

**ADMINISTRATION AND FINANCE
COMMITTEE MEETING
AND
SPECIAL MEETING OF THE
BOARD OF DIRECTORS**

**Thursday, November 19, 2015
2:30 P.M.**

Committee Members:

Bryan Urias, Chair
Dr. Tony R. Fellow



602 E. Huntington Drive, Suite B
Monrovia, CA 91016

(626) 443-2297
www.upperdistrict.org

*The Administration and Finance Committee meeting is noticed as a joint committee meeting with the Board of Directors for the purpose of compliance with the Brown Act. Members of the Board who are not assigned to the Administration and Finance Committee may attend and participate as members of the Board, whether or not a quorum of the Board is present. In order to preserve the function of the Committee as advisory to the Board, members of the Board who are not assigned to the Administration and Finance Committee will not vote on matters before the Committee.

Communications

1. Call to Order.
2. Public Comment.

Discussion/Action

3. Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. *(Staff memorandum enclosed.)*
4. Approval of Policy Manual Revisions and Updated Salary Schedule for District Employees. *(Staff memorandum enclosed.)*

Oral Reports

5. Investment Update. *(Representatives from Chandler Asset Management Services will provide an update.)*
6. Nomination of Candidate for Local Agency Formation Commission Representative.

Other Matters

- 7.

Adjournment

Next Meeting: December 10, 2015 at 5:30 p.m.

American Disabilities Act Compliance

Government Code Section 54954.2(a)



To request special assistance to participate in this meeting, please contact the Upper District office at (626) 443-2297 at least 24 hours prior to meeting.



MEMORANDUM



ITEM 3.

DATE: November 16, 2015
TO: Administration and Finance Committee and Board of Directors
FROM: General Manager
SUBJECT: Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015.

Recommendation

The Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2014 is provided as information for the Board's review. The CAFR will be considered for adoption at the Board's regular meeting in January.

Background

Upper District's independent auditors, Vasquez & Company LLP (Vasquez), have completed their audit of the financial statements for the fiscal year ended June 30, 2015. Vasquez expressed an unqualified/clean opinion on the financial statements. It should be noted that the net position balance at the beginning of fiscal year 2014 was restated by \$1,443,229 to retroactively report the net pension liability as of the beginning of the fiscal year, as a result of implementing Government Accounting Standards Board (GASB) Statement No. 68. Vasquez did not note other significant audit adjustments or material weaknesses on internal control over financial reporting. Vasquez also reported that the internal control procedures were effective and properly implemented and that significant accounting policies are appropriate and consistently applied.

The CAFR is comprised of three sections: Introductory, Financial, and Statistical. The Introductory and Statistical Sections are unaudited while the Financial Section is audited.

Because Upper District spent less than \$500,000 in federal funds during fiscal year 2015, an audit of major federally funded programs was not required and therefore not performed this year.

Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2015 and 2014

UPPER SAN GABRIEL VALLEY MUNICIPAL WATER DISTRICT

602 E. Huntington Drive, Suite B
Monrovia, California 91016

Prepared by:

Finance and Administration Department

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**Upper San Gabriel Valley Municipal Water District
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Introductory Section

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Board of Directors:

Anthony R. Fellow, Ph.D., Division 1

Charles M. Treviño, Division 2

Ed Chavez, Division 3

Michael Touhey, Division 4

Bryan Urias, Division 5

DATE OPEN

The Honorable Board of Directors
Upper San Gabriel Valley Municipal Water District

The Upper San Gabriel Valley Municipal Water District (the Upper District) staff is pleased to present the Upper District's Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2015 and 2014. This report is prepared in accordance with the guidelines set forth by the Governmental Accounting Standards Board (GASB).

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control established for this purpose. Because the cost of internal control should not exceed anticipated benefits, this effort provides reasonable, rather than absolute, assurance that the financial statements contain no material misstatements.

Vasquez & Company LLP, Certified Public Accountants, has issued an unmodified ("clean") opinion on the financial statements for the years ended June 30, 2015 and 2014. The independent auditors' report is located at the front of the financial section of this report.

The CAFR consists of five parts, all of which are part of this package: 1) Introductory Section that includes this letter of transmittal, 2) Financial Section, including the management's discussion and analysis (MD&A) that provides a narrative introduction, overview and analysis of the basic financial statements, 3) Basic Financial Statements, 4) Required Supplementary Information, and 5) Statistical Section.

The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Upper DistrictHistory

The Upper District, formed by voters in the San Gabriel Valley on December 8, 1959 to help solve water problems in the rapidly developing San Gabriel Valley, was incorporated on January 7, 1960. On March 12, 1963, residents of the District voted to annex to the Metropolitan Water District of Southern California (MWD), to provide supplemental water, first from the Colorado River and later the State Water Project, to replenish local groundwater supplies.

The Upper District played a vital role in determining water rights within the Main San Gabriel Basin by acting as plaintiff in the 1973 court case of the Upper San Gabriel Valley Municipal Water District, Plaintiff, v. City of Alhambra, et al, Defendants. This case brought about the creation of the Main San Gabriel Basin Watermaster (Watermaster), ordered by the court to administer and enforce provisions of the Judgment.

Contaminants such as volatile organic compounds (VOCs) were first discovered in local water supply wells in 1979. The Upper District also played a role in establishing groundwater cleanup programs and eventually the Water Quality Authority which now oversees the cleanup of the groundwater basin.

Mission

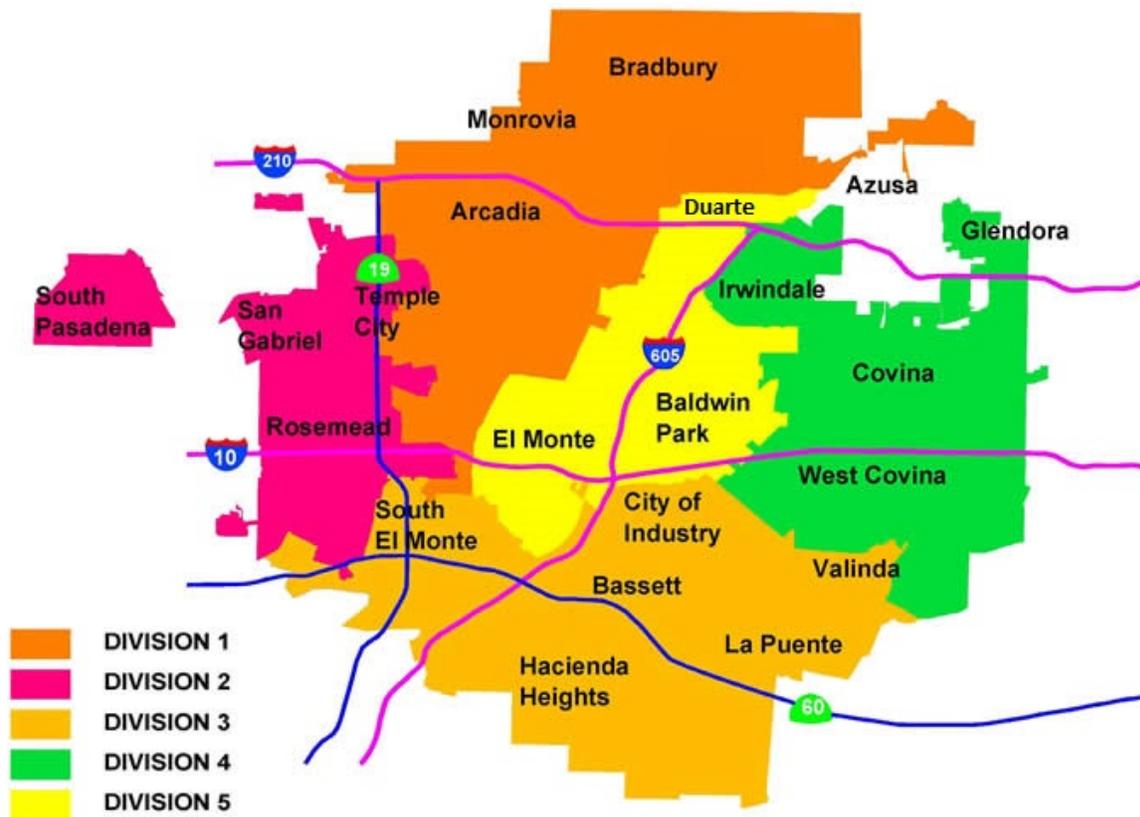
The Upper District aims to provide a reliable, sustainable, diversified and affordable portfolio of high quality water supplies to the San Gabriel Valley including, but not limited to, water conservation, recycled water, storm water capture, storage, transfers, and imported water.

The Upper District's goal is to pursue this mission in a manner that is responsive to the public while protective of the environment.

Service Area

Five elected Directors, each serving a 4-year term and representing a designated geographic area within the Upper District's boundaries, govern the Upper District. Additionally, as a member agency of the MWD, the Upper District appoints one representative to sit on the MWD Board of Directors. The Upper District also has representation on the San Gabriel Basin Water Quality Authority and the Watermaster Boards.

Most of the water imported into the Upper District service area is used to replenish the Main San Gabriel Groundwater Basin. A small percentage is purchased by city water departments and private water utilities for direct sale to customers.



Upper District Board of Directors



Division 1 – Director Dr. Anthony R. Fellow
Representing all or parts of Arcadia, Bradbury,
El Monte, Monrovia, Rosemead and Temple City



Division 2 – Director Charles M. Treviño
Representing all or parts of Arcadia, Rosemead, San Gabriel,
South Pasadena, South San Gabriel and Temple City



Division 3 – Director Ed Chavez
Representing all or parts of Avocado Heights, Bassett, City of
Industry, Hacienda Heights, La Puente, North Whittier, Spy
Glass Hill, South El Monte, Valinda and West Covina



Division 4 – Director Michael Touhey
Representing all or parts of Azusa, Covina, Glendora,
Irwindale and West Covina



Division 5 – Director Bryan Urias
Representing all or parts of Baldwin Park, Duarte, El Monte
and Irwindale

Local Economy

California's economy is booming as shown by a number of indicators. *California's* gross product grew about 2.8% in 2014, outpacing the national growth rate of 2.4% and accounting for over 13% of the national GDP. Since 2012, the state has added jobs faster than the nation as a whole, regaining all of the wage and salary jobs lost during the recession. The international trade sector continues to be a significant part of *California's* economy and a vital link in the nation's trade network, with

statewide two-way trade reaching a record high of \$608 billion in 2014. California also made headway in: stabilizing its finances after years of deficits, enacting reforms in the area of water policy to improve the sustainable management of the state's ground water resources. However, some major problems still persist: unfunded liability of state retiree health care costs grew to \$71.8 billion last year, critical infrastructure projects continue to be deferred and there is a severe shortage of affordable housing.

Los Angeles County saw continued growth and steady increases in employment in 2014, creating jobs of about 99,400 or an increase of 2.4%. While still high at 8.2%, the unemployment rate is expected to drop to 7.2% in 2015 and still further to 6.6% in 2016. In addition to employment growth, other indicators also suggest improvement in the county economy: on-location film and video production grew by 6.4% over 2013; container activity at the San Pedro Bay ports rose by 3.8% in 2014; and hotels and tourism numbers increased by 3%.

Closer to home, the *San Gabriel Valley* economy also made notable progress, reflecting many of the improvements taking place in the whole of Los Angeles County. In 2014, employment in the San Gabriel Valley increased by an estimated 1.7%. Based on recent estimates of the Los Angeles County Economic Development Corporation, taxable sales in the San Gabriel Valley increased by 3.2% from 2013 levels, reaching \$21.2 billion. By the end of 2016, taxable sales in the valley are expected to reach \$22.5 billion, exceeding the prerecession peak. However, recovery in the housing market has been slow. Median prices for existing homes continue to rise in response to limited supply and increased demand, but after three years of price increases and little wage growth, affordability has become an issue for many home buyers.

San Gabriel Valley anticipates to see faster growth rate in 2015 and 2016 with the help of an ethnically diverse pool of human resource, a well-developed trade network, and a rapidly growing transit infrastructure. The second phase of the Gold Line extension from Pasadena to Azusa, scheduled to begin operation in 2016, will bring new opportunities for economic development in the valley by increasing connectivity between the San Gabriel Valley's centers for education, research and technology.

Sources: San Gabriel Valley Economic Forecast & Regional Overview 2015 Report and Los Angeles County Economic Development Corporation's 2016-2020 Economic Forecast and Industry Outlook.

Major Initiatives

Consistent with its mission, the Upper District strives to help local retail water providers manage their water supply safely and cost-effectively by improving water quality and increasing supply reliability. This is a challenging goal because factors such as climate, legislation, regulations, government policy, economics, population and market demand change and, thus, affect the Upper District's planning and operations. The Upper District's primary function has been to provide supplemental water to its retail water providers, sourced from the State Water Project, the Colorado River, and more recently, in the form of recycled water.

Imported Water Deliveries

In December 2014, the Upper District executed a ten-year extension to the current purchase order with MWD, retaining the ability to purchase about 67,000 acre feet per year of the less expensive Tier 1 water. However in April 2015, MWD implemented its Water Supply Allocation Plan at a Regional Shortage Level 3 effective July 1, 2015 through June 30, 2016. At a Regional Shortage Level 3, Upper District will receive about 25,050 acre feet of available imported water supply for

FY 2015/16 that will not be subject to additional allocation surcharges of \$1,480 to \$2,960 per acre foot of additional water.

To assist MWD with the lack of supply on the State Water Project (SWP), Watermaster, the producers and Upper District have taken several steps including: developing an operating strategy to deliver a limited amount of Colorado River Water (CRW); developing an in-lieu operating plan to take treated CRW; taking delivery of a portion of Central Basin's CENB-48 deliveries and taking a limited amount of State Project Water at USG-03.

Due to the record low Basin level and the need to continue to support groundwater production from the Canyon Basin, USG-03 has been used to deliver about 60 cubic feet per second to the Canyon spreading grounds. USG-03 was turned off at Upper District's request on June 28, 2015. During the fiscal year, Upper District also purchased 10,000 acre feet of imported water for its cyclic storage account.

Integrated Resources Plan (IRP)

In May 2011, the Board authorized the preparation of the San Gabriel Valley's first Integrated Resources Plan (IRP). The IRP, completed in 2012, defines a long term strategy for investments in a balanced portfolio of water supplies that are reliable and affordable in the long term. The Upper District is currently implementing the strategy defined in the IRP, which includes the Recycled Water Program described below.

In February 2014, the Board awarded a contract to develop a surface water/groundwater modeling tool to assist the Upper District with the planning and implementation of the options and strategies developed in the IRP. The California Water Foundation is contributing half of the contract costs to develop the surface water/groundwater model for the Upper District.

The IRP will be updated regularly to adapt to changing conditions. The Upper District strives to work with all stakeholders to implement innovative conservation, recycling and storm water capture projects to improve long-term water supply reliability.

Recycled Water Program

Recycled water is a key part of the Upper District's overall strategy of supplementing local water supplies. Recycled water is being used throughout California to irrigate golf courses, parks, freeway landscaping and crops. It is also being used to replenish groundwater basins, to serve as a barrier to seawater intrusion, and by industry for cooling processes and other purposes. Recycled water directly offsets the need to import increasingly expensive water that is pumped from the sensitive Bay-Delta ecosystem.

The Upper District's success in proactively advancing water recycling is largely attributable to the support of its partners: the United States Bureau of Reclamation (USBR); State Water Resources Control Board; Metropolitan Water District; Sanitation Districts of Los Angeles County; Watermaster, local retail water providers and many others who have contributed to the successful development of recycled water in the San Gabriel Valley.

