



Yucaipa Valley Water District

12770 Second Street, Yucaipa, California 92399

Annual Financial Statements

for the

Fiscal Year Ending June 30, 2017

Board of Directors

Chris Mann
Division 1

Bruce Granlund
Divisions 2

Jay Bogh
Division 3

Lonni Granlund
Division 4

Thomas Shalhoub
Division 5

Financial Audit Preparation Team:

Administrative

Allison M. Edmisten, Chief Financial Officer

Kathryn Hallberg, Management Analyst

Matthew Porras, Management Analyst

Peggy Little, Administrative Supervisor

Erin Anton, Administrative Clerk IV

Sara Onate, Administrative Clerk IV

Tysa Baeumel, Administrative Clerk III

Public Works

Michael Rivera, Public Works Supervisor

Inventory Control

Joan Cadiz, Purchasing Agent



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INTRODUCTION

It is my pleasure to provide the following financial report for Yucaipa Valley Water District ("District") for the fiscal year ended on June 30, 2017. The financial report was prepared by District staff following guidelines set forth by the Governmental Accounting Standards Board.

The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

This report is organized into the following sections: (1) Transmittal Letter and District Overview; (2) Management Discussion & Analysis; (3) Audited Financial Statements; (4) Required Supplementary Information. The first section provides the reader with a general overview of the District. The Management Discussion & Analysis section offers a summary of significant financial results. The Audited Financial Statements section includes the Independent Auditors' Report. The Required Supplementary section provides information and schedules to supplement the basic financial statements.

OVERVIEW OF THE DISTRICT

The Yucaipa Valley Water District is made up of a proactive and diverse group of elected officials and employees dedicated to providing reliable water and sewer service in an efficient, cost effective manner that provides a high level of customer satisfaction. On May 1, 2002, the Board of Directors adopted the following mission statement to clearly reflect the vision and principles that guide the dedicated elected officials and employees of the District.

Yucaipa Valley Water District is committed to professionally managing the precious water, sewer and recycled water resources of the Yucaipa Valley in a reliable, efficient and cost effective manner in order to provide the finest service to our customers, both present and future.

We are entrusted to serve the public for the benefit of the community.

We believe in responsive, innovative and aggressive service, and take pride in getting the job done right the first time.

We encourage a work environment that fosters professionalism, creativity, teamwork and personal accountability.

We treat our customers and one another with fairness, dignity, respect and compassion and exhibit the utmost integrity in all we do.

We believe in enhancing the environment by following a general philosophy of eliminating waste and maximizing recycling and reuse of our natural resources.

We are committed to using the following operating principles as a guide to accomplishing our mission:

- We are proactive in our approach to issues.
- We are committed to integrity and consistently high ethical standards in all our business dealings.
- We use the strategic planning process to focus our efforts and minimize our crisis management mode.
- We make informed, rational and objective decisions.
- We aggressively pursue technological solutions to improve operations.
- We are inclusive in our decision making and delegate responsibility whenever possible.
- We design our services around customer wants and needs to the degree possible within our financial and regulatory constraints.
- We cultivate widespread commitment to common goals.

We believe our success depends on every employee knowing and sharing these values and principles.

This financial report is a reflection of the District's commitment to professionally manage the precious water, sewer and recycled water resources and infrastructure of the Yucaipa Valley in a reliable, efficient and cost effective manner in order to provide the finest service to our customers, both present and future.

To meet the mission of the District, the Board and staff members continue to proactively focus on water quality issues, water supply issues, infrastructure deficiencies, maintenance of existing systems and compliance with increasingly stringent regulatory requirements.

Historical Background

The District was formed as part of reorganization, pursuant to the Reorganization Act of 1965, being Division I of Title 6 of the Government Code of the State of California. This reorganization consisted of the formation of the District, dissolution of the Calimesa Water District and formation of Improvement District No. 1 of the District as successor-in-interest, and dissolution of Improvement District "A" of the San Bernardino Valley Municipal Water District and the formation of Improvement District "A" of the District as successor-in-interest. On September 14, 1971, the Secretary of State of the State of California certified and declared formation of the Yucaipa Valley County Water District. The District operates under the County Water District Law, being Division 12 of the State of California Water Code (the "Act"). Although the immediate function of the District was to provide water service, the District has assumed responsibility for providing recycled water and sewer service in Yucaipa Valley.

The District is located about 70 miles east of Los Angeles and 20 miles southeast of San Bernardino in the foothills of the San Bernardino Mountains and provides water, sewer and recycled water services.

As of June 30, 2017, the District provided service to 12,770 water connections (17,552 units), 13,964 sewer connections (21,150 units) and 103 recycled water connections.

Customer Type	Water Utility		Sewer Utility		Recycled Water Utility
	Number of Connections	Number of Units	Number of Connections	Number of Units	Number of Connections
Single Family	11,632	11,632	13,005	13,005	0
Multiple Units	510	5,292	650	7,827	0
Commercial	265	265	259	259	0
Institutional	103	103	47	56	0
Industrial	12	12	3	3	0
Irrigation	119	119	0	0	91
Fire Detectors	104	104	0	0	0
Construction	25	25	0	0	12
Total	12,770	17,552	13,964	21,150	103

Land and Land Use

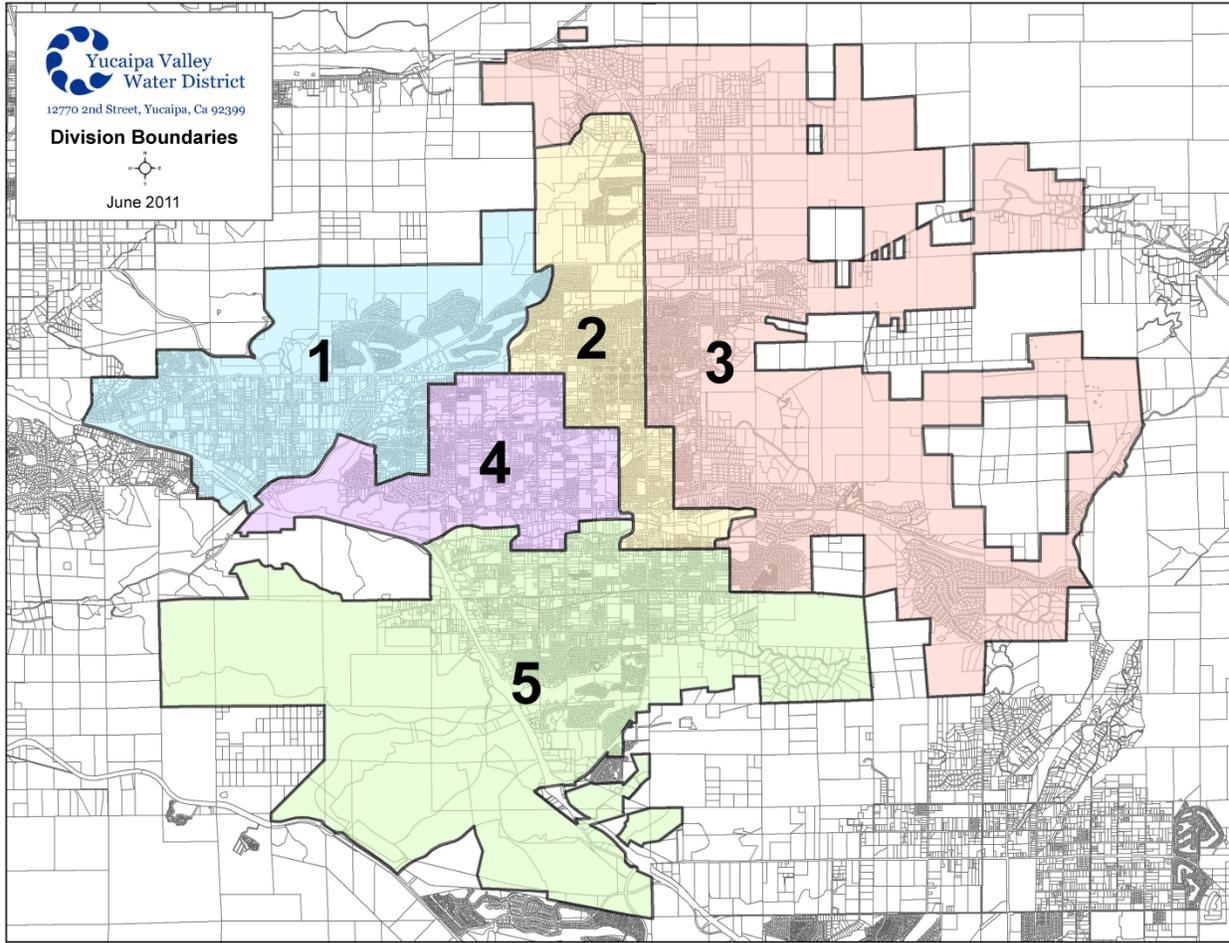
The altitude of the District rises from about 2,000 feet above sea level at the western end of the valley to about 5,000 feet at the eastern end, with average elevation of roughly 2,650 feet. The topography of the area is characterized by rolling hills separated by deeply entrenched stream beds, namely, the Yucaipa and Wilson Creeks. The District includes the incorporated cities of Yucaipa and Calimesa which are in San Bernardino and Riverside Counties respectively.

The District expects that the undeveloped land within its boundaries will continue to be developed consistent with the general plans as provided by the City of Yucaipa and the City of Calimesa. The projected population of the District in the year 2030 will be approximately 94,800, which reflects build-out of the City of Calimesa and the Oak Valley development. Although approximately 49.8% of the land within the boundaries of the District is currently undeveloped, less than 1% of District water sales are to agricultural water users.

