

THREE VALLEYS MUNICIPAL WATER DISTRICT
1021 EAST MIRAMAR AVENUE
CLAREMONT, CALIFORNIA 91711-2052

THREE
VALLEYS

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED
JUNE 30, 2015



The mission of Three Valleys Municipal Water District is to supplement and enhance local water supplies to meet our region's needs in a reliable and cost-effective manner.





Comprehensive Annual Financial Report

Fiscal Year Ended

June 30, 2015

Three Valleys Municipal Water District

1021 East Miramar Avenue

Claremont, CA 91711-2052

General Manager/Chief Engineer

Richard W. Hansen, P.E.

**Prepared by the Finance Department of
Three Valleys Municipal
Water District**

THREE VALLEYS MUNICIPAL WATER DISTRICT

Comprehensive Annual Financial Report Fiscal Year Ending June 30, 2015

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THREE VALLEYS MUNICIPAL WATER DISTRICT

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INTRODUCTORY SECTION





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BOARD OF DIRECTORS

Brian Bowcock
David D. De Jesus
Dan Horan
Carlos Goytia
Bob Kuhn
Fred Lantz
Joseph T. Ruzicka

GENERAL MANAGER/CHIEF ENGINEER

Richard W. Hansen, P.E.

November 4, 2015

To the Honorable Board of Directors and Member Agencies:

Introduction

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for Three Valleys Municipal Water District (TVMWD) for the fiscal year (FY) ended June 30, 2015. TVMWD staff, following guidelines set forth by the Governmental Accounting Standards Board (GASB), worked collectively to prepare this financial report. TVMWD is ultimately responsible for both the accuracy of the data and the completeness and fairness of presentation, including all disclosures in this financial report. We believe the data presented is accurate in all material respects. This report is designed in a manner that we believe is necessary to enhance your understanding of TVMWD's financial position and activities.

TVMWD derives its legal power from the Municipal Water District Act of 1911, including the powers of acquisition and construction of water and hydroelectric generating facilities; acquisition and disposal of property; purchase, production, treatment, distribution, and sale of water, wastewater, and storm waters; provision, generation, delivery and sale of hydroelectric power; levying and collection of taxes; issuance of general obligation and improvement bonds; acquisition of water rights; and right of eminent domain.

State law and TVMWD bylaws require an annual audit of financial statements by an independent certified public accountant. The accounting firm of Lance, Soll & Lunghard, LLP conducted TVMWD's annual audit. Their report, providing an unmodified (clean) opinion on TVMWD's financial statements, appears in the Financial Section.

Management's discussion and analysis immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. TVMWD's management's discussion and analysis complements this letter of transmittal and should be read in conjunction with it.

Agency Profile

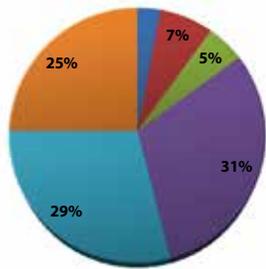
TVMWD is a special district formed by public election in 1950 and is the area's primary source of supplemental water covering the Pomona, Walnut and East San Gabriel Valleys. TVMWD is one of 26 member agencies of the Metropolitan Water District of Southern California (MWD) that is authorized to deliver wholesale water supplies from the Colorado River and Northern California. The region served by TVMWD spans over 133 square miles and serves 13 retail member agencies that in turn serve a population of over 500,000.

TVMWD's operations consist of a conventional surface water treatment plant (manned and operated 24 hours per day, 7 days per week, 365 days per year), a state certified laboratory, two groundwater wells, hydroelectric generating stations, residual solids removal, spreading pipelines, spreading grounds, pump stations, and transmission pipelines. Water is treated at the Miramar Treatment Plant and wholesaled to local agencies by way of several miles of pipeline. TVMWD receives a Tier 1 water supply allotment from MWD of 80,688 AFY.

TVMWD is governed by a Board of Directors elected by the registered voters residing within TVMWD's boundaries. The Board averages over 12 years of experience with TVMWD, this stability provides a tremendous benefit to TVMWD. The General Manager has over 38 years with TVMWD and has vast experience in the water industry.

Approximately seventy percent of the TVMWD's water sales are wholesaled out of MWD's Weymouth Treatment Plant in La Verne. The remaining thirty percent is treated and sold out of TVMWD's Miramar Treatment Plant in Claremont to the following agencies:

City of La Verne	31%
Golden State Water Co. (Claremont)	29%
Golden State Water Co. (San Dimas)	25%
Walnut Valley Water District	7%
Rowland Water District	5%
City of Pomona	3%



Local Economy¹

California has a large and fast-growing economy. The state accounts for over 13% of U.S. GDP, by far the largest of any state. California's gross product grew by an estimated 3.3% in 2014, outpacing the national growth rate of 2.4%.

Since 2012 the state has added jobs at a faster rate than the nation as a whole and in June 2014, recovered all the wages and salary jobs that were lost during the recession – just one month behind the nation. California's unemployment rate is still elevated but it has fallen steadily over the past three years and is presently below its average long-run annual rate.

Closer to home Los Angeles County added 78,700 jobs in 2014, equivalent to a 1.9% annual increase that matched the U.S. as a whole. Most of the county's major industries added jobs last year, and as a result the unemployment rate fell to 8.2%, the lowest in six years. Los Angeles County should surpass its pre-recession jobs peak by virtue of another 1.9% gain expected this year and continue to add jobs at a 1.7% annual rate in 2016. The unemployment rate should improve to 7.2% this year and 6.6% in 2016.

Total personal income, which increased by just 2.3% in 2013, responded to strength in the broader economy with an estimated 4.7% increase in 2014. Personal income will maintain

its trajectory with anticipated 4.6% and 5.0% gains this year and next. Per capita income outpaced the 1.6% increase in 2013 with a 4.0% gain in 2014. It should increase by 4.1% this year and accelerate to 4.6% in 2016. Similarly, local spending, as measured by total taxable sales, rose by an estimated 5.9% last year and should see continued improvement with increases of 5.2% and 5.5% expected this year and next. This means local governments will see an increase in sales and use tax revenues.

Los Angeles County has seen steady improvement over the past three years, both in terms of job gains and decreases in its unemployment rate. A handful of industries have been the source of most job creation over the past year, a pattern that will continue over the next few years. Long-awaited but modest wage increases should factor into the picture as well as the local labor market tightens. It will be some time before middle-wage job growth catches up with the gains that have been seen among high-wage and low-wage occupations.

¹ Source: Los Angeles County Economic Development Corporation's 2015-2016 Economic Forecast and Industry Outlook

Industry Outlook

California continues to face some extremely tough challenges managing our water supplies during one of the most severe droughts on record. For the first time in state history, Governor Brown directed the State Water Board to implement mandatory water restrictions statewide to reduce water usage by 25 percent in his April 1, 2015 executive order. The Governor's order calls on local water agencies to adjust their rate structures to implement conservation pricing, recognized as an effective way to realize water reductions and discourage water waste. Additional actions required in the order include a state program that will provide financial incentives and partner with local agencies to replace 50 million square feet of lawn, along with other new rebate programs for appliances; prohibit new homes and developments from irrigating with potable water unless water-efficient drip irrigation systems are used, and ban watering of ornamental grass on public medians; and a series of actions to work with business and agricultural water users to ensure further improvements that will conserve water supplies and groundwater resources. The Governor's order is a major step taken to ensure water is available for human health and safety, growing food, fighting fires and protecting fish and wildlife.

In support of the Governor's call to action, MWD's governing board voted to implement their revised Water Supply Allocation Plan (Level 3) that took effect on July 1, 2015. The board action represents roughly a 15 percent reduction in wholesale water deliveries compared to the normal baseline. This is only the fourth time in MWD's history they have restricted imported supplies in response to drought conditions, the last being a 10 percent cutback from July 2009 to April 2011. The allocation plan is a financial signal to MWD's 26 member agencies to remain within their target range of supplies or stiff surcharges will be imposed.

Additionally, the MWD board voted to increase their conservation budget to just over \$450 million over two years. The funds will be used for rebates and other saving incentives to help Southern Californians conserve water and for expanded outreach efforts to achieve greater public awareness and knowledge regarding conservation. These unprecedented actions demonstrate the seriousness of the drought situation California is facing and the importance of making the most of our water supplies now and in the future.

With the critically dry conditions affecting MWD's water supply sources, the continued legal and regulatory limits impacting water supplies from the State Water Project, and MWD's implementation of a water supply allocation program, TVMWD along with its member agencies have heightened their efforts with cutbacks, conservation and public outreach to meet the newly imposed water restrictions. The TVMWD Board adopted a resolution in recognition of the California Drought in an effort to provide messaging for our member agencies that is consistent with the state requirements with regard to the need for increased conservation during the statewide drought emergency. Several of TVMWD's member agencies have stepped up their various rebate programs, especially the turf program, to assist residents and businesses in reducing both indoor and outdoor water consumption. Additionally, TVMWD (with the consensus of its member agencies) adopted a plan establishing guidelines to "sub-allocate" to the TVMWD member agencies the quantity of imported water allocated by MWD based on its implementation of their Level 3 Water Supply Allocation Plan.

TVMWD remains dedicated to working with its member agencies and MWD to meet the challenges of finding ways to reduce the demand for water and stretching reserves for use in these dry years. TVMWD is focused at the local and regional level to identify additional sources of water along with solutions to water supply issues. Preserving our water supplies for the future and in case of emergencies such as a catastrophic earthquake is at the forefront of TVMWD's goals.



MAJOR INITIATIVES AND PROJECTS

TVMWD began, continued, or completed many projects and programs in FY 14-15. These included, but were not limited to:

TVMWD Well #2: This groundwater well began operation in the early part of FY 14-15 and is producing an average of about 62 acre-feet per month. The well water augments the production of the Miramar Treatment Plant and helps to reduce the overall cost of water sold by TVMWD.



SASG Spreading Pipeline Extension: The initial project to extend the SASG Pipeline approximately 2,700 feet to the north was completed in the early part of FY 14-15. The subsequent addition of a westerly extension measuring another 1,450 feet was also completed in FY 14-15. Meanwhile, TVMWD executed an agreement with the City of Pomona to install an interconnection between the westerly extension and the City's Canon Pipeline. The interconnection serves a dual purpose. It will allow TVMWD to deliver untreated imported water to the City's surface water treatment plant and also provides a means for the City to deliver local surface water from the San Antonio Canyon into the SASG for groundwater recharge. The system was tested and performed as expected; however, the statewide drought has hindered the ability to deliver imported water for groundwater recharge.



MAJOR INITIATIVES AND PROJECTS

Live Oak Spreading Basins Expansion: This collaborative effort between TVMWD and LACDPW was completed in the second half of FY 14-15. The expansion improves the capability to deliver imported and native water into the Live Oak Spreading Grounds located in the Claremont/La Verne area. The project was tested soon after completion and was able to demonstrate its ability to deliver water to the uppermost basin of the spreading grounds. Again, restricted water supplies due to the drought have limited the availability of imported water for groundwater replenishment. When water supplies return, this project will provide another location to store imported water in the local groundwater basins.



5th and White Connection: This connection delivers water from the Miramar system to City of La Verne's clearwell located at 5th Street and White Avenue. The connection was old, had a fairly deep alignment, and had a broken valve and meter. In FY 14-15, TVMWD sought to replace the items that were in disrepair and improve the overall connection by realigning it to a depth that was more easily accessible. Both the design and construction were completed in FY 14-15 and the connection was tested to TVMWD's satisfaction. The new alignment now offers a fully functional connection that will be outfitted for remote operation at a later date.



MAJOR INITIATIVES AND PROJECTS

Mills-Pomona Connection: This connection, which will be located adjacent to an existing GSWC connection at the southwest corner of Baseline Road and Mills Avenue, will deliver treated water from the Miramar system to the City of Pomona. This intertie was one of the improvements required as part of the interconnection's agreement between TVMWD and the City. Providing the City with water at this connection can help offset the City's demand for water from JWL, and by reducing that demand, the other JWL users can potentially take more water from the Miramar system because it would not be limited by the City's water quality restrictions. During FY 14-15, TVMWD began design work on this project. Final design and construction is expected to be completed in FY 15-16.



Main Driveway Modification: TVMWD also began design work in FY 14-15 to modify the main drive within the Miramar site. The modifications include new parking spaces and a couple of electric vehicle charging stations. The spaces will alleviate the crowded conditions when visitors park along the main drive and will help direct the visitors to the main lobby of the Administration Building to sign in when they enter the premises. The improvements associated with the modification are expected to be done in the latter half of FY 15-16.



MAJOR INITIATIVES AND PROJECTS

Manway Installation: In FY 14-15, TVMWD installed three new manways along the Miramar Transmission Pipeline in Baseline Road in the city of Claremont. This is in addition to five other manways installed in the two prior fiscal years. These manways are necessary to facilitate inspections and repairs of the pipeline. An additional four manways are planned over the next fiscal year.



SCADA Modifications & Upgrades: In FY 14-15, TVMWD's SCADA contractor continued with various improvements and modifications associated with the plant and pipeline systems. Older model radios were replaced at most of the connection locations, entry alarms were instituted at all remote facilities, and the plant's combined filter effluent meter was modified to automatically adjust. Additional work will continue in the years to come to keep the SCADA system up to date and reliable. Some of the future upgrades include automated controls for the Williams and Fulton Hydros, data collection/integration for all hydro facilities, and replacing obsolete radios and PLCs at various sites.



MAJOR INITIATIVES AND PROJECTS

Fulton Reservoir: Construction of the one-million-gallon reservoir at the Fulton site began in FY 14-15 and is expected to be completed in early FY 15-16. Construction throughout the year progressed as scheduled with no major issues or delays. The project will increase storage capacity at the site and alleviate pressurization concerns on the JWL.

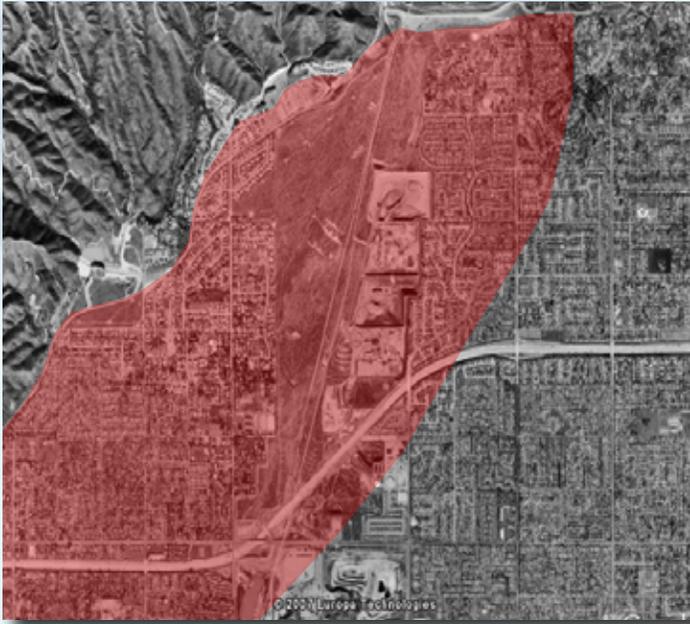


Miramar Hydroelectric Generation Stations #2 & #3: Based on recommendations from its consultant, TVMWD moved forward to implement a project to add two small hydroelectric generating facilities at the existing Miramar Hydro site. The physical improvements were essentially completed in the earlier half of FY 14-15, but additional work by Southern California Edison (Edison) has greatly delayed project start-up. Edison is requiring various upgrades related to its interconnection with the existing and new generating facilities, and TVMWD must pay for these upgrades. These requirements by Edison have pushed the start-up of this project into the latter half of FY 15-16. Based on the overall costs and the expected savings and revenue to be generated by the new hydros, the payback period is estimated to be about 10 years.



MAJOR INITIATIVES AND PROJECTS

Enhanced Groundwater Production: TVMWD has a strategic goal to increase its capability to use local groundwater supplies to offset imported water, which is more expensive and less reliable. In addition to its two existing groundwater wells, TVMWD desires to develop more wells within the Six Basins groundwater area. Upon completion of Well #2, the focus in FY 14-15 already turned to a new Well #3. After initial negotiations on a potential site for a new well were unsuccessful, TVMWD re-focused and set out to find potential well sites throughout the local area.



Security Camera Installation: During FY 14-15, TVMWD upgraded cameras at three key locations to provide higher resolution picture. Meanwhile, all the digital video recorders were upgraded to enhance picture quality at all the camera locations, and corresponding software to view the video was also upgraded to provide a simplified platform. With the upgrades, however, the system is beginning to tax the bandwidth of the local network, and future improvements to the video system would only worsen that condition. In the coming year, TVMWD hopes to remedy this problem and continue to improve the overall utility of the security cameras.



Relevant Financial Policies

Internal Control Structure

TVMWD management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of TVMWD 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. TVMWD'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.

Financial Policies

Prior to June 30th each fiscal year, TVMWD adopts an annual appropriated budget for planning, control, and evaluation purposes. The budget includes proposed expenses and the means of financing them. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. The Board of Directors approve total budgeted appropriations and any significant amendments to the appropriations throughout the year. Formal budgetary integration is employed as a management control device during the year. The Board of Directors requires the preparation of an annual budget, but TVMWD is not legally required to report on the budget. Encumbrance accounting is used to account for commitments related to unperformed or incomplete contracts for construction and services. Consistent with the State of California Government Code, TVMWD annually adopts an investment policy that is intended to minimize credit and market risks while maintaining a competitive yield on its overall portfolio. TVMWD's cash management system is also designed to forecast revenues and expenditures accurately, and to invest surplus funds to the fullest extent possible. During FY 14-15, all funds were invested in accordance with this policy. These investments primarily consisted of United States Government Securities/Instrumentalities.

