Three Valleys Municipal Water District
1021 East Miramar Avenue
Claremont, California 91711-2052

Comprehensive Annual Financial Report
Fiscal Year Ended
June 30, 2016

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, 2016

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, 2016

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INTRODUCTORY SECTION

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October 5, 2016

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, 2016. 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.

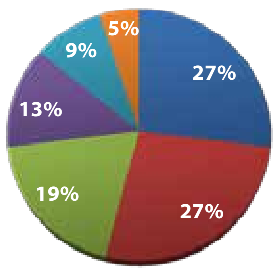
TVMWD's operations consist of a conventional surface water treatment plant (manned and operated 24 hours per day, 7 days per week, 365 days per year), a state certified laboratory, two groundwater wells, hydroelectric generating stations, residual solids removal, spreading pipelines, spreading grounds, 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.

1021 E. Miramar Avenue • Claremont, California 91711-2052
Telephone (909) 621-5568 • Fax (909) 625-5470 • http://www.threevalleys.com

TVMWD is governed by a Board of Directors elected by the registered voters residing within TVMWD's boundaries. The Board averages over 13 years of experience with TVMWD, this stability provides a tremendous benefit to TVMWD. The General Manager has over 39 years with TVMWD and has vast experience in the water industry.

Approximately 70% of the TVMWD's treated water sales are wholesaled out of MWD's Weymouth Treatment Plant in La Verne. The remaining 30% is treated and sold out of TVMWD's Miramar Treatment Plant in Claremont to the following agencies:

City of La Verne	27%
Golden State Water Co. (San Dimas)	27%
Golden State Water Co. (Claremont)	19%
Walnut Valley Water District	13%
Rowland Water District	9%
City of Pomona	5%



Local Economy[1]

California has enjoyed remarkable economic growth in recent years. For three years running, the state has added jobs at a faster pace than the nation as a whole. California's economy is also growing at a faster rate than that of the nation (3.9% vs. 2.4% in 2015, estimated) and accounts for over 13% of U.S. GDP, by far the largest of any state. California's gross product is expected to expand by 3.1% this year, outpacing the 2.5% pace anticipated for U.S. GDP.

In 2015, California's unemployment rate averaged 6.2%, the lowest in eight years. The five largest metro areas in California accounted for over 60% of the increase. Over the course of last year, nearly every major industry sector in the state added jobs. Unfortunately, California's current prosperity has not been spread equally across the state. There are regions within the state where labor markets continue to struggle with high unemployment and low growth.

Closer to home Los Angeles County added 94,700 jobs in 2015, equivalent to a 2.2% annual increase. A majority of the county's major industries added jobs last year, as broad-based growth pushed wage and salary jobs to a record high. Los Angeles County should continue to add jobs at a 1.7% annual rate this year, followed by a 1.0% annual rate in 2017. Along with job growth, the unemployment rate fell to 6.9%, the lowest rate of the post-recession period. The unemployment rate should further improve to 6.2% this year and 5.9% in 2017.

Total personal income increased by 4.5% in2015 and is expected to maintain its trajectory this year with anticipated gains of 4.4%, followed by a gain of 5.3% in 2017. Now that the economy is back to full employment, upward pressure on wages, a strong dollar, and weak inflation may lead to significant gains in household purchasing power this year. Per capita income growth, which held relatively steady with a 3.6% gain in 2015, should respond to accelerating wage growth to rebound to 3.9% this year and accelerate to 4.9% in 2017. Since much of the gain in income is expected to be spent, local spending as measured by the total taxable sales is expected to increase by 5.5% this year and 6.8% the next after a lackluster 2.9% increase in 2015. This means local sales and use tax revenue will climb, putting local government agencies on a sounder financial footing.

Los Angeles County has seen steady improvement over the past four years, both in terms of job gains and unemployment rate declines. This improvement is expected to continue in 2016 and 2017, although at a slower pace. With the economy back at full employment levels, wage gains are expected over the next year across many occupations. Households could experience significant gains in purchasing power this year as wage gains spread out more broadly than in recent years.

1 Source: Los Angeles County Economic Development Corporation's 2016-2017 Economic Forecast and Industry Outlook

Industry Outlook

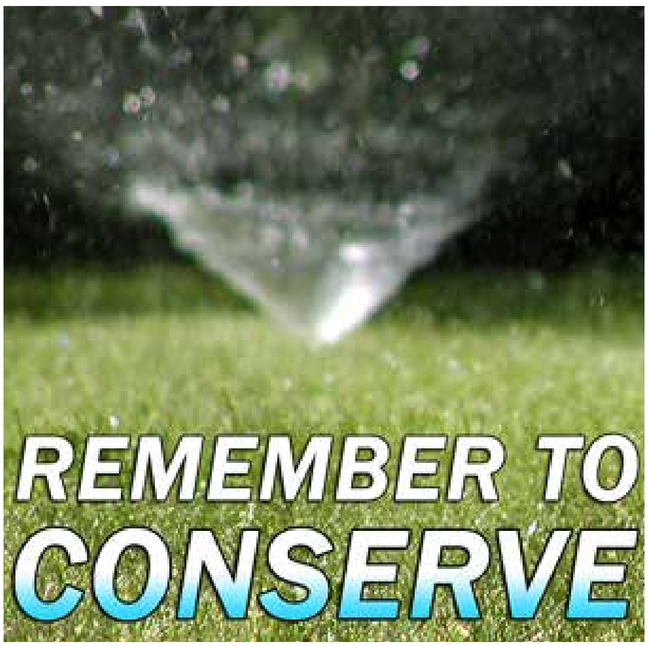
California continues to face drought conditions for the fifth consecutive year. While the severity of the drought has lessened in some parts of California with the winter rains and snow, the current drought condition is not over. Dry conditions continue to threaten the water supplies of communities, devastate agricultural production in many areas, and harm fish, animals and their environmental habitats.

In response to Governor Brown's executive order back on April 1, 2015 to reduce water usage by 25% statewide, Californians conserved water at unprecedented levels reducing water use in communities by 23.9% between June 2015 and March 2016. The savings during this period will provide 6.5 million Californians with water for one year. The change in hydrologic conditions, improved supply conditions, and water-saving efforts by Southern Californians enabled MWD to lift their mandatory water restrictions earlier this year that were instituted last summer. MWD's board voted to maintain a Water Supply Alert calling for continued awareness and conservation efforts throughout their service area. MWD's allocation for State Water Project supplies currently stands at 60 percent which is more than the last three years combined.

Sustaining wise water use remains essential to MWD. On January 12, 2016 MWD's board adopted a long-term water resource plan (Water Tomorrow), which outlines ways to maintain supply reliability for the next 25 years. This updated 2015 Integrated Resources Plan identifies resources for future investment to protect the region from potential water shortages, emphasizes lowering demands through conservation and other actions as well as the need for developing new supplies through more local projects like water recycling.

A similar message was conveyed in Governor Brown's Administration updated California Water Action Plan released on January 14, 2016. The state's official water policy was updated to lay out actions that must be taken to protect water supplies and fix the state's critical water resource problems. Governor Brown followed up the California Water Action Plan with an executive order in May 2016 that aims to make water conservation a way of life in California in order to bolster the state's climate and drought resilience. The executive order calls for long-term improvements to local drought preparation across the state, and directs the State Water Resources Control Board to develop proposed emergency water restrictions for 2017 if the drought persists. Governor Brown believes droughts are expected to be more frequent and persistent so California needs to move beyond temporary emergency drought measures and adopt permanent changes to use water more wisely.

TVMWD continues to support and work in conjunction with MWD and our member agencies to meet the challenges of on-going water conservation efforts and other water saving measures. TVMWD's focus is at the local and regional level to find additional sources of water at a reasonable cost and address critical water 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 15-16. These included, but were not limited to:

TVMWD Well #3: The design of this well was delayed due to Caltrans not agreeing to a long-term lease with TVMWD to construct the proposed well on Caltrans property near Padua Avenue and Baseline Road. TVMWD was able to find and purchase a vacant parcel located at 613 W. Baseline Road and intends to construct the well on this property. TVMWD's engineering consultant will complete the well drilling design and specifications in September 2016. Construction (i.e. drilling and equipping) is anticipated to begin in December 2016 and be completed in March 2018. TVMWD estimates the well will produce an average of about 720 AFY. The well water augments the production at the Miramar Treatment Plant and helps to reduce the overall cost of water sold by TVMWD.

Rendering of Well #3

Mills-Pomona Connection: This new connection is located near the southwest corner of Baseline Road and Mills Avenue and 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 Pomona. Providing Pomona with water at this connection can help offset Pomona'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 Pomona's water quality restrictions. Final design was completed in early 2016 and construction completed in May 2016.

MAJOR INITIATIVES AND PROJECTS

Main Driveway Modification: TVMWD also began design work in FY 15-16 to modify the main drive within the Miramar site. The modifications included over 20 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 modifications were completed in May 2016.

Manway Installation and Pipeline Inspection/Repairs: In 2013 TVMWD began a phased approach for installation and construction of manways at strategic locations along the MTP between Wheeler Avenue and Padua Avenue. In 2014 and 2015, two and three manways were constructed respectively. In 2016, the final four manways were constructed. The manways are necessary to facilitate inspections and repairs of the aging pipeline. Video inspection of a portion of the MTP will take place in November 2016. If needed, repairs will be made to the pipeline.

MAJOR INITIATIVES AND PROJECTS

Fulton Reservoir: Construction of the one-million-gallon reservoir at the Fulton site began in August 2014 and was completed in September 2015. Construction progressed as scheduled with no major issues or delays. The project will increase storage capacity at the site and will stabilize downstream pressures in the MTP, thereby alleviating the pressurization concerns on the JWL.

Miramar Hydroelectric Generation Stations #2 & #3: Based on recommendations from its consultant, TVMWD moved forward with a project to add two small hydroelectric generating facilities at the existing Miramar Hydro site. The physical improvements were essentially completed in October 2014, but additional work by SCE greatly delayed project start-up. SCE required various electrical upgrades related to its interconnection with the existing and new generating facilities, and TVMWD must pay for these upgrades. These requirements by SCE pushed the final start-up and testing of this project to July 2016. Based on the overall costs and the expected savings and revenue to be generated by the new hydro units, the payback period is estimated to be about 13 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 the design of Well #3, the focus in FY 16-17 already turned to a new Well #4. After initial negotiations with Caltrans on a potential site for a new well were unsuccessful, TVMWD was able to locate and successfully purchase a different former Caltrans parcel for a potential new well. Design of the well should be awarded in fall 2016 and completed in summer 2017.

Rendering of Well #4

Miramar Storage Building: The new storage building constructed in 2015 replaces lost storage space in the hydroelectric generation building. The new building has three vehicle bays with roll-up doors and a total storage area of 1,200 square feet. It features a high efficiency LED lighting system. The roof was equipped with photovoltaic conduit ports for potential future solar panels construction.

MAJOR INITIATIVES AND PROJECTS

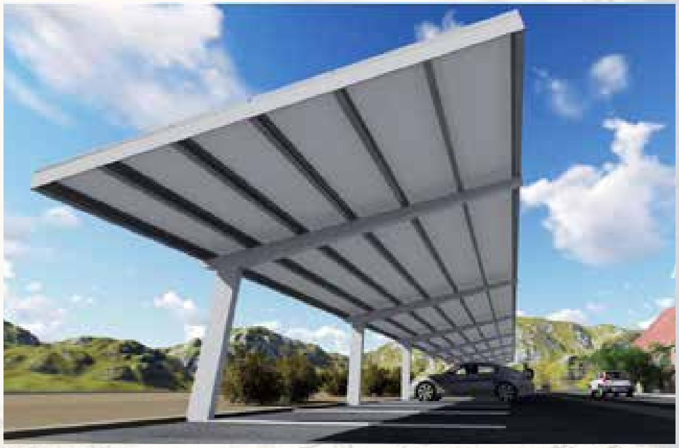
Backwash Pond 3 Sump Pump: The proposed sump pump will enable TVMWD operations staff to clean Pond 3 more efficiently and improve the removal of sludge so it is pumped to the BFP for processing and hauling off-site instead of being discharged onsite to earthen Basin A. A concrete sump was constructed in late 2015. Design of the pump, piping, structural, and electrical was completed by the consultant in August 2016. Depending on the informal quotes received, construction award may be informal or require a public bid/award process. Construction is anticipated to begin in October or November 2016 and take about two months to complete.

Leroy's (La Verne) Connection Improvements: The purpose of this project is to replace the outdated metering vault equipment and realign the piping so it is safer and easier for TVMWD operations staff to maintain and improve pressure and flow to the City of LaVerne. TVMWD anticipates design will be completed by late October 2016 and construction completed in early 2017.

MAJOR INITIATIVES AND PROJECTS

Reservoir Effluent Pump Station: The proposed pump station will be used to provide potable water to the TVMWD administration building at the Miramar site. By moving the source of this supply, the disinfection process can take advantage of detention time in the reservoirs to enhance the overall treatment scheme. This can lead to a potential decrease in chemical demand, improved water quality, and increased flexibility in the overall operation of the treatment plant.