Governance and Management

The District is governed by a 5-member board of directors (the “Board”), the members of which are elected from five separate divisions of the District for staggered 4-year terms. The current Board members, the expiration dates of their terms and their occupations are set forth below.

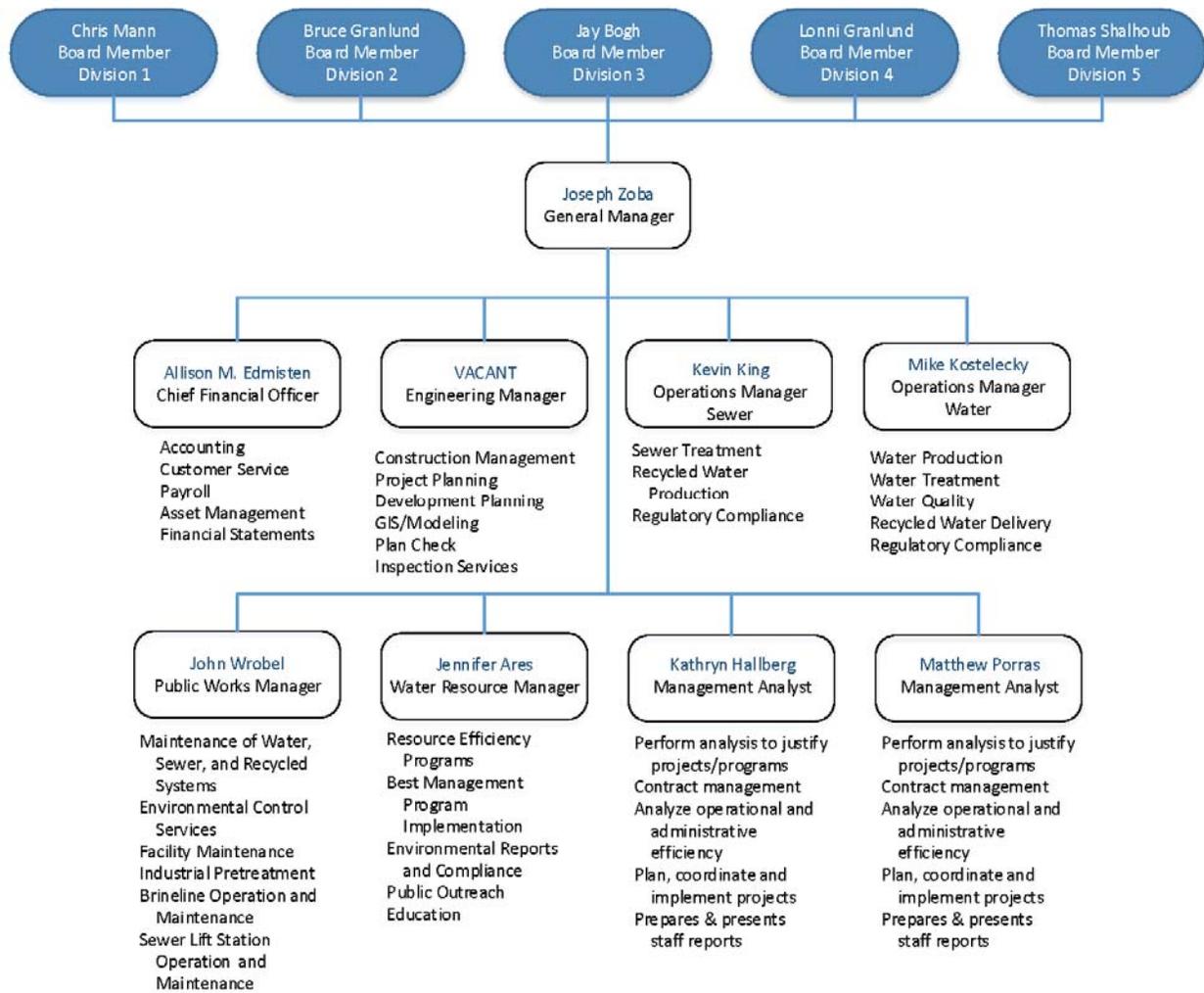
Member of the Board of Directors	Division	Initial Date of Service	Expiration of Term	Occupation
Chris Mann, Director	One	12/2/2016	2020	Public Relations Firm President
Bruce Granlund, Vice President	Two	12/23/1998	2018	Retired Senior District Attorney Investigator
Jay Bogh, President	Three	09/07/2005	2018	Building Firm Manager
Lonni Granlund, Director	Four	12/05/2008	2020	Property Manager/Real Estate Broker
Thomas Shalhoub, Director	Five	12/03/2014	2018	Retired Entrepreneur



The following individuals have served as President of the Board since the District was created in 1971.

Yucaipa Valley Water District Presidents of the Board	
October 1971 to November 1973	Harold Lockwood
December 1973 to November 1975	Hank Wochholz
December 1975 to October 1977	Geno Gasponi
November 1977 to November 1979	Eve Kraft
December 1979 to December 1983	Pete Squires
January 1984 to December 1987	Fred Childs
January 1988 to November 1989	George Sardeson
November 1989 to December 1991	Hank Wochholz
January 1992 to November 1993	David Lesser
December 1993 to December 1995	Conrad Nelson
December 1995 to December 1998	Steve Copelan
January 1999 to November 2002	Conrad Nelson
December 2002 to December 2006	Bruce Granlund
December 2006 to December 2008	Tom Shalhoub
December 2008 to December 2012	Jay Bogh
January 2013 to December 2014	Bruce Granlund
December 2014 to December 2016	Lonni Granlund
December 2016 to Present	Jay Bogh

Day-to-day management of the District is delegated to the General Manager who works closely with an executive team who ultimately oversee all of the District's services and functions.



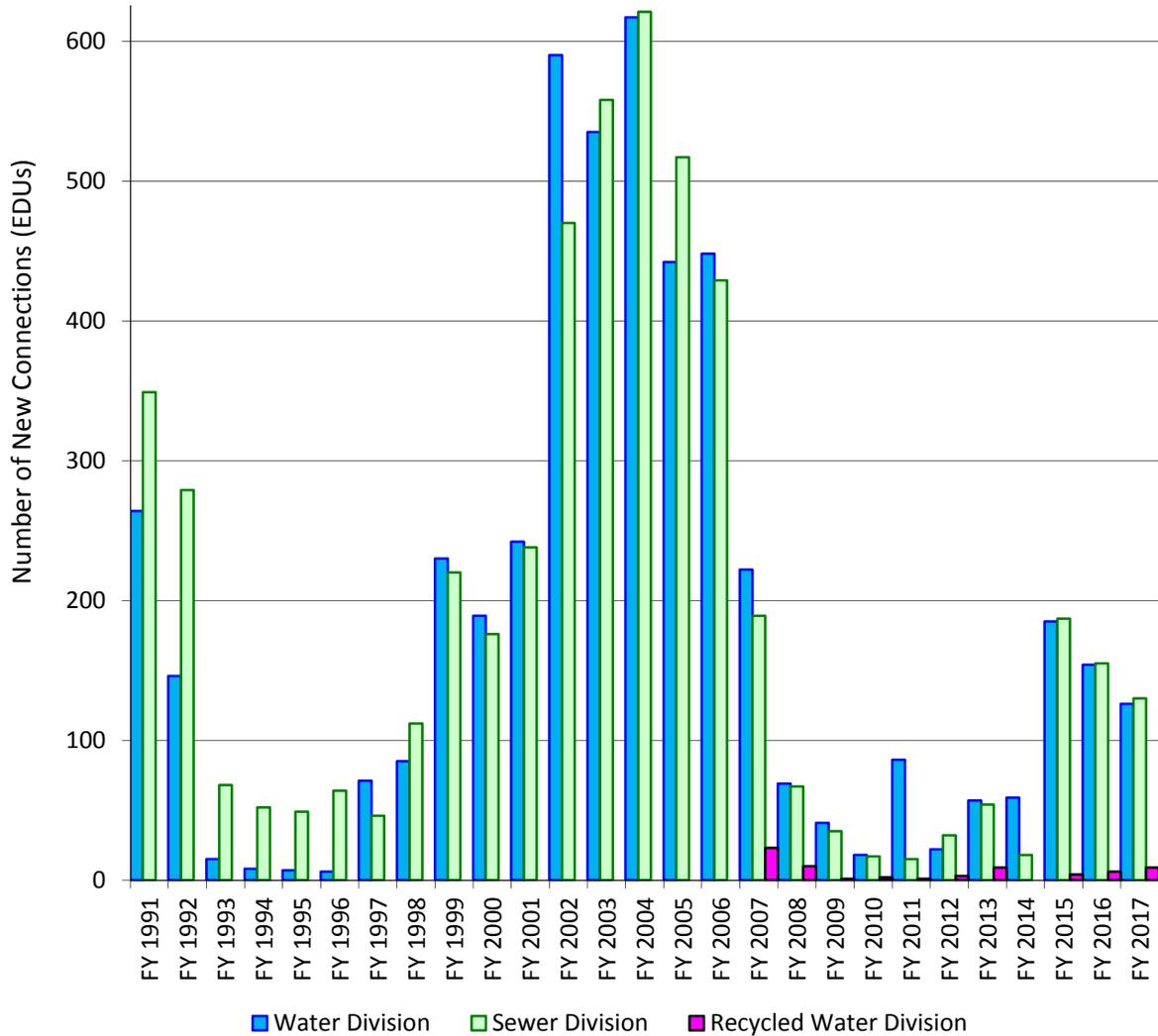
DEVELOPMENT ACTIVITY WITHIN THE DISTRICT

Facility Capacity Charges - Fiscal Year 2017

During this fiscal year, the District added 126 water connections, 130 sewer connections, and 9 recycled water connections. When compared to the development activity in the prior year, the District had 18.2% fewer water connections, 16.1% fewer sewer connections, but 50.0% more recycled water connections.

