

CAFR

Comprehensive
Annual
Financial
Report

Fiscal Year Ended
June 30, 2019

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

*Upper San Gabriel Valley Municipal
Water District*

Comprehensive Annual Financial Report

For the fiscal year ended June 30, 2019
(With comparative data for prior year)

Prepared by:
Finance and Administration Department

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

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Upper San Gabriel Valley Municipal Water District

Comprehensive Annual Financial Report For the fiscal year ended June 30, 2019 (With comparative data for prior year)

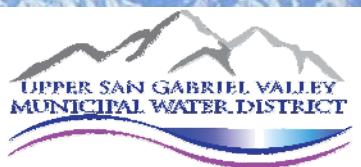
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Introductory Section

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November 26, 2019

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

Board of Directors:
Anthony R. Fellow, Ph.D., Division 1
Charles M. Treviño, Division 2
Ed Chavez, Division 3
Alfonso "Al" Contreras, Division 4
Jennifer Santana, Division 5

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 year ended June 30, 2019. 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.

Rogers, Anderson, Malody and Scott, LLP, Certified Public Accountants, has issued an unmodified ("clean") opinion on the financial statements for the year ended June 30, 2019. The independent auditors' report is located at the front of the financial section of this report.

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

Profile of the Upper District

History

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.

Upper District's service area covers approximately 144 square miles and includes all or parts of 18 cities and portions of unincorporated Los Angeles County with more than 950,000 residents. Upper District partners with many public and private entities to provide a sustainable, high quality water supply to residents and businesses within the greater San Gabriel Valley. Consistent with its motto of "Where Solutions Flow," Upper District is widely recognized for its customer service orientation, community involvement, and creativity in promoting water quality, water recycling, and water conservation.

Vision

Upper District aims to support a high quality of life in the greater San Gabriel Valley by providing valued water services.

Mission

Upper District's mission is to consistently meet our region's need for reliable, high quality and affordable water.

Core Values

The Upper District team, consisting of Board and staff, will embody the following core values in conducting the business of the district:

- Transparency – Our team will interact with all in a fair, open and honest manner.
- Professionalism – Our team will professionally, respectfully, and responsively serve the needs of its customers.
- Integrity – Our team will consistently adhere to high moral and ethical principles.
- Collaborative – Our team is collaborative, supporting each other's efforts, loyal to one another, and cares for each other both personally and professionally.
- Innovative – Our team will encourage and value the introduction of new ideas and methods.

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 the MWD Board of Directors. The Upper District also has representation on the San Gabriel Basin Water Quality Authority and Watermaster Boards.

Most of the water imported into the Upper District service area is used to replenish the Main San Gabriel Groundwater Basin (the 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 portions of Arcadia, Bradbury,
El Monte, Monrovia, Rosemead and Temple City



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



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



Division 4 – Director Alfonso Contreras
Representing all or portions of Azusa, Covina, Glendora,
Baldwin Park, Irwindale and West Covina



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

Local Economy

California's economic growth continued to outpace U.S. growth in 2018, growing by about 3.4% compared to the nation's 2.9%. This trend will continue into 2019 and 2020. California's diverse economy now accounts for 14.4% of the nation's gross domestic product (GDP) and is expected to grow by 3.0% in 2020.

Moreover, the forecast predicts additional employment growth of roughly 320,000 jobs in both 2019 and 2020 with associated declines in unemployment to 3.7 and 3.4 in the respective forecast years. These job gains are estimated to occur across all sectors with the largest gains in construction, logistics, utilities, business services, education, health and tourism.

The demand for housing in California is predicted to continue to motivate additional supply gains. To broaden the housing focus, Governor Newsom's plan incorporates \$500 million for the expansion of middle-income housing loan access as well as a recommendation to streamline CEQA processes for homeless shelters and supportive housing.

Los Angeles County has seen steady improvement over the past four years in terms of job gains and decline in unemployment rate. In 2018, real GDP in Los Angeles County grew at 2.8%, an increase from prior year's 2.4% growth. The County's GDP is expected to grow by 3.0% in 2019 and 2.7% in 2020, higher than the nation's anticipated GDP.

The County's average unemployment rate reached 4.6% in 2018, and is expected to further improve over the next two years reaching 4.3% in 2020. The employment increases in key service sectors such as health care and professional and business services will drive an additional increase in roughly 60,000 jobs per year. This will continue the long-term decline in the unemployment rate.

Los Angeles is at the forefront of California's housing shortage emergency, with almost a full third of Los Angeles metropolitan households considered severely rent burdened. The housing crisis poses the greatest long-term threat to local economic mobility and bottom-up prosperity. Failure to meaningfully address the housing and homeless crisis will put a damper on what is otherwise likely to be a strong output and wage growth.

Closer to home, the San Gabriel Valley continues to be an economic powerhouse east of the city of Los Angeles with unemployment rates leveling off after substantial declines in recent years, as across the county and state. The current rate of unemployment in the San Gabriel Valley is 4.2%, compared to 4.6% for Los Angeles County. Unemployment is projected to continue to stay roughly steady over the next 2 years as employment gains are absorbed by an increase in labor force participation.

The San Gabriel Valley has a number of significant economic drivers including: health care, international trade, manufacturing, professional and business services, higher education, retail trade, and tourism. In 2018, more than 100,000 individuals were employed in the healthcare sector while the wholesale trade industry employed over 40,000 workers. And even though total manufacturing employment in the valley has been steadily trending down, automated capital is increasingly replacing labor resulting in higher value of manufacturing output. The professional and business services sector in the valley employed close to 90,000 workers in 2018, an increase of 1.8 from 2017 levels. The presence of major learning and research centers in the valley also creates opportunities for employment as well as business start-ups.

The San Gabriel Valley housing market is undergoing the same overheating that the county as a whole is experiencing. In the long run, more dense construction is anticipated, taking advantage of increased demand and soaring prices as well as the shift to multi-family units and urban living.

While challenges for San Gabriel Valley's economy remain, including the regional housing crisis and rising economic trade risks, the fundamentals look quite strong for the region. San Gabriel Valley has the assets to move forward: a diverse pool of human capital, world-class institutions of higher learning and research facilities; respected arts and cultural organizations; and a well-developed trade network.

Sources: *San Gabriel Valley Economic Partnership's 2019 Regional Economic Forecast and Los Angeles County Economic Development Corporation's 2019-2020 Economic Forecast and Industry Outlook*.

Major Initiatives

Consistent with its mission, the Upper District strives to assist 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, water quality 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.

Recognizing the long-term drought conditions and the continuing decline of the Basin level, the stakeholders, consisting of producers, responsible agencies and Watermaster, developed a water resource development assessment to purchase untreated water for stormwater augmentation (RDA II Program) in May 2017. Unlike an earlier version of this program, which provided for Watermaster's pre-purchase of replacement water, the RDA II Program supplements the lack of local stormwater replenishment by purchasing imported Tier 1 water. There is no "right of recovery" using a water right, by any Basin producer. Funding for this program is obtained by an annual assessment against every acre foot of production regardless of whether the producer is within or above its production rights.

In July 2017, Upper District, MWD and Watermaster executed the tenth amendment to the Cyclic Storage Agreement extending the term for another five years. The agreement gives MWD the right to store up to 100,000 acre feet of State Water Project water in the Basin. During fiscal year 2017/18 MWD delivered a little over 58,500 acre feet of untreated water for storage in the Basin.

Integrated Resources Plan (IRP)

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

During FY 16/17, Upper District updated the IRP to address changing conditions within the Basin.

In June 2019, the Board authorized the preparation of a 2019/2020 update to the Integrated Resource Plan to address significant changes and updates regarding potential water resource programs and supply availability. 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 element 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.

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 about half of the Rose Hills Memorial Park (Rose Hills) to recycled water for irrigation purposes. Prior to using recycled water, Rose Hills used approximately 388 million gallons (1,200 acre-feet) per year or about 1,000,000 gallons per day of drinking water for irrigation. By using recycled water, Rose Hills reduced their drinking water demand by about 600 acre-feet per year, saving about 500,000 gallons of drinking water per day or enough drinking water to supply about 1,200 average single-family homes each year. 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.

In 2014, Upper District assisted Rose Hills in obtaining \$500,000 in Proposition 84 grant funds to expand the recycled water system and serve an additional 600 acre-feet per year. This effort required Rose Hills to contribute \$500,000 towards the needed improvements which were completed in 2016, increasing the use of recycled water by another 600 acre-feet per year.

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 supplies more than 260 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.

South El Monte and El Monte Extension - In 2014, Upper District assisted the San Gabriel Valley Water Company in obtaining \$1.28 million in Proposition 84 grant funds to expand the Whittier Narrows Recycled Water system to serve an additional 95 acre-feet per year of recycled water in South El Monte and El Monte. The San Gabriel Valley Water Company provided approximately \$2.13 million to complete the facilities needed. This project is complete.

La Puente Valley County Water District Recycled Water System - In 2014, Upper District assisted the La Puente Valley County Water District in obtaining \$428,000 in Proposition 84 grant funds to construct a recycled water system to serve 60 acre-feet per year of recycled water in La Puente and the City of Industry. The La Puente Valley County Water District will provide \$1.57 million to complete the facilities needed. The project is under design and construction is expected to begin in the last quarter of 2019.

Storm Water

MillerCoors Storm Water Capture Project

The Upper District facilitated several meetings with Vulcan, MillerCoors, the LAFCD and Watermaster to determine feasible means of including MillerCoors' east pit as part of the LAFCD storm water capture system. LAFCD, Vulcan, and MillerCoors discussed the most feasible means to develop a storm water capture facility that meets the needs of all parties. At this time, no additional discussions are underway.

MS4 Stormwater Permit

Upper District staff participated in extensive discussions with the Council of Government Water Committee members on the MS4 stormwater permit and the potential to use regional facilities to reduce the cost of compliance. A technical study of the Peck Lake Park area was prepared for use by the Flood Control District and cities that currently benefit from the use of Peck Lake.

Water Use Efficiency

While the drought was officially declared "over" in April 2017, groundwater storage levels have remained depleted in many areas. Locally, the Main San Gabriel Basin has slowly recovered from its historic low of 169.4 ft which was reached in November 2018. Understanding the need to continue a strong conservation message in the San Gabriel Valley, Upper District has maintained a proactive and innovative conservation outreach program. For FY 18/19, Upper District unveiled new conservation programs for the residents and businesses. Upper District's approach is in keeping with the State's long-term framework for conservation and drought planning titled, "Making Conservation a California Way of Life", which outlines implementation of EO-B-37-16. Urban Water Suppliers served by Upper District continued to achieve substantial reductions in their conservation levels even after mandatory conservation standards were rescinded. For the State Water Board reporting period of June 2015 - May 2019 urban water suppliers served by Upper District had a cumulative average conservation savings of almost 18% when compared to the baseline period.

