



Rincon del Diablo Municipal Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2014 and 2013



**Rincon Del Diablo Municipal Water District
Board of Directors as of June 30, 2014**

Name	Title	Division	Current Term
Gregory Quist	President	1	12/10-12/14
David Drake	Vice President	2	12/12-12/16
James Murtland	Director	3	12/10-12/14
David Draper	Director	4	12/10-12/14
Diana Towne	Treasurer	5	12/12-12/16

**Rincon del Diablo Municipal Water District
Greg Thomas, General Manager
1920 N. Iris Lane
Escondido, California 92026
(760) 745-5522 – www.rinconwater.org**

Rincon del Diablo Municipal Water District

Annual Financial Report

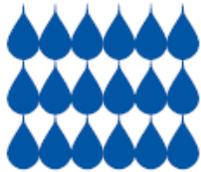
For the Fiscal Years Ended June 30, 2014 and 2013

**Rincon del Diablo Municipal Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2014 and 2013**

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Financial Section



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
(562) 598-6565
FAX (714) 527-9154
EMAIL czfco@czfcpa.com
WEB www.czfcpa.com

Independent Auditor's Report

Board of Directors
Rincon del Diablo Municipal Water District
Escondido, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Rincon del Diablo Municipal Water District (District) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2014 and 2013, and the respective changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the required supplementary information on pages 38 and 39 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 October 31, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. This report can be found on pages 40 and 41.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs – An Accountancy Corporation
Cypress, California
October 31, 2014

Rincon del Diablo Municipal Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Rincon del Diablo Municipal Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2014 and 2013. The two year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2014, the District's net position increased 11.26% or \$5,235,882 to \$51,702,577 as a result of operations. In 2013, the District's net position increased 1.59% or \$727,020 to \$46,466,695 as a result of operations.
- In 2014, the District's operating revenues increased 9.93% or \$1,380,466 primarily due to a \$1,383,804 increase in water sales. In 2013, the District's operating revenues increased 14.84% or \$1,796,222 primarily due to a \$1,755,523 increase in water sales.
- In 2014, the District's operating expenses increased 3.73% or \$536,144 primarily due to a \$1,258,920 increase in water funds expenses of \$1,258,920 and a decrease in the governmental activities fund expenses of \$722,806. In 2013, the District's operating expenses increased 9.01% or \$1,186,967 primarily due to a \$1,443,733 increase in source of supply expense (cost of water purchased) and a \$375,395 decrease in general and administrative expenses.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question.

Rincon del Diablo Municipal Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Financial Analysis of the District, continued

These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. One can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 21 through 37.

Statement of Net Position

	Condensed Statements of Net Position				
	2014	2013	Change	2012	Change
Assets:					
Current assets	\$ 19,142,567	17,076,154	2,066,413	21,984,291	(4,908,137)
Non-current assets	112,570	156,433	(43,863)	7,249	149,184
Capital assets, net	<u>34,972,120</u>	<u>32,343,391</u>	<u>2,628,729</u>	<u>30,145,478</u>	<u>2,197,913</u>
Total assets	<u>54,227,257</u>	<u>49,575,978</u>	<u>4,651,279</u>	<u>52,137,018</u>	<u>(2,561,040)</u>
Liabilities:					
Current liabilities	2,524,680	3,109,283	(584,603)	3,643,769	(534,486)
Non-current liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,753,574</u>	<u>(2,753,574)</u>
Total liabilities	<u>2,524,680</u>	<u>3,109,283</u>	<u>(584,603)</u>	<u>6,397,343</u>	<u>(3,288,060)</u>
Net position:					
Investment in capital assets	34,972,120	32,343,391	2,628,729	27,762,774	4,580,617
Unrestricted	<u>16,730,457</u>	<u>14,123,304</u>	<u>2,607,153</u>	<u>17,976,901</u>	<u>(3,853,597)</u>
Total net positions	<u>51,702,577</u>	<u>46,466,695</u>	<u>5,235,882</u>	<u>45,739,675</u>	<u>727,020</u>
Total liabilities and net position	<u>\$ 54,227,257</u>	<u>49,575,978</u>	<u>4,651,279</u>	<u>52,137,018</u>	<u>(2,561,040)</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$51,705,577 and \$46,466,695 as of June 30, 2014 and 2013, respectively.

By far the largest portion of the District's net position (68% as of June 30, 2014 and 70% as of June 30, 2013) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2014 and 2013, the District showed a positive balance in its unrestricted net position of \$16,730,457 and \$14,123,304, respectively, which may be utilized in future years. See note 6 for further information.

Rincon del Diablo Municipal Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Statement of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>2012</u>	<u>Change</u>
Revenue:					
Operating revenue	\$ 15,281,446	13,900,980	1,380,466	12,104,758	1,796,222
Non-operating revenue	2,783,588	2,620,285	163,303	2,573,162	47,123
Total revenue	<u>18,065,034</u>	<u>16,521,265</u>	<u>1,543,769</u>	<u>14,677,920</u>	<u>1,843,345</u>
Expense:					
Operating expense	14,900,999	14,364,885	536,114	13,177,918	1,186,967
Depreciation	1,495,386	1,459,893	35,493	1,799,713	(339,820)
Non-operating expense	-	132,150	(132,150)	126,899	5,251
Total expense	<u>16,396,385</u>	<u>15,956,928</u>	<u>439,457</u>	<u>15,104,530</u>	<u>852,398</u>
Net income before capital	1,668,649	564,337	1,104,312	(426,610)	990,947
Capital contributions:					
Change in net position	5,235,882	727,020	4,508,862	(135,360)	862,380
Net position, beginning of year	46,466,695	45,739,675	727,020	46,603,998	(864,323)
Prior period adjustment	-	-	-	(728,963)	728,963
Net position, end of year	<u>\$ 51,702,577</u>	<u>46,466,695</u>	<u>5,235,882</u>	<u>45,739,675</u>	<u>727,020</u>

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the fiscal years. In the case of the District, the District's change in net position increased by \$5,235,882 and \$727,020 for the fiscal years ended June 30, 2014 and 2013, respectively.

A closer examination of the sources of changes in net position reveals that:

In 2014, the District's operating revenues increased 9.93% or \$1,380,466 primarily due to a \$1,383,804 increase in water sales. In 2013, the District's operating revenues increased 14.84% or \$1,796,222 primarily due to a \$1,755,523 increase in water sales.

In 2014, the District's operating expenses increased 3.73% or \$536,144 primarily due to a \$1,258,920 increase in water funds expenses of \$1,258,920 and a decrease in the governmental activities fund expenses of \$722,806. In 2013, the District's operating expenses increased 9.01% or \$1,186,967 primarily due to a \$1,443,733 increase in source of supply expense (cost of water purchased) and a \$375,395 decrease in general and administrative expenses.

