



Comprehensive Annual Financial Report

Fiscal Year Ending

June 30, 2014

CUCAMONGA VALLEY WATER DISTRICT

10440 Ashford Street
Rancho Cucamonga, CA 91730

General Manager/CEO
Martin E. Zvirbulis, PE

Chief Financial Officer
Carrie Corder, CPA

Assistant General Manager
Jo Lynne Russo-Pereyra

Chief Operating Officer
John Bosler, PE

Prepared by:
Finance Division
Chad Brantley, CPA
Finance Officer

**Cucamonga Valley Water District
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2014**

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Introductory Section



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

Martin E. Zvirbulis
Secretary / General Manager/CEO

November 18, 2014

Members of the Board of Directors
Cucamonga Valley Water District

Introduction

State law requires that every general-purpose government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published to fulfill that requirement for the fiscal year ended June 30, 2014.

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

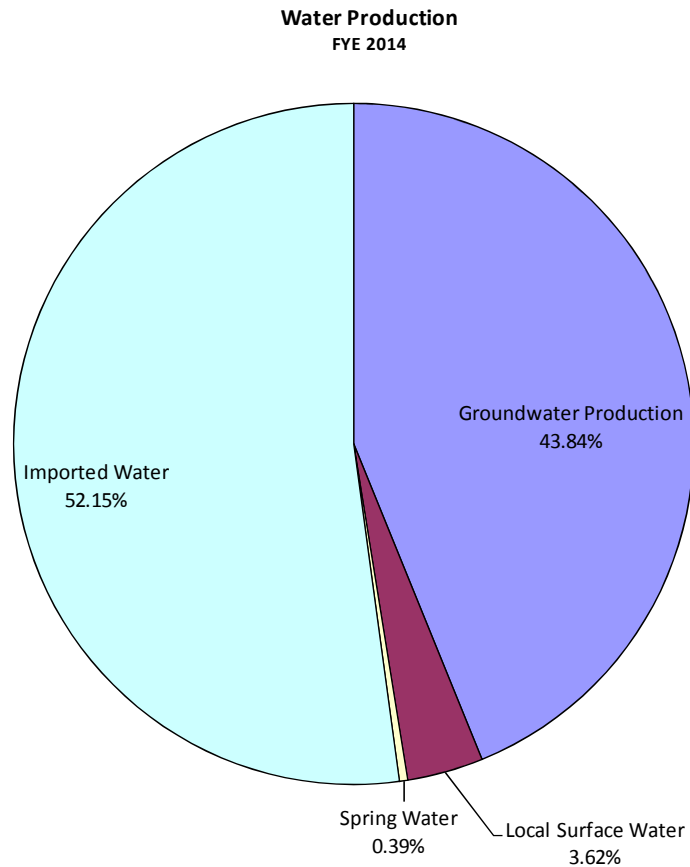
Lance, Soll & Lungard, LLP has issued an unmodified (“clean”) opinion on the District’s financial statements for the year ended June 30, 2014. The independent auditor’s report is located at the front of the financial section of this report.

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

Profile of the District

The Cucamonga Valley Water District (the “District” or “CVWD”) is an independent special district that operates under the authority of Division 12 of the California Water Code. The District was incorporated on March 25, 1955, and is governed by a five-member, elected Board of Directors. The District provides water, wastewater, and recycled water services to a population of approximately 186,000 within its 47 square mile service area, which is located in the western area of San Bernardino County, California. The District encompasses the majority of the community of Rancho Cucamonga and portions of the cities of Fontana, Ontario, Upland, and some of the unincorporated areas of San Bernardino County.

Residential customers make up approximately 89% of the District’s customer base and consume approximately 57% of the water produced annually by the District. The District currently has a total of 28 groundwater wells, of which 19 are in service with a maximum production capacity of approximately 28,000 gallons per minute (or an annual production equivalent of 45,164 acre-feet). In addition, the District has surface and subsurface water rights in four local canyon watersheds with an annual production in 2014 of 2,216 acre-feet. Lastly, untreated imported water from the Sacramento-San Joaquin River Delta through the State Water Project makes up the third source of water available to the District. In 2014, the District purchased 28,825 acre-feet of imported water. The following chart illustrates the water production sources.



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

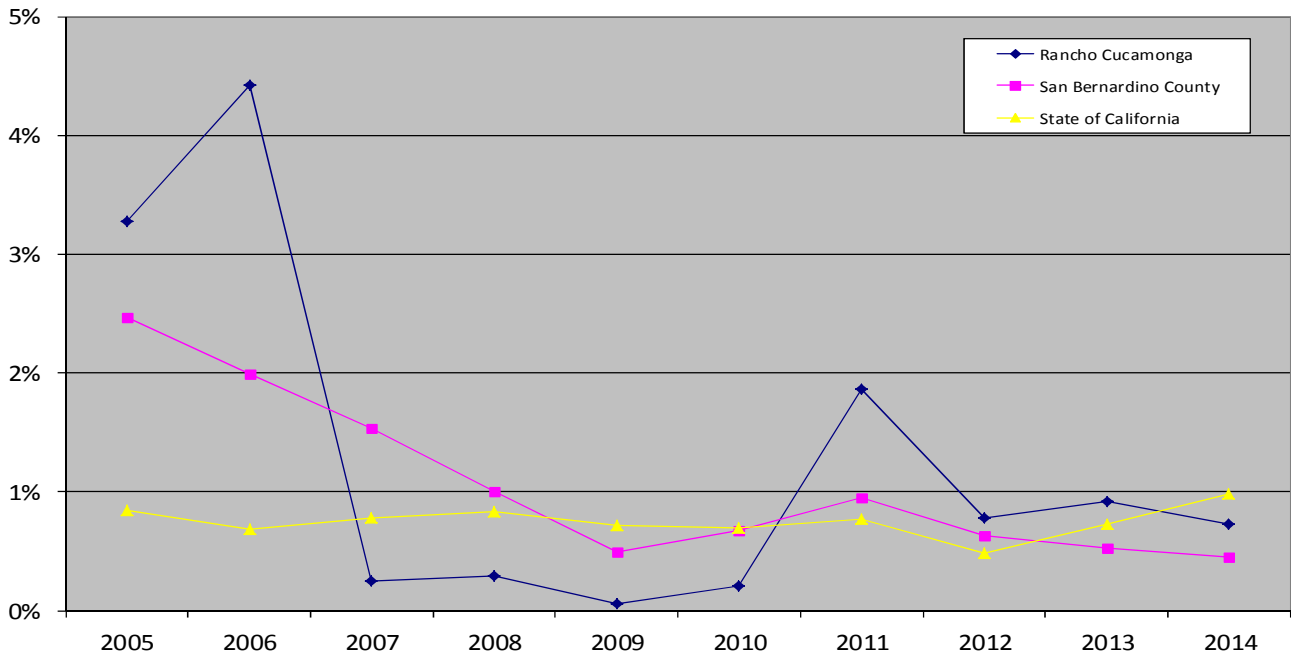
Fiscal Management

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

Local Economy

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

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



The economics of the communities served by the District are heavily influenced by the construction industry which has been steadily recovering from the recession of 2008 through 2010. From 2003 to 2008, the District grew in terms of number of customers at an average rate of over 2.0% per year. However, in 2009 through 2012 the District rate of growth fell to less than 0.5% per year. In 2013 and 2014, the area has shown signs of a recovery with growth of around 0.5% per year.

The decline in the housing market had a negative impact on growth in the region. Foreclosures in the District peaked in 2009 at 960 homes. Since that time, the number of foreclosures has decreased dramatically. There have been 50 foreclosures during the first six months of 2014. Unemployment rates have also been affected by the housing market and the construction industry. In 2006, the unemployment rate in Rancho Cucamonga was at a ten-year low of 3.1%. However, unemployment rates increased to a high of 9.3% in 2010. Unemployment has since fallen to a rate of 5.4% in June of 2014, which is lower than the region as well as the state of California.

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

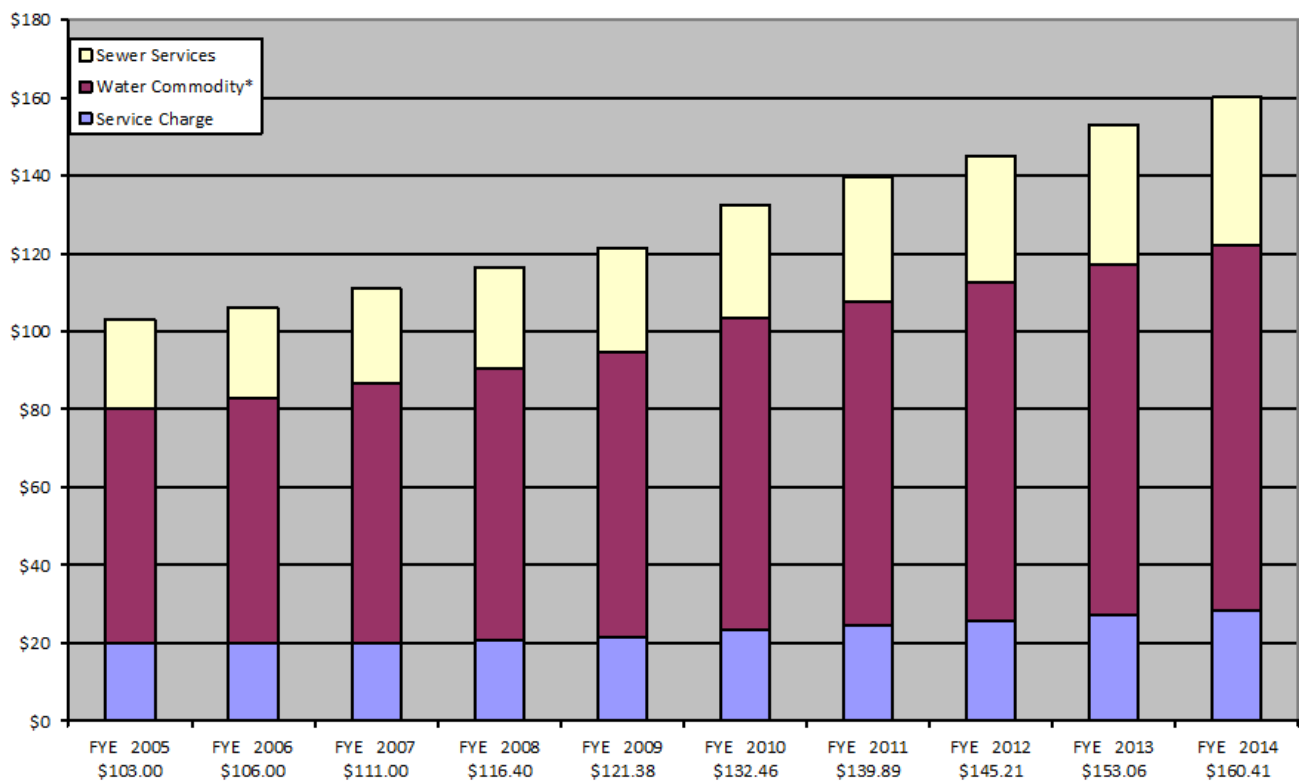
During the past five years, the District’s expenses related to source of supply have remained stable averaging approximately 26% of the District’s total operating expenses despite the fact that the District has grown 2% over the last 5 years. Production fell each year from 2008 through 2011 but increased in 2012 through 2014. Improvements in economic conditions and less rainfall in 2014 contributed to the increased demand for water this year. In 2008, production per customer was 1.21 acre feet. In 2012, that number hit a low point of 1.03 acre feet but in 2013 has increased to 1.06 acre feet per customer.

During this same five-year period, charges for services fluctuated based on demand. Water sales revenues have increased by approximately 5.9% per year on average. This increase is primarily due to an increase in water

rates of 5% per year but can also be attributed to a small increase in total water service connections of .4% per year and a small increase in use per customer in 2013. Meter charge revenue has increased by approximately 6.0% per year on average and water service revenue has increased 4% per year on average.

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

Average Residential Bi-Monthly Bill by Year



* Based on water service supplied by a 3/4" water meter and using 50 hcf per billing period (1 hcf = 748.10 gallons)

Long-term Financial Planning

The District’s financial plan includes the establishment of reserve funds in accordance with the District’s Reserve and Benchmark Policy. Reserve funds are set to ensure the continued orderly operation of the District’s water, recycled water and sewer systems, the provision of services to customers at established levels, and the continued stability of the District’s rate structure. The District has committed to the following funds and objectives in the Reserve Policy; as of June 30, 2014.

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

Debt Administration

The District has earned and maintained for 2014 a debt rating of “AA” on the five Certificates of Participation and “AA-” on the Revenue Bonds from Standard and Poor’s . The District’s outstanding debt as of June 30, 2014 consists of five Certificate of Participation Issuances (C.O.P.’s) and one Revenue Bond, as follows:

Year of Issuance	Use of Proceeds
2003 C.O.P.’s	Provided funds to defease the 1994 C.O.P.’s.
2006 C.O.P.’s	Provided funds for expansion of the District's administrative facilities, well and reservoir acquisition, and other improvements to District facilities.
2009 C.O.P.’s	Provided funds for construction of the Frontier Project, well and reservoir acquisition, and other improvements to District facilities.
2009 Clean Renewable Energy Bonds	Provided funding related to renewable energy installations in the District's Frontier Project building
2011 C.O.P.’s	Provided funds to defease the 2000 C.O.P.’s and the 2001 C.O.P.’s.
2012 Revenue Bonds	Provided funds for construction of improvements to water treatment plants and other District facilities

Relevant Financial Policies

Internal Control Structure

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

Major Initiatives

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

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

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

Award for Excellence in Financial Reporting

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Cucamonga Valley Water District for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2013. This was the twelfth consecutive year that the District has received this prestigious award. In order to be awarded a Certificate of Achievement, the District published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