Indirect Reuse Action Plan (IRAP)/ Indirect Reuse Replenishment Project (IRRP)

On December 6, 2011, the Board adopted an Indirect Reuse Action Plan (IRAP), which set forth specific tasks to advance a major project, the Indirect Reuse Replenishment Project (IRRP). The IRRP involves the use of recycled water for groundwater recharge. Immediate work tasks were identified for implementation. These tasks included: research to identify the most appropriate treatment technology; pipeline right-of-way study; a USBR Title XVI feasibility analysis; and a financing plan.

A preliminary pipeline right-of-way study was completed in 2012. Pilot testing of alternative treatment technologies was completed in 2014. A USBR Title XVI feasibility analysis was also completed in 2014. In May 2014, the Upper District awarded a contract for the design update of the IRRP pump station and pipeline. The updated design is being reviewed by the Sanitation Districts of Los Angeles County and the Los Angeles Flood Control District. We expect the design for the project to be complete by mid-2016. The Engineer's Report required for the project permit has been submitted to the State Water Resources Control Board – Division of Drinking Water and the Regional Water Quality Control Board. The environmental documents for the project are being prepared and are expected to be ready for adoption early next year. Once constructed, the IRRP will provide 10,000 acre-feet or more of highly treated recycled water for groundwater replenishment annually and will reduce the San Gabriel Valley's dependence on increasingly expensive and unreliable imported supplies pumped from the fragile Bay Delta ecosystem.

Direct Reuse

The Direct Reuse Program includes the phased construction of a recycled water distribution system used to provide water for irrigation purposes. Over \$51 million has been invested to construct a direct reuse recycled water distribution system consisting of more than 24 miles of distribution pipeline. The major components of the direct reuse system are summarized below. All components of the system are in service.

Whittier Narrows - The Upper District's Whittier Narrows Water Recycling Project supplies the 2,500 acre Whittier Narrows Recreation Area with about 400 million gallons of recycled water each year. The recycled water provides irrigation for a large public park, soccer, baseball and softball fields as well as the 18-hole Whittier Narrows Golf Course.

South El Monte High School - In 2007, the Upper District converted South El Monte High School to recycled water for irrigating campus green areas and athletic fields. Recycled water used at the high school conserves nearly 17 million gallons of drinking water each year, enough to supply about 100 households.

Rose Hills Memorial Park - In early 2006, the Upper District converted Rose Hills Memorial Park (Rose Hills) to recycled water for irrigation purposes. Prior to using recycled water, Rose Hills used approximately 194 million gallons per year or about 500,000 gallons per day of drinking water for irrigation. By using recycled water, Rose Hills now saves enough drinking water in a year to supply about 1,200 average single-family homes. As part of this project, an additional 21 million gallons of recycled water per year are provided to Rio Hondo College, Mill Elementary School and Gateway Pointe Industrial Park for irrigation purposes.

Upper District assisted Rose Hills in obtaining \$500,000 in Proposition 84 grant funds which are being used to expand the recycled water system and serve an additional 600 acre-feet per year. This effort will require Rose Hills to contribute \$500,000 for the improvements needed which will be complete in 2016.

Rosemead Extension - The San Gabriel Valley Water Recycling Project Phase IIA - Rosemead Extension consists of recycled water pipelines extending north and west from the Whittier Narrows Recreation Area to supply approximately 98 million gallons of recycled water per year to Southern California Edison corporate headquarters, Panda Express corporate headquarters, Walmart and several nurseries, schools, and businesses.

City of Industry - In 2010, the Upper District's City of Industry Water Recycling Project began providing recycled water for irrigation purposes by extending an existing recycled water pipeline, stretching from the City of Industry through Hacienda Heights, to West Covina. The

project will supply more than 400 million gallons of recycled water per year for irrigation to a landfill, golf course, baseball complex, schools, parks, medians, and green belts in the San Gabriel Valley.

Storm Water

The Upper District participates in the following storm water projects:

Peck Water Conservation Improvement Project

This project is currently under design by the Los Angeles Flood Control District (LAFCD). The project includes construction of a pump station at the spreading basin at an estimated cost of \$7.8 million to convey flows to the San Gabriel River and increase groundwater recharge in the Main San Gabriel Basin.

Walnut Creek Spreading Basin Improvement Project

The project will install two pumps to drain the facility to improve percolation rates and convey water to other downstream flood control facilities with better percolation rates. LACFCD advertised for bids for construction of the Walnut Creek project. The project is anticipated to be completed in 2016 at a total project cost of \$1 million.

MillerCoors Storm Water Capture Project

The Upper District facilitated several meetings with Vulcan, MillerCoors, the LACFCD and Watermaster to determine feasible means of including MillerCoors' east pit as part of the LACFCD storm water capture system. LACFCD, Vulcan, and MillerCoors are discussing the most feasible means to develop a storm water capture facility that meets the needs of all parties.

In February 2014, the Upper District was awarded a contract for the development of a feasibility study funded by the California Water Foundation. The study is aimed to identify treatment train alternatives to produce high quality reuse water for on-site irrigation, process water, and for groundwater replenishment. Up to 1,000 acre-feet of facility waste flow is available as a source of potential water reuse on-site. The Upper District staff and engineering consultants worked closely with MillerCoors to develop an effective and feasible treatment system to provide exceptional quality water for the on-site uses. A design report was completed and provided to MillerCoors in June 2015. Completion of the treatment train is estimated at approximately \$8 million. MillerCoors is completing their internal review and application for funds to potentially procure and install the system.

Neighborhood Storm Water Project

The Neighborhood Storm Water Project was funded by the California Water Foundation. This project evaluated and ranked, by general type, feasible neighborhood scale stormwater capture projects in the Upper District's service area. A technical memorandum, detailing the criteria and process for determining the better projects from a water supply perspective, was prepared. Six of the top 11 projects representing the Districts were then chosen for concept level design. An additional task was added to compare and contrast the criteria and decision-making process of Upper District with that being used by the Los Angeles County Department of Public Works in the Enhanced Watershed Management Plan process. A Technical Memorandum was completed summarizing the similarities and differences.

Water Use Efficiency

The IRP calls for additional investment in water use efficiency to reduce water use by an additional 5,000 acre feet per year. In August 2012, the Board of Directors adopted a Water Use Efficiency (WUE) Master Plan. The WUE Master Plan was developed to provide a goal-oriented, performance-

based and cost-effective strategy for a practical, long-term approach to design and implement water use efficiency measures.

Water Conservation and Education

Water conservation continues to be a vital and low-cost method of preserving our water supply and is a critical aspect of an effective water supply program. In California and the San Gabriel Valley, cities, water companies, utilities, and water districts are deeply involved in conservation efforts and public education that promote water use efficiency. Informing residents and employers about water use efficiency is the top priority of the Upper District's public education program.

Residential Programs

High Efficiency Toilet (HET) Retrofit Program - During FY 14/15, a total of 3,221 HETs were distributed that will provide a lifetime water savings of 2,741 acre feet (893,505,400 gallons). Upper District provided a total of \$322,100 in incentive payments to the producers for this program from MWD's Conservation Credits Program.

Residential Rebate Program - Through MWD's So Cal Water Smart Regional Residential Rebate Program, Upper District's residents are offered rebates for retrofitting several types of high water-use fixtures/equipment. Rebate items include: High-Efficiency Clothes Washers (HECWs), Weather-Based Irrigation Controllers (WBICs), and Rotating Sprinkler Nozzles. Rebates were paid for 659,938 residential devices during the fiscal year that will produce approximately 2,271 acre feet (740,173,709 gallons) of lifetime water savings.

Commercial, Industrial and Institutional (CII) Programs

CII Rebate Program - Through MWD's So Cal Water Smart Commercial Rebate Program, Southern California businesses are eligible for rebates to help encourage water use efficiency. This program offers cash rebates on a wide variety of water-saving technologies including High-Efficiency Toilets and Urinals, WBICs for outdoor landscaping, as well as many industry-specific water efficient devices. Rebates were paid for 38,577 CII devices during the 2014/15 fiscal year that will produce over 641 acre feet of lifetime water savings.

Landscape Programs

Large Landscape Survey and Retrofit Program - The objective of the Large Landscape Survey and Retrofit Program is to actively increase large landscape irrigation efficiency at CII sites. The program offers free irrigation assessments to large landscaped CII sites in the Upper District's service area. For FY 14/15, outdoor water use surveys were conducted at 40 sites which totaled approximately 110 acres of landscaping. Retrofits have been completed at 63 sites that have included installation of 818 WBICs, 17,636 rotating nozzles, and extensive leak repairs. Surveys and retrofits conducted during FY 2014/15 are estimated to generate approximately 3,401 acre feet (1,108,762,512 gallons) in lifetime water savings. The program also provides landscaping staff with technical information that offers guidance for maintaining water efficient landscaping.

Wireless Soil Moisture Sensor Demonstration Project - Five public sites agreed to participate in the demonstration project and have installed the wireless soil moisture sensor technology at their location. Initial results show significant water use savings.

Sustainable Landscape Demonstration Program - The goal of the garden demonstration program is to convert high-water-need landscaping to water efficient and drought tolerant landscaping at five public spaces. Four out of five public sites (one demonstration site within

each division) have been sited and completed. The four completed sites have shown a reduction of the sites' water footprint by installing high-efficiency irrigation equipment and low-water-use plants. Sites are also intended to provide a focus point for the community that demonstrates sustainable landscaping and the benefits of on-site storm water retention and capture.

Education and Community Outreach Programs

San Gabriel Valley Water Smart City Challenge - In June of 2014, Upper District launched a new conservation program that established a partnership with its cities to promote water conservation to the residents of the San Gabriel Valley. The friendly-competitive challenge encouraged cities to take the lead and bring awareness of the drought to their residents, adopt city policies that will contribute to the overall sustainability of the San Gabriel River Watershed; and promote water rebates for residents through MWD's So Cal Water Smart Regional Rebate program. Twelve of eighteen cities served by Upper District participated in the Water Smart City Challenge. The Challenge concluded in April 2015 and three cities meet all the challenge requirements and were awarded a \$50,000 grant towards a sustainable watershed project in their community. Since implementing the challenge, rebates paid to residents in Upper District's service territory increased by almost 1,100%. In fulfilling the challenge requirements, 1,200 free high efficiency toilets were distributed at city events; over 5,000 water wasting devices were retrofitted with new water efficient models and over 345,000 square feet of turf was removed. Three cities passed low-impact development storm water ordinances; five cities adopted model water conservation ordinances and 24 city councilmembers and 26 city staff were educated through a variety of Upper District's water-related forums and events. All told, total conservation efforts from the Challenge will save over 350 acre feet a year (over 113 million gallons of water annually).

Watershed Restoration Program - This program is a cooperative partnership between the Upper District and the U.S. Forest Service that incorporates volunteers into efforts to protect and maintain the local watershed. Program activities typically include collection of native seeds, planting of saplings and trash removal. 241 volunteers contributed 964 volunteer hours during FY 2014/15 that included the planting of 600 tree saplings.

4th - 6th Grade Sustainable Watershed Education Program - The partnership with the Discovery Science Foundation provides exciting 4th-6th grade student curriculum that focuses on water use efficiency, highlights watershed issues, and groundwater awareness. Offered free to participating schools, the program includes interactive assemblies for fourth and fifth graders and in-class hands-on workshops for sixth graders.

During fiscal year 2013/14, 4,527 students participated in the assemblies and hands-on workshops. During fiscal year 2014/15, 8,185 students participated in the program.

Water Efficient Landscape Classes - Throughout the year, a number of water efficient landscaping and gardening courses are offered, free of charge, to the public. Courses have been offered in both Spanish and English. During the FY 2014/15, 360 individuals attended 14 California Friendly Landscape Training classes hosted directly by the Upper District or in partnership with its local cities.

Solar Cup - A youth program sponsored by MWD, Solar Cup provides high school teams the hands-on opportunity to build solar powered boats that they compete in race and endurance categories. This three-day event is the culmination of several months of planning and building that offers student participants an opportunity to learn about natural resources, the development/use of alternative fuel sources, the protection of water quality, as well as

program management skills. The Upper District has sponsored 46 teams since the program began in 2003.

Water Awareness Art Contest - The Upper District's "Water is Life" art contest inspires students to think about how important water is to all life and encourages youth to express the value of water through their artwork. The contest has 4 categories: K-2, 3-5, 6-8 and 9-12th grade.

Water Education Grant Program - This program offers up to \$1,000 grants for a classroom or school project from K-12th grade that furthers a better understanding of water as a vital resource and the important role it plays in Southern California. The program began in 2004 and to date, 73 applicants have been awarded close to \$68,000 in grants.

Water Conservation Booths – In promoting drought awareness, Upper District launched an aggressive grassroots outreach campaign to educate the residents of the San Gabriel Valley. Informational booths on water conservation were hosted by Upper District at city sponsored events such as summer concerts, community and environmental fairs. Since the beginning of the drought in 2014, Upper District has hosted over 100 informational booths across the district.

Upper District's "Where Solutions Flow" Tours – Upper District has actively engaged the region's local elected officials by offering educational programs on key water policies and issues that affect the San Gabriel Valley. Upper District in partnership with the Main San Gabriel Basin Watermaster, MWD, the Army Corps of Engineers, LA County Flood Control District and local retailer San Gabriel Valley Water Company have provided educational tours of the San Gabriel Valley water infrastructure. Three tours were hosted in FY 14/15 including an educational Water 101 for local council members and city staff.

Relevant Financial Policies

Internal Control Structure

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

Investment Policy

Annually, the Board of Directors adopts an investment policy consistent with the requirements of the California Government Code. In order of priority, three fundamental criteria are followed by the Upper District in the investment program:

- (a) *Safety of Principal* - Investments shall be undertaken in a manner that first seeks to ensure the preservation of principal in the portfolio. Each investment transaction shall be entered into after taking into consideration the quality of the issuer, the underlying security or collateral, and diversification of the portfolio.
- (b) *Liquidity* - Investments shall be made so that the maturity date is compatible with cash flow needs and safety of principal.

- (c) *Return on Investment* - Investments shall be undertaken to produce an acceptable rate of return after first considering safety of principal and liquidity and the prudent investor standard.

During fiscal year 2014/15, all funds were invested in accordance to the Upper District's investment policy.

Budget Process and Controls

Prior to the beginning of each fiscal year, the Upper District adopts an annual budget as a management tool for planning and control purposes. As part of its budget process, the Upper District conducts budget workshops to encourage stakeholder participation and input prior to adoption of the final budget. Monthly financial statements showing budget-to-actual comparison and analysis are presented to the Board of Directors.

Water Rates

Pursuant to Water Code Section 71614 et seq., the Upper District establishes water rates and charges through a resolution by the Board of Directors. Prior to adoption of the water rates and charges, workshops are held to solicit input from all stakeholders.

Awards and Acknowledgements

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

A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year only. However, we believe that our current CAFR continues to meet the Certificate of Achievement for Excellence in Financial Reporting Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report was accomplished by the combined efforts of the Upper District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the Upper District. We would also like to thank the members of the Board of Directors for their continued support in the planning and implementation of the Upper District's fiscal policies.