Solar Carports Project: TVMWD is considering adding solar carports to TVMWD's headquarters site that could potentially generate approximately 230,000kWh per year and decrease the amount of energy purchased from SCE. A design of the solar carports is underway and should be completed by late 2016. TVMWD staff will engage SCE to determine the potential impacts to TVMWD's new Miramar Qualifying Facility contract. If favorable, staff will request authorization from the board to move forward with construction.



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 15-16, 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 4% to 4.5%, TVMWD's rates are expected to mirror those increases. TVMWD's financial forecast is to continue leveraging costs so that TVMWD can offer water at a surcharge of only $8 above 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, 2015. This was the ninth 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

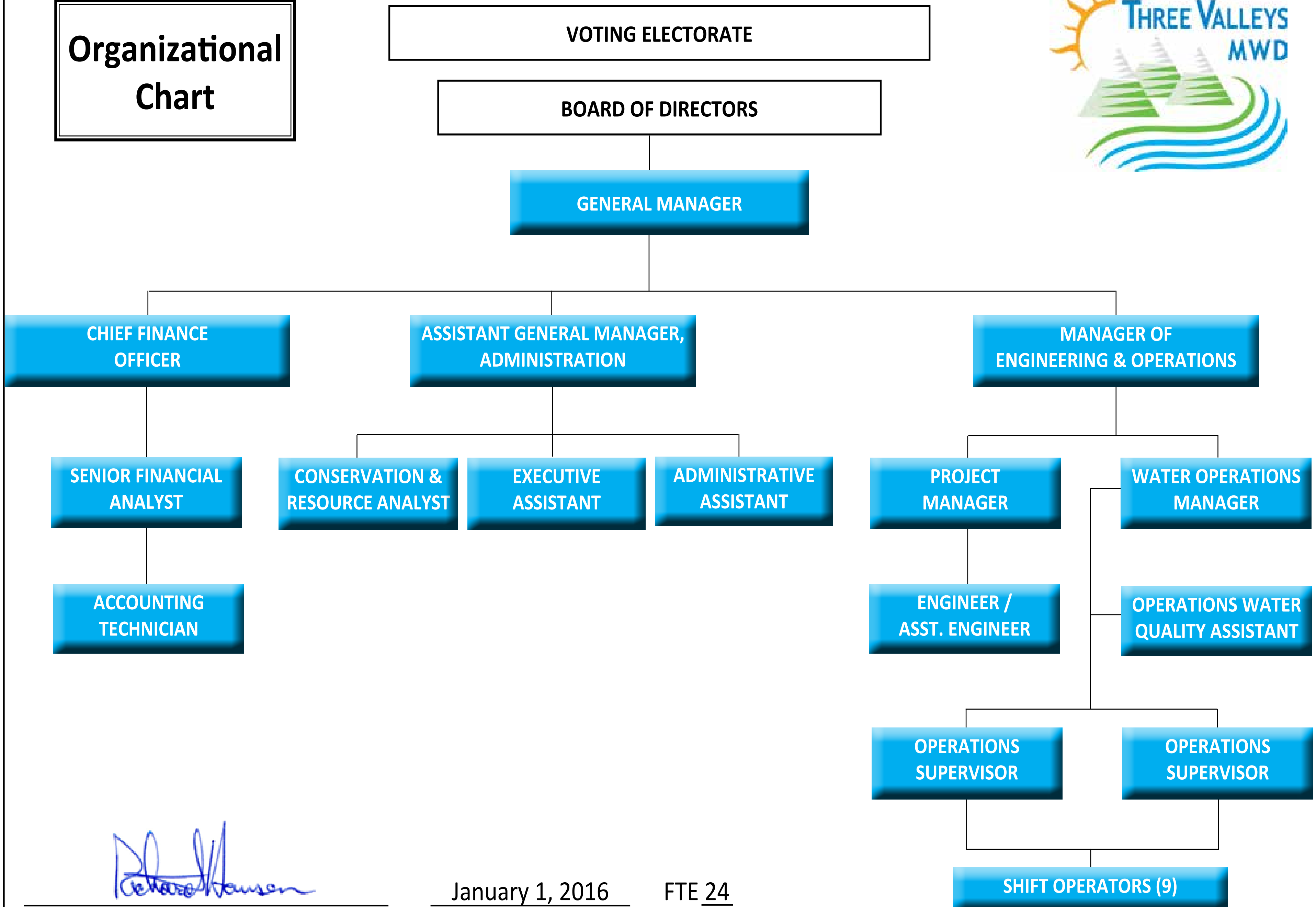
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Jeffrey R. Emer

Executive Director/CEO

Organizational Chart

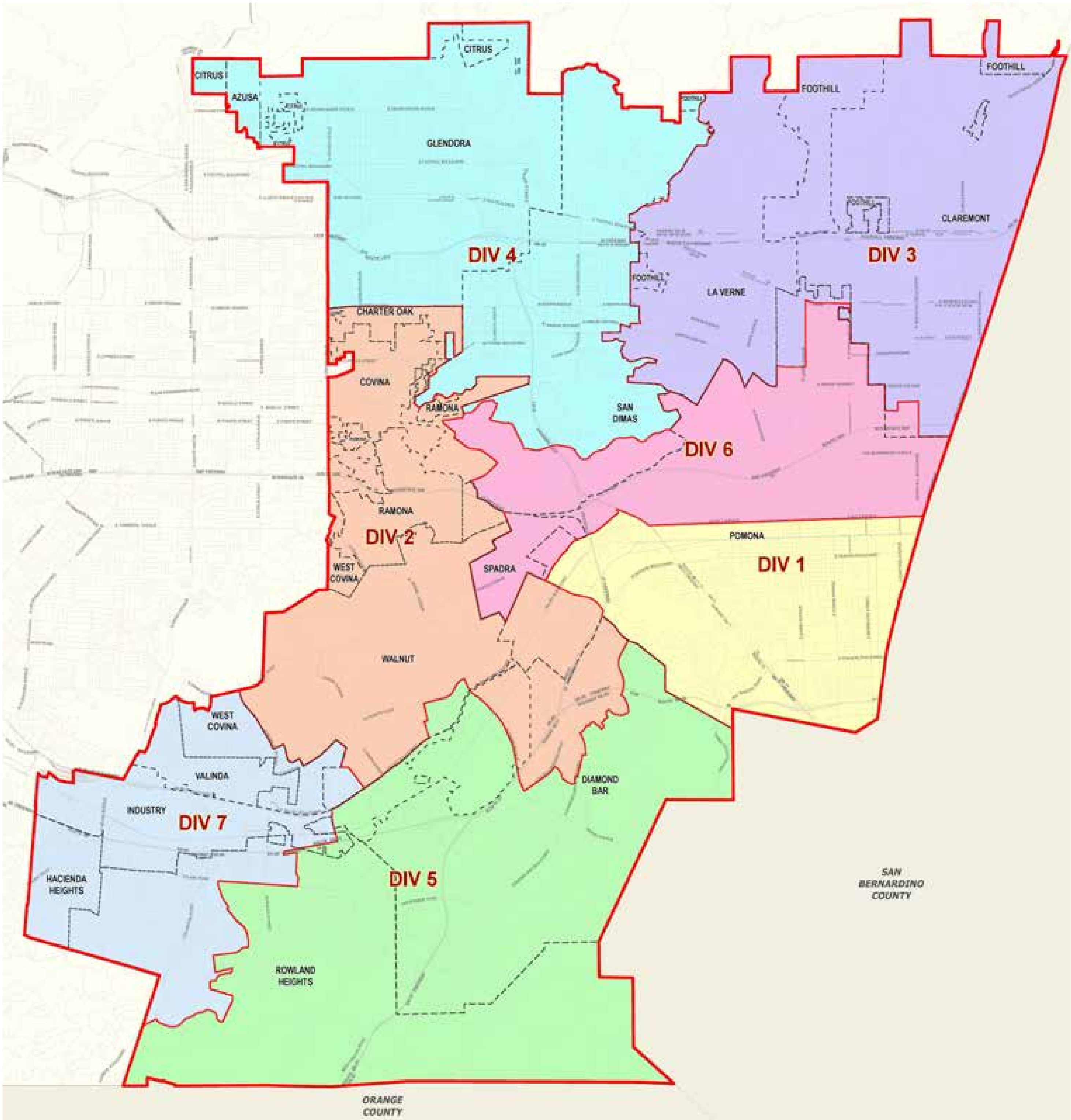


Richard Hansen, P.E.
General Manager

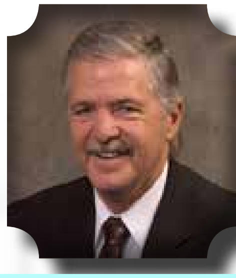
January 1, 2016
Date

FTE 24

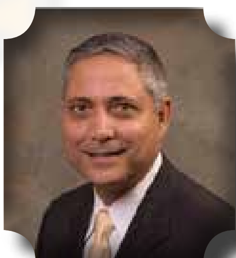
Elective Subdivision Boundary Map



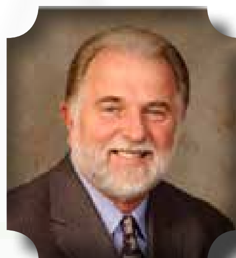
TVMWD Board of Directors



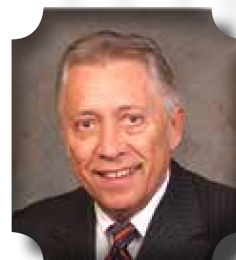
Director Bob Kuhn, President
Division 4
Glendora, San Dimas



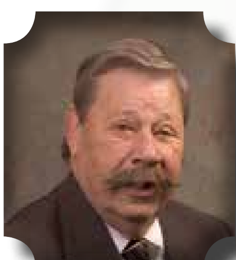
Director David De Jesus, Vice President
Division 2
Walnut, Covina, West Covina,
San Dimas



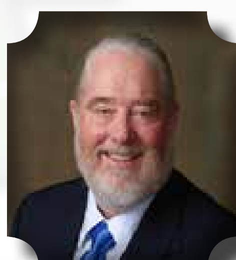
Director Brian Bowcock, Secretary
Division 3
Claremont, La Verne



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 November 18, 2015 Board Meeting)

NAME	REPRESENTING	POSITION
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

2016 COMMITTEE/REPRESENTATION APPOINTMENTS

(Revised at the November 18, 2015 Board Meeting)

COMMITTEE/BOARD	REPRESENTATIVE	ALTERNATE
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

LSL
CPAs AND ADVISORS

INDEPENDENT AUDITORS' REPORT

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

Report on the 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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 District. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board of Directors
Three Valleys Municipal Water District

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, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability and the schedule of plan contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Lance, Soll & Lunghard, LLP

Brea California
October 5, 2016

This section of TVMWD's annual financial report presents our analysis of TVMWD's financial performance during the fiscal year ended on June 30, 2016. 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 in 2016. 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.
- Accounts receivable and accounts payable increased by $2 million due to a rate increase of 2% and 15% higher water sales in May and June of 2016 as compared to 2015.
- Grants receivable decreased as the DWR grant related to the SASG Spreading Pipeline Extension was completed.
- Water storage inventory decreased as a result of $1.46 million of sales offset by water purchases of $530,000.
- Investments decreased as a result of transfers in the amount of $900,000 to help pay for capital projects.
- Capital assets increased by $300,000. This is as result of a $5.8 million increase in Depreciable assets and a $5.5 million decrease in Nondepreciable assets. The increase and decrease in Depreciable and Nondepreciable assets respectively, is due to the completion of the following projects: SASG Spreading Pipeline Extension, Fulton Reservoir, 5th & White Connection, Miramar Storage Building, Mills-Pomona Connection and the Main Driveway Modification.
- TVMWD's Net position remains stable and healthy.

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 24-29) and Notes to the Basic Financial Statements (pages 30-42). 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 24-25) 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 27) 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 28-29) 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.