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

Acknowledgements

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

Respectfully submitted,



Martin Zvirbulis
General Manager/CEO



Carrie Corder
Chief Financial Officer

Cucamonga Valley Water District Board of Directors and Executive Staff



Oscar Gonzalez, *President*



James V. Curatalo, *Vice President*



Randall James Reed, *Director*



Kathleen Tiegs, *Director*



Luis Cetina, *Director*



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



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



**John Bosler
*Chief Operating Officer***



**Carrie Corder
*Chief Financial Officer***

Our Mission

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

Vision

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



Culture & Values

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



Government Finance Officers Association

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

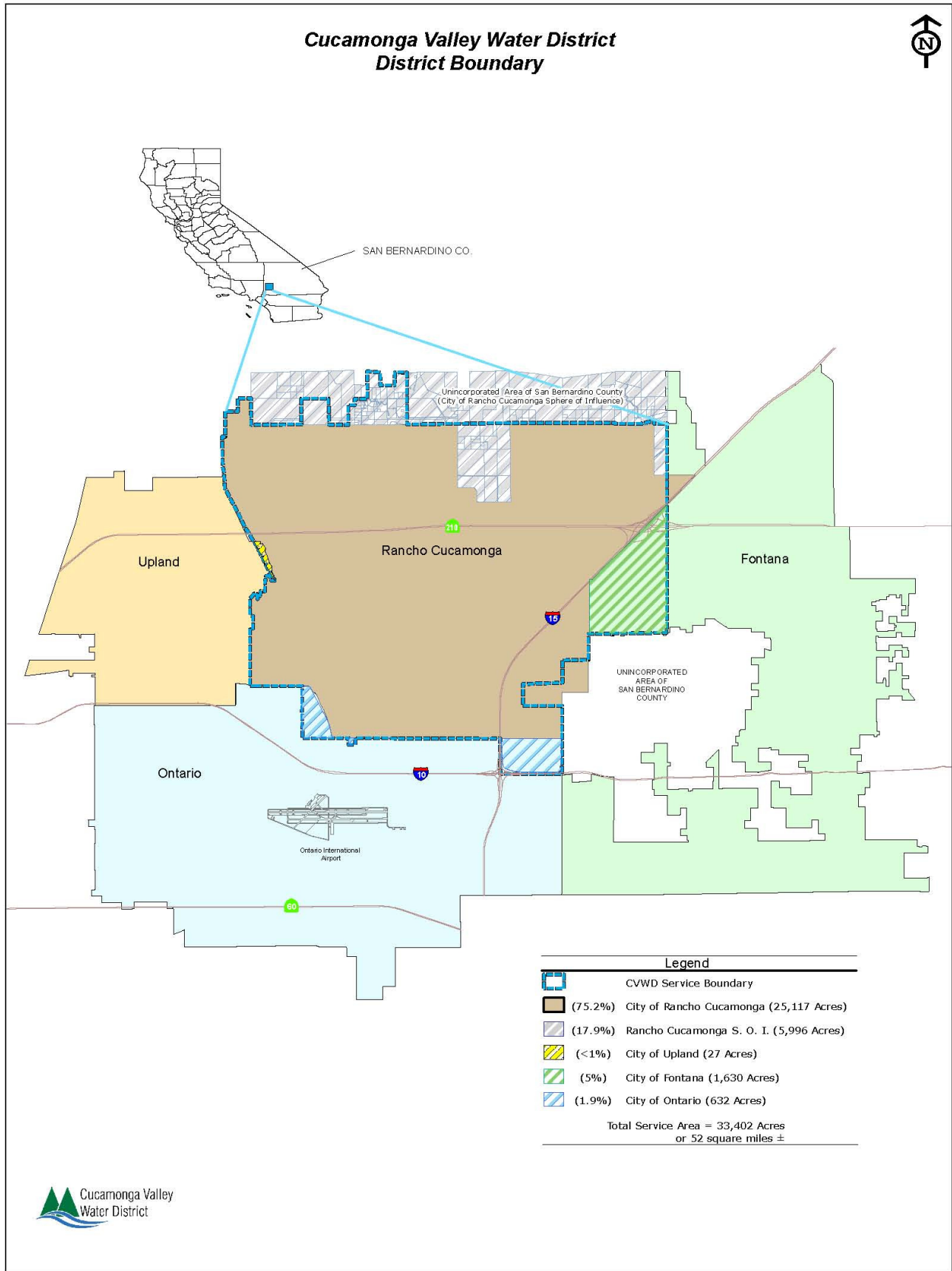
Presented to

**Cucamonga Valley Water District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO



Updated 02/22/2008

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Financial Section

INDEPENDENT AUDITORS' REPORT

Board of Directors
Cucamonga Valley Water District
Rancho Cucamonga, California

Report on Financial Statements

We have audited the accompanying financial statements of each major fund of Cucamonga Valley Water District, California (the District) as of and for the year ended June 30, 2014, 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 Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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.



Board of Directors
Cucamonga Valley Water District
Rancho Cucamonga, California

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the each major fund of the Cucamonga Valley Water District, California (the District) as of June 30, 2014, and the respective changes in financial position and, where applicable, 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 and other required supplementary information as listed in the table of contents 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 section and statistical section 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Brea, California
October 16, 2014

CUCAMONGA VALLEY WATER DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2014

This section of the District's annual financial report presents our analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the basic financial statements, which follow this section.

Financial Highlights

- The District's net position increased by \$15,331 thousand or 5.21 percent.
- During the year the District's revenues increased to \$86,367 thousand or 9.33 percent, while expenses increased to \$76,389 thousand or 5.48 percent.
- Capital contributions to the District amounted to \$5,353 thousand.

Overview of the Financial Statements

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

Required Financial Statements

The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position (page 10) includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position (page 11). This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The final required financial statement is the Statement of Cash Flows (pages 12 and 13). The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

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

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

For the Year Ended June 30, 2014

Condensed Statement of Net Position

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

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

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change	Total Percent Change
Current and Noncurrent Assets	\$ 148,745	\$ 165,767	\$ (17,022)	(10.27)%
Capital Assets	400,199	370,586	29,613	7.99%
Total Assets	548,944	536,353	12,591	2.35%
Deferred outflows of resources	3,493	3,689	(196)	(5.31)%
Long-term Liabilities	207,836	213,574	(5,738)	(2.69)%
Other Liabilities	35,067	32,265	2,802	8.68%
Total Liabilities	242,903	245,839	(2,936)	(1.19)%
Net investment in Capital Assets	212,124	248,305	(36,181)	(14.57)%
Unrestricted	97,410	45,898	51,512	112.23%
Total Net Position	\$ 309,534	\$ 294,203	\$ 15,331	5.21%

As can be seen from the table above, net position increased \$15,331 thousand to \$309,534 thousand in fiscal year 2014, up from \$294,203 thousand in fiscal year 2013. The decrease in Current and Noncurrent Assets can be primarily attributed to a decrease in restricted cash and cash equivalents which is due to funds being expended for capital improvement projects. Conversely, Capital Assets increased due to this investment in capital improvement projects. Long term liabilities decreased due primarily to principal repayment of the Certificates of Participation, Revenue Bonds, capital leases, and the loan (see Note 7 to the Basic Financial Statements).

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

For the Year Ended June 30, 2014

Statement of Revenues, Expenses and Changes in Net Position

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

	Fiscal Year <u>2014</u>	Fiscal Year <u>2013</u>	Dollar Change	Total Percent Change
Operating Revenues:				
Water Sales	\$ 54,135	\$ 49,983	\$ 4,152	8.31%
Meter Charges	12,815	12,123	692	5.71%
Water Services	1,248	1,230	18	1.46%
Sewer Services	15,229	14,240	989	6.95%
Nonoperating Revenues:				
Investment income	930	208	722	347.12%
Rent and lease revenue	376	279	97	34.77%
Gain on disposal of assets	-	32	(32)	(100.00)%
Other nonoperating revenue	<u>1,634</u>	<u>900</u>	<u>734</u>	81.56%
Total Revenues	<u>86,367</u>	<u>78,995</u>	<u>7,372</u>	9.33%
Operating Expenses:				
Source of supply	21,287	18,006	3,281	18.22%
Pumping operations	5,708	5,491	217	3.95%
Water treatment	3,431	3,134	297	9.48%
Transmission and distribution	3,437	3,105	332	10.69%
Collection and transmission	11,623	11,117	506	4.55%
Customer accounts	2,116	2,045	71	3.47%
General and administrative	10,480	9,840	640	6.50%
Depreciation and amortization	9,811	10,203	(392)	(3.84)%
Nonoperating Expenses:				
Interest expense	7,322	8,494	(1,172)	(13.80)%
Amortization of deferred bond costs and refunding	(303)	9	(312)	(3466.67)%
Loss on disposal of assets	16	-	16	100.00%
Other nonoperating expenses	<u>1,461</u>	<u>979</u>	<u>482</u>	49.23%
Total Expenses	<u>76,389</u>	<u>72,423</u>	<u>3,966</u>	5.48%
Net Income/(Loss) Before				
Capital Contributions	9,978	6,572	3,406	51.83%
Capital Contributions	<u>5,353</u>	<u>3,165</u>	<u>2,188</u>	69.13%
Changes in Net Position	15,331	9,737	5,594	57.45%
Beginning Net Position	<u>294,203</u>	<u>284,466</u>	<u>9,737</u>	3.42%
Ending Net Position	<u>\$ 309,534</u>	<u>\$ 294,203</u>	<u>\$ 15,331</u>	5.21%

CUCAMONGA VALLEY WATER DISTRICT

Management's Discussion and Analysis, continued

For the Year Ended June 30, 2014

While the Statements of Net Position show the change in financial position, the Statements of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of these changes. As can be seen in Table A-2 on page 7, net income before capital contributions of \$9,978 thousand and capital contributions of \$5,353 thousand were the sources of the increase in Net Position of \$15,331 thousand in fiscal year 2014.

A closer examination of the source of changes in net position reveals that the District's revenues increased by \$7,372 thousand to \$86,367 thousand in fiscal year 2014 from \$78,995 thousand in fiscal year 2013 due primarily to increases in operating revenues. In particular, water sales increased \$4,152 thousand and meter charges increased \$692 thousand due to a slight increase in customer connections and a rate increase. The increase in operating expenses is related to an increase in imported water and electricity costs due to higher production.

Operating Revenues – Water Sales

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

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change	Total Percent Change
Customer Type:				
Domestic	\$ 34,048	\$ 32,271	\$ 1,777	5.51%
Irrigation and Landscape	12,625	11,424	1,201	10.51%
Other Water Agencies	4,228	3,709	519	13.99%
Industrial	2,281	2,110	171	8.10%
Construction	882	367	515	140.33%
Canyon Source Water	<u>71</u>	<u>102</u>	<u>(31)</u>	(30.39)%
Total Water Sales	<u>\$ 54,135</u>	<u>\$ 49,983</u>	<u>\$ 4,152</u>	8.31%

Domestic water sales for the fiscal year 2014 increased \$1,777 thousand due to a rate increase and increased water consumption. Irrigation, landscape and industrial water sales also increased due to a rate increase and increased water consumption. Sales to other water agencies increased \$519 thousand due to increased sales to San Gabriel Valley Water Company. Construction water sales increased \$515 due to higher building activity in the service area.

CUCAMONGA VALLEY WATER DISTRICT

Management's Discussion and Analysis, continued

For the Year Ended June 30, 2014

Capital Asset Administration

At June 30, 2014, the District had invested \$400,199 thousand in a broad range of infrastructure as shown in Table A-3.

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

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change	Total Percent Change
Non-Depreciable Assets:				
Land	\$ 4,565	\$ 4,565	\$ -	0.00%
Water Rights	92,872	92,872	-	0.00%
Construction in Progress	<u>45,004</u>	<u>14,044</u>	<u>30,960</u>	220.45%
Total Non-Depreciable Assets	<u>142,441</u>	<u>111,481</u>	<u>30,960</u>	27.77%
Depreciable Assets:				
Intangibles	299	441	(142)	(32.20)%
Source of Supply	24,211	23,330	881	3.78%
Pumping Plant	18,051	21,309	(3,258)	(15.29)%
Transmission and Distribution	189,923	186,405	3,518	1.89%
Treatment plant	58,269	57,487	782	1.36%
General Water	46,757	48,360	(1,603)	(3.31)%
Wastewater Reclamation	5,557	5,330	227	4.26%
Pumping Station	98	110	(12)	(10.91)%
Collection and Transmission	67,374	66,622	752	1.13%
General Sewer	9,198	10,523	(1,325)	(12.59)%
General Frontier Project	<u>100</u>	<u>100</u>	<u>-</u>	0.00%
Total Depreciable Assets	419,837	420,017	(180)	(0.04)%
Less: Accumulated Depreciation	<u>(162,079)</u>	<u>(160,912)</u>	<u>(1,167)</u>	(0.73)%
Net Depreciable Assets	<u>257,758</u>	<u>259,105</u>	<u>(1,347)</u>	(0.52)%
Total Capital Assets, Net	<u>\$ 400,199</u>	<u>\$ 370,586</u>	<u>\$ 29,613</u>	7.99%

The following is a summary of some of the major improvements to the system during fiscal year 2014. This year's major capital asset additions include (in thousands of dollars):

Various water distribution mains	\$ 3,621
Buildings and equipment	1,655
Various developer water and sewer infrastructure	1,365
Wells	881
Various sewer collection and transmission mains	771
Various water treatment facilities	783
Pumps and pumping equipment	543
Recycled water distribution mains and connections	227

CUCAMONGA VALLEY WATER DISTRICT

Management's Discussion and Analysis, continued

For the Year Ended June 30, 2014

In table A-4, the District's fiscal year 2015 Capital Budget projects spending another \$16,498 thousand for capital projects, principally for a treatment plant upgrade, pumps and pumping equipment, operations and maintenance facility, new water mains, and reservoir improvements. The District believes these projects can be financed from available resources provided by projected cash flows and proceeds from debt issuances. More information about the District's Capital Assets is presented in Note 5 of the Notes to Basic Financial Statements.

TABLE A-4
Fiscal Year 2015 Capital Budget
(In thousands of dollars)

Depreciable Assets:		
Source of Supply	\$	375
Pumping Plant		4,835
Reservoirs		2,704
Transmission and Distribution		2,626
Treatment plant		2,991
General Water		1,510
Recycled Water Distribution		150
Sewer Collection and Transmission		902
General Sewer		<u>405</u>
Total Depreciable Assets		16,498
Less: Accumulated Depreciation		<u>(9,650)</u>
Total Fiscal Year 2015 Capital Budget, Net	\$	<u><u>6,848</u></u>

Debt Administration

During the year, the District's long-term debt decreased \$5,670 thousand which can be attributed the normal debt principal repayments. Additional information on long term debt is presented in Note 7 to Basic Financial Statements.

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

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change
Net Certificates of Participation	\$ 164,184	\$ 168,860	\$ (4,676)
Net Revenue Bonds	40,797	41,615	(818)
Leases Payable	4,202	4,947	(745)
Loan Payable	553	588	(35)
Compensated Absences	1,697	1,581	116
Net OPEB Obligation	2,670	2,324	346
Net Excess Benefit Obligation	<u>376</u>	<u>234</u>	<u>142</u>
Total Long-term debt	<u>\$ 214,479</u>	<u>\$ 220,149</u>	<u>\$ (5,670)</u>

CUCAMONGA VALLEY WATER DISTRICT

Management's Discussion and Analysis, continued

For the Year Ended June 30, 2014

Economic Factors and Next Year's Budget and Rates

The District's Board of Directors and management considered many factors when setting the fiscal year 2014 budget, user fees, and charges.

These indicators were taken into consideration when adopting the District's budget for year 2015.