Long-Term Financial Planning

TVMWD's main expense is for treated and untreated water from MWD. Since MWD is forecasting rate increases in the future of 3% to 5%, TVMWD's rates are expected to mirror those increases. TVMWD's financial forecast is to continue leveraging costs so that TVMWD can offer treated water at \$24 below MWD for the foreseeable future.

TVMWD will continue to work towards providing a sustainable supply of water by making capital investments to enhance groundwater production capabilities during the next few years. TVMWD will utilize reserves and debt financing if necessary to pay for these projects with as little rate impact as possible. Not only will these projects improve reliability, they will also provide an avenue to decrease dependence upon MWD. Operating expenses would increase slightly with the additional infrastructure but the cost would be justifiable.

TVMWD's strategic plan includes maintaining a reserve of funds in accordance with TVMWD's Reserve Policy. The objective of reserve funds is:

- to balance short-term fluctuations in revenues/expenses without adopting unplanned significant rate increases that could severely impact ratepayers
- to provide a safety net in the event of an emergency
- to minimize external borrowing and interest expense
- to determine the most opportune time to issue debt when necessary

Other References

More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

Contact TVMWD

This CAFR is designed to provide a general overview of TVMWD's finances and to demonstrate TVMWD's accountability for the resources it receives. If you have any questions about this report or need additional information, please contact the Finance Department at (909) 621-5568.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to TVMWD for its CAFR for the fiscal year ended June 30, 2014. This was the eighth consecutive year that TVMWD has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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.

TVMWD currently maintains the District of Distinction biannual accreditation by the Special District Leadership Foundation (SDLF) for its sound fiscal management policies and practices in district operations. The SDLF provides an independent audit review of the last three years of a district's operations to ensure prudent fiscal practices. This recognition is further proof of TVMWD's commitment towards developing a fiscally sound operation that is open and transparent.

Preparation of this report was accomplished by the combined efforts of TVMWD staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the service of TVMWD's customers. The contributions made by Esther Romero, Liz Cohn, and our auditors deserve special recognition. We would also like to thank and recognize the members of the Board of Directors for their continued support in the planning and implementation of TVMWD's fiscal policies.

Respectfully submitted,



Richard W. Hansen, P.E.
General Manager/Chief Engineer



James Linthicum, CPA
Chief Finance Officer



Government Finance Officers Association

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

Presented to

**Three Valleys Municipal
Water District, California**

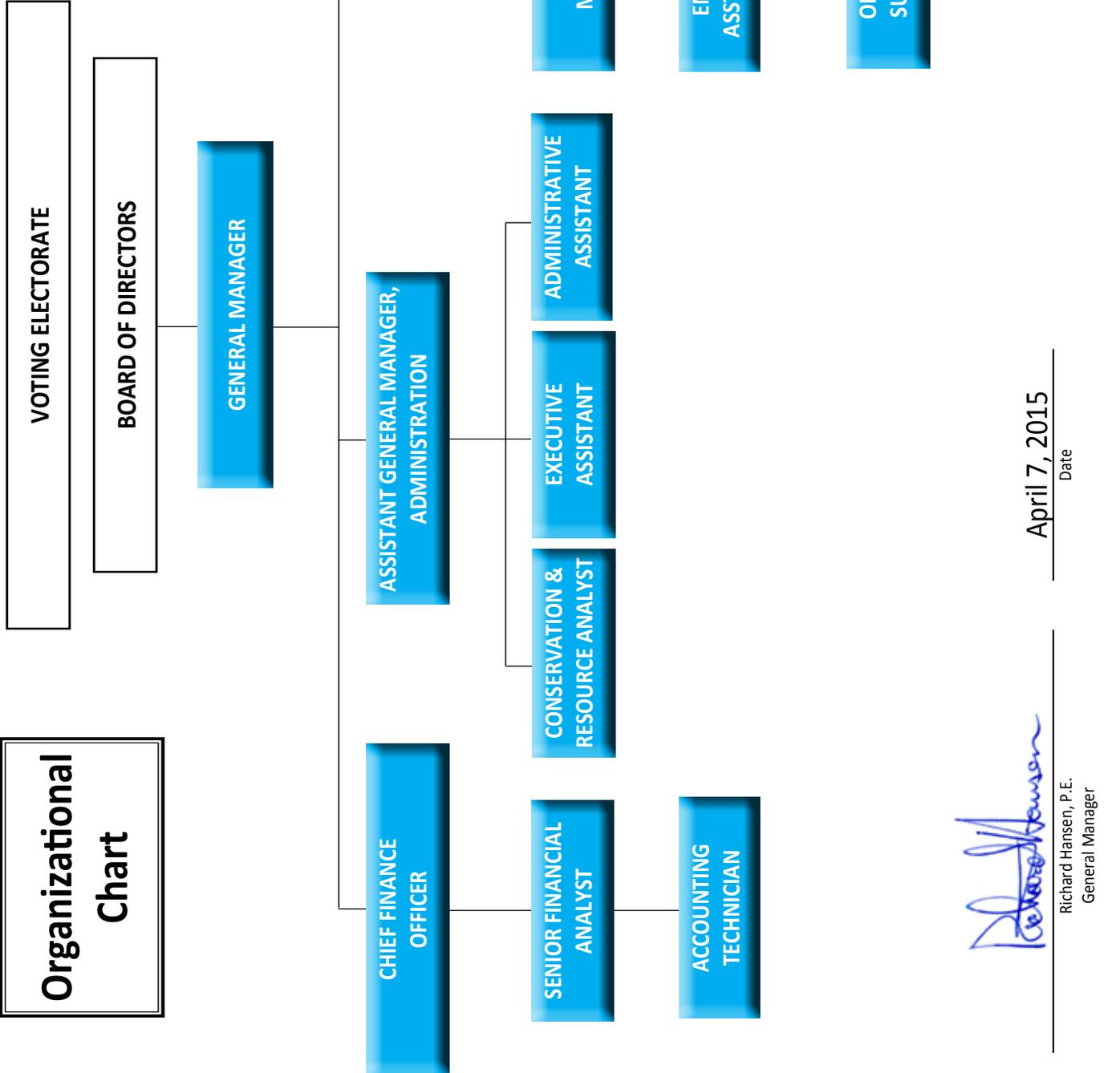
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO



Organizational Chart



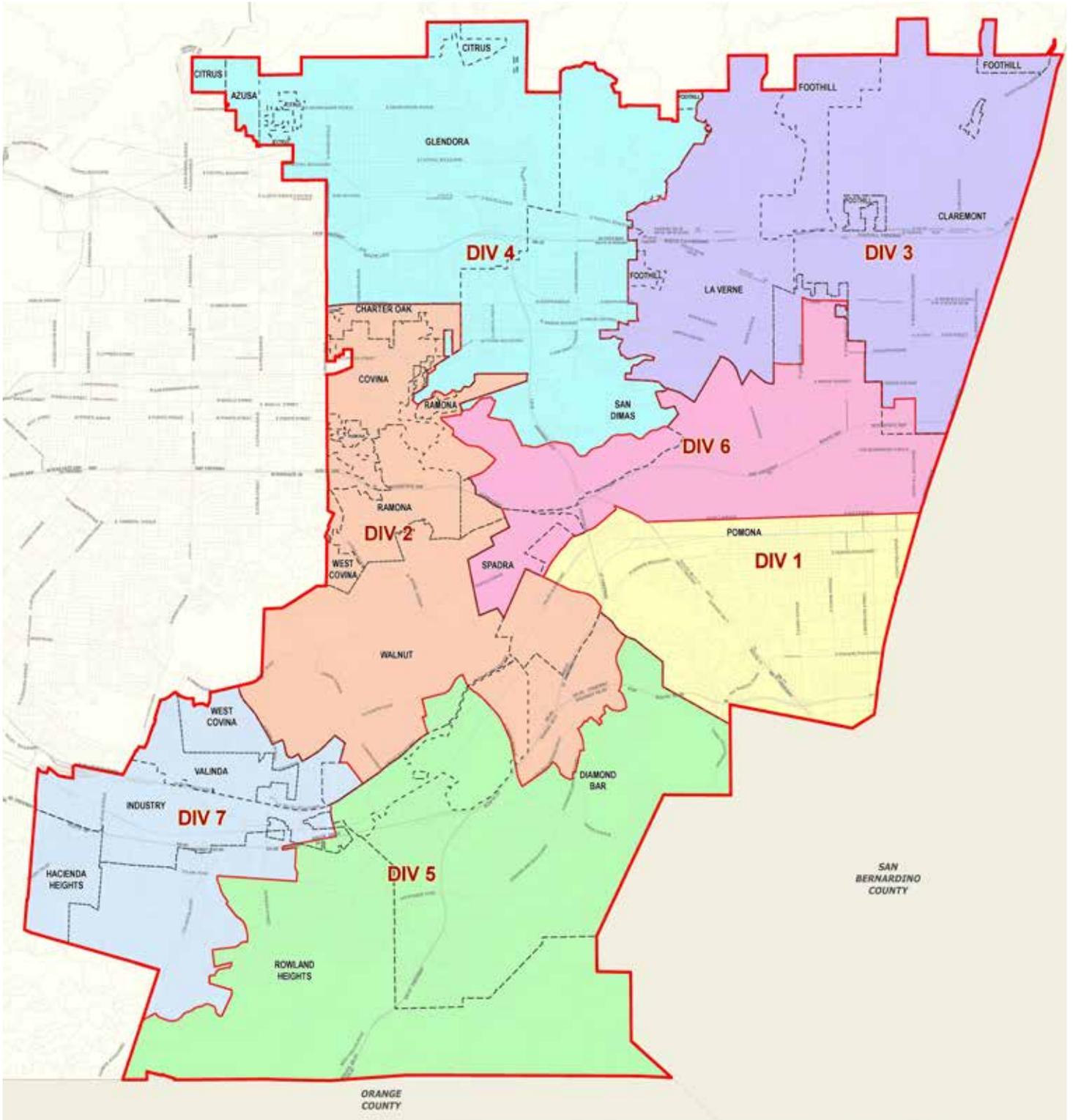
Richard Hansen

Richard Hansen, P.E.
General Manager

April 7, 2015
Date



Elective Subdivision Boundary Map



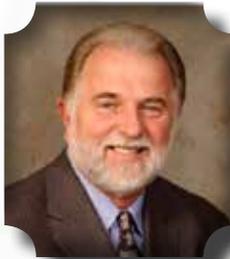
TVMWD Board of Directors



Director Bob Kuhn, President
Division 4
Glendora, San Dimas



Director David De Jesus, Vice President
Division 2
Walnut, Covina, West Covina,
San Dimas



Director Brian Bowcock, Secretary
Division 3
Claremont and La Verne



Director Joseph Ruzicka, Treasurer
Division 5
Diamond Bar, City of Industry, Rowland Heights



Director Dan Horan
Division 7
Rowland Heights, West Covina,
City of Industry, Hacienda Heights



Director Fred Lantz
Division 6
Northern Pomona



Director Carlos Goytia
Division 1
Southern Pomona



BOARD REPRESENTATION

(Revised at the December 17, 2014 Board Meeting)

<u>NAME</u>	<u>REPRESENTING</u>	<u>POSITION</u>
Bob Kuhn	Division IV	President
David De Jesus	Division II	Vice President
Brian Bowcock	Division III	Secretary
Joseph Ruzicka	Division V	Treasurer
Dan Horan	Division VII	Director
Fred Lantz	Division VI	Director
Carlos Goytia	Division I	Director

2015 COMMITTEE/REPRESENTATION APPOINTMENTS

(Revised at the December 17, 2014 Board Meeting)

<u>COMMITTEE/BOARD</u>	<u>REPRESENTATIVE</u>	<u>ALTERNATE</u>
MWD Board Representative	Director De Jesus	-----
San Gabriel Basin WQA	Director Kuhn	Director Horan
San Gabriel Valley Council of Govt's	Director Goytia	Director Kuhn
Main San Gabriel Basin Watermaster	Director Bowcock	Director Horan
Chino Basin Watermaster	Director Kuhn	Director De Jesus
Six Basins Watermaster	Director Bowcock	Director Lantz
PWR Joint Water Line Commission	Director Horan	Director Goytia
Walnut Valley Water District	Director De Jesus	Director Ruzicka
Rowland Water District	Director Horan	Director Ruzicka
ACWA Region 8 Delegate	Director Horan	Director Bowcock
ACWA/JPIA Representative	Director Bowcock	Director Kuhn
Local Agency Formation Commission	Director Ruzicka	Director Kuhn

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Three Valleys Municipal Water District
Claremont, California

Report on Financial Statements

We have audited the accompanying financial statements of the Three Valleys Municipal Water District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Three Valleys Municipal Water District as of June 30, 2015, 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.



To the Board of Directors
Three Valleys Municipal Water District

Change in Accounting Principle

As discussed in the notes to the financial statements, the District adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions – An amendment of GASB Statement No. 27.

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 proportionate share of the net pension liability, and the schedule of 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 November 4, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Brea, California
November 4, 2015

THREE VALLEYS MUNICIPAL WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended June 30, 2015

This section of TVMWD's annual financial report presents our analysis of TVMWD's financial performance during the fiscal year ended on June 30, 2015. Please read it in conjunction with the basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- Treated water sales revenue and the related water purchased decreased substantially in May and June 2015. The decrease in sales and purchases resulted from Governor Brown's executive order issued on April 1, 2015, for mandatory water reductions of 25% statewide. Many agencies acted upon the water restrictions in the last two months of the fiscal year taking less water from both the Weymouth and Miramar plants.
- Accounts receivable and accounts payable decreased by approximately \$6 million due to significantly lower water sales in May and June 2015. The contributing factor was the imposition of mandatory water restrictions.
- Grants receivable decreased as the DWR grant related to the SASG Spreading Pipeline Extension nears completion.
- Investments decreased as a result of transfers in the amount of \$1.7 million to help pay for capital projects (TVMWD Well #2, Miramar Hydroelectric Generation Stations #2 & #3, SASG Spreading Pipeline Extension, Live Oak Spreading Basin Expansion, and Fulton Reservoir).
- Capital assets increased substantially by \$3.6 million. This is a result of a \$1.7 million and \$1.9 million increase in Depreciable and Nondepreciable assets respectively. The increase in Nondepreciable assets is due to the addition of the following projects to Construction in Progress: Fulton Reservoir, SASG Spreading Pipeline Extension, and Miramar Hydroelectric Generation Stations #2 & #3. The increase in Depreciable assets is due to the completion of the TVMWD Well #2 and Live Oak Spreading Basin Expansion projects offset by depreciation.
- TVMWD implemented GASB Statement No. 68 resulting in a Net Pension Liability of \$2.1 million being recognized this fiscal year. This liability will be adjusted each year depending upon the funded status of TVMWD's pension obligations.
- Certificates of participation (COP) decreased by \$6 million due to GSWC making their final payment for the 1984 variable rate COP.
- Net position increased primarily due to the GSWC payment offset by a \$2.5 million prior period adjustment attributed to the implementation of GASB Statement No. 68.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to TVMWD's basic financial statements, which are comprised of two components: Basic Financial Statements (pages 7-12) and Notes to the Basic Financial Statements (pages 13-25). This report also includes other supplementary information in addition to the basic financial statements.

Required Financial Statements

The financial statements of TVMWD report information about TVMWD using the accrual basis of accounting; accordingly, all of the current year's revenues and expenses are accounted for regardless of when the cash is received or paid. This accounting treatment is similar to the methods used by private sector companies and aids in answering the question of whether TVMWD, as a whole, has improved or deteriorated as a result of this year's activities.

The Statement of Net Position (pages 7-8) includes all of TVMWD's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of TVMWD and assessing the liquidity and financial flexibility of TVMWD.

The Statement of Revenues, Expenses and Changes in Net Position (page 10) includes all of the current year revenues and expenses. This statement measures the success of TVMWD's operations over the past year and can be used to determine whether TVMWD has successfully recovered all of its costs through user fees and other charges.

The Statement of Cash Flows (pages 11-12) reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. This statement demonstrates where the cash came from, how the cash was used, and how much the change in cash was during the fiscal year.

These statements are one of many different ways to measure TVMWD's financial health or financial position. Over time, increases or decreases in TVMWD's net position are one of the indicators of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in TVMWD's property tax base, investment income, grant opportunities, and other operational measures to help assess the overall financial health of TVMWD.