Fiscal Year	New Water Connections	New Sewer Connections	New Recycled Water Connections
2007	222	189	23
2008	69	67	10
2009	41	35	1
2010	18	17	2
2011	86	15	1
2012	22	32	3
2013	57	54	9
2014	59	18	0
2015	185	187	4
2016	154	155	6
2017	126	130	9

Historical Water, Sewer and Recycled Water New Connections



MAJOR INITIATIVES AND CONTROLS

Sustainability Initiative

California's water supply continues to be a concern due to projected population increases and limited capabilities to convey water throughout the state. On August 20, 2008 the Board of Directors adopted a *Strategic Plan for a Sustainable Future - The Integration and Preservation of Resources*. The purpose of this document was to document the proactive steps taken by the Yucaipa Valley Water District to improve the social, economic and environmental sustainability of our community. These actions have included the purchase of valuable watershed properties, protection of local water supplies and management of environmental corridors. While the decisions to embark on these actions have been generally unrelated, a look back in time indicates that the District has been progressing towards a more independent, flexible and sustainable future.

"The nation behaves well if it treats the natural resources as assets which it must turn over to the next generation increased, and not impaired in value."

- Theodore Roosevelt

The proactive steps taken by the District to protect and conserve our resources have been based on the concepts that: (1) resources are not limitless and therefore need to be conserved, nurtured and renewed; and (2) resources that are used to generate short-term gains result in an inefficient and inequitable consumption of resources that are not beneficial for a long-term

strategy. Both of these concepts help to guide the District to make decisions that are conservative, careful and conscious of the role we currently play in a long-term strategy to protect the community.

The purpose of pursuing a sustainability plan is twofold. First and foremost, the sustainability plan has been designed to establish the policies and guidelines necessary to protect and preserve the natural resources entrusted to the District for our customers. It is our business to maximize the use of our limited natural resources for the long-term economic growth and expansion of the local economy. In the arid southwest, the basic fuel to create and maintain a local economy is water. Secondly, the sustainability policy has been designed to provide a means to measure performance of the organization. While performance monitoring or benchmarking is not normally associated with sustainability, this document has been created with the intention that the goals and reporting requirements are designed around performance management across a wide range of disciplines.

"Sustainable development is . . . development that meets the needs of the present without compromising the ability of further generations to meet their own needs."

World Commission on Environment and Development, *Our Common Future*, 1987

With the use of this document the District is better equipped to:

- Identify the key challenges over the next five decades and assess the goals to overcome these challenges;
- Deal with the challenges of the future in a transparent manner involving stakeholders;
- Identify and manage risk in a reasonable and prudent manner with information, data and resources necessary to minimize the potential costs associated with certain scenarios; and

- Embark on a program to ensure that the generations that follow are provided with the necessary tools and resources to grow the community as the prior generation has done for us.

The implementation of this initiative will come about largely with the return of new development. However, the District has enacted additional measures for existing customers which largely involves the purchase of imported water to offset groundwater production by 15% beginning in January 2010.

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft or misuse. The internal control structure also ensures adequate accounting data is 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.

Budgetary Control

The District's 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 operations and capital projects. Budget adjustments are presented to the Board semi-annually for items that were not initially anticipated. The budget and reporting steps taken by the District are consistent with generally accepted accounting principles with monthly reporting of public documents for complete transparency and disclosure.

Investment Policy

The Board of Directors adopts an investment policy annually that conforms to state law, District ordinance and resolutions, and prudent money management. The District is extremely conservative in our approach to investing to maximize safety and protection of public funds.

Audit and Financial Reporting

State law and bond covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Vavrinek, Trine, Day & Co., LLP has conducted the audit of the District's financial statements. Their unmodified Independent Auditors' Report is attached.

Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

Board of Directors
Yucaipa Valley Water District
Yucaipa, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water, Sewer, and Recycled Water Enterprise Funds of the District, as of June 30, 2017, 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.

Emphasis of Matter

As described in Note 1 to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, as of July 1, 2016. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11, the Schedule of the District's Proportionate Share of the Net Pension Liability on page 42 and the Schedule of Contributions on page 43 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 transmittal letter listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The transmittal letter has 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 November 6, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Rancho Cucamonga, California
November 6, 2017

Management's Discussion & Analysis

This section of the Yucaipa Valley Water District's comprehensive annual financial report presents a discussion and analysis of the District's financial performance during the fiscal years ending June 30, 2016 and June 30, 2017. Please read it in conjunction with the transmittal letter at the front of this report and the District's basic financial statements following this section.

Yucaipa Valley Water District's financial statements consist of three enterprise funds: (W) water fund, (S) sewer fund, and (R) recycled water fund.

FINANCIAL HIGHLIGHTS

Based on the financial information for the fiscal year ending on June 30, 2017, the following financial highlights are noted for the Yucaipa Valley Water District.

- The District's net position decreased 0.95% to \$195,051,590.
- The District's total revenues increased 6.86% to \$25,130,707.
- The District's total expenses increased 11.03% to \$29,251,142.
- The capital contributions to the District totaled \$2,255,932 for the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Yucaipa Valley Water District's basic financial statements. The District's basic financial statements are comprised of three components: Financial Statements, Notes to the Financial Statements, and Required Supplementary Information.

The District's Basic Financial Statements are comprised of the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows.

The *Statement of Net Position* presents information on all District assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as *Net Position*. Over time, increases or decreases in Net Position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how Net Position changed during the fiscal year.

The *Statement of Cash Flows* presents information about the cash receipts and cash payments of the District during the fiscal year. When used with related disclosures and information in the other financial statements, the information provided in these statements should help financial report users assess the District's ability to generate future net cash flows, its ability to meet its obligations as they come due and its need for external financing. It also provides insight into the reasons for differences between operating income and associated cash receipts and payments; and the effects on the District's financial position of its cash and its non-cash investing, capital and related financing transactions during the year.

Notes to the Basic Financial Statements provides additional information that is essential to a full understanding of the data provided in the District's financial statements. The notes are included immediately following the financial statements within this report.

FINANCIAL ANALYSIS

The following table summarizes the changes in the Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position as of June 30, 2017.

Statement of Net Position

	2017	2016	Change	% Change
Assets				
Current assets - W	\$ 11,330,360	\$ 11,544,506	\$ (214,146)	-1.85%
Current assets - S	7,095,136	9,312,148	(2,217,012)	-23.81%
Current assets - R	1,246,567	2,009,043	(762,476)	-37.95%
Net capital assets - W	104,512,701	104,109,628	403,073	0.39%
Net capital assets - S	126,492,709	126,851,770	(359,061)	-0.28%
Net capital assets - R	25,361,342	25,697,088	(335,746)	-1.31%
Other assets - W	1,215,162	2,941,847	(1,726,685)	-58.69%
Other assets - S	893,163	893,163	-	0.00%
Other assets - R	519,372	394,035	125,337	31.81%
Total Assets	<u>278,666,512</u>	<u>283,753,228</u>	<u>(5,086,716)</u>	<u>-1.79%</u>
Deferred Outflows of Resources				
Deferred amounts related to pensions - W	1,082,348	550,974	531,374	96.44%
Deferred amounts related to pensions - S	821,871	411,885	409,986	99.54%
Deferred amounts related to pensions - R	63,935	7,915	56,020	707.77%
Total Deferred Outflows	<u>1,968,154</u>	<u>970,774</u>	<u>997,380</u>	<u>102.74%</u>
Total Assets and Deferred Outflows	<u>280,634,666</u>	<u>284,724,002</u>	<u>(4,089,336)</u>	<u>-1.44%</u>
Liabilities				
Current liabilities - W	4,373,260	3,302,038	1,071,222	32.44%
Current liabilities - S	4,100,811	4,077,988	22,823	0.56%
Current liabilities - R	38,664	25,516	13,148	51.53%
Long term liabilities - W	34,345,477	34,955,257	(609,780)	-1.74%
Long term liabilities - S	41,877,607	44,182,947	(2,305,340)	-5.22%
Long term liabilities - R	184,031	35,215	148,816	0.00%
Total Liabilities	<u>84,919,850</u>	<u>86,578,961</u>	<u>(1,659,111)</u>	<u>-1.92%</u>
Deferred Inflows of Resources				
Deferred amounts related to pensions - W	364,728	697,505	(332,777)	-47.71%
Deferred amounts related to pensions - S	276,953	521,425	(244,472)	-46.89%
Deferred amounts related to pensions - R	21,545	10,018	11,527	115.06%
Total Deferred Inflows	<u>663,226</u>	<u>1,228,948</u>	<u>(565,722)</u>	<u>-46.03%</u>
Net Position				
Net Investment in capital assets,				
Net of related debt - W	71,482,536	71,099,483	383,053	0.54%
Net of related debt - S	84,489,223	82,109,327	2,379,896	2.90%
Net of related debt - R	25,361,342	25,697,088	(335,746)	-1.31%
Restricted - W	1,215,162	2,941,847	(1,726,685)	-58.69%
Restricted - S	893,163	893,163	-	0.00%
Restricted - R	519,372	394,035	125,337	31.81%
Unrestricted - W	6,359,408	6,150,825	208,583	3.39%
Unrestricted - S	3,665,122	5,684,116	(2,018,994)	-35.52%
Unrestricted - R	1,066,262	1,946,209	(879,947)	-45.21%
Total Net Position	<u>195,051,590</u>	<u>196,916,093</u>	<u>(1,864,503)</u>	<u>-0.95%</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 280,634,666</u>	<u>\$ 284,724,002</u>	<u>\$ (4,089,336)</u>	<u>-1.44%</u>

Statement of Net Position – The District's net position decreased between fiscal years 2015-16 and 2016-17, decreasing from \$196,916,093 to \$195,051,590. The change can be seen in the condensed Statement of Net Position below as a \$1,864,503 decrease in net position.