Water Conservation and Education

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

Residential Programs

Residential Rebate Program - Through Metropolitan's SoCal Water Smart 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), Premium High Efficiency Toilets (PHETs), Weather-Based Irrigation Controllers (WBICs), and Rotating Sprinkler Nozzles. Rebates also returned for removing/replacing turf. Rebates were paid for 17,694 residential devices during the fiscal year that will produce approximately 790-acre feet (171,233,521 gallons) of lifetime water savings.

Commercial, Industrial and Institutional (CII) Program

CII Rebate Program - Through Metropolitan's SoCal Water Smart Commercial Rebate Program, Southern California businesses are eligible for rebates to help encourage water use efficiency. This program offers rebates on a wide variety of water-saving technologies including Premium High-Efficiency Toilets and Urinals, WBICs for outdoor landscaping, as well as many industry-specific water efficient devices. Rebates also returned for removing/replacing turf. Rebates were paid for 5,635 CII devices during the 2018/19 fiscal year that will produce approximately 576-acre feet (187,838,722 gallons) of lifetime water savings.

Landscape Programs

Large Landscape Survey and Retrofit Program (LLSR) - Initiated in 2013 and completed in Spring 2019, the objective of the Large Landscape Survey and Retrofit Program was to actively increase large landscape irrigation efficiency at CII sites, thereby reducing demands for potable water. This highly successful multi-year program offered free irrigation assessments to large landscaped CII sites in the Upper District's service area. Increased water efficiency was accomplished through a multi-phased approach. The first phase involved conducting site surveys to identify irrigation system inefficiencies, determine potential material upgrades and estimate potential water savings. The second phase involved completing retrofits of sites to address survey findings and included upgrading system controllers and sprinklers with water-efficient models. The final phase included gathering performance data of site upgrades and conducting follow-up visits and training in order to maintain water savings.

The LLSR program completed surveys and retrofits at 199 sites. To date, the program has saved an estimated 1.1 billion gallons (3,300 acre-feet) of water. Total lifetime water savings is estimated to be 3.7 billion gallons (11,000 AF), representing approximately 5% of the annual import demands into the Upper District.

Water Filling Station Program

During FY 2018/19, Upper District introduced its Water Filling Station program which involves the installation of water bottle filling stations at designated public facilities located within Upper District's service area that receive high pedestrian traffic or provide recreational activity. The program provides accessibility to tap water, highlighting the quality of tap water while providing an alternative to one-time use plastic bottles. The production, packaging, and transportation of one-time use plastic bottles is both water and energy intensive. The aftermath of using one-time plastics is a long-term negative impact on the environment. Two water fill station installations were completed during the latter part of the fiscal year which have already resulted in the avoided use of 2,459 gallons of water and 4,826 kWh of energy, thereby avoiding the generation of 3.4 metric tons of greenhouse gas emissions.

Residential Plant Voucher Program

The Residential Plant Voucher Program is a new, innovative small-scale pilot program introduced to the residents of Upper District's service territory this year. The program offers qualifying residents a voucher redeemable for up to \$250 worth of approved water efficient, climate-appropriate plants to help transform their yards into beautiful water efficient landscapes. The program is a unique approach to incentivizing and inspiring residents to transform their yards into climate-appropriate water efficient landscapes. A total of 175 vouchers were redeemed during FY 18/19.

Education and Community Outreach Programs

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. During FY 18/19, 227 volunteers contributed 908 volunteer hours that included the planting of 647 tree saplings and 180 pounds of garbage collected.

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 2018/19, 12,045 students from 62 schools participated in the assemblies and hands-on workshops. Schools that made reservations for the 2018/19 school year by October 30th were entered into a drawing for a free class trip to either the Discovery Cube's Los Angeles or Santa Ana locations. The trips included free admission for up to 60 students and a \$250 transportation grant. Ten schools were awarded field trips that enabled 528 students to participate in the educational outings.

Water Efficiency Workshops - Several water efficient landscaping, turf removal, and leak detection workshops were offered free of charge to the public. Some of the courses were also offered in Mandarin. Upper District also partnered with MWD and Three Valleys MWD to host a special workshop focusing on the Model Water Efficient Landscape Ordinance for municipal staff and professional landscapers. A total of 261 individuals attended the seven workshops hosted by the Upper District during FY 18/19.

Solar Cup - Sponsored by MWD, Solar Cup is a youth program that provides high school teams the hands-on opportunity to build solar powered boats that they compete in race and endurance categories. The 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. Upper District sponsored four teams during the FY 18/19. Since the program began in 2003, Upper District has sponsored a total of 60 youth teams.

Water Awareness Art Contest - 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. A total of 167 entries were received from 33 participating schools for this year's contest.

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. Sixteen applicants were awarded a total of \$14,642 in grants for FY 18/19 that directly involved approximately 1,895 students in water-related projects/lessons.

Water Conservation Booths - Upper District maintains 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. During FY 18/19, Upper District hosted over 80 informational booths across the district.

Waterfest - Upper District hosted its signature community event at the Arcadia County Park in Arcadia. This educational event for residents, families and children features interactive educational booths, environmental displays, informative presentations, free water-saving materials, raffles and more. Upper District partners with the Los Angeles County Department of Parks and Recreation and had over 50 exhibitors and 2,000 residents participated in the one-day festival.

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 San Gabriel Valley Water Company, have provided educational tours of the San Gabriel Valley water infrastructure. Two tours were hosted in FY 18/19 for state legislators, council members, and city staff.

Speakers' Bureau Presentations - Upper District Board members and management make numerous presentations to city councils, school boards, chambers of commerce and other community organizations. These presentations provide stakeholders with information about the history of the Upper District, local water issues and challenges, recycled water projects, water-related legislation and water conservation programs.

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 2018/19, all funds were invested in accordance with the Upper District's investment policy.

Minimum Reserves

The primary operational risk Upper District is exposed to is a water system failure for an extended period (e.g. inability to deliver imported water after a catastrophic earthquake that damages the imported water system). To ensure its ability to support operations in the absence of cash flow from water sales for an extended period, the Board of Directors set the minimum operating reserves equivalent to one year's worth of surcharge and net recycled water operating revenues.

Budget Process and Controls

Budgets are often used as a performance tool for measuring accountability of public agencies to its stakeholders. Though not legally required to do so, Upper District annually adopts a budget not only as a management tool for planning and control purposes but also to demonstrate its commitment to fiscal responsibility and transparency. Upper District also uses the budget as a communication tool that shows how the District intends to allocate its resources in support of its mission, goals and objectives.

Developing and monitoring the budget is an ongoing process. Upper District conducts a series of 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 management and the Board of Directors to facilitate review and assessment throughout the fiscal year.

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 comprehensive annual financial report for the fiscal year ended June 30, 2018. This was the eighth consecutive year that the Upper District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable program requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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,



Thomas A. Love
General Manager



Evelyn M. Rodriguez
Director of Finance and Administration



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, 2018

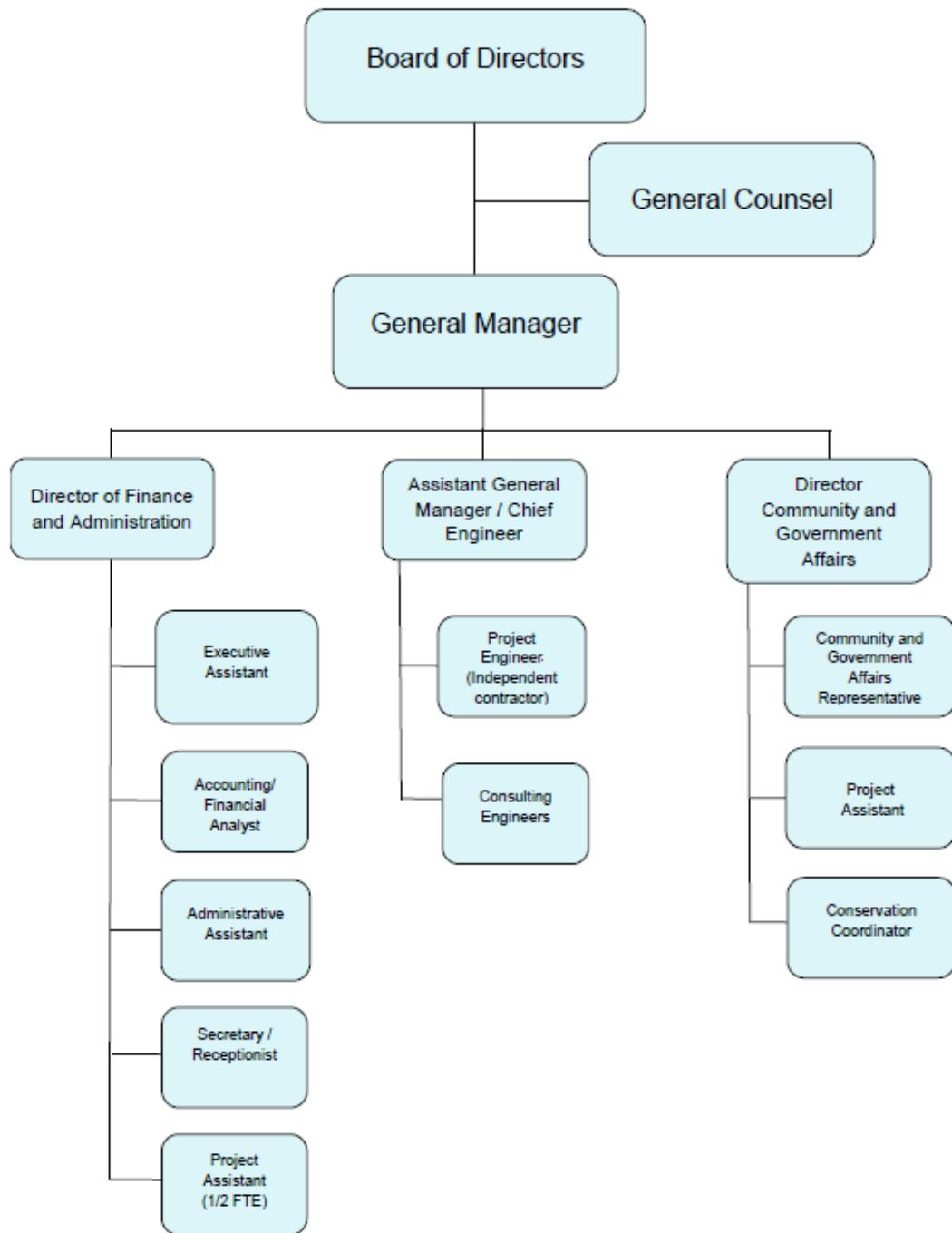
Christopher P. Monill

Executive Director/CEO

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Upper San Gabriel Valley Municipal Water District

Organizational Chart



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Financial Section

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Independent Auditor's Report

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

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Leena Shanbhag, CPA, MST, CGMA
Bradferd A. Welebir, CPA, MBA, CGMA
Jay H. Zercher, CPA (Partner Emeritus)
Phillip H. Waller, CPA (Partner Emeritus)
Kirk A. Franks, CPA (Partner Emeritus)

DIRECTORS

Jenny Liu, CPA, MST

MANAGERS / STAFF

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Gardenya Duran, CPA
Brianna Schultz, CPA
Jingjie Wu, CPA
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Certified Public Accountants



Independent Auditor's Report

Honorable Member 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 District) as of and for the year ended June 30 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30 2019, and the changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the California State Controller's office and state regulations governing special districts.