Respectfully submitted,



Shane Chapman
General Manager



Evelyn M. Rodriguez
Chief Financial Officer



Government Finance Officers Association

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

Presented to

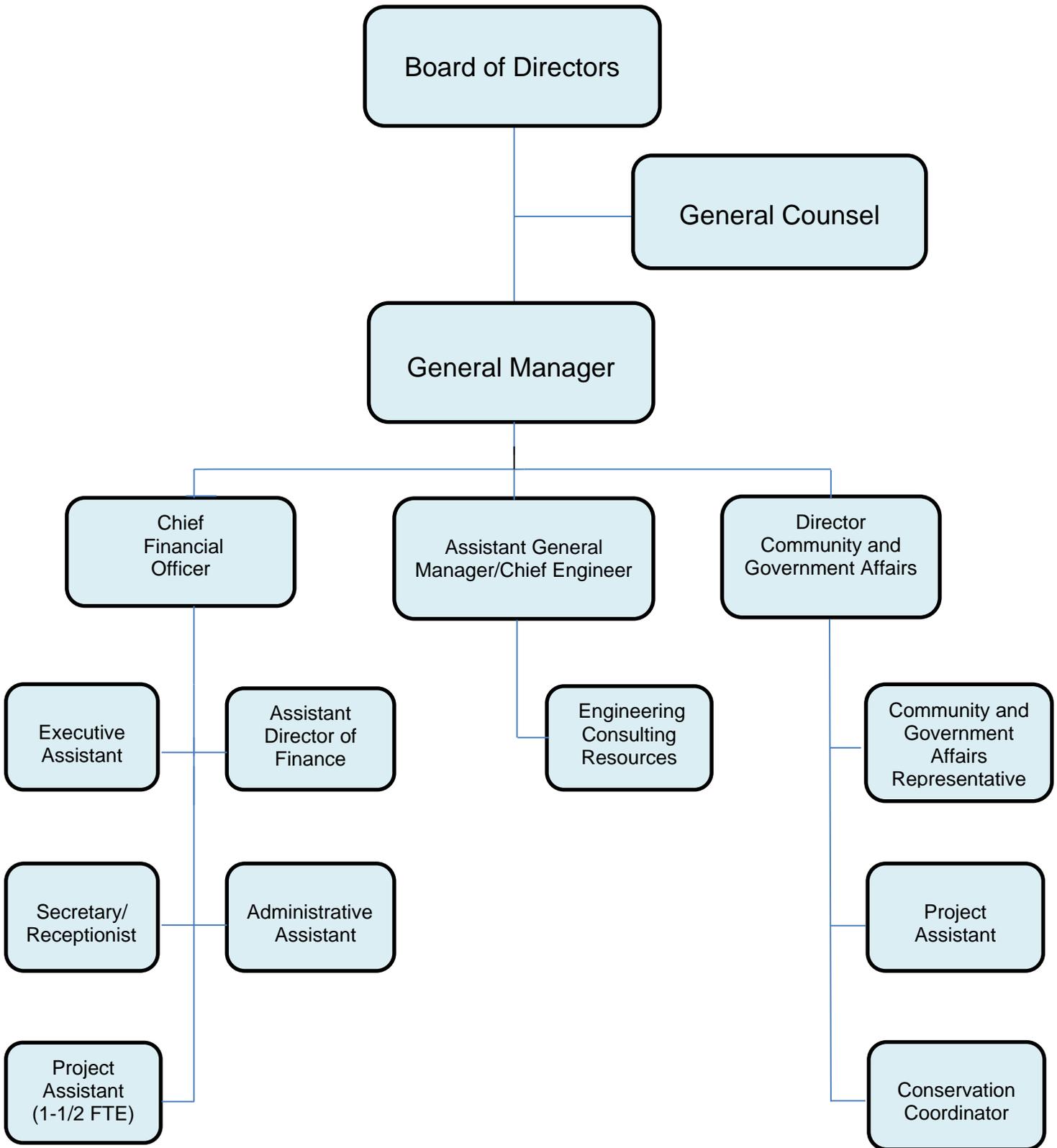
**Upper San Gabriel Valley
Municipal Water District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

Upper San Gabriel Valley Municipal Water District
Organizational Chart



Financial Section

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Report of Independent Auditors

The Honorable Members of the Board of Directors Upper San Gabriel Valley Municipal Water District

Report on the Financial Statements

We have audited the accompanying financial statements of the Upper San Gabriel Valley Municipal Water District (the Upper District) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Upper 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 an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Upper District as of June 30, 2015 and 2014, and the changes in its net position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7, and the required supplementary information on page 27, 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 an opinion on the financial statements that collectively comprise the Upper District's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Implementation of New Accounting Standards

As discussed in Note 1, the Upper District has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* effective for the fiscal year ended June 30, 2015. As a result of this required implementation, the Upper District's beginning net position was restated to retroactively report the net pension liability as of the beginning of the fiscal year ended June 30, 2014. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated DATE OPEN on our consideration of the Upper 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 Upper District's internal control over financial reporting and compliance.

Los Angeles, California
DATE OPEN

**Upper San Gabriel Valley Municipal Water District
Management's Discussion and Analysis
June 30, 2015 and 2014**

The following Management's Discussion and Analysis (MD&A) provides an overview of the financial performance and activities of the Upper San Gabriel Valley Municipal Water District (the Upper District) for the fiscal years ended June 30, 2015 and 2014. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Required Financial Statements

The Upper District is a wholesale water utility enterprise and presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting. As an enterprise fund, the Upper District's basic financial statements include the statements of net position, statements of revenues, expenses and changes in net position and statements of cash flows. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The statement of net position presents information on all of the Upper District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two 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 Upper District is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the Upper District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recognized on the accrual basis.

The statement of cash flows is related to the other financial statements by the way it links changes in assets and deferred outflows of resources and liabilities and deferred inflows of resources to the effect on cash and cash equivalents over the course of the fiscal year.

The notes to the financial statements provide useful information regarding the Upper District's significant accounting policies, and they explain significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events, if any.

Financial Highlights

- Water revenue and related water purchased costs increased significantly in fiscal year 2014/15 mainly from the producers' continued pre-purchase of untreated water for cyclic storage.
- To help Watermaster manage the Basin and reduce the Basin's rate of decline due to extreme drought conditions, Upper District purchased 10,000 acre feet of full service untreated water for its cyclic storage account. As of June 30, 2015, about 5,554 acre feet remain in cyclic storage.
- Capital expenditures during the fiscal year consist mostly of costs associated with the continued development of the Indirect Reuse Replenishment Project (IRRP).

More information on the financial statement variances is covered in the next sections.

**Upper San Gabriel Valley Municipal Water District
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Financial Analysis of the Upper District

The statements of net position and the statements of revenues, expenses and changes in net position report provide an indication of the Upper District's financial health. It provides a basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the Upper District.

The following tables summarize the Upper District's financial condition and the changes in its net position for the past three years.

Statements of Net Position

Consolidated Statements of Net Position

	June 30			Change			
				2015/2014		2014/2013	
	2015 (in thousands)	2014 (in thousands)	2013 (in thousands)	Dollar (in thousands)	Percentage	Dollar (in thousands)	Percentage
Assets							
Current assets	\$ 18,144	\$ 11,110	\$ 19,806	\$ 7,034	63.3%	\$ (8,696)	-43.9%
Investments	5,229	7,244	-	(2,015)	-27.8%	7,244	100.0%
Capital assets, net	53,157	52,950	51,650	207	0.4%	1,300	2.5%
Total assets	<u>76,530</u>	<u>71,304</u>	<u>71,456</u>	<u>5,226</u>	7.3%	<u>(152)</u>	-0.2%
Deferred Outflows of Resources	258	-	-	258	100.0%	-	n/a
Liabilities							
Current liabilities	8,487	3,684	1,795	4,803	130.4%	1,889	105.2%
Noncurrent liabilities	12,621	13,186	13,466	(565)	-4.3%	(280)	-2.1%
Total liabilities	<u>21,108</u>	<u>16,870</u>	<u>15,261</u>	<u>4,238</u>	25.1%	<u>1,609</u>	10.5%
Deferred Inflows of Resources	421	-	-	421	100.0%	-	n/a
Net Position							
Net investment in capital assets	41,544	40,766	39,195	778	1.9%	1,571	4.0%
Unrestricted	13,715	13,667	17,000	48	0.4%	(3,333)	-19.6%
Total net position	<u>\$ 55,259</u>	<u>\$ 54,433</u>	<u>\$ 56,195</u>	<u>\$ 826</u>	1.5%	<u>\$ (1,762)</u>	-3.1%

As shown above, the Upper District's total assets exceeded liabilities and deferred inflows of resources by \$55.26 million, \$54.43 million and \$56.20 million as of June 30, 2015, 2014 and 2013, respectively, or an increase in net position of \$0.83 million between 2015 and 2014 and a decrease in net position of \$1.77 million between 2014 and 2013.

Assets

In 2015, Upper District purchased 10,000 acre feet of untreated water for cyclic storage. As of June 30, 2015, Upper District's cyclic storage account had a balance of about 5,500 acre feet of water or \$3.22 million thereby increasing current assets by the same amount. Additional receivables related to imported water purchases by Watermaster and the producers increased current assets by another \$3.27 million.

In 2014, the Upper District engaged the services of an external investment manager and shifted about half of the funds previously held in LAIF to other investment securities. As of June 30, 2014, approximately \$7.24 million of Upper District funds are held in investment securities, decreasing current assets and increasing investments accordingly. In 2015, Upper District used some of the funds previously held in investment securities to purchase untreated water for cyclic storage to help address the rapidly declining Basin levels.

**Upper San Gabriel Valley Municipal Water District
Management's Discussion and Analysis
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With the continued development of the IRRP and completion of the remaining portions of the City of Industry project, Upper District's net capital assets increased by \$0.21 and \$1.30 million, for fiscal years ended June 30, 2015 and 2014, the respectively.

Liabilities

As of June 30, 2015, Upper District's current liabilities increased by \$4.85 million consisting mostly of amounts owed to MWD for imported water purchases during the months of May and June 2015. Current liabilities increased by \$1.98 million between fiscal years 2014 and 2013. Of this amount, \$1.44 million pertains to a retroactive adjustment to report the net pension liability as of June 30, 2014 as required by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68).

In 2014, Upper District began paying down the state loan and reducing noncurrent liabilities by \$0.57 million and \$0.28 million for fiscal years ended June 30, 2015 and 2014, respectively.

Net Position

A large portion of the Upper District's net position consists of net investment in capital assets. Capital assets are used by the Upper District to provide services to its customers and are, therefore, not available for spending. Consequently, as the Upper District continued to invest in its recycled water program to improve water supply reliability, unrestricted net position will generally decrease.

The net position balance at the beginning of fiscal year 2014 was restated by \$1,443,229 to retroactively report the net pension liability as of the beginning of the fiscal year, as a result of implementing GASB 68.

Statements of Revenues, Expenses and Changes in Net Position

The statements of revenues, expenses and changes in net position provide information on the nature and sources of these changes. For the fiscal year ended June 30, 2015, Upper District's net position increased by \$0.83 million. For the fiscal year ended June 30, 2014, Upper District's net position decreased by \$0.32 million as shown by the table below.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Years ended June 30			Change			
				2015/2014		2014/2013	
	2015 (in thousands)	2014 (in thousands)	2013 (in thousands)	Dollar (in thousands)	Percentage	Dollar (in thousands)	Percentage
Water Revenue	\$ 37,021	\$ 26,259	\$ 12,395	\$ 10,762	41.0%	\$ 13,864	111.9%
Water Conservation	545	245	195	300	122.4%	50	25.6%
Other Operating Revenues	362	187	247	175	93.6%	(60)	-24.3%
Total operating revenues	37,928	26,691	12,837	11,237	42.1%	13,854	107.9%
Total operating expenses	40,921	30,869	17,338	10,052	32.6%	13,531	78.0%
Operating income (loss)	(2,993)	(4,178)	(4,501)	1,185	-28.4%	323	-7.2%
Standby charges	3,623	3,585	3,542	38	1.1%	43	1.2%
Nonoperating program expenses	(592)	(524)	(991)	(68)	13.0%	467	-47.1%
Investment earnings, taxes, others	440	451	420	(11)	-2.4%	31	7.4%
Net nonoperating revenues	3,471	3,512	2,971	(41)	-1.2%	541	18.2%
Capital contributions	348	348	4,927	-	0.0%	(4,579)	-92.9%
Change in net position	826	(318)	3,397	1,144	-359.7%	(3,715)	-109.4%
Beginning net position, as restated	54,433	54,751	52,798	(318)	-0.6%	1,953	3.7%
Ending net position	\$ 55,259	\$ 54,433	\$ 56,195	\$ 826	1.5%	\$ (1,762)	-3.1%

**Upper San Gabriel Valley Municipal Water District
Management's Discussion and Analysis
June 30, 2015 and 2014**

Operating Revenues

During fiscal year 2013/14, Watermaster initiated a routine annual pre-purchase of imported water to meet future replacement obligations and build storage, purchasing roughly 31,300 acre feet of untreated water. Consequently, operating revenues as of June 30, 2014 increased by 107.9% or \$13.85 million from 2013. During the fiscal year 2014/15, amidst unprecedented drought conditions, Watermaster purchased additional untreated water for various producers' cyclic storage accounts, increasing Upper District's water revenue by \$4.71 million. Treated water sales also increased by about 5,600 acre feet or \$5.76 million in additional revenues.

Nonoperating Revenues/Expenses and Capital Contributions

Nonoperating revenues, consisting of standby charges, investment earnings and taxes, remained relatively stable during fiscal years ended June 30, 2015 and 2014.

Operating Expenses

The Upper District purchases imported water from MWD and sets its rates based on MWD's prevailing rates.

For the years ended June 30, 2015 and 2014, purchased water cost increased by \$9.71 million and \$12.14 million, respectively. During 2014, Watermaster pre-purchased about 31,300 acre feet of imported water for groundwater replenishment, an increase of 160% or 19,300 acre feet from prior year. In 2015, Watermaster purchased additional untreated water for various producers' cyclic storage account, an increase of about 8,000 acre-feet or 26% from 2014 levels. Fiscal year 2015 also saw a spike in treated water sales by about 5,600 acre feet.

Capital Asset Administration

At June 30, 2015, 2014 and 2013, Upper District's investments in capital assets net of accumulated depreciation amounted to \$53.16 million, \$52.95 million and \$51.65 million, respectively. The following is a summary of capital assets:

	June 30			Change			
	2015		2014	2015/2014		2014/2013	
	(in thousands)	(in thousands)	(in thousands)	Dollar (in thousands)	Percentage	Dollar (in thousands)	Percentage
Land	\$ 81	\$ 81	\$ 81	\$ -	0.0%	\$ -	0.0%
Construction in progress	5,597	6,639	32,583	(1,042)	-15.7%	(25,944)	-79.6%
Building and improvements	560	560	560	-	0.0%	-	0.0%
Intangible utility plant	583	583	583	-	0.0%	-	0.0%
Water recycling	51,440	49,124	20,878	2,316	4.7%	28,246	135.3%
Source of supply	95	95	95	-	0.0%	-	0.0%
Office furniture and equipment	648	643	577	5	0.8%	66	11.4%
	59,004	57,725	55,357	1,279	2.2%	2,368	4.3%
Less accumulated depreciation	(5,847)	(4,775)	(3,707)	(1,072)	22.5%	(1,068)	28.8%
Net capital assets	\$ 53,157	\$ 52,950	\$ 51,650	\$ 207	0.4%	\$ 1,300	2.5%

A significant portion of the construction in progress as of June 30, 2013 is attributable to construction activities related to the Upper District's recycled water projects. With the substantial completion of construction activities for the City of Industry Phase IIB Recycled Water Project in 2014, \$28.25 million in construction costs were reclassified and reported as completed projects.

For more information regarding the Upper District's capital assets, please refer to Note 3 of the notes to financial statements.

**Upper San Gabriel Valley Municipal Water District
Management's Discussion and Analysis
June 30, 2015 and 2014**

Long-term Debt

Construction activities for the City of Industry Project were partially funded by State Revolving Fund (SRF) loan from the State Water Resources Control Board (SWRCB) which, as of June 30, 2015 and 2014, amounted to \$11,612,296 and \$12,183,607, respectively. Detailed information on the Upper District's long-term debt is presented under Note 5 in the Notes to Financial Statements.