**THREE VALLEYS MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

**TABLE A-1
Condensed Statement of Net Position
Fiscal Years 2015 and 2014**

	2015	2014	Dollar Change	Total Percent Change
Current and noncurrent assets				
Cash and cash equivalents	\$ 2,315,773	\$ 3,509,585	\$ (1,193,812)	(34) %
Accounts receivable	7,128,503	12,954,394	(5,825,891)	(45) %
Interest receivable	30,145	51,765	(21,620)	(42) %
Taxes receivable	85,001	41,919	43,082	103 %
Grants receivable	551,401	1,814,825	(1,263,424)	(70) %
Other receivables	271,133	21,018	250,115	1190 %
Loans receivable from employees	3,324	7,014	(3,690)	(53) %
Prepaid expenses and deposits	76,841	72,851	3,990	5 %
Water storage inventory	1,849,861	1,889,364	(39,503)	(2) %
Investments	9,978,963	11,700,700	(1,721,737)	(15) %
Notes receivable	107,086	142,781	(35,695)	(25) %
Net OPEB asset	274,759	132,408	142,351	108 %
Capital assets				
Depreciable assets	20,180,854	18,499,459	1,681,395	9 %
Nondepreciable assets	8,897,858	6,984,247	1,913,611	27 %
Total Assets	\$ 51,751,502	\$ 57,822,330	\$ (6,070,828)	(10) %
Deferred outflows of resources				
Deferred pension related items	\$ 272,007	\$ -	\$ 272,007	0 %
Current liabilities				
Accounts payable	\$ 6,629,550	\$ 12,631,737	\$ (6,002,187)	(48) %
Retention payable	171,329	131,343	39,986	30 %
Accrued payroll	22,617	21,527	1,090	5 %
Accrued compensated absences	135,598	119,470	16,128	13 %
Certificates of participation	-	6,000,000	(6,000,000)	(100) %
Unearned revenue	-	16,892	(16,892)	(100) %
Long-term liabilities				
Accrued compensated absences	275,091	288,476	(13,385)	(5) %
Unearned revenue	-	149,883	(149,883)	(100) %
Net pension liability	2,059,901	-	2,059,901	0 %
Total Liabilities	\$ 9,294,086	\$ 19,359,328	\$ (10,065,242)	(52) %
Deferred inflows of resources				
Deferred pension related items	\$ 737,147	\$ -	\$ 737,147	0 %
Investment in capital assets	\$ 29,078,712	\$ 19,483,706	\$ 9,595,006	49 %
Restricted for debt service	-	225,000	(225,000)	(100) %
Unrestricted	12,913,564	18,754,296	(5,840,732)	(31) %
Total Net Position	\$ 41,992,276	\$ 38,463,002	\$ 3,529,274	9 %

As depicted in Table A-1, the following significant changes occurred during FY 14-15:

- Accounts receivable and accounts payable decreased by \$6 million due to significantly lower water sales in May and June 2015. The contributing factor was the imposition of mandatory water restrictions.
- Grants receivable decreased as the DWR grant related to the SASG Spreading Pipeline Extension nears completion.
- Investments decreased as a result of transfers in the amount of \$1.7 million to help pay for capital projects (TVMWD Well #2, Miramar Hydroelectric Generation Stations #2 & #3, SASG Spreading Pipeline Extension, Live Oak Spreading Basin Expansion, and Fulton Reservoir).
- TVMWD implemented GASB Statement No. 68 resulting in a Net Pension Liability of \$2.1 million being recognized this fiscal year. This liability will be adjusted each year depending upon the funded status of TVMWD's pension obligations.

**THREE VALLEYS MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

**TABLE A-2
Condensed Statements of Revenues, Expenses and Changes in Net Position
Fiscal Years 2015 and 2014**

	2015	2014	Dollar Change	Total Percent Change
Operating revenues				
Water and hydroelectric sales	\$ 51,650,577	\$ 60,472,272	\$ (8,821,695)	(15) %
Water use and connection capacity charges	7,006,991	6,287,667	719,324	11 %
Nonoperating revenues				
Property tax revenue	2,014,754	1,886,998	127,756	7 %
Sublease income	5,775,000	821,303	4,953,697	603 %
Investment income	136,976	236,128	(99,152)	(42) %
Intergovernmental grant revenue	46,924	115,962	(69,038)	(60) %
Total Revenues	66,631,222	69,820,330	(3,189,108)	(5) %
Operating expenses				
Water purchases	46,955,631	55,401,389	(8,445,758)	(15) %
Water use and connection capacity	6,182,531	5,254,027	928,504	18 %
Water treatment and transmission	2,711,483	2,648,714	62,769	2 %
Administrative expenses	3,210,144	3,347,977	(137,833)	(4) %
Depreciation	2,031,448	1,894,716	136,732	7 %
Nonoperating expenses				
Interest expense	-	29,787	(29,787)	(100) %
Intergovernmental grants expense	46,924	115,962	(69,038)	(60) %
Loss on sale/disposal of assets	12,109	104,254	(92,145)	(88) %
Amortization of deferred bond costs & refunding	-	195,647	(195,647)	(100) %
Total Expenses	61,150,270	68,992,473	(7,842,203)	(11) %
Net income (loss) before capital contributions	5,480,952	827,857	4,653,095	562 %
Capital contributions	618,666	1,742,423	(1,123,757)	(64) %
Changes in net position	6,099,618	2,570,280	3,529,338	137 %
Beginning net position, as previously reported	38,463,002	36,506,223	1,956,779	5 %
Prior period adjustment	(2,570,344)	(613,501)	(1,956,843)	319 %
Beginning net position, as restated	35,892,658	35,892,722	(64)	0 %
Ending net position	\$ 41,992,276	\$ 38,463,002	\$ 3,529,274	9 %

As depicted in Table A-2, the following significant changes occurred during FY 14-15:

- Treated water sales revenue and the related water purchased decreased substantially in May and June 2015. The decrease in sales and purchases resulted from Governor Brown's executive order issued on April 1, 2015, for mandatory water reductions of 25% statewide. Many agencies acted upon the water restrictions in the last two months of the fiscal year taking less water from both the Weymouth and Miramar plants.
- Capital contributions decreased due to the grant from DWR related to the SASG Spreading Pipeline Extension nearing completion.

**THREE VALLEYS MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

**TABLE A-3
Capital Assets
Fiscal Years 2015 and 2014**

	2015	2014	Dollar Change	Total Percent Change
Nondepreciable Assets				
Land	\$ 283,019	\$ 283,019	\$ -	0 %
Water Share	301,000	301,000	-	0 %
Construction in Progress	8,313,839	6,400,228	1,913,611	30 %
Total Nondepreciable Assets	8,897,858	6,984,247	1,913,611	27 %
Depreciable Assets				
Building	6,720,748	1,286,585	5,434,163	422 %
Furniture, Fixtures, & Equipment	923,439	1,536,625	(613,186)	(40) %
Infrastructure	48,665,856	49,484,921	(819,065)	(2) %
Land Improvements	1,257,839	1,851,192	(593,353)	(32) %
District Vehicles	349,596	382,963	(33,367)	(9) %
Total Depreciable Assets	57,917,478	54,542,286	3,375,192	(6) %
Less Accumulated Depreciation	(37,736,624)	(36,042,827)	(1,693,797)	5 %
Net Depreciable Assets	20,180,854	18,499,459	1,681,395	9 %
Total Capital Assets, Net	\$ 29,078,712	\$ 25,483,706	\$ 3,595,006	14 %

As depicted in Table A-3, the following significant changes occurred during FY 14-15:

- Capital assets increased substantially from the prior year by \$3.6 million. This is a result of a \$1.7 million and \$1.9 million increase in Depreciable and Nondepreciable assets respectively. The increase in Nondepreciable assets is due to the addition of the following projects to Construction in Progress: Fulton Reservoir, SASG Spreading Pipeline Extension, and Miramar Hydroelectric Generation Stations #2 & #3. The increase in Depreciable assets is due to the completion of the TVMWD Well #2 and Live Oak Spreading Basin Expansion projects offset by depreciation.

**TABLE A-4
Long-Term Debt
Fiscal Years 2015 and 2014**

	2015	2014	Dollar Change	Total Percent Change
Certificates of Participation	\$ -	\$ 6,000,000	\$ (6,000,000)	(100) %
Total Long-Term Debt, Net	\$ -	\$ 6,000,000	\$ (6,000,000)	(100) %

As depicted in Table A-4, the following significant changes occurred during FY 14-15:

- Certificates of participation (COP) decreased by \$6 million due to GSWC making their final payment for the 1984 variable rate COP.
- More information about TVMWD's long-term debt is presented in Note 7 of the Notes to the Basic Financial Statements.

THREE VALLEYS MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
June 30, 2015

ASSETS

Current assets

Cash and cash equivalents (Note 3)	\$	2,315,773
Accounts receivable (Note 1)		7,128,503
Interest receivable		30,145
Taxes receivable (Note 1)		85,001
Grants receivable (Note 5)		551,401
Other receivables		271,133
Loans receivable from employees (Note 1)		3,324
Prepaid expenses (Note 1)		52,957
Deposits (Note 1)		14,459
Water storage inventory (Note 1)		1,849,861
Current portion of notes receivable (Note 6)		35,695
		<hr/>
Total current assets		12,338,252

Noncurrent assets

Advance dues deposit (Note 1)		9,425
Investments - unrestricted (Note 3)		9,978,963
Notes receivable, net of current portion (Note 6)		71,391
Net OPEB asset (Note 13)		274,759
Capital assets (Note 4)		
Depreciable assets, net		20,180,854
Nondepreciable assets		8,897,858
		<hr/>
Total noncurrent assets		39,413,250

TOTAL ASSETS

\$ 51,751,502

DEFERRED OUTFLOWS OF RESOURCES

Deferred pension related items	\$	272,007
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See accompanying independent auditors' report and notes to the basic financial statements.

THREE VALLEYS MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION (continued)
June 30, 2015

LIABILITIES

Current liabilities

Accounts payable	\$ 6,629,550
Retainage payable (Note 1)	171,329
Accrued payroll	22,617
Current portion of accrued compensated absences (Note 1)	<u>135,598</u>

Total current liabilities 6,959,094

Noncurrent liabilities

Accrued compensated absences, net of current portion (Note 1)	275,091
Net pension liability	<u>2,059,901</u>
Total noncurrent liabilities	<u>2,334,992</u>

TOTAL LIABILITIES \$ 9,294,086

DEFERRED INFLOWS OF RESOURCES

Deferred pension related items	<u>\$ 737,147</u>
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NET POSITION

Investment in capital assets (Note 8)	29,078,712
Unrestricted	<u>12,913,564</u>

TOTAL NET POSITION \$ 41,992,276

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



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THREE VALLEYS MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2015

OPERATING REVENUES

Water sales - MWD	\$ 36,096,259
Water and hydroelectric sales - Miramar	15,554,318
Water use and connection capacity charges	7,006,991
	<hr/>
Total operating revenues	58,657,568
	<hr/>

OPERATING EXPENSES

Water purchases - MWD	36,821,506
Water purchases - Miramar	10,134,125
Water use and connection capacity	6,182,531
Water treatment and transmission	2,711,483
Administrative expenses	3,210,144
Depreciation	2,031,448
	<hr/>
Total operating expenses	61,091,237
	<hr/>

OPERATING LOSS

(2,433,669)

NONOPERATING REVENUES (EXPENSES)

Property tax revenue	2,014,754
Sublease income	5,775,000
Investment income	136,976
Intergovernmental grant revenue	46,924
Intergovernmental grant expense	(46,924)
Loss on sale/disposal of assets	(12,109)
	<hr/>
Net nonoperating revenues	7,914,621
	<hr/>

NET INCOME BEFORE CAPITAL CONTRIBUTIONS

5,480,952

CAPITAL CONTRIBUTIONS (Note 1)

618,666

CHANGES IN NET POSITION

6,099,618

NET POSITION:

Beginning of year, as previously reported	38,463,002
Prior period adjustment (Note 2)	(2,570,344)
	<hr/>
Beginning of year, as restated	35,892,658
	<hr/>

NET POSITION AT END OF YEAR

\$ 41,992,276

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

THREE VALLEYS MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 65,369,497
Cash payments to suppliers of goods or services	(61,243,426)
Cash payments to employees for services	(3,962,685)
	<hr/>
Net cash provided by operating activities	163,386
	<hr/>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Proceeds from property taxes	1,971,671
	<hr/>
Net cash provided by noncapital financing activities	1,971,671
	<hr/>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from sublease income	5,775,000
Proceeds from capital contributions	618,666
Acquisitions of capital assets	(112,729)
Cost of construction in progress additions	(5,525,834)
Debt repayments on certificates of participation	(6,000,000)
	<hr/>
Net cash used by capital and related financing activities	(5,244,897)
	<hr/>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments in government securities	(3,311,359)
Proceeds from sales of investments in government securities	5,032,404
Investment income	159,288
Payments received on notes receivable	35,695
	<hr/>
Net cash provided by investing activities	\$ 1,916,028
	<hr/>

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

THREE VALLEYS MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS (continued)
For the Year Ended June 30, 2015

NET INCREASE (DECREASE)

IN CASH AND CASH EQUIVALENTS \$ (1,193,812)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 3,509,585

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 2,315,773

**RECONCILIATION OF INCOME FROM OPERATIONS TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Income from operations \$ (2,433,669)

Adjustments to reconcile income from operations
to net cash provided by operating activities:

Depreciation 2,031,448

Changes in assets and liabilities:

(Increase) decrease in accounts receivable 5,825,891

(Increase) decrease in grant receivable 1,263,424

(Increase) decrease in other receivables (250,115)

(Increase) decrease in loans receivable from employees 3,690

(Increase) decrease in prepaid expenses (3,803)

(Increase) decrease in deposits (636)

(Increase) decrease in water storage inventory 39,503

(Increase) decrease in advance dues deposit 449

(Increase) decrease in net OPEB asset (142,351)

Increase (decrease) in accounts payable (6,002,187)

Increase (decrease) in accrued payroll 1,090

Increase (decrease) in retention payable 39,986

Increase (decrease) in accrued compensated absences 2,743

Increase (decrease) in net pension liability and related items (45,302)

Increase (decrease) in unearned revenue (166,775)

Net cash provided by operating activities \$ 163,386

**RECONCILIATION OF CASH AND CASH EQUIVALENTS
TO STATEMENT OF NET POSITION**

\$ 2,315,773

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

**THREE VALLEYS MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

Nature of Organization

TVMWD wholesales potable and non-potable water to its retail member agencies which include Golden State Water Company, serving Claremont and San Dimas; Rowland Water District; Walnut Valley Water District; the Boy Scouts of America; California State Polytechnic University, Pomona; Mount San Antonio College; Pomona-Walnut-Rowland Joint Water Line; Valencia Heights Water Company; Covina Irrigating Company; Suburban Water Systems; and the cities of Covina, Glendora, La Verne and Pomona. The majority of TVMWD's imported water supply is purchased from MWD.

Basis of Accounting and Financial Statement Presentation

TVMWD uses proprietary fund accounting which is similar to the principles applied to a business in the private sector. TVMWD utilizes the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange like transactions are recognized when the exchange takes place. The measurement focus is on determination of net income, net position and cash flows.

TVMWD's basic financial statements are presented in conformance with the provisions of GASB Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis - For State and Local Governments". GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net position, statement of revenues, expenses and changes in net position, and statement of cash flows.

Use of Estimates

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

Cash and Cash Equivalents

Substantially all of TVMWD's cash is invested in interest bearing accounts. TVMWD considers all highly liquid investments with a maturity of three months or less to be cash equivalents.



Accounts Receivable

TVMWD grants unsecured credit to its retail member agencies. Bad debts are accounted for by the reserve method, which establishes an allowance for doubtful accounts based upon historical losses and a review of past due accounts. All receivables are considered collectible as of June 30, 2015, thus no allowance is reflected on the statement of net position.

Property Taxes

Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent of county-wide assessed valuations. Taxes are collected by Los Angeles County for each fiscal year on taxable real and personal property which is situated within TVMWD as of the preceding January 1. For assessment and collection purposes, property is classified as either secured or unsecured. Taxes receivable at year-end are related to property taxes collected by Los Angeles County which have not been received by TVMWD as of June 30. All taxes receivable are considered collectible as of June 30, 2015, thus no allowance is reflected on the statement of net position.

Loans Receivable from Employees

TVMWD offers interest free loans to full-time employees for the initial purchase and/or upgrades for technology (computers, tablets, smart phones) eligible under the program. TVMWD deems all loans receivable to be collectible.

Prepaid Expenses and Deposits

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

Water Storage Inventory

TVMWD maintains storage of untreated water within Main San Gabriel Basin and Six Basins. This stored water is intended for future benefit of TVMWD and its member agencies. Payments made reflect costs applicable to future accounting periods and are recorded at cost as inventory in the financial statements. Cost is determined using the weighted average method.

	Six Basins		Main San Gabriel Basin	
	Acre Feet	Amount	Acre Feet	Amount
Beginning Balance at July 1, 2014	1,273	\$ 349,486	2,622	\$ 1,539,878
Acquired	1,917	532,218	471	274,122
Used or Sold	(1,110)	(258,513)	(1,000)	(587,330)
Ending Balance at June 30, 2015	2,080	\$ 623,191	2,093	\$ 1,226,670

Investments

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any realized or unrealized gains or losses upon the liquidation or sale of investments.

**THREE VALLEYS MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**

Capital Assets

Capital assets purchased and/or constructed are capitalized at historical cost. TVMWD’s capitalization policy dollar threshold is \$5,000. Depreciation has been provided using the straight-line method over the following useful lives:

Category	Useful Life (years)
Building and Building Improvements	10-40
Infrastructure	5-40
Land Improvements	10-20
Furniture, Fixture and Equipment	3-20
Vehicles	5-10

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports 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 that time.

In addition to liabilities, the statement of financial position reports 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.

Compensated Absences

TVMWD’s employees earn vacation, sick, compensatory and universal leave in varying amounts depending primarily on length of service. Accumulated vacation, compensatory and universal leave time is accrued at year-end to account for TVMWD’s obligation to the employees for amounts owed. Sick leave can be accumulated without limit, however, sick leave can only be paid in the amount of 75% of unused sick leave in excess of 352 accumulated hours upon separation from TVMWD. Any unused sick leave is treated as additional service time in the calculation of the employees retirement plan.