Other Matters

Prior Year Comparative Information

We have compiled the accompanying statement of net position of the District as of June 30, 2018, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended. We have not audited or reviewed the accompanying 2018 financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of the District's Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date, the Schedule of the Pension Plan Contributions, the Schedule of Changes in the Net OPEB Liability and Related Ratios, and the Schedule of OPEB Plan Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



San Bernardino, California
November 26, 2019

Upper San Gabriel Valley Municipal Water District

Management's Discussion and Analysis For the fiscal year ended June 30, 2019

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, 2019 and 2018. 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 statement of net position, statement of revenues, expenses and changes in net position and statement 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

- During fiscal year 2018/19, the producers and Watermaster made combined imported water purchases of about 41,800 acre feet, an increase of about 18,300 acre feet compared to prior fiscal years.
- Capital expenditures during the fiscal year consisted mostly of costs associated with the remaining permitting work for the Indirect Reuse Replenishment Project (IRR).

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

Upper San Gabriel Valley Municipal Water District

Management's Discussion and Analysis For the fiscal year ended June 30, 2019

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 two years.

Statements of Net Position

Consolidated Statements of Net Position

	June 30		Change	
	2019 (in thousands)	2018 (in thousands)	Dollar (in thousands)	Percentage
Assets				
Current assets	\$ 23,138	\$ 21,062	\$ 2,076	9.86%
Capital assets, net	52,990	53,682	(692)	-1.29%
Total assets	76,128	74,744	1,384	1.85%
Deferred outflows of resources	973	1,024	(51)	-4.98%
Liabilities				
Current liabilities	2,729	3,354	(625)	-18.63%
Noncurrent liabilities	12,854	13,574	(720)	-5.30%
Total liabilities	15,583	16,928	(1,345)	-7.95%
Deferred inflows of resources	172	121	51	42.15%
Net position				
Net investment in capital assets	43,767	43,847	(80)	-0.18%
Unrestricted	17,579	14,872	2,707	18.20%
Total net position	\$ 61,346	\$ 58,719	\$ 2,627	4.47%

As shown above, the Upper District's total assets exceeded liabilities and deferred inflows of resources by \$61.34 million and \$58.72 million as of June 30, 2019 and 2018, respectively, or an increase in net position of \$2.63 million between 2019 and 2018.

Assets

To help address the rapidly declining Basin levels, Upper District began pre-purchasing untreated water for cyclic storage in 2015. As of June 30, 2019 and 2018, Upper District's cyclic storage account has about 11,500 acre feet and about 7,200 acre feet of water, respectively. These are reported as part of current assets in the Upper District's statements of net position.

Upper San Gabriel Valley Municipal Water District

Management's Discussion and Analysis For the fiscal year ended June 30, 2019

Decrease in cash and cash equivalents amounting to \$1.72 million, despite the significantly higher imported water sales during fiscal year 2018/19, is largely attributable to additional pre-purchases of untreated water for cyclic storage. During the year, Upper District's cyclic storage account grew by about 4,400 acre feet equivalent to \$3.98 million.

Upper District's IRRP project has been placed on hold as the District evaluates the full availability of tertiary treated wastewater and alternative project configurations or partnerships particularly Metropolitan's regional, large-scale advanced treated wastewater project, currently in "proof of concept" discussion. The decrease in net capital assets of about \$0.69 million during fiscal year 2018/19 is mainly due to the annual provision for depreciation net of the prior period adjustment discussed in Note 11.

Liabilities

The significant portion of the decrease in Upper District's current liabilities during 2019 consisted mostly of lower amounts owed to MWD for imported water purchases during the months of May and June 2019 due to seasonal fluctuations in demand.

The Upper District continued to pay down its state revolving loan, reducing amount owed to State Water Resources Control Board by \$0.61 million and \$0.60 million for fiscal years ended June 30, 2019 and 2018, 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 2019 was restated by \$582,772 to reverse prior amortized cost related to an enlarged water connection used for untreated water deliveries from MWD. This cost was previously amortized based on acre feet of water delivered through the service connection. On June 30, 2019, it was determined that the use of the connection will continue indefinitely into the future.

Statements of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position provide information on the nature and sources of these changes. For the fiscal years ended June 30, 2019 and 2018, the Upper District's net position increased by \$2.63 million and \$1.72 million, respectively, as shown by the table below.

Upper San Gabriel Valley Municipal Water District

Management's Discussion and Analysis For the fiscal year ended June 30, 2019

Condensed Statements of Revenues, Expenses and Changes in Net Position

	June 30		Change	
	2019 (in thousands)	2018 (in thousands)	Dollar (in thousands)	Percentage
Water revenue	\$ 37,459	\$ 21,880	\$ 15,579	71.20%
Water conservation	837	713	124	17.39%
Other operating revenue	88	78	10	12.82%
Total operating revenue	<u>38,384</u>	<u>22,671</u>	<u>15,713</u>	<u>69.31%</u>
Total operating expenses	<u>40,626</u>	<u>27,990</u>	<u>12,636</u>	<u>45.14%</u>
Operating loss	<u>(2,242)</u>	<u>(5,319)</u>	<u>3,077</u>	<u>-57.85%</u>
Standby charges	3,648	3,541	107	3.02%
Nonoperating program revenues	-	29	(29)	-100.00%
Investment earnings, taxes, other	1,035	2,145	(1,110)	-51.75%
Net nonoperating revenues	<u>4,683</u>	<u>5,715</u>	<u>(1,032)</u>	<u>-18.06%</u>
Capital contributions	186	1,329	(1,143)	-86.00%
Change in net position	<u>\$ 2,627</u>	<u>\$ 1,725</u>	<u>\$ 902</u>	<u>52.29%</u>

Operating Revenues

During fiscal year 2017/18, producers significantly scaled back on their imported water purchases, decreasing water revenues by \$15.77 million or 42% from prior year's.

Fiscal year 2018/19 saw a significant increase in producers' pre-purchases of untreated water for cyclic storage, increasing Upper District's water sales by 17,100 acre feet or about \$14.34 million. Treated water sales also increased during this period by about 1,200 acre feet, providing \$1.49 million in additional revenues.

Nonoperating Revenues/Expenses and Capital Contributions

Nonoperating revenues, generally consisting of standby charges, investment earnings and taxes, have remained relatively stable over the years. During fiscal year 2017/18, Upper District sold its El Monte property realizing a \$1.43 million net gain from the sale.

Operating Expenses

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

In 2018, the producers scaled back on their pre-purchases of untreated water for cyclic storage but subsequently ramped them back up during fiscal year 2018/19, increasing untreated water purchases by 17,100 acre feet or \$11.61 million.

Upper San Gabriel Valley Municipal Water District

Management's Discussion and Analysis For the fiscal year ended June 30, 2019

Capital Asset Administration

At June 30, 2019 and 2018, the Upper District's investments in capital assets, net of accumulated depreciation, amounted to \$52.99 million and \$53.68 million, respectively. The following is a summary of capital assets:

	June 30		Change	
	2019 (in thousands)	2018 (in thousands)	Dollar (in thousands)	Percentage
Intangible utility plant	\$ 657	\$ 657	\$ -	0.00%
Construction in progress	8,576	8,519	57	0.67%
Water recycling	52,106	51,755	351	0.68%
Furniture and equipment	421	664	(243)	-36.60%
Other	116	116	-	0.00%
Subtotal	61,876	61,711	165	0.27%
Less accumulated depreciation	(8,886)	(8,029)	(857)	10.67%
Net capital assets	<u>\$ 52,990</u>	<u>\$ 53,682</u>	<u>\$ (692)</u>	<u>-1.29%</u>

For more information regarding the Upper District's capital assets, please refer to Note 4 of the Notes to Financial Statements.

Long-term Debt

Construction activities for the City of Industry Project were partially funded by a State Revolving Fund (SRF) loan from the California State Water Resources Control Board (CSWRBC) which, as of June 30, 2019 and 2018, amounted to \$9,222,047 and \$9,835,739, respectively. Detailed information on the Upper District's long-term debt is presented under Note 6 in the Notes to Financial Statements.

Water Rates and Other Charges

On June 5, 2018, the Board of Directors approved the water rates and charges for the different classes of water effective January 1, 2019. Please refer to page 51 of the statistical section for the Upper District's water rates for the last ten fiscal years.

On May 15, 2018, 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 \$1.65 million in revenues.

Upper San Gabriel Valley Municipal Water District

Management's Discussion and Analysis For the fiscal year ended June 30, 2019

Conditions Affecting Current Financial Position

Prior to 2013, the Upper District's imported water sales volumes have historically been highly variable because of how the Main San Gabriel Basin used to be managed - taking advantage of plentiful local precipitation and an imported water system that used to be in surplus. In 2014, Watermaster started periodic pre-purchases of imported water to meet future replacement water obligations and build storage, greatly stabilizing the Upper District's cash flows. On May 3, 2017, Watermaster approved its Drought Management Plan outlining the implementation of a stormwater augmentation program using RDA funds. Watermaster's RDA II Program was developed to help manage Basin water supplies during sustained drought conditions and will follow a five-year ramp up schedule. During fiscal year 2018/19, Watermaster purchased a little over 15,000 acre feet using RDA funds.

As California faced water shortfalls and driest year recorded in state history, water districts were placed under broad reduction mandates by the State Water Resources Control Board in 2014.

While the drought was officially declared "over" in April 2017, groundwater storage levels have remained depleted in many areas. Locally, the Main San Gabriel Basin has slowly recovered from its historic low of 169.4 ft which was reached in November 2018. Understanding the need to continue a strong conservation message in the San Gabriel Valley, Upper District has maintained a proactive and innovative conservation outreach program.

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 Director of Finance and Administration at 602 E. Huntington Drive, Suite B, Monrovia, California 91016.