Water Rates and Other Charges

On November 18, 2014, the Board of Directors approved water rates and charges for the different classes of water effective January 1, 2015. Please refer to page 45 of the statistical section for the Upper District's water rates for the last ten fiscal years.

On May 19, 2015, the Board of Directors approved the adoption of a water standby or availability of service charge at rates equal to prior year's \$8.00 per acre of land or \$8.00 for each parcel of land less than an acre within the Upper District's service area. This charge generates approximately \$1.60 million in revenues.

Conditions Affecting Current Financial Position

As California faced water shortfalls during the driest year in recorded state history, Governor Brown issued an official drought proclamation in January 2014 and directed state officials to take all necessary actions to prepare for drought conditions. In April 2015, Governor Brown enacted Executive Order B-29-15 extending the current emergency drought conservation efforts and making mandatory a 25 percent reduction in urban water use to be administered by the State Water Resources Control Board and urban water suppliers.

In April 2015, MWD's board approved the implementation of its Water Supply Allocation Plan at Level 3, effective July 1, 2015 through June 30, 2016. At this allocation level, Upper District may receive up to 25,050 acre feet of water without incurring hefty drought surcharges.

With the State's industrial and agricultural jobs base highly dependent on reliable and affordable water supplies and the residents' quality of life closely linked to water, investment in secure, reliable and affordable water supplies is crucial for California's economic growth.

In response to extreme drought conditions, the Upper District ramped up efforts to accelerate delivery of the IRRP, which will provide 10,000 acre feet or more of recycled water for groundwater replenishment once completed. Upper District also increased its education and outreach efforts to promote water conservation.

Requests for Information

This financial report is designed to provide the Upper District's funding sources, customers, stakeholders and other interested parties with an overview of the Upper District's financial operations and overall financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Upper District's Chief Financial Officer at 602 E. Huntington Drive, Suite B, Monrovia, California 91016.

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Basic Financial Statements

**Upper San Gabriel Valley Municipal Water District
Statements of Net Position**

	June 30	
ASSETS	2015	2014
Current assets		
Cash and cash equivalents	\$ 10,208,324	\$ 9,850,050
Receivables		
Water sales	4,326,831	1,056,393
Grants	208,716	48,916
Other	126,016	100,618
Prepaid items	3,274,035	53,850
Total current assets	18,143,922	11,109,827
Investments	5,229,657	7,244,670
Capital assets		
Land and construction-in-progress	5,678,278	6,719,515
Depreciable capital assets, net	47,478,576	46,229,994
Net capital assets	53,156,854	52,949,509
Total assets	76,530,433	71,304,006
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources	258,098	-
LIABILITIES		
Current liabilities		
Accounts payable		
Metropolitan Water District	5,986,093	316,356
Other	990,063	1,623,796
Accrued liabilities	1,475,818	1,661,630
Unearned revenue	34,605	82,530
Total current liabilities	8,486,579	3,684,312
Noncurrent liabilities		
Due to State Water Resources Control Board	11,612,296	12,183,607
Other postemployment benefits	986,347	986,347
Compensated absences, net of current portion	22,792	16,251
Total noncurrent liabilities	12,621,435	13,186,205
Total liabilities	21,108,014	16,870,517
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources	421,023	-
NET POSITION		
Net investment in capital assets	41,544,558	40,765,902
Unrestricted	13,714,936	13,667,587
Total net position	\$ 55,259,494	\$ 54,433,489

See notes to the financial statements.

**Upper San Gabriel Valley Municipal Water District
Statements of Revenues, Expenses and Changes in Net Position**

	Years ended June 30	
	2015	2014
Operating revenues		
Water revenue	\$ 37,021,242	\$ 26,259,217
Water conservation	544,915	245,001
Other	361,883	187,084
Total operating revenues	37,928,040	26,691,302
Operating expenses		
Sources of supply	32,365,647	22,657,332
Water quality and supply program	2,623,157	2,439,285
Recycling costs	926,653	781,299
Conservation	1,767,212	1,322,358
Depreciation	1,072,298	1,068,086
General and administrative	2,166,076	2,601,032
Total operating expenses	40,921,043	30,869,392
Operating loss	(2,993,003)	(4,178,090)
Nonoperating revenues (expenses)		
Standby charges	3,623,243	3,584,423
Nonoperating program expenses	(592,063)	(524,136)
Investment earnings	65,944	31,838
Taxes	372,231	416,441
Change in fair value of investments	1,541	3,054
Net nonoperating revenues	3,470,896	3,511,620
Income (loss) before contributions	477,893	(666,470)
Contributions for capital acquisitions/construction	348,112	348,569
Change in net position	826,005	(317,901)
Net position at beginning of year, as restated	54,433,489	54,751,390
Net position at end of year	\$ 55,259,494	\$ 54,433,489

See notes to the financial statements.

**Upper San Gabriel Valley Municipal Water District
Statements of Cash Flows**

	Years ended June 30	
	2015	2014
Cash flows from operating activities		
Cash received from customers	\$ 34,432,224	\$ 29,776,023
Cash payments to suppliers for goods and services	(36,242,150)	(27,622,521)
Cash payments to employees for services	(1,807,122)	(1,654,073)
Net cash provided by (used in) operating activities	(3,617,048)	499,429
Cash flows from noncapital financing activities		
Cash received for property taxes	372,231	416,441
Cash paid for nonoperating program expenses	(592,063)	(524,136)
Cash received for standby charges	3,615,989	3,595,174
Net cash provided by noncapital financing activities	3,396,157	3,487,479
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(1,279,645)	(2,367,260)
Capital contributions	(223,199)	76,500
Net cash used in capital and related financing activities	(1,502,844)	(2,290,760)
Cash flows from investing activities		
Cash received from sale and maturity of investments	2,707,162	-
Acquisition of investments	(690,606)	(7,241,616)
Investment earnings	65,453	35,297
Net cash provided by (used in) investing activities	2,082,009	(7,206,319)
Change in cash and cash equivalents	358,274	(5,510,171)
Cash and cash equivalents at beginning of year	9,850,050	15,360,221
Cash and cash equivalents at end of year	\$ 10,208,324	\$ 9,850,050

See notes to the financial statements.

**Upper San Gabriel Valley Municipal Water District
Statement of Cash Flows (Continued)**

	Years ended June 30	
	2015	2014
Reconciliation of operating loss to net cash provided by (used in) operating activities		
Operating loss	\$ (2,993,003)	\$ (4,178,090)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	1,072,298	1,068,086
Changes in operating assets and liabilities:		
Accounts receivable	(3,447,891)	3,176,197
Prepaid items	(3,220,185)	(4,621)
Accounts payable and accrued expenses	4,856,733	529,333
Prior period adjustment	162,925	-
Unearned revenue	(47,925)	(91,476)
Net adjustments	(624,045)	4,677,519
Net cash provided by (used in) operating activities	\$ (3,617,048)	\$ 499,429

See notes to the financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Entity

Upper San Gabriel Valley Municipal Water District (the Upper District), which comprises an area of approximately 144 square miles, was incorporated on January 7, 1960 under the provisions of the Municipal Water District Law of 1911, as amended, (now cited as "The Municipal Water District Law of 1911", Division 20, California Water Code) as a result of a special election held on December 8, 1959. On March 12, 1963, the voters of the Upper District elected to join the Metropolitan Water District of Southern California and, on November 2, 1965, the citizens of West Covina voted to join the Upper District.

Adjudication proceedings, which established the legal determination of water rights of individual pumpers in the area in relation to the safe yield of the total water basin, were completed on December 29, 1972. The decree established a Watermaster, the Main San Gabriel Basin Watermaster, who took over the function of levying and collecting the assessments that had previously been levied and collected by the Upper District through its reimbursement contract and replenishment funds.

The Upper District's missions are: 1) to provide a reliable supply of high quality drinking water at the lowest possible cost; 2) to provide a drought-proof and economical supply of recycled water for industrial and irrigation uses; and 3) to provide and complete projects that aggressively advance water use efficiency throughout the San Gabriel Valley.

Basis of Accounting and Measurement Focus

The Upper District is considered an enterprise fund for financial reporting purposes. The accompanying financial statements have been prepared using the economic measurement focus and the accrual basis of accounting. Under this basis of accounting and measurement focus, revenues are recognized when they are earned and expenses are recognized when they are incurred.

The Upper District's financial statements are presented in accordance with the provisions of GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and *Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants. Statement No. 34 established standards for external financial reporting for all state and local governmental entities. It requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Net investment in capital assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Restricted – This component of net position consists of constraints placed on resources through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted – This component of net position consists of resources that do not meet the definition of “restricted” or “net investment in capital assets.”

The Upper District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an entity's ongoing operations. The Upper District defines operating revenues as those realized by the Upper District in exchange for providing its primary services for water sales and water programs including conservation and recycled water. Nonoperating revenues are those derived from the investment of cash reserves and from entities other than customers and other ancillary sources.

Implementation of New Accounting Pronouncements

During the fiscal year ended June 30, 2015, the Upper District adopted the following new Statements of the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statements No. 27 and 50*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures of pensions that are provided by local governmental employers through pension plans that are administered through trusts that meet certain conditions. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- GASB Statement No. 71, *Pension Transition for Contributions made subsequent to the Measurement Date - an amendment of GAS Statement No. 68*. This statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

Pension

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Upper District's California Public Employees' Retirement System (CalPERS) plan (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.

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 the reported amounts of assets and liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Risk Management

The Upper District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Insurance Authority). The Insurance Authority is a risk-pooling, self-insurance authority, created under the provisions of California Government Code Sections 6500 et. seq. The purpose of the Insurance Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

At June 30, 2015, the Upper District participated in the self-insurance program of the Insurance Authority as follows:

Property Loss – The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence and has purchased excess insurance coverage up to \$150,000,000 (total insurable value of \$6,146,192), with \$25,000 deductible.

General Liability – The Insurance Authority has pooled self-insurance up to \$2,000,000 and has purchased excess insurance coverage up to \$58,000,000.

Auto Liability – The Insurance Authority has pooled self-insurance up to \$2,000,000 per occurrence and has purchased excess insurance coverage up to \$58,000,000

Public Officials' Liability and Errors and Omissions - The Insurance Authority has pooled self-insurance up to \$2,000,000 per occurrence and has purchased excess insurance coverage up to \$58,000,000.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fidelity: Public Employee Dishonesty, Forgery or Alteration, Computer Fraud & ERISA – The Insurance Authority has pooled self-insurance up to \$100,000 per occurrence, with \$1,000 deductible.

Workers' Compensation - The Insurance Authority has pooled self-insurance up to \$2,000,000 each for workers' compensation and employers' liability. The employers' liability is insured up to \$2,000,000 in excess of \$2,000,000 Self-Insured Retention. Workers' compensation is insured up to the statutory limit.)

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents have been defined as deposits and highly liquid investments with maturity of 90 days or less at the date of purchase.

Capital Assets and Depreciation

Capital assets are recorded at cost. The provision for depreciation is computed using the straight-line method over the estimated service lives of the capital assets. The Upper District uses differing capitalization thresholds for the classes of assets based on materiality. The Upper District's policy is to review for capitalization those expenditures greater than \$500 that have a useful life of more than one year. Estimated service lives for the Upper District's classes of assets are as follows:

Distribution system	50 years
Building	50 years
Building improvements	10 - 15 years
Furniture and equipment	5 - 10 years

Unearned Revenue

Unearned revenue is water revenue paid by customers as well as rental revenue paid by a lessee in the current period but is yet to be earned by the Upper District.

Compensated Absences

The Upper District's policy is to permit employees to accumulate a limited amount of earned vacation and sick leave. Accumulated vacation time is accrued at year-end to account for the Upper District's obligation to the employees for the amount owed. It is management's belief that the majority of the obligation will be utilized during the course of the next fiscal year. Vacation pay is payable to employees at the time a vacation is taken, cashed out or upon termination of employment. Normally, an employee cannot accrue more than thirty days of vacation each year. Sick leave is payable when an employee is unable to work because of illness. Upon retirement, an employee will be paid for any unused sick leave.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Overhead Absorption

Certain operating expenses are allocated to capital assets using management's allocation of manpower and service estimates that are directly related to the construction of capital assets.

Contributions for Capital Acquisitions/Construction

Contributions for capital acquisitions/construction represent cash and capital asset additions contributed to the Upper District by federal and state granting agencies.

Budgetary Policies

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

NOTE 2 CASH AND INVESTMENTS

Cash and cash equivalents as of June 30 consist of the following:

	2015	2014
Imprest cash on hand	\$ 500	\$ 500
Deposit with financial institution	1,119,478	943,582
Local Agency Investment Fund ⁽¹⁾	9,065,968	8,147,584
Money market mutual funds	22,378	758,384
Total cash and cash equivalents	\$ 10,208,324	\$ 9,850,050

⁽¹⁾The Upper District is a voluntary participant in the Local Agency Investment Fund (LAIF), a special fund regulated by the California State Treasury through which each city, district or agency may invest up to \$40 million. As of June 30, 2015 and 2014, the total fair value of LAIF, including accrued interest was approximately \$69.0 billion and \$63.0 billion, respectively. The Upper District's proportionate share of that value is \$9.1 million and \$8.1 million as of June 30, 2015 and 2014, respectively. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. In regards to credit rating, LAIF is unrated as of June 30, 2015 and 2014.

Investment Policy

The Upper District's investment policy outlines the guidelines required to be used in effectively managing the Upper District's available cash in accordance with the California Government Code. To address interest rate risk, the Upper District's existing policy limits the maturity of investments to five years, with the exception of special trust funds which shall not be subject to this limitation. To mitigate credit risks associated with its investments, the Upper District's investment policy limits investments to large institutions and requires diversification to ensure that failure of one issuer will not significantly affect the Upper District's cash flow.

Upper San Gabriel Valley Municipal Water District
Notes to Financial Statements
Years ended June 30, 2015 and 2014

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risk

Interest rate risk, as defined under GASB Statement No. 40, is the risk that changes in interest rates will adversely affect the fair value of an investment. The Upper District's investments in LAIF have a weighted average maturity of 239 days, generally consistent with its cash flow and liquidity needs. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

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

Maturities of investments at June 30, 2015, were as follows:

Investment Type	Total Investment	Remaining Maturity (in Months)		
		12 Months or Less	13 to 36 Months	36+ Months
Local Agency Investment Fund	\$ 9,065,968	\$ 9,065,968	\$ -	\$ -
Cash and investments with fiscal agent:				
Money Market Mutual Funds	22,378	22,378	-	-
Agency Funds	2,575,442	864,420	1,711,022	-
U.S. Treasury Funds	1,144,288	322,334	661,404	160,550
U.S. Corporate Funds	1,509,927	1,380,474	129,453	-
Total	\$ 14,318,003	\$ 11,655,574	\$ 2,501,879	\$ 160,550

Maturities of investments at June 30, 2014, were as follows:

Investment Type	Total Investment	Remaining Maturity (in Months)		
		12 Months or Less	13 to 36 Months	36+ Months
Local Agency Investment Fund	\$ 8,147,584	\$ 8,147,584	\$ -	\$ -
Cash and investments with fiscal agent:				
Money Market Mutual Funds	758,384	758,384	-	-
Agency Funds	3,057,154	-	2,739,634	317,520
U.S. Treasury Funds	2,251,991	-	2,251,991	-
U.S. Corporate Funds	1,935,525	116,497	1,621,692	197,336
Total	\$ 16,150,638	\$ 9,022,465	\$ 6,613,317	\$ 514,856

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Upper District's investment policy limits eligible investments to large institutions. As of June 30, 2015 and 2014, the Upper District had the majority of its investments in LAIF.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

Under GASB Statement No. 40, concentration of credit risk is the risk of loss attributable to the magnitude of the Upper District's investment in a single issuer. The Upper District's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2015 and 2014, there were no investments in any one issuer (other than U.S. Treasury securities, agency funds, corporate funds, and external investment pools) that represent 5% or more of total Upper District investments.