TABLE A-1
Condensed Statement of Net Position
Fiscal Years 2016 and 2015

	2016	2015	Dollar Change	Total Percent Change
Current and noncurrent assets				
Cash and cash equivalents	$ 3,728,324	$ 2,315,773	$ 1,412,551	61 %
Accounts receivable	9,443,380	7,128,503	2,314,877	32 %
Interest receivable	33,857	30,145	3,712	12 %
Taxes receivable	64,327	85,001	(20,674)	(24) %
Grants receivable	123,112	551,401	(428,289)	(78) %
Other receivables	5,856	271,133	(265,277)	(98) %
Loans receivable from employees	3,709	3,324	385	12 %
Prepaid expenses and deposits	88,305	76,841	11,464	15 %
Water storage inventory	917,167	1,849,861	(932,694)	(50) %
Investments	9,124,956	9,978,963	(854,007)	(9) %
Notes receivable	71,390	107,086	(35,696)	(33) %
Net OPEB asset	260,415	274,759	(14,344)	(5) %
Capital assets				
Depreciable assets	25,939,973	20,180,854	5,759,119	29 %
Nondepreciable assets	3,414,880	8,897,858	(5,482,978)	(62) %
Total Assets	$ 53,219,651	$ 51,751,502	$ 1,468,149	3 %
Deferred outflows of resources				
Deferred pension related items	$ 304,061	$ 272,007	$ 32,054	12 %
Current liabilities				
Accounts payable	$ 8,588,253	$ 6,629,550	$ 1,958,703	30 %
Retention payable	24,556	171,329	(146,773)	(86) %
Accrued payroll	21,793	22,617	(824)	(4) %
Accrued compensated absences	126,356	135,598	(9,242)	(7) %
Long-term liabilities				
Accrued compensated absences	351,786	275,091	76,695	28 %
Net pension liability	2,145,000	2,059,901	85,099	4 %
Total Liabilities	$ 11,257,744	$ 9,294,086	$ 1,963,658	21 %
Deferred inflows of resources				
Deferred pension related items	$ 407,653	$ 737,147	$ (329,494)	(45) %
Investment in capital assets	$ 29,354,853	$ 29,078,712	$ 276,141	1 %
Unrestricted	12,503,462	12,913,564	(410,102)	(3) %
Total Net Position	$ 41,858,315	$ 41,992,276	$ (133,961)	0 %

As depicted in Table A-1, the following significant changes occurred during FY 15-16:

- Accounts receivable and accounts payable increased by $2 million due to a rate increase of 2% and 15% higher water sales in May and June of 2016 as compared to 2015.
- Grants receivable decreased as the DWR grant related to the SASG Spreading Pipeline Extension was completed.
- Water storage inventory decreased as a result of $1.46 million of sales offset by water purchases of $530,000.
- Investments decreased as a result of transfers in the amount of $900,000 to help pay for capital projects.

TABLE A-2
Condensed Statements of Revenues, Expenses and Changes in Net Position
Fiscal Years 2016 and 2015

	2016	2015	Dollar Change	Total Percent Change
Operating revenues				
Water and hydroelectric sales	$ 48,472,685	$ 51,650,577	$ (3,177,892)	(6) %
Water use and connection capacity charges	6,914,533	7,006,991	(92,458)	(1) %
Nonoperating revenues				
Property tax revenue	2,091,254	2,014,754	76,500	4 %
Sublease income	-	5,775,000	(5,775,000)	(100) %
Investment income	226,747	136,976	89,771	66 %
Intergovernmental grant revenue	6,121	46,924	(40,803)	(87) %
Total Revenues	57,711,340	66,631,222	(8,919,882)	(13) %
Operating expenses				
Water purchases	43,514,064	46,955,631	(3,441,567)	(7) %
Water use and connection capacity	6,323,886	6,182,531	141,355	2 %
Water treatment and transmission	2,543,649	2,711,483	(167,834)	(6) %
Administrative expenses	3,304,582	3,210,144	94,438	3 %
Depreciation	2,223,976	2,031,448	192,528	9 %
Nonoperating expenses				
Intergovernmental grants expense	6,121	46,924	(40,803)	(87) %
Loss on sale/disposal of assets	40,173	12,109	28,064	232 %
Total Expenses	57,956,451	61,150,270	(3,193,819)	(5) %
Net income (loss) before capital contributions	(245,111)	5,480,952	(5,726,063)	(104) %
Capital contributions	111,150	618,666	(507,516)	(82) %
Changes in net position	(133,961)	6,099,618	(6,233,579)	(102) %
Beginning net position, as previously reported	41,992,276	38,463,002	3,529,274	9 %
Prior period adjustment	-	(2,570,344)	2,570,344	(100) %
Beginning net position, as restated	41,992,276	35,892,658	6,099,618	17 %
Ending net position	$ 41,858,315	$ 41,992,276	$ (133,961)	0 %

As depicted in Table A-2, the following significant changes occurred during FY 15-16:

- Treated water sales revenue and the related water purchased decreased in 2016. 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.
- Sublease income ended in FY 15-16 due to conclusion of debt payments for the Miramar Treatment Plant.
- Capital contributions decreased due to the completion of the SASG Spreading Pipeline Extension.

TABLE A-3
Capital Assets
Fiscal Years 2016 and 2015

	2016	2015	Dollar Change	Total Percent Change
Nondepreciable Assets				
Land	$ 894,554	$ 283,019	$ 611,535	216 %
Water Share	301,000	301,000	-	0 %
Construction in Progress	2,219,326	8,313,839	(6,094,513)	(73) %
Total Nondepreciable Assets	3,414,880	8,897,858	(5,482,978)	(62) %
Depreciable Assets				
Building	6,984,946	6,720,748	264,198	4 %
Furniture, Fixtures, & Equipment	959,202	923,439	35,763	4 %
Infrastructure	56,009,320	48,665,856	7,343,464	15 %
Land Improvements	1,257,839	1,257,839	-	0 %
District Vehicles	383,333	349,596	33,737	10 %
Total Depreciable Assets	65,594,640	57,917,478	7,677,162	13 %
Less Accumulated Depreciation	(39,654,667)	(37,736,624)	(1,918,043)	5 %
Net Depreciable Assets	25,939,973	20,180,854	5,759,119	29 %
Total Captial Assets, Net	$ 29,354,853	$ 29,078,712	$ 276,141	1 %

As depicted in Table A-3, the following significant changes occurred during FY 15-16:

- Capital assets increased from the prior year by $300,000. This is as result of a $5.8 million increase in Depreciable assets and a $5.5 million decrease in Nondepreciable assets. The increase and decrease in Depreciable and Nondepreciable assets respectively, is due to the completion of the following projects: SASG Spreading Pipeline Extension, Fulton Reservoir, 5th & White Connection, Miramar Storage Building, Mills-Pomona Connection and the Main Driveway Parking Modification.
- More information about TVMWD's capital assets is at Note 3 of the Notes to the Basic Financial Statements.

THREE VALLEYS MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
June 30, 2016

ASSETS		
Current assets		
Cash and cash equivalents *(Note 2)*	$	3,728,324
Accounts receivable *(Note 1)*		9,443,380
Interest receivable		33,857
Taxes receivable *(Note 1)*		64,327
Grants receivable *(Note 4)*		123,112
Other receivables		5,856
Loans receivable from employees *(Note 1)*		3,709
Prepaid expenses *(Note 1)*		59,704
Deposits *(Note 1)*		19,625
Water storage inventory *(Note 1)*		917,167
Current portion of notes receivable *(Note 5)*		35,695
Total current assets		14,434,756
Noncurrent assets		
Advance dues deposit *(Note 1)*		8,976
Investments - unrestricted *(Note 2)*		9,124,956
Notes receivable, net of current portion *(Note 5)*		35,695
Net OPEB asset *(Note 12)*		260,415
Capital assets *(Note 3)*		
Depreciable assets, net		25,939,973
Nondepreciable assets		3,414,880
Total noncurrent assets		38,784,895
TOTAL ASSETS	$	53,219,651
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension related items	$	304,061

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

LIABILITIES		
Current liabilities		
Accounts payable	$	8,588,253
Retainage payable		24,556
Accrued payroll		21,793
Current portion of accrued compensated absences *(Note 1)*		126,356
Total current liabilities		8,760,958
Noncurrent liabilities		
Accrued compensated absences, net of current portion *(Note 1)*		351,786
Net pension liability		2,145,000
Total noncurrent liabilities		2,496,786
TOTAL LIABILITIES	$	11,257,744
DEFERRED INFLOWS OF RESOURCES		
Deferred pension related items	$	407,653
NET POSITION		
Investment in capital assets *(Note 6)*		29,354,853
Unrestricted		12,503,462
TOTAL NET POSITION	$	41,858,315

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THREE VALLEYS MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2016

OPERATING REVENUES		
Water sales - MWD	$	33,194,938
Water and hydroelectric sales - Miramar		15,277,747
Water use and connection capacity charges		6,914,533
Total operating revenues		55,387,218
OPERATING EXPENSES		
Water purchases - MWD		33,937,673
Water purchases - Miramar		9,576,391
Water use and connection capacity		6,323,886
Water treatment and transmission		2,543,649
Administrative expenses		3,304,582
Depreciation		2,223,976
Total operating expenses		57,910,157
OPERATING LOSS		(2,522,939)
NONOPERATING REVENUES (EXPENSES)		
Property tax revenue		2,091,254
Investment income		226,747
Intergovernmental grant revenue		6,121
Intergovernmental grant expense		(6,121)
Loss on sale/disposal of assets		(40,173)
Net nonoperating revenues		2,277,828
NET INCOME BEFORE CAPITAL CONTRIBUTIONS		(245,111)
CAPITAL CONTRIBUTIONS *(Note 1)*		111,150
CHANGES IN NET POSITION		(133,961)
NET POSITION:		
Beginning of year		41,992,276
NET POSITION AT END OF YEAR	$	41,858,315

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, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 54,698,601
Cash payments to suppliers of goods or services	(50,287,687)
Cash payments to employees for services	(3,793,889)
Net cash provided by operating activities	617,025
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from property taxes	2,111,928
Net cash provided by noncapital financing activities	2,111,928
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital contributions	111,150
Proceeds from sale of capital assets	6,770
Acquisitions of capital assets	(1,733,983)
Cost of construction in progress additions	(813,077)
Net cash used by capital and related financing activities	(2,429,140)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments in government securities	(1,824,875)
Proceeds from sales of investments in government securities	2,774,388
Investment income	127,529
Payments received on notes receivable	35,696
Net cash provided by investing activities	$ 1,112,738

THREE VALLEYS MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS (continued)
For the Year Ended June 30, 2016

NET INCREASE (DECREASE)		
IN CASH AND CASH EQUIVALENTS	$	1,412,551
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		2,315,773
CASH AND CASH EQUIVALENTS AT END OF YEAR	$	3,728,324
RECONCILIATION OF INCOME FROM OPERATIONS TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income from operations	$	(2,522,939)
Adjustments to reconcile income from operations		
to net cash provided by operating activities:		
Depreciation		2,223,976
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable		(2,314,877)
(Increase) decrease in grant receivable		428,289
(Increase) decrease in other receivables		265,277
(Increase) decrease in loans receivable from employees		(385)
(Increase) decrease in prepaid expenses		(6,747)
(Increase) decrease in deposits		(5,166)
(Increase) decrease in water storage inventory		932,694
(Increase) decrease in advance dues deposit		449
(Increase) decrease in net OPEB asset		14,344
Increase (decrease) in accounts payable		1,958,703
Increase (decrease) in accrued payroll		(824)
Increase (decrease) in retention payable		(146,773)
Increase (decrease) in accrued compensated absences		67,453
Increase (decrease) in net pension liability and related items		(276,449)
Net cash provided by operating activities	$	617,025
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
TO STATEMENT OF NET POSITION	$	3,728,324
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Loss on sale/disposal of assets		(40,173)
Changes in fair value of investments		144,217

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, 2016

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, 2016, 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, 2016, 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, 2015	2,080	$ 623,191	2,093	$ 1,226,670
Acquired	2,000	588,225	-	-
Used or Sold	(1,044)	(294,249)	(2,093)	(1,226,670)
Ending Balance at June 30, 2016	3,036	$ 917,167	-	$ -

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.

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. The current portion of accrued compensated absences is based on a rolling 3-year annual average of leave cashed out by the employee.

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.

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, 2016, TVMWD implemented the following GASB standards:

GASB Statement No. 72 - *Fair Value Measurement and Application* - improves financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature.

GASB Statement No. 73 - *GAAP Hierarchy* - consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

NOTE 2 – 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, 2016:

Type	Fair Value
Cash and cash equivalents	
Cash	$ 2,806,417
Money Market Funds	14,429
Local Agency Investment Fund	907,478
Total cash and cash equivalents	3,728,324
Investments	
Federal Agency Securities	3,714,858
US Corporate Notes	2,441,038
US Treasury Notes	2,464,089
Asset Backed Security	504,971
Total investments	9,124,956
Total cash and cash equivalent and investments	$ 12,853,280

Deposits

As of June 30, 2016, the carrying amount of TVMWD's cash deposits was $2,806,417 and the bank balances were $2,906,514. 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, 2016.

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.

NOTE 2 – 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.