As of July 1, 2014 and the District's adoption of Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68. These pronouncements resulted in a restatement of the District's beginning net position and inclusion of several new accounts on the District's financial statements. These new accounts include a \$5,665,085 net pension liability, \$663,225 in deferred inflow of resources (deferred amount on pensions) and \$1,968,154 in deferred outflows of resources from pension contributions made after the measurement date and amortization. These are further discussed in Defined Benefit Pension Plans in the accompanying pages.

The decrease in water, sewer and recycled current assets is attributed to the increased expenditures and operations in all funds. These funds experienced an increase in salaries and benefits due to multiple retirements of long term employees which increased one-time expenditures. In addition, there were multiple projects in these funds that resulted in one-time expenditures.

The decrease in other water assets is attributed to the Statewide Community Infrastructure Program (SCIP), formed to finance the construction and installation of a reservoir that will service properties located within Community Facilities District AD-14-01. Bonds were issued by community facilities districts for construction funding for the Reservoir 12.4. Yucaipa Valley Water District is not liable for the bonds, but is an acting agent for the bondholders. Additional information can be found in Note 18 of the report.

The increase in other recycled assets is attributed to the increased revenue in recycled water as a result of the increased use in the system.

The following table summarizes changes in Net Position for the year ended June 30, 2017.

Statement of Revenues, Expenses and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
Operating Revenues				
Water Services	\$ 9,650,242	\$ 8,646,298	\$ 1,003,944	11.61%
Sewer Services	11,446,746	11,196,247	250,499	2.24%
Recycled Services	541,078	398,567	142,511	35.76%
Interfund Services Provided	160,000	160,000	-	0.00%
Other Revenue	1,080	1,905	(825)	-43.31%
Total Operating Revenues	<u>21,799,146</u>	<u>20,403,017</u>	<u>1,396,129</u>	<u>6.84%</u>
Non-Operating Revenues				
Interest Income	109,528	90,695	18,833	20.77%
Property Taxes	3,113,201	2,934,543	178,658	6.09%
Other Income	108,832	88,905	19,927	22.41%
Total Non-Operating Revenues	<u>3,331,561</u>	<u>3,114,143</u>	<u>217,418</u>	<u>6.98%</u>
Total Revenues	<u>25,130,707</u>	<u>23,517,160</u>	<u>1,613,547</u>	<u>6.86%</u>
Operating Expenses				
Salaries & Benefits - W	4,169,048	3,499,728	669,320	19.12%
Salaries & Benefits - S	3,050,467	2,624,212	426,255	16.24%
Salaries & Benefits - R	442,479	261,717	180,762	69.07%
Operating Expenses - W	4,803,011	4,548,256	254,755	5.60%
Operating Expenses - S	4,159,237	3,608,871	550,366	15.25%
Operating Expenses - R	614,295	453,089	161,206	35.58%
Water Purchases - W	1,637,696	920,056	717,640	78.00%
Depreciation & Amortization - W	3,320,698	3,312,043	8,655	0.26%
Depreciation & Amortization - S	4,110,293	4,086,215	24,078	0.59%
Depreciation & Amortization - R	797,844	784,075	13,769	1.76%
Total Operating Expenses	<u>27,105,068</u>	<u>24,098,262</u>	<u>3,006,806</u>	<u>12.48%</u>
Non-Operating Expenses				
(Gain)/Loss on Asset Disposal	16,244	12,116	4,128	100.00%
Interest Expense - W	1,084,998	1,121,714	(36,716)	-3.27%
Interest Expense - S	1,044,832	1,111,539	(66,707)	-6.00%
Total Non-Operating Expenses	<u>2,146,074</u>	<u>2,245,369</u>	<u>(99,295)</u>	<u>-4.42%</u>
Total Expenses	<u>29,251,142</u>	<u>26,343,631</u>	<u>2,907,511</u>	<u>11.04%</u>

Statement of Revenues, Expenses and Changes in Net Position

	2017	2016	Change	% Change
Income (Loss) Before Contributions - W	\$ (2,207,500)	\$ (1,709,210)	\$ (498,290)	29.15%
Income (Loss) Before Contributions - S	(628,275)	(42,615)	(585,660)	1374.30%
Income (Loss) Before Contributions - R	<u>(1,284,660)</u>	<u>(1,074,646)</u>	<u>(210,014)</u>	19.54%
Total Income (Loss) Before Contributions	<u>(4,120,435)</u>	<u>(2,826,471)</u>	<u>(1,293,964)</u>	45.78%
Contributions				
Capital Contributions - W	1,072,451	3,108,944	(2,036,493)	-65.50%
Capital Contributions - S	989,177	2,132,714	(1,143,537)	-53.62%
Capital Contributions - R	<u>194,304</u>	<u>195,886</u>	<u>(1,582)</u>	-0.81%
	<u>2,255,932</u>	<u>5,437,544</u>	<u>(3,181,612)</u>	-119.93%
Change in Net Position - W	(1,135,049)	1,399,734	(2,534,783)	-181.09%
Change in Net Position - S	360,902	2,090,099	(1,729,197)	-82.73%
Change in Net Position - R	(1,090,356)	(878,760)	(211,596)	24.08%
Beginning Net Position	196,916,093	194,305,020	2,611,073	1.34%
Ending Net Position	<u>\$ 195,051,590</u>	<u>\$ 196,916,093</u>	<u>\$ (1,864,503)</u>	<u>-0.95%</u>

The Statement of Revenues, Expenses and Changes in Net Position provides the nature and source of these changes. As can be seen in the preceding table, the loss before capital contributions of \$4,120,435 and capital contributions of \$2,255,932 offset the decrease in Net Position of \$1,864,503 in Fiscal Year 2017.

On January 17, 2014, Governor Brown issued a proclamation of a state of emergency under the California Emergency Services Act based on drought conditions. On April 25, 2014, Governor Brown issued a proclamation of a continued state of emergency based on continued drought. Yucaipa Valley Water District has taken steps over the years to reduce drinking water use by implementing an extensive recycled water system and asking customers to cut back usage on potable water. This resulted in \$142,511 increased recycled water services revenue. In addition, the drought restrictions were reduced in 2017 which resulted in increased water services revenue.

The recycled water operations continue to expand resulting in increased overall expenses.

With additional water supplies available, the Board of Directors authorized an additional 7,000-acre feet of imported water from the San Bernardino Valley Municipal Water District for use at the Yucaipa Valley Regional Water Filtration Facility as well as recharge at the Wilson Creek Spreading Basins.

During fiscal year 2016-17 there were multiple projects in all funds that resulted in one-time expenses. For example, the repair and maintenance to the administrative building was completed late in the fiscal year. The sewer fund expenditures increased as a result of the increased usage of the brineline which increased the use of the reverse osmosis system as well as ongoing maintenance costs. Finally, the regulatory compliance expenditures in the recycled fund increased from the prior year.

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

At the end of Fiscal Year 2017, the District had invested \$256,366,752 in a broad range of infrastructure as shown below.

Schedule of Capital Assets				
	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
Non-Depreciable Assets				
Land & Easements	\$ 5,587,305	\$ 5,587,305	\$ -	0.00%
Water Rights	9,132,619	5,919,976	3,212,643	54.27%
Construction in Progress	19,946,849	15,742,545	4,204,304	26.71%
Total Non-Depreciable Assets	<u>34,666,773</u>	<u>27,249,826</u>	<u>7,416,947</u>	<u>27.22%</u>
Depreciable Assets				
Structures & Improvements	330,566,916	330,304,418	262,498	0.08%
Equipment	6,353,764	6,101,285	252,479	4.14%
Total Depreciable Assets	<u>336,920,680</u>	<u>336,405,703</u>	<u>514,977</u>	<u>0.15%</u>
Less Accumulated Depreciation	<u>(115,220,701)</u>	<u>(106,997,046)</u>	<u>(8,223,655)</u>	<u>7.69%</u>
Net Depreciable Assets	221,699,979	229,408,657	(7,708,678)	-3.36%
Total Capital Assets, Net	<u><u>\$ 256,366,752</u></u>	<u><u>\$ 256,658,483</u></u>	<u><u>\$ (291,731)</u></u>	<u><u>-0.11%</u></u>

As of June 30, 2017, water rights increased by \$3,212,643, primarily in the sewer fund due to a purchase approved by the Board of Directors from the San Bernardino Valley Municipal Water District for an increase in pipeline capacity for the Brineline. In addition, construction in progress increased \$4,204,304, primarily in the water fund with the majority of the construction attributed to the SCIP reservoir project R-12.4 and the Date and Dodd pipeline.

Additional information on the District's capital assets can be found in Note 3 of this report.

Long-term obligations, including current portion, total \$84,919,850 as of June 30, 2017, a decrease of \$1,659,111 from \$86,578,961 as of June 30, 2016. The long-term obligations were comprised of compensated absences, water revenue bonds and sewer fund state revolving fund (SRF) loans for the WRWRF plant expansion, Regional Brineline Extension, (WISE) Wochholz Improved Salinity Effluent Project, Non-Potable Reservoir NR-10.3.1 project and the Crow Street Recycled Project.