Capital Asset Administration

Changes in capital asset amounts for 2014 were as follows:

	<u>Balance</u>		<u>Transfers/</u>	<u>Balance</u>
	<u>2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>2014</u>
Capital assets:				
Non-depreciable assets	\$ 1,690,954	624,173	-	2,315,127
Depreciable assets	56,727,519	3,499,942	(50,475)	60,176,986
Accumulated depreciation	(26,075,082)	(1,495,386)	50,475	(27,519,993)
Total capital assets, net	<u>\$ 32,343,391</u>	<u>2,628,729</u>	<u>-</u>	<u>34,972,120</u>

Changes in capital asset amounts for 2013 were as follows:

	<u>Balance</u>		<u>Transfers/</u>	<u>Balance</u>
	<u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>2013</u>
Capital assets:				
Non-depreciable assets	\$ 4,743,014	3,619,063	(6,671,123)	1,690,954
Depreciable assets	50,995,864	6,709,866	(978,211)	56,727,519
Accumulated depreciation	(25,593,400)	(1,459,893)	978,211	(26,075,082)
Total capital assets, net	<u>\$ 30,145,478</u>	<u>8,869,036</u>	<u>(6,671,123)</u>	<u>32,343,391</u>

Rincon del Diablo Municipal Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Capital Asset Administration, continued

At the end of fiscal year 2014 and 2013, the District's investment in capital assets amounted to \$34,972,120 and \$32,343,391 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, buildings, equipment, vehicles and construction-in-process, etc. See note 4 for further information.

Debt Administration

Changes in long-term debt amounts for 2013 were as follows:

	Balance 2012	Additions	Transfers/ Deletions	Balance 2013
Long-term debt:				
Bonds payable	\$ 940,000	-	(940,000)	-
Deferred loss on refunding	(5,163)	-	5,163	-
Loan payable	1,447,867	-	(1,447,867)	-
Total long-term debt	\$ 2,382,704	-	(2,382,704)	-

All long-term debt has been paid-off as of June 30, 2013.

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net position or operating results based on past, present and future events.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Director of Administration and Finance at 1920 N. Iris Lane, Escondido, California, 92026 – or call (760) 745-5522.

Basic Financial Statements

Rincon del Diablo Municipal Water District
Statement of Net Position
June 30, 2014

<i>Assets</i>	Governmental Activities	Business-type Activities	Total
Current assets:			
Cash and investments (note 2)	\$ 1,333,620	15,326,994	16,660,614
Accrued interest receivable	24	4,373	4,397
Accounts receivable – water sales and services	-	2,365,800	2,365,800
Property taxes receivable	11,377	3,685	15,062
Accounts receivable – other	10,066	23,039	33,105
Prepaid expenses and other assets	-	63,589	63,589
Total current assets	<u>1,355,087</u>	<u>17,787,480</u>	<u>19,142,567</u>
Non-current assets:			
Other post-employment benefits asset (note 3)	-	112,570	112,570
Capital assets – not being depreciated (note 4)	-	2,315,127	2,315,127
Capital assets – being depreciated, net (note 4)	-	32,656,993	32,656,993
Total non-current assets	<u>-</u>	<u>35,084,690</u>	<u>35,084,690</u>
Total assets	<u>1,355,087</u>	<u>52,872,170</u>	<u>54,227,257</u>
<i>Liabilities and Net Position</i>			
Current liabilities:			
Accounts payable and accrued expenses	336,937	1,232,390	1,569,327
Accrued salaries and related payables	-	49,642	49,642
Customer deposits	-	762,657	762,657
Compensated absences (note 5)	-	143,054	143,054
Total liabilities	<u>336,937</u>	<u>2,187,743</u>	<u>2,524,680</u>
Net position			
Net investment in capital assets	-	34,972,120	34,972,120
Unrestricted (note 6)	1,018,150	15,712,307	16,730,457
Total net position	<u>\$ 1,018,150</u>	<u>50,684,427</u>	<u>51,702,577</u>

See accompanying notes to the basic financial statements

Rincon del Diablo Municipal Water District
Statement of Net Position
June 30, 2013

<i>Assets</i>	Governmental Activities	Business-type Activities	Total
Current assets:			
Cash and investments (note 2)	\$ 667,805	13,327,454	13,995,259
Accrued interest receivable	262	6,291	6,553
Accounts receivable – water sales and services	-	2,580,040	2,580,040
Property taxes receivable	8,914	2,690	11,604
Accounts receivable – other	1,094	54,714	55,808
Grants receivable	-	355,000	355,000
Prepaid expenses and other assets	137	71,753	71,890
Total current assets	<u>678,212</u>	<u>16,397,942</u>	<u>17,076,154</u>
Non-current assets:			
Other post-employment benefits asset (note 3)	-	156,433	156,433
Capital assets – not being depreciated (note 4)	-	1,690,954	1,690,954
Capital assets – being depreciated, net (note 4)	-	30,652,437	30,652,437
Total non-current assets	<u>-</u>	<u>32,499,824</u>	<u>32,499,824</u>
Total assets	<u>678,212</u>	<u>48,897,766</u>	<u>49,575,978</u>
<i>Liabilities and Net Position</i>			
Current liabilities:			
Accounts payable and accrued expenses	399,703	1,609,021	2,008,724
Accrued salaries and related payables	-	27,718	27,718
Customer deposits and deferred revenue	-	950,536	950,536
Compensated absences (note 5)	-	122,305	122,305
Total liabilities	<u>399,703</u>	<u>2,709,580</u>	<u>3,109,283</u>
Net position:			
Net investment in capital assets	-	32,343,391	32,343,391
Unrestricted (note 6)	278,509	13,844,795	14,123,304
Total net position	<u>\$ 278,509</u>	<u>46,188,186</u>	<u>46,466,695</u>

See accompanying notes to the basic financial statements

Rincon del Diablo Municipal Water District
Statement of Activities
For the Fiscal Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Business-type Activities	2014 Total
Governmental activities:						
Public safety – fire services	\$ 1,488,012	20,342	-	(1,467,670)	-	(1,467,670)
Total governmental	1,488,012	20,342	-	(1,467,670)	-	(1,467,670)
Business-type activities:						
Potable water service	14,502,503	14,686,198	3,464,475	-	3,648,170	3,648,170
Recycled water service	405,870	574,906	102,758	-	271,794	271,794
Total business-type	14,908,373	15,261,104	3,567,233	-	3,919,964	3,919,964
Total	\$ 16,396,385	15,281,446	3,567,233	(1,467,670)	3,919,964	2,452,294
General revenues:						
Property taxes – ad valorem	\$ 1,560,172			583,028		2,143,200
Redevelopment agency	-			15,180		15,180
Voter-approved tax	308,000			-		308,000
Rental income	-			129,336		129,336
Annexation fees	-			143,777		143,777
Investment earnings	517			43,578		44,095
Total general revenues				1,868,689	914,899	2,783,588
Transfers in(out) (note 7)				338,622	(338,622)	-
Change in net position				739,641	4,496,241	5,235,882
Net position, beginning of year				278,509	46,188,186	46,466,695
Net position, end of year	\$ 1,018,150			50,684,427	51,702,577	