NOTE 2 – 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, 2016, TVMWD had the following investment maturities:

		Investment Maturities (In Years)		
Investment Type	Fair Value	Less than 1	1 to 3	3 to 5
Money Market Funds	$ 14,429	$ 14,429	$ -	$ -
Federal Agency Securities	3,714,858	416,886	1,920,094	1,377,878
US Corporate Notes	2,441,038	185,959	1,676,760	578,319
US Treasury Notes	2,464,089	-	1,306,276	1,157,813
Asset Backed Security	504,971	-	504,971	-
Local Agency Investment Fund	907,478	907,478	-	-
Total	$10,046,863	$1,524,752	$5,408,101	$3,114,010

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, 2016, TVMWD's credit risks, expressed on a percentage basis, were as follows:

Credit Quality Distribution for Securities With Credit Exposure as a Percentage of Total Investments

Investment Type	Moody's Credit Rating	S&P's Credit Rating	% of Investment with Interest Rate Risk
Federal Agency Securities	Aaa	AA+	36.97%
US Corporate Notes	A1	AA-	24.30%
US Treasury Notes	Aaa	AA+	24.53%
Asset Backed Security	Aaa	AAA	5.03%
Money Market Fund	Aaa	AAA	0.14%
Local Agency Investment Fund	Not rated	Not rated	9.03%
Total			100.00%

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, 2016, 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

Fair Value Measurements

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

TVMWD has the following recurring fair value measurements as of June 30, 2016:

Investments by Fair Value Level	Totals	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Un-observable Inputs (Level 3)
Federal Agency Securities	$ 3,714,858	$ -	$ 3,714,858	$ -
US Corporate Notes	2,441,038	-	2,441,038	-
US Treasury Notes	2,464,089	-	2,464,089	-
Asset Backed Security	504,971	-	504,971	-
Local Agency Investment Fund	907,478	-	907,478	-
Totals	10,032,434	$ -	$10,032,434	$ -
Investments Measured at Amortized Cost				
Money Market Fund	14,429			
Total Investments	$10,046,863			

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (continued)

Securities and mutual funds are classified in Level 1 of the fair value hierarchy are valued using priced quoted in active markets for those securities and mutual funds. Corporate bonds classified in Level 2 of the fair value hierarchy are valued using a matrix pricing model. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Mortgage-backed securities classified in Level 3 are valued using discounted cash flow techniques.

NOTE 3 – CAPITAL ASSETS

A summary of the changes in capital assets for the year ended June 30, 2016 is as follows:

	Beginning Balance 06/30/2015	Additions	Retirements*	Transfers	Ending Balance 06/30/2016
Capital assets, not being depreciated:					
Land	$ 283,019	$ 611,535	$ -	$ -	$ 894,554
Water Share	301,000	-	-	-	301,000
Construction in progress	8,313,839	813,077	-	(6,907,590)	2,219,326
Total capital assets, not being depreciated	8,897,858	1,424,612	-	(6,907,590)	3,414,880
Capital assets, being depreciated:					
Building and Building Improvement	6,720,748	200,992	-	63,206	6,984,946
Furniture, Fixtures, and Equipment	923,439	35,763	-	-	959,202
Infrastructure	48,665,856	813,399	(314,319)	6,844,384	56,009,320
Land Improvements	1,257,839	-	-	-	1,257,839
Vehicles	349,596	72,294	(38,557)	-	383,333
Total capital assets, being depreciated	57,917,478	1,122,448	(352,876)	6,907,590	65,594,640
Less accumulated depreciation for:					
Building and Building Improvement	6,280,638	202,958	-	-	6,483,596
Furniture, Fixture and Equipment	699,653	56,803	-	-	756,456
Infrastructure	29,698,416	1,821,363	(267,376)	-	31,252,403
Land Improvement	793,162	116,811	-	-	909,973
Vehicles	264,755	26,041	(38,557)	-	252,239
Total accumulated depreciation	37,736,624	2,223,976	(305,933)	-	39,654,667
Total capital assets, being depreciated, net	20,180,854	(1,101,528)	(46,943)	6,907,590	25,939,973
Total capital assets, net	$ 29,078,712	$ 323,084	$ 46,943	$ -	29,354,853

*Capital assets that were not in compliance with TVMWD's Capitalization Policy were retired and reclassified to continuing property.

Depreciation expense for the year totaled $2,223,976.

THREE VALLEYS MUNICIPAL WATER DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 4 – 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.

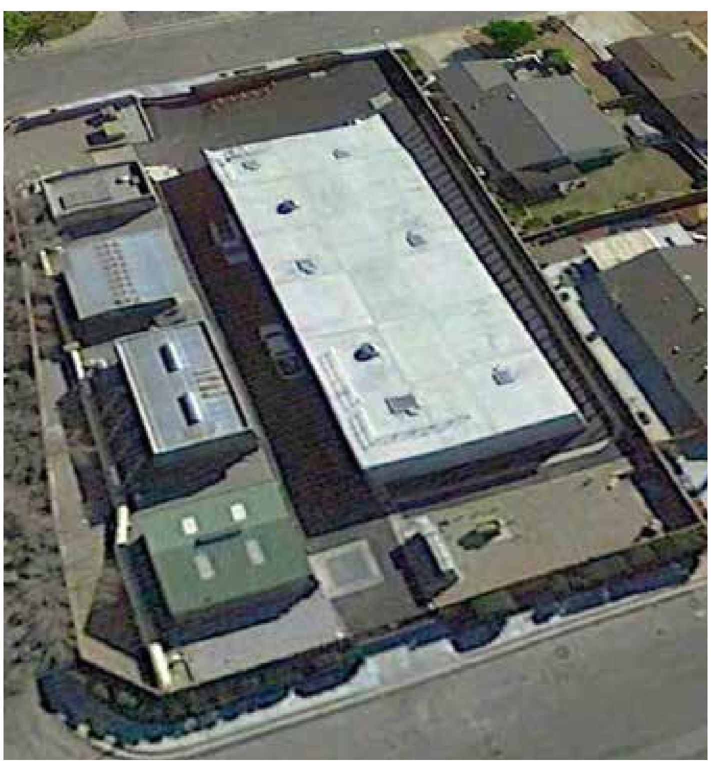
NOTE 5 – NOTES RECEIVABLE

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, 2016 of $71,390 and is being collected over a twenty year period ending in 2018.

NOTE 6 – INVESTMENT IN CAPITAL ASSETS

Investment in capital assets are presented on the Statement of Net Position as follows at June 30, 2016:

Net capital assets	$ 29,354,853
Debt associated with capital assets:	-
Investment in capital assets	$ 29,354,853



NOTE 7 – 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 $22,858 for the year ended June 30, 2016. The future minimum lease payments are as follows:

Year Ending June 30	Amount
2017	$ 18,515
Total	**$ 18,515**

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 $573,787 of open contracts as of June 30, 2016.

The following material construction commitments existed at June 30, 2016:

Project Name	Contract Amount	Expenditures to date as of June 30, 2016	Remaining Commitment
Miramar Hydroelectric Generating Stations #2 & #3	830,146	826,108	4,038
TVMWD Well #3	450,000	73,818	376,182
Plunger Valve	149,989	-	149,989
Effluent/Mag Meters	43,578	-	43,578

NOTE 8 – 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 $25,000 deductible for buildings, personal property, fixed equipment and catastrophic coverage. The deductible on mobile equipment is $2,500. The deductible on vehicles is $2,500. The deductibles for boiler and machinery equipment vary based on property type. The pooled layer is up to $100,000 per occurrence and excess insurance coverage has been purchased up to $150 million.

General Liability: The pooled layer is up to $2 million per occurrence and excess insurance coverage has been purchased up to $150 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.

NOTE 9 – RELATED PARTY TRANSACTIONS

TVMWD wholesales potable and non-potable water to its member agencies, one of which is Covina Irrigating Company (CIC). CIC is a wholesale water supplier that provides water to the City of Covina, City of Glendora, Golden State Water Company, Suburban Water Systems, Valencia Heights Water Company and Valley County Water District. The President/CEO of CIC is David De Jesus. Mr. De Jesus is also a voter elected member of the Board of Directors for TVMWD.

Beginning in November 2015 (for the first time ever) and continuing through the rest of the fiscal year, TVMWD sold water to CIC. The amount of water sold to CIC for FY 15-16 was 2,548 acre feet. These sales occurred in the same manner as would occur with any TVMWD member agency. TVMWD expects sales to CIC to continue in the future.

TVMWD's rates are set annually for the calendar year and approved by the TVMWD Board of Directors. The rate charged to CIC is the same rate charged to any TVMWD member agency. The rate for 2015 was $582 per acre foot and the rate for 2016 was $594 per acre foot. The pipeline used to deliver water to CIC is owned by San Gabriel Valley Municipal Water District (SGVMWD). SGVMWD charges a fee of $5 per acre foot, so TVMWD (and ultimately CIC) was also responsible for this fee. For FY 15-16, total water sales revenue from CIC was $1,522,261.

TVMWD allows its member agencies approximately 45 days to pay for monthly water purchases. As such, TVMWD had a receivable outstanding at June 30, 2016 from CIC for June 2016 water sales of $354,009. This receivable, due August 24, 2016, was paid by CIC on August 1, 2016

NOTE 10 – PENSION PLANS

Plan Descriptions

All qualified permanent, probationary and part-time vested employees are eligible to participate in TVMWD's miscellaneous employee pension plan (the Plan), a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). TVMWD sponsors a plan with two tiers/benefit levels: Tier 1, 2% @ 55 for employees hired on or prior to December 31, 2012 and Tier 2, 2% @ 62 for employees hired on or after January 1, 2013. Benefit provisions under the Plan are established by State statute and TVMWD resolution. CalPERS issues publicly available reports that include a full description of the pension plan 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 (or 52 for members hired on or after January 1, 2013) 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 the plan are applied as specified by the California Public Employees' Retirement Law (PERL).

NOTE 10 – PENSION PLANS (continued)

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous	
Hire date	Prior to December 31, 2012	On or after January 1, 2013
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	12.162%	6.23%

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, 2015 (the measurement date), the active employee's contribution rates for Tier 1, 2% @ 55 and Tier 2, 2% @ 62 are 6.886% and 6.313% respectively, of annual pay and the average employer's contribution rates for Tier 1, 2% @ 55 and Tier 2, 2% @ 62 are 11.522% and 6.25% respectively, of annual payroll. Employer contributions rates may change if plan contracts are amended.

For the year ended June 30, 2016, the contributions recognized as part of pension expense for the Plan were as follows:

	2% @ 55	2% @ 62
Contributions - employer	$280,894	$5,733
Contributions - employee (paid by employer)	$ 0	$ 0

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

As of June 30, 2016, TVMWD reported net pension liability for its proportionate share of the net pension liability of the Plan as follows:

Tiers/Benefit Levels	Proportionate Share of Net Pension Liability
2% @ 55	$2,146,644
2% @ 62	(1,644)
Total Net Pension Liability	$2,145,000

TVMWD's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 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 plan relative to the projected contributions of all participating employers, actuarially determined. TVMWD's proportionate share of the net pension liability for the Plan as of June 30, 2015 was as follows:

	2% @ 55	2% @ 62
Proportion - June 30, 2015	0.07825%	(0.00006)%

For the year ended June 30, 2016, TVMWD recognized pension expense of $286,627. At June 30, 2016, 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	$286,627	$ 0
Differences between actual and expected experience	17,434	0
Changes in assumptions	0	(164,941)
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	0	(82,687)
Difference between actual and proportionate share	0	(141,832)
Net differences between projected and actual earnings on plan investments	0	(18,193)
Total	$304,061	$(407,653)

NOTE 10 – PENSION PLANS (continued)

The $286,627 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

Year Ending June 30	Deferred Outflows/ (Inflows) of Resources
2016	(136,235)
2017	(133,026)
2018	(100,286)
2019	(20,672)
2020	0
Thereafter	0
Total	$(390,219)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

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

	Miscellaneous
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Acturial Assumptions:	
Discount Rate	7.65%
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, 2014 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2012, 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 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% 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 7.50%. 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.

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

NOTE 10 – PENSION PLANS (continued)

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.

	Current Target Allocation	Real Return Years 1-10[1]	Real Return Years 11+[2]
Global Equity	51.0%	5.25%	5.71%
Global Debt Securities	19.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	(0.55)%	(1.05)%

[1]An expected inflation of 2.50% used for this period
[2]An expected inflation of 3.00% 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 the Plan, calculated using the discount rate for each tier, 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:

Net Pension Liability						
Tiers/ Benefit Levels		**Discount Rate-1% 6.65%**		**Current Discount Rate 7.65%**		**Discount Rate+1% 8.65%**
2% @ 55	$	3,885,282	$	2,146,644	$	711,197
2% @ 62	$	46	$	(1,644)	$	(3,040)

Pension Plan Fiduciary Net Position

Detailed information about the 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, 2016, TVMWD reported a payable of $0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

NOTE 11 – 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 $4,800 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 to claims of TVMWD's general creditors. Market value of all plan assets held in trust by the two TVMWD plans amounted to $5,113,395 at June 30, 2016.

NOTE 11 – DEFERRED COMPENSATION AND PENSION PLANS (continued)

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 $138,621 at June 30, 2016.

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 12 – 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 15-16, TVMWD contributed $23,174 for current premiums.

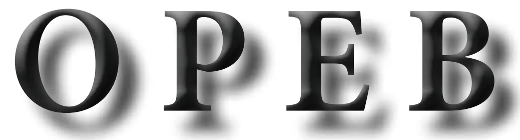
Annual OPEB Cost and Net OPEB Obligation

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	$ 38,555
Interest on net OPEB obligation (asset)	(20,002)
Adjustment to ARC	24,548
Annual OPEB cost	43,101
Contribution made	(28,757)
(Decrease) Increase in net OPEB obligation	14,344
Net OPEB obligation (asset) June 30, 2015	(274,759)
Net OPEB obligation (asset) June 30, 2016	$(260,415)

For the FY 15-16, TVMWD's annual OPEB cost (expense) was $43,101. The Net OPEB Obligation for the current and prior two fiscal years is presented below:

Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2014	$ 25,004	7%	$ (132,408)
6/30/2015	$ 56,352	353%	$ (274,759)
6/30/2016	$ 43,101	67%	$ (260,415)



NOTE 12 – 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, 2011, July 1, 2013 and July 1, 2015 as TVMWD obtains a biennial actuarial valuation. The change in the actuarial liability calculation for the July 1, 2015 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 2015 were revised based on the plan change noted above for employees retiring after January 1, 2015.