Schedule of Liabilities

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>% Change</u>
Long Term Obligations:				
Compensated absences	\$ 799,337	\$ 869,121	\$ (69,784)	-8.03%
Refunding Revenue Bonds - Water	30,744,780	31,980,145	(1,235,365)	-3.86%
State Revolving Fund Loan - Sewer	39,197,914	42,003,486	(2,805,572)	-6.68%
Net Pension Liability	5,665,084	4,320,667	1,344,417	31.12%
Total Long Term Obligations	<u>76,407,115</u>	<u>79,173,419</u>	<u>(2,766,304)</u>	<u>-3.49%</u>
Current Portion of Obligations:				
Compensated Absences	392,079	429,655	(37,576)	-8.75%
Refunding Revenue Bonds - Water	1,065,000	1,030,000	35,000	3.40%
State Revolving Fund Loan - Sewer	2,805,572	2,738,957	66,615	2.43%
Other Current Liabilities	4,250,084	3,206,930	1,043,154	32.53%
Total Current Obligations	<u>8,512,735</u>	<u>7,405,542</u>	<u>1,107,193</u>	<u>14.95%</u>
Total Liabilities	<u>\$ 84,919,850</u>	<u>\$ 86,578,961</u>	<u>\$ (1,659,111)</u>	<u>-1.92%</u>

Additional information on the District's long-term obligations can be found in Notes 4 through 12 of this report.

Requests for Information

This financial report is designed to provide a general overview of the financial position of the Yucaipa Valley Water District for all those with an interest in the government's finances.

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Allison M. Edmisten, Chief Financial Officer at 12770 Second Street, Yucaipa, California 92399.

Financial Statements



YUCAIPA VALLEY WATER DISTRICT

STATEMENT OF NET POSITION PROPRIETARY FUNDS JUNE 30, 2017

	Enterprise Funds			
	Water	Sewer	Recycled Water	Total
ASSETS				
Current Assets:				
Cash and investments	\$ 7,798,287	\$ 5,546,282	\$ 1,132,017	\$ 14,476,586
Accounts receivable, net	1,474,106	1,533,490	111,134	3,118,730
Taxes and assessments receivable	76,799			76,799
Interest receivable	15,367	15,364	3,416	34,147
Inventory	696,253			696,253
Prepayments and deposits	1,269,548			1,269,548
Total Current Assets	11,330,360	7,095,136	1,246,567	19,672,063
Noncurrent Assets:				
Restricted investments	1,215,162	893,163	519,372	2,627,697
Capital assets not being depreciated	15,382,938	12,934,787	6,349,048	34,666,773
Capital assets being depreciated, net	89,129,763	113,557,922	19,012,294	221,699,979
Total Noncurrent Assets	105,727,863	127,385,872	25,880,714	258,994,449
TOTAL ASSETS	117,058,223	134,481,008	27,127,281	278,666,512
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amounts related to pensions	1,082,348	821,871	63,935	1,968,154
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	1,521,967	413,004	38,664	1,973,635
Customer deposits	119,680			119,680
Developer/construction deposits	1,026,895			1,026,895
Accrued interest payable	416,738	713,136		1,129,874
Current portion of long-term liabilities:				
Compensated absences	222,980	169,099		392,079
Certificates of participation	1,065,000			1,065,000
State revolving fund loans		2,805,572		2,805,572
Total Current Liabilities	4,373,260	4,100,811	38,664	8,512,735
Long-Term Liabilities:				
Compensated absences	485,296	314,041		799,337
Certificates of participation	30,744,780			30,744,780
State revolving fund loans		39,197,914		39,197,914
Net pension liability	3,115,401	2,365,652	184,031	5,665,084
Total Long-Term Liabilities	34,345,477	41,877,607	184,031	76,407,115
TOTAL LIABILITIES	38,718,737	45,978,418	222,695	84,919,850
DEFERRED INFLOWS OF RESOURCES				
Deferred amounts related to pensions	364,728	276,953	21,545	663,226
NET POSITION				
Net investment in capital assets	71,482,536	84,489,223	25,361,342	181,333,101
Restricted for:				
Debt service		893,163		893,163
Capital projects	1,215,162		519,372	1,734,534
Unrestricted	6,359,408	3,665,122	1,066,262	11,090,792
TOTAL NET POSITION	\$ 79,057,106	\$ 89,047,508	\$ 26,946,976	\$ 195,051,590

The accompanying notes are an integral part of these financial statements.

YUCAIPA VALLEY WATER DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017**

	Enterprise Funds			Total
	Water	Sewer	Recycled Water	
OPERATING REVENUES				
Charges for current services	\$ 9,650,242	\$ 11,446,746	\$ 541,078	\$ 21,638,066
Interfund services provided	160,000			160,000
Other revenue		1,080		1,080
Total Operating Revenues	9,810,242	11,447,826	541,078	21,799,146
OPERATING EXPENSES				
Salaries and employee benefits	4,169,048	3,050,467	442,479	7,661,994
Electrical power	1,273,459	881,628	117,539	2,272,626
Water purchases	1,637,696			1,637,696
Administrative services	485,581	451,404	53,964	990,949
Operating supplies	204,536	719,647	5,597	929,780
Maintenance and repairs	1,331,507	791,040	136,814	2,259,361
Crystal Creek Water Treatment	750,060			750,060
Brineline charges		405,210		405,210
Depreciation	3,320,698	4,110,293	797,844	8,228,835
Insurance	94,597	94,407	20,957	209,961
Professional fees	614,579	511,512	172,366	1,298,457
Other	48,692	304,389	107,058	460,139
Total Operating Expenses	13,930,453	11,319,997	1,854,618	27,105,068
Operating Income (Loss)	(4,120,211)	127,829	(1,313,540)	(5,305,922)
NON-OPERATING REVENUES (EXPENSES)				
Interest income	50,092	48,629	10,807	109,528
Property taxes	2,858,701	236,500	18,000	3,113,201
Other income	105,160	3,599	73	108,832
Loss on disposal of assets	(16,244)			(16,244)
Interest expense	(1,084,998)	(1,044,832)		(2,129,830)
Total Non-Operating Revenues (Expenses)	1,912,711	(756,104)	28,880	1,185,487
Income (Loss) Before Contributions	(2,207,500)	(628,275)	(1,284,660)	(4,120,435)
CONTRIBUTIONS				
Capital contributions	1,072,451	989,177	194,304	2,255,932
Change in Net Position	(1,135,049)	360,902	(1,090,356)	(1,864,503)
Net Position, Beginning of Year	80,192,155	88,686,606	28,037,332	196,916,093
Net Position, End of Year	\$ 79,057,106	\$ 89,047,508	\$ 26,946,976	\$ 195,051,590

The accompanying notes are an integral part of these financial statements.

YUCAIPA VALLEY WATER DISTRICT

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2017

	Enterprise Funds			
	Water	Sewer	Recycled Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 9,436,366	\$ 11,416,913	\$ 515,530	\$ 21,368,809
Receipts (payments) from interfund services provided	160,000	(160,000)		
Payments to suppliers	(5,743,331)	(3,977,746)	(601,147)	(10,322,224)
Employment related payments	(4,427,842)	(3,222,041)	(338,156)	(7,988,039)
Net Cash Provided by/(Used for) Operating Activities	(574,807)	4,057,126	(423,773)	3,058,546
CASH FLOWS FROM CAPITAL AND AND RELATED FINANCING ACTIVITIES				
Capital contributions	1,072,451	962,177	194,304	2,228,932
Cash paid for capital assets	(3,756,259)	(3,724,231)	(462,098)	(7,942,588)
Principal paid on capital debt	(1,030,000)	(2,738,957)		(3,768,957)
Interest paid on capital debt	(1,265,664)	(1,092,768)		(2,358,432)
Net Cash Provided by/(Used for) Capital and Related Financing Activities	(4,979,472)	(6,593,779)	(267,794)	(11,841,045)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Property taxes received	2,863,902	236,500	18,000	3,118,402
Other receipts	105,160	3,599	73	108,832
Net Cash Provided by Non-Capital Financing Activities	2,969,062	240,099	18,073	3,227,234
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	45,821	44,359	9,858	100,038
Net Increase/(Decrease) in Cash and Cash Equivalents	(2,539,396)	(2,252,195)	(663,636)	(5,455,227)
Balances, Beginning of Year	11,552,845	8,691,640	2,315,025	22,559,510
Balances, End of Year	\$ 9,013,449	\$ 6,439,445	\$ 1,651,389	\$ 17,104,283
Reconciliation to Statement of Net Position:				
Cash and investments	\$ 7,798,287	\$ 5,546,282	\$ 1,132,017	\$ 14,476,586
Restricted cash and investments - Non-current	1,215,162	893,163	519,372	2,627,697
Total Cash and Investments	\$ 9,013,449	\$ 6,439,445	\$ 1,651,389	\$ 17,104,283

The accompanying notes are an integral part of these financial statements.

YUCAIPA VALLEY WATER DISTRICT

STATEMENT OF CASH FLOWS, Continued PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2017

	Enterprise Funds			
	Water	Sewer	Recycled Water	Total
RECONCILIATION OF OPERATING Income (Loss) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (loss)	\$ (4,120,211)	\$ 127,829	\$ (1,313,540)	\$ (5,305,922)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	3,320,698	4,110,293	797,844	8,228,835
Loss on disposal	16,244			16,244
Change in assets and liabilities:				
Receivables, net	(156,839)	(30,914)	(25,547)	(213,300)
Compensated absences	(57,794)	(49,566)		(107,360)
Prepayments and deposits	(458,648)			(458,648)
Developer and customer deposits	(57,037)			(57,037)
Inventory	15,993			15,993
Accounts and other payables (non-capital)	1,123,787	21,492	13,148	1,158,427
Net pension liability	663,151	532,450	148,816	1,344,417
Change in deferred outflows of resources related to pensions	(531,374)	(409,986)	(56,020)	(997,380)
Change in deferred inflows of resources related to pensions	(332,777)	(244,472)	11,526	(565,723)
Net Cash Provided by Operating Activities	\$ (574,807)	\$ 4,057,126	\$ (423,773)	\$ 3,058,546
SUPPLEMENTAL DISCLOSURE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Contributed capital assets	\$ -	\$ 27,000	\$ -	\$ 27,000

The accompanying notes are an integral part of these financial statements.