Basic Financial Statements

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Upper San Gabriel Valley Municipal Water District

Statement of Net Position

June 30, 2019

(With comparative data for prior year)

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,934,091	\$ 9,651,003
Investments	5,000,124	4,845,305
Receivables		
Water sales	1,584,759	1,630,809
Grants	161,829	437,649
Other	152,568	132,530
Prepurchased water	8,223,106	4,240,115
Prepaid expenses	81,637	124,684
Total current assets	<u>23,138,114</u>	<u>21,062,095</u>
Noncurrent assets:		
Capital assets, not being depreciated	9,233,369	9,176,273
Capital assets, net of depreciation	43,756,288	44,506,011
Total noncurrent assets	<u>52,989,657</u>	<u>53,682,284</u>
Total assets	<u>76,127,771</u>	<u>74,744,379</u>
Deferred outflows of resources		
Pension related	725,054	904,952
OPEB related	247,902	119,176
Total deferred outflows of resources	<u>972,956</u>	<u>1,024,128</u>
Liabilities		
Current liabilities:		
Accounts payable		
Metropolitan water district	679,397	1,059,239
Other	1,243,531	1,428,826
Accrued liabilities	120,300	78,680
Unearned revenue	27,800	140,281
Due to State Water Resources Control Board, current portion	613,692	613,692
Compensated absences, current portion	44,066	33,621
Total current liabilities	<u>2,728,786</u>	<u>3,354,339</u>
Noncurrent liabilities:		
Net pension liability	2,323,090	2,355,668
Net OPEB liability	1,907,763	1,983,918
Due to State Water Resources Control Board, net of current portion	8,608,355	9,222,047
Compensated absences, net of current portion	14,340	13,028
Total noncurrent liabilities	<u>12,853,548</u>	<u>13,574,661</u>
Total liabilities	<u>15,582,334</u>	<u>16,929,000</u>
Deferred inflows of resources		
Pension related	170,877	120,762
OPEB related	1,320	-
Total deferred inflows of resources	<u>172,197</u>	<u>120,762</u>
Net position:		
Net investment in capital assets	43,767,610	43,846,545
Unrestricted	17,578,586	14,872,200
Total net position	<u>\$ 61,346,196</u>	<u>\$ 58,718,745</u>

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

Upper San Gabriel Valley Municipal Water District

Statement of Revenues, Expenses and Changes in Net Position For the fiscal year ended June 30, 2019 (With comparative data for prior year)

	2019	2018
Operating revenues		
Water revenue	\$ 37,458,960	\$ 21,879,814
Water conservation	837,580	712,736
Other revenues	87,801	77,561
	<hr/>	<hr/>
Total operating revenues	38,384,341	22,670,111
Operating expenses		
Sources of supply	31,457,823	18,589,625
Water quality and supply program	2,781,409	2,569,212
Recycling costs	883,407	2,007,948
Conservation	2,334,984	2,048,697
Depreciation	1,110,850	1,090,342
General and administrative	2,057,344	1,684,156
	<hr/>	<hr/>
Total operating expenses	40,625,817	27,989,980
Operating loss	<hr/>	<hr/>
	(2,241,476)	(5,319,869)
Nonoperating revenues		
Standby charges	3,648,044	3,540,746
Nonoperating program revenues	-	29,304
Investment earnings	421,629	132,355
Gain on disposal of property	-	1,426,972
Taxes	613,423	585,637
	<hr/>	<hr/>
Total nonoperating revenues	4,683,096	5,715,014
Income before contributions	<hr/>	<hr/>
	2,441,620	395,145
Capital contributions	<hr/>	<hr/>
	185,831	1,329,467
Change in net position	<hr/>	<hr/>
	2,627,451	1,724,612
Net position, beginning of year, as restated	<hr/>	<hr/>
	58,718,745	56,994,133
Net position, end of year	<hr/>	<hr/>
	\$ 61,346,196	\$ 58,718,745

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

Upper San Gabriel Valley Municipal Water District

Statement of Cash Flows

For the fiscal year ended June 30, 2019

(With comparative data for prior year)

	2019	2018
Cash flows from operating activities:		
Cash received from customers	\$ 38,573,692	\$ 21,694,096
Cash payments to suppliers for goods and services	(41,796,389)	(24,782,945)
Cash payments for employees for services	<u>(2,176,408)</u>	<u>(1,698,215)</u>
Net cash used for operating activities	<u>(5,399,105)</u>	<u>(4,787,064)</u>
Cash flows from noncapital financing activities:		
Cash received from property taxes	613,423	585,637
Cash received from non operating programs	-	29,304
Cash received from standby charges	<u>3,648,044</u>	<u>3,540,746</u>
Net cash provided by noncapital financing activities	<u>4,261,467</u>	<u>4,155,687</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(418,223)	(586,305)
Proceeds from sale of property	-	1,687,415
Repayment of project finance agreements	(613,692)	(602,811)
Capital contributions	<u>185,831</u>	<u>1,329,467</u>
Net cash (used for) provided by capital and related financing activities	<u>(846,084)</u>	<u>1,827,766</u>
Cash flows from investing activities:		
Cash received from sale and maturity of investments	2,210,000	2,348,645
Acquisition of investments	(2,156,833)	(2,368,478)
Investment earnings	<u>213,643</u>	<u>102,469</u>
Net cash provided by investing activities	<u>266,810</u>	<u>82,636</u>
Net change in cash and cash equivalents	<u>(1,716,912)</u>	<u>1,279,025</u>
Cash and investments, beginning of year	<u>9,651,003</u>	<u>8,371,978</u>
Cash and investments, end of year	<u>\$ 7,934,091</u>	<u>\$ 9,651,003</u>

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

Upper San Gabriel Valley Municipal Water District

Statement of Cash Flows **For the fiscal year ended June 30, 2019** **(With comparative data for prior year), (continued)**

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss	\$ (2,241,476)	\$ (5,319,869)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	1,110,850	1,090,342
(Increase) decrease in assets and deferred outflows of resources:		
Receivables	301,832	(986,796)
Prepurchased water	(3,982,991)	(904)
Prepaid expenses	43,047	(70,206)
Deferred outflows of resources	51,172	(203,191)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued liabilities	(523,517)	363,915
Unearned revenue	(112,481)	10,781
Compensated absences	11,757	11,709
Deferred inflows of resources	51,435	(34,885)
Net pension liability	(76,155)	352,040
Net OPEB liability	(32,578)	-
Net cash used for operating activities	<u>\$ (5,399,105)</u>	<u>\$ (4,787,064)</u>

Schedule of non-cash operating, noncapital and capital related financing and investing activities

\$	-	\$	-
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Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

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, in conformity with generally accepted accounting principles (GAAP) and the Uniform Systems of Accounts for Water Utility Districts as prescribed by the Controller of the State of California. Under this basis of accounting and measurement focus, revenues are recognized when they are earned and expenses are recognized when they are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they were levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the providers have been met.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

Net position is categorized as follows:

- *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.

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.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Postemployment benefits other than pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the Upper District's OPEB Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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 exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and natural disasters. It 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, 2019, 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 \$500,000,000 (total insurable value of \$5,336,521), with \$25,000/\$50,000 deductible.

General Liability – The Insurance Authority has pooled self-insurance up to \$5,000,000 and has purchased excess insurance coverage up to \$55,000,000.

Auto Liability – The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage up to \$55,000,000.

Cyber Liability – The Insurance Authority has pooled self-insurance up to \$3,000,000 per occurrence subject to a \$5,000,000 aggregate limit.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk management (continued)

Public Officials' Liability and Errors and Omissions – The Insurance Authority has pooled self-insurance up to \$5,000,000 per occurrence and has purchased excess insurance coverage up to \$55,000,000.

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.

There were no settlements in excess of the insurance coverage in any of the three prior fiscal years.

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.

Investments

Investments are stated at fair value (the value at which financial instruments could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale). Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Capital assets and depreciation

Capital assets are recorded at cost. If applicable, donated assets are stated at acquisition value on the date donated. 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

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Reclassifications

The Upper District has reclassified certain prior year information to conform to current year presentation, with no effect on net position.

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.

Allowance for doubtful accounts

Upper District recognizes bad debt expense relating to receivables when it is probable that the accounts will be uncollectible. As of June 30, 2019, all receivables were deemed collectible.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property taxes

The County bills and collects property taxes on behalf of numerous special districts and incorporated cities, including the Upper District. Upper District's current year tax collection is received through periodic apportionments from the County. The County's tax calendar is from July 1 to June 30. Property taxes attach as a lien on the property on January 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

Prepurchased water

Pre-purchased water consists of groundwater purchased from the Metropolitan Water District and not disbursed to client agencies. It is valued based upon purchase cost and consumed on a first in first out basis.

NOTE 2 CASH AND INVESTMENTS

Cash and investments are presented in the accompanying financial statements as follows:

Cash and cash equivalents	\$ 7,934,091
Investments	<u>5,000,124</u>
Total cash and investments	\$ <u>12,934,215</u>
Cash and investments as of June 30, 2019 consist of the following:	
Imprest cash on hand	\$ 500
Deposits with financial institutions	282,334
Local Agency Investment Fund ⁽¹⁾	<u>7,651,257</u>
Total cash	<u>7,934,091</u>
Money market mutual funds	134,470
Agency Funds	2,173,300
U.S Treasury Funds	1,984,361
U.S Corporate Funds	<u>707,993</u>
Total investments	<u>5,000,124</u>
Total cash and investments	\$ <u>12,934,215</u>

⁽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 \$65 million. As of June 30, 2019, the total fair value of LAIF, including accrued interest was approximately \$106 billion. The Upper District's proportionate share of that value is \$7.7 million as of June 30, 2019. 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, 2019.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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.

Interest rate risk

Interest rate risk 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 194 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, 2019, were as follows:

Investment Type (including LAIF)	Total	Remaining maturing (in months)		
		12 Months or Less	13 to 36 Months	37 to 60 Months
Local Agency Investment Fund	\$ 7,651,257	\$ 7,651,257	\$ -	\$ -
Money market mutual funds	134,470	134,470	-	-
Agency funds	2,173,300	1,177,415	891,915	103,970
U.S. Treasury funds	1,984,361	597,764	1,286,149	100,448
U.S. Corporate funds	707,993	115,232	592,761	-
Total	<u>\$ 12,651,381</u>	<u>\$ 9,676,138</u>	<u>\$ 2,770,825</u>	<u>\$ 204,418</u>

Concentration of credit risk

A 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, 2019, 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.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Custodial credit risk

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 has insured 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, 2019, the Upper District's deposits (bank balances) exceeded the maximum deposit insurance amount by \$50,764, which is collateralized as described above.

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.

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.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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, 2019, the Upper District had the majority of its investments in LAIF.

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, 2019, were as follows:

Investment Type (including LAIF)	Total	Minimum legal rating	Standard & Poor's Rating as of year end
Local Agency Investment Fund	\$ 7,651,257	N/A	Unrated
Investments:			
Money market mutual funds	134,470	A	AA+
Agency funds	2,173,300	N/A	AA+
U.S. Treasury funds	1,984,361	N/A	AA+
U.S. Corporate funds	707,993	N/A	A
Total	<u><u>\$ 12,651,381</u></u>		

NOTE 3 FAIR VALUE MEASUREMENTS

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

- Level 1 inputs are quoted prices for identical assets or liabilities in active markets that government can access at the measurement date.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

- Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive market; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 inputs are unobservable inputs for an asset or liability.