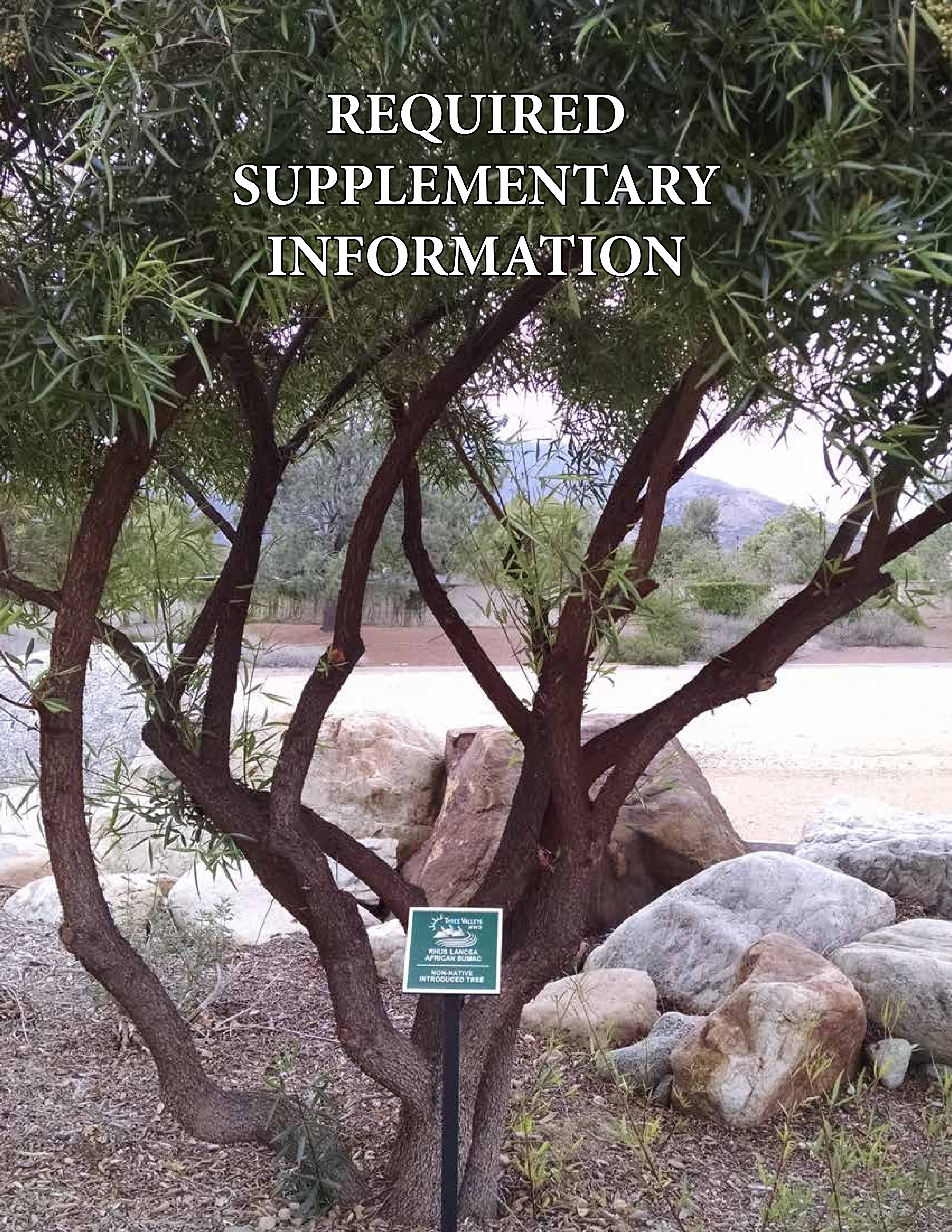
Actuarial Methods and Assumptions

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, 2015 actuarial valuation, the Projected Unit Credit funding method was used. The actuarial assumptions included a 7.28% 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, 2016 was 24 years. As of the actuarial date, TVMWD had 23 active participants and 6 retirees.

Type of Valuation	Actual	Actual	Actual
Actuarial Valuation Date	7/1/2011	7/1/2013	7/1/2015
Actuarial Value of Assets	$ -	$422,580	$659,795
Unfunded Actuarial Accrued Liability (UAAL)	$429,288	$251,206	$136,006
Funded Ratio	0.00%	63%	82.9%
Covered Payroll	$2,154,087	$2,239,122	$2,553,019
UAAL as a % of Covered Payroll	20%	11%	5%
Interest Rate	7.61%	7.61%	7.28%
Salary Scale	3.25%	3.25%	3.25%

REQUIRED SUPPLEMENTARY INFORMATION



SCHEDULE 1

Three Valleys Municipal Water District
Miscellaneous Cost-Sharing Plan
Schedule of the Plan's Proportionate Share of the Net Pension Liability
As of June 30, For The Last Ten Fiscal Years [1]

	2016		2015	
	2%@55 Plan	2%@62 Plan	2%@55 Plan	2%@62 Plan
Proportion of the Net Pension Liability/(Asset)	0.07825%	-0.00006%	0.03309%	0.00001%
Proportionate Share of the Net Pension Liability/(Asset)	$ 2,146,644	$ (1,644)	$ 2,059,173	$ 728
Covered-Employee Payroll	$ 2,313,876	$ 86,437	$ 2,234,196	$ 53,641
Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll	92.77%	-1.90%	92.17%	1.36%
Plan Fiduciary Net Position	$ 10,619,931	$ 14,056	$ 10,074,124	$ 3,565
Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	83.19%	113.25%	83.03%	83.04%

Notes to Schedule:
Benefit Changes: None.

Changes of Assumptions: None.

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

NOTE: 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.

SOURCE: CalPERS GASB 68 Accounting Valuation Report

SCHEDULE 2

Three Valleys Municipal Water District
Miscellaneous Cost-Sharing Plan
Schedule of Plan Contributions - California Public Employees Retirement Plan
For the Year Ended June 30, 2016

	2016		2015	
	2%@55 Plan	2%@62 Plan	2%@55 Plan	2%@62 Plan
Actuarially Determined Contributions	$ 280,590	$ 6,037	$ 266,605	$ 5,402
Contributions in Relation to the Actuarially Determined Contributions	$ (280,590)	$ (6,037)	$ (266,605)	$ (5,402)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Covered-Employee Payroll	$ 2,322,592	$ 96,793	$ 2,313,876	$ 86,437
Contributions as a Percentage of Covered-Employee Payroll	8.512%	6.237%	11.522%	6.250%

Notes to Schedule

Valuation date:	6/30/2014	6/30/2013

Methods and assumptions used to determine contribution rates:

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

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.

SOURCE: CalPERS GASB 68 Accounting Valuation Report

Three Valleys MWD

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STATISTICAL SECTION

THREE VALLEYS MUNICIPAL WATER DISTRICT
STATISTICAL SECTION
For the Year Ended June 30, 2016

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.

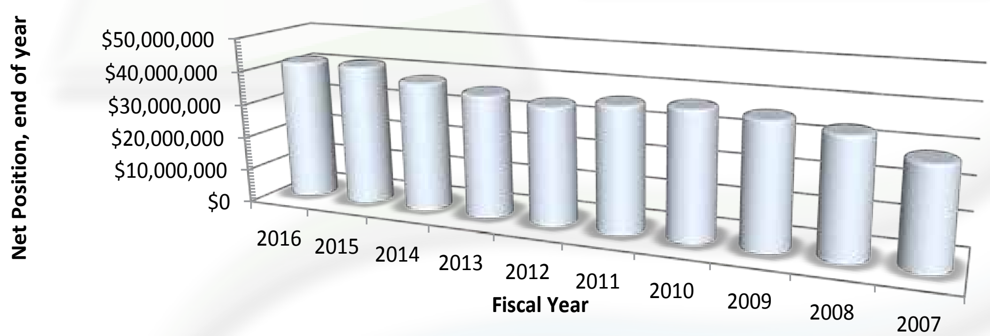
Demographic and Economic Information
These schedules offer demographic and economic indicators to help the reader understand the environment within which TVMWD's financial activities take place and to help make comparisons over time and with other agencies.

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.

SCHEDULE 1

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

	FISCAL YEAR									
	2016	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
Operating revenues (see Schedule 3)	$ 55,387,218	$ 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
Operating expenses (see Schedule 4)	57,910,157	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
Total operating income (loss)	(2,522,939)	(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
Nonoperating revenues (expenses)										
Property tax revenue	2,091,254	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]
Sublease income	-	5,775,000	821,303	832,593	832,946	844,434	838,412	914,446	1,008,893	1,036,911
Investment income	226,747	136,976	236,128	72,974	311,222	352,529	656,200	945,448	1,488,814	1,460,157
Intergovernmental grants revenue	6,121	46,924	115,962							
Intergovernmental grants expense	(6,121)	(46,924)	(115,962)							
Interest expense	-	-	(29,787)	(221,353)	(327,853)	(398,839)	(460,411)	(598,486)	(733,833)	(780,165)
Amortization of deferred bond costs/refunding	-	-	(195,647)	(183,225)	(221,097)	(221,096)	(221,096)	(221,096)	(221,096)	(249,703)
Reimbursements revenue	-	-	-	-	-	33,945	56,093	135,418	37,069	62,877
Gain (loss) on sale of assets	(40,173)	(12,109)	(104,254)	(3,297)	(2,339)	-	-	7,953	3,009	5,000
Other non-operating revenues (expenses)	-	-	-	-	-	-	-	-	(4,191)	(68,642)
Total nonoperating revenues (expenses)	2,277,828	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
Net income before capital contributions and change in accounting principle	(245,111)	5,480,952	827,857	1,607,343	(597,149)	(151,207)	1,155,331	2,186,584	4,313,464	4,145,033
Capital contributions	111,150	618,666	1,742,423	-	-	-	-	32,018	1,384,041	635,877
Change in net position	(133,961)	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
Net Position, beginning of year	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
Prior period adjustment	-	(2,570,344)	(613,501)	(50,495)	(1,348,308)	(535,050)	-	-	(464,607)	-
Net Position, end of year, as restated (see Schedule 2)	**$ 41,858,315**	**$ 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**



[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.

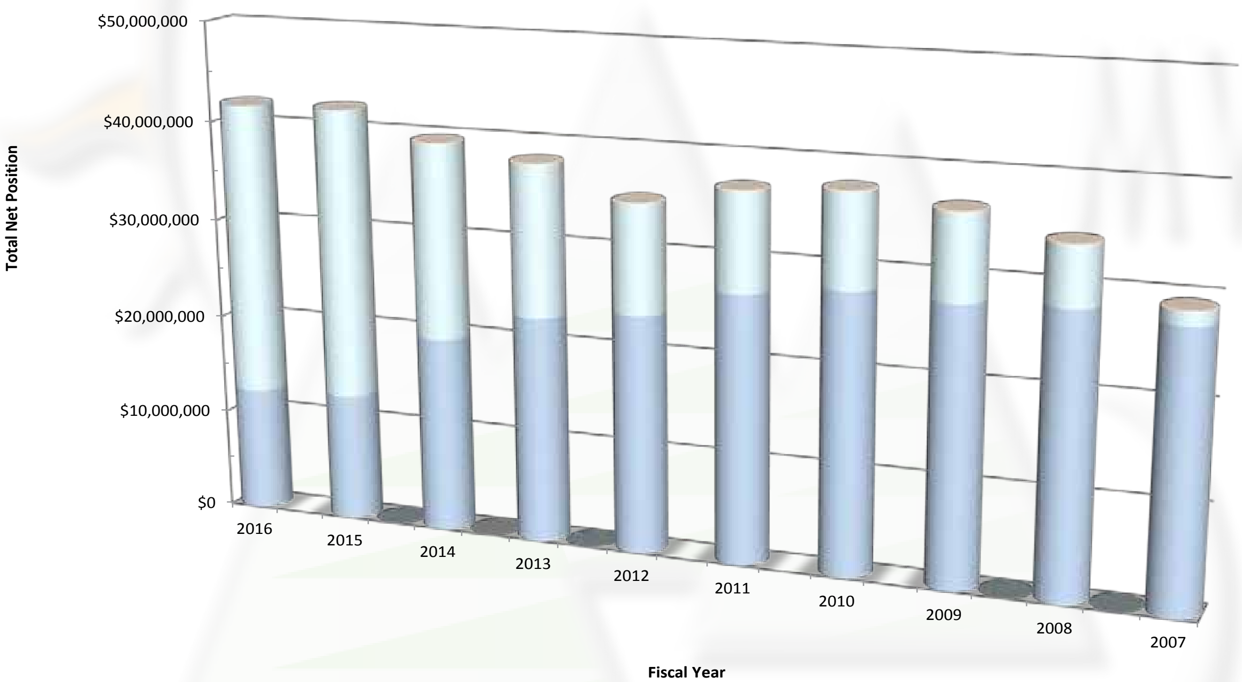
SOURCE: TVMWD - Finance Department

SCHEDULE 2

Three Valleys Muncipal Water District

Changes in Net Position and Components of Net Position
Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Net investment in capital assets	$ 29,354,853	$ 29,078,712 [1]	$ 19,483,706 [1]	$ 15,073,992 [1]	$ 10,791,926	$ 9,747,308	$ 9,288,517	$ 8,406,471 [1]	$ 5,796,735	$ 1,200,002
Restricted for debt service	-	-	225,000	227,163	227,203	226,165	226,153	229,572	227,964	227,964
Unrestricted	12,503,462	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
Total Net Position	$ 41,858,315	$ 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