See accompanying notes to the basic financial statements

Rincon del Diablo Municipal Water District
Statement of Activities
For the Fiscal Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>2013 Total</u>
Governmental activities:						
Public safety – fire services	\$ 2,210,818	38,759	-	(2,172,059)	-	(2,172,059)
Total governmental	2,210,818	38,759	-	(2,172,059)	-	(2,172,059)
Business-type activities:						
Potable water service	13,437,128	13,410,447	44,943	-	18,262	18,262
Recycled water service	308,982	451,774	117,740	-	260,532	260,532
Total business-type	13,746,110	13,862,221	162,683	-	278,794	278,794
Total	\$ 15,956,928	13,900,980	162,683	(2,172,059)	278,794	(1,893,265)
General revenues:						
Property taxes				\$ 1,509,802	564,144	2,073,946
Redevelopment agency				-	62,559	
Voter-approved tax				309,688	-	309,688
Rental income				-	138,918	138,918
Investment earnings				616	34,558	35,174
Total general revenues				1,820,106	800,179	2,557,726
Change in net position				(351,953)	1,078,973	664,461
Net position, beginning of year				630,462	45,109,213	45,739,675
Net position, end of year				\$ 278,509	46,188,186	46,404,136

See accompanying notes to the basic financial statements

**Rincon del Diablo Municipal Water District
Balance Sheet – Governmental Fund and Reconciliation of the
Balance Sheet to the Statement of Net Position
June 30, 2014**

	<u>Governmental Activities</u>
Assets:	
Cash and investments	\$ 1,333,620
Accrued interest receivable	24
Property taxes receivable	11,377
Accounts receivable – other	10,066
Prepaid expenses and other assets	<u>137</u>
Total assets	<u><u>1,355,224</u></u>
Liabilities:	
Accounts payable and accrued expenses	<u>336,937</u>
Total liabilities	<u>336,937</u>
Fund balance:	
Assigned for public safety	<u>1,018,287</u>
Total fund balance	<u>1,018,287</u>
Total liabilities and fund balance	\$ <u><u>1,355,224</u></u>
Reconciliation:	
Fund balance of governmental funds	\$ <u><u>1,018,287</u></u>
Net position of governmental activities	\$ <u><u>1,018,287</u></u>

See accompanying notes to the basic financial statements

Rincon del Diablo Municipal Water District
Balance Sheet – Governmental Fund and Reconciliation of the
Balance Sheet to the Statement of Net Position
June 30, 2013

	<u>Governmental Activities</u>
Assets:	
Cash and investments	\$ 667,805
Accrued interest receivable	262
Property taxes receivable	8,914
Accounts receivable – other	1,094
Prepaid expenses and other assets	<u>137</u>
Total assets	<u><u>678,212</u></u>
Liabilities:	
Accounts payable and accrued expenses	<u>399,703</u>
Total liabilities	<u>399,703</u>
Fund balance:	
Assigned for public safety	<u>278,509</u>
Total fund balance	<u>278,509</u>
Total liabilities and fund balance	\$ <u><u>678,212</u></u>
Reconciliation:	
Fund balance of governmental funds	\$ <u><u>278,509</u></u>
Net position of governmental activities	\$ <u><u>278,509</u></u>

See accompanying notes to the basic financial statements

Rincon del Diablo Municipal Water District
Statement of Revenues, Expenditures and Changes in Fund Balance and the
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities
For the Fiscal Year Ended June 30, 2014

	<u>Governmental Activities</u>
Revenues:	
Property taxes	\$ 1,560,172
Voter-approved tax	308,000
Charges for services	20,342
Investment earnings	517
Total revenues	<u>1,889,031</u>
Expenditures:	
Fire services operating services contract	1,429,204
General and administrative	58,808
Total expenditures	<u>1,488,012</u>
Transfers in(out)	<u>338,622</u>
Change in fund balance	<u>739,641</u>
Fund balance, beginning of year	<u>278,509</u>
Fund balance, end of year	<u>\$ 1,018,150</u>
Reconciliation:	
Net changes in fund balance of total governmental funds	\$ <u>739,641</u>
Change in net position of governmental activities	\$ <u>739,641</u>

See accompanying notes to the basic financial statements

Rincon del Diablo Municipal Water District
Statement of Revenues, Expenditures and Changes in Fund Balance and the
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities
For the Fiscal Year Ended June 30, 2013

	Governmental Activities
Revenues:	
Property taxes	\$ 1,509,802
Voter-approved tax	309,688
Charges for services	38,759
Investment earnings	616
Total revenues	1,858,865
Expenditures:	
Fire services operating services contract	2,151,474
General and administrative	59,344
Total expenditures	2,210,818
Change in fund balance	(351,953)
Fund balance, beginning of year	630,462
Fund balance, end of year	\$ 278,509
Reconciliation:	
Net changes in fund balance of total governmental funds	\$ <u>(351,953)</u>
Change in net position of governmental activities	\$ <u>(351,953)</u>

See accompanying notes to the basic financial statements

Rincon del Diablo Municipal Water District
Statement of Net Position – Enterprise Funds
June 30, 2014

<i>Assets</i>	Potable Water Fund	Recycled Water Fund	Total Business-type Activities
Current assets:			
Cash and investments	\$ 14,992,742	334,252	15,326,994
Accrued interest receivable	4,373	-	4,373
Accounts receivable – water sales and services	2,101,581	264,219	2,365,800
Property taxes receivable	3,685	-	3,685
Accounts receivable – other	23,039	-	23,039
Prepaid expenses and other assets	63,589	-	63,589
Total current assets	17,189,009	598,471	17,787,480
Non-current assets:			
Other post-employment benefits asset	112,570	-	112,570
Capital assets – not being depreciated	2,068,613	246,514	2,315,127
Capital assets – being depreciated, net	28,132,932	4,524,061	32,656,993
Total non-current assets	30,314,115	4,770,575	35,084,690
Total assets	47,503,124	5,369,046	52,872,170
<i>Liabilities and Net Position</i>			
Current liabilities:			
Accounts payable and accrued expenses	1,032,426	199,964	1,232,390
Accrued salaries and related payables	48,879	763	49,642
Customer deposits and deferred revenue	756,057	6,600	762,657
Compensated absences	143,054	-	143,054
Total liabilities	1,980,416	207,327	2,187,743
Net position:			
Net investment in capital assets	30,201,545	4,770,575	34,972,120
Unrestricted	15,321,163	391,144	15,712,307
Total net position	\$ 45,522,708	5,161,719	50,684,427

See accompanying notes to the basic financial statements

Rincon del Diablo Municipal Water District
Statement of Net Position – Enterprise Funds
June 30, 2013