Custodial Credit Risk

GASB Statement No. 40 defines custodial credit risk as the risk that the Upper District will not be able to (a) recover deposits if the depositor financial institution fails, or (b) recover the value of investments or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails.

Deposits

The California Government Code requires California banks and savings and loan associations to secure a local governmental agency's (agency) deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150% of an agency's total deposits. The agency may waive collateral requirements for deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). Beginning January 1, 2013, the FDIC will insure noninterest-bearing transaction accounts, which generally provides each depositor up to \$250,000 in coverage at each separately chartered insured depository institution.

Deposits are exposed to custodial credit risk if they are uninsured and are either:

- a. Uncollateralized
- b. Collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the depositor-government's name

At June 30, 2015 and 2014, the Upper District's deposits (bank balances) exceeded the maximum deposit insurance amount by \$949,000 and \$1,092,000, respectively.

Investments

The California Government Code authorizes the Upper District to invest in obligations of the United States Treasury, agencies, and instrumentalities; prime commercial paper; bankers' acceptances; repurchase and reverse repurchase agreements; financial futures or financial option contracts; negotiable certificates of deposit; obligations of the State of California; and, obligations of local agencies within California.

Upper San Gabriel Valley Municipal Water District
Notes to Financial Statements
Years ended June 30, 2015 and 2014

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Investments are exposed to custodial credit risk if they are uninsured, unregistered and held by either:

- a. Counterparty
- b. The counterparty's trust department or agent but not in the government's name

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 actual rating as of year-end for each investment type.

Credit ratings of investments as of June 30, 2015, were as follows:

Investment Type	Total Investment	Ratings as of Year End			
		Unrated	AAA	AA-	BBB+
Local Agency Investment Fund	\$ 9,065,968	\$ 9,065,968	\$ -	\$ -	\$ -
Cash and investments with fiscal agent:					
Money Market Mutual Funds	22,378	-	22,378	-	-
Agency Funds	2,575,442	-	2,575,442	-	-
U.S. Treasury Funds	1,144,288	-	1,144,288	-	-
U.S. Corporate Funds	1,509,927	-	1,509,927	-	-
Total	\$ 14,318,003	\$ 9,065,968	\$ 5,252,035	\$ -	\$ -

Credit ratings of investments as of June 30, 2014, were as follows:

Investment Type	Total Investment	Ratings as of Year End			
		Unrated	AAA	AA-	BBB+
Local Agency Investment Fund	\$ 8,147,584	\$ 8,147,584	\$ -	\$ -	\$ -
Cash and investments with fiscal agent:					
Money Market Mutual Funds	758,384	-	758,384	-	-
Agency Funds	3,057,154	-	3,057,154	-	-
U.S. Treasury Funds	2,251,991	-	2,251,991	-	-
U.S. Corporate Funds	1,935,525	-	1,935,525	-	-
Total	\$ 16,150,638	\$ 8,147,584	\$ 8,003,054	\$ -	\$ -

At June 30, 2015 and 2014, investments consist of the following:

	2015	2014
Agency Funds	\$ 2,575,442	\$ 3,057,154
U.S. Treasury Funds	1,144,288	2,251,991
U.S. Corporate Funds	1,509,927	1,935,525
Total	\$ 5,229,657	\$ 7,244,670

Upper San Gabriel Valley Municipal Water District
Notes to Financial Statements
Years ended June 30, 2015 and 2014

NOTE 3 CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2015 were as follows:

	Balances at July 1, 2014	Additions	Deletions/ Transfers	Balances at June 30, 2015
Non-depreciable capital assets:				
Land	\$ 80,848	\$ -	\$ -	\$ 80,848
Construction-in-progress	<u>6,638,667</u>	<u>1,274,737</u>	<u>(2,315,974)</u>	<u>5,597,430</u>
Total non-depreciable capital assets	<u>6,719,515</u>	<u>1,274,737</u>	<u>(2,315,974)</u>	<u>5,678,278</u>
Depreciable capital assets:				
Building and improvements	559,820	-	-	559,820
Intangible utility plant	582,772	-	-	582,772
Water recycling	49,123,750	-	2,315,974	51,439,724
Furniture and equipment	584,501	2,258	-	586,759
Other	<u>153,717</u>	<u>2,650</u>	<u>-</u>	<u>156,367</u>
Total depreciable capital assets	<u>51,004,560</u>	<u>4,908</u>	<u>2,315,974</u>	<u>53,325,442</u>
Accumulated depreciation				
Building and improvements	(467,944)	(22,631)	-	(490,575)
Intangible utility plant	(582,772)	-	-	(582,772)
Water recycling	(3,267,247)	(984,298)	-	(4,251,545)
Furniture and equipment	(419,298)	(56,673)	-	(475,971)
Other	<u>(37,305)</u>	<u>(8,698)</u>	<u>-</u>	<u>(46,003)</u>
Total Accumulated Depreciation	<u>(4,774,566)</u>	<u>(1,072,300)</u>	<u>-</u>	<u>(5,846,866)</u>
Net depreciable capital assets	<u>46,229,994</u>	<u>(1,067,392)</u>	<u>2,315,974</u>	<u>47,478,576</u>
Net capital assets	<u>\$ 52,949,509</u>	<u>\$ 207,345</u>	<u>\$ -</u>	<u>\$ 53,156,854</u>

Changes in capital assets for the year ended June 30, 2014 were as follows:

	Balances at July 1, 2013	Additions	Deletions/ Transfers	Balances at June 30, 2014
Non-depreciable capital assets:				
Land	\$ 80,848	\$ -	\$ -	\$ 80,848
Construction-in-progress	<u>32,582,923</u>	<u>2,301,454</u>	<u>(28,245,710)</u>	<u>6,638,667</u>
Total non-depreciable capital assets	<u>32,663,771</u>	<u>2,301,454</u>	<u>(28,245,710)</u>	<u>6,719,515</u>
Depreciable capital assets:				
Building and improvements	559,820	-	-	559,820
Intangible utility plant	582,772	-	-	582,772
Water recycling	20,878,040	-	28,245,710	49,123,750
Furniture and equipment	568,990	15,511	-	584,501
Other	<u>103,422</u>	<u>50,295</u>	<u>-</u>	<u>153,717</u>
Total depreciable capital assets	<u>22,693,044</u>	<u>65,806</u>	<u>28,245,710</u>	<u>51,004,560</u>
Accumulated depreciation				
Building and improvements	(445,313)	(22,631)	-	(467,944)
Intangible utility plant	(582,772)	-	-	(582,772)
Water recycling	(2,282,950)	(984,297)	-	(3,267,247)
Furniture and equipment	(363,169)	(56,129)	-	(419,298)
Other	<u>(32,276)</u>	<u>(5,029)</u>	<u>-</u>	<u>(37,305)</u>
Total Accumulated Depreciation	<u>(3,706,480)</u>	<u>(1,068,086)</u>	<u>-</u>	<u>(4,774,566)</u>
Net depreciable capital assets	<u>18,986,564</u>	<u>(1,002,280)</u>	<u>28,245,710</u>	<u>46,229,994</u>
Net capital assets	<u>\$ 51,650,335</u>	<u>\$ 1,299,174</u>	<u>\$ -</u>	<u>\$ 52,949,509</u>

Upper San Gabriel Valley Municipal Water District
Notes to Financial Statements
Years ended June 30, 2015 and 2014

NOTE 3 CAPITAL ASSETS (CONTINUED)

Major capital asset additions during the year include work on various stages of construction projects. A significant portion of these additions were constructed by the Upper District and/or sub-contractors. During the fiscal year ended June 30, 2015, the Upper District completed the Water Recycling Program Phase IIB Project and transferred out \$2,315,974 of construction-in-progress to Water Recycling.

NOTE 4 COMPENSATED ABSENCES

Changes in compensated absences were as follows:

	June 30	
	2015	2014
Balance at beginning of year	\$ 58,760	\$ 63,948
Earned by employees	82,004	78,995
Taken by/paid to employees	(81,940)	(84,183)
Balance at end of year	58,824	58,760
Less current portion	36,032	42,509
Long-term portion	\$ 22,792	\$ 16,251

Current portion of compensated absences is included as part of accrued liabilities.

NOTE 5 AGREEMENTS WITH STATE WATER RESOURCES CONTROL BOARD

Project Finance Agreements

In December 2009, the Upper District entered into four (4) project finance agreements with the California State Water Resources Control Board (CSWRCB) for a total amount of \$17.02 million for the purpose of financing the planning, design, acquisition, construction and installation of the Water Recycling Pipeline and Pump Station Project Phase IIB. These project funds shall be repaid in annual installments commencing on the date that is one year after completion of construction and payable up to 21 years at zero interest rate. As of June 30, 2015 and 2014, the Upper District has drawn down a total of \$13,171,937 under this agreement. Construction activities funded by the CSWRCB loans were completed as of June 30, 2013.

Amounts due under the agreements are as follows:

Year ending June 30	
2016	\$ 853,488
2017	853,488
2018	853,488
2019	853,488
2020	853,488
2021-2025	4,267,440
2026-2030	4,267,440
2031-2033	1,871,995
	\$ 14,674,315

**NOTE 5 AGREEMENTS WITH STATE WATER RESOURCES CONTROL BOARD
(CONTINUED)**

The Upper District repaid \$791,232 during the year ended June 30, 2015, of which \$571,311 related to principal payments and \$219,921 related to imputed interest.

NOTE 6 DEFINED BENEFIT PENSION PLAN

Plan Description

The Upper District's defined benefit pension plan (the Plan) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California.

A menu of benefit provisions, as well as other requirements, is established by State statutes within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through the Upper District resolution. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office – 400 Q Street, Sacramento, California 95811.

Funding Policy

The contribution requirements of the Plan members are established by state statute and the employer contribution rate is established and may be amended by CalPERS. Under the Public Employees' Pension Reform Act (PEPRA) of 2013, the Upper District pays the member contribution to CalPERS (8% of annual covered salary) for employees. New members hired on or after January 1, 2013 are required to contribute at least 50% of their normal pension cost.

The Upper District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates for the fiscal years ended June 30, 2015 and 2014 were 18.86% and 17.89%, respectively, for classic members. Required employer contribution rate for new members is 7% for the fiscal year ended June 30, 2015 and 2014.

Upper San Gabriel Valley Municipal Water District
Notes to Financial Statements
Years ended June 30, 2015 and 2014

NOTE 6 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Liability, Pension Expense and Deferred and Deferred Outflows/Inflows of Resources Related to Pension

As of June 30, 2015 and 2014, the Upper District reported net pension liability for its proportionate shares of the net pension liability of the Plan as follows:

	June 30	
	2015	2014
Proportionate share of net pension liability	\$ 1,269,653	\$ 2,151,842
Total net pension liability	\$ 1,269,653	\$ 2,151,842

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

The Upper District's proportionate share of the net pension liability for the Plan as of June 30, 2013 and 2014 was as follows:

Proportion - June 30, 2013	0.0577%
Proportion - June 30, 2014	0.0514%
Change	-0.0063%

For the year ended June 30 2015, the Upper District recognized pension expense of \$173,805. At June 30, 2015, the Upper District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 203,255	\$ -
Differences between actual and expected experience	-	-
Changes in assumption	-	-
Changes in employer's proportion	-	(21,150)
Differences between the employer's contributions and the employer's proportionate share of contributions	54,263	-
Net differences between projected and actual earnings on plan investments	-	(399,873)
Total	\$ 257,518	\$ (421,023)

NOTE 6 DEFINED BENEFIT PENSION PLAN (CONTINUED)

\$203,255 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

Year Ended June 30	Amount
2016	(88,142)
2017	(90,508)
2018	(99,968)
2019	-
2020	-
Thereafter	-

Actuarial Assumptions

The total pension liability in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions

Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)
Post-Retirement Benefit Increase	(4)

- (1) Varies by Entry Age and Service
- (2) Net of pension plan investment and administrative expenses, including inflation
- (3) Derived using CALPERS' Membership data for all funds
- (4) Contract COLA up to 2.75% until Purchasing Power Protection
Allowance Floor on Purchasing Power applies, 2.75% thereafter

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

NOTE 6 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

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

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns.

NOTE 6 DEFINED BENEFIT PENSION PLAN (CONTINUED)

The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+(b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
	100.00%		

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

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

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

The following presents the Upper District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Upper 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	6.50%
Net Pension Liability	2,273,740
Current Discount Rate	7.50%
Net Pension Liability	1,269,653
1% Increase	8.50%
Net Pension Liability	436,355

NOTE 6 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Payable to the Pension Plan

As of June 30, 2015, the Upper District did not have outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

NOTE 7 DEFERRED COMPENSATION AGREEMENT

The Upper District offers its employees a deferred compensation plan (DC Plan) created in accordance with Internal Revenue Code Section 457. The DC Plan, available to all of the Upper District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

All amounts of compensation deferred under the DC Plan are held in trust and are not subject to the creditors of the Upper District. Accordingly, the assets and liabilities of the DC Plan are not reflected on these financial statements.

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Upper District provides postemployment healthcare benefits to certain employees, directors and their dependents based on resolutions by the Board of Directors as follows:

- A Health & Accident and Major Medical Payments Insurance Policy, as selected and approved by the Board
- A maximum of \$2,500 per calendar year for retirees and their dependents for medical costs not covered by the insurance policy above
- A maximum of \$2,500 per calendar year for costs of dental, vision and/or hearing

These benefits are provided for each retired employee who has served the Upper District for more than ten years before terminating employment at age 55 years or older and each retired director who served in office after January 1, 1981, was elected to the board prior to January 1, 1995, has served not less than twelve years or three full terms of office and has attained the age of 50 years.

Upper San Gabriel Valley Municipal Water District
Notes to Financial Statements
Years ended June 30, 2015 and 2014

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

The contribution requirements of plan members and the Upper District are established and may be amended by the Board of Directors. During the fiscal year 2014, the Upper District joined the California Employers' Retiree Benefit Trust (CERBT) program and contributed \$122,975 and \$116,504 to the Plan during the years ended June 30, 2015 and 2014, respectively. The Trust assets are dedicated to providing benefits to retirees and are legally protected from the creditors of the Upper District and the plan members. Therefore, the Trust assets are not reported in the Upper District's financial statements.

Total benefits paid during the years ended June 30, 2015 and 2014 amounted to \$129,299 and \$135,770, respectively. As of June 30, 2015 and 2014, there were 11 participants receiving benefits under these programs.

In 2004, GASB adopted Statement No. 45, which addresses *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. Along with other agencies with total annual revenues of \$10 million or more but not over \$100 million, the Upper District implemented the GASB Statement No. 45 OPEB reporting requirements beginning in Fiscal Year 2008-2009.

As of June 30, 2015, the Upper District has not established a plan or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors. However, the Upper District accrued the required annual contribution based on the actuarial valuation report.

Eligible participants to the plan at July 1, 2013, the date of the latest actuarial valuation are as follows:

Retirees receiving benefits	11
Active / full-time employees/Directors	<u>12</u>
Total	<u><u>23</u></u>

The funded status of the plan as of June 30, 2013 based on the plan's most recent actuarial valuation date of July 1, 2013 was:

Actuarial accrued liability (AAL)	\$	2,439,201
Actuarial value of plan assets		<u>-</u>
Unfunded actuarial accrued liability (UAAL)	\$	<u><u>2,439,201</u></u>
Funded ratio (actuarial value of plan assets / AAL)		<u><u>0%</u></u>
Normal cost	\$	<u><u>55,088</u></u>

	<u>Years Ended in June 30</u>	
	<u>2015</u>	<u>2014</u>
Covered Payroll	\$ 1,173,000	\$ 1,139,000
Unfunded Actuarial Accrued Liability as a % of Covered Payroll	208%	214%

Upper San Gabriel Valley Municipal Water District
Notes to Financial Statements
Years ended June 30, 2015 and 2014

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

The actuarial method used in estimating the liability is the Projected Unit Credit with service prorate cost method. Under this cost method, the Actuarial Accrued Liability (AAL) is the present value of projected multiplied by the ratio of benefit service as of the valuation date to the projected benefit service at retirement, termination, disability or death. The significant assumptions in the computation include a discount rate of 7.11% per annum, inflation of 2.75% per annum and an annual increase in payroll of 3%. The discount rate assumes the Upper District continues to fund for its retiree health benefits on a pay-as-you-go basis.

