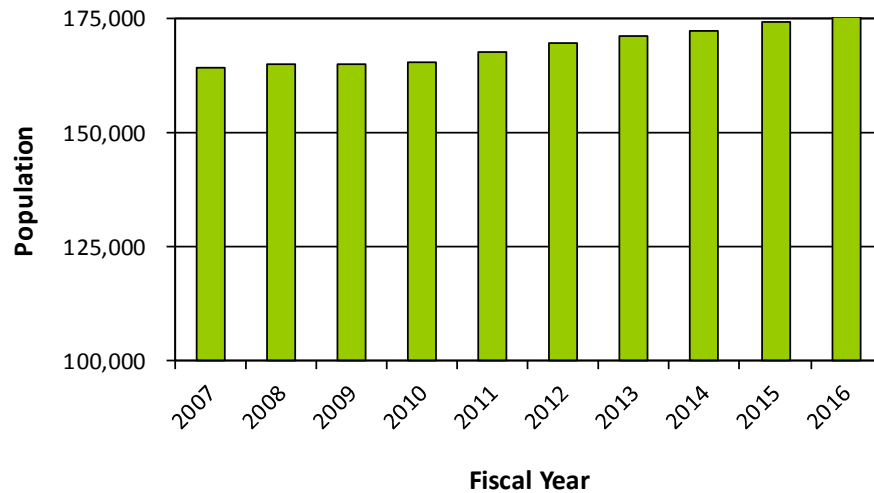
**CUCAMONGA VALLEY WATER DISTRICT**

*Demographic and Economic Statistics*

Last Ten Fiscal Years

Schedule 10

Year	Unemployment Rate	Population - Rancho Cucamonga	Riverside-San Bernardino-Ontario MSA	
			Personal Income (thousands of dollars)	Personal Income per Capita
2007	3.6%	164,195	123,046	30,252
2008	5.1%	164,671	125,620	30,539
2009	8.6%	164,764	120,805	29,035
2010	9.4%	165,101	124,840	29,409
2011	8.7%	167,701	128,982	29,961
2012	7.9%	169,498	138,767	31,900
2013	6.7%	171,058	144,677	33,025
2014	6.1%	172,299	147,727	33,258
2015	4.9%	174,064	N/A	N/A
2016	4.8%	175,251	N/A	N/A



N/A - Data not available for time period

**SOURCES:** California State Department of Finance, United States Bureau of Economic Analysis and the United States Department of Labor

**CUCAMONGA VALLEY WATER DISTRICT**

Principal Employers  
Last Ten Fiscal Years

Schedule 11

<u>Employer</u>	<u>Number of Employees</u>	<u>Percentage of Total</u>
Chaffey Community College	1,229	1.46%
Etiwanda School District	1,058	1.26%
Inland Empire Health Plan (IEHP)	1,000	1.19%
Amphastar Pharmaceutical	880	1.05%
City of Rancho Cucamonga	849	1.01%
Southern California Edison	800	0.95%
Alta Loma School District	623	0.74%
Big Lots Distribution Center	600	0.71%
Mercury Insurance Company	600	0.71%
Central School District	527	0.63%
Total	<u>8,166</u>	<u>9.71%</u>
Total Employment	<u>84,111</u>	<u>100.00%</u>