<i>Assets</i>	Potable Water Fund	Recycled Water Fund	Total Business-type Activities
Current assets:			
Cash and investments	\$ 13,285,567	41,887	13,327,454
Accrued interest receivable	6,291	-	6,291
Accounts receivable – water sales and services	2,290,196	289,844	2,580,040
Property taxes receivable	2,690	-	2,690
Accounts receivable – other	54,714	-	54,714
Grants receivable	355,000	-	355,000
Prepaid expenses and other assets	71,753	-	71,753
Total current assets	16,066,211	331,731	16,397,942
Non-current assets:			
Other post-employment benefits asset	156,433	-	156,433
Capital assets – not being depreciated	1,480,071	210,883	1,690,954
Capital assets – being depreciated, net	26,270,356	4,382,081	30,652,437
Total non-current assets	27,906,860	4,592,964	32,499,824
Total assets	43,973,071	4,924,695	48,897,766
<i>Liabilities and Net Position</i>			
Current liabilities:			
Accounts payable and accrued expenses	1,355,524	253,497	1,609,021
Accrued salaries and related payables	22,887	4,831	27,718
Customer deposits and deferred revenue	936,436	14,100	950,536
Compensated absences	122,305	-	122,305
Total liabilities	2,437,152	272,428	2,709,580
Net position:			
Net investment in capital assets	27,750,427	4,592,964	32,343,391
Unrestricted	13,785,492	59,303	13,844,795
Total net position	\$ 41,535,919	4,652,267	46,188,186

See accompanying notes to the basic financial statements

Rincon del Diablo Municipal Water District
Statement of Revenues, Expenses and Changes in Net Position – Enterprise Funds
For the Fiscal Year Ended June 30, 2014

	Potable Water Fund	Recycled Water Fund	Total Business-type Activities
Operating revenues:			
Water consumption sales	\$ 10,589,531	488,766	11,078,297
Water service charges	3,806,253	60,100	3,866,353
Other charges and services	290,414	26,040	316,454
Total operating revenues	14,686,198	574,906	15,261,104
Operating expenses:			
Source of supply	9,402,569	222,190	9,624,759
Pumping and water treatment	73,220	10,537	83,757
Transmission and distribution	1,501,660	42,714	1,544,374
Customer service	216,603	-	216,603
General and administrative	1,917,599	25,895	1,943,494
Total operating expenses	13,111,651	301,336	13,412,987
Operating income before depreciation	1,574,547	273,570	1,848,117
Depreciation	(1,390,852)	(104,534)	(1,495,386)
Operating income	183,695	169,036	352,731
Non-operating revenues(expenses):			
Property taxes – ad valorem	583,028	-	583,028
Redevelopment agency – property tax increment	15,180	-	15,180
Rental income	129,336	-	129,336
Annexation fees	143,777	-	143,777
Investment earnings	43,578	-	43,578
Total non-operating revenues, net	914,899	-	914,899
Net gain before capital contributions	1,098,594	169,036	1,267,630
Capital contributions:			
Connection fees	70,602	-	70,602
Capacity charges	-	102,758	102,758
Capital contributions	3,393,873	-	3,393,873
Total capital contributions	3,464,475	102,758	3,567,233
Transfers in/(out) (note 7)	(576,280)	237,658	(338,622)
Change in net position	3,986,789	509,452	4,496,241
Net position, beginning of year	41,535,919	4,652,267	46,188,186
Net position, end of year	\$ 45,522,708	5,161,719	50,684,427

See accompanying notes to the basic financial statements

Rincon del Diablo Municipal Water District
Statement of Revenues, Expenses and Changes in Net Position – Enterprise Funds
For the Fiscal Year Ended June 30, 2013

	<u>Potable Water Fund</u>	<u>Recycled Water Fund</u>	<u>Total Business-type Activities</u>
Operating revenues:			
Water consumption sales	\$ 9,503,903	394,659	9,898,562
Water service charges	3,609,167	53,117	3,662,284
Other charges and services	297,377	3,998	301,375
Total operating revenues	<u>13,410,447</u>	<u>451,774</u>	<u>13,862,221</u>
Operating expenses:			
Source of supply	8,544,741	179,932	8,724,673
Pumping and water treatment	84,418	12,797	97,215
Transmission and distribution	1,371,761	16,038	1,387,799
Customer service	183,018	-	183,018
General and administrative	1,752,408	8,954	1,761,362
Total operating expenses	<u>11,936,346</u>	<u>217,721</u>	<u>12,154,067</u>
Operating income before depreciation	<u>1,474,101</u>	<u>234,053</u>	<u>1,708,154</u>
Depreciation	(1,368,632)	(91,261)	(1,459,893)
Operating income(loss)	<u>105,469</u>	<u>142,792</u>	<u>248,261</u>
Non-operating revenues(expenses):			
Property taxes	564,144	-	564,144
Redevelopment agency – property tax increment	62,559	-	62,559
Rental income	138,918	-	138,918
Investment earnings	34,558	-	34,558
Interest expense – long-term debt	(117,014)	-	(117,014)
Amortization of deferred charges and deferred loss	(12,412)	-	(12,412)
Debt administration charges	(2,724)	-	(2,724)
Total non-operating revenues, net	<u>668,029</u>	<u>-</u>	<u>668,029</u>
Net gain before capital contributions	<u>773,498</u>	<u>142,792</u>	<u>916,290</u>
Capital contributions:			
Connection fees	44,943	14,982	59,925
Capacity charges	-	102,758	102,758
Capital contributions	-	-	-
Total capital contributions	<u>44,943</u>	<u>117,740</u>	<u>162,683</u>
Transfers in/(out) (note 7)	<u>(475,000)</u>	<u>475,000</u>	<u>-</u>
Change in net position	<u>343,441</u>	<u>735,532</u>	<u>1,078,973</u>
Net position, beginning of year	41,192,478	3,916,735	45,109,213
Net position, end of year	<u>\$ 41,535,919</u>	<u>4,652,267</u>	<u>46,188,186</u>

See accompanying notes to the basic financial statements

Rincon del Diablo Municipal Water District
Statement of Cash Flows – Enterprise Funds
For the Fiscal Year Ended June 30, 2014