The following table represent the Upper District's fair value hierarchy for its financial assets measured at fair value on a recurring basis:

Investment by fair value level	Fair value measurement using			
	Total	Level 1	Level 2	Level 3
Agency funds	\$ 2,173,300	\$ -	\$ 2,173,300	-
U.S. Treasury funds	1,984,361	-	1,984,361	-
U.S. Corporate funds	707,993	-	707,993	-
	<hr/> 4,865,654	<hr/> \$ -	<hr/> \$ 4,865,654	<hr/> \$ -
Investments measured at Net Asset Value (NAV) (which approximates fair value):				
Money market mutual funds	<hr/> 134,470			
Total investments	<hr/> \$ 5,000,124			

The Upper District's investments in LAIF as of June 30, 2019 are reported at the Upper District's pro-rata share of the amortized cost provided by LAIF for the entire portfolio.

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Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 4 CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2019 were as follows:

	Beginning balance	Increases	Decreases	Ending balance
Capital assets, not being depreciated				
Intangible utility plant	\$ 656,874 *	\$ -	\$ -	\$ 656,874
Construction in progress	8,519,399	407,764	(350,668)	8,576,495
Total capital assets, not being depreciated	<u>9,176,273</u>	<u>407,764</u>	<u>(350,668)</u>	<u>9,233,369</u>
Capital assets, being depreciated:				
Water recycling	51,754,503	350,668	-	52,105,171
Furniture and equipment	663,807	10,459	(253,047)	421,219
Other	116,490 *	-	-	116,490
Total capital assets, being depreciated	<u>52,534,800</u>	<u>361,127</u>	<u>(253,047)</u>	<u>52,642,880</u>
Less accumulated depreciation for:				
Water recycling	(7,359,679)	(1,072,636)	-	(8,432,315)
Furniture and equipment	(574,907)	(18,431)	253,047	(340,291)
Other	(94,203)	(19,783)	-	(113,986)
Total accumulated depreciation	<u>(8,028,789)</u>	<u>(1,110,850)</u>	<u>253,047</u>	<u>(8,886,592)</u>
Total capital assets being depreciated, net	<u>44,506,011</u>	<u>(749,723)</u>	<u>-</u>	<u>43,756,288</u>
Total capital assets, net	<u>\$ 53,682,284</u>	<u>\$ (341,959)</u>	<u>\$ (350,668)</u>	<u>\$ 52,989,657</u>

* Certain beginning balances were restated. See Note 11 for details.

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 subcontractors.

NOTE 5 COMPENSATED ABSENCES

Changes in compensated absences for the year ended June 30, 2019 were as follows:

Balance at beginning of year	\$ 46,649
Earned by employees	82,352
Taken by/paid to employees	(70,595)
Balance at end of year	58,406
Less current portion	44,066
Long-term portion	<u><u>\$ 14,340</u></u>

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 6 AGREEMENTS WITH STATE WATER RESOURCES CONTROL BOARD

Project finance agreements (direct borrowing)

In December 2009, the Upper District entered into four (4) project finance agreements with the California State Water Resources Control Board (CSWRBC) 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. Principal payments range from \$75,541 to \$527,409 varying by loan. 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. In addition, the Upper District has pledged all net revenues for repayment of the debt. As of June 30, 2019, the Upper District has drawn down a total of \$13,171,937 under this agreement. Construction activities funded by the CSWRBC loans were completed as of June 30, 2013.

Balance at the beginning of year	\$ 9,835,739
Principal payments	(613,692)
Balance at end of year	<u>\$ 9,222,047</u>

Amounts due under the agreements, which include imputed interest, are as follows:

Fiscal year ending June 30,	Amount
2020	\$ 791,232
2021	791,232
2022	791,232
2023	791,232
2024	791,232
2025-2029	3,956,162
2030-2033	<u>2,536,023</u>
Total	<u>\$ 10,448,345</u>

The Upper District repaid \$791,232 during the year ended June 30, 2019, of which \$613,692 related to principal payments and \$177,540 related to imputed interest.

In the event of a termination, the Upper District has agreed, upon demand, to immediately repay to the State Water Board an amount equal to installment payments due hereunder, including accrued interest, and all penalty assessments due. In the event of termination, interest shall accrue on all amounts due at the highest legal rate of interest from the date that notice of termination is mailed to the Upper District to the date of full repayment by the Upper District.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 7 DEFINED BENEFIT PENSION PLAN

A. General information about the Pension Plan

Plan description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS.) The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The District sponsors a cost sharing multiple employer defined benefit pension plan. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS' website, at www.calpers.ca.gov.

Benefits provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plan operates under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plan's authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Benefits provided (continued)

The Plan's provisions and benefits in effect at June 30, 2019 are summarized as follows:

	Prior to <u>January 1, 2013</u>	On or after <u>January 1, 2013</u>
Hire date		
Benefit formula	2.7% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensations	2.0% to 2.7%	1.0% to 2.5%
Required employee contribution rates (reporting period)	8.00%	6.50%
Required employer contribution rates (reporting period)	14.375%	7.557%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions. Employer contributions to the Plan for the fiscal year ended June 30, 2019 were \$270,063. The actual employer payments of \$217,448 made to CalPERS by the District during the measurement period ended June 30, 2018 differed from the District's proportionate share of the employer's contributions of \$272,717 by \$55,269, which is being amortized over the expected average remaining service lifetime in the Public Agency Cost-Sharing Multiple Employer Plan.

B. Net Pension Liability

The District's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial methods and assumptions used to determine Total Pension Liability

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method:	Market Value of Assets
Discount Rate	7.15%
Inflation	2.50%
Salary Increase (1)	3.3% - 14.2%
Mortality Rate Table (2)	Derived using CalPERS' membership data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.00% until purchasing power protection allowance floor on purchasing power applies, 2.50% thereafter

(1) Annual increase vary by category, entry age, and duration of service

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of Scale MP2016. For more details on the table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

All other actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website, at www.calpers.ca.gov.

Long-term expected rate of return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ 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 rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Long-term expected rate of return (continued)

The expected real rates of return by asset class are as follows:

Asset Class	Current Strategic Allocation	Real Return Years 1 - 10 ¹	Real Return Year 11+ ²
Global Equity	50.0%	4.80%	5.98%
Fixed income	28.0%	1.00%	2.62%
Inflation Sensitive	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	(0.92%)
Total	<u>100.0%</u>		

¹ An expected inflation of 2.0% used for this period

² An expected inflation of 2.92% used for this period

Change of assumptions

In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate.

Discount rate

The discount rate used to measure the total pension liability for PERF C was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Plan Fiduciary Net Position

Information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in CalPERS' audited financial statements, which are publicly available reports that can be obtained at CalPERS' website, at www.calpers.ca.gov. The plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and Other Post-Employment Benefits (OPEB) expense included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

C. Proportionate share of Net Pension Liability

The following table shows the Plan's proportionate share of the net pension liability over the measurement period.

	Increase (Decrease)		
	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2017 (VD)	\$ 9,590,708	\$ 7,235,040	\$ 2,355,668
Balance at: 6/30/2018 (MD)	9,482,693	7,159,603	2,323,090
Net changes during 2017-18	(108,015)	(75,437)	(32,578)

Valuation Date (VD), Measurement Date (MD)

The 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, 2018, 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, 2017 rolled forward to June 30, 2018 using standard update procedures. The District's proportion of the net pension liability was determined by CalPERS using the output from the Actuarial Valuation System and the fiduciary net position, as provided in the CalPERS Public Agency Cost-Sharing Allocation Methodology Report, which is a publicly available report that can be obtained at CalPERS' website, at www.calpers.ca.gov.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 7 DEFINED BENEFIT PENSION PLAN, (CONTINUED)

C. Proportionate share of the Net Pension Liability (continued)

The District's proportionate share of the net pension liability for the Plan as of the June 30, 2017 and 2018 measurement dates was as follows:

Proportion share of NPL - MD June 30, 2017	0.059757%
Proportion share of NPL - MD June 30, 2018	0.061641%
Change - Increase (Decrease)	0.001884%

Sensitivity of the proportionate share of the Net Pension Liability to changes in the discount rate

The following presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Miscellaneous Plan's Net Pension Liability	\$ 3,605,825	\$ 2,323,090	\$ 1,264,213

Subsequent events

There were no subsequent events that would materially affect the results presented in this disclosure.

Amortization of deferred outflows and deferred inflows of resources

Under generally accepted accounting principles, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Amortization of deferred outflows and deferred inflows of resources (continued)

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings 5 year straight-line amortization

All other amounts Straight-line amortization over the average expected remaining services lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the Public Agency Cost-Sharing Multiple-Employer Plan (PERF C).

The EARSL for PERF C for the measurement period ending June 30, 2018 is 3.8 years, which was obtained by dividing the total service years of 516,147 (the sum of remaining service lifetimes of the active employees) by 135,474 (the total number of participants: active, inactive, and retired). Note that inactive employees and retirees have remaining service lifetimes equal to 0. Also note that total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

D. Pension expense and deferred outflows and deferred inflows of resources related to pensions

As of the state of the measurement period (July 1, 2017), the District's net pension liability was \$2,355,668. For the measurement period ending June 30, 2018 (the measurement date), the District incurred a pension expense of \$402,618.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

D. Pension expense and deferred outflows and deferred inflows of resources related to pensions (continued)

As of June 30, 2019, the District has deferred outflows and deferred inflows of resources related to pensions as follows:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Difference between expected and actual experience	\$ 89,133	\$ (30,331)
Changes in assumptions	264,839	(64,907)
Difference between projected and actual investment earnings	11,485	-
Difference between employer's contribution and proportionate share of contributions	-	(75,639)
Change in employer's proportion	89,534	-
Pension contributions made subsequent to measurement date	<u>270,063</u>	<u>\$ (170,877)</u>
	<u>\$ 725,054</u>	

These amounts above are net of outflows and inflows recognized in the 2017-18 measurement period expense. Contributions subsequent to the measurement date of \$270,063 reported with deferred outflows of resources will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

<u>Measurement period ended June 30:</u>	<u>Deferred outflows/(inflows) of resources, net</u>
2019	\$ 243,233
2020	135,144
2021	(73,368)
2022	(20,895)
2023	-
Thereafter	-

E. Payable to the pension plan

At June 30, 2019, the District reported a payable of \$-0- for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 8 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 9 OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. General information about the OPEB Plan

Plan description

The Upper District has an agent multiple-employer defined benefit plan administered by CalPERS through an irrevocable trust, the California Employer's Retiree Benefit Trust (CERBT). The CalPERS Board of Administration has sole and exclusive control and power over the administration and investment of the CERBT. The plan itself does not issue a separate set of financial statements. The CERBT plan does issue a separate set of financial statements that can be obtained on CalPERS website.

Upper District's postemployment healthcare benefits provided to certain qualified employees, directors and their dependents based on resolutions by the Board of Directors are 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 to 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 For the fiscal year ended June 30, 2019

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Employees covered by benefit terms

At June 30, 2017 (valuation date), the following employees were covered by the benefit terms of the Plan:

Category	Count
Active employees	11
Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefit payments	-
Total	21

Contributions and funding policy

The contribution requirements of plan members and the Upper District are established and may be amended by the Board of Directors. In March 2014, the Board of Directors authorized the execution of the prefunding agreement with the CERBT and fully funding the annual required contributions (contractually determined) for OPEB.