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

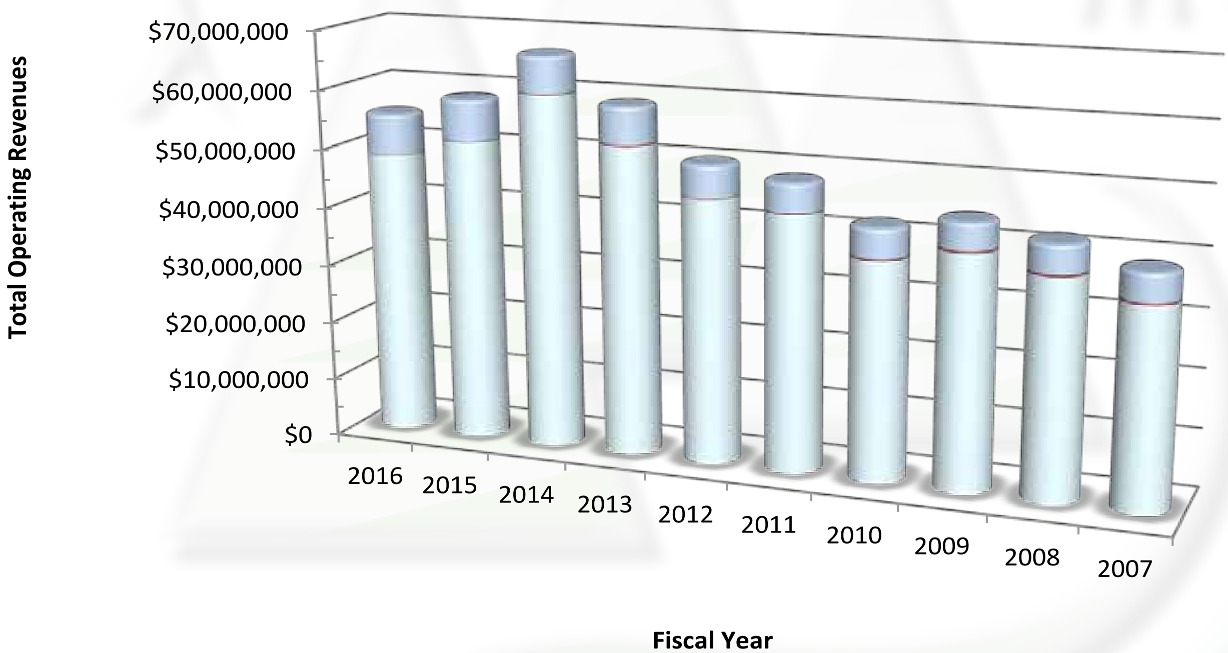
NOTE: Revenues and expenses in prior years may be reclassified to conform to current year presentation.

SOURCE: TVMWD - Finance Department

SCHEDULE 3

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

Fiscal Year	Water Sales[1]	Hydroelectric Sales	Water Use and Connection Charges	Total Operating Revenues
2016	$ 48,374,543	$ 98,142	$ 6,914,533	**$ 55,387,218**
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	**59,240,204**
2012	45,097,918	117,593	5,450,097	**50,665,608**
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**



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

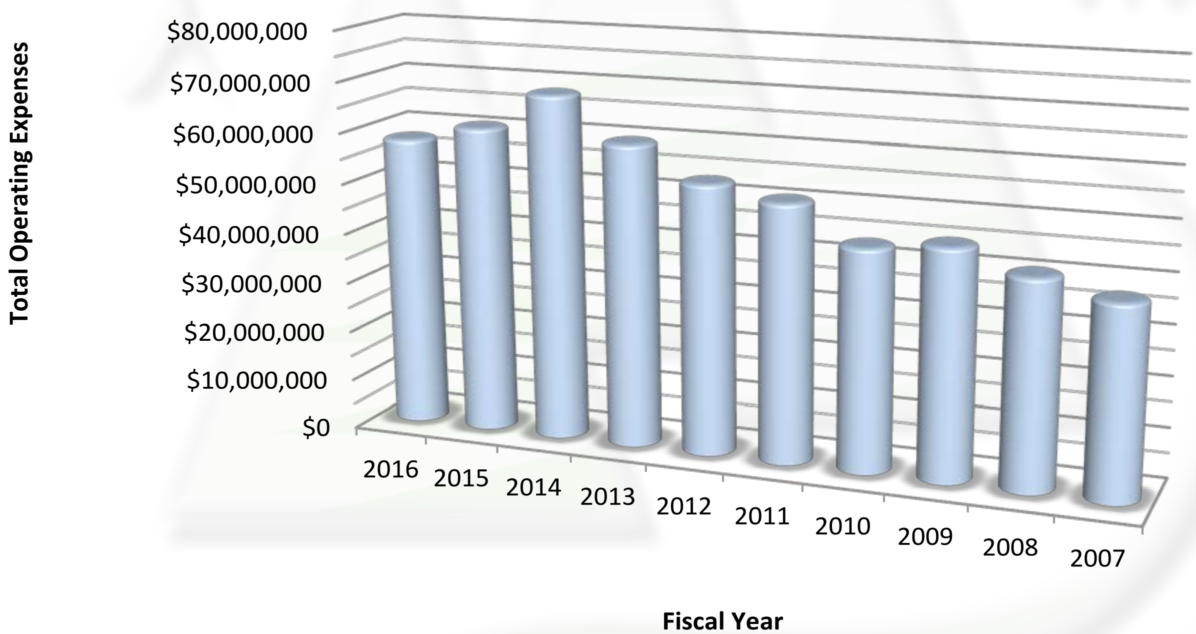
NOTE: Revenues and expenses in prior years may be reclassified to conform to current year presentation.

SOURCE: TVMWD - Finance Department

SCHEDULE 4

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

Fiscal Year	Water Purchases[1]	Water Treatment and Distribution	Water Use and Connection	General and Administration	Depreciation	Total Operating Expenses
2016	$ 43,514,064	$ 2,543,649	$ 6,323,886	$ 3,304,582	$ 2,223,976	**$ 57,910,157**
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	**53,638,802**
2011	39,809,995	2,173,056	4,136,576	3,171,603	1,888,225	**51,179,455**
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**



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

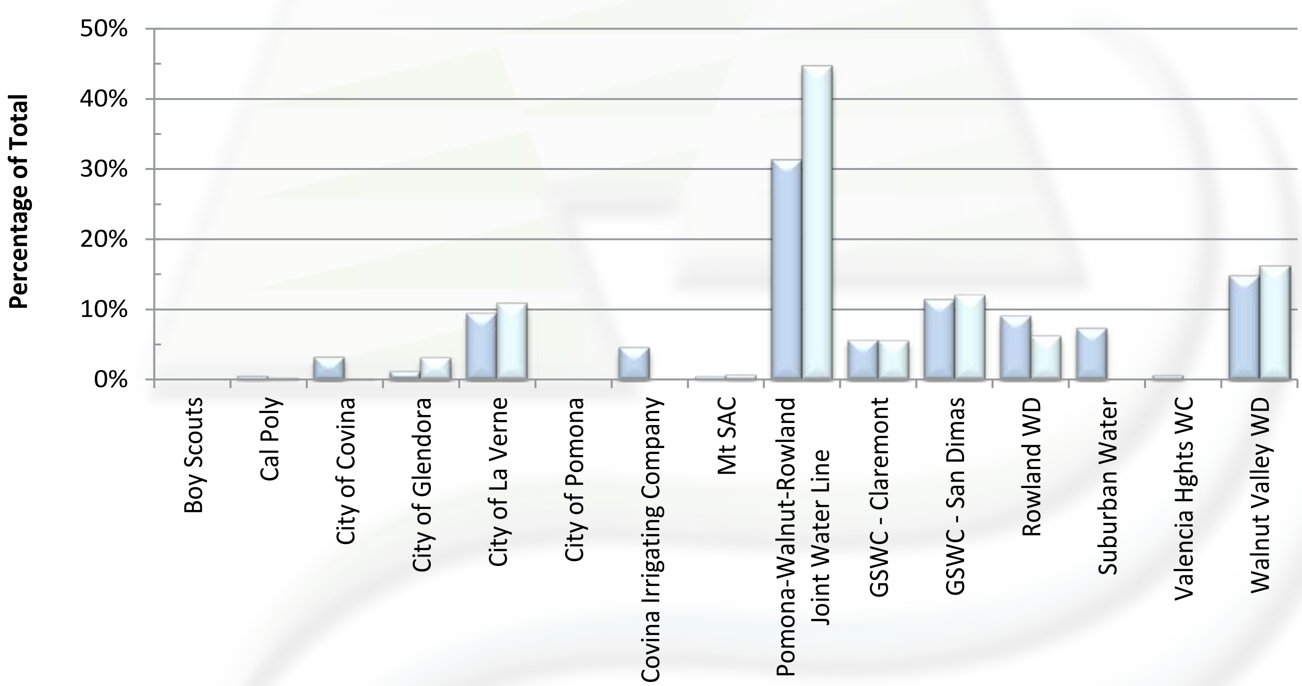
NOTE: Revenues and expenses in prior years may be reclassified to conform to current year presentation.

SOURCE: TVMWD - Finance Department

SCHEDULE 5

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

Member Agency	Acre Feet Sold FY 2016	Percentage of total	Acre Feet Sold FY 2007	Percentage of total
Boy Scouts of America - Firestone Reservation	13	**0.03%**	41	**0.06%**
California State Polytechnic University, Pomona	276	**0.50%**	180	**0.26%**
City of Covina	1,791	**3.24%**	61	**0.09%**
City of Glendora	654	**1.18%**	2,189	**3.16%**
City of La Verne	5,269	**9.54%**	7,573	**10.92%**
City of Pomona	-	**0.00%**	-	**0.00%**
Covina Irrigating Company	2,548	**4.61%**	-	**0.00%**
Mt. San Antonio College	240	**0.44%**	474	**0.68%**
Pomona-Walnut-Rowland Joint Water Line	17,302	**31.32%**	30,953	**44.64%**
Golden State Water Company - Claremont	3,147	**5.70%**	3,865	**5.57%**
Golden State Water Company - San Dimas	6,349	**11.49%**	8,389	**12.10%**
Rowland Water District	5,050	**9.14%**	4,350	**6.27%**
Suburban Water Systems	4,057	**7.35%**	-	**0.00%**
Valencia Heights Water Company	332	**0.60%**	-	**0.00%**
Walnut Valley Water District	8,209	**14.86%**	11,270	**16.25%**
	55,237	**100.00%**	69,345	**100.00%**