TABLE A-6
Fiscal Year 2014 Actual vs. Fiscal Year 2015 Budget
(In thousands of dollars)

	Actual Fiscal Year 2014	Budget Fiscal Year 2015	Dollar Change	Total Percent Change
Operating Revenues	\$ 83,427	\$ 81,877	\$ (1,550)	(1.86)%
Nonoperating Revenues	<u>2,940</u>	<u>1,673</u>	<u>(1,267)</u>	(43.10)%
Total Revenues	<u>86,367</u>	<u>83,550</u>	<u>(2,817)</u>	(3.26)%
Depreciation Expense	9,811	9,650	(161)	(1.64)%
Other Operating Expenses	58,082	62,782	4,700	8.09%
Nonoperating Expenses	<u>8,496</u>	<u>15,292</u>	<u>6,796</u>	79.99%
Total Expenses	<u>76,389</u>	<u>87,724</u>	<u>11,335</u>	14.84%
Net Income/(Loss) Before Capital Contributions	9,978	(4,174)	(14,152)	(141.83)%
Capital Contributions	<u>5,353</u>	<u>5,050</u>	<u>(303)</u>	(5.66)%
Changes in Net Position	15,331	876	(14,455)	(94.29)%
Beginning Net Position	<u>294,203</u>	<u>309,534</u>	<u>15,331</u>	5.21%
Total Net Position	<u>\$ 309,534</u>	<u>\$ 310,410</u>	<u>\$ 876</u>	0.28%

Contacting the District's Director of Financial and Administrative Services

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

CUCAMONGA VALLEY WATER DISTRICT

Statement of Net Position

June 30, 2014

	Water Utility Fund	Sewer Utility Fund	Recycled Water Utility Fund	Frontier Project Foundation	Totals
CURRENT ASSETS:					
Cash and cash equivalents (note 2)	\$ 18,833,222	\$ 12,441,329	\$ -	\$ 58,010	\$ 31,332,561
Investments (note 2)	21,683,428	24,256,038	-	-	45,939,466
Customer receivables, net	16,920,287	1,623,818	261,294	-	18,805,399
Accounts receivable	3,158,420	916,026	-	32,150	4,106,596
Due from other funds (note 6)	1,307,219	-	-	-	1,307,219
Accrued interest	134,926	40,168	-	-	175,094
Prepaid pension asset (note 14)	1,051,069	224,807	-	-	1,275,876
Prepaid expense and deposit	713,469	84,375	2,750	-	800,594
Inventories	888,339	-	-	-	888,339
TOTAL CURRENT ASSETS	64,690,379	39,586,561	264,044	90,160	104,631,144
NONCURRENT ASSETS:					
Restricted Cash and cash equivalents (note 2 & 3)	21,108,267	8,831,382	-	-	29,939,649
Water in storage (note 4)	13,387,594	-	-	-	13,387,594
Prepaid bond insurance	787,100	-	-	-	787,100
Capital assets (note 5):					
Non-depreciable capital assets	142,338,935	85,313	16,319	-	142,440,567
Depreciable capital assets, net	209,328,723	43,463,364	4,937,213	28,869	257,758,169
TOTAL NONCURRENT ASSETS	386,950,619	52,380,059	4,953,532	28,869	444,313,079
TOTAL ASSETS	451,640,998	91,966,620	5,217,576	119,029	548,944,223
DEFERRED OUTFLOWS OF RESOURCES:					
Deferred charge on refunding	3,493,430	-	-	-	3,493,430
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,493,430	-	-	-	3,493,430
LIABILITIES:					
Current:					
Accounts payable	7,787,125	3,003,644	83,609	9,564	10,883,942
Interest payable	3,051,318	-	-	-	3,051,318
Accrued expense payable	2,406,224	123,537	6,784	-	2,536,545
Unearned revenue	302,837	-	-	70,600	373,437
Customer deposits	1,440,217	-	-	-	1,440,217
Due to other funds (note 6)	-	-	1,307,219	-	1,307,219
Intergovernmental payable (note 8)	-	8,831,382	-	-	8,831,382
Lease payable (note 7)	745,485	-	-	-	745,485
Compensated absences payable (note 7)	650,955	133,696	9,560	-	794,211
Certificates of participation (note 7)	4,364,286	-	-	-	4,364,286
Revenue bonds (note 7)	705,000	-	-	-	705,000
Loans Payable (note 7)	-	-	34,384	-	34,384
Total current liabilities	21,453,447	12,092,259	1,441,556	80,164	35,067,426
Noncurrent:					
Net other post-employment benefits obligation (notes 7 & 16)	2,168,656	470,943	30,716	-	2,670,315
Net excess benefit pension plan obligation (notes 7 & 15)	310,076	65,575	-	-	375,651
Lease payable (note 7)	3,456,964	-	-	-	3,456,964
Compensated absences payable (note 7)	739,738	151,932	10,862	-	902,532
Certificates of participation, net (note 7)	159,819,550	-	-	-	159,819,550
Revenue bonds, net (note 7)	40,092,192	-	-	-	40,092,192
Loans Payable (note 7)	-	-	518,817	-	518,817
Total noncurrent liabilities	206,587,176	688,450	560,395	-	207,836,021
TOTAL LIABILITIES	228,040,623	12,780,709	2,001,951	80,164	242,903,447
NET POSITION:					
Net investment in capital assets (note 9)	163,592,448	43,548,677	4,953,532	28,869	212,123,526
Unrestricted (note 10)	63,501,357	35,637,234	(1,737,907)	9,996	97,410,680
TOTAL NET POSITION	\$ 227,093,805	\$ 79,185,911	\$ 3,215,625	\$ 38,865	\$ 309,534,206

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

CUCAMONGA VALLEY WATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2014

	Water Utility Fund	Sewer Utility Fund	Recycled Water Utility Fund	Frontier Project Foundation	Totals
OPERATING REVENUES:					
Water Sales	\$ 53,066,253	\$ -	\$ 1,068,621	\$ -	\$ 54,134,874
Meter Charges	12,718,802	-	95,788	-	12,814,590
Water Services	1,247,246	-	939	-	1,248,185
Sewer Services	-	15,228,576	-	-	15,228,576
TOTAL OPERATING REVENUES	<u>67,032,301</u>	<u>15,228,576</u>	<u>1,165,348</u>	<u>-</u>	<u>83,426,225</u>
OPERATING EXPENSES:					
Source of supply	20,931,761	-	355,085	-	21,286,846
Pumping operations	5,707,682	-	-	-	5,707,682
Water treatment	3,431,498	-	-	-	3,431,498
Transmission and distribution	3,432,836	-	4,053	-	3,436,889
Collection and transmission	-	11,622,712	-	-	11,622,712
Customer accounts	1,820,018	295,174	463	-	2,115,655
General and administrative	8,981,820	1,267,623	170,879	59,433	10,479,755
Depreciation and amortization	8,064,224	1,621,167	109,665	15,986	9,811,042
TOTAL OPERATING EXPENSES	<u>52,369,839</u>	<u>14,806,676</u>	<u>640,145</u>	<u>75,419</u>	<u>67,892,079</u>
NET OPERATING INCOME (LOSS)	<u>14,662,462</u>	<u>421,900</u>	<u>525,203</u>	<u>(75,419)</u>	<u>15,534,146</u>
NONOPERATING REVENUES (EXPENSES):					
Investment income	716,104	213,837	-	-	929,941
Taxes and assessments	12	-	-	-	12
Rent and lease revenue	375,700	-	-	-	375,700
Interest expense	(7,321,246)	-	(435)	-	(7,321,681)
Amortization of deferred charge on refunding	303,225	-	-	-	303,225
Gain (loss) on disposal of assets	(7,267)	(9,259)	-	-	(16,526)
Other nonoperating revenues	1,562,686	13,496	-	57,951	1,634,133
Other nonoperating expenses	(1,294,471)	(166,166)	-	-	(1,460,637)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(5,665,257)</u>	<u>51,908</u>	<u>(435)</u>	<u>57,951</u>	<u>(5,555,833)</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	8,997,205	473,808	524,768	(17,468)	9,978,313
CAPITAL CONTRIBUTIONS (note 11)	4,010,839	1,341,802	-	-	5,352,641
TRANSFERS IN (note 6)	145,000	13,315	-	-	158,315
TRANSFERS OUT (note 6)	(13,315)	-	-	(145,000)	(158,315)
CHANGE IN NET POSITION	13,139,729	1,828,925	524,768	(162,468)	15,330,954
NET POSITION - BEGINNING	<u>213,954,076</u>	<u>77,356,986</u>	<u>2,690,857</u>	<u>201,333</u>	<u>294,203,252</u>
NET POSITION - ENDING	<u>\$ 227,093,805</u>	<u>\$ 79,185,911</u>	<u>\$ 3,215,625</u>	<u>\$ 38,865</u>	<u>\$ 309,534,206</u>

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

CUCAMONGA VALLEY WATER DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2014

	Water Utility Fund	Sewer Utility Fund	Recycled Water Utility Fund	Frontier Project Foundation	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers	\$ 62,506,220	\$ 15,034,638	\$ 1,780,395	\$ -	\$ 79,321,253
Receipts from others	(14,967)	-	-	50,926	35,959
Payment to suppliers	(37,966,413)	(10,910,864)	(469,235)	(88,272)	(49,434,784)
Payment to employees	(8,183,013)	(1,559,018)	(89,423)	-	(9,831,454)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>16,341,827</u>	<u>2,564,756</u>	<u>1,221,737</u>	<u>(37,346)</u>	<u>20,090,974</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Due to (due from) other funds	1,184,828	-	(1,184,828)	-	-
Other noncapital financing activities	1,562,686	13,496	-	35,951	1,612,133
Taxes and assessments	12	-	-	-	12
Transfers to/from other funds	131,685	13,315	-	(145,000)	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>2,879,211</u>	<u>26,811</u>	<u>(1,184,828)</u>	<u>(109,049)</u>	<u>1,612,145</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from debt issuance	-	-	-	-	-
Principal payments - Certificates of Participation	(4,954,285)	-	-	-	(4,954,285)
Principal payments - lease payable	(744,979)	-	-	-	(744,979)
Principal payments - loan payable	-	-	(34,358)	-	(34,358)
Interest expense	(9,387,003)	-	(435)	-	(9,387,438)
Proceeds from sale of equipment	1.00	-	-	-	1
Capital fees collected for/(paid to) Inland Empire Utilities Agency	-	1,901,701	-	-	1,901,701
Additions to utility plant	(35,334,150)	(711,856)	(2,115)	-	(36,048,121)
Other capital and related financing activities	(1,294,471)	(166,166)	-	-	(1,460,637)
Cash contributions received in aid of construction	3,109,898	877,727	-	-	3,987,625
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(48,604,989)</u>	<u>1,901,406</u>	<u>(36,908)</u>	<u>-</u>	<u>(46,740,491)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment income	949,843	286,072	-	-	1,235,915
Purchases of investments	(11,288,571)	(3,762,857)	-	-	(15,051,428)
Proceeds from sales and maturities of investments	10,729,057	3,300,349	-	-	14,029,406
Rent and lease revenue	375,700	-	-	-	375,700
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>766,029</u>	<u>(176,436)</u>	<u>-</u>	<u>-</u>	<u>589,593</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(28,617,922)</u>	<u>4,316,537</u>	<u>1</u>	<u>(146,395)</u>	<u>(24,447,779)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>68,559,413</u>	<u>16,956,174</u>	<u>-</u>	<u>204,405</u>	<u>85,719,992</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 39,941,491</u>	<u>\$ 21,272,711</u>	<u>\$ 1</u>	<u>\$ 58,010</u>	<u>\$ 61,272,213</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION:					
Cash and cash equivalents	\$ 18,833,222	\$ 12,441,329	\$ -	\$ 58,010	\$ 31,332,561
Cash and cash equivalents - restricted	21,108,267	8,831,382	-	-	29,939,649
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 39,941,499</u>	<u>\$ 21,272,711</u>	<u>\$ -</u>	<u>\$ 58,010</u>	<u>\$ 61,272,210</u>

(continued on next page)

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

CUCAMONGA VALLEY WATER DISTRICT

Statement of Cash Flows, continued

For the Year Ended June 30, 2014

	Water Utility Fund	Sewer Utility Fund	Recycled Water Utility Fund	Frontier Project Foundation	Totals
RECONCILIATION OF OPERATING					
INCOME (LOSS) TO NET CASH					
PROVIDED (USED) BY					
OPERATING ACTIVITIES:					
Operating income (Loss)	\$ 14,662,462	\$ 421,900	\$ 525,203	\$ (75,419)	\$ 15,534,146
Depreciation and amortization	8,064,224	1,621,167	109,665	15,986	9,811,042
Changes in assets and liabilities:					
(Increase) Decrease in customer receivables, net	(2,698,376)	126,887	(43,254)	-	(2,614,743)
(Increase) Decrease in accounts receivable	(1,959,502)	(320,825)	658,301	-	(1,622,026)
(Increase) Decrease in prepaid pension asset	234,797	50,047	-	-	284,844
(Increase) Decrease in prepaid expense and deposits	(208,983)	(33,680)	(2,750)	-	(245,413)
(Increase) Decrease in inventories	11,820	-	-	-	11,820
(Increase) Decrease in water in storage	(3,728,185)	-	-	-	(3,728,185)
Increase (Decrease) in accounts payable	125,534	713,902	(20,428)	(28,839)	790,169
Increase (Decrease) in accrued expense payable	1,238,242	(126,820)	(12,266)	-	1,099,156
Increase (Decrease) in deferred revenue	(14,967)	-	-	50,926	35,959
Increase (Decrease) in deposits payable	131,797	-	-	-	131,797
Increase (Decrease) in compensated absences payable	86,907	25,787	2,862	-	115,556
Increase (Decrease) in net other post-employment benefits obligation	278,936	61,812	4,404	-	345,152
Increase (Decrease) in net excess benefit pension plan obligation	117,121	24,579	-	-	141,700
NET CASH PROVIDED (USED) BY					
OPERATING ACTIVITIES	<u>\$ 16,341,827</u>	<u>\$ 2,564,756</u>	<u>\$ 1,221,737</u>	<u>\$ (37,346)</u>	<u>\$ 20,090,974</u>
NONCASH INVESTING, CAPITAL AND					
FINANCING ACTIVITIES:					
Contributions in aid of construction	\$ 900,941	\$ 464,075	\$ -	\$ -	\$ 1,365,016
Changes in fair value of investments	320,248	106,749	-	-	426,997
Amortization of deferred bond costs and refunding	303,225	-	-	-	303,225
NET NONCASH CAPITAL AND					
RELATED FINANCING ACTIVITIES	<u>\$ 1,524,414</u>	<u>\$ 570,824</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,095,238</u>

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

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements

June 30, 2014

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

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

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

During 1987-88, the Cucamonga Public Facilities Corporation (“Corporation”) was formed to issue Certificates of Participation (C.O.P.’s). The Corporation transfers C.O.P. proceeds to the District in exchange for notes receivable bearing the same terms as the C.O.P.’s. The District’s five (5) member Board of Directors is appointed as the Cucamonga Public Facilities Corporation’s governing board. In the combined financial statements, interfund transactions between the Corporation and District have been eliminated. Amounts eliminated include \$164,183,836 in interfund receivable/payable on the statement of net position, \$5,742,233 in interest expense and \$10,879 in investment income on the statement of revenues, expenses and changes in net position, and \$8,861,624 in interest expense on the statement of cash flows.

During 2012, the Cucamonga Valley Water District Financing Authority (“Financing Authority”) was formed to issue Revenue Bonds. The Financing Authority transfers Revenue Bond proceeds to the District in exchange for notes receivable bearing the same terms as the Revenue Bonds. The District’s five (5) member Board of Directors is appointed as the Financing Authority’s governing board. In the combined financial statements, interfund transactions between the Financing Authority and District have been eliminated. Amounts eliminated include \$40,797,192 in interfund receivable/payable on the statement of net position, \$1,451,125 in interest expense and \$67,130 in investment income on the statement of revenues, expenses and changes in net position, and \$525,379 in interest expense on the statement of cash flows.

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

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements

June 30, 2014

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

A. Organization and Operation of the Reporting Entity, continued

The criteria used in determining the scope of the reporting entity is based on the provisions of GASB Statement No. 14 and the amendments of GASB Statement No. 61. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the District. The District has accounted for the Corporation, the Financing Authority, and Foundation as "blended" component units. Despite being legally separate, these entities are so intertwined with the District that they are in substance, part of the District's operations. Accordingly, the balances and transactions of the Corporation and the Financing Authority are reported within the Water Utility Fund of the District, while the Foundation is accounted for in its own fund. Separate financial statements are not issued for the Corporation. The separate financial statements of the Financing Authority or the Foundation may be obtained from the District's office.

B. Basis of Accounting and Measurement Focus

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

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

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

The funds of the District are described below:

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

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

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

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

C. Financial Reporting

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

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

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

C. Financial Reporting, continued

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

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

D. Operating and Nonoperating Revenues and Expenses

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

E. Assets, Liabilities and Net Position

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Cash equivalents has been defined to include only assets that qualify as cash, including the District's investment in the State investment pool, but excluding all other investments that would normally qualify as cash equivalents.

3. Investments and Investment Policy

The District has adopted an investment policy directing the Chief Financial Officer to deposit funds in financial institutions.

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 gains or losses realized upon the liquidation or sale of investments.

4. Customer Receivables

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

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

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

E. Assets, Liabilities and Net Position, continued

5. Inventory

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

6. Prepaid Expense and Deposit

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

7. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the net carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as inflow of resources in the period that the amounts become available. The District does not have any items that qualify for reporting in this category.

9. Compensated Absences

The District's policy is to permit employees to accumulate a limited amount of earned vacation (240 hours maximum) and sick leave (unlimited accrual). Accumulated vacation time is accrued at year-end to account for the District's obligation to the employees for the amount owed. Sick leave can be accumulated, but,

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

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

E. Assets, Liabilities and Net Position, continued

9. Compensated Absences, continued

under District policy, payment shall be made in an amount of 50% of accrued sick leave upon retirement or death of the employee.