During fiscal year ended June 30, 2019, Upper District contributed \$247,902 to the Plan. At June 30, 2018, the Trust account balance was \$764,640. 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. The Trust assets are not reported in the Upper District's financial statements.

B. Net OPEB Liability

The Upper District's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

Actuarial Assumptions

This valuation assumes that the Upper District will fund the Plan on an ad hoc basis, in an amount sufficient to fully fund the obligation over a period not to exceed 30 years. The Normal Cost is the portion of the Actuarial Present Value of benefits allocated to a valuation year. The UAAL is the excess of the Entry Age Normal Actuarial Accrued Liability over the Market Value of Assets.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (OPEB), (CONTINUED)

The total OPEB liability for the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	Entry age actuarial cost method
Inflation	2.75%
Salary increases	2.75% per year
Investment rate of return	7.0% per year net of expenses; based on assumed long-term return on plan assets assuming 100% funding through CERBT using the Building Block Method
Healthcare cost trend rates	4% per year
Mortality rates	Based on 2014 CalPERS active mortality for Miscellaneous employees

The valuation used historic 30-year real rates of return for each class along with the assumed long-term inflation assumption to set the discount rate. It offsets the expected investment return by investment expenses of 25 basis points. Following is the assumed asset allocation and assumed rate of return for each asset class:

Asset Class	Percentage of Portfolio	Assumed Growth Return
US Large Cap	43%	7.7950%
US Small Cap	23%	7.7950%
Long-term Corporate Bonds	12%	5.2950%
Long-term Government Bonds	6%	4.5000%
Treasury Inflation Protected Securities (TIPS)	5%	7.7950%
US Real Estate	8%	7.7950%
All Commodities	3%	7.7950%
Total	100%	

Discount rate

The discount rate used to measure the total OPEB liability was 7.0%. This assumes that contributions would be sufficient to fully fund the obligation over a period not to exceed 30 years. The rate is based on the real rate of return expected for plan assets plans plus long term inflation assumption.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (OPEB), (CONTINUED)

Change in the Net OPEB Liability

	Increases (Decreases)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2018 (Valuation Date June 30, 2017)	\$ 2,582,791	\$ 598,873	\$ 1,983,918
Changes for the year:			
Service cost	53,999	-	53,999
Interest on the total OPEB liability	177,712	-	177,712
Contributions - employer	-	261,275	(261,275)
Investment income	-	46,053	(46,053)
Investment gains/losses	-	1,650	(1,650)
Benefit payments	(142,099)	(142,099)	-
Administrative expenses	-	(1,112)	1,112
Net Changes	89,612	165,767	(76,155)
Balance at June 30, 2019 (Measurement Date June 30, 2018)	\$ 2,672,403	\$ 764,640	\$ 1,907,763

Sensitivity of the net OPEB liability to changes in the discount rate

The net OPEB liability of the Upper District, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) follows:

	Discount Rate	Valuation	Discount Rate
	1% Lower	Discount Rate	1% Higher
Net OPEB Liability	\$ 2,202,602	\$ 1,907,763	\$ 1,659,169

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates

The net OPEB liability of the Upper District, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (3%) or one percentage point higher (5%) than current healthcare cost trend rates follows:

	Trend 1% Lower	Valuation Trend	Trend 1% Higher
Net OPEB Liability	\$ 1,629,153	\$ 1,907,763	\$ 2,251,588

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

OPEB expense and deferred inflows and outflows of resources related to OPEB

For the year ended June 30, 2019, the Upper District recognized OPEB expense of \$186,440 with details as follows:

	<u>Total</u>
Service Cost	\$ 53,999
Interest on total OPEB liability	177,712
Actual investment income	(46,053)
Recognized investment gains and losses	(330)
Administration expense	<u>1,112</u>
 Total OPEB Expense	<u>\$ 186,440</u>

At June 30, 2019, the Upper District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 247,902	\$ -
Investment gains/losses	-	1,320
Total	\$ 247,902	\$ 1,320

The \$247,902 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as follows:

Fiscal Year Ended June 30:	Deferred Outflows/(Inflows) of Resources	
2019	\$	(330)
2020		(330)
2021		(330)
2022		(330)

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 10 COMMITMENTS AND CONTINGENCIES

Operating lease

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

Year ending June 30	Amount
2020	\$ 238,843
2021	246,013
2020	<u>20,551</u>
 Total	<u>\$ 505,407</u>

On July 25, 2018, the lease was amended providing the Upper District an ongoing right to terminate the lease on or after August 1, 2018 with twelve (12) months prior written notice to the lessor. The Upper District incurred rental expense of \$234,288 for the year ended June 30, 2019.

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 no commitments from open construction contracts as of June 30, 2019.

Upper San Gabriel Valley Municipal Water District

Notes to Financial Statements For the fiscal year ended June 30, 2019

NOTE 11 PRIOR PERIOD RESTATEMENT

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

Beginning net position, as previously reported	\$ 58,135,973
Restatement due to a correction of an error	<u>582,772</u>
Beginning net position, as restated	<u>\$ 58,718,745</u>

In 1993, Upper District incurred costs of \$582,772 for the use of an enlarged water connection (USG-3) for untreated water deliveries from MWD. This cost was previously amortized based on acre feet of water delivered through the service connection. On June 30, 2019, it was determined that the use of the connection will continue indefinitely into the future and therefore requires correction of prior year financial statements to reflect reversal of previously amortized costs.

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Required Supplementary Information

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Upper San Gabriel Valley Municipal Water District

Schedule of the District's Proportionate Share of the Net Pension Liability and Related Ratios as of the Measurement Date Last 10 Years*

Measurement date	Employer's proportion of the collective net pension liability (asset)	Employer's proportionate share of the collective net pension liability¹	Covered payroll	Employer's proportionate share of the collective net pension liability as a percentage of the employer's covered payroll	Pension plan's fiduciary net position as a percentage of the total pension liability
June 30, 2014	0.02040%	\$ 1,269,653	\$ 1,087,130	116.79%	83.23%
June 30, 2015	0.05743%	1,528,941	1,188,341	128.66%	79.89%
June 30, 2016	0.05796%	2,003,628	1,191,276	168.19%	75.87%
June 30, 2017	0.05988%	2,355,668	943,618	249.64%	75.44%
June 30, 2018	0.06164%	2,323,090	1,127,628	206.02%	75.50%

¹ Proportion of the collective net pension liability represents the plan's proportion of PERF C, which includes both the Miscellaneous and Safety Risk Pools excluding the 1959 Survivors Risk Pool.

* Historical information is required only for measurement periods for which it is applicable. Future years' information will be displayed up to 10 years as information becomes available.

Upper San Gabriel Valley Municipal Water District

Schedule of Pension Plan Contributions Last 10 Years*

Fiscal year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a Percentage of Covered Payroll
June 30, 2015	\$ 204,555	\$ (708,613)	\$ (504,058)	\$ 1,188,341	59.63%
June 30, 2016	228,626	(228,626)	-	1,191,276	19.19%
June 30, 2017	203,040	(203,040)	-	943,618	21.52%
June 30, 2018	217,448	(217,448)	-	1,127,628	19.28%
June 30, 2019	270,063	(270,063)	-	1,310,122	20.61%

Notes to Schedule:

Change in Benefit Terms: None

Changes in Assumptions: In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the accounting discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

* Historical information is required only for measurement periods for which it is applicable. Future years' information will be displayed up to 10 years as information becomes available.

Upper San Gabriel Valley Municipal Water District

Schedule of Changes in the Net OPEB Liability and Related Ratios Last 10 Years*

Measurement date	2018	2017
Total OPEB Liability		
Service Cost	\$ 53,999	\$ 52,554
Interest on the Total OPEB Liability	177,712	171,159
Actual and expected experience difference	-	-
Changes in assumptions	-	-
Changes in benefit terms	-	-
Benefit payments	<u>(142,099)</u>	<u>(120,998)</u>
Net change in Total OPEB Liability	<u>89,612</u>	<u>102,715</u>
Total OPEB Liability - beginning	<u>2,582,791</u>	<u>2,480,076</u>
Total OPEB Liability - ending (a)	<u>2,672,403</u>	<u>2,582,791</u>
 Plan Fiduciary Net Position		
Contribution - employer	261,275	433,842
Net investment income	46,053	43,890
Investment gains and losses	1,650	-
Benefit payments	<u>(142,099)</u>	<u>(120,998)</u>
Administrative expense	<u>(1,112)</u>	<u>(232)</u>
Net change in Plan Fiduciary Net Position	<u>165,767</u>	<u>356,502</u>
Plan Fiduciary Net Position - beginning	<u>598,873</u>	<u>242,371</u>
Plan Fiduciary Net Position - ending (b)	<u>764,640</u>	<u>598,873</u>
 Net OPEB Liability - ending (a) - (b)	<u>\$ 1,907,763</u>	<u>\$ 1,983,918</u>
Plan fiduciary net position as a percentage of the total OPEB liability	28.61%	23.19%
Covered-employee payroll	\$ 1,294,561	\$ 1,107,374
Net OPEB liability as a percentage of covered-employee payroll	147.37%	179.16%

Notes to schedule:

The following assumptions were changed from the prior valuation:

Mortality Improvement: The mortality improvement scale was updated from Bickmore Scale 2014 to MacLeod Watts Scale 2017.

Healthcare trend: Medical plan premiums are assumed to increase at somewhat higher rates than assumed in the prior valuation, with the ultimate trend of 5.0% per year, rather than 4.5% per year assumed in the prior valuation.

Excise Tax on high cost coverage: The valuation reflects the two year delay in the effective date from 2020 to 2022, as enacted in the Tax Cuts and Jobs Act.

* Historical information is required only for measurement periods for which it is applicable. Future years' information will be displayed up to 10 years as information becomes available.

Upper San Gabriel Valley Municipal Water District

Schedule of OPEB Plan Contributions Last 10 Years*

Fiscal year	Contractually determined contribution	Contributions in relation to the contractually determined contribution	Contribution deficiency (excess)	Covered employee payroll	Contributions as a percentage of employee covered payroll
June 30, 2018	\$ 120,856	\$ (240,032)	\$ (119,176)	\$ 1,294,561	18.54%
June 30, 2019	104,446	(247,902)	(143,456)	1,366,231	18.14%

Notes to schedule:

Actuarial methods and assumptions used to set actuarially determined contributions for fiscal year 2018 were from the June 30, 2017 actuarial valuation.