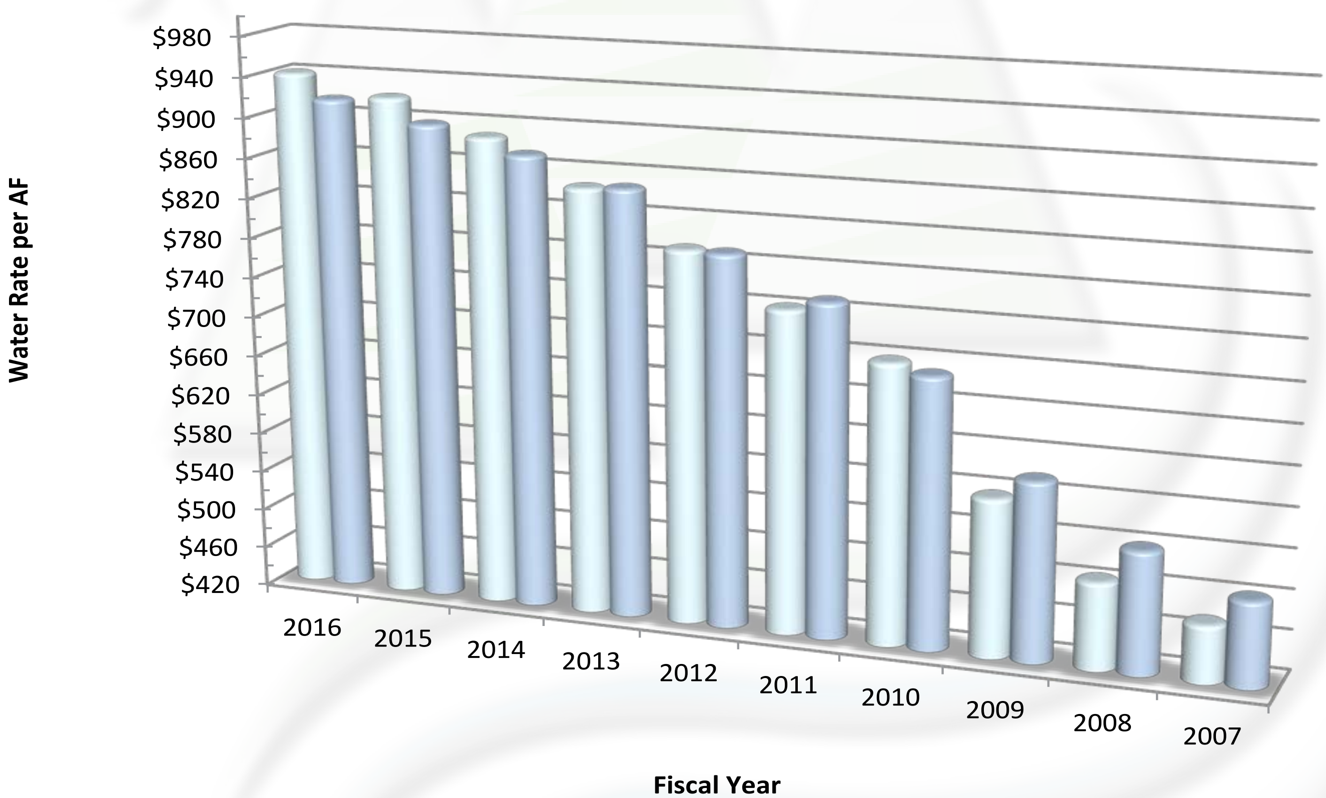


SOURCE: TVMWD - Finance Department

SCHEDULE 6

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

Calendar Year	MWD Water Rate	TVMWD Water Rate
2016	$ 942	$ 918
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



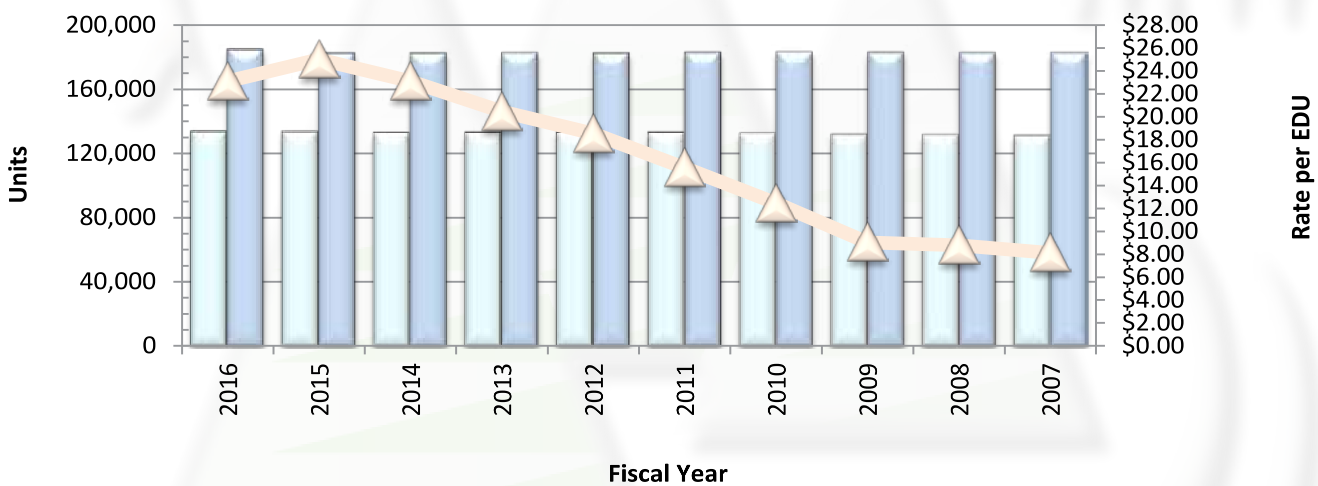
Note: All amounts are per acre foot.

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
2016	133,949	185,144.00	$23.09
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]



[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.

SOURCE: TVMWD - Finance Department

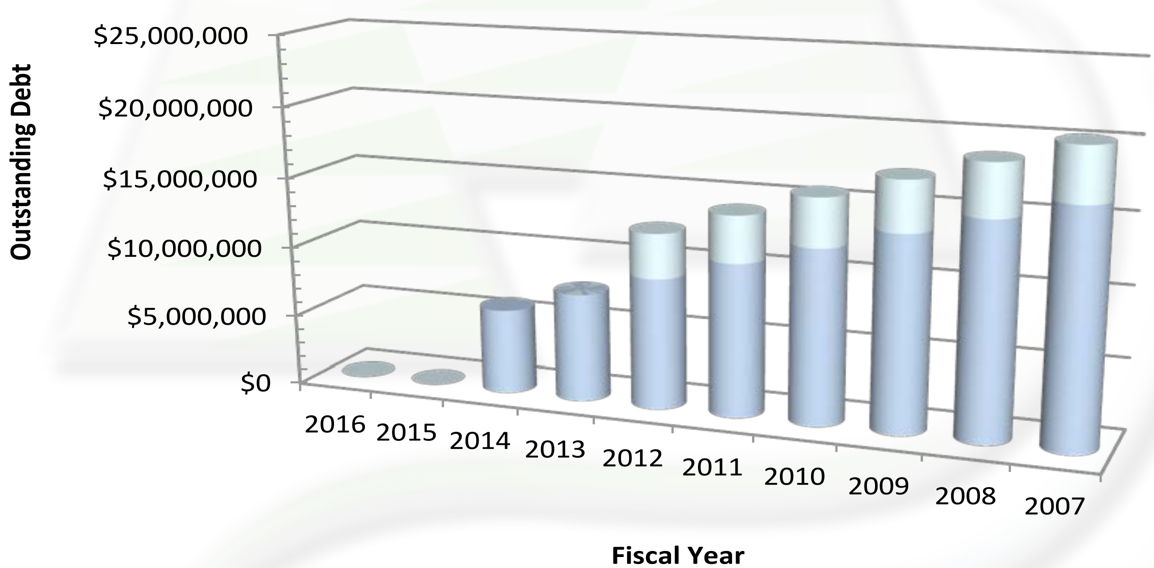
SCHEDULE 8

Three Valleys Muncipal 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
2016	**$ -**	**$ -**	$ -	0.00%
2015	**-**	**-**	-	0.00%
2014	**6,000,000**	**-**	11.77	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	0.09%



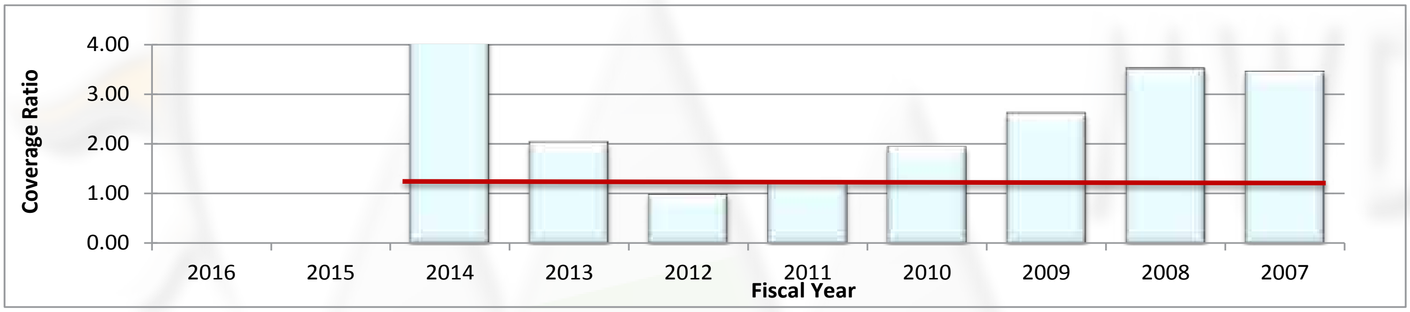
SOURCE: TVMWD - Finance Department

SCHEDULE 9

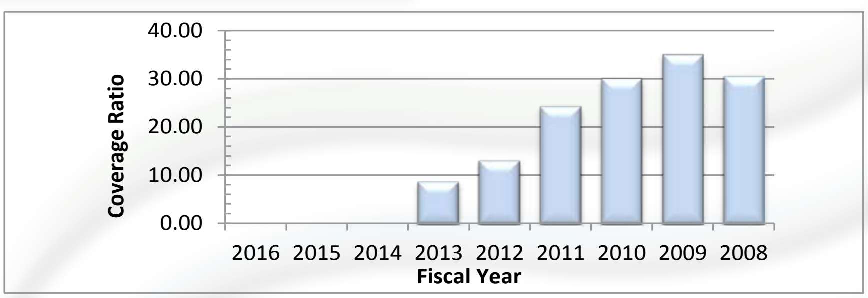
Three Valleys Municipal Water District
Debt Coverage
Last Ten Fiscal Years

2003 COP

Fiscal Year	Revenues[1]	Expenses[2]	Net Available Revenue	Debt Service Principal	Debt Service Interest	Total	Coverage Ratio[3]
2016	$ 57,668,990	$ 55,692,302	$1,976,687	$ -	$ -	$ -	0.00
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



Fiscal Year	Unencumbered Cash and Cash Equivalents	Debt Service Principal	Debt Service Interest	Total	Coverage Ratio[3]
2016	$ 3,728,324	$ -	$ -	$ -	**0.00**
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 1.15 is now 0 because debt has been fully repaid.

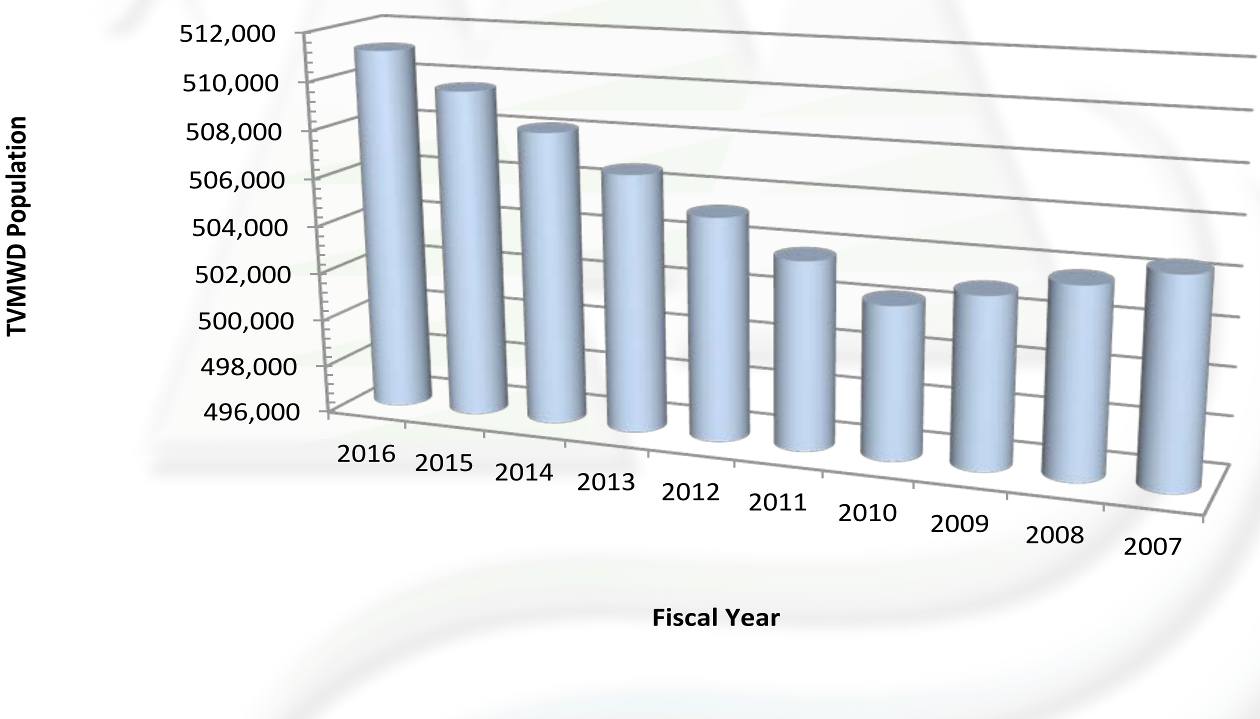
NOTE: Revenues and expenses in prior years may be reclassified to conform to current year presentation.