	Potable Water Fund	Recycled Water Fund	Total Business-type Activities
Cash flows from operating activities:			
Cash received from customers	\$ 15,081,109	593,031	15,674,140
Cash payments for source of supply	(9,402,569)	(222,190)	(9,624,759)
Cash payments for services and supplies	(2,483,612)	(126,361)	(2,609,973)
Cash payments to employees for salaries and wages	(1,449,801)	(10,386)	(1,460,187)
Net cash provided by operating activities	1,745,127	234,094	1,979,221
Cash flows from non-capital financing activities:			
Interfund balance transfers	(576,280)	237,658	(338,622)
Property taxes – ad valorem received	582,033	-	582,033
Redevelopment agency – property tax increment received	15,180	-	15,180
Net cash provided by non-capital financing activities	20,933	237,658	258,591
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(3,841,970)	(282,145)	(4,124,115)
Proceeds from capital contributions	3,464,475	102,758	3,567,233
Rental income received	129,336	-	129,336
Annexation fees received	143,777	-	143,777
Net cash used in capital and financing activities	(104,382)	(179,387)	(283,769)
Cash flows from investing activities:			
Investment earnings	45,497	-	45,497
Net cash provided by investing activities	45,497	-	45,497
Net decrease in cash and investments	1,707,175	292,365	1,999,540
Cash and investments, beginning of year	13,285,567	41,887	13,327,454
Cash and investments, end of year	\$ 14,992,742	334,252	15,326,994
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 183,695	169,036	352,731
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	1,390,852	104,534	1,495,386
Changes in assets and liabilities:			
(Increase)decrease in assets:			
Accounts receivable – water sales and services	188,615	25,625	214,240
Accounts receivable – other	31,675	-	31,675
Grant receivable	355,000	-	355,000
Prepaid expenses and other assets	8,164	-	8,164
Other post-employment benefits asset	43,863	-	43,863
Increase(decrease) in liabilities:			
Accounts payable and accrued expenses	(323,099)	(53,533)	(376,632)
Accrued salaries and related payables	25,992	(4,068)	21,924
Customer deposits and unearned revenue	(180,379)	(7,500)	(187,879)
Compensated absences	20,749	-	20,749
Total adjustments	1,561,432	65,058	1,626,490
Net cash provided by operating activities	\$ 1,745,127	234,094	1,979,221

See accompanying notes to the basic financial statements

Rincon del Diablo Municipal Water District
Statement of Cash Flows – Enterprise Funds
For the Fiscal Year Ended June 30, 2013

	Potable Water Fund	Recycled Water Fund	Total Business-type Activities
Cash flows from operating activities:			
Cash received from customers	\$ 13,218,079	433,928	13,652,007
Cash payments for source of supply	(8,544,741)	(179,932)	(8,724,673)
Cash payments for services and supplies	(3,040,433)	(50,034)	(3,090,467)
Cash payments to employees for salaries and wages	(1,239,644)	(7,521)	(1,247,165)
Net cash provided by operating activities	393,261	196,441	589,702
Cash flows from non-capital financing activities:			
Interfund balance transfers	(475,000)	475,000	-
Principal payments on pension-related debt	(682,572)	-	(682,572)
Property taxes received	627,896	-	627,896
Net cash provided(used) by non-capital financing activities	(529,676)	475,000	(54,676)
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(2,744,774)	(913,032)	(3,657,806)
Proceeds from capital contributions	44,943	117,740	162,683
Principal payments on long-term debt	(2,387,866)	-	(2,387,866)
Interest payments on long-term debt	(164,439)	-	(164,439)
Debt administration charges paid	(2,724)	-	(2,724)
Rental income received	138,918	-	138,918
Net cash used in capital and financing activities	(5,115,942)	(795,292)	(5,911,234)
Cash flows from investing activities:			
Investment earnings	41,483	-	41,483
Net cash provided by investing activities	41,483	-	41,483
Net decrease in cash and investments	(5,210,874)	(123,851)	(5,334,725)
Cash and investments, beginning of year	18,496,441	165,738	18,662,179
Cash and investments, end of year	13,285,567	41,887	13,327,454
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 105,469	142,792	248,261
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	1,368,632	91,261	1,459,893
Changes in assets and liabilities:			
(Increase)decrease in assets:			
Accounts receivable – water sales and services	(306,830)	(17,846)	(324,676)
Accounts receivable – other	(37,176)	-	(37,176)
Grant receivable	(355,000)	-	(355,000)
Prepaid expenses and other assets	(40,807)	-	(40,807)
Other post-employment benefits asset	(156,433)	-	(156,433)
Increase(decrease) in liabilities:			
Accounts payable and accrued expenses	(624,915)	(24,555)	(649,470)
Accrued salaries and related payables	(12,953)	4,789	(8,164)
Customer deposits and deferred revenue	506,638	-	506,638
Compensated absences	(53,364)	-	(53,364)
Total adjustments	287,792	53,649	341,441
Net cash provided by operating activities	\$ 393,261	196,441	589,702

See accompanying notes to the basic financial statements

Rincon del Diablo Municipal Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Rincon del Diablo Municipal Water District (District) was organized in 1954, under provisions of State of California Municipal Water District Act of 1911. The purpose of the District is to finance, construct, operate and maintain a water system to serve properties within the District's boundaries. The District services approximately 42 square miles located in northern of San Diego County. The District is governed by a Board of Directors made up of five members elected by the voters within the District.

In 1976, the Rincon del Diablo Fire Protection District (Fire District) was formed under the powers granted by the State of California Municipal Water District Act of 1911 and the State of California Fire Protection District Law of 1961. The Fire District, identified as Improvement District "E", was formed to provide a source of local fire protection for residents living outside the city limits of the City of Escondido (City). Concurrently, the City operated and maintained a fire department that provided fire protection, paramedic and rescue services within the City's boundaries. In an effort to eliminate duplication of services, and for the mutual benefit of both the City and the District, the City and the District entered into a Permanent Services Agreement (Agreement) on August 18, 1989, which provided for one fire department to be operated and managed by the City. Per the Agreement, possession, management, operation and control of all vehicles, machinery, tools, supplies, equipment and the fire station were transferred to the City in 1989, and actual ownership was transferred on July 1, 1999.

The Agreement further stipulated that the District would continue to collect revenues relating to the Fire District from various sources including, property taxes, charges for services and a \$72 voter-approved tax on each land parcel within Improvement District "E". Currently, these funds are assigned to the City (less applicable administrative costs) to cover the operational expenses of providing fire and rescue services. The Fire District is accounted for as a Governmental Activity Fund in the Governmental-wide financial statement presentation.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

The Rincon Public Facilities Corporation (Corporation), an entity legally separate from the District, is governed by substantially all the board members of the District. The Corporation is inactive at this time.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting for both governmental and business-like activities. Accordingly, all of the District's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the operating expenses of a given function are offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function.

Rincon del Diablo Municipal Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

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

B. Basis of Accounting and Measurement Focus, continued

Government-wide Financial Statements, continued

The types of transactions reported as operating revenues for the District are charges for services directly related to the operations of the District. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Taxes, operating grants and other items not properly included among operating revenues are reported instead as non-operating revenues. Contributed capital and capital grants are included as capital contributions.

Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Accompanying these statements is a schedule to reconcile and explain the differences in fund balances as presented in these statements to the net position presented in the Government-wide Financial Statements.