Net Pension Liability

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

Net Position

Net investment in capital assets - The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - The restricted component of net position consists of constraints placed on assets used through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. TVMWD does not currently have any restricted - net position.

Unrestricted - The unrestricted component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Sometimes TVMWD will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is TVMWD’s policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Classification of Revenues and Expenses

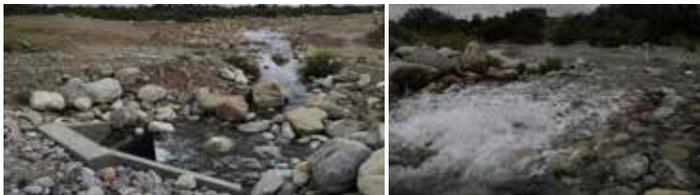
As an enterprise (proprietary) fund, TVMWD classifies its revenues and expenses into the following classifications: operating revenues, operating expenses, nonoperating revenues and nonoperating expenses. Operating revenues and expenses are defined as revenues realized by TVMWD in exchange for providing its primary services for water treatment and transmission, hydroelectric sales and water use and connection capacity charges. Non-operating revenues are those derived from the investment of cash reserves and from entities other than customers and other ancillary sources. Non-operating expenses include those related to bond costs and amortization expenses.

**THREE VALLEYS MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**

Capital Contributions

Capital contributions are comprised of federal, state, and local grants and of project reimbursements from retail member agencies. The portion of the grants and reimbursements used for capital purposes are reflected as capital contributions in the statement of revenues, expenses and changes in net position. The funds are reimbursable contributions, whereas TVMWD first pays for the project and then the granting agency reimburses TVMWD for its eligible expenditures.



New Accounting Pronouncements

During the fiscal year ended June 30, 2015, TVMWD implemented the following GASB standards:

GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* improves the decision-usefulness of information in local government employer entity financial reports and enhances its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability are also enhanced through new note disclosures and required supplementary information.

GASB Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The Statement addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions made by a local government employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

NOTE 2 – PRIOR PERIOD ADJUSTMENT

TVMWD's financial statements have been updated to conform to newly adopted GASB Statement No. 68 "Accounting and Financial Reporting for Pensions". As a result of compliance with GASB Statement No. 68, TVMWD has restated net position by \$2,570,344 to reflect the balance of net pension liability as of June 30, 2014.

**NOTE 3 – CASH AND CASH EQUIVALENTS AND
INVESTMENTS**

Cash and cash equivalents and investments are presented on the Statement of Net Position as follows as of June 30, 2015:

Type	Fair Value
Cash and cash equivalents	
Cash	\$ 2,264,066
Money Market Funds	45,224
Local Agency Investment Fund	6,483
Total cash and cash equivalents	<u>2,315,773</u>
Investments	
Federal Agency Securities	3,913,732
US Corporate Notes	2,535,454
US Treasury Notes	2,152,753
Collateral Mortgage Obligation	213,739
Commercial Paper	199,803
Asset Backed Security	963,482
Total investments	<u>9,978,963</u>
Total cash and cash equivalent and investments	<u><u>\$12,294,736</u></u>

Deposits

As of June 30, 2015, the carrying amount of TVMWD's cash deposits was \$2,264,066 and the bank balances were \$2,610,423. The bank balances were fully insured and/or collateralized with securities held by the pledging financial institutions in TVMWD's name as discussed below. TVMWD has no restricted cash deposits as of June 30, 2015.

The California Government Code requires California banks and savings and loan associations to secure an agency's cash deposits by pledging government securities with a value of 110% of an agency's deposits. California law also allows institutions to secure agency deposits by pledging first trust deed mortgage notes having a value of 150% of an agency's total deposits. TVMWD's Treasurer may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an Agent of Depository has the effect of perfecting the security interest in the name of the local government agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local government agency.



**THREE VALLEYS MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

Investment in State Investment Pool

TVMWD 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 TVMWD's investment in this pool is reported in the accompanying financial statements at amounts based on TVMWD's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of the portfolio.) The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Investments

TVMWD contracts the services of an external investment manager to assist in the management of TVMWD's investment portfolio. The external manager is granted the discretion to purchase and sell investment securities in accordance with TVMWD's investment policy. For security purposes, physical custody of the securities is maintained by a separate banking institution.

TVMWD's investment policy limits certain concentrations of investments. It is empowered by the California Government Code 53601 to invest in a variety of securities. Investment options under the code include the following:

- 1) Direct obligations of the United States Government, its agencies, and instruments to which the full faith and credit of the United States government is pledged, or obligations to the payment of which the full faith and credit of the United States is pledged;
- 2) Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions;
- 3) With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper, and repurchase agreements with certain limitations;
- 4) Medium term notes (5 years or less) issued by corporations organized and operating with the United States or by depository institutions licensed by the United States or any state and operating within the United States;
- 5) Mutual funds investing in the securities and obligations authorized by TVMWD's investment policy and share in money market mutual funds;
- 6) County, municipal, or school district tax supported debt obligations; bond or revenue anticipation notes; money judgments; or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district;
- 7) Notes or bonds secured by a mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and obligations of the National Mortgage Association;
- 8) Money market funds regulated by the Securities and Exchange Commission (SEC) in which investments consist of the investments mentioned in points 1, 2, 3, and 4 above.

**THREE VALLEYS MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)



Interest Rate Risk

TVMWD's investment policy limits investment maturities to five years or less as a means of managing its exposure to fair value losses arising from increasing interest rates. As of June 30, 2015, TVMWD had the following investment maturities:

Investment Type	Fair Value	Investment Maturities (In Years)		
		Less than 1	1 to 3	3 to 5
Money Market Funds	\$ 45,224	\$ 45,224	\$ -	\$ -
Federal Agency Securities	3,913,732	-	2,245,934	1,667,798
US Corporate Notes	2,535,454	147,164	1,363,247	1,025,043
US Treasury Notes	2,152,753	-	958,197	1,194,556
Collateral Mortgage Obligation	213,739	213,739	-	-
Asset Backed Security	963,482	220,325	533,028	210,129
Commercial Paper	199,803	199,803	-	-
Local Agency Investment Fund	6,483	6,483	-	-
Total	<u>\$10,030,670</u>	<u>\$832,738</u>	<u>\$5,100,406</u>	<u>\$4,097,526</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO's).

State law limits investments in commercial paper and corporate bonds to the top two ratings issued by NRSROs. It is TVMWD's policy to limit its investments in these investment types to rated "A" or better issued by NRSROs, including raters S&P's and Moody's Investors Service. As of June 30, 2015, TVMWD's credit risks, expressed on a percentage basis, were as follows:

Investment Type	Credit Quality Distribution for Securities With Credit Exposure as a Percentage of Total Investments		% of Investment with Interest Rate Risk
	Moody's Credit Rating	S&P's Credit Rating	
Federal Agency Securities	Aaa	AA+	39.02%
US Corporate Notes	A1	AA-	25.28%
US Treasury Notes	Aaa	AA+	21.46%
Collateral Mortgage Obligation	Aaa	AA+	2.13%
Asset Backed Security	Aaa	AAA	9.61%
Commercial Paper	P-1	A-1	1.99%
Money Market Fund	Aaa	AAA	0.45%
Local Agency Investment Fund	Not rated	Not rated	0.06%
Total			<u>100.00%</u>

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover 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 to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside agency. TVMWD's policy is to diversify its investments by security type and institution. As of June 30, 2015, none of TVMWD's deposits or investments were exposed to custodial credit risk.

Concentration of Credit Risk

TVMWD's policy is that assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. According to GASB 40, there is potential concentration of credit risk if more than 5 percent of the entity's investments are with any one issuer. The following investments are considered exposed to concentration of credit risk as shown in the Credit Quality Distribution for Securities Table:

- Federal National Mortgage Association
- Federal Home Loan Mortgage Corporation
- Federal Home Loan Bank
- Government of United States



**THREE VALLEYS MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

NOTE 4 – CAPITAL ASSETS

A summary of the changes in capital assets for the year ended June 30, 2015 is as follows:

	Beginning Balance 06/30/2014	Reclass*	Adjusted Beginning Balance 06/30/2014	Additions	Retirements	Transfers	Ending Balance 06/30/2015
Capital assets, not being depreciated:							
Land	\$ 283,019	\$ -	\$ 283,019	\$ -	\$ -	\$ -	\$ 283,019
Water Share	301,000	-	301,000	-	-	-	301,000
Construction in progress	6,400,228	-	6,400,228	5,536,823	(10,989)	(3,612,223)	8,313,839
Total capital assets, not being depreciated	6,984,247	-	6,984,247	5,536,823	(10,989)	(3,612,223)	8,897,858
Capital assets, being depreciated:							
Building and Building Improvement	1,286,585	5,410,649	6,697,234	-	-	23,514	6,720,748
Furniture, Fixtures, and Equipment	1,536,625	(618,344)	918,281	58,193	(53,035)	-	923,439
Infrastructure	49,484,921	(4,176,968)	45,307,953	21,651	(252,457)	3,588,709	48,665,856
Land Improvements	1,851,192	(615,337)	1,235,855	21,984	-	-	1,257,839
Vehicles	382,963	-	382,963	10,901	(44,268)	-	349,596
Total capital assets, being depreciated	54,542,286	-	54,542,286	112,729	(349,760)	3,612,223	57,917,478
Less accumulated depreciation for:							
Building and Building Improvement	883,031	5,196,595	6,079,626	201,012	-	-	6,280,638
Furniture, Fixture and Equipment	1,206,057	(513,187)	692,870	54,685	(47,902)	-	699,653
Infrastructure	32,912,348	(4,608,831)	28,303,517	1,640,380	(245,481)	-	29,698,416
Land Improvement	748,174	(72,594)	675,580	117,582	-	-	793,162
Vehicles	293,217	(1,983)	291,234	17,789	(44,268)	-	264,755
Total accumulated depreciation	36,042,827	-	36,042,827	2,031,448	(337,651)	-	37,736,624
Total capital assets, being depreciated, net	18,499,459	-	18,499,459	(1,918,719)	(12,109)	3,612,223	20,180,854
Total capital assets, net	\$ 25,483,706	\$ -	\$ 25,483,706	\$ 3,618,104	\$ 1,120	\$ -	29,078,712

*Capital assets were reviewed and broken down into more meaningful individual components to assist in proper accounting for asset disposals, repairs, refurbishments and future replacement planning. This required reclassing assets to different asset classes.

Depreciation expense for the year totaled \$2,031,448.



**THREE VALLEYS MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

NOTE 5 – GRANTS RECEIVABLE

Grants receivable are comprised of receivables from federal, state and local grants. At times TVMWD also serves as administrator for various grants for retail member agencies or associated agencies. Grant funds received by TVMWD are subject to optional audits by the grantor agencies. Such an audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under the terms of the grant. Management of TVMWD believes that such disallowances, if any, would not be significant.

NOTE 6 – NOTES RECEIVABLE

TVMWD provided GSWC, formerly known as Southern California Water Company, a capital improvement loan for a pipeline project at a rate of 2% above the published rate paid on funds on deposit with LAIF. The loan had a balance as of June 30, 2015 of \$107,086, and is being collected over a twenty year period ending in 2018.

NOTE 7 – LONG TERM DEBT

Certificates of Participation

TVMWD entered into a "First Lease - Purchase Agreement" with Central Bank Leasing, a division of Central Leasing Corporation on November 1, 1983. Under the terms of this lease agreement, TVMWD was to issue COP evidencing the proportionate interest of the owners thereof in lease payments to be made by TVMWD. TVMWD was also required to cause a facility to be constructed in accordance with the provisions of the agreement for construction, operation and maintenance of the Miramar Treatment Plant.

On October 5, 1984, TVMWD entered into an agreement with the City of La Verne and GSWC. The agreement called for the execution of a "First Miramar Project Sublease" by TVMWD and the City of La Verne and a "Second Miramar Project Sublease" by TVMWD and GSWC. The agreement provided for the allocation of capital and other project costs among the parties, for financing of those costs and for payment of each party's share of those costs. TVMWD capitalized the lease agreement as amended on March 1, 1994 as a Capital Lease Obligation. The lease, as amended, represents \$21,915,000 in COP (fixed rate refunding obligation at interest rates ranging from 7.25% to 9.7%) and \$6,000,000 in COP (variable rate). The principal payment for the \$6,000,000 variable COP's will be paid for solely by GSWC.

The 1986 fixed rate COP's refunded the remaining balance of the 1984 fixed rate COP's. The variable rate COP's of \$6,000,000 issued in 1984 payable by GSWC were not refinanced. Debt service payments on the refunded bonds were defeased by placing proceeds of the 1986 issue in an irrevocable trust to

provide for all future debt service payments of the 1984 fixed rate issue. Since the 1984 bonds are considered defeased, the liability has been removed from the financial statements

The 1993 fixed rate COP's refunded the remaining balance of the 1986 fixed rate COP's. The variable rate COP's of \$6,000,000 issued in 1984 payable by GSWC were not refinanced. Debt service payments on the refunded bonds were defeased by placing proceeds of the 1993 issue in an irrevocable trust to provide for all future debt service payments of the 1986 fixed rate issue including a prepayment premium of 3% to be paid on the earliest prepayment date. Since the 1986 bonds are considered defeased, the liability has been removed from the financial statements.

The 2003 fixed rate COP's refunded the remaining balance of the 1993 fixed rate COP's. The variable rate COP's of \$6,000,000 issued in 1984 payable by GSWC were not refinanced. Under the refunding plan, TVMWD deposited funds from a portion of the net proceeds of the sale of the certificates and certain other funds in an escrow fund to be held by U.S. Bank National Association, Los Angeles, California, and the escrow agent. The amounts deposited in the escrow fund enabled the escrow agent to purchase investment securities. The principal and interest earned on the investment securities together with the cash concurrently deposited in the escrow fund will be sufficient to pay the regularly scheduled principal and interest of the refunded certificates as well as the prepayment price with respect to the refunded certificates.

The final payment for the 2003 fixed rate COP's was made November 1, 2013. The final payment for the 1984 variable rate COP's was made November 1, 2014 by GSWC.

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

	Beginning Balance 7/1/2014	Additions	Retirements	Ending Balance 6/30/2015	Due within one year
1986 COP	\$6,000,000	\$ -	\$6,000,000	\$ -	\$ -
2003 COP	-	-	-	-	-
	<u>\$6,000,000</u>	<u>\$ -</u>	<u>\$6,000,000</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 8 – INVESTMENT IN CAPITAL ASSETS

Investment in capital assets are presented on the Statement of Net Position as follows at June 30, 2015:

Net capital assets	\$ 29,078,712
Debt associated with capital assets:	-
Investment in capital assets	<u>\$ 29,078,712</u>

**THREE VALLEYS MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Litigation

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

Grant Awards

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

Operating Leases

TVMWD leases office equipment under non-cancelable leases. Total costs for such leases were \$23,103 for the year ended June 30, 2015. The future minimum lease payments are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2016	20,042
2017	18,515
Total	\$ 38,557

Funding Support

TVMWD agreed to contribute \$100,000 to Six Basins Watermaster for a completed groundwater flow model of the Six Basins. Watermaster expects to complete the model December 2015.



Contracts

TVMWD usually has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems and other TVMWD activities. The financing of such contracts is provided primarily from TVMWD encumbered reserves. TVMWD has committed to approximately \$858,934 of open contracts as of June 30, 2015.

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

Project Name	Contract Amount	Expenditures to date as of June 30, 2015	Remaining Commitment
SASG Spreading Pipeline Extension	\$ 3,208,741	\$ 3,154,079	\$ 54,662
Miramar Hydroelectric Generating Stations #2 & #3	850,146	777,514	72,632
Live Oak Spreading Basins Expansion	28,310	15,707	12,603
Fulton Reservoir	3,634,126	3,393,820	240,306
TVMWD Well #3	375,000	7,114	367,886
5th Street & White Ave. Connection Replacement	110,845	-	110,845

NOTE 10 – POOLED ARRANGEMENTS

TVMWD is a member of the ACWA/JPIA, a risk-pooling, self-insurance authority, created under provisions of California Government Code Sections 6500 et seq. The purpose of ACWA/JPIA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. Members of ACWA/JPIA share the costs of professional risk management, claims administration and excess insurance. TVMWD participates in the property, liability, and worker's compensation programs of ACWA/JPIA as follows:

Property Loss: Insured up to replacement value with a \$10,000 deductible for buildings, personal property, fixed equipment and catastrophic coverage. The deductible on mobile equipment is \$1,000. The deductible on vehicles is \$500. These deductibles vary based on property type. The pooled layer is up to \$100,000 per occurrence and excess insurance coverage has been purchased for \$100,000 up to \$100 million.

General Liability: The pooled layer is up to \$2 million per occurrence and excess insurance coverage has been purchased for \$2 million to \$60 million.

Workers Compensation: The pooled layer is up to \$2 million per occurrence and excess insurance coverage has been purchased for \$2 million to statutory employer's liability.

Settlements have not exceeded insurance coverage in each of the past three fiscal years.