10. Restricted Assets and Amounts Payable from Restricted Assets

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

11. Net Position

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

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

12. Net Position Flow Assumption

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

13. Water Sales

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

14. Capital Contributions

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

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

Water Development Fees: Range from \$7,539 to \$603,103 based on meter size.

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

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

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

E. Assets, Liabilities and Net Position, continued

15. Budgetary Policies

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

16. Debt Issuance Costs

The District implemented GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65, among other things, amends prior guidance with respect to the treatment of debt issuance costs. Debt issuance costs should be recognized in the period incurred rather than reported on the statement of net position as deferred charges and recognized systematically over the life of the debt.

(2) Cash and Investments

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

Unrestricted:	
Cash and cash equivalents	\$ 31,332,561
Investments	45,939,466
Restricted:	
Cash and cash equivalents with fiscal agent	<u>29,939,649</u>
Total cash and investments	<u>\$ 107,211,676</u>

Cash and investments at June 30, 2014 consisted of the following:

Cash on hand	\$ 3,900
Deposits with financial institutions	2,637,191
Investments	<u>104,570,585</u>
	<u>\$ 107,211,676</u>

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

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

(2) Cash and Investments, continued

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

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

Investments Authorized by Debt Agreements

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

Custodial Credit Risk

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

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The District had deposits with a bank balance of \$1,423,838 as of June 30, 2014. Of the bank balance, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name. The District CFO may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the FDIC.

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

(2) Cash and Investments, continued

Investment in State Investment Pool

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value will be to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date:

Investment Type	Remaining Maturity (in Months)			Total
	12 Months or Less	13 - 24 Months	25 - 60 Months	
U.S. Agency Securities:				
Federal Home Loan Bank	\$ -	\$ 304,560	\$ 1,061,613	\$ 1,366,173
Federal National Mortgage Association	-	2,023,434	9,115,170	11,138,604
Federal Home Loan Mortgage Corporation	-	-	2,959,350	2,959,350
Federal Agricultural Mortgage Corporation	-	-	2,001,460	2,001,460
U.S. Treasuries	-	4,464,893	4,868,624	9,333,517
Municipal Bonds	-	347,487	706,975	1,054,462
Medium-term Corporate Notes	1,001,910	6,830,222	6,479,928	14,312,060
Negotiable Certificates of Deposit	2,246,961	995,920	500,040	3,742,921
Local Agency Investment Fund (LAIF)	38,944,760	-	-	38,944,760
Money Market Funds	30,922	-	-	30,922
Cash with fiscal agent:				
Local Agency Investment Fund (LAIF)	19,643,927	-	-	19,643,927
Money Market Funds	42,429	-	-	42,429
	<u>\$ 61,910,909</u>	<u>\$ 14,966,516</u>	<u>\$ 27,693,160</u>	<u>\$ 104,570,585</u>

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

(2) Cash and Investments, continued

Credit Risk

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

Investment Type	Minimum Legal Rating	Rating	Total
U.S. Agency Securities:			
Federal Home Loan Bank	AA+	AA+	\$ 1,366,173
Federal National Mortgage Association	AA+	AA+	11,138,604
Federal Home Loan Mortgage Corporation	AA+	AA+	2,959,350
Federal Agricultural Mortgage Corporation	AA+	AA+	2,001,460
U.S. Treasuries	AA+	AA+	9,333,517
Municipal Bonds	A	A	1,054,462
Medium-term Corporate Notes	A	AAA	1,279,760
		AA+	1,472,742
		AA-	2,495,778
		AA	2,660,555
		A+	3,735,756
		A	2,667,469
Negotiable Certificates of Deposit	N/A	N/A	3,742,921
Local Agency Investment Fund (LAIF)	N/A	N/A	38,944,760
Money Market Funds	A	AAA	30,922
Cash with fiscal agent:			
Local Agency Investment Fund (LAIF)	N/A	N/A	19,643,927
Money Market Funds	A	AAA	42,429
			<u>\$ 104,570,585</u>

Concentration of Credit Risk

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

Issuer	Investment Type	Reported Amount	Percent of Investments
Federal National Mortgage Association	U.S. Agency Securities	\$ 11,138,604	10.65%

(3) Restricted Assets

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

Funding Source	Use	Amount
Sewer Facility Fees	Construction of Sewer Treatment Facility (Note 8)	\$ 8,831,382
Debt service reserves	Funds held in reserve for outstanding debt	4,456,451
Debt Proceeds	Construction of specific assets outlined in issues	16,651,816
		<u>\$ 29,939,649</u>

(4) Water in Storage

The District is entitled to water in the Chino Basin. To accommodate future growth, the District has purchased additional water from other purveyors within the Basin, which is stored in the Basin. The water is intended for use in future years. As of June 30, 2014, the District’s unsold water purchases amounted to \$13,387,594.

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

(5) Capital Assets

Changes in capital assets for the year were as follows:

	Balance June 30, 2013	Additions/ Transfers	Retirements/ Transfers	Balance June 30, 2014
Non-Depreciable Assets:				
Water:				
Land	\$ 4,564,556			\$ 4,564,556
Water rights	92,871,569			92,871,569
Construction in progress	13,725,885	38,262,254	(7,085,329)	44,902,810
Sewer:				
Construction in progress	77,067	1,175,930	(1,167,684)	85,313
Recycled Water:				
Construction in progress	241,463	2,116	(227,260)	16,319
Total non-depreciable assets	<u>111,480,540</u>	<u>39,440,300</u>	<u>(8,480,273)</u>	<u>142,440,567</u>
Depreciable assets:				
Water:				
Intangibles	313,445		(142,374)	171,071
Source of supply	23,330,187	880,826		24,211,013
Pumping plant	21,308,621	543,245	(3,800,595)	18,051,271
Transmission and distribution	186,404,605	3,620,884	(102,147)	189,923,342
Treatment plant	57,487,009	782,794	(535)	58,269,268
Office buildings and equipment	48,360,428	1,257,579	(2,860,789)	46,757,218
Sewer:				
Intangibles	127,819			127,819
Pumping station	110,399		(12,579)	97,820
Collection and transmission	66,622,155	770,728	(19,290)	67,373,593
Office buildings and equipment	10,523,074	396,957	(1,721,933)	9,198,098
Recycled Water:				
Waste water reclamation	5,324,190	227,259		5,551,449
General recycled water	5,000			5,000
Frontier Project Foundation:				
Office equipment	100,424			100,424
Total depreciable assets	<u>420,017,356</u>	<u>8,480,272</u>	<u>(8,660,242)</u>	<u>419,837,386</u>
Less: accumulated depreciation				
Water:				
Intangibles	(248,649)	(4,063)	142,374	(110,338)
Source of supply	(5,848,994)	(485,193)		(6,334,187)
Pumping plant	(11,609,538)	(690,483)	3,800,595	(8,499,426)
Transmission and distribution	(62,840,590)	(4,045,022)	94,880	(66,790,732)
Treatment plant	(28,419,572)	(1,452,623)	535	(29,871,660)
General water	(17,922,065)	(1,386,840)	2,860,788	(16,448,117)
Sewer:				
Intangibles	(58,311)	(3,196)		(61,507)
Pumping station	(59,892)	(4,211)	12,579	(51,524)
Collection and transmission	(27,889,866)	(1,322,419)	10,031	(29,202,254)
General sewer	(5,449,272)	(291,341)	1,721,933	(4,018,680)
Recycled Water:				
Waste water reclamation	(504,572)	(109,665)		(614,237)
General recycled water	(5,000)			(5,000)
Frontier Project Foundation:				
General Frontier Project	(55,569)	(15,986)		(71,555)
Total accumulated depreciation	<u>(160,911,890)</u>	<u>(9,811,042)</u>	<u>8,643,715</u>	<u>(162,079,217)</u>
Total depreciable assets, net	<u>259,105,466</u>	<u>(1,330,770)</u>	<u>(16,527)</u>	<u>257,758,169</u>
Total capital assets, net	<u>\$ 370,586,006</u>	<u>\$ 38,109,530</u>	<u>\$ (8,496,800)</u>	<u>\$ 400,198,736</u>

Capital asset additions include \$2,027,162 in capitalized interest. The total amount of interest incurred for the year ended June 30, 2014 was \$7,321,681.

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

(6) Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2014, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Utility Fund	Recycled Water Utility Fund	\$ <u>1,307,219</u>

The recycled water operation is relatively new to the District, and the Water Utility Fund is used to fund a portion of the startup activities of the fund until it is self-sustaining. The balance represents a deficit of cash in the recycled water fund. It is expected that the Recycled Water Utility Fund will reimburse the Water Utility Fund when its revenue is sufficient to pay this liability.

In the year ended June 30, 2014, the District made the following one-time transfers:

	<u>Transfer Out</u>		<u>Total</u>
	<u>Water Utility Fund</u>	<u>Frontier Project Foundation</u>	
Transfer in:			
Water Utility Fund		\$ 145,000	\$ 145,000
Sewer Utility Fund	13,315		13,315
Total	<u>\$ 13,315</u>	<u>\$ 145,000</u>	<u>\$ 158,315</u>

(7) Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2014, are as follows:

	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2014</u>	<u>Current Portion</u>
Certificates of participation	\$ 159,882,857		\$ (4,264,286)	\$ 155,618,571	\$ 4,364,286
Deferred bond premium	8,976,727		(411,463)	8,565,264	-
Net certificates of participation	168,859,584	-	(4,675,749)	164,183,835	4,364,286
Revenue Bonds	37,885,000		(690,000)	37,195,000	705,000
Deferred bond premium	3,730,080		(127,888)	3,602,192	-
Net Revenue Bonds	41,615,080	-	(817,888)	40,797,192	705,000
Leases payable	4,947,428		(744,979)	4,202,449	745,485
Loan Payable	587,559		(34,358)	553,201	34,384
Compensated absences	1,581,187	909,767	(794,211)	1,696,743	794,211
Net OPEB Obligation (note 16)	2,325,163	1,377,152	(1,032,000)	2,670,315	-
Net Excess Benefit Obligation (Note 15)	233,951	141,700	-	375,651	-
	220,149,952	2,428,619	(8,099,185)	214,479,386	6,643,366
Less: deferred charge on refunding	(3,688,472)	-	195,042	(3,493,430)	-
	<u>\$ 216,461,480</u>	<u>\$ 2,428,619</u>	<u>\$ (7,904,143)</u>	<u>\$ 210,985,956</u>	<u>\$ 6,643,366</u>

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

(7) Long-term Liabilities, continued

Certificates of participation principal balances for the year ended June 30, 2014 are as follows:

2003 Certificates of Participation	\$ 7,750,000
2006 Certificates of Participation	19,360,000
2009 Certificates of Participation	22,100,000
2011 Certificates of Participation	106,145,000
2009 Clean Renewable Energy Bonds	<u>263,571</u>
	<u>\$ 155,618,571</u>

Revenue Bond principal balances for the year ended June 30, 2014 are as follows:

2012 Revenue Bonds	<u>\$ 37,195,000</u>
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2003 Certificates of Participation

In March 2003, the Cucamonga Public Facilities Corporation issued Certificates of Participation in the amount of \$13,340,000. A portion of the proceeds of the Certificates were deposited with an escrow agent to defease the 1994 Certificates to the call date of March 1, 2004. The remaining proceeds provided for a reserve fund and were used to pay the costs of issuance. The deferred amount on the refunding (the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt) was \$976,056. At June 30, 2014, the remaining unamortized deferred amount of \$435,452 on the refunding is shown as a deferred outflow of resources.

The advance refunding resulted in an economic gain of \$584,000 (difference between the present value of the annual debt service payments between old and new debt) and a decrease in debt service payments of \$725,367.

The 2003 Certificates are scheduled to mature annually on September 1, 2014 to September 1, 2023 in amounts ranging from \$640,000 to \$930,000. Interest is payable semi-annually on March 1 and September 1 of each year ranging from 1% to 4.65%.

Debt service requirements on the 2003 Certificates of Participation are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 640,000	\$ 318,575	\$ 958,575
2016	670,000	292,375	962,375
2017	695,000	265,075	960,075
2018	725,000	236,222	961,222
2019	750,000	205,800	955,800
2020-2024	<u>4,270,000</u>	<u>499,522</u>	<u>4,769,522</u>
	<u>\$ 7,750,000</u>	<u>\$ 1,817,569</u>	<u>\$ 9,567,569</u>

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

June 30, 2014

(7) Long-term Liabilities, continued***2006 Certificates of Participation***

In September 2006, the Cucamonga Public Facilities Corporation issued Certificates of Participation in the amount of \$21,610,000. The proceeds were used to fund the acquisition and construction of certain capital improvements and equipment, to provide for a reserve fund, and to pay for the costs of issuance.

The 2006 Certificates of Participation are scheduled to mature annually on September 1, 2008 to September 1, 2036 in amounts ranging from \$0 to \$9,570,000. Interest is payable semiannually on March 1 and September 1 of each year with interest rates ranging from 3.42% to 5%.

Debt service requirements on the 2006 Certificates of Participation are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 450,000	\$ 910,709	\$ 1,360,709
2016	470,000	892,309	1,362,309
2017	500,000	872,909	1,372,909
2018	515,000	852,609	1,367,609
2019	560,000	831,109	1,391,109
2020-2024	2,555,000	3,796,110	6,351,110
2025-2029	-	3,577,500	3,577,500
2030-2034	2,235,000	3,467,375	5,702,375
2035-2037	12,075,000	1,323,375	13,398,375
	<u>\$ 19,360,000</u>	<u>\$ 16,524,005</u>	<u>\$ 35,884,005</u>

2009 Certificates of Participation

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

The 2009 Certificates of Participation are scheduled to mature annually on September 1, 2010 to September 1, 2029 in amounts ranging from \$1,565,000 to \$2,915,000. Interest is payable semiannually on March 1 and September 1 of each year with interest rates ranging from 2% to 5.625%.

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,565,000	\$ 1,036,544	\$ 2,601,544
2016	1,625,000	972,744	2,597,744
2017	1,685,000	906,544	2,591,544
2018	1,755,000	833,355	2,588,355
2019	1,825,000	748,244	2,573,244
2020-2024	8,895,000	2,287,219	11,182,219
2025-2029	3,850,000	799,059	4,649,059
2030	900,000	25,313	925,313
	<u>\$ 22,100,000</u>	<u>\$ 7,609,022</u>	<u>\$ 29,709,022</u>

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

(7) Long-term Liabilities, continued

2011 Certificates of Participation

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

The deferred amount on the refunding (the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt) was \$3,477,217. At June 30, 2014 the remaining unamortized deferred amount of \$2018 on the refunding is shown as a deferred outflow of resources.

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

The 2011 Certificates are scheduled to mature annually on September 1, 2014 to September 1, 2036 in amounts ranging from \$1,680,000 to \$8,315,000. Interest is payable semi-annually on March 1 and September 1 of each year ranging from 0.25% to 5.375%.

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,680,000	\$ 5,225,288	\$ 6,905,288
2016	1,740,000	5,156,887	6,896,887
2017	1,805,000	5,085,988	6,890,988
2018	1,880,000	5,012,287	6,892,287
2019	1,945,000	4,935,788	6,880,788
2020-2024	13,145,000	23,465,662	36,610,662
2025-2029	32,525,000	17,887,120	50,412,120
2030-2034	36,855,000	8,656,755	45,511,755
2035-2036	14,570,000	793,350	15,363,350
	<u>\$ 106,145,000</u>	<u>\$ 76,219,125</u>	<u>\$ 182,364,125</u>

2009 Clean Renewable Energy Bonds

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

The 2009 Clean Renewable Energy Bonds are scheduled to mature annually on September 1, 2014 through September 1, 2022 in the amount of \$29,286.