YUCAIPA VALLEY WATER DISTRICT

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2017**

	SCIP R-12.4 Reservoir Agency Fund
ASSETS	
Cash and cash equivalents	<u>\$ 820,175</u>
LIABILITIES	
Due to other governments	<u>\$ 820,175</u>

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements



YUCAIPA VALLEY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Yucaipa Valley Water District (the District) is a special-purpose government district providing water distribution and sewer collection and treatment for consumers within its service area. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. Basis of Presentation

Fund Financial Statements - The District solely operates as a Special-Purpose Government which means it is only engaged in business-type activities, accordingly activities are reported in proprietary funds.

The District has the following major proprietary funds:

- Water – This fund accounts for the activities of the District's drinking water supply system.
- Sewer – This fund accounts for the activities of the District's sewage treatment plant, pumping stations, and collection systems.
- Recycled Water – This fund accounts for the activities of the District's recycled water supply system.

The SCIP R-12.4 Reservoir agency fund utilizes the accrual basis of accounting for reporting its assets and liabilities. This fund is used to account for receipts and disbursements associated with Assessment District AD-14-01, which is administered by, but is not the liability of, the District.

C. Basis of Accounting

Proprietary fund financial statements are reported using the *economic resources measurement focus* and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes apply. Property taxes are collected for the District by the Counties of San Bernardino and Riverside. Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses include the costs of sales and services, the costs of employee benefits, maintenance of capital assets, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

YUCAIPA VALLEY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

D. Capital Assets

Capital assets purchased or constructed are carried at cost. Constructed costs include labor, materials and construction period interest expense (net of interest income, where applicable). Capitalization threshold is \$5,000. Contributed assets are stated at acquisition value at the time received by the District. Depreciation is calculated on the straight-line method over the following estimated useful lives of the assets:

Structures and improvements	10 – 50 years
Equipment	4 – 10 years

E. Restricted Investments

Various resources of the District are limited as to their use by law or by debt covenants and are classified on the balance sheet as restricted investments. Undisbursed debt proceeds are restricted for repayment of the debt and project costs. Also, fees imposed on new real estate development are restricted by law for the construction of capital improvements which benefit the development projects.

F. Inventory

Inventory is stated at the lower of cost, using the average cost method, or market.

G. Cash and Cash Equivalents

All cash and investments are held in the District's cash management pool. Therefore, for purposes of the statement of cash flows, the District considers the entire pooled cash and investment balance to be cash and cash equivalents.

H. Investments

Investments are reported at fair value which is the amount at which financial instruments could be exchanged in a current transaction between willing parties. All fair values are determined by external consultants. Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Management reviews investments for events that might affect fair value measurements of investments on a monthly basis. The evaluation is performed at the lowest level of identifiable unit of account.

I. Use of Estimates

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

YUCAIPA VALLEY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *(Continued)*

J. Uncollectible Accounts

The District provides an allowance for doubtful accounts for all accounts deemed uncollectible. As of June 30, 2017, this allowance was estimated at \$20,000 in the Water Fund and \$9,572 in the Sewer Fund.

K. Credit/Market Risk

The District provides water, sewer, and recycled water services to local residential and commercial customers. As part of normal operating practices, credit is granted to local customers, on an unsecured basis.

L. Use of Restricted Resources

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

M. Net Position

Net investment in capital assets consists of capital assets reduced by accumulated depreciation and by any outstanding debt incurred to acquire, construct, or improve those assets.

Restricted net position consists of those restricted assets reduced by liabilities related to those assets.

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

N. Pensions

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

O. 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 and will not be recognized as an outflow of resources until then. The government only has one item that qualifies for reporting in this category. It is the deferred outflow related to pensions which is the result of the implementation of GASB 68 representing the District's pension contributions made subsequent to the measurement date, change in proportion and the difference between projected and actual earnings on investments.

YUCAIPA VALLEY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

O. Deferred Outflows/Inflows of Resources, (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources until that time. The government has only one type of item, deferred amounts related to pensions. This item is the result of the implementation of GASB 68 representing the change in proportion and the change in assumptions used in the pension calculation.

P. New Accounting Pronouncements

Effective in this Fiscal Year

GASB Statement No. 82 – In March 2016, GASB issued Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The District implemented as of July 1, 2016.

Effective in Future Fiscal Years

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement is effective for periods beginning after June 15, 2017. The district has not determined the effect on the financial statements.

GASB Statement No. 81 – In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement are effective for reporting periods beginning after December 15, 2016. The district has not determined the effect on the financial statements.

YUCAIPA VALLEY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

P. New Accounting Pronouncements, (Continued)

Effective in Future Fiscal Years (Continued)

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this statement is to enhance comparability of financial statements by establishing uniform criteria for governments to recognize and measure certain asset retirement obligations and requiring disclosures related to those asset retirement obligations. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The district has not determined the effect on the financial statements.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and reporting purposes and how those activities should be reported. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The district has not determined the effect on the financial statements.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. The district has not determined the effect on the financial statements.

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. The district has not determined the effect on the financial statements.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The district has not determined the effect on the financial statements.

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – CASH AND INVESTMENTS

Cash and investments are classified as the accompanying financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 14,476,586
Restricted investments - Non-current	2,627,697
Statement of Fiduciary Assets and Liabilities	
Cash and cash equivalents	820,175
Total Cash and Investments	<u><u>\$ 17,924,458</u></u>

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

Petty cash	\$ 800
Cash	557,111
Investments	17,366,547
Total Cash and Investments	<u><u>\$ 17,924,458</u></u>

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
Money Market Accounts	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by the bond trustee is governed by provisions of the debt agreement, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of the debt agreement that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Repurchase Agreements	365 days	None	None
Negotiable Certificates of Deposit	None	30%	None
Money Market Mutual Funds	None	None	None

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	Fair Value	Maturity 12 Months or Less
LAIF	\$ 15,311,404	\$ 15,311,404
U.S. Treasury Bills	497,450	497,450
Money Market Funds	1,557,693	1,557,693
Total	<u>\$ 17,366,547</u>	<u>\$ 17,366,547</u>

YUCAIPA VALLEY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Disclosures Relating to 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 rating as of year-end for each investment type:

	Fair Value	S&P Rating at June 30, 2017
LAIF	\$ 15,311,404	Unrated
U.S. Treasury Bills	497,450	AA+
Money Market Funds	1,557,693	AAAm
Total	<u>\$ 17,366,547</u>	

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. The California Government Code and the Yucaipa Valley Water 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 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. Bank deposits are covered by the federal depository insurance (FDIC) for the first \$250,000. As of June 30, 2017, the District has \$864,293 of cash in excess of the FDIC limit. The uninsured deposits were held by financial institutions, which are legally required by the California Government Code to collateralize the District's deposits as noted above.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF has a portion of the pool invested in structured notes and asset backed securities. 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 registered with the Securities and Exchange Commission and is not rated. Deposits and withdrawals to and from LAIF are transferred on the basis of \$1 and not fair value. Accordingly, under the fair value hierarchy, LAIF is valued based on inputs not categorized as level 1, level 2, or level 3.

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Fair Value Hierarchy

The district categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The district has the following recurring fair value measurements as of year-end.

As of June 30, 2017:

Investments by Fair Value Level	Fair Value	Fair Value Measurement		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S Treasury Bills	\$ 497,450	\$ 497,450	\$ -	\$ -
Local Agency Investment Fund	15,311,404			
Money Market Funds	<u>1,557,693</u>			
Total Investments	<u>\$ 17,366,547</u>			

In determining fair value, the district’s custodians use various methods including market and income approaches. Based on these approaches, the district’s custodians utilize certain assumptions that market participants would use in pricing the asset or liability. The district’s custodians utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Various inputs are used in determining the value of the district’s investments and other financial instruments. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. These inputs are summarized in the three broad levels: Level 1 - quoted prices in active markets for identical investments, Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.) and Level 3 - significant unobservable inputs (including the district’s own assumptions in determining the fair value of investments).

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 – CAPITAL ASSETS

The following tables summarize capital asset activity during 2016-2017:

Water Fund	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Capital assets not being depreciated:				
Land and easements	\$ 4,111,106			\$ 4,111,106
Water rights	432,941			432,941
Construction in progress	7,630,092	\$ 3,448,505	\$ (239,706)	10,838,891
Total capital assets not being depreciated	<u>12,174,139</u>	<u>3,448,505</u>	<u>(239,706)</u>	<u>15,382,938</u>
Capital assets being depreciated:				
Structures and improvements	130,348,697	257,315		130,606,012
Equipment	4,361,297	273,900	(21,421)	4,613,776
Total capital assets being depreciated	<u>134,709,994</u>	<u>531,215</u>	<u>(21,421)</u>	<u>135,219,788</u>
Less accumulated depreciation for:				
Structures and improvements	(39,158,598)	(3,129,659)		(42,288,257)
Equipment	(3,615,907)	(191,039)	5,178	(3,801,768)
Total accumulated depreciation	<u>(42,774,505)</u>	<u>(3,320,698)</u>	<u>5,178</u>	<u>(46,090,025)</u>
Total capital assets being depreciated, net	<u>91,935,489</u>	<u>(2,789,483)</u>	<u>(16,243)</u>	<u>89,129,763</u>
Water Fund capital assets, net	<u>\$ 104,109,628</u>	<u>\$ 659,022</u>	<u>\$ (255,949)</u>	<u>\$ 104,512,701</u>

Depreciation expense was \$3,320,698 for the year ended June 30, 2017.