The following table shows the components of the Upper District's annual OPEB cost for the year (based on 30-year amortization using the level percentage of projected payroll), the amount of benefits and/or insurance premiums actually paid and the District's net OPEB obligation as of June 30, 2015 and 2014:

	2015	2014
Annual required contribution	\$ 252,274	\$ 252,274
Interest on net OPEB obligation	-	-
Adjustment to ARC	(122,975)	(116,504)
Annual OPEB cost	129,299	135,770
Benefit payments	(129,299)	(135,770)
Increase in net OPEB obligation	-	-
Net OPEB obligation - beginning of year	986,347	986,347
Net OPEB obligation - end of year	<u>986,347</u>	<u>986,347</u>

The Annual Required Contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a 30-year period based on a level-dollar basis.

Three Year Trend Information

Fiscal year end	Annual OPEB cost	Benefit payment	Percentage of annual OPEB cost paid	Net OPEB Obligation
June 30, 2013	\$ 324,926	\$ 129,744	40%	\$ 986,347
June 30, 2014	135,770	135,770	100%	986,347
June 30, 2015	129,299	129,299	100%	986,347

See Schedule of Funding Progress in the Required Supplementary Information section.

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

The following is a summary of the actuarial assumptions and methods:

Actuarial Assumptions:

Investment Rate of Return	7.11% per annum (net of administrative expenses) depending on employer funding policy
Projected Salary Increases	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

A 1% increase in the healthcare trend rate for each future year would increase the annual required contribution by 14%.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Operating Lease

The Upper District has entered into a noncancellable operating lease for its office space in Monrovia, California. Amounts due under the lease are as follows:

Year ending June 30	
2016	\$ 218,576
2017	<u>18,259</u>
	<u>236,835</u>

The Upper District incurred rental expense of \$212,724 and \$206,532 for the years ended June 30, 2015 and 2014, respectively.

Grant Awards

The Upper District has received funds for specific purposes that are subject to review and audit by the grantors. Although such audits could generate expenditure disallowances under terms of the grants or contracts, management believes that any required reimbursements will not be material.

Litigation

Legal claims and lawsuits arise from time to time in the normal course of business, which, in the opinion of management, will have no material effect on the Upper District's financial position.

Construction Activities

The Upper District has a variety of agreements with private contractors relating to the construction of water recycling projects. The Upper District has committed to approximately \$0.12 million and \$0.49 million of open construction contracts as of June 30, 2015 and 2014, respectively.

NOTE 10 GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS ISSUED, NOT YET EFFECTIVE

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2015, that have effective dates that may impact future financial presentations. Management has not yet determined any impact the implementation of the following statements may have on the financial statements of the Upper District.

GASB No. 72 - Fair Value Measurement and Application. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015.

GASB No. 73 - Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The requirements of this Statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016.

GASB No. 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. The new information will enhance the decision-usefulness of the financial reports of those OPEB plans, their value for assessing accountability, and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. The net OPEB liability information, including ratios, will offer an up-to-date indication of the extent to which the total OPEB liability is covered by the fiduciary net position of the OPEB plan. The comparability of the reported information for similar types of OPEB plans will be improved by the changes related to the attribution method used to determine the total OPEB liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison with actuarially determined rates, if such rates are determined.

In addition, new information about rates of return on OPEB plan investments will inform financial report users about the effects of market conditions on the OPEB plan's assets over time and provide information for users to assess the relative success of the OPEB plan's investment strategy and the relative contribution that investment earnings provide to the OPEB plan's ability to pay benefits to plan members when they come due. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016.

**NOTE 10 GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS
ISSUED, NOT YET EFFECTIVE (CONTINUED)**

GASB No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information, as follows:

- More robust disclosures of assumptions will allow for better informed assessments of the reasonableness of OPEB measurements.
- Explanations of how and why the OPEB liability changed from year to year will improve transparency.
- The summary OPEB liability information, including ratios, will offer an indication of the extent to which the total OPEB liability is covered by resources held by the OPEB plan, if any.
- For employers that provide benefits through OPEB plans that are administered through trusts that meet the specified criteria, the contribution schedules will provide measures to evaluate decisions related to contributions.

The consistency, comparability, and transparency of the information reported by employers and governmental nonemployer contributing entities about OPEB transactions will be improved by requiring:

- The use of a discount rate that considers the availability of the OPEB plan's fiduciary net position associated with the OPEB of current active and inactive employees and the investment horizon of those resources rather than utilizing only the long-term expected rate of return regardless of whether the OPEB plan's fiduciary net position is projected to sufficient to make projected benefit payments and is expected to be invested using a strategy to achieve that return.
- A single method of attributing the actuarial present value of projected benefit payments to periods of employee service, rather than allowing a choice among six methods with additional variations.
- Immediate recognition in OPEB expense, rather than a choice of recognition periods, of the effects of changes of benefit terms.
- Recognition of OPEB expense that incorporates deferred outflows of resources and deferred inflows of resources related to OPEB over a defined, closed period, rather than a choice between an open or closed period.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017.

NOTE 10 GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS ISSUED, NOT YET EFFECTIVE (CONTINUED)

GASB No. 76 - The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The requirements in this Statement improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the abatements have on a government's financial position and economic condition .The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015.

GASB No. 77 - Tax Abatement Disclosures. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The provisions of this Statement are effective for financial statements for period beginning after December 15, 2015.

NOTE 11 PRIOR PERIOD ADJUSTMENTS

The beginning balance of the Upper District's net position has been restated to reflect the following adjustments:

Net position at beginning of year ended June 30, 2014, as reported	\$ 56,194,615
Prior period adjustments:	
Adjustment to record retroactive effect of implementing GASB Statement No. 68	<u>(1,443,225)</u>
Net position at beginning of year, as restated	\$ <u>54,751,390</u>

The net position balance as of June 30, 2014 was restated to retroactively report the net pension liability as of the beginning of the fiscal year as a result of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

Adjustments were also made to properly report contributions made to CalPERS in fiscal year 2013-2014, and to reflect the effect of change in accounting treatment for electronic resources which were determined to have no future economic benefit.

NOTE 12 SUBSEQUENT EVENTS

The Upper District has evaluated events or transactions through **DATE OPEN**, the date on which the financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no other subsequent matters require disclosure or adjustment to the accompanying financial statements.

**Required Supplementary Information
(Unaudited)**

**Upper San Gabriel Valley Municipal Water District
Required Supplementary Information (Unaudited)
Years ended June 30, 2015 and 2014**

Schedule of Funding Progress – OPEB

<u>Actuarial Valuation Date</u>	<u>Actuarial Asset Value</u> (A)	<u>Entry Age Actuarial Accrued Liability (AAL)</u> (B)	<u>Unfunded Actuarial Accrued Liability (Excess Assets)</u> [(B) - (A)] (UL) (C)	<u>Funded Ratio</u> [(A) / (B)] (D)	<u>Annual Covered Payroll</u> (E)	<u>Unfunded Actuarial Accrued Liability as Percentage of Covered Payroll [(B) - {(A)/(E)}]</u> (F)
June 30, 2013	\$ -	\$ 2,439,201	\$ 2,439,201	0.00%	\$ 1,139,000	214%
June 30, 2014		2,439,201	2,439,201	0.00%	1,173,000	208%

The significant assumptions in the computation include a discount rate of 7.11% per annum, inflation of 2.75% per annum and an annual increase in payroll of 3.00%.

**Upper San Gabriel Valley Municipal Water District
Schedule of Proportionate Share of the Net Pension Liability
Last 10 years¹**

Proportion of the net pension liability (asset)	0.02040%
Proportionate share of the net pension liability (asset)	\$ 1,269,653
Covered - employee payroll (1)	\$ 937,566
Proportionate share of the net pension liability (asset) as percentage of covered-employee payroll	135.42%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability	83.23%
Plan's proportionate share of aggregate employer contributions (2)	\$ 634,971

Notes to Schedule

(1) Covered-employee payroll represented above is based on pensionable earnings provided by the employer. However, GASB Statement No. 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

(2) The Plan's proportionate share of aggregate employer contributions may not match the actual contributions made by the employer during the measurement period. The Plan's proportionate share of aggregate employer contributions is based on the Plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

¹ Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**Upper San Gabriel Valley Municipal Water District
Schedule of Contributions
Last 10 years¹**

Contractually required contribution (actuarially determined)	\$	231,066
Contributions in relation to the actuarially determined contributions	\$	<u>(708,613)</u>
Contribution deficiency (excess)	\$	<u>(477,547)</u>
Covered-employee payroll	\$	937,566
Contributions as a percentage of covered-employee payroll		75.58%

Valuation date 6/30/2013

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal Cost Method
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years as of valuation date
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	Varies by entry age and age
Investment rate of return	7.50%, net of pension plan investment expense; includes inflation
Retirement age	55 years
Mortality Rate Table	Derived using CalPERS' membership data for all funds
Post Retirement Benefit increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

¹ Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

**Statistical Section
(Unaudited)**

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

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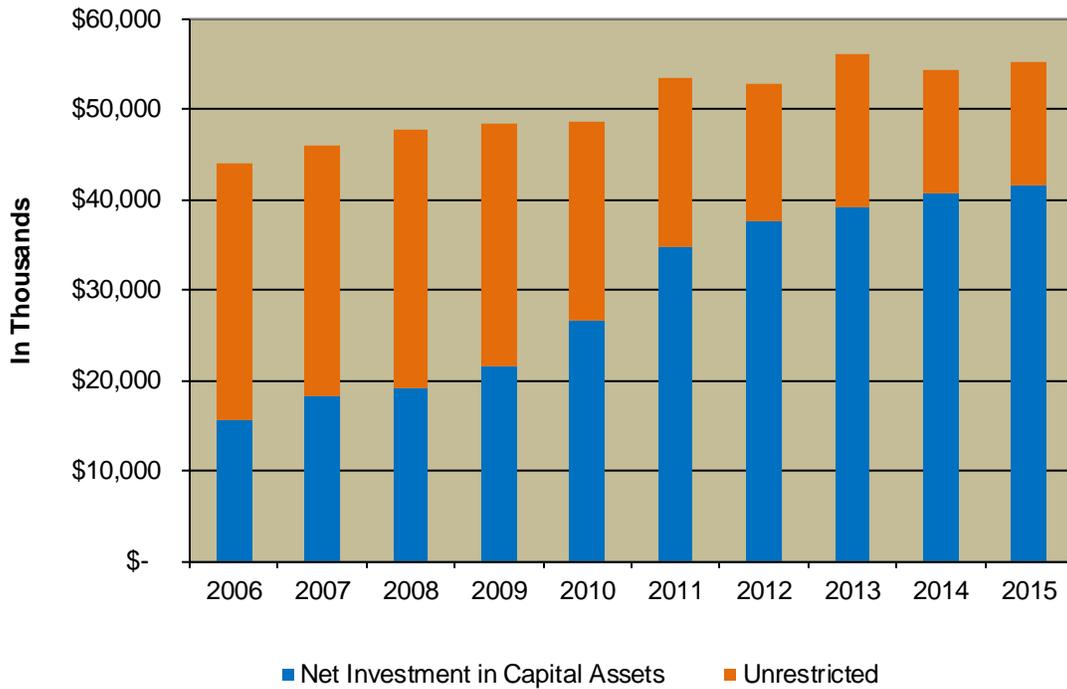
Upper San Gabriel Valley Municipal Water District
Changes in Net Position
Last Ten Fiscal Years (Unaudited)
(In Thousands)

	Fiscal Year Ended June 30									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Changes in net position:										
Operating revenues	\$ 18,526	\$ 10,325	\$ 15,323	\$ 14,566	\$ 14,487	\$ 26,057	\$ 15,316	\$ 12,837	\$ 26,691	\$ 37,928
Operating expenses	(22,330)	(14,109)	(18,998)	(18,793)	(19,887)	(28,331)	(18,856)	(16,842)	(29,801)	(39,849)
Depreciation and amortization	(123)	(272)	(333)	(328)	(340)	(339)	(377)	(496)	(1,068)	(1,072)
Operating income (loss)	(3,927)	(4,056)	(4,008)	(4,555)	(5,740)	(2,613)	(3,917)	(4,501)	(4,178)	(2,993)
Nonoperating revenues (expenses)										
Standby charges	3,558	3,487	3,563	3,516	3,576	3,573	3,576	3,542	3,584	3,623
Nonoperating program expenses	-	-	-	-	-	(174)	(2,306)	(991)	(524)	(592)
Investment earnings	1,035	1,196	1,141	436	154	99	65	41	32	66
Taxes	80	294	315	335	305	333	337	379	416	372
Change in fair value of investments	(118)	110	65	-	-	-	-	-	3	2
Other revenue (expense), net	-	1	11	-	-	-	-	-	-	-
Net nonoperating revenues (expenses)	4,555	5,088	5,095	4,287	4,035	3,831	1,672	2,971	3,511	3,471
Net income (loss) before capital contributions	628	1,032	1,087	(268)	(1,705)	1,218	(2,245)	(1,530)	(667)	478
Contributions for capital acquisition/construction	2,740	887	710	1,006	1,804	3,566	1,645	4,927	349	348
Changes in net position	\$ 3,368	\$ 1,919	\$ 1,797	\$ 738	\$ 99	\$ 4,784	\$ (600)	\$ 3,397	\$ (318)	\$ 826

Source: Finance and Administration Department

**Upper San Gabriel Valley Municipal Water District
Net Position by Component
Last Ten Fiscal Years (Unaudited)
(In Thousands)**

<u>June 30</u>	<u>Net Investment in Capital Assets</u>		<u>Unrestricted</u>		<u>Total</u>	
2006	\$	15,661	\$	28,398	\$	44,059
2007		18,269		27,710		45,979
2008		19,119		28,658		47,777
2009		21,555		26,960		48,515
2010		26,625		21,989		48,614
2011		34,780		18,618		53,398
2012		37,582		15,216		52,798
2013		39,195		17,000		56,195
2014		40,766		13,667		54,433
2015		41,545		13,714		55,259

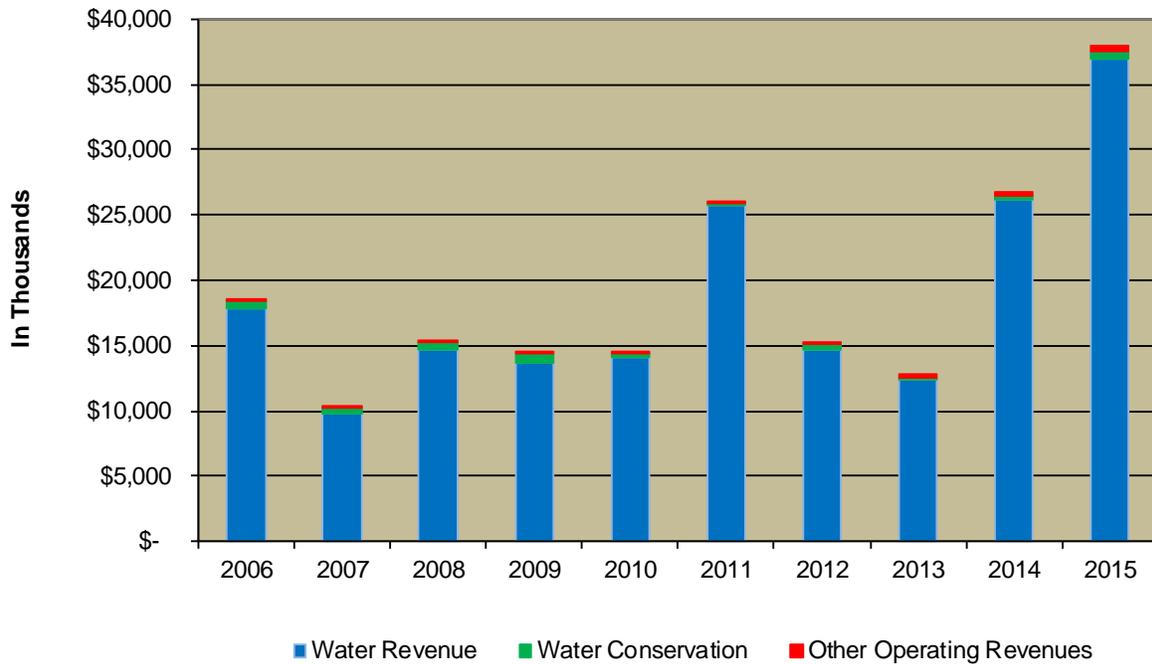


Source: Finance and Administration Department

See report of independent auditors.