**THREE VALLEYS MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**



NOTE 11 – PENSION PLANS

Plan Descriptions

All qualified permanent, probationary and part-time vested employees are eligible to participate in TVMWD's miscellaneous employee pension plans (the Plans), cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). TVMWD sponsors two plans: a 2%@55 benefit plan for employees hired prior to December 31, 2012 and a 2%@62 plan for employees hired on or after January 1, 2013. Benefit provisions under the Plans are established by State statute and TVMWD resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website (www.calpers.ca.gov).

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The Post-Retirement Death Benefit is a one-time payment made to a retiree's designated survivor or estate upon the retiree's death. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1959 Survivor Benefit (level 4) if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least 5 years of credited service. The cost of living adjustments for each plan are applied as specified by the California Public Employees' Retirement Law (PERL).

Each Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous	
	Prior to December 31, 2012	On or after January 1, 2013
Hire date		
Benefit Formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contributions rates	7%	6.25%
Required employer contributions rates	11.522%	6.25%

Contributions

Section 20814(c) of the California PERL requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by the miscellaneous risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the active employee contribution rate is 6.891% of annual pay, and the average employer's contribution rate is 10.781% of annual payroll. Employer contributions rates may change if plan contracts are amended.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	2% @ 55	2% @ 62
Contributions - employer	\$240,869	\$3,353
Contributions - employee (paid by employer)	\$ 0	\$ 0

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources

As of June 30, 2015, TVMWD reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
2% @ 55	\$2,059,173
2% @ 62	728
Total Net Pension Liability	\$2,059,901

TVMWD's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. TVMWD's proportion of the net pension liability was based on a projection of TVMWD's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. TVMWD's proportionate share of the net pension liability for each Plan as of June 30, 2014 was as follows:

**THREE VALLEYS MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

NOTE 11 – PENSION PLANS (continued)

	2% @ 55	2% @ 62
Proportion - June 30, 2014	0.03309%	0.00001%

For the year ended June 30, 2015, TVMWD recognized pension expense of \$228,719. At June 30, 2015, TVMWD reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$272,007	\$ 0
Differences between actual and expected experience	0	0
Changes in assumptions	0	0
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	0	(692,233)
Difference between actual and proportionate share	0	(28,295)
Net differences between projected and actual earnings on plan investments	0	(16,629)
Total	\$272,007	\$(737,147)

The \$272,007 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ending June 30</u>	<u>Deferred Outflows/ (Inflows) of Resources</u>
2015	\$(207,289)
2016	(178,994)
2017	(177,806)
2018	(173,058)
2019	0
Thereafter	0

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. Both

the June 30, 2013 total pension liability and the June 30, 2014 total pension liability were based on the following actuarial methods and assumptions:

	Miscellaneous
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	varies by entry age and service
Investment Rate of Return	7.5% ⁽¹⁾
Mortality	⁽²⁾
Post Retirement Benefit Increase	2%

⁽¹⁾ Net of pension plan investment expenses, including inflation

⁽²⁾ – 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, 2013 valuation were based on the results of an actuarial experience study for the fiscal years 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.

Discount Rate

The discount rate used to measure the total pension liability was 7.5% for each Plan. 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 7.5% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% 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 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan.

**THREE VALLEYS MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

NOTE 11 – PENSION PLANS (Continued)

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

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

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

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

¹An expected inflation of 2.5% used for this period

²An expected inflation of 3.0% used for this period

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount

The following presents TVMWD's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the TVMWD's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	2% @ 55	2% @ 62
1% Discount	6.5%	6.5%
Net Pension Liability	\$3,668,809	\$1,298
Current Discount Rate	7.5%	7.5%
Net Pension Liability	\$2,059,173	\$728
1% Increase	8.5%	8.5%
Net Pension Liability	\$723,328	\$255

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, CA 95811.

Payable to the Pension Plan

At June 30, 2015, TVMWD reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

NOTE 12 – DEFERRED COMPENSATION AND PENSION PLANS

457 Deferred Compensation Savings Plan

TVMWD participates in two 457 Deferred Compensation Programs (Programs) administered by Lincoln Financial Services and CalPERS. Both plans qualify as defined contribution pension plans. The purpose is to provide deferred compensation for employees that elect to participate in the Programs. Generally, eligible employees may voluntarily defer receipt of a portion of their salary until termination, retirement, death or unforeseen 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. TVMWD matches employee contributions up to \$1,716 per year. The plan is authorized and may be amended by the Board of Directors.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, TVMWD is in compliance with this legislation. Therefore, these assets are not the legal property of TVMWD and are not subject

**THREE VALLEYS MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

NOTE 12 – DEFERRED COMPENSATION AND PENSION PLANS (Continued)

to claims of TVMWD’s general creditors. Market value of all plan assets held in trust by the two TVMWD plans amounted to \$4,801,127 at June 30, 2015.

TVMWD has implemented GASB Statement 32, Accounting for Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. Since TVMWD has little administrative involvement and does not perform the investing function of this plan, the assets and related liabilities are not shown on the statement of net position.

401(a) Defined Contribution Plan

TVMWD participates in a 401(a) plan (a defined contribution plan), administered by Lincoln Financial Services. The purpose of this plan is to provide an additional option for employees who fully contribute to the 457 Plan. 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. The plan is authorized and may be amended by the Board of Directors.

Accordingly, TVMWD is in compliance with this legislation. Therefore, these assets are not the legal property of TVMWD and are not subject to claims of TVMWD’s general creditors. Market value of all plan assets held in trust by TVMWD plan amounted to \$139,245 at June 30, 2015.

TVMWD has implemented GASB Statement 32, Accounting for Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. Since TVMWD has little administrative involvement and does not perform the investing function of this plan, the assets and related liabilities are not shown on the statement of net position.

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS

Plan Description and Provision

TVMWD offers continued medical coverage to employees who retire from TVMWD at age 50 or older with a minimum of 10 years of service. The retired employee may continue medical coverage through either their own personal medical insurance or ACWA/JPIA. For eligible retirees hired prior to January 1, 2005, TVMWD provides 50% (plus an additional 10% for each additional year of service at retirement in excess of 10 years – not to exceed 100%) of the lesser of \$355 per month or the cost for single medical coverage. For eligible retirees hired on or after January 1, 2005 with 10 years of TVMWD service, TVMWD provides 50% (plus an additional 5% for each additional year of service at retirement in excess of 10 years – not to exceed 100%)

of the lesser of \$355 per month or the cost for single medical coverage. For employees retiring on or after January 1, 2015, the monthly benefits cap has been increased from \$355 to \$600. Employees retiring on or after January 1, 2015 may cover dependents, but the retiree must pay the entire additional premiums. Retirees must pay the portion of the coverage, if any, not covered by their benefits. This plan is authorized and may be amended by the Board of Directors.

Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to pre-fund benefits as determined annually by the Board of Directors. Any additional amounts for pre-funding are deposited into CERBT, an IRC Section 115 trust fund administered by CalPERS. The CERBT is an irrevocable trust from which funds can only be used to pay for retiree medical coverage. Separate financial statements for the CERBT may be obtained by writing to CalPERS at 400 Q Street, Sacramento, CA 95811 or by visiting the CalPERS website at www.calpers.ca.gov.

For FY 14-15, TVMWD contributed \$17,247 for current premiums.

Annual OPEB Cost and Net OPEB Obligation

TVMWD’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, 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. The following table shows the components of TVMWD’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in TVMWD’s net OPEB obligation.

Annual required contribution	\$ 54,435
Interest on net OPEB obligation (asset)	(10,076)
Adjustment to ARC	<u>11,993</u>
Annual OPEB cost	56,352
Contribution made	<u>(198,703)</u>
(Decrease) Increase in net OPEB obligation	(142,351)
Net OPEB obligation (asset) June 30, 2014	<u>(132,408)</u>
Net OPEB obligation (asset) June 30, 2015	<u><u>\$(274,759)</u></u>

For the FY 14-15, TVMWD’s annual OPEB cost (expense) was \$56,352. The Net OPEB Obligation for the current and prior two fiscal years is presented below:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/2013	\$ 23,263	94%	\$ (155,597)
6/30/2014	\$ 25,004	7%	\$ (132,408)
6/30/2015	\$ 56,352	353%	\$ (274,759)

**THREE VALLEYS MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

OPEB

**NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS
(Continued)**

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the ARC 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 below 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. This is presented for the periods beginning July 1, 2009, July 1, 2011, and July 2013 as TVMWD obtains a biennial actuarial valuation. The change in the actuarial liability calculation for the July 1, 2013 valuation compared to the July 1, 2009 valuation is due to no value being added for the implied subsidy as this is not required for ACWA/JPIA plans since they are community rated plans.

The UAAL and funded ratio for July 2013 were revised based on the plan change noted above for employees retiring after January 1, 2015.

Type of Valuation	Actual	Actual	Actual
Actuarial Valuation Date	7/1/2009	7/1/2011	7/1/2013
Actuarial Value of Assets	\$ -	\$ -	\$422,580
Unfunded Actuarial Accrued Liability (UAAL)	\$854,960	\$429,288	\$251,206
Funded Ratio	0.00%	0.00%	63%
Covered Payroll	\$1,990,355	\$2,154,087	\$2,239,122
UAAL as a % of Covered Payroll	43%	20%	3%
Interest Rate	5.00%	7.61%	7.61%
Salary Scale	3.25%	3.25%	3.25%



Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013 actuarial valuation, the Projected Unit Credit funding method was used. The actuarial assumptions included a 7.61% investment rate of return, which is a blended rate of the expected long-term investment return on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, an annual healthcare cost trend rate of 8% reduced by increments to an ultimate rate of 5% after six years, a projected salary increase of 3.25%, and a 3.0% inflation rate. The actuarial value of assets is set equal to the reported market value assets. The UAAL is being amortized as a level dollar of payroll over 30 years. The amortization period is closed. The remaining amortization period at June 30, 2015 was 25 years. As of the actuarial date, TVMWD had 23 active participants and 5 retirees.



REQUIRED SUPPLEMENTARY INFORMATION



SCHEDULE 1

Three Valleys Municipal Water District
 Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios
 For the Year Ended June 30, 2015

	<u>2%@55 Plan</u>	<u>2%@62 Plan</u>
Plan's Proportion of the Net Pension Liability/(Asset)	0.03309%	0.00001%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$ 2,059,173	\$ 728
Plan's Covered-Employee Payroll	\$ 2,219,910	\$ 46,919
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll	92.76%	1.55%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	83.03%	83.04%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 272,421	\$ 96

Notes to Schedule

Valuation date:

6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Asset valuation method	Market value
Inflation	2.75%
Salary increases	varies by entry age and service
Investment rate of return	7.50%
Retirement age	50-63 52-67
Mortality	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.

SOURCE: CalPERS GASB 68 Accounting Valuation Report

NOTE: Accounting standard require presentation of 10 years of information. However the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.

SCHEDULE 2

Three Valleys Municipal Water District
Schedule of Plan Contributions - California Public Employees Retirement Plan
For the Year Ended June 30, 2015

	<u>2%@55 Plan</u>	<u>2%@62 Plan</u>
Actuarially Determined Contributions	\$ 266,605	\$ 5,402
Contributions in Relation to the Actuarially Determined Contributions	<u>\$ (266,605)</u>	<u>\$ (5,402)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 2,313,876	\$ 86,437
Contributions as a Percentage of Covered-Employee Payroll	11.52%	6.25%

SOURCE: CalPERS GASB 68 Accounting Valuation Report

NOTE: Accounting standard require presentation of 10 years of information. However the information in this schedule is not required to be presented retroactively. Years will be added to this schedule as future data becomes available.



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STATISTICAL SECTION



**THREE VALLEYS MUNICIPAL WATER DISTRICT
STATISTICAL SECTION
For the Year Ended June 30, 2015**

This part of TVMWD's CAFR presents detailed information as a context for understanding what the information in the accompanying financial statements and notes to the basic financial statements says about TVMWD's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how TVMWD's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting TVMWD's ability to generate revenues.

Debt Capacity

These schedules present information to help the reader assess the affordability of TVMWD's current levels of outstanding debt and TVMWD's ability to issue additional debt in the future.

Demographic and Economic Information

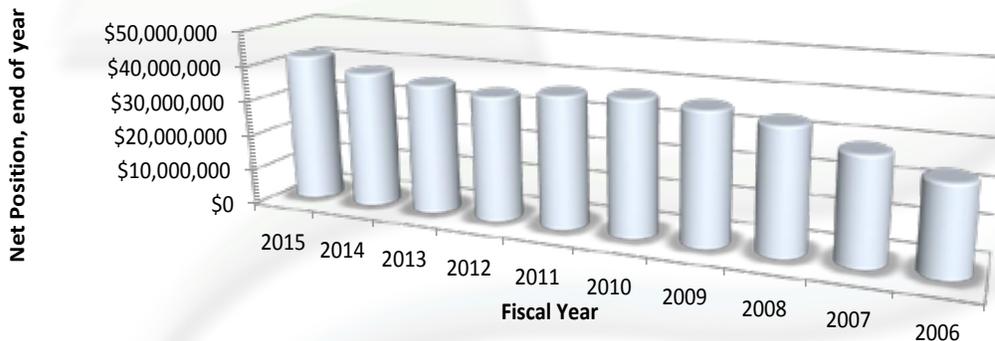
These schedules offer demographic and economic indicators to help the reader understand the environment within which TVMWD's financial activities take place and to help make comparisons over time and with other agencies.

Operating Information

These schedules contain information about TVMWD's operations and resources to help the reader understand how TVMWD's financial information relates to the services TVMWD provides and the activities it performs.

Three Valleys Municipal Water District
Changes in Net Position
Last Ten Fiscal Years

	FISCAL YEAR									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Operating revenues (see Schedule 3)	\$ 58,657,568	\$ 66,759,939	\$ 59,240,205	\$ 50,665,608	\$ 48,780,881	\$ 42,547,611	\$ 44,607,527	\$ 42,351,366	\$ 39,103,442	\$ 35,716,571
Operating expenses (see Schedule 4)	61,091,237	68,546,823	60,088,682	53,638,803	51,179,455	43,935,929	45,397,036	41,165,430	37,985,351	34,847,247
Total operating income (loss)	(2,433,669)	(1,786,884)	(848,477)	(2,973,195)	(2,398,574)	(1,388,318)	(789,509)	1,185,936	1,118,091	869,324
Nonoperating revenues (expenses)										
Property tax revenue	2,014,754	1,886,998	1,958,128	1,783,167	1,636,394	1,674,451	1,792,410	1,548,863	1,560,507 ¹	650,726
Sublease income	5,775,000	821,303	832,593	832,946	844,434	838,412	914,446	1,008,893	1,036,911	996,706
Investment income	136,976	236,128	72,974	311,222	352,529	656,200	945,448	1,488,814	1,460,157	508,464
Intergovernmental grants revenue	46,924	115,962								
Intergovernmental grants expense	(46,924)	(115,962)								
Interest expense	-	(29,787)	(221,353)	(327,853)	(398,839)	(460,411)	(598,486)	(733,833)	(780,165)	(669,784)
Amortization of deferred bond costs/refunding	-	(195,647)	(183,225)	(221,097)	(221,096)	(221,096)	(221,096)	(221,096)	(249,703)	(249,703)
Reimbursements revenue	-	-	-	-	33,945	56,093	135,418	37,069	62,877	68,435
Gain (loss) on sale of assets	(12,109)	(104,254)	(3,297)	(2,339)	-	-	7,953	3,009	5,000	5,000
Other non-operating revenues (expenses)	-	-	-	-	-	-	-	(4,191)	(68,642) ²	(5,267)
Total nonoperating revenues (expenses)	7,914,621	2,614,741	2,455,820	2,376,046	2,247,367	2,543,649	2,976,093	3,127,528	3,026,942	1,304,577
Net income before capital contributions and change in accounting principle	5,480,952	827,857	1,607,343	(597,149)	(151,207)	1,155,331	2,186,584	4,313,464	4,145,033	2,173,901
Capital contributions	618,666	1,742,423	-	-	-	-	32,018	1,384,041	635,877	467,640
Change in net position	6,099,618	2,570,280	1,607,343	(597,149)	(151,207)	1,155,331	2,218,602	5,697,505	4,780,910	2,641,541
Net Position, beginning of year	38,463,002	36,506,223	34,949,375	36,894,832	37,581,089	36,425,758	34,207,156	28,974,258	24,193,348	21,551,807
Prior period adjustment	(2,570,344) ⁸	(613,501) ⁷	(50,495) ⁶	(1,348,308) ⁵	(535,050) ⁴	-	-	(464,607) ³	-	-
Net Position, end of year, as restated (see Schedule 2)	\$ 41,992,276	\$ 38,463,002	\$ 36,506,223	\$ 34,949,375	\$ 36,894,832	\$ 37,581,089	\$ 36,425,758	\$ 34,207,156	\$ 28,974,258	\$ 24,193,348