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 – CAPITAL ASSETS, (Continued)

Sewer Fund	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Capital assets not being depreciated:				
Land and easements	\$ 1,476,199			\$ 1,476,199
Water rights	5,487,035	\$ 3,212,643		8,699,678
Construction in progress	2,220,320	538,590		2,758,910
Total capital assets not being depreciated	9,183,554	3,751,233		12,934,787
Capital assets being depreciated:				
Structures and improvements	174,500,455			174,500,455
Equipment	1,592,988			1,592,988
Total capital assets being depreciated	176,093,443			176,093,443
Less accumulated depreciation for:				
Structures and improvements	(57,069,888)	(4,074,524)		(61,144,412)
Equipment	(1,355,340)	(35,769)		(1,391,109)
Total accumulated depreciation	(58,425,228)	(4,110,293)		(62,535,521)
Total capital assets being depreciated, net	117,668,215	(4,110,293)		113,557,922
Sewer Fund capital assets, net	\$ 126,851,769	\$ (359,060)	\$ -	\$ 126,492,709

Depreciation expense was \$4,110,293 for the year ended June 30, 2017.

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 – CAPITAL ASSETS, (Continued)

Recycled Water Fund	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017
Capital assets not being depreciated				
Construction in progress	\$ 5,892,134	\$ 463,669	\$ (6,755)	\$ 6,349,048
Capital assets being depreciated:				
Structures and improvements	25,455,265	5,184		25,460,449
Equipment	147,000			147,000
Total capital assets being depreciated	25,602,265	5,184		25,607,449
Less accumulated depreciation for:				
Structures and improvements	(5,753,211)	(783,144)		(6,536,355)
Equipment	(44,100)	(14,700)		(58,800)
Total accumulated depreciation	(5,797,311)	(797,844)		(6,595,155)
Total capital assets being depreciated, net	19,804,954	(792,660)		19,012,294
Recycled Water Fund capital assets, net	<u>\$ 25,697,088</u>	<u>\$ (328,991)</u>	<u>\$ (6,755)</u>	<u>\$ 25,361,342</u>

Depreciation expense was \$797,844 for the year ended June 30, 2017.

NOTE 4 – REFUNDING REVENUE BONDS SERIES 2015 A

In 2015, the District sold certificates of participation in the amount of \$30,810,000 to refund the 2004 Certificates of Participation and to pay delivery costs of the certificates.

Certificates began maturing on September 1, 2015 with semi-annual interest payments due March 1 and September 1 at various interest rates from 3.00 to 5.00 percent. Principal payments are due annually September 1 at various amounts from \$980,000 to \$2,240,000. The final principal payment of the certificates is scheduled for September 1, 2034. See Note 12 for revenues pledged. The Bonds are recorded in the Water Fund.

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 – REFUNDING REVENUE BONDS SERIES 2015 A, (Continued)

Maturities of the revenue refunding bonds are as follows:

Fiscal Year Ending	2015 Refunding Revenue Bonds Series A		
	Principal	Interest	Total
2018	\$ 1,065,000	\$ 1,228,912	\$ 2,293,912
2019	1,115,000	1,179,737	2,294,737
2020	1,170,000	1,122,612	2,292,612
2021	1,230,000	1,062,612	2,292,612
2022	1,290,000	1,006,062	2,296,062
2023-2027	7,325,000	4,138,585	11,463,585
2028-2032	9,155,000	2,312,604	11,467,604
2033-2035	6,450,000	433,912	6,883,912
Total	<u>\$ 28,800,000</u>	<u>\$ 12,485,036</u>	<u>\$ 41,285,036</u>

NOTE 5 – STATE REVOLVING FUND LOAN - 2006

In August 2006, the District entered into a loan agreement with the State of California Water Resources Control Board to provide funding for the expansion and modification of the Henry N. Wochholz Wastewater Treatment Plant. The maximum amount of \$44,748,356 has been drawn. The loan accrues interest at a rate of 2.4 percent annually. Principal and interest payments are due in 20 annual installments. The first payment occurred in September 2009. The District has pledged all revenues and amounts legally available to repay the loan. The loan is recorded in the Sewer Fund.

Fiscal Year Ending	2006 State Revolving Fund Loan		
	Principal	Interest	Total
2018	\$ 2,199,523	\$ 724,146	\$ 2,923,669
2019	2,252,313	671,356	2,923,669
2020	2,306,368	617,301	2,923,669
2021	2,361,721	561,948	2,923,669
2022	2,418,402	505,267	2,923,669
2023-2027	12,991,002	1,627,342	14,618,344
2026-2029	5,643,373	203,964	5,847,337
Total	<u>\$ 30,172,702</u>	<u>\$ 4,911,324</u>	<u>\$ 35,084,026</u>

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 – STATE REVOLVING FUND LOAN - 2010

In June 2010, the District entered into a loan agreement with the State of California Water Resources Control Board (SWRCB) to provide the funding for the construction of the Regional Brineline Extension Project. The maximum amount of \$9,752,100 has been drawn plus interest accrued during the period of construction of \$183,714. The loan accrues interest at a rate of 2.7 percent annually. Principal and interest payments are due in 20 annual installments. In accordance with Amendment No. 1 of the loan agreement, the first payment occurred in December 2013. The District has pledged all revenues and amounts legally available to repay the loan. The loan is recorded in the Sewer Fund.

Fiscal Year Ending	2010 State Revolving Fund Loan		
	Principal	Interest	Total
2018	\$ 423,936	\$ 225,337	\$ 649,273
2019	435,383	213,891	649,274
2020	447,138	202,136	649,274
2021	459,211	190,063	649,274
2022	471,609	177,664	649,273
2023-2027	2,556,065	690,302	3,246,367
2028-2032	2,920,277	326,090	3,246,367
20233	632,204	17,070	649,274
Total	\$ 8,345,823	\$ 2,042,553	\$ 10,388,376

NOTE 7 – STATE REVOLVING FUND LOAN – 2013 (WISE)

In December 2011, the District entered into a loan agreement (Wise) with the State of California Water Resources Control Board (SWRCB) to provide the funding for Recycled Water Fund projects. The maximum amount of the loan is \$2,988,364. The loan accrues interest at a rate of 2.2 percent annually. Principal and interest payments are due in 20 annual installments. The first payment occurred in March 2014. The District has pledged all revenues and amounts legally available to repay the loan. The loan is recorded in the Sewer Fund.

Fiscal Year Ending	2013 (Wise) State Revolving Fund Loan		
	Principal	Interest	Total
2018	\$ 130,781	\$ 54,470	\$ 185,251
2019	133,659	51,592	185,251
2020	136,599	48,652	185,251
2021	139,605	45,647	185,252
2022	142,676	42,575	185,251
2023-2027	761,866	164,390	926,256
2028-2032	849,441	76,815	926,256
2033	181,265	3,987	185,252
Total	\$ 2,475,892	\$ 488,128	\$ 2,964,020

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 – STATE REVOLVING FUND LOAN – 2013 (R-10.3)

In December 2011, the District entered into a loan agreement (R-10.3) with the State of California Water Resources Control Board (SWRCB) to provide the funding for Recycled Water Fund projects. The maximum amount of the loan is \$871,570. The loan accrues interest at a rate of 2.2 percent annually. Principal and interest payments are due in 20 annual installments. The first payment occurred in March 2014. The District has pledged all revenues and amounts legally available to repay the loan. The loan is recorded in the Sewer Fund.

Fiscal Year Ending	2013 (R-10.3) State Revolving Fund Loan		
	Principal	Interest	Total
2018	\$ 38,318	\$ 15,959	\$ 54,277
2019	39,161	15,116	54,277
2020	40,023	14,254	54,277
2021	40,903	13,374	54,277
2022	41,803	12,474	54,277
2023-2027	223,221	48,165	271,386
2028-2032	248,881	22,506	271,387
2033	53,109	1,168	54,277
Total	\$ 725,419	\$ 143,016	\$ 868,435

NOTE 9 – STATE REVOLVING FUND LOAN – 2013 (CROW)

In December 2011, the District entered into a loan agreement (Crow Street) with the State of California Water Resources Control Board (SWRCB) to provide the funding for Recycled Water Fund projects. The District received the amount of \$310,179. The loan accrues interest at a rate of 2.2 percent annually on amounts drawn. Repayment will be made in 20 annual installments. The first payment occurred in March 2016. The District has pledged all revenues and amounts legally available to repay the loan. The loan is recorded in the Sewer Fund.

Fiscal Year Ending	2013 (Crow) State Revolving Fund Loan		
	Principal	Interest	Total
2018	\$ 13,014	\$ 6,240	\$ 19,254
2019	13,300	5,954	19,254
2020	13,593	5,661	19,254
2021	13,892	5,362	19,254
2022	14,198	5,057	19,255
2023-2027	75,813	20,459	96,272
2028-2032	84,528	11,744	96,272
2033-2035	55,312	2,451	57,763
Total	\$ 283,650	\$ 62,928	\$ 346,578

YUCAIPA VALLEY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 10 – COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned but unused vacation, sick leave and comp time, a portion of which will be paid to employees upon separation from the District. At June 30, 2017, total accruals for Water, Sewer and Recycled Water funds amount to \$708,276, \$483,140, and \$0 respectively. The District estimated, based on historical trends, that approximately \$222,980, \$169,099, and \$0 of the Water, Sewer, and Recycled Water balances, respectively, will come due during fiscal year 2017-2018.