**Upper San Gabriel Valley Municipal Water District
Operating Revenues by Major Source
Last Ten Fiscal Years (Unaudited)
(In Thousands)**

Fiscal Year Ended June 30	Water Revenue	Water Conservation	Other Operating Revenues	Total Operating Revenues
2006	\$ 17,921	\$ 525	\$ 80	\$ 18,526
2007	9,734	513	78	10,325
2008	14,684	559	80	15,323
2009	13,732	625	209	14,566
2010	14,115	292	80	14,487
2011	25,811	144	102	26,057
2012	14,714	333	269	15,316
2013	12,395	195	247	12,837
2014	26,259	245	187	26,691
2015	37,021	545	362	37,928

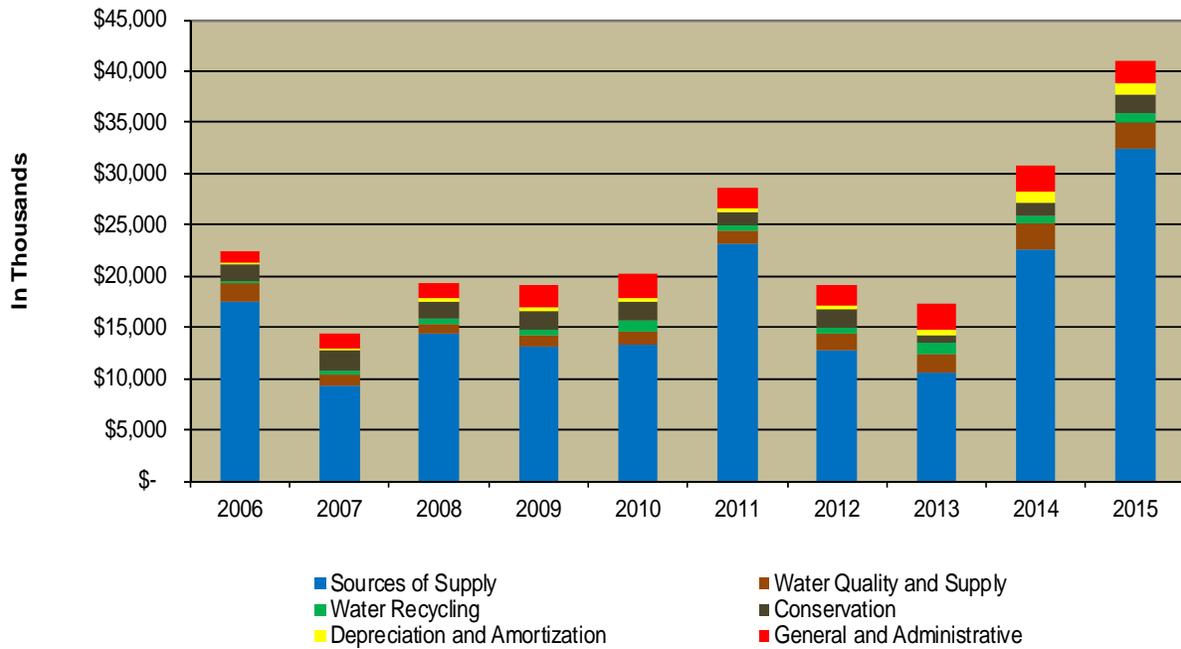


Source: Finance and Administration Department

See report of independent auditors.

**Upper San Gabriel Valley Municipal Water District
Operating Expenses by Activity
Last Ten Fiscal Years (Unaudited)
(In Thousands)**

Fiscal Year Ended June 30	Sources of Supply	Water Quality and Supply	Water Recycling	Conservation	Depreciation and Amortization	General and Administrative	Total Operating Expenses
2006	\$ 17,517	\$ 1,751	\$ 214	\$ 1,730	\$ 123	\$ 1,118	\$ 22,453
2007	9,348	1,051	334	2,020	272	1,356	14,381
2008	14,336	1,035	487	1,698	333	1,442	19,331
2009	13,175	999	575	1,931	328	2,113	19,121
2010	13,230	1,320	1,108	1,919	340	2,311	20,228
2011	23,119	1,362	547	1,274	339	2,029	28,670
2012	12,730	1,619	639	1,782	378	2,085	19,233
2013	10,524	1,814	1,080	776	496	2,648	17,338
2014	22,657	2,439	781	1,323	1,068	2,601	30,869
2015	32,366	2,623	927	1,767	1,072	2,166	40,921

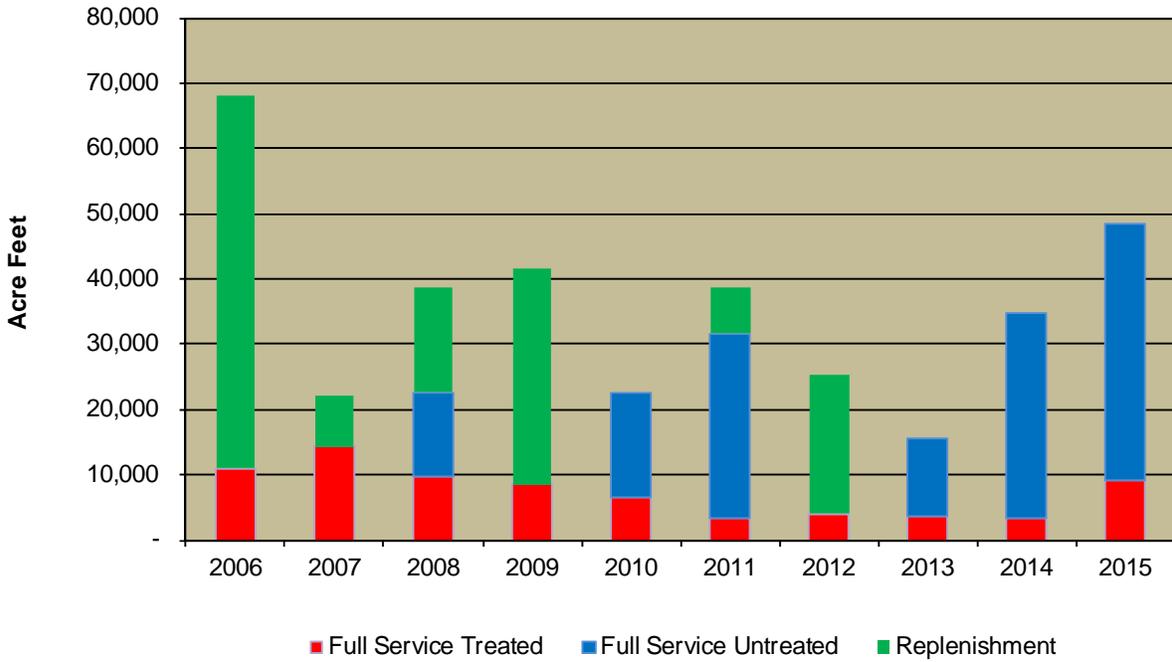


Source: Finance and Administration Department

See report of independent auditors.

**Upper San Gabriel Valley Municipal Water District
Imported Water Deliveries
Last Ten Fiscal Years (Unaudited)
(In Acre Feet)**

Fiscal Year Ended June 30	Full Service Treated	Full Service Untreated	Replenishment	Total
2006	10,981	-	57,069	68,050
2007	14,290	-	7,861	22,151
2008	9,607	13,075	15,879	38,561
2009	8,533	-	33,072	41,605
2010	6,557	16,076	-	22,633
2011	3,429	28,155	7,230	38,814
2012	3,975	-	21,426	25,401
2013	3,529	12,035	-	15,564
2014	3,490	31,289	-	34,779
2015	9,069	39,287	-	48,356



Source: Finance and Administration Department

See report of independent auditors.

**Upper San Gabriel Valley Municipal Water District
Imported Water Rates and Charges (Unaudited)
Fiscal Years Ended June 30, 2015 and 2014**

	Rate per Acre Foot		
	MWD	Upper District Surcharge	Total
Fiscal Year Ended June 30, 2015			
<i>July 1, 2014 to December 31, 2014</i>			
Full Service Treated Tier 1	\$ 890	\$ 80	\$ 970
Full Service Treated Tier 2	1,032	80	1,112
Full Service Untreated Tier 1	593	80	673
Full Service Untreated Tier 2	735	80	815
 <i>January 1, 2015 to June 30, 2015</i>			
Full Service Treated Tier 1	\$ 923	\$ 91	\$ 1,014
Full Service Treated Tier 2	1,055	91	1,146
Full Service Untreated Tier 1	582	91	673
Full Service Untreated Tier 2	714	91	805
 Fiscal Year Ended June 30, 2014			
<i>July 1, 2013 to December 31, 2013</i>			
Full Service Treated Tier 1	\$ 847	\$ 80	\$ 927
Full Service Treated Tier 2	997	80	1,077
Full Service Untreated Tier 1	593	80	673
Full Service Untreated Tier 2	743	80	823
 <i>January 1, 2014 to June 30, 2014</i>			
Full Service Treated Tier 1	\$ 890	\$ 80	\$ 970
Full Service Treated Tier 2	1,032	80	1,112
Full Service Untreated Tier 1	593	80	673
Full Service Untreated Tier 2	735	80	815

Source: Finance and Administration Department

See report of independent auditors.

**Upper San Gabriel Valley Municipal Water District
Water Rates per Acre Foot (Unaudited)
Last Ten Fiscal Years**

<u>As of June 30</u>	<u>Full Service Treated Tier 1</u>	<u>Full Service Treated Tier 2</u>	<u>Full Service Untreated Tier 1</u>	<u>Full Service Untreated Tier 2</u>	<u>Replenishment</u>
2006	\$ 484.23	\$ 585.03	\$ -	\$ -	\$ 251.90
2007	549.00	649.80	-	-	251.90
2008	549.00	649.80	349.55	450.35	251.90
2009	681.00	808.00	450.00	577.00	251.90
2010	797.00	926.00	526.00	655.00	386.00
2011	840.00	984.00	569.00	713.00	429.00
2012	874.00	1,000.00	640.00	766.00	522.00
2013	927.00	1,077.00	673.00	823.00	-
2014	970.00	1,112.00	673.00	815.00	-
2015	1,014.00	1,146.00	673.00	805.00	-

Source: Finance and Administration Department

See report of independent auditors.

**Upper San Gabriel Valley Municipal Water District
Treated Water Sales by Customer
Last Ten Fiscal Years (Unaudited)
(In Acre Feet)**

Fiscal Year Ended June 30	Golden State/ Southern California Water Company	City of South Pasadena	Southwest Water Company	Watermaster/ City of Alhambra	City of Arcadia	City of Monrovia	City of Azusa	Valley County Water District	Total
2006	935	74	6,490	2,816	-	5	663	-	10,981
2007	459	178	9,483	2,963	-	-	1,207	-	14,290
2008	284	458	5,406	3,027	95	-	336	-	9,607
2009	167	180	3,544	3,065	1,399	-	179	-	8,533
2010	475	18	1,489	2,612	286	-	-	1,679	6,557
2011	297	17	688	2,425	-	-	-	-	3,429
2012	172	5	799	2,999	-	-	-	-	3,975
2013	17	196	278	3,037	-	-	-	-	3,529
2014	38	106	361	2,984	1	-	-	-	3,490
2015	5	145	6,208	2,711	-	-	-	-	9,069

Source: Finance and Administration Department

See report of independent auditors.

**Upper San Gabriel Valley Municipal Water District
Demographics and Economic Statistics – Los Angeles County
Last Ten Calendar Years (Unaudited)**

Calendar Year	Population	Personal Income (In Thousands)	Per capita Personal Income	Unemployment Rate
2006	9,737,955	\$ 384,722,373	\$ 39,508	4.7%
2007	9,700,359	398,281,877	41,058	5.0%
2008	9,735,147	410,482,294	42,165	7.3%
2009	9,787,400	395,372,354	40,396	11.7%
2010	9,826,044	404,473,004	41,163	12.3%
2011	9,885,201	425,673,042	43,062	12.5%
2012	9,951,650	455,788,782	45,800	11.1%
2013	10,017,068	466,098,988	46,530	10.3%
2014	10,069,000	485,900,000	48,300	8.3%
2015	10,123,800	506,400,000	50,000	7.3%

Notes:

Upper District generally utilizes county data from the U.S. Department of Commerce Bureau of Economic Analysis and the U.S. Department of Labor Bureau of Labor Statistics. Census data has not been updated for the years 2014 and 2015.

Upper District utilized forecasted data from the Los Angeles County Economic Development Corporation's 2016-2020 Economic Forecast and Industry Outlook for the years 2014 and 2015.

Upper District believes that trends shown by these data are indicative of conditions within its service area.

Sources: U.S. Department of Commerce Bureau of Economic Analysis

U.S. Department of Labor Bureau of Labor Statistics

Los Angeles County Economic Development Corporation's 2016-2020 Economic Forecast and Industry Outlook

See report of independent auditors.

**Upper San Gabriel Valley Municipal Water District
Ten Largest Employers in Los Angeles county (Unaudited)
June 30, 2015**

<u>Employer</u>	<u>Number of Employees</u>
County of Los Angeles	95,700
Los Angeles Unified School District	73,300
Federal Government (includes U.S. Postal Service)	48,100
City of Los Angeles (includes DWP)	47,700
University of California, Los Angeles	41,000
Kaiser Permanente	36,500
State of California (non-education)	30,400
Northrop Grumman Corp.	18,000
University of Southern California	16,600
Target Corp.	14,200

Note: Data was based on 2011 figures which are the latest available information.

Source: *Los Angeles Almanac*

**Upper San Gabriel Valley Municipal Water District
Operating Indicators - General
Last Ten Fiscal Years (Unaudited)**

Number of Active Employees

June 30	FTEs
2006	7
2007	7
2008	9
2009	9
2010	8
2011	9.5
2012	10
2013	9
2014	11.5
2015	11.5

**Capital Assets per Program
(in thousands)**

June 30	Water Recycling	Administration	Construction- In-Progress	Total Capital Assets
2006	\$ 2,839	\$ 1,576	\$ 12,496	\$ 16,911
2007	14,263	1,573	3,941	19,777
2008	14,392	1,596	4,963	20,951
2009	14,999	1,594	7,116	23,709
2010	15,203	1,611	12,305	29,119
2011	15,203	1,662	21,943	38,808
2012	15,203	1,848	27,191	44,242
2013	20,878	1,896	32,583	55,357
2014	49,124	1,962	6,639	57,724
2015	51,440	1,967	5,597	59,004

Source: Finance and Administration Department

See report of independent auditors.