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the District are property tax, interest earnings, investment revenue, and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

The accrual basis of accounting is followed by the proprietary enterprise funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, such as, unbilled but utilized utility services are recorded at year end.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place. Operating revenues and expenses, such as water sales, wastewater service, solid waste collection and purchases of water, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories, such as interest income and interest expense, are reported as non-operating revenues and expenses.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts established for the purpose of carrying out specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Funds are organized into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operation fund of the District or meets the following criteria:

Rincon del Diablo Municipal Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

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

B. Basis of Accounting and Measurement Focus, continued

- a) Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or proprietary fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b) Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or proprietary fund are at least 5 percent of the corresponding total for all governmental and proprietary funds combined.
- c) The entity has determined that a fund is important to the financial statement user.

The funds of the financial reporting entity are described below:

Governmental Funds

Public Safety – This fund is used to account for all public safety (fire protection) collections within the District’s service area and to account for the Agreement with the City of Escondido for fire services.

Enterprise Funds

Potable Water – This fund accounts for the potable water transmission and distribution operations of the District.

Recycled Water – This fund accounts for the recycled water service operations of the District.

C. Financial Reporting

The District’s basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental and enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in certain governmental and business-type activities; accordingly, activities are reported in the District’s governmental and proprietary funds.

D. Assets, Liabilities and Net Position

1. Use of Estimates

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

2. Cash and Cash Equivalents

Substantially all of the District’s cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

3. Investments

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Rincon del Diablo Municipal Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

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

D. Assets, Liabilities and Net Position, continued

4. Accounts Receivable and Allowance for Uncollectible Accounts

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

5. Prepaid Expenses and Other Assets

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

6. Property Taxes and Assessments

The San Diego County Assessor's Office assesses all real and personal property within the County each year. The San Diego County Tax Collector's Offices bills and collects the District's share of property taxes and assessments. The San Diego County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property taxes receivable at year-end are related to property taxes collected by the San Diego County which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

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

7. Capital Assets

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

- Transmission and distribution system – 30 to 75 years
- Recycled water system – 30 to 75 years
- Structures and improvements – 10 to 30 years
- Vehicles and equipment – 5 to 10 years
- Machinery and equipment – 5 to 10 years
- Intangible assets – 2 to 5 years

8. Compensated Absences

Vested or accumulated vacation and sick leave is recorded as an expense and liability as benefits accrue to employees.

Rincon del Diablo Municipal Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

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

D. Assets, Liabilities and Net Position, continued

9. Net Position

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

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

10. Water Sales and Services

Water sales are billed on a monthly cyclical basis and recognize the respective revenues when they are earned.

11. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

12. Budgetary Policies

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

13. Comparative Data

Selected information regarding the prior year has been included in the accompanying financial statements. The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived.

Rincon del Diablo Municipal Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(2) Cash and Investments

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

	2014	2013
Deposits with financial institutions	\$ 2,103,705	1,029,346
Deposits in money-market mutual funds	-	989,700
Investments	14,556,909	11,976,213
Total cash and investments	\$ 16,660,614	13,995,259

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

The District is legally empowered by statute and resolution to invest in United States government sponsored entities, the California State Investment Pool – Local Agency Investment Fund (LAIF), the County of San Diego Investment Pool, The California Asset Management Program (CAMP), money-market mutual funds and time certificates-of-deposit issued by those financial institutions which are approved as depositories by the District’s Board of Directors.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District’s investment policy.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District’s investment in this pool is reported in the accompanying financial statements at amounts based upon the District’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District’s investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to \$250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District’s name.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District’s investment policy contains legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government’s indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Rincon del Diablo Municipal Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(2) Cash and Investments, continued

Interest Rate Risk

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

Investments at June 30, 2014, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25-60 months</u>
Local Agency Investment Fund (LAIF)	\$ 6,369,694	6,369,694	-	-
San Diego County Pooled Investment Fund	2,484,774	2,484,774	-	-
Government sponsored agency securities	1,978,810	-	-	1,978,810
Negotiable certificates-of-deposit	3,723,631	-	248,476	3,475,155
Total	\$ 14,556,909	8,854,468	248,476	5,453,965

Investments at June 30, 2013, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 months or less</u>	<u>13 to 24 months</u>	<u>25-60 months</u>
Local Agency Investment Fund (LAIF)	\$ 9,200,985	9,200,985	-	-
California Asset Management Program	895,693	895,693	-	-
Negotiable certificates-of-deposit	1,879,535	1,242,868	-	636,667
Total	\$ 11,976,213	11,339,546	-	636,667

Credit Risk

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

Credit ratings at June 30, 2014, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Ratings AAA</u>
Local Agency Investment Fund (LAIF)	\$ 6,369,694	N/A	6,369,694	-
San Diego County Pooled Investment Fund	2,484,774	N/A	2,484,774	-
Government sponsored agency securities	1,978,810	A-	-	-
Negotiable certificates-of-deposit	3,723,631	N/A	3,723,631	-
Total	\$ 14,556,909		12,578,099	-

Credit ratings at June 30, 2013, consisted of the following:

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Ratings AAA</u>
Local Agency Investment Fund (LAIF)	\$ 9,200,985	N/A	9,200,985	-
California Asset Management Program	895,693	N/A	895,693	-
Negotiable certificates-of-deposit	1,879,535	N/A	1,879,535	-
Total	\$ 11,976,213		11,976,213	-

Rincon del Diablo Municipal Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(2) Cash and Investments, continued

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for external investment pools) that represent 5% or more of total District's investments at June 30, 2014 and 2013, respectively.

(3) Other Post-Employment Benefits Asset

Plan Description – Benefits

The District offers post-employment medical and dental coverage benefits to retired employees who satisfy the eligibility rules (5-years of service and 50 years of age). Dependents are also eligible to receive benefits. Retirees may enroll in any plan available through the District's CalPERS medical program and ACWA dental coverage program. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

Funding Policy

The District is required to identify the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The District will pay 100% of the cost of the post-employment benefit plan, which is based on a full funding method. The District funds the plan on a pay-as-you-go basis and maintains reserves (by recording a liability) for the difference between the annual pay-as-you-go amount and the actuarially determined ARC cost.

For the year ended June 30, 2014, the District's ARC cost was \$218,862 and the District contributed \$53,508 to the irrevocable trust and paid \$165,354 in retiree benefits.

The balance at June 30, consists of the following:	2014	2013	2012
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 218,862	279,427	279,427
Interest on net OPEB obligation	-	-	-
Interest earnings on irrevocable trust balance	(104,475)	(52,828)	721
Adjustment to annual required contribution	148,338	(17,442)	9,877
Total annual OPEB expense	262,725	209,157	290,025
Contributions made:			
Contributions made to irrevocable trust	(53,508)	(147,480)	(147,480)
Retiree benefit payments paid outside of a trust	(165,354)	(218,110)	(142,545)
Total contributions made	(218,862)	(365,590)	(290,025)
Total change in net OPEB payable obligation	43,863	(156,433)	-
OPEB payable(asset) - beginning of year	(156,433)	-	-
OPEB payable(asset) - end of year	\$ (112,570)	(156,433)	-

Rincon del Diablo Municipal Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(3) Other Post-Employment Benefits Payable, continued

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2014 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Contributions Made to Trust	Retiree Benefit Payments	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable (Asset)
2014	\$ 262,725	53,508	165,354	83.30%	\$ (112,570)
2013	209,157	147,480	218,110	174.79%	\$ (156,433)
2012	290,025	147,480	142,545	100.00%	-

Funded Status and Funding Progress of the Plan

The most recent valuation (dated July 1, 2013) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$3,261,372. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2014 was \$1,327,622. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 202.47%.