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

June 30, 2014

(7) Long-term Liabilities, continued***2009 Clean Renewable Energy Bonds, continued***

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

<u>Year</u>	<u>Principal</u>
2015	\$ 29,286
2016	29,286
2017	29,286
2018	29,286
2019	29,285
2020-2023	<u>117,142</u>
	<u>\$ 263,571</u>

2012 Revenue Bonds

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

The 2012 Revenue Bonds are scheduled to mature annually on September 1, 2014 to September 1, 2042 in amounts ranging from \$705,000 to \$2,215,000. Interest is payable semiannually on March 1 and September 1 of each year with interest rates ranging from 2.5% to 4%.

Debt service requirements on the 2006 Certificates of Participation are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 705,000	\$ 1,565,562	\$ 2,270,562
2016	735,000	1,540,288	2,275,288
2017	760,000	1,510,387	2,270,387
2018	795,000	1,479,288	2,274,288
2019	825,000	1,446,888	2,271,888
2020-2024	4,665,000	6,700,437	11,365,437
2025-2029	5,640,000	5,721,462	11,361,462
2030-2034	6,600,000	4,762,788	11,362,788
2035-2039	8,230,000	3,129,750	11,359,750
2040-2043	<u>8,240,000</u>	<u>849,500</u>	<u>9,089,500</u>
	<u>\$ 37,195,000</u>	<u>\$ 28,706,350</u>	<u>\$ 65,901,350</u>

2007 Fixed Network Meter Replacement Capital Lease Payable

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

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

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

June 30, 2014

(7) Long-term Liabilities, continued

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 617,386	\$ 65,045	\$ 682,431
2016	635,991	46,440	682,431
2017	655,156	27,275	682,431
2018	504,291	7,533	511,824
	<u>\$ 2,412,824</u>	<u>\$ 146,293</u>	<u>\$ 2,559,117</u>

2010 Fixed Network Meter Replacement Capital Lease Payable

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

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 128,099	\$ 62,536	\$ 190,635
2016	132,760	57,875	190,635
2017	137,591	53,044	190,635
2018	142,597	48,038	190,635
2019	147,786	42,849	190,635
2020-2024	823,611	129,564	953,175
2025-2026	277,181	8,772	285,953
	<u>\$ 1,789,625</u>	<u>\$ 402,678</u>	<u>\$ 2,192,303</u>

Church Street Lateral Loan Payable

The District entered into an agreement dated November 24, 2009 with Inland Empire Utilities Agency (IEUA) for the construction of a recycled water pipeline. A portion of the pipeline was for the purpose of IEUA's Regional Recycled Water system and a portion was for the purpose of the District's recycled water connections. The entire project is to be funded by a State of California Revolving Fund (SRF) loan, obtained by IEUA, which offers low interest rates for the purpose of constructing infrastructure. The District paid for the construction costs and was subsequently reimbursed by IEUA in the amount of \$2,441,548. IEUA obtained two grants for the project. The amounts of the grants were \$344,760 and \$615,822. The grants were received from the California State Water Resources Control Board and the United States Bureau of Reclamation respectively. The District's portion of the grants was \$461,939. The District's portion of the pipeline amounted to \$690,648, which is payable by the District in annual installments of \$34,532 including interest at .074%.

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

(7) Long-term Liabilities, continued

Church Street Lateral Loan Payable, continued

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

<u>Year</u>	<u>Principal</u>
2015	\$ 34,384
2016	34,409
2017	34,435
2018	34,460
2019	34,486
2020-2024	172,808
2025-2029	173,453
2030	34,766
	<u>\$ 553,201</u>

(8) Intergovernmental Payable

The District, along with other agencies in the area, has an agreement with the Inland Empire Utilities Agency (IEUA) to share in construction costs of regional sewer treatment facilities. Construction costs are paid by tax increments each year by IEUA. If these tax increments do not cover the construction costs, the various agencies involved will be billed their allocated percentage. The District collects sewer facilities fees that by this agreement must be paid to IEUA when billed. The District is allowed to earn interest on any sewer facilities fees collected until remitted to IEUA. The District's liability for collected but unremitted sewer facilities fees at June 30, 2014 is \$8,831,382.

(9) Net Investment in Capital Assets

Investment in capital assets, net of related debt, at June 30, 2014, consisted of the following:

Non-depreciable capital assets	\$ 142,440,567
Depreciable capital assets, net	257,758,169
Lease payable - current portion	(745,485)
Certificates of participation - current portion	(4,364,286)
Revenue bonds - current portion	(705,000)
Lease payable - non-current portion	(3,456,964)
Certificates of participation - non-current portion	(159,819,550)
Revenue bonds - non-current portion	(40,092,192)
Revenue bonds - unspent portion with trustee	21,108,267
	<u>\$ 212,123,526</u>

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

(10) Designation of Unrestricted Net Position

The District has adopted a Reserve Policy to establish designations of unrestricted net position. The designations established at June 30, 2014 are as follows:

Reserve Types	Fund		
	Water	Sewer	Recycled Water
Designated			
Bond Proceeds	\$ 21,108,267	N/A	N/A
Development Fees	6,681,042	1,847,504	-
Capital			
Facility & Equipment Replacement	18,000,000	20,000,000	-
Emergency	7,033,353 ⁽¹⁾	870,974 ⁽¹⁾	99,071 ⁽¹⁾
Administrative	1,571,662	78,583	-
Liquidity			
Operating	13,706,000 ⁽²⁾	7,286,255 ⁽²⁾	294,897 ⁽²⁾
Rate Stabilization	3,698,603 ⁽³⁾	N/A	N/A
Water Banking	3,867,500 ⁽⁴⁾	N/A	N/A

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

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

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

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

(11) Capital Contributions

Capital contributions for the fiscal year ending June 30, 2014 were as follows:

Developer fees	\$ 3,987,625
Developer donated assets	<u>1,365,016</u>
Total Contributed Capital	<u>\$ 5,352,641</u>

(12) Deferred Compensation Savings Plan

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by the District's three deferred compensation plans at June 30, 2014 amounted to \$4,557,256.

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

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

(13) Defined Benefit Pension Plan

Plan Description

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

Eligibility

Employees are eligible for benefits under the plan in one of three tiers. Employees hired before January 10, 2011 are in Tier 1, employees hired after January 11, 2011 are in Tier 2, and employees hired after January 1, 2013 are in Tier 3. The benefit formula for employees in Tier 1 is 2.5% at 55, the benefit formula for employees in Tier 2 is 2.0% at 60, and the benefit formula for employees in Tier 3 is 2.0% at 62.

Funding Policy & Annual Pension Cost

Participants are required to contribute a percentage of their annual salary. Tier 1 employees contribute 8% and Tier 2 and 3 employees contribute 7%. Tier 1 employees pay 1% of the 8% required contribution and 2 employees pay 1% of their 7% required contribution. The District makes the remaining portion of the contributions required of District Tier 1 and 2 employees on their behalf and for their account. Tier 3 employees must pay the full 7% share. Benefit provisions and all other requirements are established by state statute.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2013 to June 30, 2014 has been determined by an actuarial valuation of the plan as of June 30, 2013. The contribution rate indicated for the period is 16.540% of payroll. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2014, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2013 to June 30, 2014. The District's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation for 2014 and the preceding two fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2011-2012	\$ 1,341,026	100%	-
2012-2013	1,388,042	100%	-
2013-2014	1,524,963	100%	-

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

(13) Defined Benefit Pension Plan, continued

A summary of principle assumptions and methods used to determine the ARC for the year ended June 30, 2014 is shown below.

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.50% (net of administrative expenses)
Projected Salary Growth	3.30% to 14.20% depending on Age, Service and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling 30 year period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 71.7% funded. The actuarial accrued liability for benefits was \$60,276,753, the actuarial value of assets was \$43,244,399 and the unfunded actuarial accrued liability (UAAL) was \$17,032,354. The covered payroll (annual payroll of active employees covered by the plan) was \$8,711,028 and the ratio of the UAAL to the covered payroll was 195.5%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and attrition. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(14) Retirement Enhancement Plan

Plan Description

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

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

(14) Retirement Enhancement Plan, continued

Eligibility and Benefit

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

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

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

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

Funding Policy

The District currently funds the Plan through the PARS trust. Since the actuarial value of assets in the plan exceeds the actuarial accrued liability, there is no need for the District to fund the annual required contribution for the year. The annual required contribution equals the sum of:

- normal cost, and
- amortization of the unfunded actuarial accrued liability.

Annual Pension Cost (APC)

Government Accounting Standards Board Statement No. 27 (Statement 27) requires that the District determine the plan's annual pension cost based on the most recent actuarial valuation. The annual pension cost equals the plan's annual required contribution, adjusted for historical differences between the annual required contribution and amounts contributed. The actuary has determined the District's annual required contribution equal to the sum of (a) normal cost, and (b) amortization of the unfunded actuarial accrued liability.

For the year ending June 30, 2014, the District's annual required contribution was \$221,769. The District actually contributed \$0 to fund the annual required contribution (ARC) and the unfunded actuarial accrued liability. The required contribution was based on the June 30, 2011, actuarial valuation using the entry age normal (level percentage of pay) actuarial cost method. The actuarial assumptions included 5% investment return (net of administrative expenses) and a general inflation rate of 3%. The prepaid PARS obligation is being amortized over a 18 year closed period.

Annual required contribution (ARC)	\$ 221,769
Interest in net PARS asset	(78,036)
Adjustment to ARC	<u>141,111</u>
Annual PARS cost	284,844
Contribution made	<u>-</u>
Decrease/(Increase) in net PARS asset	284,844
Net PARS obligation (asset) June 30, 2013	<u>(1,560,720)</u>
Net PARS obligation (asset) June 30, 2014	<u><u>\$(1,275,876)</u></u>

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

(14) Retirement Enhancement Plan, continued

Annual Pension Cost (APC), continued

The following table provides 3 years of historical information of the Annual Pension Cost:

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2012	\$ 85,184	0%	\$ (1,654,739)
6/30/2013	94,019	0%	(1,560,720)
6/30/2014	284,844	0%	(1,275,876)

(15) Excess Benefit Plan

Plan Description

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

Eligibility

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

Funding Policy

The Plan is unfunded and benefits under the Plan are paid from the general fund of the District through an Excess Benefit Plan Trust (the "Trust") that has been set up by the District through PARS. The Trust is a grantor trust held by the District subject to the claims of the District's creditors. The District funding policy is to pay only the current benefits due.

According to the actuarial report, annual required contribution equals the sum of:

- normal cost, and
- amortization of the unfunded actuarial accrued liability.

Annual Pension Cost (APC)

Government Accounting Standards Board Statement No. 27 (Statement 27) requires that the District determine the plan's annual pension cost based on the most recent actuarial valuation. The annual pension cost equals the plan's annual required contribution, adjusted for historical differences between the annual required contribution and amounts contributed. The actuary has determined the District's annual required contribution equal to the sum of (a) normal cost, and (b) amortization of the unfunded actuarial accrued liability.

For the year ending June 30, 2014, the District's annual required contribution was \$180,706. The District actually contributed \$24,360 to fund the annual required contribution (ARC) and the unfunded actuarial accrued liability. The required contribution was based on the June 30, 2011, actuarial valuation using the entry age normal (level percentage of pay) actuarial cost method. The actuarial assumptions included 5% investment return (net of administrative expenses) and a general inflation rate of 3%. The prepaid PARS obligation is being amortized over a 13 year closed period.

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

(15) Excess Benefit Plan, continued

Annual Pension Cost (APC), continued

Annual required contribution (ARC)	\$ 180,706
Interest on net pension asset	4,679
Adjustment to ARC	<u>(19,325)</u>
Annual Pension cost (APC)	166,060
Contribution made	<u>24,360</u>
Decrease/(Increase) in net PARS asset	141,700
Net Pension Obligation (asset) June 30, 2012	<u>233,951</u>
Net Pension Obligation (asset) June 30, 2013	<u>\$ 375,651</u>

The following table provides 3 years of historical information of the Annual Pension Cost:

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
6/30/2012	\$ 141,261	26%	\$ 104,277
6/30/2013	139,824	7%	233,951
6/30/2014	166,060	15%	375,651

(16) Other Post-Employment Benefits

Plan Description

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

Eligibility

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

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

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

Funding Policy

Retirees must pay the portion of the coverage, if any, not covered by their benefits. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the District's Board of Directors benefits which is deposited into the California Employers Retiree Benefits Trust Fund, an IRC Section 115 trust fund administered by CalPERS. For fiscal year 2014, the District contributed \$1,032,000 to the plan, including \$335,928 for current premiums (approximately 86% of the total premiums) and an additional \$696,072 to prefund. Plan members receiving benefits contributed \$55,308, or approximately 14% of the total premiums.

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

(16) Other Post-Employment Benefits, continued

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$	1,338,905
Interest on net OPEB obligation		172,019
Net OPEB Obligation Adjustment		<u>(133,772)</u>
Annual OPEB cost (expense)		1,377,152
Contributions made		<u>(1,032,000)</u>
Increase in net OPEB obligation		345,152
Net OPEB obligation - beginning of year		<u>2,325,163</u>
Net OPEB obligation - end of year	\$	<u><u>2,670,315</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 (the year of implementation) and 2014 were as follows:

Fiscal Year	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 1,397,000	60.8%	\$ 1,924,588
2013	1,309,575	69.4%	2,325,163
2014	1,377,152	74.9%	2,670,315

Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 18.8% funded. The actuarial accrued liability for benefits was \$14,955,341, the actuarial value of assets was \$2,812,983 and the unfunded actuarial accrued liability (UAAL) was \$12,142,358. The covered payroll (annual payroll of active employees covered by the plan) was \$7,907,000 and the ratio of the UAAL to the covered payroll was 154%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

(16) Other Post-Employment Benefits, continued

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 June 30, 2013 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a rate of return of 7.00% initially, increased by increments to an ultimate rate of 7.61% (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the District's own investments calculated based on the funded level of the plan at the valuation date, and annual healthcare cost trend rates of 7.0% to 7.5% initially, reduced by decrements to an ultimate rate of 5.0% after eight years. Both rates included a 3% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2014, was 24 years.

(17) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has purchased various insurance policies to manage the potential liabilities that may occur from the previously named sources and is a member of the Association of California Water Agencies Joint Powers Insurance Authority ("Authority"). The Authority is a risk-pooling, self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Authority is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2014, the District participated in the liability and property programs of the Authority as follows:

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

General Liability: The District is insured for general liability through ACWA/JPIA up to \$50,000 per occurrence, and ACWA/JPIA has purchased additional coverage from commercial insurers, subject to policy aggregate limits.

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

Public Officials' and Employees' Errors and Omissions: The District is insured for through ACWA/JPIA up to \$1,000,000 per occurrence, and ACWA/JPIA has purchased additional coverage from commercial insurers, subject to policy aggregate limits.

Workers Compensation: The District is insured to statutory requirements.

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

(17) Risk Management, continued

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

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

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal year and there were no reductions in the District’s insurance coverage during the years ending June 30, 2014, 2013 and 2012. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2014, 2013 and 2012.

(18) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2014, that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the District’s future financial statements.

Government Accounting Standards Board Statement No. 68

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

This Statement is not effective until the fiscal year ending June 30, 2015. The District has not determined the effect, if any, this Statement will have on the presentation of the District’s financial statements.

(19) Commitments and Contingencies

Construction Commitments

The District has entered into several material construction contracts. The following schedule lists the major contractual commitments as of June 30, 2014:

Project	Vendor	Amount
Water Treatment Plant Expansion Construction	SSC Construction	\$ 9,867,572
Water Treatment Plant Expansion Engineering	Black & Veatch	590,030
Arthur Bridge Treatment Plant Rehabilitation and upgrade	HDR Inc.	133,042

Grant Awards

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

CUCAMONGA VALLEY WATER DISTRICT

Notes to the Basic Financial Statements, continued

June 30, 2014

(19) Commitments and Contingencies, continued

Litigation

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

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

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

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

(20) Subsequent Events

On July 2, 2014 the Financing Authority issued \$12,150,000 in Water Revenue Bonds. The Bonds are being issued to provide funds to finance the acquisition of certain improvements for the Water System of the Cucamonga Valley Water District, a member of the Financing Authority, to refund the outstanding Cucamonga Valley Water District 2003 Certificates of Participation, and to pay costs incurred in connection with the issuance of the Bonds.