**NOTE:** Data is from June 2015 (latest available data).

**SOURCE:** City of Rancho Cucamonga

**CUCAMONGA VALLEY WATER DISTRICT**

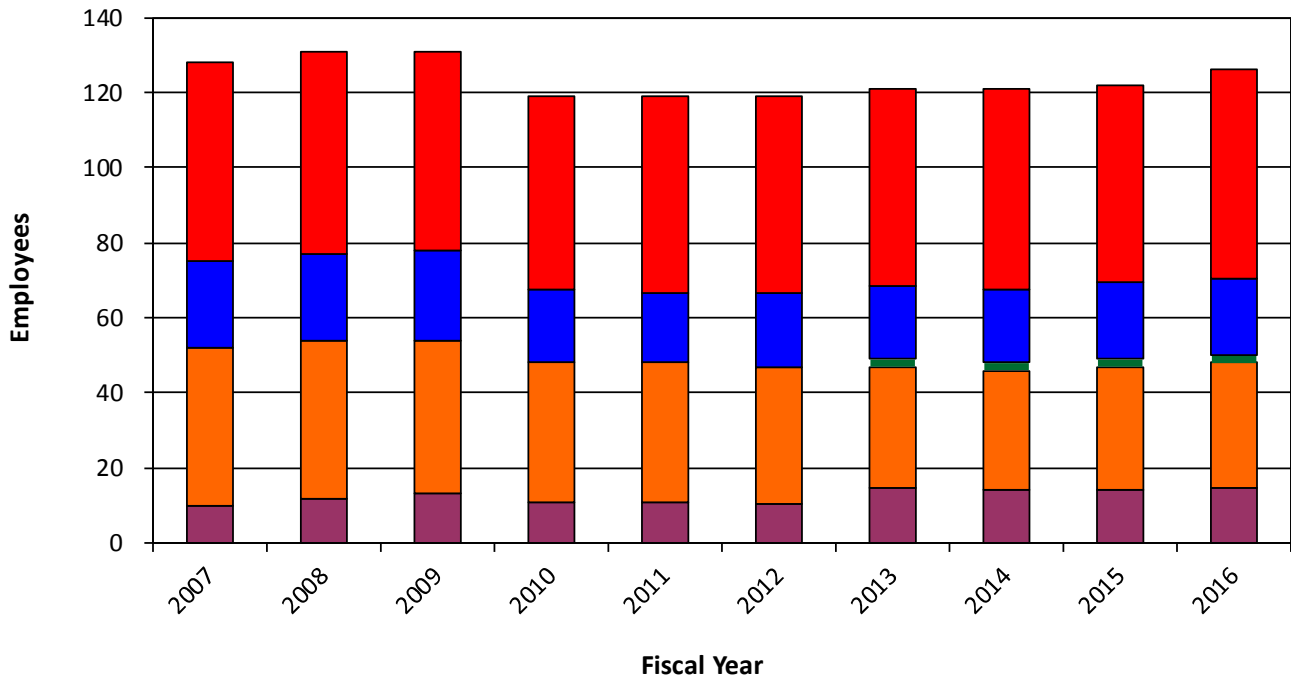
*Personnel Trends*

Last Ten Fiscal Years

Schedule 12

**Full Time Equivalent Employees by Department**

Fiscal Year	Department					Total
	Executive	Finance & Administration	General Services	Engineering	Operations	
2007	10.00	42.00	-	23.00	53.00	128.00
2008	12.00	42.00	-	23.00	54.00	131.00
2009	13.00	41.00	-	24.00	53.00	131.00
2010	11.00	37.00	-	19.50	51.50	119.00
2011	11.00	37.00	-	18.50	52.50	119.00
2012	10.50	36.50	-	19.50	52.50	119.00
2013	14.50	32.50	2.00	19.50	52.50	121.00
2014	14.00	32.00	2.00	19.50	53.50	121.00
2015	14.00	33.00	2.00	20.50	52.50	122.00
2016	14.50	33.50	2.00	20.50	55.50	126.00



**SOURCE:** Cucamonga Valley Water District – Human Resources Division

**CUCAMONGA VALLEY WATER DISTRICT***Other Operating and Capacity Indicators*

Last Ten Fiscal Years

Schedule 13

<b>Water System</b>				
<b>Fiscal Year</b>	<b>Miles of Water Mains</b>	<b>Number of Fire Hydrants</b>	<b>Annual Production (MG)</b>	<b>Average Production (MGD)</b>
2007	727	8,968	20,297	55.6
2008	706	8,217	19,106	52.3
2009	708	8,227	18,380	50.4
2010	708	8,236	17,220	47.2
2011	710	8,245	15,804	43.3
2012	710	8,245	16,650	45.6
2013	710	8,315	17,245	47.2
2014	711	8,371	18,010	49.3
2015	711	8,323	16,006	43.9
2016	707	8,354	13,080	35.8

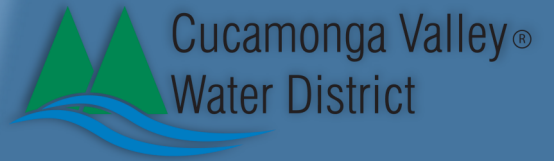
<b>Sewer System</b>				
<b>Fiscal Year</b>	<b>Miles of Sewers</b>	<b>Service Connections</b>	<b>Annual Sewerage (MG)</b>	<b>Daily Sewerage (MGD)</b>
2007	447	35,201	5,742	15.7
2008	418	35,658	6,127	16.8
2009	418	35,835	5,844	16.0
2010	418	36,025	5,358	14.7
2011	420	36,177	5,945	16.3
2012	420	36,448	5,990	16.4
2013	420	36,688	6,265	17.2
2014	421	36,884	6,645	18.2
2015	421	37,012	7,140	19.6
2016	421	37,061	6,799	18.6

AF - Acre Feet

MG - Millions of Gallons

MGD - Millions of Gallons per Day

**SOURCE:** Cucamonga Valley Water District – GIS, Industrial Waste and Production Divisions



*Service Beyond Expectation*

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