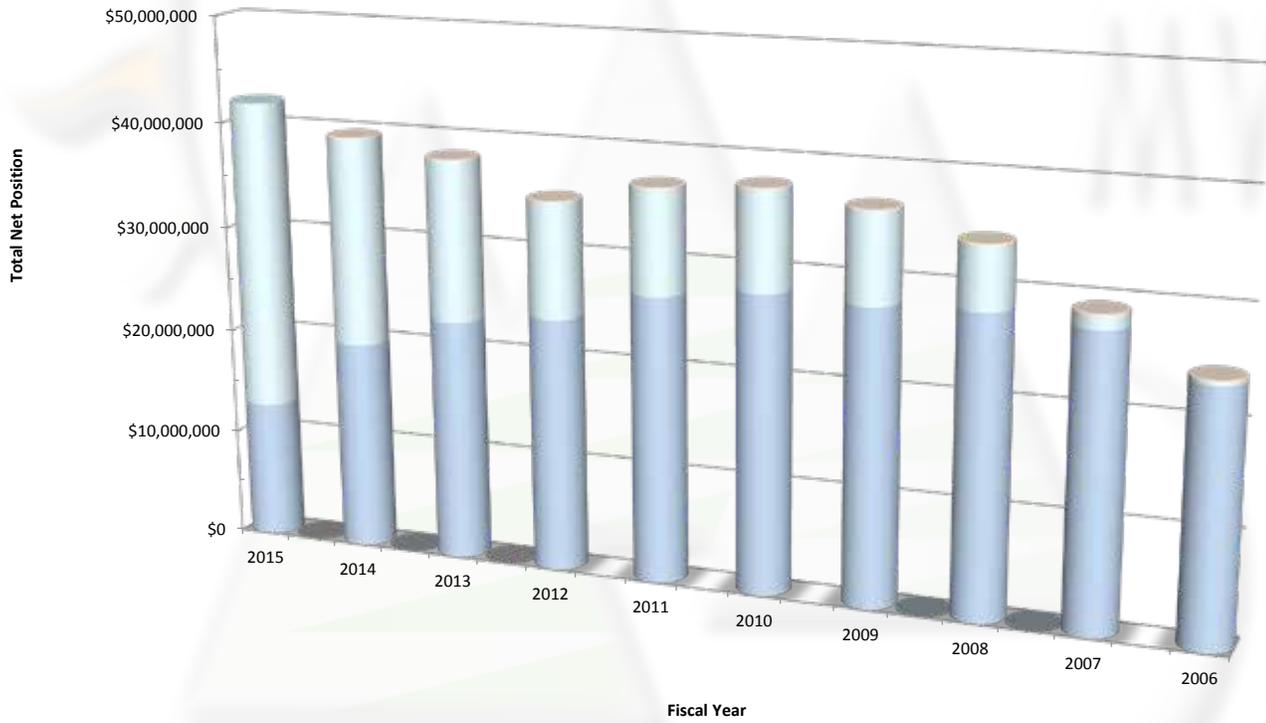
¹ Fluctuating property tax revenue due to State shifts in subvention revenues (restored in FY 07).
² Increase due to higher project and operations/maintenance reimbursements from member agencies.
³ Prior Period Adjustment related to construction in progress, property tax revenues, bond insurance costs, and investment interest.
⁴ Prior Period Adjustment related to disposal of capital assets.
⁵ Prior Period Adjustment related to removal of prepaid pension asset.
⁶ Prior Period Adjustment related to change in accounting principle.
⁷ Prior Period Adjustment related to removal of MWD assets.
⁸ Prior Period Adjustment related to GASB 68.

NOTE: Revenues and expenses in prior years may be reclassified to conform to current year presentation.

SCHEDULE 2

Three Valleys Municipal Water District
Changes in Net Position and Components of Net Position
Last Ten Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Net investment in capital assets	\$ 29,078,712 ¹	\$ 19,483,706 ¹	\$ 15,073,992	\$ 10,791,926	\$ 9,747,308	\$ 9,288,517	\$ 8,406,471 ¹	\$ 5,796,735	\$ 1,200,002	\$ 284,649
Restricted for debt service	-	225,000	227,163	227,203	226,165	226,153	229,572	227,964	227,964	226,615
Unrestricted	12,913,564	19,714,296	22,761,916	23,930,246	26,921,359	28,066,419	27,789,715	28,182,457	27,546,292	23,682,084
Total Net Position	\$ 41,992,276	\$ 39,423,002	\$ 38,063,071	\$ 34,949,375	\$ 36,894,832	\$ 37,581,089	\$ 36,425,758	\$ 34,207,156	\$ 28,974,258	\$ 24,193,348



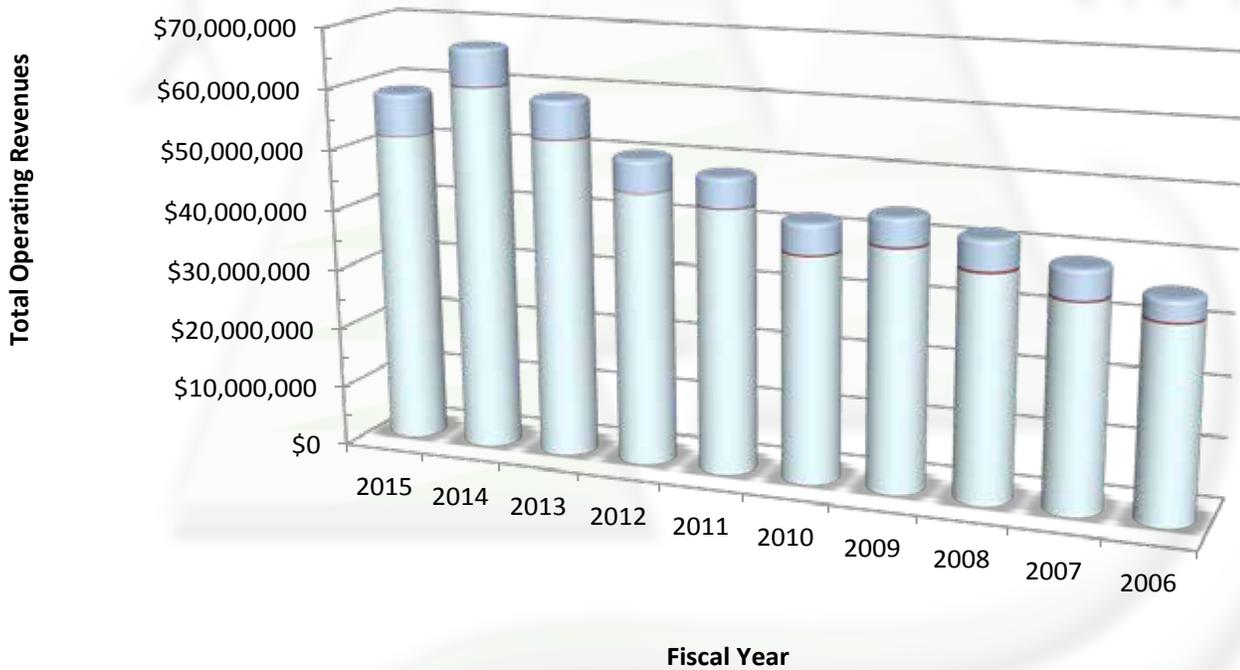
¹ Increase due to significant increase in capital assets and construction in progress during fiscal year.

NOTE: Revenues and expenses in prior years may be reclassified to conform to current year presentation.

SCHEDULE 3

**Three Valleys Municipal Water District
Operating Revenues by Source
Last Ten Fiscal Years**

Fiscal Year	Water Sales¹	Hydroelectric Sales	Water Use and Connection Charges	Total Operating Revenues
2015	\$ 51,527,963	\$ 122,614	\$ 7,006,991	\$ 58,657,568
2014	60,281,711	190,561	6,287,667	66,759,939
2013	52,729,124	196,465	6,314,616	59,240,205
2012	45,097,918	117,593	5,450,097	50,665,607
2011	43,658,124	203,608	4,919,149	48,780,881
2010	37,256,856	281,703	5,009,053	42,547,612
2009	39,678,826	332,772	4,595,929	44,607,527
2008	37,092,944	380,632	4,877,790	42,351,366
2007	33,951,445	316,291	4,835,706	39,103,442
2006	31,854,868	326,880	3,534,823	35,716,571



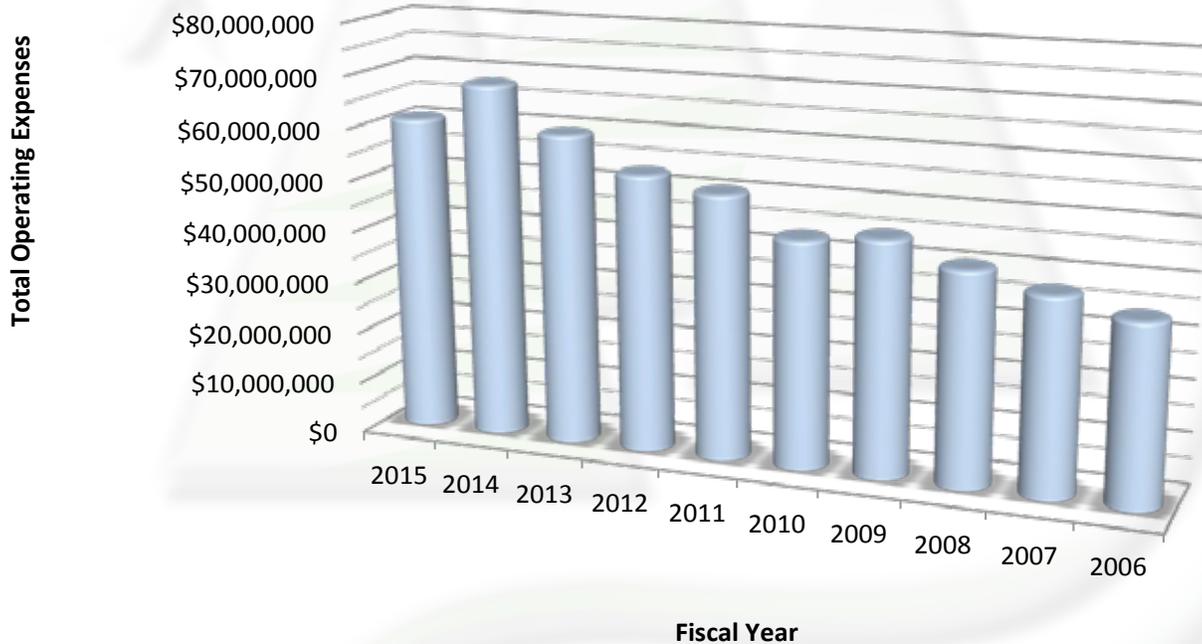
¹ Water sales will vary depending upon a variety of external factors beyond TVMWD's control such as rainfall, population growth and supply fluctuations.

NOTE: Revenues and expenses in prior years may be reclassified to conform to current year presentation.

SCHEDULE 4

**Three Valleys Municipal Water District
Operating Expenses by Activity
Last Ten Fiscal Years**

Fiscal Year	Water Purchases¹	Water Treatment and Distribution	Water Use and Connection	General and Administration	Depreciation	Total Operating Expenses
2015	\$ 46,955,630	\$ 2,711,483	\$ 6,182,531	\$ 3,210,144	\$ 2,031,448	\$ 61,091,237
2014	55,401,389	2,648,714	5,254,027	3,347,977	1,894,716	68,546,823
2013	47,625,454	2,402,677	4,863,177	3,206,754	1,990,620	60,088,682
2012	41,371,120	2,316,509	4,645,695	3,377,341	1,928,138	53,638,803
2011	39,809,995	2,173,056	4,136,576	3,171,603	1,888,225	51,179,454
2010	33,442,860	2,084,430	3,512,201	3,021,927	1,874,511	43,935,929
2009	35,221,976	2,215,845	3,022,880	2,895,877	2,040,459	45,397,037
2008	31,808,635	2,119,292	2,949,672	2,693,030	1,594,801	41,165,430
2007	29,151,787	1,945,121	3,041,929	2,270,353	1,576,161	37,985,351
2006	26,058,129	1,822,323	3,049,562	2,473,861	1,443,372	34,847,247



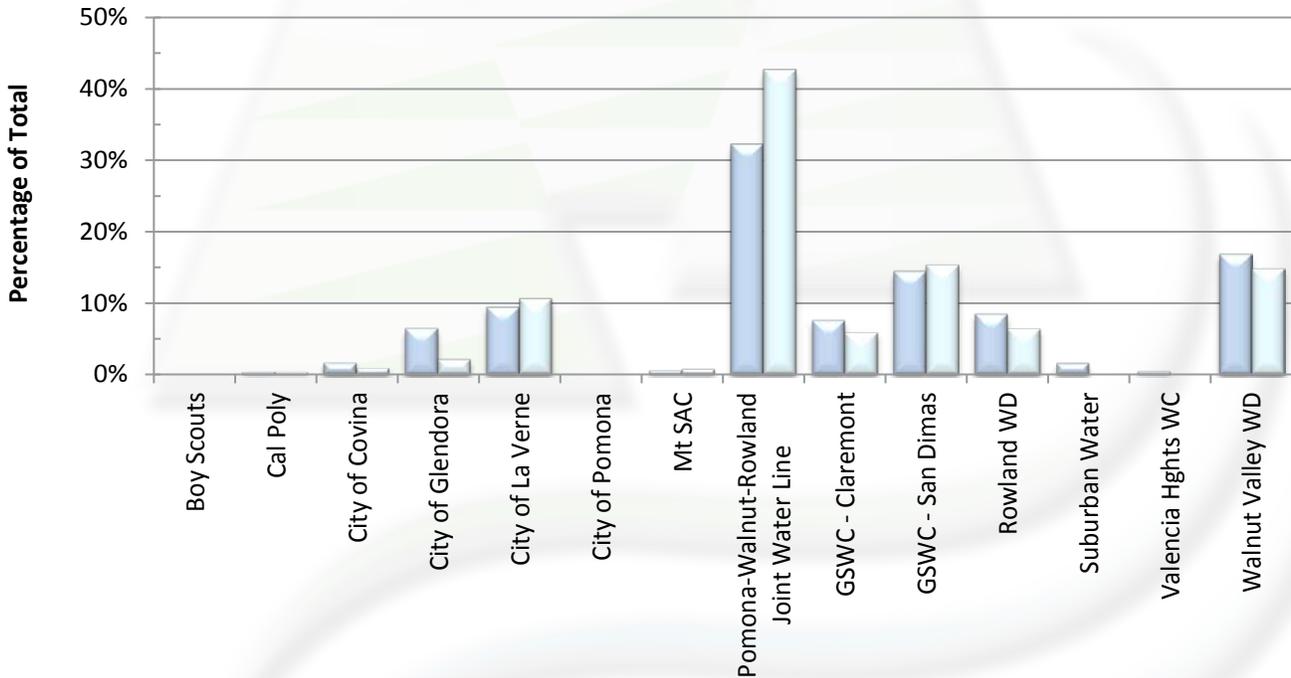
¹ Water purchases will vary depending upon a variety of external factors beyond TVMWD's control such as rainfall, population growth and supply fluctuations.

NOTE: Revenues and expenses in prior years may be reclassified to conform to current year presentation.

SCHEDULE 5

Three Valleys Municipal Water District
 Principal Water Customers Changes in Past Ten Years
 Current Fiscal Year and Nine Years Ago

Member Agency	Acre Feet Sold FY 2015	Percentage of total	Acre Feet Sold FY 2006	Percentage of total
Boy Scouts of America - Firestone Reservation	41	0.07%	24	0.04%
California State Polytechnic University, Pomona	219	0.38%	224	0.36%
City of Covina	967	1.66%	574	0.91%
City of Glendora	3,789	6.51%	1,357	2.15%
City of La Verne	5,467	9.39%	6,717	10.66%
City of Pomona	-	0.00%	-	0.00%
Mt. San Antonio College	335	0.58%	483	0.77%
Pomona-Walnut-Rowland Joint Water Line	18,719	32.16%	26,855	42.63%
Golden State Water Company - Claremont	4,428	7.61%	3,706	5.88%
Golden State Water Company - San Dimas	8,386	14.41%	9,679	15.37%
Rowland Water District	4,915	8.44%	4,033	6.40%
Suburban Water Systems	934	1.60%	-	0.00%
Valencia Heights Water Company	237	0.41%	-	0.00%
Walnut Valley Water District	9,764	16.78%	9,338	14.83%
	58,201	100.00%	62,990	100.00%