Required Supplementary Information

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CUCAMONGA VALLEY WATER DISTRICT

Supplemental Schedule of Funding Progress for Defined Benefit Pension Plan (PERS)

For the Year Ended June 30, 2014

Schedule of Funding Progress

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

<u>Actuarial Valuation Date</u>	<u>Entry Age Normal Accrued Liability [A]</u>	<u>Actuarial Value of Assets [B]</u>	<u>Unfunded Liability (Excess Assets) [A-B]</u>	<u>Funded Ratio [B/A]</u>	<u>Annual Covered Payroll [C]</u>	<u>Unfunded Liability (Excess Assets) as a % of Payroll [(A-B)/C]</u>
June 30, 2011	\$ 53,429,612	\$ 42,529,299	\$ 10,900,313	79.6%	\$ 8,735,899	124.8%
June 30, 2012	56,941,970	45,355,177	11,586,793	79.7%	8,849,055	130.9%
June 30, 2013	60,276,753	43,244,399	17,032,354	71.7%	8,711,028	195.5%

CUCAMONGA VALLEY WATER DISTRICT

Supplemental Schedule of Funding Progress for Other Post Employment Benefits Plan
For the Year Ended June 30, 2014

Schedule of Funding Progress

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

<u>Actuarial Valuation Date</u>	<u>Entry Age Normal Accrued Liability [A]</u>	<u>Actuarial Value of Assets [B]</u>	<u>Unfunded Liability (Excess Assets) [A-B]</u>	<u>Funded Ratio [B/A]</u>	<u>Annual Covered Payroll [C]</u>	<u>Liability (Excess Assets) as a % of Payroll [(A-B)/C]</u>
June 30, 2010	\$ 14,051,000	\$ 902,000	\$ 13,149,000	6.4%	\$ 8,803,000	149.4%
June 30, 2011	13,320,000	1,416,000	11,904,000	10.6%	8,213,000	144.9%
June 30, 2013	14,955,000	2,813,000	12,142,000	18.8%	7,907,000	153.6%

CUCAMONGA VALLEY WATER DISTRICT

Supplemental Schedule of Funding Progress for Retirement Enhancement Pension Plan (PARS)

For the Year Ended June 30, 2014

Schedule of Funding Progress

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

<u>Actuarial Valuation Date</u>	<u>Entry Age Normal Accrued Liability [A]</u>	<u>Actuarial Value of Assets [B]</u>	<u>Unfunded Liability (Excess Assets) [A-B]</u>	<u>Funded Ratio [B/A]</u>	<u>Annual Covered Payroll [C]</u>	<u>Liability (Excess Assets) as a % of Payroll [(A-B)/C]</u>
06/30/2008	\$ 3,268,000	\$ 4,849,000	\$ (1,581,000)	148.4%	\$ 9,285,000	(17.0%)
06/30/2011	3,905,355	4,793,720	(888,365)	122.7%	8,213,000	(10.8%)
06/30/2013	5,413,524	4,769,534	643,990	88.1%	7,794,000	8.3%

CUCAMONGA VALLEY WATER DISTRICT

Supplemental Schedule of Funding Progress for Excess Benefit Pension Plan

For the Year Ended June 30, 2014

Schedule of Funding Progress

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

<u>Actuarial Valuation Date</u>	<u>Entry Age Normal Accrued Liability [A]</u>	<u>Actuarial Value of Assets [B]</u>	<u>Unfunded Liability (Excess Assets) [A-B]</u>	<u>Funded Ratio [B/A]</u>	<u>Annual Covered Payroll [C]</u>	<u>Liability (Excess Assets) as a % of Payroll [(A-B)/C]</u>
06/30/2011	\$ 1,103,846	\$ 8,473	(1,095,373)	0.8%	\$ 8,213,000	(13.3%)
06/30/2013	1,433,384	5,241	(1,428,143)	0.4%	7,794,000	(18.3%)

Statistical Section

CUCAMONGA VALLEY WATER DISTRICT

Statistical Section

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

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These schedules contain information to help the reader understand how the District’s financial performance and well-being have changed over time.	
Revenue Capacity	53-55
These schedules contain information to help the reader assess the District’s most significant own-source revenue, water sales.	
Debt Capacity	56-57
These schedules present information to help the reader assess the affordability of the District’s current levels of outstanding debt and the District’s ability to issue additional debt in the future.	
Demographic Information	58-59
These schedules offer demographic indicators to help the reader understand the environment within which the District’s financial activities take place.	
Operating Information	60-61
These schedules contains service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the service provided by the District.	

CUCAMONGA VALLEY WATER DISTRICT

Changes in Net Position and Net Position by Component

Last Ten Fiscal Years

	Fiscal Year			
	2005	2006	2007	2008
Changes in net position:				
Operating revenues (see Schedule 2)	\$ 44,665,890	\$ 49,868,993	\$ 54,829,916	\$ 57,450,068
Operating expenses (see Schedule 3)	<u>(41,128,919)</u>	<u>(44,767,752)</u>	<u>(50,379,152)</u>	<u>(54,977,001)</u>
Operating income(loss)	<u>3,536,971</u>	<u>5,101,241</u>	<u>4,450,764</u>	<u>2,473,067</u>
Non-operating revenues(expenses)				
Investment income	2,399,258	1,556,269	4,122,607	3,102,442
Taxes and assessments	632	108	506	47
Rent and lease revenue	83,995	119,982	212,077	209,525
Interest expense	(7,012,498)	(6,957,421)	(7,501,456)	(7,666,073)
Amortization of deferred charge on refunding	(183,963)	(183,963)	(176,783)	(174,390)
Gain (loss) on disposal of assets	(12,982)	52,078	25,328	(466,311)
Other nonoperating revenues	2,666,624	1,862,992	3,671,174	4,322,277
Other nonoperating expenses	<u>(499,034)</u>	<u>(545,344)</u>	<u>(1,089,950)</u>	<u>(2,759,643)</u>
Total non-operating revenues(expenses), net	<u>(2,557,968)</u>	<u>(4,095,299)</u>	<u>(736,497)</u>	<u>(3,432,126)</u>
Net income before capital contributions	979,003	1,005,942	3,714,267	(959,059)
Capital contributions	22,325,745	10,660,815	16,641,858	4,006,780
Extraordinary items	<u>-</u>	<u>(3,469,677)</u>	<u>-</u>	<u>-</u>
Changes in net position	<u>\$ 23,304,748</u>	<u>\$ 8,197,080</u>	<u>\$ 20,356,125</u>	<u>\$ 3,047,721</u>
Net position by component:				
Net investment in capital assets	\$178,174,218	\$191,051,334	\$208,455,979	\$214,232,848
Unrestricted	<u>71,120,999</u>	<u>65,168,570</u>	<u>68,120,050</u>	<u>65,390,902</u>
Total net position	<u>\$249,295,217</u> ⁽¹⁾	<u>\$256,219,904</u>	<u>\$276,576,029</u> ⁽²⁾	<u>\$279,623,750</u>

Notes:

- (1) The District made a prior period adjustment of (\$133,694).
- (2) The District made a prior period adjustment of (\$1,449,879).
- (3) The District made a prior period adjustment of (\$1,052,393).
- (4) The District made a net prior period adjustment of (\$67,589).

SOURCE: Cucamonga Valley Water District – Accounting Division

Fiscal Year					
2009	2010	2011	2012	2013	2014
\$ 55,672,904	\$ 61,108,993	\$ 65,781,091	\$ 74,705,240	\$ 77,575,410	\$ 83,426,225
<u>(57,386,251)</u>	<u>(60,061,448)</u>	<u>(58,192,485)</u>	<u>(61,486,795)</u>	<u>(62,940,607)</u>	<u>(67,892,079)</u>
<u>(1,713,347)</u>	<u>1,047,545</u>	<u>7,588,606</u>	<u>13,218,445</u>	<u>14,634,803</u>	<u>15,534,146</u>
2,093,797	1,938,155	892,000	743,118	208,488	929,941
39	38	11	11	10	12
199,636	246,329	214,842	243,668	278,934	375,700
(8,144,911)	(8,915,969)	(8,137,741)	(7,502,696)	(8,493,530)	(7,321,681)
(179,187)	(193,578)	(199,334)	82,749	(8,643)	303,225
89,965	335,387	223,398	21,935	31,565	(16,526)
1,828,633	6,122,507	1,315,961	2,054,305	900,483	1,634,133
<u>(1,281,167)</u>	<u>(4,045,032)</u>	<u>(947,727)</u>	<u>(945,085)</u>	<u>(979,443)</u>	<u>(1,460,637)</u>
<u>(5,393,195)</u>	<u>(4,512,163)</u>	<u>(6,638,590)</u>	<u>(5,301,995)</u>	<u>(8,062,136)</u>	<u>(5,555,833)</u>
(7,106,542)	(3,464,618)	950,016	7,916,450	6,572,667	9,978,313
1,484,108	2,845,995	1,931,751	1,404,950	3,164,707	5,352,641
-	-	-	-	-	-
<u>\$ (5,622,434)</u>	<u>\$ (618,623)</u>	<u>\$ 2,881,767</u>	<u>\$ 9,321,400</u>	<u>\$ 9,737,374</u>	<u>\$ 15,330,954</u>
\$217,733,045	\$207,808,294	\$206,948,235	\$215,183,046	\$248,304,834	\$212,123,526
<u>55,215,878</u>	<u>64,522,006</u>	<u>68,263,832</u>	<u>69,350,421</u>	<u>45,898,418</u>	<u>97,410,680</u>
<u>\$272,948,923</u>	<u>\$272,330,300</u> ⁽³⁾	<u>\$275,212,067</u>	<u>\$284,533,467</u>	<u>\$294,203,252</u> ⁽⁴⁾	<u>\$309,534,206</u>

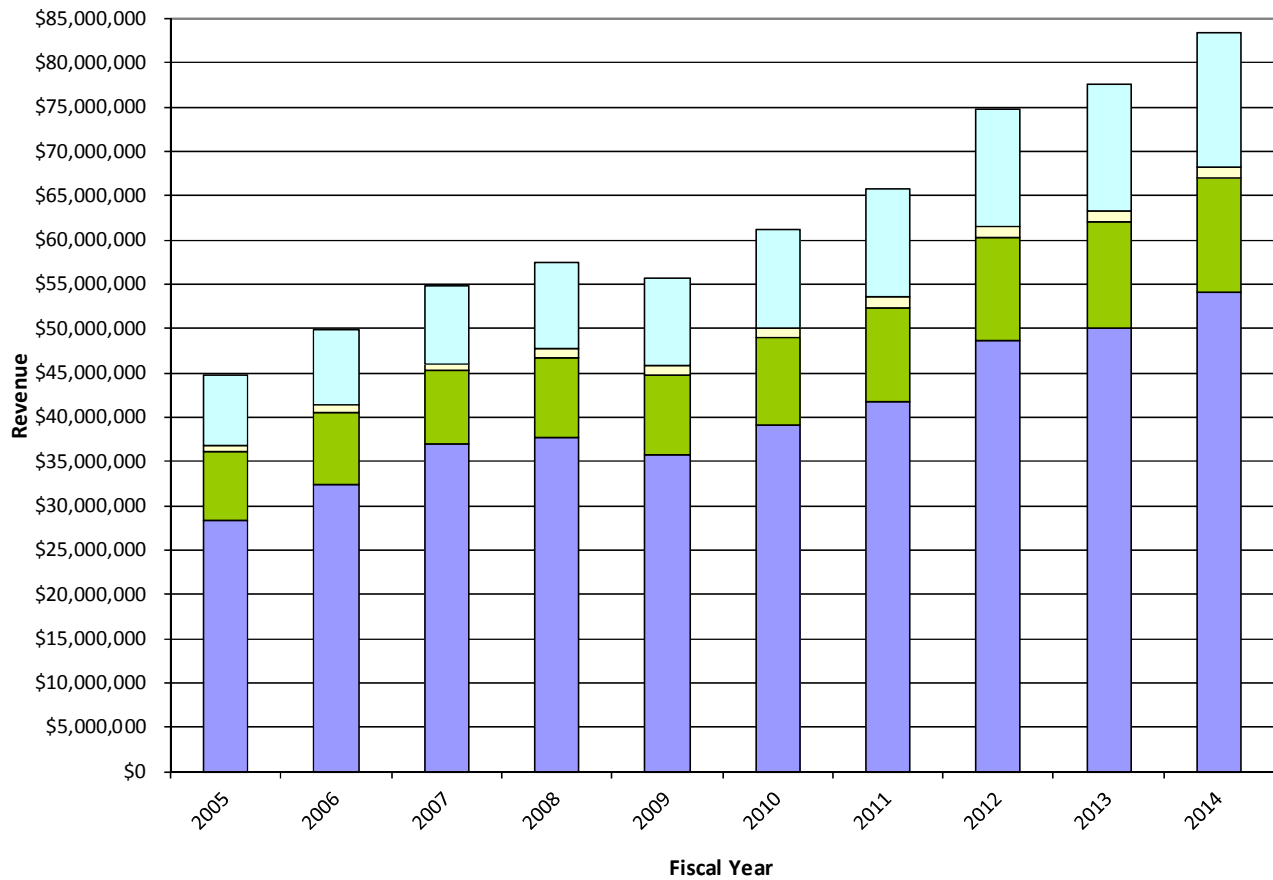
CUCAMONGA VALLEY WATER DISTRICT

Operating Revenue by Source

Last Ten Fiscal Years

Schedule 2

Fiscal Year	Water Sales	Meter Charges	Water Services	Sewer Services	Total Operating Revenue
2005	\$ 28,294,316	\$ 7,840,904	\$ 718,525	\$ 7,812,145	\$ 44,665,890
2006	32,321,386	8,206,918	896,088	8,444,601	49,868,993
2007	36,936,005	8,249,983	851,431	8,792,497	54,829,916
2008	37,743,239	9,001,080	1,022,487	9,683,262	57,450,068
2009	35,682,801	9,051,765	1,026,873	9,911,465	55,672,904
2010	39,134,526	9,809,685	1,047,195	11,117,587	61,108,993
2011	41,676,752	10,647,664	1,154,225	12,302,450	65,781,091
2012	48,675,139	11,532,573	1,291,048	13,206,480	74,705,240
2013	49,983,058	12,122,798	1,229,893	14,239,661	77,575,410
2014	54,134,874	12,814,590	1,248,185	15,228,576	83,426,225