**Upper San Gabriel Valley Municipal Water District
Operating Indicators – Water Conservation
Last Ten Fiscal Years (Unaudited)
(In Millions of Gallons)**

An effective water conservation program plays a critical role in promoting water use efficiencies that increase available supply of water from existing sources to support economic growth. It is also significantly less costly and more energy and cost-efficient than developing new sources of water. Recognizing these, Upper District has developed over the years a robust program that not only promotes water conservation and public awareness on water issues but also one that has generated significant lifetime water savings. The table below shows the lifetime water savings from Upper District's various conservation programs for the past ten fiscal years.

Project/Device	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Turf Removal Program	-	-	-	-	-	-	67.79	-	-	-
CII Financial Incentive Retrofits (Sav-A-Buck Program)	-	-	-	-	-	-	-	-	-	-
CII SoCal WaterSmart Rebate Program ¹	324.16	680.73	452.89	1,112.03	236.26	105.10	218.89	44.04	122.09	209.11
Showerheads	4.16	27.71	8.31	11.08	8.31	-	-	-	-	-
Aerators	0.94	4.21	1.33	2.00	-	-	-	-	-	-
HECW Rebate Program	77.09	95.04	130.41	206.01	185.90	-	-	-	-	-
Olive Sports Park Water Efficient Landscape Project	-	-	-	-	-	-	-	-	-	-
ULFT/HET Retrofit Program	697.24	601.40	637.47	607.78	553.14	278.23	554.52	646.34	963.13	893.51
Rinse & Save Spray Valve Retrofit Program	7.50	-	-	-	-	-	-	-	-	-
Synthetic Turf Retrofit Program	58.19	75.19	37.59	-	28.80	32.31	-	-	-	-
WBIC Distribution	-	22.55	-	-	-	-	-	-	-	-
Residential SoCal WaterSmart Rebate Program ²	-	-	-	136.37	97.46	396.07	267.54	192.18	209.45	740.17
IPP-Ready Pak	-	-	-	335.00	-	-	-	-	-	-
Large Landscape Survey and Retrofit Program	-	-	-	-	-	-	-	7.37	3.26	1,108.76
Total	1,169.28	1,506.83	1,268.00	2,410.27	1,109.87	811.71	1,108.74	889.93	1,297.93	2,951.55

¹ Program previously named CII Water Efficient Rebate Program

² Program previously named Residential Rebate Program

Source: Planning, Engineering and Resources Department

See report of independent auditors.

**Upper San Gabriel Valley Municipal Water District
Ultra-Low Flush and High-Efficiency Toilets Distributed
Last Ten Fiscal Years (Unaudited)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013*</u>	<u>2014*</u>	<u>2015*</u>
Alhambra	1	4	2	-	2	-	2	-	-	-
Arcadia	198	262	466	96	65	52	163	-	-	-
Azusa	19	4	3	9	9	3	8	-	-	-
Baldwin Park	746	149	141	187	185	365	137	-	-	-
Covina	36	38	32	32	91	23	27	-	-	-
Duarte	105	299	17	45	22	18	13	-	-	-
El Monte	594	392	362	437	173	87	214	-	-	-
Glendora	1	2	2	2	15	2	12	-	-	-
Hacienda Heights	61	67	81	62	390	27	49	-	-	-
Industry	-	-	-	4	-	-	-	-	-	-
Irwindale	2	-	6	3	4	6	2	-	-	-
La Puente	192	128	122	345	400	86	103	-	-	-
Monrovia	220	158	37	30	18	36	40	-	-	-
Rosemead	212	157	275	151	91	81	353	-	-	-
San Gabriel	187	199	234	84	86	49	414	-	-	-
South El Monte	84	23	122	53	23	6	22	-	-	-
South Pasadena	17	31	182	5	26	8	21	-	-	-
South San Gabriel	2	2	2	4	4	2	6	-	-	-
Temple City	82	119	208	96	65	98	223	-	-	-
Valinda	12	6	10	19	26	10	11	-	-	-
West Covina	94	68	52	493	299	44	152	-	-	-
Whittier	4	38	5	17	14	-	14	-	-	-
Others	2	13	13	8	8	-	13	-	-	-
	<u>2,871</u>	<u>2,159</u>	<u>2,374</u>	<u>2,182</u>	<u>2,016</u>	<u>1,003</u>	<u>1,999</u>	<u>-</u>	<u>-</u>	<u>-</u>

* Note: During FY 14/15, 13/14 and FY 12/13, Upper District did not hold HET distribution events inhouse. Instead, Upper District provided a total of \$116,500, \$173,500 and \$234,200, respectively in incentive payments to the producers for this program from MWD's Conservation Credits Program. A total of \$9,023 HETs were distributed by various producers within Upper District's boundaries during the three fiscal years.

Source: Planning, Engineering and Resources Department

MEMORANDUM



ITEM 4.

DATE: November 16, 2015
TO: Administration and Finance Committee and Board of Directors
FROM: General Manager
SUBJECT: Approve amendments to the Policy Manual: Medical Benefits and Employee Salary Schedule.

Recommendation

Approve amendments to the Policy Manual: Medical Benefits and Employee Salary Schedule.

Background

Section 2.15 Medical Benefits

In August 2015, Upper District applied and qualified for the Anthem Blue Cross' incentive rate plan offered through ACWA JPIA. This approval comes with Anthem premium rate discounts averaging 4%. During the approval process, ACWA JPIA reviewed the District's policies on Medical Benefits. ACWA JPIA requested the following changes to the District's policies on medical benefits to ensure that Upper District complies with all the underwriting requirements:

- a. Add the minimum number of hours worked to the definition of "Eligible Employee".
Section 2.15.3 (a) of the Policy Manual defines Eligible Employee as a full time employee. The proposed change further defines full time employees as those working a minimum of 40 hours per week.
- b. Specify that retirees that are newly eligible for Medicare are required to enroll in Medicare Parts A & B.
ACWA JPIA requires, on a going forward basis and as a condition to continued coverage under the existing group health coverage, Medicare-eligible retirees to enroll in Medicare Parts A & B upon Medicare eligibility. Those who are retired, over age 65 and are not already enrolled in Medicare Parts A & B as of January 1, 2015 are grandfathered and will not be required to enroll.

District Counsel also recommended updates to the medical benefit policies for consistency with the provisions of the Affordable Care Act:

- a. Remove the "single" status requirement to qualify for dependent child coverage;
- b. Update the age limit from 23 to 26 for dependents;
- c. Add provisions clarifying Upper District's health reimbursement arrangement (HRA) program.

A redlined version of the relevant sections of the Policy Manual is provided as Attachment 1.

Employee Salary Schedule

California Code of Regulation Section 570.5 requires that all public agencies that participate in CalPERS annually adopt an employee salary schedule. The proposed salary ranges are presented in Attachment 2 - Resolution No. 12-15-560. All salary ranges remain unchanged from previous levels with the exception of the Assistant General Manager/Chief Engineer. It is recommended that the upper bound of this range be increased from \$199,066 per year to \$214,692. This proposed increase in the upper bound is based on comparable salaries for similar positions at West Basin MWD, Western MWD, Orange County Water District and Three Valleys MWD.

Attachments

Upper San Gabriel Valley Municipal Water District MANUAL OF POLICIES			
Subject	Policy Number	Date Adopted	Date Revised
MEDICAL BENEFITS	2.15	05-03-11	04-02-13 11-04-14

Purpose

2.15.1 The District provides medical coverage and expense reimbursements to Board Members and understands the need to have those benefits and the process by which to receive reimbursement clarified.

Background

2.15.2 The Upper District maintains a program that provides certain medical, dental and optical insurance benefits for qualified program participants, and the Upper District Board of Directors desires to continue the program with appropriate amendments enacted to preserve the value of the benefits provided.

Policy

2.15.3 To the extent allowed by ACWA/JPIA under existing laws and for the purpose of this policy, qualified program participants are defined as follows:

- (a) Employee. All full time employees of the District are qualified two months subsequent to the date that employment with the District commences. For purposes of this policy only, "full time" is defined as scheduled to work, and normally working, forty (40) hours per week because this is the regular schedule of full- time Upper District employees.
- (b) Officers appointed by the Board of Directors (including the General Manager). All officers of the District are qualified upon assumption of official duty.
- (c) Directors. All Directors of the District are qualified upon assumption of office for pre-retirement health care coverage.
- (d) A Dependent shall be any individual who is related to a director, officer, or employee in one of the following ways: (a) the current spouse or registered domestic partner; (b) an unmarried child, under the age of 19; (c) An unmarried dependent child, under the age of 26 23 who is a full-time student at a college or university (or on medical leave while a qualifying student) or (cd) An unmarried dependent child who, regardless of age, is physically or mentally incapacitated and incapable of self-support at the time insurance benefits are provided.
- (c) Retired officer and retired employee (other than an Upper District Director) is one of the following:
 - (a) For all former officers or full-time employees who began service with the Upper District, on or before June 30, 2002, a retired officer and retired employee (other than Director) is an individual who has served the Upper District for ten (10) or more years and is either deceased or has retired at the age 55 years or older.
 - (b) For all former officers or full-time employees who began service with the Upper District, on or after July 1, 2002, a retired officer and retired employee (other than Director) is an individual who has served the Upper District continuously for a period of ten (10) years or more and is either deceased while serving the Upper District or has reached the age of 55 years or older while serving the Upper District.

(d) Retired director is a former elected or appointed member of the Upper District Board of Directors and is an individual who: (a) Served in office after January 1, 1981, (b) was elected to the Board prior to January 1, 1995, (c) Has served not less than twelve years or three full terms of office, and (d) Attained the age of 50 years.

~~(d)~~(e) Due to requirements of the group health insurance carrier currently used by Upper District, when eligible for Medicare Part A and Part B, employees and retirees must enroll in Medicare Part A and Part B in order to continue to qualify for Upper District's group medical coverage.

2.15.4 For the purpose of this policy, Medical Insurance is defined as follows:

- (a) The District will pay, from funds under its jurisdiction, the premiums, dues or other charges for a Health and Accident and Major Medical Payments Insurance Policy, as selected and approved, from time to time, by the Board of Directors, for each qualified program participant of the District, as defined in Section 2.15.3.
- (b) A former elected member of the Board of Directors who has completed one or more terms of office, but less than 12 years, may elect to continue Insurance Benefits after leaving office for himself and his dependents, provided he or she agrees to and does pay the full premiums, dues and costs thereof.

2.15.5 Pursuant to Resolution No. 7-01-386 the Medical Reimbursement policy health reimbursement arrangement (HRA) is set forth as follows:

- (a) In addition to other compensation and benefits, the Upper District shall reimburse qualified program participants, as defined in Section 2.15.3, for their out-of-pocket expenses paid on account of deductions/deductibles required under group insurance coverage provided by the Upper District for reasonable and necessary costs incurred for the prevention, diagnosis or treatment of a disease, illness or injury for major medical, health, accident and hospitalization, to a maximum of Two Thousand Five Hundred Dollars (\$2,500.00) for each such qualified program participant, for each insurance year.

”

- Reimbursements are only available to directors and/or employees who are enrolled in a group health plan.
- At the end of each calendar year, employees and directors may opt out of the HRA, waiving future reimbursement.
- Employees and directors may permanently opt out of the HRA and waive future reimbursement.
- An expense, such as a deduction, already paid with pre-tax dollars will not be reimbursed on a pre-tax basis.

2.15.6 Pursuant to Resolution No. 7-01-386 the Limited Dental, Hearing and Vision Benefits is set forth as follows:

In addition, Upper District will reimburse qualified program participants, through its dental, hearing, vision health reimbursement arrangement (HRA) program, for their out-of-pocket expenses for reasonable and necessary costs incurred for the prevention, diagnosis or treatment of a disease, illness or injury related to dental, hearing and vision needs subject to the following conditions:

- HRA reimbursements are only available to directors and/or employees who are enrolled in a group health plan, other than the HRA.
- At the end of each calendar year, employees and directors may opt out of the HRA, waiving future reimbursement.
- Employees and directors may permanently opt out of the HRA and waive future reimbursement from the HRA.

- (a) Subject to the foregoing, The Upper District will provide, to each such qualified program participant, as defined in Section 2.15.3, payment for a reasonable diagnostic, preventative and restorative dental care, reasonable hearing care including hearing examinations, hearing aids, and professional services in connection with diagnostic, preventative, retroactive and corrected hearing care, and/or reasonable vision care including eye examinations, lenses, frames and professional services in connection with diagnostic, preventative, retroactive and corrected vision care to a maximum of Two Thousand Five Hundred Dollars (\$2,500.00) per calendar year for each qualified program participant.
- (b) To their maximum stated herein, the Upper District shall pay reasonable dental, hearing and/or vision care fees and the charges as stated above but in no event shall the Upper District's payment exceed the fees charged for said services or the maximum limits per qualified program participant, provided herein.
- (c) The Upper District shall permit and encourage a professional relationship between the dentist, audiologist and/or optometrist and qualified program participant to be maintained without interference. The Upper District shall not be liable for any act or omission by any health care provider, a dentist, audiologist and/or optometrist, his employees or agents, or any person performing dental, hearing and/or vision or other professional services to qualified program participants under this resolution.
- (d) The Upper District will honor only those paid dental care, hearing care and/or vision care bills or invoices from the dentist, audiologist or optometrist for payment that are submitted directly to the Upper District by the qualified program participant. Said bills or invoices should be submitted promptly after completion of compensable dental, hearing and/or vision procedures and must show the extent and nature of services provided and the actual charges to the qualified program participant. Such payment shall be made by the Upper District only upon receipt of evidence that is deemed satisfactory, showing the rendition of the covered services and the amount that the qualified program participant has paid or become obligated to pay thereafter."

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE
UPPER SAN GABRIEL VALLEY MUNICIPAL WATER DISTRICT
ESTABLISHING SALARIES FOR EMPLOYEES AND REPEALING
RESOLUTION NO. 11-63-37**

**BE IT RESOLVED BY THE BOARD OF DIRECTORS OF UPPER SAN GABRIEL VALLEY
MUNICIPAL WATER DISTRICT** as follows:

1. Purpose and Scope

This resolution establishes salary levels for officers and employees.

2. General and Office Unit Classifications

- (a) The following classifications of employees shall be paid based on the following annual salary ranges:

Position Code	Annual	
	Low	High
General Manager	165,000	240,900
Assistant General Manager	155,505	214,692
Chief Financial Officer	123,629	156,160
Director of Com & Gov't Affairs	113,983	149,590
Com & Gov't Affairs Representative	63,630	84,045
Assistant Director of Finance	66,223	92,061
Conservation Specialist	88,022	118,775
Executive Assistant	75,063	103,801
Administrative Assistant	47,906	73,454
Project Assistant	43,121	70,250
Secretary/Receptionist	30,347	47,906

- (b) Starting and ending figures establish pay limits with no fixed intermediate steps. Movement of an employee between the figures shall be based on performance and with the approval of the General Manager.

3. Repeal

Resolution No. 11-63-37 of the Board of Directors of Upper San Gabriel Valley Municipal Water District, adopted November 19, 1963, is hereby repealed.

4. Other

This Resolution is effective December 8, 2015.

PASSED, APPROVED, AND ADOPTED this 8th day of December, 2015.

AYES:

NOES:

ABSTAIN:

ABSENT:

Michael R. Touhey, President

ATTEST:

Bryan Urias, Secretary/Treasurer

(SEAL)

APPROVED AS TO FORM:

Steven P. O'Neill, District Counsel