Methods and assumptions used to determine contributions:

Actuarial Cost Method	Entry age actuarial cost method
Amortization Methodology	Straight-line recognition over the expected average remaining service lifetime (EARSL) of all members that are provided with benefits as of the beginning of the Measurement Period. In determining the EARSL, all active, retired, and inactive (vested) members are counted, with the latter two groups having 0 remaining service years
Asset Valuation Method	Market value of assets
Inflation	2.75%
Payroll Growth	2.75% per year; since benefits are not related to pay, this is used only to allocate the cost of benefits between service years
Investment Rate of Return	7.0% per year of net experience; based on assumed long-term return on plan assets assuming 100% funding through CERBT using the Building Block Method
Healthcare Trend	4.0% per year
Retirement Age	2009 CalPERS 2.0% @ 60 Rates for Miscellaneous Employees; 2009 CalPERS 2.7% @ 55 Rates for Miscellaneous Employees
Mortality	2014 CalPERS Active Mortality for Miscellaneous Employees

* Historical information is required only for measurement periods for which it is applicable. Future years' information will be displayed up to 10 years as information becomes available.

**Statistical Section
(Unaudited)**

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Upper San Gabriel Valley Municipal Water District

Statistical Section

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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Financial Trends These schedules contain information to help the reader understand how the Upper District's financial performance and financial condition have changed over time.	45
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Demographic Information This schedule offers demographic indicators to help the reader understand the environment within which the Upper District's financial activities take place.	53
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Upper San Gabriel Valley Municipal Water District

Changes in Net Position Last Ten Fiscal Years (Unaudited) (In Thousands)

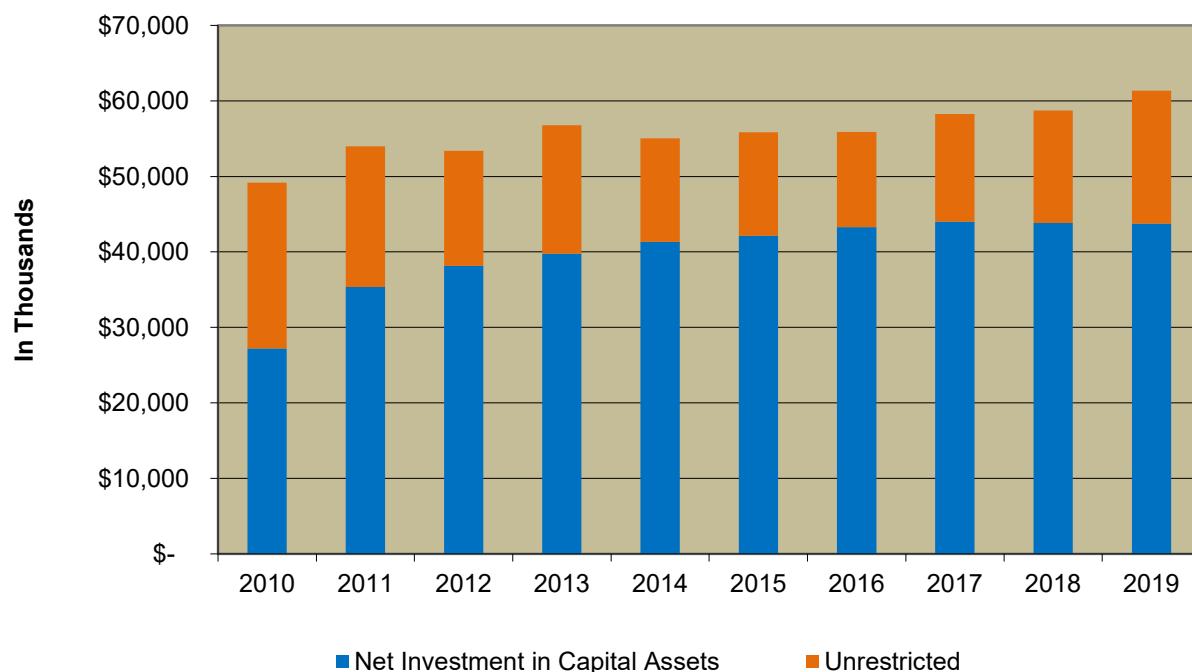
	Fiscal Year Ended June 30									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Changes in net position:										
Operating revenues	\$ 14,487	\$ 26,057	\$ 15,316	\$ 12,837	\$ 26,691	\$ 37,928	\$ 20,800	\$ 38,154	\$ 22,671	\$ 38,385
Operating expenses	(19,887)	(28,331)	(18,856)	(16,842)	(29,801)	(39,849)	(23,770)	(39,557)	(26,900)	(39,515)
Depreciation and amortization	(340)	(339)	(377)	(496)	(1,068)	(1,072)	(1,121)	(1,100)	(1,090)	(1,111)
Operating income (loss)	(5,740)	(2,613)	(3,917)	(4,501)	(4,178)	(2,993)	(4,091)	(2,503)	(5,319)	(2,241)
Nonoperating revenues (expenses)										
Standby charges	3,576	3,573	3,576	3,542	3,584	3,623	3,541	3,576	3,541	3,648
Nonoperating program expenses	-	(174)	(2,306)	(991)	(524)	(592)	(168)	29	29	-
Investment earnings	154	99	65	41	32	66	91	48	132	422
Taxes	305	333	337	379	416	372	441	546	586	613
Gain on sale of property and equipment									1,427	-
Change in fair value of investments	-	-	-	-	3	2	-	-	-	-
Net nonoperating revenues (expenses)	4,035	3,831	1,672	2,971	3,511	3,471	3,905	4,199	5,715	4,683
Net income (loss) before capital contributions	(1,705)	1,218	(2,245)	(1,530)	(667)	478	(186)	1,696	396	2,442
Contributions for capital acquisition/construction	1,804	3,566	1,645	4,927	349	348	208	685	1,329	186
Changes in net position	\$ 99	\$ 4,784	\$ (600)	\$ 3,397	\$ (318)	\$ 826	\$ 22	\$ 2,381	\$ 1,725	\$ 2,628

Source: Finance and Administration Department

Upper San Gabriel Valley Municipal Water District

Net Position by Component Last Ten Fiscal Years (Unaudited) (In Thousands)

June 30		Net Investment in Capital Assets		Unrestricted		Total
2010	\$	27,208	\$	21,989	\$	49,197
2011		35,363		18,618		53,981
2012		38,165		15,216		53,381
2013		39,778		17,000		56,778
2014		41,349		13,667		55,016
2015		42,128		13,714		55,842
2016		43,278		12,587		55,865
2017		44,009		14,237		58,246
2018		43,847		14,872		58,719
2019		43,767		17,579		61,346

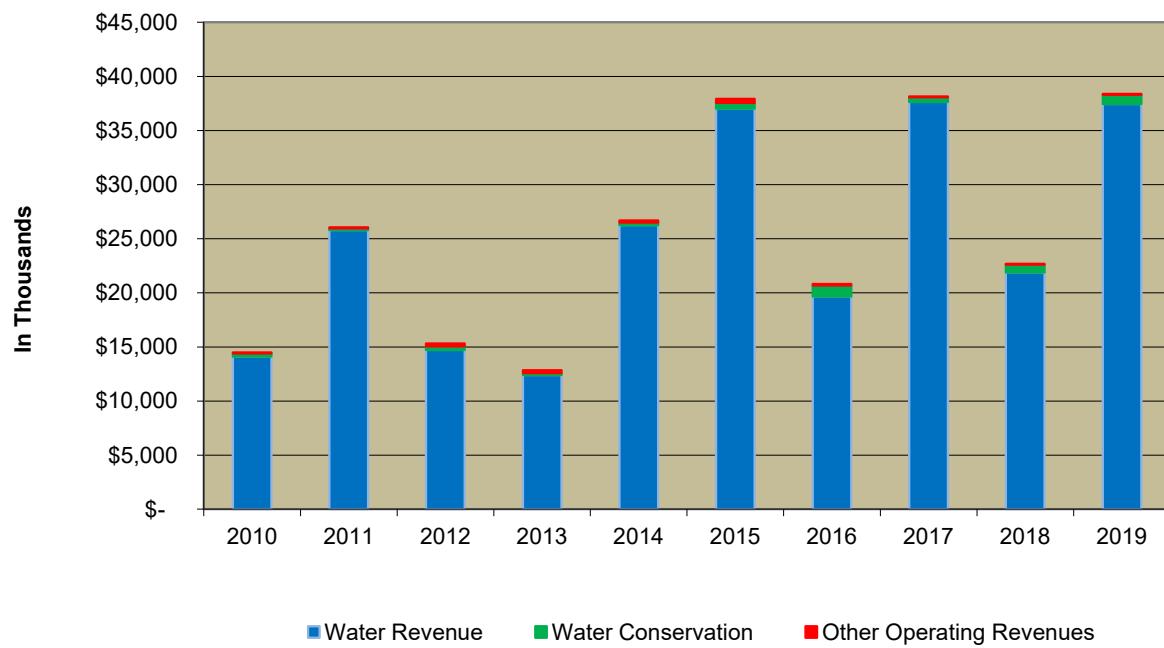


Source: Finance and Administration Department

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
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
2016	19,670	996	134	20,800
2017	37,646	430	78	38,154
2018	21,880	713	77	22,670
2019	37,459	837	88	38,384

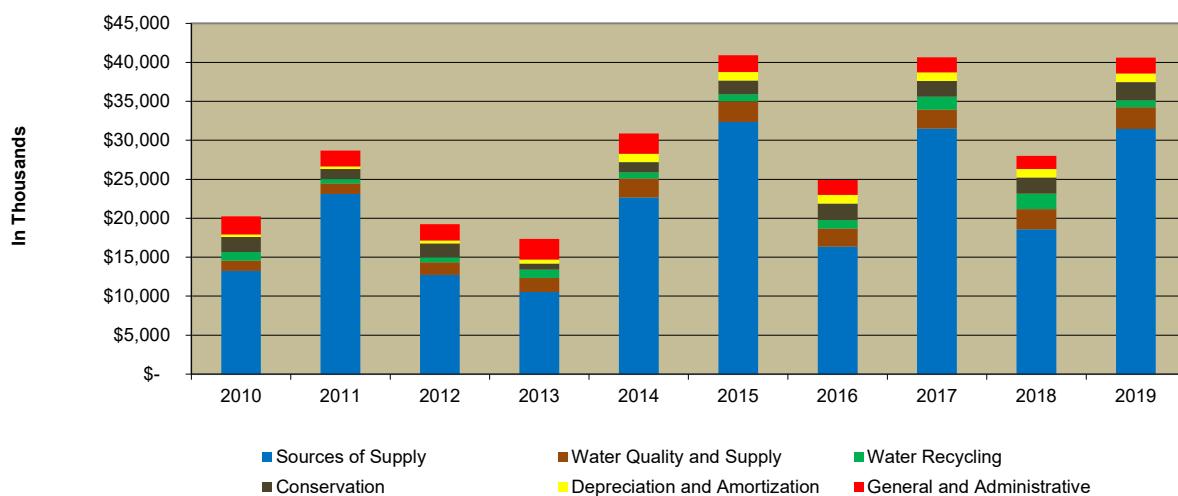


Source: Finance and Administration Department

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
2010	\$ 13,229	\$ 1,320	\$ 1,108	\$ 1,919	\$ 340	\$ 2,311	\$ 20,227
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
2016	16,345	2,342	1,066	2,127	1,121	1,890	24,891
2017	31,502	2,441	1,650	2,020	1,100	1,944	40,657
2018	18,590	2,569	2,008	2,049	1,090	1,684	27,990
2019	31,458	2,782	883	2,335	1,111	2,057	40,626