NOTE 11 – CHANGES IN LONG-TERM LIABILITIES

The following table summarizes changes in long-term liabilities balances for the fiscal year ended June 30, 2017:

	Balance June 30, 2016	Additions	Repayments	Balance June 30, 2017	Amount Due in 2017-18
2015 Refunding Revenue Bonds	\$ 29,830,000		\$ (1,030,000)	\$ 28,800,000	\$ 1,065,000
Unamortized premium	3,180,145		(170,365)	3,009,780	
Total Certificates of Participation	33,010,145		(1,200,365)	31,809,780	1,065,000
State Revolving Fund Loan - 2006	32,320,675		(2,147,973)	30,172,702	2,199,523
State Revolving Fund Loan - 2010	8,758,614		(412,791)	8,345,823	423,936
State Revolving Fund Loan - 2013 Wise	2,603,858		(127,966)	2,475,892	130,781
State Revolving Fund Loan - 2013 R-10.3	762,912		(37,493)	725,419	38,318
State Revolving Fund Loan - 2013 Crow	296,384		(12,734)	283,650	13,014
Total State Revolving Fund Loans	44,742,443		(2,738,957)	42,003,486	2,805,572
Compensated absences	1,298,776		(107,360)	1,191,416	392,079
Net pension liability	4,320,667	\$ 1,344,418		5,665,085	
Total Long-term Liabilities	\$ 83,372,031	\$ 1,344,418	\$ (4,046,682)	\$ 80,669,767	\$ 4,262,651

NOTE 12 – REVENUE PLEDGED

The District has pledged future water fund revenues, net of specified operating expenses, to repay \$30,810,000 in refunding revenue bonds (2015 bonds) as disclosed in Note 4. Net revenues are defined in the 2015 bond documents as operating income, less specified operating expenses, plus specified non-operating income. The 2015 bonds refunded the 2004 Certificates of Participation (COP). Proceeds from the COPs provided financing for the construction of the Yucaipa Valley Regional Water Filtration Facility (YVRWFF). The 2015 bonds are payable through 2035. Net revenues are anticipated to equal at least 110 percent of annual principal and interest payments. The total principal and interest remaining to be paid on the 2015 bonds is \$41,285,036. Principal and interest paid for the current year and total customer net revenues were \$2,295,663 and \$2,948,530, respectively.

For the state revolving fund loans recorded in the Sewer Fund, the District has pledged all revenues and amounts legally available to repay the loans.

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 13 – DEFINED BENEFIT PENSION PLAN

Plan Description – All qualified permanent and probationary employees are eligible to participate in the District’s Miscellaneous Employee Pension Plan (Plan), a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and may be amended by District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information. These reports can be found on the CalPERS website.

Benefits Provided – CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees, and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 60 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

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

	<u>Miscellaneous</u>	<u>PEPRA - Miscellaneous</u>
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	60	62
Monthly benefits, as a % of annual salary	2.00%	2.00%
Required employee contribution rates	7%	6.250%
Required employer contribution rates	16.969%	6.607%

Contributions – Section 20814(c) of the California Public Employees’ Retirement law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rates of employees. Contributions to the pension plan from the District were \$697,729 for the year ended June 30, 2017.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2017, the District reported a liability of \$5,665,084 for its proportionate share of the collective net pension liability.

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 13 – DEFINED BENEFIT PENSION PLAN, (Continued)

The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using actuarial procedures. The District’s proportion of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District’s proportion of the net collective pension liability as of June 30, 2015 and 2016 was as follows:

Proportion - June 30, 2015	0.06295%
Proportion - June 30, 2016	<u>0.06547%</u>
Change - Increase	<u>0.00252%</u>

For the year ended June 30, 2017, the District recognized a pension expense of \$479,042. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	\$ 697,729	
Changes between expected and actual experience	17,098	
Changes in proportion and differences between actual contributions and proportionate share of contributions	161,156	\$ 453,381
Changes in assumptions		209,845
Net difference between projected and actual earnings on pension plan investments	1,092,171	
	<u>\$ 1,968,154</u>	<u>\$ 663,226</u>

\$697,729 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	
2018	\$ 23,952
2019	51,317
2020	258,887
2021	273,043
	<u>\$ 607,199</u>

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 13 – DEFINED BENEFIT PENSION PLAN, (Continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions.

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return	7.65%
Mortality	Derived using CalPERS' Membership Data

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2014 actuarial experience study for the period of 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the District’s contributions will be made at rates equal to the difference between actuarially determined contributions rates and the employee rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 13 – DEFINED BENEFIT PENSION PLAN, (Continued)

In determining the long-term expected 7.65 percent rate of return on pension plan investments, CalPERS took into account both short and long-term market return expectations as well as the expected pension fund cash flows. Based on the expected benefit payments of the Public Employees’ Retirement Fund, CalPERS indicated that a 19 year horizon was ideal in determining the level equivalent discount rate assumption. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long term, the present value of benefits was calculated for each fund. The expected rate for return was set by calculating the single equivalent expected return of return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are the same for each Plan. These geometric rates of return are net of administrative expenses and are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return Years 1-10	Long-Term Expected Real Rate of Return Years 11+
Global Equity	51%	5.25%	5.71%
Global Fixed Income	20%	0.99	2.43
Inflation Sensitive	6%	0.45	3.36
Private Equity	10%	6.83	6.95
Real Estate	10%	4.50	5.13
Infrastructure and Forestland	2%	4.50	5.09
Liquidity	1%	(0.55)	(1.05)
Total	100%		

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease		6.65%
Net Pension Liability	\$	8,619,175
Current Discount Rate		7.65%
Net Pension Liability	\$	5,665,084
1% Increase		8.65%
Net Pension Liability	\$	3,233,033

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

YUCAIPA VALLEY WATER DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 14 – COMMITMENTS

The District has entered into contracts for various services and projects that will require payments in future fiscal years. The contract amounts and remaining commitments as of June 30, 2017, are summarized below:

<u>Description</u>	<u>Contract Amounts</u>	<u>Remaining Commitment</u>
Water fund and General Operating projects	\$ 2,863,789	\$ 655,219
Sewer fund projects	182,575	32,897
Recycled Water fund projects	372,220	87,764
Total	<u>\$ 3,418,584</u>	<u>\$ 775,880</u>

NOTE 15 – INTERFUND ACTIVITY

Interfund Services Provided

The Sewer fund reimburses the Water fund for the expenses related to administration, accounting and general services. The reimbursement is reflected in the statement of revenues, expenses and changes in net position as the revenue "Interfund services provided" in the Water Fund and included in the expense "Administrative services" in the Sewer Fund. The amount reimbursed for these services was \$160,000 as of June 30, 2017.

NOTE 16 – 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. During the year ended June 30, 2017, the District purchased insurance through various commercial carriers to cover these risks with various limits including the Real Property & Business Personal Property blanket limit of \$99,534,921. The District has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

NOTE 17 – PROPERTY TAXES

Under California law, property taxes are assessed and collected by the counties up to 1 percent of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to entities based on complex formulas. The property tax calendar for San Bernardino and Riverside County is as follows:

Lien date	January 1
Levy date	July 1
Due date	November 1 and February 1
Collection dates	December 10 and April 10

YUCAIPA VALLEY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 18 – ASSESSMENT DISTRICT

The District acts in a fiduciary capacity for an assessment district that was formed to finance the construction and installation of a reservoir that will service properties located within the assessment district. The bonds issued by the assessment district are payable solely from the revenues of annual special taxes levied against land within the district and do not constitute an indebtedness of the Yucaipa Valley Water District. Yucaipa Valley Water District is not liable for the bonds, but acts as an agent for the bondholders. Since the District is acting in an agency capacity, the assets and liabilities of the assessment district have been excluded from the District's statement of net position. The amount outstanding on the bonds at June 30, 2017 was \$11,015,000.

Required Supplementary Information



YUCAIPA VALLEY WATER DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY – LAST TEN YEARS*
 AS OF THE FISCAL YEAR ENDING JUNE 30, 2017**

As of the fiscal year ending June 30, 2017
 Last Ten Years*

Schedule of the District's Proportionate Share of the Net Pension Liability

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the collective net pension liability	0.06547%	0.06295%	0.07950%
Proportionate share of the collective net pension liability	\$ 5,665,084	\$ 4,320,667	\$ 4,947,010
Covered payroll	\$ 5,611,132	\$ 5,411,972	\$ 5,245,090
Proportionate Share of the collective net pension liability as a percentage of covered payroll	100.96%	79.84%	94.32%
Plan fiduciary net position as a percentage of the total pension liability	74.06%	78.40%	79.82%

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

** - The District implemented GASB Statement No. 82 during 16/17. Accordingly, covered payroll has been restated for previous years.

YUCAIPA VALLEY WATER DISTRICT

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS LAST TEN YEARS*
AS OF THE FISCAL YEAR ENDING JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contributions	\$ 326,704	\$ 550,441	\$ 570,529
Contributions in relation to the actuarially determined contribution	697,729	882,127	570,529
Contribution deficiency (excess)	<u>\$ (371,025)</u>	<u>\$ (331,686)</u>	<u>\$ -</u>
Covered payroll	\$ 5,752,996	\$ 5,611,132	\$ 5,411,972
Contributions as a percentage of covered payroll	12.13%	15.72%	10.54%

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

** - The District implemented GASB Statement No. 82 during 16/17. Accordingly, covered payroll has been restated for previous years.