SOURCE: Cucamonga Valley Water District – Accounting Division

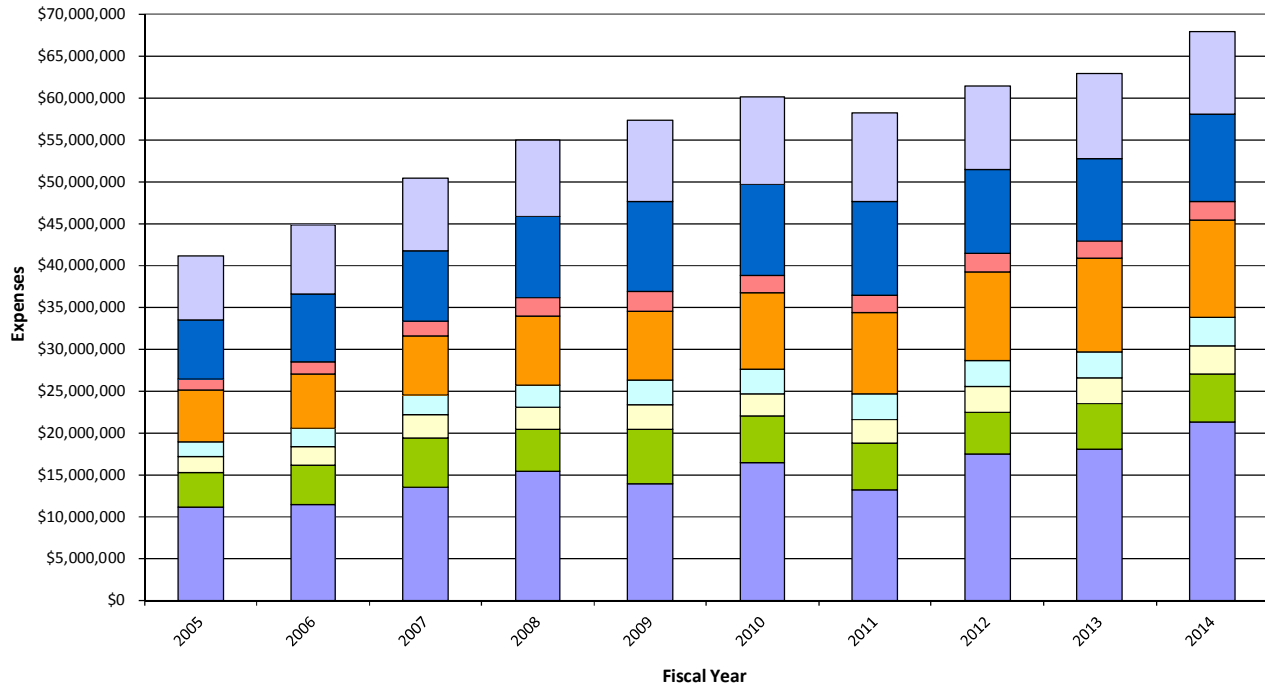
CUCAMONGA VALLEY WATER DISTRICT

Operating Expenses by Activity

Last Ten Fiscal Years

Schedule 3

Fiscal Year	Source of Supply	Pumping Operations	Water Treatment	Transmission and Distribution	Collection and Transmission	Customer Accounts	General and Administrative	Depreciation and Amortization	Total Operating Expenses
2005	\$ 11,170,635	\$ 4,121,204	\$ 1,864,459	\$ 1,825,235	\$ 6,093,989	\$ 1,328,676	\$ 7,030,077	\$ 7,694,644	\$ 41,128,919
2006	11,505,240	4,612,986	2,269,544	2,131,329	6,459,565	1,532,818	8,128,277	8,127,993	44,767,752
2007	13,499,965	5,946,376	2,667,204	2,353,289	7,080,358	1,747,498	8,491,462	8,593,000	50,379,152
2008	15,410,729	4,944,428	2,747,185	2,573,217	8,281,559	2,139,143	9,723,052	9,157,688	54,977,001
2009	13,999,196	6,426,333	2,900,825	2,928,555	8,344,368	2,301,799	10,776,455	9,708,720	57,386,251
2010	16,387,130	5,659,006	2,674,214	2,828,207	9,174,247	2,080,551	10,915,992	10,342,101	60,061,448
2011	13,188,936	5,625,091	2,733,477	3,125,140	9,679,819	2,071,599	11,213,478	10,554,945	58,192,485
2012	17,506,123	4,908,418	3,161,739	3,134,960	10,547,211	2,134,887	10,030,142	10,063,315	61,486,795
2013	18,006,105	5,491,422	3,134,158	3,104,700	11,116,847	2,044,545	9,840,029	10,202,801	62,940,607
2014	21,286,846	5,707,682	3,431,498	3,436,889	11,622,712	2,115,655	10,479,755	9,811,042	67,892,079



SOURCE: Cucamonga Valley Water District – Accounting Division

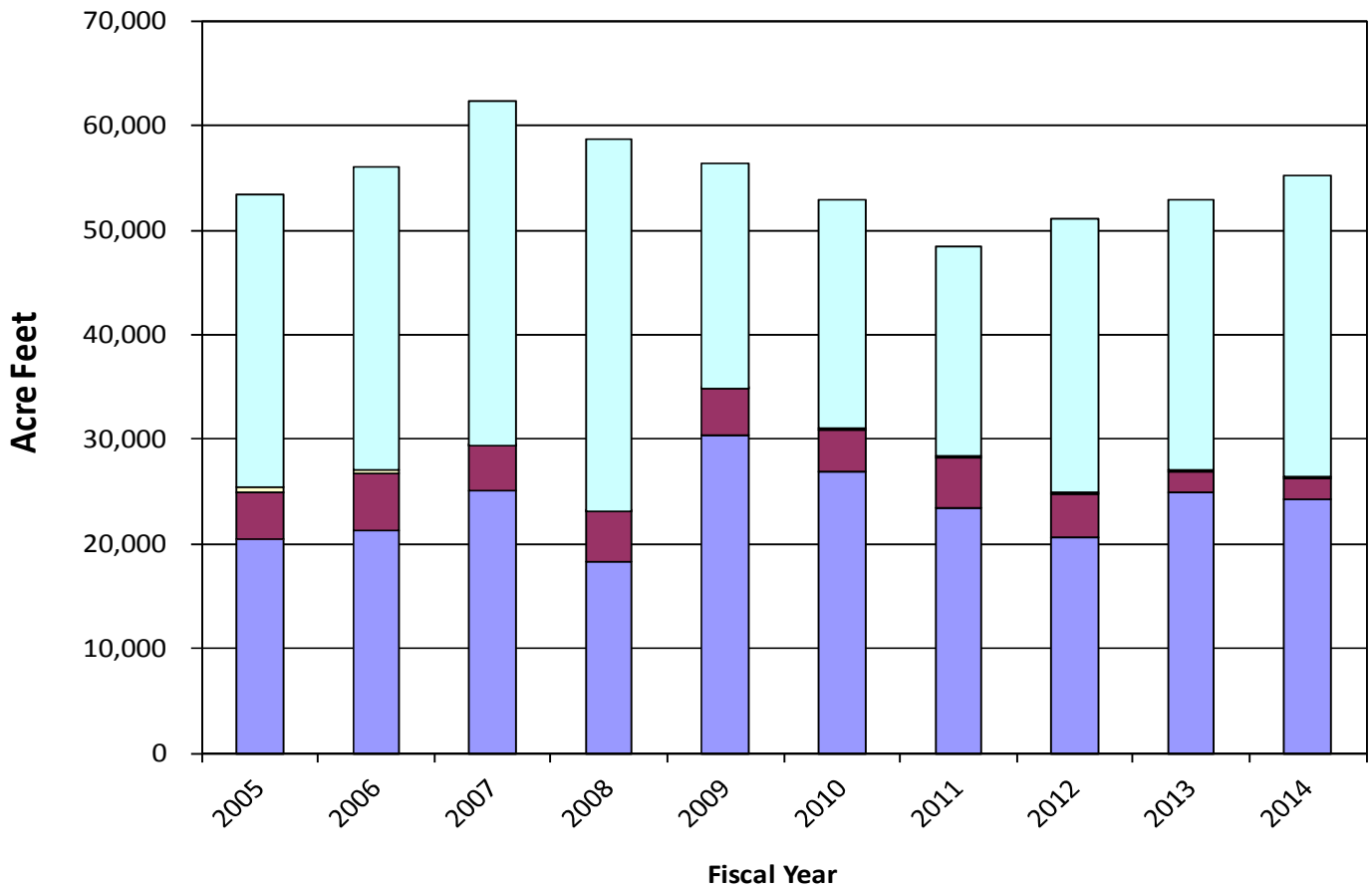
CUCAMONGA VALLEY WATER DISTRICT

Water Production in Acre Feet

Last Ten Fiscal Years

Schedule 4

Fiscal Year	Source				Total Production
	Groundwater	Local Surface Water	Spring Water	Imported Water	
2005	20,409	4,530	557	27,937	53,433
2006	21,255	5,575	211	29,092	56,133
2007	25,095	4,249	119	32,825	62,288
2008	18,335	4,769	78	35,454	58,636
2009	30,359	4,479	102	21,465	56,405
2010	26,864	4,034	170	21,782	52,850
2011	23,415	4,902	188	19,994	48,499
2012	20,723	4,070	159	26,144	51,096
2013	25,015	1,921	146	25,846	52,928
2014	24,230	2,000	216	28,825	55,271



Note: See Schedule 2 "Operating Revenue by Source" for information regarding water revenues.

SOURCE: Cucamonga Valley Water District – Production Division

CUCAMONGA VALLEY WATER DISTRICT

Water Rate History Last Ten Fiscal Years

Schedule 5

Fiscal Year	Water Rate per HCF ⁽¹⁾						
	Tiered Water Rates ⁽²⁾⁽³⁾				Non-Residential	Gov't Irrigation	Temp/Constr.
	Tier 1	Tier 2	Tier 3	Tier 4			
2005	N/A	N/A	N/A	N/A	1.20	1.08	2.40
2006	N/A	N/A	N/A	N/A	1.26	1.134	2.52
2007	N/A	N/A	N/A	N/A	1.33	1.20	2.66
2008	1.33	1.40	1.45	1.50	1.41	1.269	2.82
2009	1.35	1.47	1.57	1.67	1.49	1.341	2.96
2010	1.40	1.60	1.80	2.00	N/A	N/A	3.34
2011	1.43	1.66	1.92	2.17	N/A	N/A	3.42
2012	1.46	1.72	2.05	2.35	N/A	N/A	3.60
2013	1.49	1.78	2.19	2.54	N/A	N/A	3.78
2014	1.52	1.84	2.34	2.75	N/A	N/A	3.98

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

Fiscal Year	Meter Charge Rates (bi-monthly)								
	3/4 inch	1 inch	1 1/2 inch	2 inch	3 inch	4 inch	6 inch	8 inch	10 inch
2005	20.00	33.50	66.50	105.50	213.25	333.25	800.00	1,066.50	N/A
2006	20.00	33.50	66.50	105.50	213.25	333.25	800.00	1,066.50	1,600.00
2007	20.00	33.50	66.50	105.50	213.25	333.25	800.00	1,066.50	1,600.00
2008	20.60	34.40	68.60	109.80	206.00	343.40	686.60	1,098.60	1,648.00
2009	21.22	35.43	70.66	113.09	212.18	353.70	707.20	1,131.56	1,697.44
2010	23.34	38.98	77.73	124.41	233.42	389.11	777.99	1,244.83	1,867.36
2011	24.51	40.93	81.62	130.63	245.09	408.57	816.89	1,307.07	1,960.73
2012	25.73	42.98	85.70	137.17	257.35	429.00	857.73	1,372.42	2,058.76
2013	27.02	45.13	89.98	144.02	270.21	450.44	900.62	1,441.05	2,161.70
2014	28.37	47.38	94.48	151.22	283.72	472.97	945.65	1,513.10	2,269.79

Notes:

- (1) HCF = 100 Cubic Feet = 748 gallons
- (2) In 2008, the District adopted a tiered rate structure for residential customers. Prior to 2008, residential customers were charged a uniform rate equal to non-residential customers. Usage is based on a bi-monthly billing period. Non-residential customers are charged a uniform rate based on the average rate paid by residential customers.
- (3) In 2010, the District adopted a tiered rate structure for all customers except temporary/construction customers. The tier structure is based on meter sizes. From 2008 to 2010, only residential customers were billed on the tiered rate structure and the 3/4" tier allocation was used for all residential customers regardless of meter size.

SOURCE: Cucamonga Valley Water District – Ordinance 2010-6-1

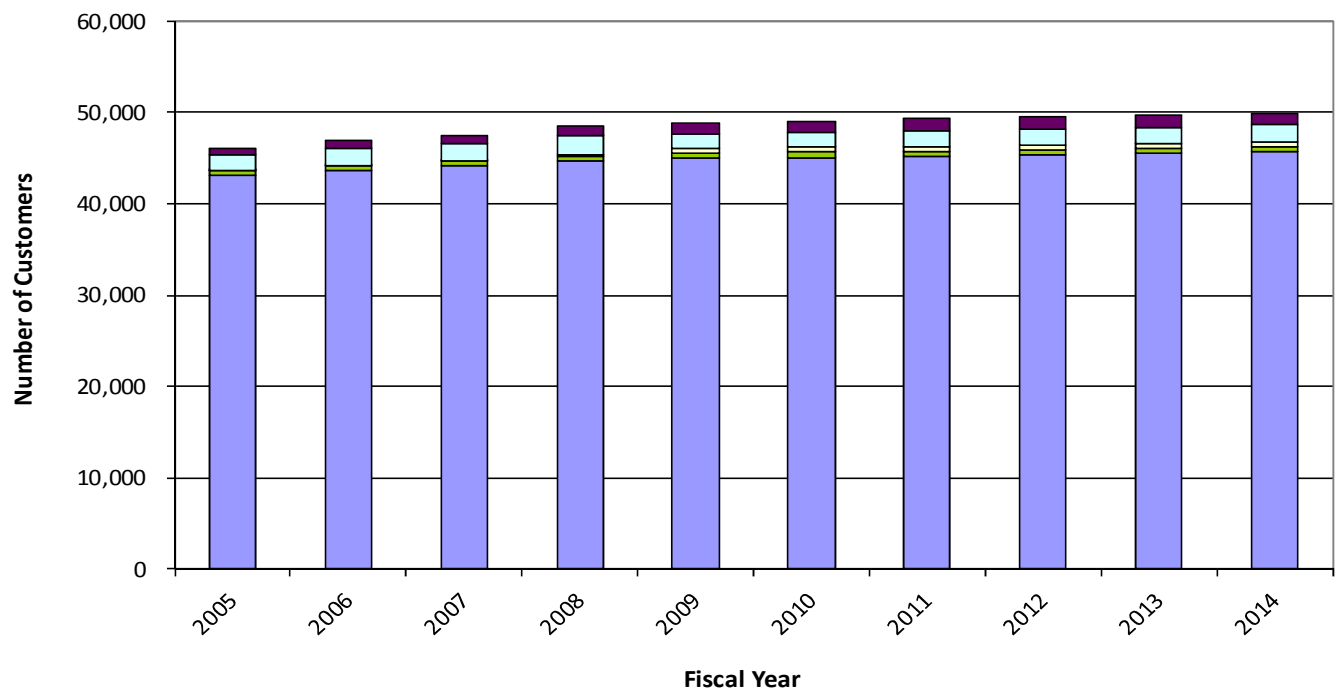
CUCAMONGA VALLEY WATER DISTRICT

Water Service Accounts

Last Ten Fiscal Years

Schedule 6

Fiscal Year	Customer Type					Total
	Domestic	Industrial	Government Irrigation	Landscape/Parkway	Fire Lines	
2005	43,083	498	30	1,693	780	46,084
2006	43,707	520	31	1,792	900	46,950
2007	44,140	538	31	1,847	948	47,504
2008	44,739	538	31	2,087	1,090	48,485
2009	44,987	538	551	1,570	1,145	48,791
2010	45,114	536	532	1,629	1,299	49,110
2011	45,164	536	514	1,777	1,315	49,306
2012	45,325	536	512	1,790	1,325	49,488
2013	45,557	536	511	1,807	1,333	49,744
2014	45,747	537	505	1,828	1,340	49,957



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

SOURCE: Cucamonga Valley Water District – Accounting Division

CUCAMONGA VALLEY WATER DISTRICT

Principal Water Customers

Current Fiscal Year and Nine Years Ago

Schedule 7

Customer	2014			2005		
	Annual Usage (HCF)	Percentage of Total	Rank	Annual Usage (HCF)	Percentage of Total	Rank
City of Rancho Cucamonga	1,067,204	4.67%	1	819,440	3.67%	1
Lewis Operating Corporation	457,551	2.00%	2	268,668	1.20%	3
City of Fontana	362,268	1.58%	3	459,003	2.06%	2
Caltrans	280,332	1.23%	4	N/A	N/A	N/A
County of San Bernardino	261,215	1.14%	5	237,588	1.06%	5
Etiwanda School District	259,800	1.14%	6	161,472	0.72%	9
Chaffey College	144,425	0.63%	7	229,056	1.03%	6
Alta Loma School District	126,358	0.55%	8	N/A	N/A	N/A
Frito Lay	123,838	0.54%	9	216,493	0.97%	7
Tamco Steel	115,771	0.51%	10	242,217	1.08%	4
San Gabriel Valley Water Co.	N/A	N/A	N/A	212,383	0.95%	8
Oak Creek Ranch Golf Club, Inc.	N/A	N/A	N/A	155,972	0.70%	10
Total	3,198,762	13.99%		3,002,292	13.44%	
Total Water Consumed (HCF)	22,867,224	100.00%		22,334,262	100.00%	