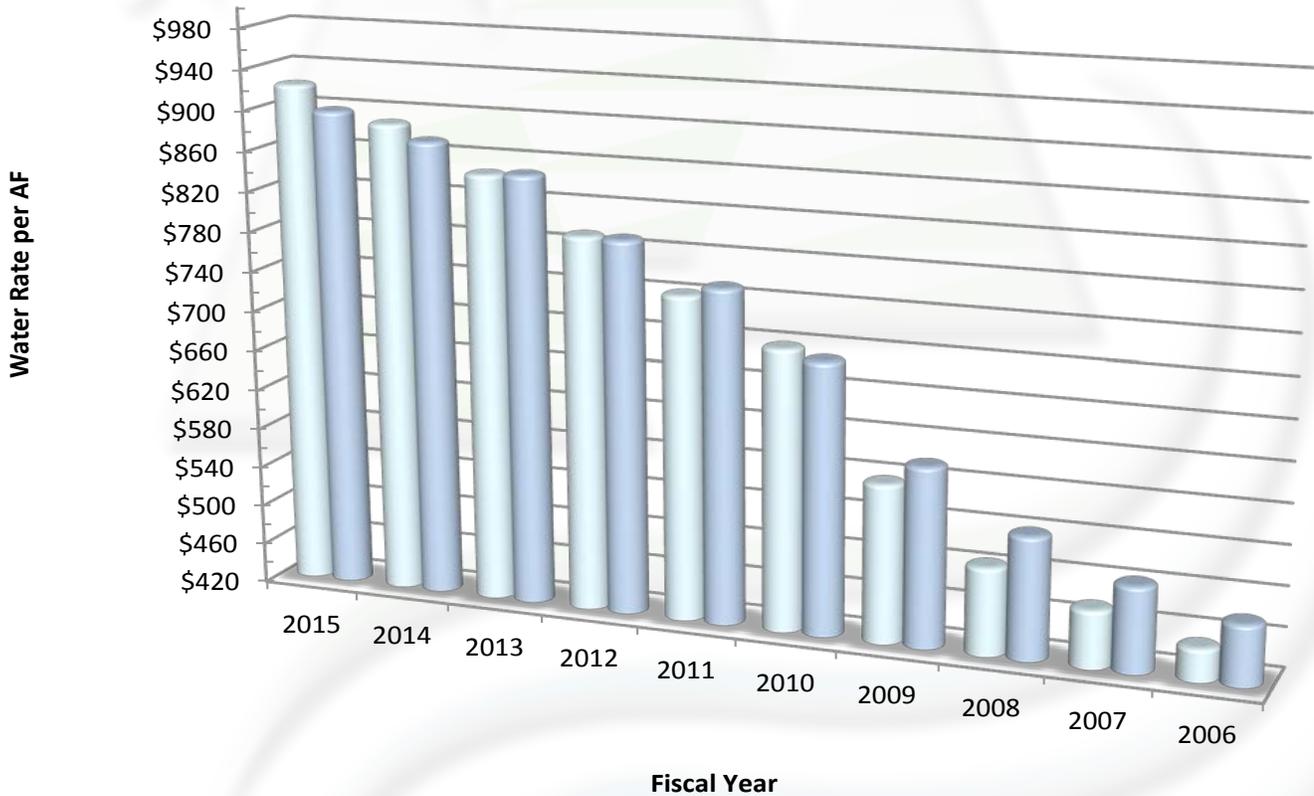


SOURCE: TVMWD - Finance Department

SCHEDULE 6

**Three Valleys Municipal Water District
Water Rates for MWD and TVMWD Water Sold
Last Ten Calendar Years**

Calendar Year	MWD Water Rate	TVMWD Water Rate
2015	\$ 923	\$ 899
2014	890	875
2013	847	849
2012	794	793
2011	744	754
2010	701	692
2009	579	600
2008	508	543
2007	478	506
2006	453	481



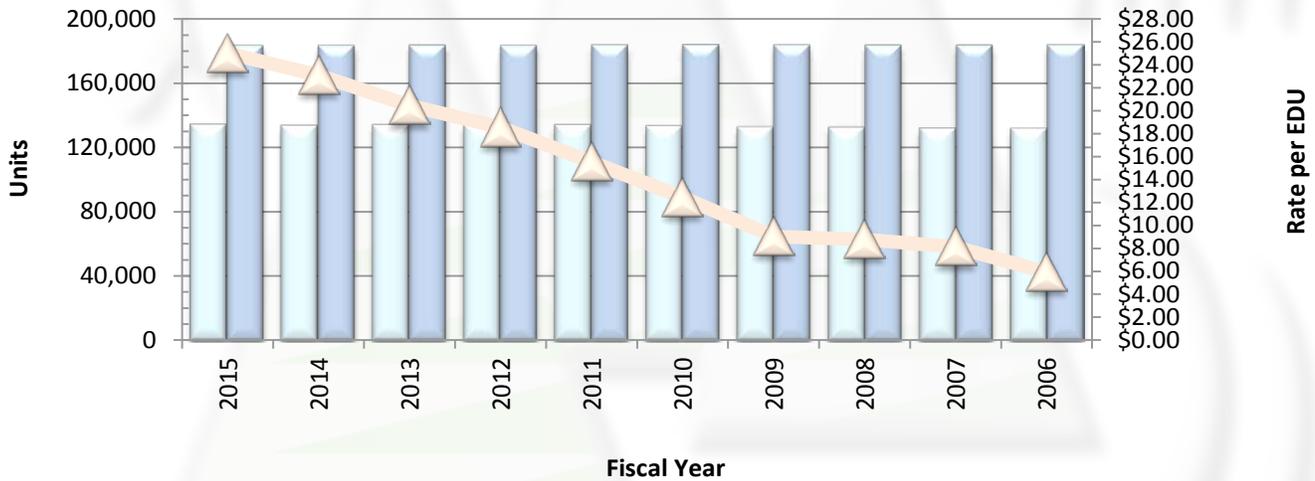
Note: All amounts are per acre foot.

SOURCE: TVMWD - Finance Department

SCHEDULE 7

Three Valleys Municipal Water District
 Property Tax Rates per Equivalent Dwelling Unit (EDU)
 Last Ten Fiscal Years

Fiscal Year	Parcels ¹	EDUs ²	Rate per EDU
2015	133,653	182,768.00	\$25.02
2014	132,918	182,732.00	\$23.11
2013	133,421	182,902.00	\$20.46
2012	133,406	182,893.00	\$18.54
2011	133,428	183,118.00	\$15.55
2010	132,594	183,324.66	\$12.45
2009	132,041	183,236.00	\$9.04
2008	131,723	183,046.25	\$8.79
2007	131,445	182,938.80	\$8.12 ³
2006	131,220	183,121.05	\$5.92



¹ All parcels in service area including residential, commercial, vacant and industrial. Excluded parcels are public streets, right-of-ways, easements and public property.

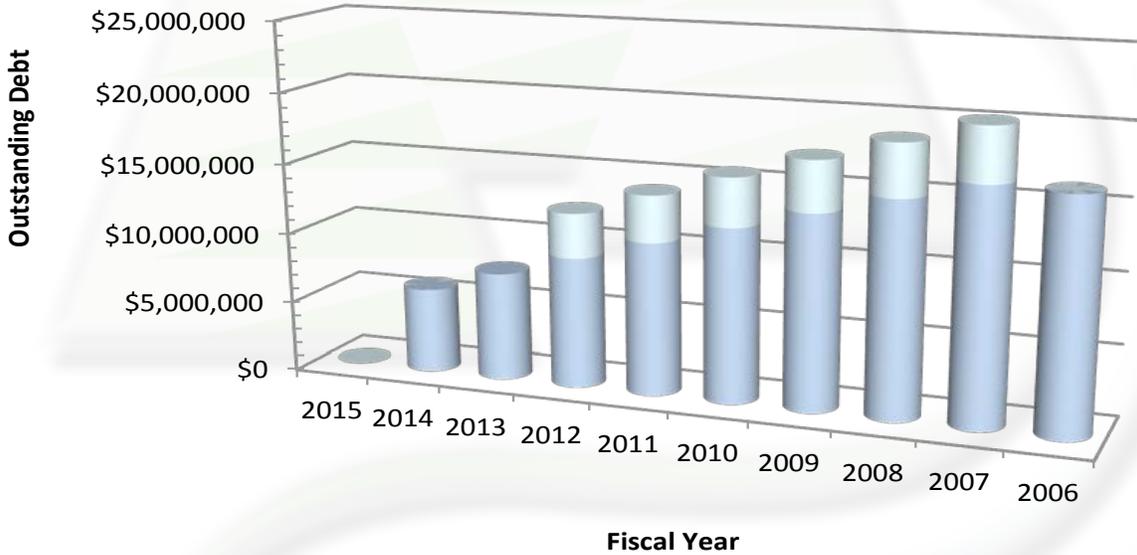
² EDUs are assigned to each parcel in proportion to the estimated benefit it receives from the availability of water service. A Single Family Residential parcel, the basic unit for calculating the Assessment, is defined as 1.0 EDU. Other land uses are assigned proportional EDUs.

³ MWD imposed a Readiness to Serve (RTS) charge on TVMWD to pay for capital improvements at MWD. TVMWD adopted a Standby Charge to pass the RTS charge through, at cost, to property owners within its service area. In the years prior to FY 06/07, the Standby Charge rate per EDU remained unchanged, even though the District did not collect the full amount of its RTS obligation. In FY 06/07, TVMWD raised the rate per EDU to capture the entire cost of the RTS charge, and eliminated a monthly charge it had imposed on member agencies for the difference.

SCHEDULE 8

Three Valleys Municipal Water District
 Ratio of Outstanding Debt
 Last Ten Fiscal Years

Fiscal Year	Certificates of Participation	Installment Sales Agreement	Per Capita	Outstanding Debt as a Share of Personal Income
2015	\$ -	\$ -	\$ -	0.00%
2014	6,000,000	-	11.81	0.02%
2013	7,654,353	-	15.06	0.03%
2012	9,266,129	3,167,070	24.54	0.05%
2011	10,817,903	3,306,356	27.95	0.06%
2010	12,324,678	3,438,978	31.29	0.07%
2009	13,761,453	3,565,257	34.49	0.08%
2008	15,153,228	3,685,501	37.45	0.09%
2007	16,485,004	3,800,000	40.26	0.10%
2006	16,301,778	-	32.31	0.08%

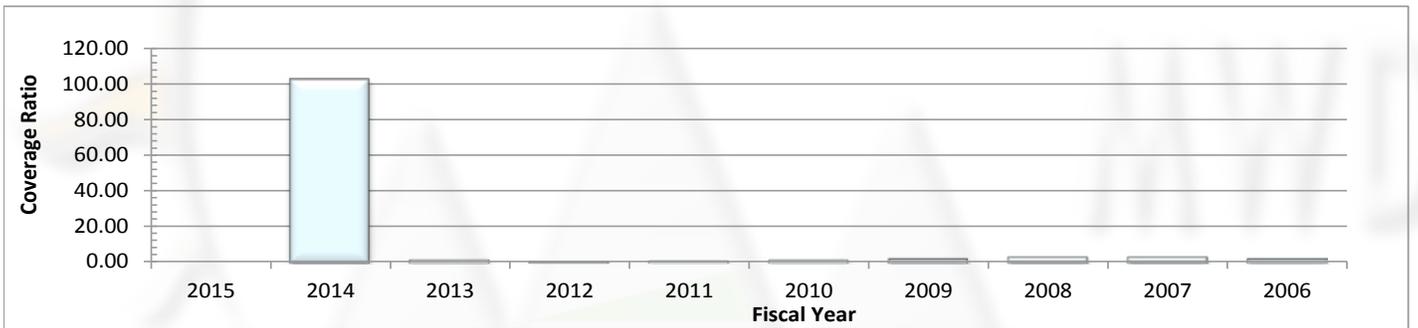


SCHEDULE 9

**Three Valleys Municipal Water District
Debt Coverage
Last Ten Fiscal Years**

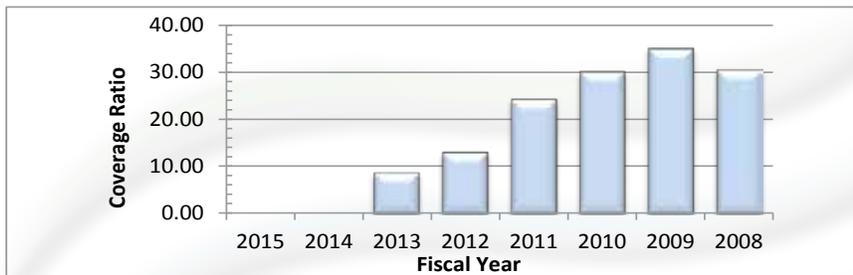
2003 COP

Fiscal Year	Revenues ¹	Expenses ²	Net Available Revenue	Debt Service		Total	Coverage Ratio ³
				Principal	Interest		
2015	\$ 66,619,113	\$ 59,059,789	\$7,559,323	\$ -	\$ -	\$ -	0.00
2014	69,716,076	66,652,107	\$3,063,969	-	29,787	29,787	102.86
2013	62,100,603	58,098,062	\$4,002,541	1,850,000	104,599	1,954,599	2.05
2012	53,590,604	51,710,665	\$1,879,939	1,735,000	166,310	1,901,310	0.99
2011	51,648,183	49,291,230	\$2,356,953	1,690,000	228,903	1,918,903	1.23
2010	45,772,767	42,061,418	\$3,711,349	1,620,000	285,699	1,905,699	1.95
2009	48,413,233	43,366,607	\$5,046,626	1,575,000	340,725	1,915,725	2.63
2008	46,433,823	39,570,629	\$6,863,194	1,515,000	424,950	1,939,950	3.54
2007	43,204,333	36,453,271	\$6,751,062	1,485,000	462,075	1,947,075	3.47
2006	38,416,094	33,406,875	\$5,009,219	1,450,000	498,325	1,948,325	2.57



2007 Installment Sale Agreement

Fiscal Year	Unencumbered Cash and Cash Equivalents	Debt Service		Total	Coverage Ratio ³
		Principal	Interest		
2015	\$ 2,315,773	\$ -	\$ -	\$ -	0.00
2014	3,509,585	-	-	-	0.00
2013	2,643,326	146,289	156,269	302,558	8.74
2012	3,937,407	139,286	161,543	300,829	13.09
2011	7,356,510	132,622	169,936	302,558	24.31
2010	9,072,259	126,279	174,712	300,991	30.14
2009	10,609,613	120,244	182,314	302,558	35.07
2008	9,235,917	114,499	188,059	302,558	30.53



¹ Revenues include operating and non-operating revenues less GSWC interest payments.

² Expenses include operating and non-operating expenses less depreciation, amortization and interest.

³ Bond covenant debt coverage ratio of 0 because debt has been fully repaid.

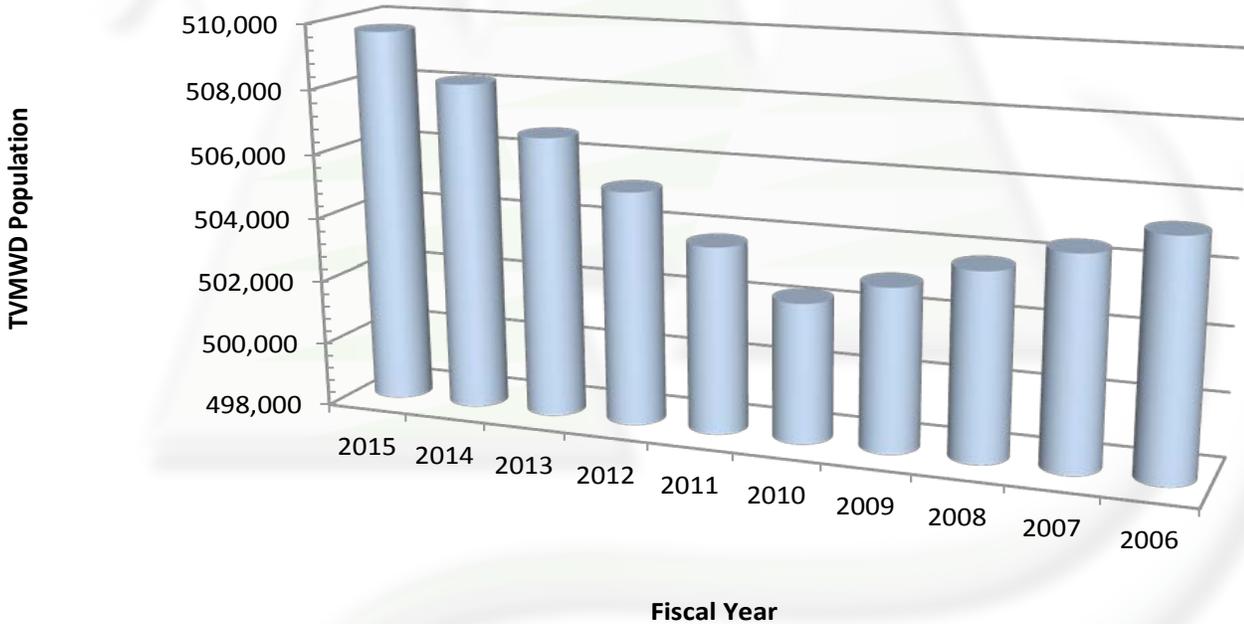
NOTE: Revenues and expenses in prior years may be reclassified to conform to current year presentation.

SOURCE: TVMWD - Finance Department

SCHEDULE 10

Three Valleys Municipal Water District
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	TVMWD Population Estimate ¹	County of Los Angeles			
		Unemployment Rate	Population	Personal Income (in thousands)	Personal Income per Capita
2015	509,655	7.3%	10,123,800	506,400,000	50,000
2014	508,186	8.3%	10,069,000	485,900,000	48,300
2013	506,721	9.8%	10,013,300	466,100,000	46,530
2012	505,260	10.9%	9,946,900	455,800,000	45,800
2011	503,803	12.2%	9,862,400	425,700,000	43,062
2010	502,351	12.5%	9,825,000	404,500,000	41,163
2009	503,077	11.6%	9,805,200	403,960,000	40,396
2008	503,804	7.6%	9,796,800	421,650,000	42,165
2007	504,530	5.1%	9,773,900	410,580,000	41,058
2006	505,257	4.8%	9,787,300	384,700,000	39,508



¹ Population estimate is based on TVMWD's population report for year 2010; the estimate is a percentage of the increase projected for the County of Los Angeles.