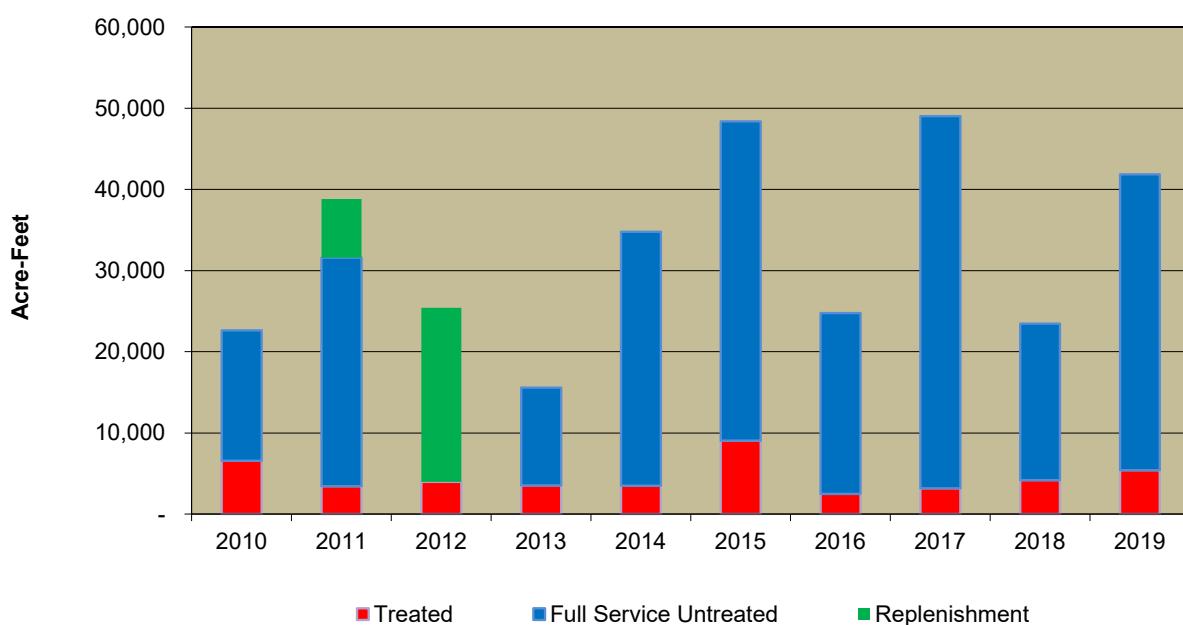


Source: *Finance and Administration Department*

Upper San Gabriel Valley Municipal Water District

Imported Water Deliveries Last Ten Fiscal Years (Unaudited) (In Acre Feet)

Fiscal Year Ended June 30	Treated	Full Service Untreated	Replenishment	Total
2010	6,557	16,076	-	22,633
2011	3,426	28,155	7,230	38,811
2012	3,975	-	21,426	25,401
2013	3,528	12,035	-	15,563
2014	3,490	31,289	-	34,779
2015	9,069	39,287	-	48,356
2016	2,495	22,254	-	24,749
2017	3,197	45,813	-	49,010
2018	4,204	19,273	-	23,477
2019	5,420	36,421	-	41,841



Source: Finance and Administration Department

Upper San Gabriel Valley Municipal Water District

Imported Water Rates and Charges

Fiscal years ended June 30, 2019 and 2018 (Unaudited)

Rate per Acre-Foot					
	MWD	Upper District Surcharge	Total		
Fiscal Year Ended June 30, 2019					
<i>July 1, 2018 to December 31, 2018</i>					
Full Service Treated Tier 1	\$ 1,015	\$ 103	\$	1,118	
Full Service Treated Tier 2	1,101	103		1,204	
Full Service Untreated Tier 1	695	103		798	
Full Service Untreated Tier 2	781	103		884	
<i>January 1, 2019 to June 30, 2019</i>					
Full Service Treated Tier 1	\$ 1,050	\$ 103	\$	1,153	
Full Service Treated Tier 2	1,136	103		1,239	
Full Service Untreated Tier 1	731	103		834	
Full Service Untreated Tier 2	817	103		920	
Fiscal Year Ended June 30, 2018					
<i>July 1, 2017 to December 31, 2017</i>					
Full Service Treated Tier 1	\$ 979	\$ 103	\$	1,082	
Full Service Treated Tier 2	1,073	103		1,176	
Full Service Untreated Tier 1	666	103		769	
Full Service Untreated Tier 2	760	103		863	
<i>January 1, 2018 to June 30, 2018</i>					
Full Service Treated Tier 1	\$ 1,015	\$ 103	\$	1,118	
Full Service Treated Tier 2	1,101	103		1,204	
Full Service Untreated Tier 1	695	103		798	
Full Service Untreated Tier 2	781	103		884	

Source: *Finance and Administration Department*

Upper San Gabriel Valley Municipal Water District

Water Rates per Acre Foot

Last Ten Fiscal Years (Unaudited)

As of June 30	Full Service Treated Tier 1	Full Service Treated Tier 2	Full Service Untreated Tier 1	Full Service Untreated Tier 2	Replenishment
2010	\$ 797	\$ 926	\$ 526	\$ 655	\$ 386
2011	840	984	569	713	429
2012	874	1,000	640	766	522
2013	927	1,077	673	823	-
2014	970	1,112	673	815	-
2015	1,014	1,146	673	805	-
2016	1,045	1,179	697	831	-
2017	1,082	1,176	769	863	-
2018	1,118	1,204	798	884	-
2019	1,153	1,239	834	920	-

Source: Finance and Administration Department

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
2010	475	18	1,489	2,612	286	-	-	1,679	6,557
2011	297	14	688	2,425	-	-	-	-	3,426
2012	172	5	799	2,999	-	-	-	-	3,975
2013	17	196	278	3,037	-	-	-	-	3,528
2014	38	106	361	2,984	1	-	-	-	3,490
2015	5	145	6,208	2,711	-	-	-	-	9,069
2016	2	2	4	2,487	-	-	-	-	2,495
2017	22	4	294	2,877	-	-	-	-	3,197
2018	21	1,134	62	2,987	-	-	-	-	4,204
2019	125	1,577	773	2,944	1	-	-	-	5,420

Source: Finance and Administration Department

Upper San Gabriel Valley Municipal Water District

Demographics and Economic Statistics – Los Angeles County Last Ten Calendar Years (Unaudited)

Fiscal Year	Population (In Thousands)	Personal Income (In \$ Billions)	Per capita Personal Income	Unemployment Rate (Ave. %)
2010	9,839.4	\$ 418.0	\$ 42,540	12.5%
2011	9,902.6	441.7	44,627	12.2%
2012	9,990.0	486.7	48,818	10.9%
2013	10,056.4	483.6	48,140	9.8%
2014	10,125.0	514.5	50,730	8.3%
2015	10,179.0	549.1	53,521	6.6%
2016	10,215.0	563.9	54,477	5.2%
2017	10,278.0	585.5	57,168	4.7%
2018 (f)	10,328.0	602.6	58,818	4.6%
2019 (f)	10,200.0	619.7	60,469	4.4%

Notes:

Upper District utilized data from the Los Angeles County Economic Development Corporation's Economic Forecast and Industry Outlook.

Data for 2018 and 2019 are forecasted numbers.

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

Source: Los Angeles County Economic Development Corporation's Economic Forecast and Industry Outlook for 2018-2019 and 2019-2020.

Upper San Gabriel Valley Municipal Water District

Ten Largest Employers in Los Angeles County June 30, 2019 (Unaudited)

Employer	Number of Employees
County of Los Angeles	107,400
Los Angeles Unified School District	104,300
University of California, Los Angeles	65,600
City of Los Angeles (includes DWP)	61,900
Federal Government (includes U.S. Postal Service)	43,600
Kaiser Permanente	37,400
State of California (non-education)	29,800
University of Southern California	21,000
Northrop Grumman Corp.	16,600
Providence Health & Services	15,900

Note: Data was based on 2018 figures which are the latest available information.

Source: Los Angeles Almanac

Upper San Gabriel Valley Municipal Water District

Operating and Capital Indicators - General Last Ten Fiscal Years (Unaudited)

	Fiscal Year Ended June 30									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Service Area										
Approximate Service Area (in sq. miles)	144	144	144	144	144	144	144	144	144	144
Number of Member Agencies	29	29	29	29	29	29	29	29	29	29
Number of Cities/Communities	18	18	18	18	18	18	18	18	18	18
Active Employees (FTE)										
	8	9.5	10	9	11.5	11.5	10.5	10.5	11.5	11.5
Imported Water System										
Number of Service Connections	9	9	9	9	9	9	9	9	9	9
Peak System Capacity (Imported)										
Cubic feet per second	583	583	583	583	323	323	323	323	323	323
Million gallons per day	376	376	376	376	208	208	208	208	208	208
Recycled Water System										
Number of Pump Stations	1	1	1	1	2	2	2	2	2	2
Number of Reservoirs	-	-	-	-	2	2	2	2	2	2
Number of Service Connections	10	18	33	60	74	76	76	76	76	113
Length of Pipeline (in miles)	5	5	5	9	22	22	22	22	22	22

Sources: *Finance and Administration Department*

Government Affairs and Community Outreach Department

Planning, Engineering and Resources Department

Metropolitan Water District of Southern California

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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Turf Removal Program	-	-	67.79	-	-	-	-	-	-	-
CII SoCal WaterSmart Rebate Program ¹	236.26	105.10	218.89	44.04	122.09	209.11	869.45	437.44	188.00	37.04
Showerheads	8.31	-	-	-	-	-	-	-	-	-
Aerators	-	-	-	-	-	-	-	-	-	-
HECW Rebate Program	185.90	-	-	-	-	-	-	-	-	-
ULFT/HET Retrofit Program	553.14	278.23	554.52	646.34	963.13	893.51	143.36	23.41	36.00	-
Synthetic Turf Retrofit Program	28.80	32.31	-	-	-	-	-	-	4.00	-
Residential SoCal WaterSmart Rebate Program ²	97.46	396.07	267.54	192.18	209.45	740.17	1,107.61	406.85	258.00	171.23
Rain Barrel Distribution Program	-	-	-	-	-	-	6.14	0.92	-	-
Large Landscape Survey and Retrofit Program	-	-	-	7.37	3.26	1,108.76	815.00	303.11	118.00	107.80
Total	<u>1,109.87</u>	<u>811.71</u>	<u>1,108.74</u>	<u>889.93</u>	<u>1,297.93</u>	<u>2,951.55</u>	<u>2,941.56</u>	<u>1,171.73</u>	<u>604.00</u>	<u>316.07</u>

¹ Program previously named CII Water Efficient Rebate Program

² Program previously named Residential Rebate Program

Source: *Planning, Engineering and Resources Department*

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