HCF = 100 cubic feet

SOURCE: Cucamonga Valley Water District – Accounting Division

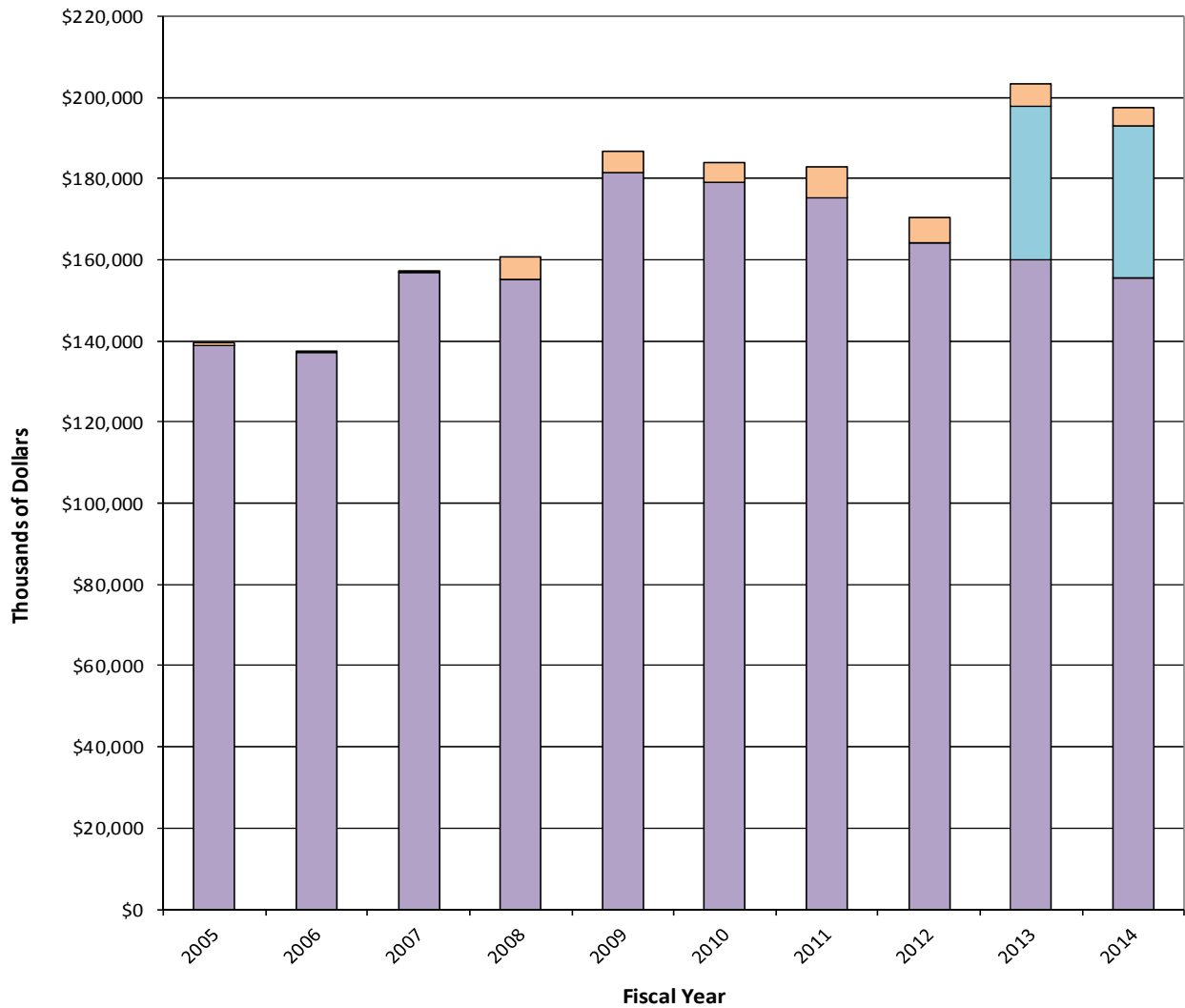
CUCAMONGA VALLEY WATER DISTRICT

Ratio of Outstanding Debt

Last Ten Fiscal Years

Schedule 8

Fiscal Year	Certificates of Participation (In Thousands)	Revenue Bonds (In Thousands)	Capital Lease and Loan (In Thousands)	Total		
				Debt (In Thousands)	\$ Per Capita	As a Share of Personal Income
2005	138,815	-	565	139,380	888.60	3.17%
2006	137,105	-	330	137,435	839.10	2.86%
2007	156,965	-	196	157,161	957.16	3.16%
2008	155,155	-	5,585	160,740	976.13	3.20%
2009	181,325	-	5,383	186,708	1,133.18	3.90%
2010	179,006	-	4,775	183,781	1,113.14	3.79%
2011	175,171	-	7,663	182,834	1,090.24	3.64%
2012	164,042	-	6,425	170,467	1,005.72	3.15%
2013	159,883	37,885	5,535	203,303	1,188.50	N/A
2014	155,619	37,195	4,756	197,569	1,146.66	N/A



N/A - Data not available for time period

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

SOURCE: Cucamonga Valley Water District – Accounting Division

CUCAMONGA VALLEY WATER DISTRICT

Debt Coverage

Last Ten Fiscal Years

Schedule 9

Fiscal Year	Gross Revenues ⁽¹⁾	Operating Expenses ⁽²⁾	Net Available Revenues	Debt Service			Coverage Ratio
				Principal	Interest	Total	
2005	47,349,832	26,408,785	20,941,047	1,655,000	6,845,149	8,500,149	2.46
2006	48,477,876	28,896,702	19,581,174	1,710,000	6,792,169	8,502,169	2.30
2007	61,701,693	33,243,062	28,458,631	1,750,000	7,501,456	9,251,456	3.08
2008	56,734,579	35,790,012	20,944,567	1,810,000	7,666,073	9,476,073	2.21
2009	49,436,612	37,308,718	12,127,894	2,200,000	8,144,911	10,344,911	1.17
2010	58,185,867	38,474,466	19,711,401	2,319,286	8,915,969	11,235,255	1.75
2011	55,925,269	35,869,003	20,056,266	3,834,286	8,881,014	12,715,300	1.58
2012	63,991,608	39,092,151	24,899,457	3,964,286	8,143,084	12,107,370	2.06
2013	65,876,075	39,882,260	25,993,815	4,159,285	8,961,630	13,120,915	1.98
2014	72,420,989	44,305,615	28,115,374	4,954,286	9,348,408	14,302,694	1.97

Notes:

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

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

SOURCE: Cucamonga Valley Water District – Accounting Division

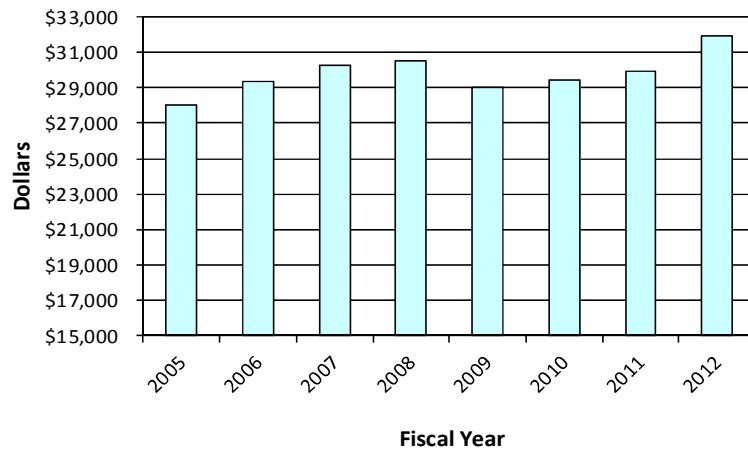
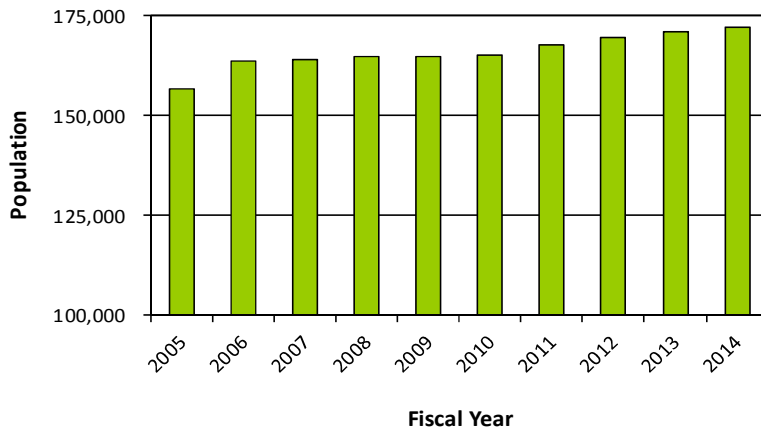
CUCAMONGA VALLEY WATER DISTRICT

Demographic and Economic Statistics

Last Ten Fiscal Years

Schedule 10

Year	Unemployment Rate	Population - Rancho Cucamonga	Riverside-San Bernardino-Ontario MSA	
			Personal Income (thousands of dollars)	Personal Income per Capita
2005	3.3%	156,854	108,598	28,020
2006	3.1%	163,788	116,925	29,330
2007	3.6%	164,195	123,046	30,252
2008	5.1%	164,671	125,620	30,539
2009	8.6%	164,764	120,805	29,035
2010	9.4%	165,101	124,840	29,409
2011	8.7%	167,701	128,982	29,961
2012	7.9%	169,498	138,767	31,900
2013	6.7%	171,058	N/A	N/A
2014	5.4%	172,299	N/A	N/A



N/A - Data not available for time period

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

CUCAMONGA VALLEY WATER DISTRICT*Principal Employers*

Current Fiscal Year

Schedule 11

<u>Employer</u>	<u>Number of Employees</u>	<u>Percentage of Total</u>
Chaffey Community College	1,229	1.73%
Etiwanda School District	1,058	1.49%
Amphastar Pharmaceutical	880	1.24%
City of Rancho Cucamonga	838	1.18%
Southern California Edison	800	1.13%
Alta Loma School District	670	0.94%
Mercury Casualty	606	0.85%
West Coast Liquidators	565	0.80%
Frito-Lay, Inc.	561	0.79%
Central School District	527	0.74%
Total	<u>7,734</u>	<u>10.89%</u>
Total Employment	<u>71,040</u>	<u>100.00%</u>

NOTE: Data is from June 2013 (latest available data).**SOURCE:** City of Rancho Cucamonga

CUCAMONGA VALLEY WATER DISTRICT

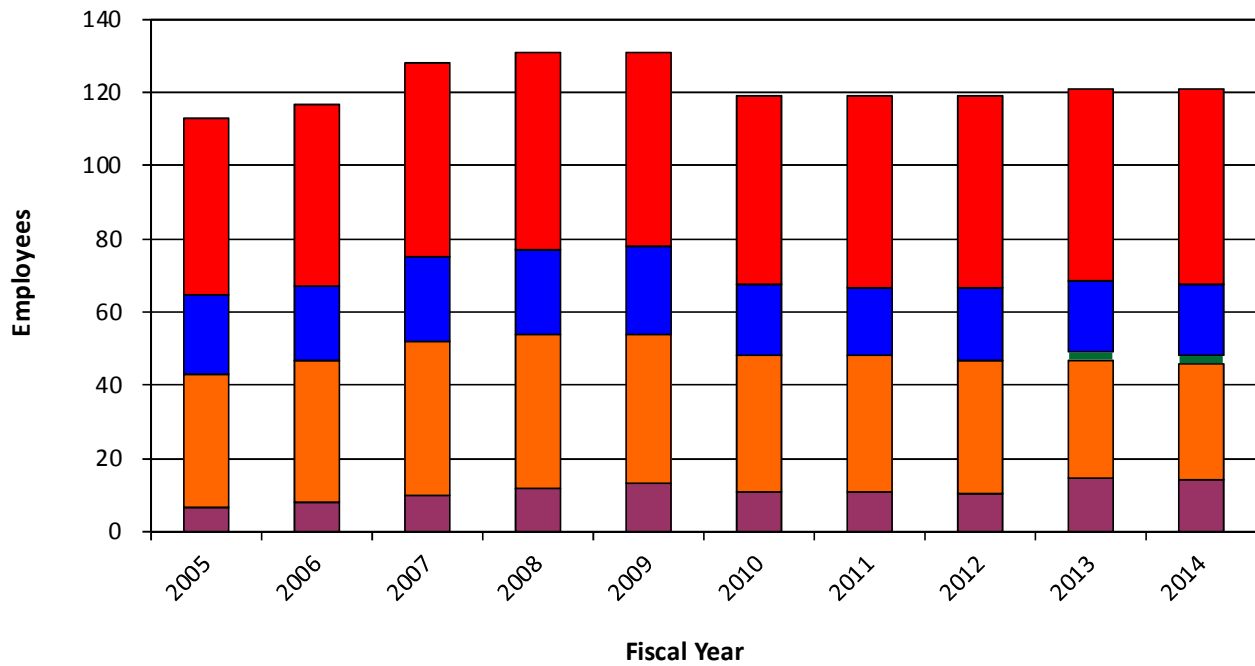
Personnel Trends

Last Ten Fiscal Years

Schedule 12

Full Time Equivalent Employees by Department

Fiscal Year	Department					Total
	Executive	Finance & Administration	General Services	Engineering	Operations	
2005	6.50	36.50	-	21.75	48.00	112.75
2006	8.00	39.00	-	20.00	49.75	116.75
2007	10.00	42.00	-	23.00	53.00	128.00
2008	12.00	42.00	-	23.00	54.00	131.00
2009	13.00	41.00	-	24.00	53.00	131.00
2010	11.00	37.00	-	19.50	51.50	119.00
2011	11.00	37.00	-	18.50	52.50	119.00
2012	10.50	36.50	-	19.50	52.50	119.00
2013	14.50	32.50	2.00	19.50	52.50	121.00
2014	14.00	32.00	2.00	19.50	53.50	121.00



SOURCE: Cucamonga Valley Water District – Human Resources Division

CUCAMONGA VALLEY WATER DISTRICT*Other Operating and Capacity Indicators*

Last Ten Fiscal Years

Schedule 13

Water System				
Fiscal Year	Miles of Water Mains	Number of Fire Hydrants	Annual Production (MG)	Average Production (MGD)
2005	712	8,484	17,411	47.7
2006	688	8,937	18,291	50.1
2007	727	8,968	20,297	55.6
2008	706	8,217	19,106	52.3
2009	708	8,227	18,380	50.4
2010	708	8,236	17,220	47.2
2011	710	8,245	15,804	43.3
2012	710	8,245	16,650	45.6
2013	710	8,315	17,245	47.2
2014	711	8,371	18,010	49.3

Sewer System				
Fiscal Year	Miles of Sewers	Service Connections	Annual Sewerage (MG)	Daily Sewerage (MGD)
2005	433	34,461	5,387	14.8
2006	443	34,941	5,747	15.7
2007	447	35,201	5,742	15.7
2008	418	35,658	6,127	16.8
2009	418	35,835	5,844	16.0
2010	418	36,025	5,358	14.7
2011	420	36,177	5,945	16.3
2012	420	36,448	5,990	16.4
2013	420	36,688	6,265	17.2
2014	421	36,884	6,645	18.2

AF - Acre Feet

MG - Millions of Gallons

MGD - Millions of Gallons per Day

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

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