See Page 39 for the Schedule of Funding Status.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

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

Valuation date	July 1, 2013
Actuarial cost method	Entry age normal cost method
Amortization method	Closed 30-year period
Remaining amortization period	27 Years as of the valuation date
Asset valuation method	15 Year smoothed market
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increase	3.00%
Inflation - discount rate	3.00%
Health care - trend rate	4.00%

Rincon del Diablo Municipal Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(4) Capital Assets

Major capital assets additions during the years include upgrades and extensions of the District's water transmission and distribution systems and recycled water systems in the following schedules:

Changes in capital assets for the year were as follows:

	<u>Balance 2013</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2014</u>
Non-depreciable assets:				
Land	\$ 656,151	-	-	656,151
Construction in progress	1,034,803	624,173	-	1,658,976
Total non-depreciable assets	<u>1,690,954</u>	<u>624,173</u>	<u>-</u>	<u>2,315,127</u>
Depreciable assets:				
Transmission and distribution system	49,734,352	3,409,657	-	53,144,009
Recycled water system	5,137,329	-	-	5,137,329
Structures and improvements	924,968	-	-	924,968
Vehicles and equipment	714,008	78,530	(50,475)	742,063
Machinery and equipment	216,862	11,755	-	228,617
Total depreciable assets	<u>56,727,519</u>	<u>3,499,942</u>	<u>(50,475)</u>	<u>60,176,986</u>
Accumulated depreciation:				
Transmission and distribution system	(23,816,319)	(1,298,535)	-	(25,114,854)
Recycled water system	(755,249)	(104,533)	-	(859,782)
Structures and improvements	(799,227)	(22,147)	-	(821,374)
Vehicles and equipment	(519,518)	(62,223)	50,475	(531,266)
Machinery and equipment	(184,769)	(7,948)	-	(192,717)
Total accumulated depreciation	<u>(26,075,082)</u>	<u>(1,495,386)</u>	<u>50,475</u>	<u>(27,519,993)</u>
Total depreciable assets, net	<u>30,652,437</u>	<u>2,004,556</u>	<u>-</u>	<u>32,656,993</u>
Total capital assets, net	<u>\$ 32,343,391</u>	<u>2,628,729</u>	<u>-</u>	<u>34,972,120</u>

Rincon del Diablo Municipal Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(4) Capital Assets, continued

Changes in capital assets for the year were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance 2013</u>
Non-depreciable assets:				
Land	\$ 656,151	-	-	656,151
Construction in progress	4,086,863	3,619,063	(6,671,123)	1,034,803
Total non-depreciable assets	<u>4,743,014</u>	<u>3,619,063</u>	<u>(6,671,123)</u>	<u>1,690,954</u>
Depreciable assets:				
Transmission and distribution system	44,220,284	5,728,644	(214,576)	49,734,352
Recycled water system	4,214,491	922,911	(73)	5,137,329
Structures and improvements	944,664	-	(19,696)	924,968
Vehicles and equipment	712,178	48,322	(46,492)	714,008
Machinery and equipment	353,508	9,989	(146,635)	216,862
Intangible assets	550,739	-	(550,739)	-
Total depreciable assets	<u>50,995,864</u>	<u>6,709,866</u>	<u>(978,211)</u>	<u>56,727,519</u>
Accumulated depreciation:				
Transmission and distribution system	(22,754,024)	(1,302,149)	239,854	(23,816,319)
Recycled water system	(661,998)	(91,261)	(1,990)	(755,249)
Structures and improvements	(956,265)	(23,156)	180,194	(799,227)
Vehicles and equipment	(479,450)	(38,912)	(1,156)	(519,518)
Machinery and equipment	(190,924)	(4,415)	10,570	(184,769)
Intangible assets	(550,739)	-	550,739	-
Total accumulated depreciation	<u>(25,593,400)</u>	<u>(1,459,893)</u>	<u>978,211</u>	<u>(26,075,082)</u>
Total depreciable assets, net	<u>25,402,464</u>	<u>5,249,973</u>	<u>-</u>	<u>30,652,437</u>
Total capital assets, net	<u>\$ 30,145,478</u>	<u>8,869,036</u>	<u>(6,671,123)</u>	<u>32,343,391</u>

Construction-In-Process

The District is involved in various construction projects throughout the year. Once completed, projects are capitalized and depreciated over the life of the asset.

Construction-in-process consisted of the following projects as of June 30th:

<u>Project Description</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Administrative facility refurbishment	\$ 1,496,928	168,111	221,204
Waterline projects	527,090	235,223	312,616
Automated meter intelligence system	1,499,588	-	257,122
Master plan and other studies	262,180	196,455	433,021
Groundwater exploration	265,201	272,982	272,981
Reservoir projects	-	162,032	162,032
Various other projects	35,876	-	-
Total construction-in-process	<u>\$ 4,086,863</u>	<u>1,034,803</u>	<u>1,658,976</u>

Rincon del Diablo Municipal Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(5) Compensated Absences

Changes to compensated absences for 2014, were as follows:

<u>Balance</u> <u>2013</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2014</u>
\$ 122,305	124,568	(103,819)	143,054

Changes to compensated absences for 2013, were as follows:

<u>Balance</u> <u>2012</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance</u> <u>2013</u>
\$ 175,669	138,255	(191,619)	122,305

(6) Net Position

Calculation of unrestricted net position as of June 30, was as follows:

	<u>2014</u>	<u>2013</u>
Non-spendable net position:		
Prepaid expenses and other assets	\$ 63,589	71,890
Other post-employment benefits asset	112,570	156,433
Total non-spendable net position	<u>176,159</u>	<u>228,323</u>
Spendable net position are designated as follows:		
Public safety – fire operations	1,018,150	278,509
Rate stabilization reserve	10,357,432	8,891,975
Capital replacement reserve	5,178,716	4,445,988
Total spendable net position	<u>16,554,298</u>	<u>13,616,472</u>
Total unrestricted net position	<u>\$ 16,730,457</u>	<u>13,844,795</u>

(7) Transfers between Funds

	<u>Governmental</u> <u>Activities</u>	<u>Potable Water</u> <u>Fund</u>	<u>2014</u> <u>Total</u>
Transfer to(from)	\$ 338,622	(338,622)	-

The potable water fund transferred \$338,622 to the governmental activities fund to cover operating expenses

	<u>Recycled Water</u> <u>Fund</u>	<u>Potable Water</u> <u>Fund</u>	<u>2014</u> <u>Total</u>
Transfer to(from)	\$ 237,658	(237,658)	-

The potable water fund transferred \$237,658 to the recycled water fund to cover operating expenses

	<u>Recycled Water</u> <u>Fund</u>	<u>Potable Water</u> <u>Fund</u>	<u>2013</u> <u>Total</u>
Transfer to(from)	\$ 475,000	(475,000)	-

The potable water fund transferred \$475,000 to the recycled water fund to cover operating expenses

Rincon del Diablo Municipal Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(8) Defined Benefit Pension Plan

Plan Description

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

Funding Policy – Miscellaneous Employees

The contribution rate for plan members in the CalPERS, 2.0% at 55 Risk Pool Retirement Plan is 7% of their annual covered salary and is paid by the District on the employee’s behalf. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2014, 2013, and 2012 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS.