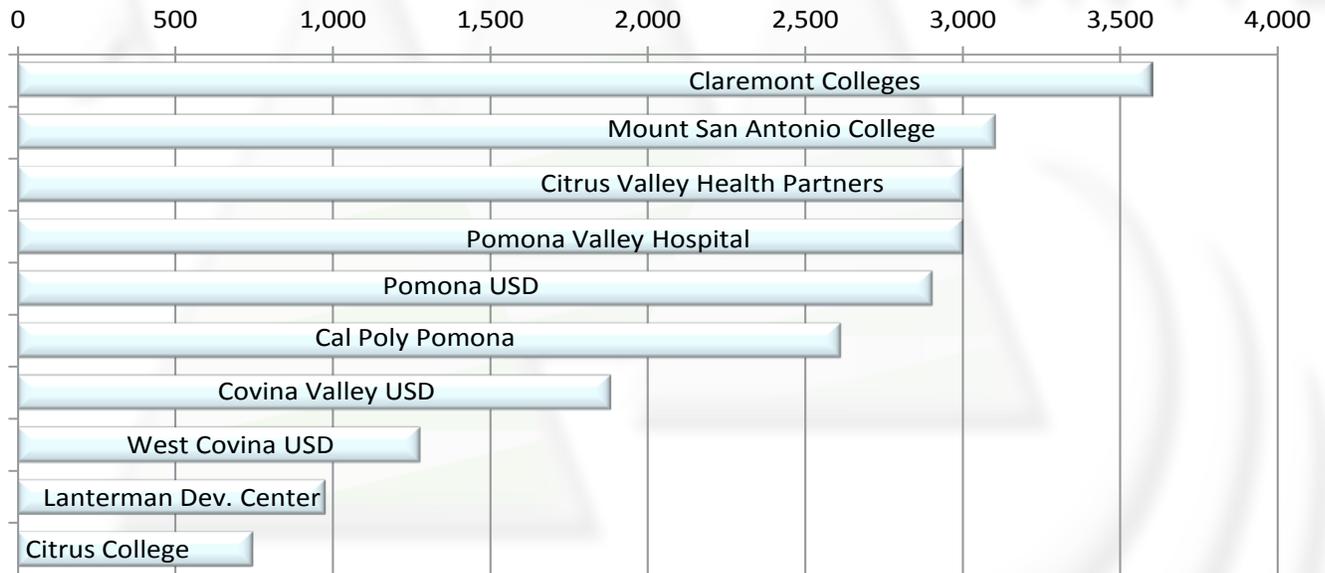
NOTE: Certain economic indicators such as unemployment rate and personal income are not calculated separately for TVMWD. Therefore, TVMWD has chosen to use the County of Los Angeles data, which is representative of the conditions and experiences of TVMWD.

SOURCES: LAEDC 2016-2020 Economic Forecast and Industry Outlook September 2015

SCHEDULE 11

**Three Valleys Municipal Water District
Principal Employers
Calendar Year 2015**

Rank	Employer	Number of Employees	Percentage of Total Employment
1	Claremont Colleges	3,600	1.8%
2	Mount San Antonio College	3,103	1.6%
3	Citrus Valley Health Partners	3,000	1.5%
4	Pomona Valley Hospital	3,000	1.5%
5	Pomona Unified School District	2,902	1.5%
6	Cal State Polytechnic University Pomona	2,612	1.3%
7	Covina Valley Unified School District	1,882	1.0%
8	West Covina Unified School District	1,277	0.7%
9	Lanterman Developmental Center	976	0.5%
10	Citrus College	746	0.4%



NOTE: Principal Employers data for the fiscal year ended nine years prior is not available.

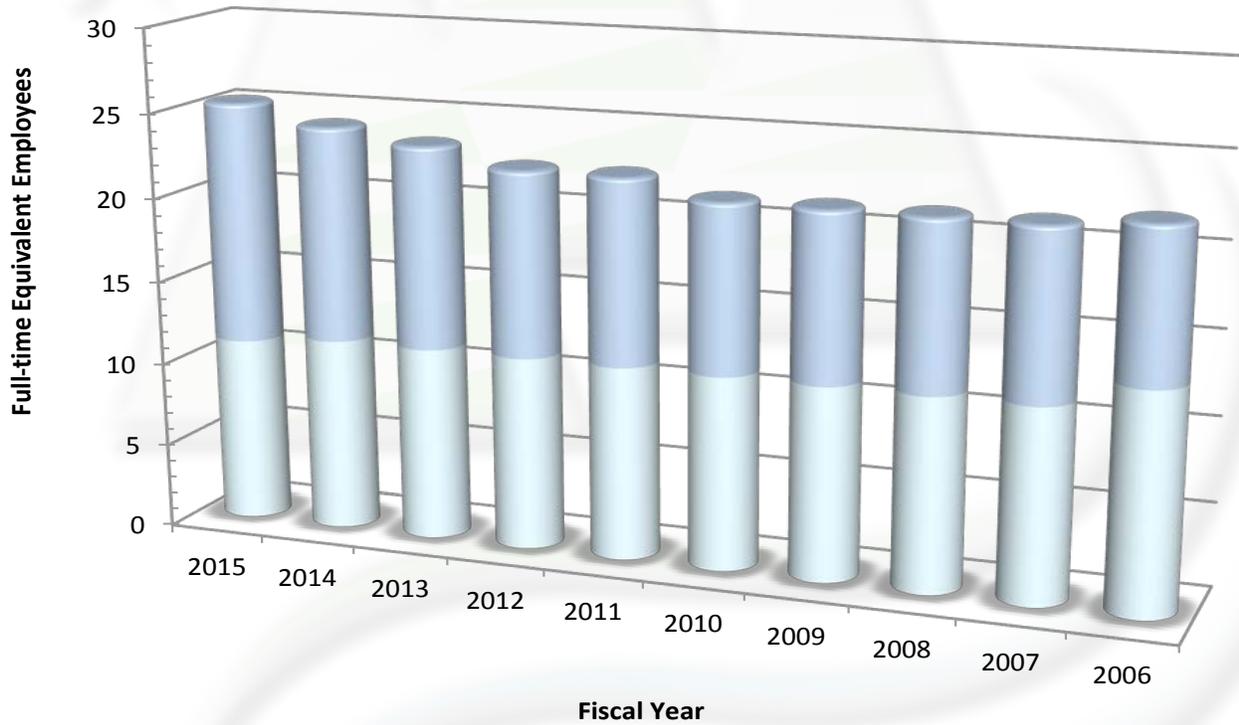
NOTE: The percentage of total employment is based on an estimate of 195,000 jobs in TVMWD's area.

SOURCE: City websites served by TVMWD

SCHEDULE 12

**Three Valleys Municipal Water District
Personnel Trends
Last Ten Fiscal Years**

Fiscal Year	Full-time Equivalent Employees by Department		
	Administration	Operations	TOTAL
2015	11.00	14.33	25.33
2014	11.50	12.75	24.25
2013	11.50	12.00	23.50
2012	11.50	11.00	22.50
2011	11.50	11.00	22.50
2010	11.50	10.00	21.50
2009	11.50	10.00	21.50
2008	11.50	10.00	21.50
2007	11.50	10.00	21.50
2006	13.00	9.00	22.00

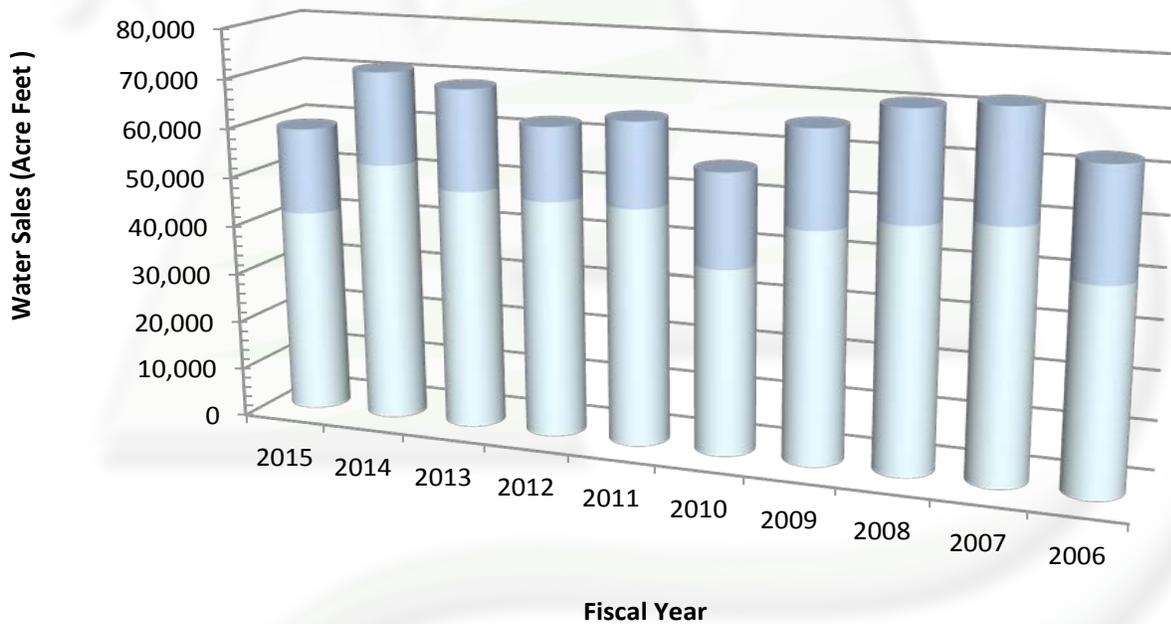


SOURCE: TVMWD - Finance Department

SCHEDULE 13

Three Valleys Municipal Water District
 Water Sales in Acre Feet
 Last Ten Fiscal Years

Fiscal Year	Total MWD acre feet sold	Total Miramar acre feet sold	Total acre feet sold
2015	41,512	17,458	58,970
2014	52,718	18,791	71,509
2013	48,659	20,508	69,167
2012	47,985	14,870	62,855
2011	47,952	17,096	65,048
2010	37,487	18,980	56,467
2009	46,596	19,419	66,015
2008	48,982	21,868	70,850
2007	50,269	22,034	72,303
2006	40,993	22,099	63,092



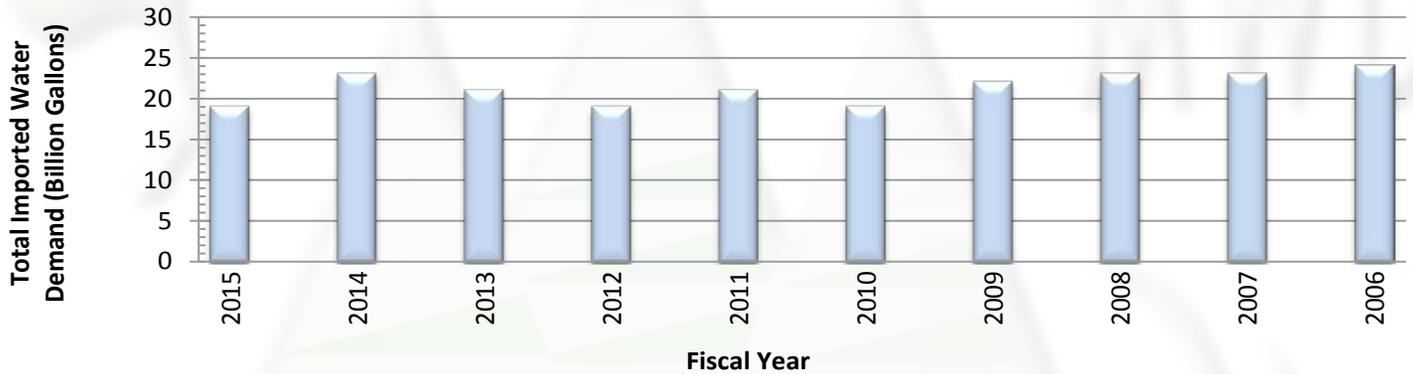
Note: Water Sales will vary depending upon a variety of external factors beyond TVMWD's control such as rainfall, population growth and supply fluctuations.

SOURCE: TVMWD - Finance Department

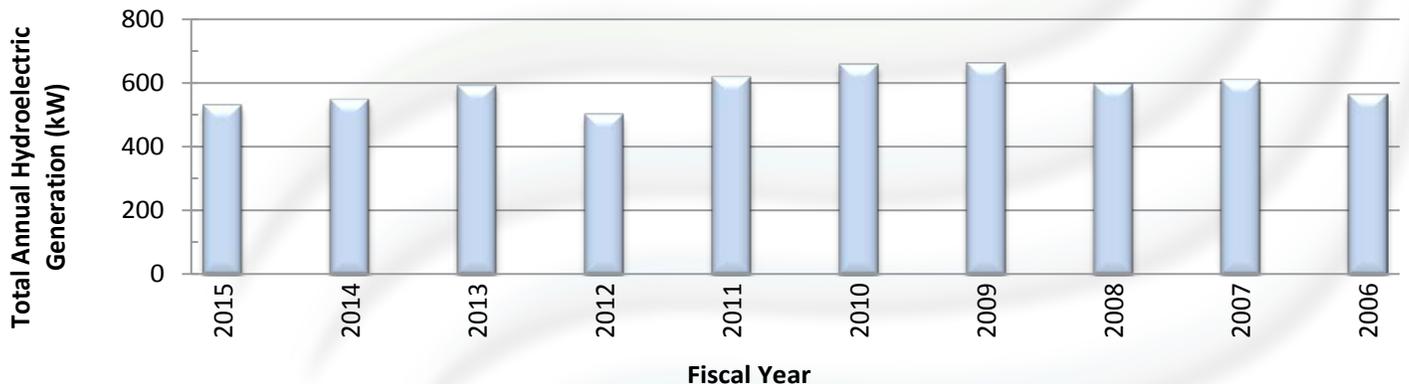
SCHEDULE 14

**Three Valleys Municipal Water District
Miscellaneous Operating Statistics
Last Ten Fiscal Years**

	FISCAL YEAR									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
THREE VALLEYS SERVICE AREA:										
Number of member agencies	13	13	13	13	13	13	13	13	13	13
Number of cities/communities	16	16	16	16	16	16	16	16	16	16
Approximate Area (in square miles)	133	133	133	133	133	133	133	133	133	133
Number of connections (imported)	20	20	20	20	20	20	20	20	20	20
Peak system capacity (imported)										
Cubic feet per second	500	500	500	500	500	500	500	500	500	500
Million gallons per day	320	320	320	320	320	320	320	320	320	320
Billion gallons	49	49	49	49	49	49	49	49	49	49
Imported (Acre-feet)	57,116	70,061	64,858	59,471	64,193	55,737	66,015	70,850	72,303	63,092
Imported (billion gallons)	19	23	21	19	21	19	22	23	23	24
Local (groundwater, recycled) (Acre-feet)	52,935	66,484	55,957	55,643	57,301	52,426	43,260	49,200	54,509	57,254
Local (groundwater, recycled) (billion gallons)	17	22	18	18	19	17	14	16	16	18
Total water demand	110,051	136,545	120,815	115,114	121,494	108,163	109,275	120,050	126,812	120,346



	FISCAL YEAR									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
MIRAMAR WATER AND HYDROELECTRIC FACILITIES:										
Length of pipeline (in miles)	10	10	10	10	10	10	10	10	10	10
Annual production (Acre-feet)	17,458	18,791	20,508	14,870	17,096	18,980	19,419	21,868	22,034	22,099
Annual production (billion gallons)	6	6	7	5	6	7	7	6	7	7
Number of connections	12	12	12	12	12	12	12	12	11	11
Hydroelectric Facilities										
Number of generating stations	3	3	3	3	3	3	3	3	3	3
Average annual generation (kW)	530	548	590	501	617	657	661	596	609	563



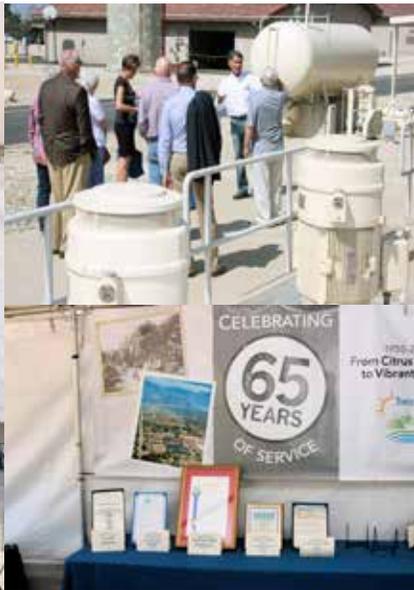
ACRONYMS AND ABBREVIATIONS

- ACWA/JPIA – Association of California Water Agencies /Joint Power Insurance Authority
- AF – Acre-Feet
- AFY – Acre-Feet per Year
- ARC – Annual Required Contribution
- BFP – Belt Filter Press
- CAFR – Comprehensive Annual Financial Report
- CalPERS – California Public Employees Retirement System
- CDR – Conceptual Design Report
- CERBT – California Employer’s Retiree Benefit Trust
- cfs – Cubic feet per second
- COP – Certificate of Participation
- DWR – Department of Water Resources
- EDU – Equivalent Dwelling Unit
- FY – Fiscal Year
- GASB – Governmental Accounting Standards Board
- GFOA – Government Finance Officers Association
- GSWC – Golden State Water Company
- JWL – Joint Water Line
- LACDPW – Los Angeles County Department of Public Works
- LAIF – Local Agency Investment Fund
- MWD – Metropolitan Water District of Southern California
- NRSROs – Nationally Recognized Statistical Rating Organizations
- OPEB – Other Post-Employment Benefits
- PLC – Programmable Logic Controller
- PMP – Project Management Plan
- RTS – Readiness-to-Serve
- S&P – Standard & Poor’s
- SASG – San Antonio Spreading Grounds
- SCADA – Supervisory Control and Data Acquisition
- SCE – Southern California Edison
- SDLF – Special District Leadership Foundation
- TVMWD – Three Valleys Municipal Water District
- UAAL – Unfunded Actuarial Accrued Liability
- WVWD – Walnut Valley Water District



65th Anniversary





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