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
2016	511,129	6.2%	10,253,500	545,100,000	53,200
2015	509,655	6.9%	10,192,400	521,900,000	51,200
2014	508,186	8.3%	10,123,700	499,200,000	49,400
2013	506,721	9.8%	10,056,400	478,400,000	47,580
2012	505,260	10.9%	9,946,900	475,900,000	47,713
2011	503,803	12.2%	9,902,600	441,700,000	44,627
2010	502,351	12.5%	9,839,400	418,000,000	42,540
2009	503,077	11.6%	9,805,200	408,300,000	41,714
2008	503,804	7.6%	9,796,800	424,800,000	43,633
2007	504,530	5.1%	9,773,900	409,200,000	42,187



[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.

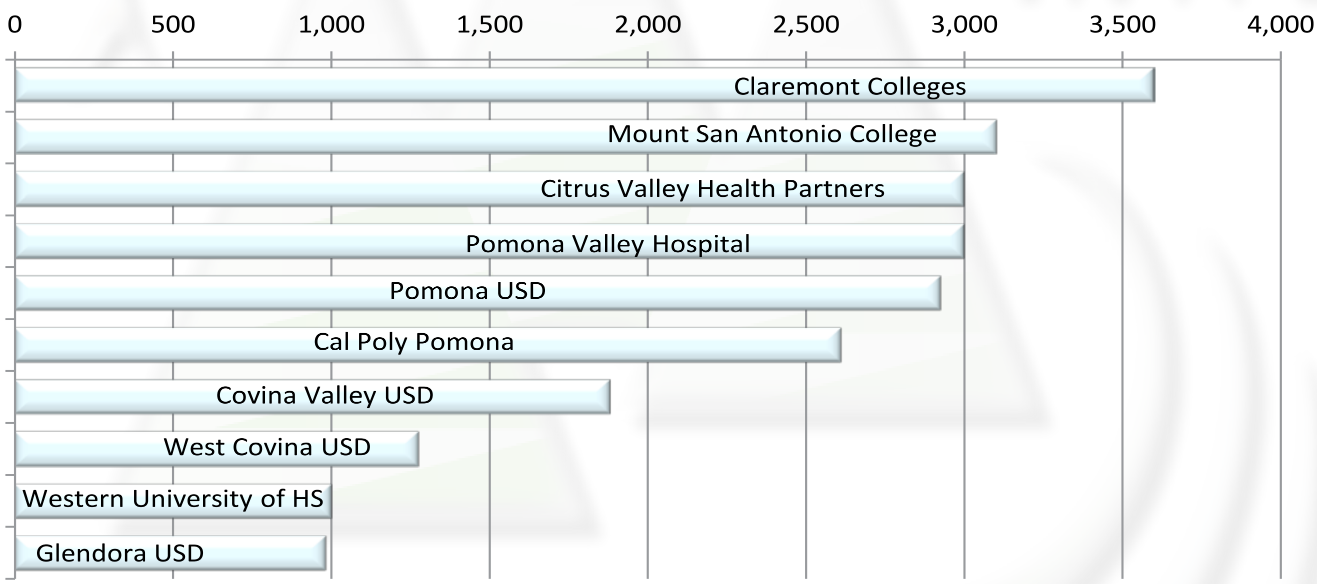
NOTE: Certain economic indicators such as unemployment rate and personal income are not calculated separately for TVMWD. Therefore, TVMWD has chosen to use the County of Los Angeles data, which is representative of the conditions and experiences of TVMWD.

SOURCES: LAEDC 2016-2020 Economic Forecast and Indutry Outlook September 2016

SCHEDULE 11

Three Valleys Municipal Water District
Principal Employers
Calendar Year 2016

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	2,926	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	Western University of Health Sciences	1,002	0.5%
10	Glendora Unified School District	984	0.5%



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

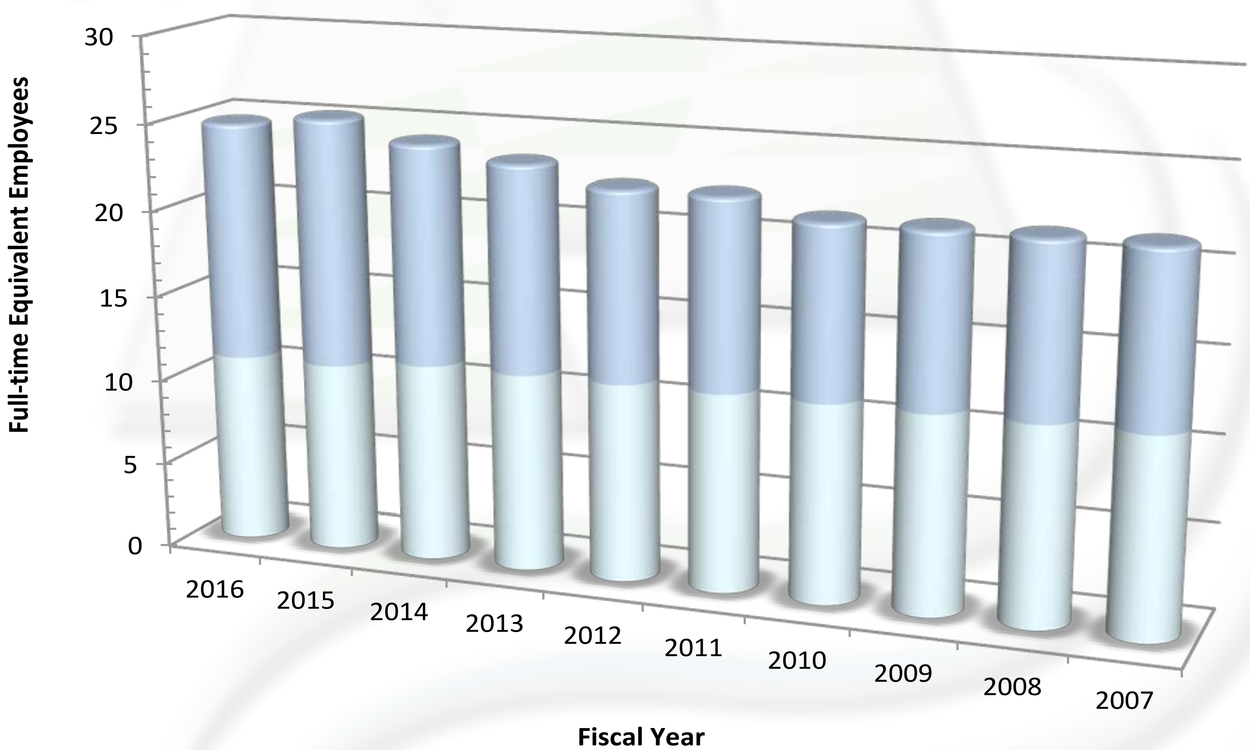
NOTE: The percentage of total employment is based on an estimate of 195,000 jobs in TVMWD's area.

SOURCE: City websites served by TVMWD

SCHEDULE 12

Three Valleys Muncipal Water District
Personnel Trends
Last Ten Fiscal Years

Fiscal Year	Full-time Equivalent Employees by Department		
	Administration	**Operations**	**TOTAL**
2016	**11.00**	**13.75**	24.75
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

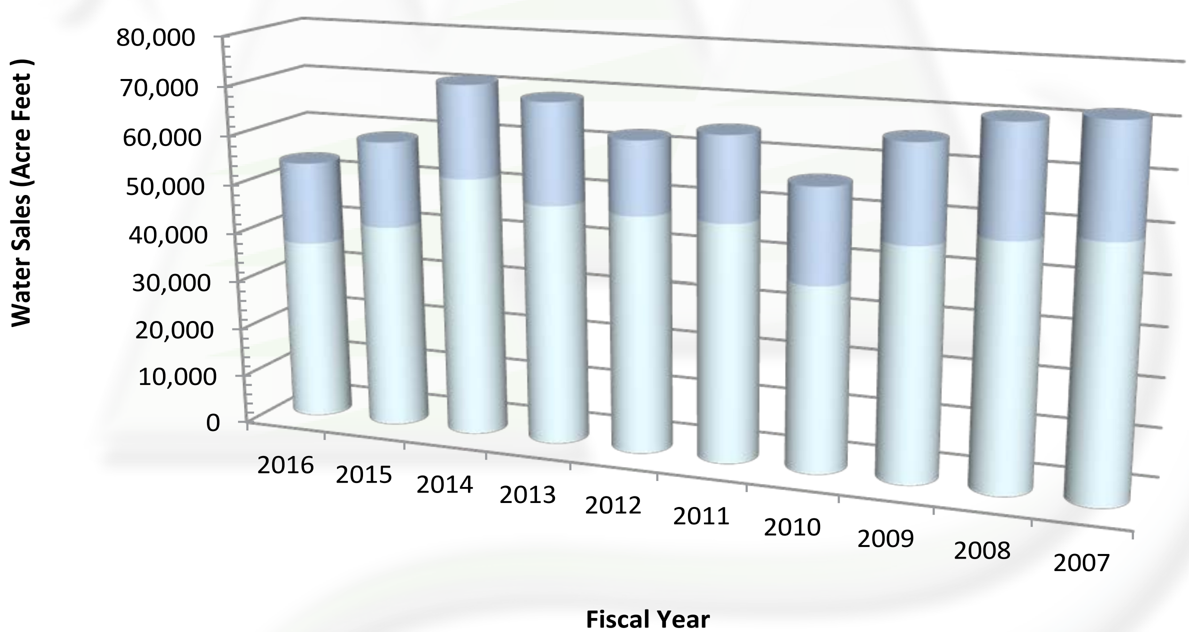


SOURCE: TVMWD - Finance Department

SCHEDULE 13

Three Valleys Muncipal 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
2016	36,739	16,710	53,449
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



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

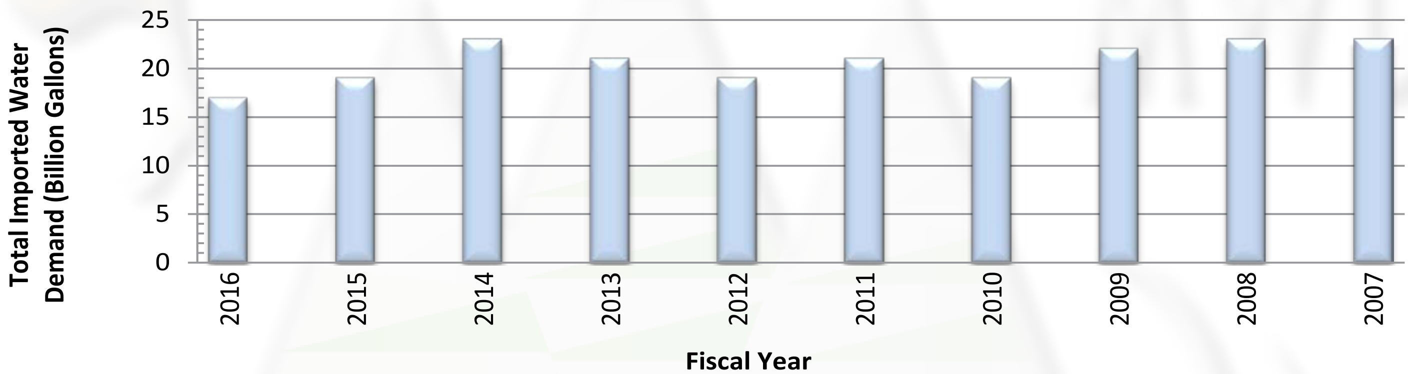
SOURCE: TVMWD - Finance Department

SCHEDULE 14

Three Valleys Muncipal Water District

Miscellaneous Operating Statistics
Last Ten Fiscal Years

	FISCAL YEAR									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
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)	51,660	57,116	70,061	64,858	59,471	64,193	55,737	66,015	70,850	72,303
Imported (billion gallons)	**17**	**19**	**23**	**21**	**19**	**21**	**19**	**22**	**23**	**23**
Local (groundwater, recycled) (Acre-feet)	46,033	52,935	66,484	55,957	55,643	57,301	52,426	43,260	49,200	54,509
Local (groundwater, recycled) (billion gallons)	15	17	22	18	18	19	17	14	16	16
Total water demand	97,693	110,051	136,545	120,815	115,114	121,494	108,163	109,275	120,050	126,812



	FISCAL YEAR									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
MIRAMAR WATER AND HYDROELECTRIC FACILITIES:										
Length of pipeline (in miles)	10	10	10	10	10	10	10	10	10	10
Annual production (Acre-feet)	16,710	17,458	18,791	20,508	14,870	17,096	18,980	19,419	21,868	22,034
Annual production (billion gallons)	5	6	6	7	5	6	7	7	6	7
Number of connections	13	12	12	12	12	12	12	12	12	11
Hydroelectric Facilities										
Number of generating stations	5	3	3	3	3	3	3	3	3	3
Average annual generation (kW)	**484**	**530**	**548**	**590**	**501**	**617**	**657**	**661**	**596**	**609**

SOURCE: TVMWD - Finance Department

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
- MTP – Miramar Transmission Pipeline
- 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

THREE VALLEYS MWD

Carlsbad Desalination Plant Tour

FACILITIES TOUR

Three Valleys Municipal Water District

1021 East Miramar Avenue
Claremont, California 91711-2052

Phone: (909) 621-5568
Fax: (909) 625-5470

www.threevalleys.com