California Public Employees Pension Reform Act of 2013

On September 12, 2013, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013.

Key components of the legislation are as follows:

- Establishes PEPRA which will apply to all public employers and public pension plans on and after January 1, 2013 (Except specific exemptions);
- Establishes new retirement tiers/benefits for new public employees;
- Prohibits certain cash payments from being counted as compensation; and
- Increases retirement age for all new public employees.

Second-Tier – Beginning January 1, 2013

The contribution rate for plan members in the CalPERS 2.0% at 62 Retirement Plan under PEPRA is 6.50% of their annual covered wages. The District contributes 6.50% of their annual covered wages to their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The employer contribution rate (6.70%) and member contribution rate (6.50%) is a combined rate of 13.20% which will be in effect until June 30, 2015.

For fiscal years 2014, 2013, and 2012, the District’s annual contributions for the CalPERS plan were equal to the District’s required and actual contributions for each fiscal year as follows:

Three Year Trend Information:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	APC Percentage of Payroll
2011-2012	\$ 351,609	100%	-	17.375%
2012-2013	235,582	100%	-	11.521%
2013-2014	260,589	100%	-	12.094%

See Page 38 for the Schedule of Funding Status.

Rincon del Diablo Municipal Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(8) Defined Benefit Pension Plan

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

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

Valuation date	June 30, 2013
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll, closed
Asset valuation method	Market Value
Actuarial assumptions:	
Discount rate	7.50% (net of administrative expenses)
Projected salary increase	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll growth	3.00%
Individual salary growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

Safety Employees Plan

The District has an inactive Safety Employees Plan with CalPERS due to the transfer of the District's fire operations to the City of Escondido on July 1, 1999. See Page 39 for the Schedule of Funding Status.

(9) Deferred Compensation Savings Plan

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors.

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

Rincon del Diablo Municipal Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(10) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2014, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$1,000,000, combined single limit at \$1,000,000 per occurrence. The JPIA purchases additional excess coverage layers: \$60 million per occurrence for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to \$100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage's.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$100 million per occurrence, subject to a \$2,500 deductible per occurrence.
- Boiler and machinery coverage for the replacement cost up to \$50 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law. The ACWA/JPIA is self-insured up to \$2.0 million and excess insurance coverage has been purchased.

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

Rincon del Diablo Municipal Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(11) Governmental Accounting Standards Board Statements

Newly Issued Accounting Pronouncements, But Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2014, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 68

In June 2013, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions— an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to District’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. The impact of the implementation of this Statement to District’s financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 71

In November 2013, the GASB issued Statement No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB Statement No. 68. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

Rincon del Diablo Municipal Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(12) Commitments and Contingencies

Economic Dependency

The District purchases virtually all of its water (source of supply) from the San Diego County Water Authority.

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water and wastewater facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and capital contributions.

Litigation

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

(13) Subsequent Events

Events occurring after June 30, 2014 have been evaluated for possible adjustment to the financial statements or disclosure as of October 31, 2014, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

Rincon del Diablo Municipal Water District
Schedule of Funding Status, *continued*
For the Fiscal Years Ended June 30, 2014 and 2013

(1) Defined Benefit Pension Plan – Miscellaneous Employees

Development of the Actuarial Value of Assets Calculation in a Risk Pool			
The District is part of the CalPERS Miscellaneous 2.0% at 55 yrs. Risk Pool	June 30, 2011	June 30, 2012	June 30, 2013
1. Plan's accrued liability	\$ 12,146,671	12,530,499	13,118,064
2. Plan's side fund	(728,963)	(682,572)	-
3. Pool's accrued liability	3,619,835,876	4,175,136,166	4,434,848,248
4. Pool's side fund	(115,840,552)	(132,335,224)	(108,339,918)
5. Pool's actuarial value of assets (AVA) including receivables	3,203,214,899	3,686,598,343	-
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	10,437,620	10,804,023	-
7. Pool's market value of assets (MVA) including receivables	2,867,303,802	3,120,110,130	-
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	9,343,060	9,143,861	10,660,998

Funding History

The Funding History below shows the actuarial accrued liability, the actuarial value of assets, the market value of assets, funded ratios and the annual covered payroll. The actuarial value of assets is used to establish funding requirements and the funded ratio on this basis represents the progress toward fully funding future benefits for current plan participants. The funded ratio based on the market value of assets is an indicator of the short-term solvency of the plan in the risk pool.

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Share of Pool's Market Value of Assets (MVA) (b)	Plan's Share of Pool's Unfunded Liability (a-b)	Funded Ratio MVA (b/a)	Annual Covered Payroll
June 30, 2011	\$ 12,146,671	9,343,060	2,803,611	76.92%	\$ 1,636,998
June 30, 2012	12,530,499	9,143,861	3,386,638	72.97%	1,320,166
June 30, 2013	13,118,064	10,660,998	2,457,066	81.27%	1,045,166

(2) Defined Benefit Pension Plan – Miscellaneous Employees – PEPRA Plan

Development of the Actuarial Value of Assets Calculation in a Risk Pool			
The District is part of the CalPERS PEPRA 2.0% at 62 yrs. Risk Pool	June 30, 2011	June 30, 2012	June 30, 2013
1. Plan's accrued liability	\$ -	-	5,330
2. Plan's side fund	-	-	-
3. Pool's accrued liability	-	-	1,063,294
4. Pool's side fund	-	-	-
5. Pool's actuarial value of assets (AVA) including receivables	-	-	-
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	-	-	-
7. Pool's market value of assets (MVA) including receivables	-	-	-
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	-	-	7,151

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Share of Pool's Market Value of Assets (MVA) (b)	Plan's Share of Pool's Unfunded Liability (Asset) (a-b)	Funded Ratio MVA (b/a)	Annual Covered Payroll
June 30, 2011	*	-	-	0.00%	\$ -
June 30, 2012	*	-	-	0.00%	-
June 30, 2013	\$ 5,330	7,151	(1,821)	134.17%	92,040

* This Plan did not begin until January 1, 2013, so no information prior to that date is available.

Rincon del Diablo Municipal Water District
Schedule of Funding Status, *continued*
For the Fiscal Years Ended June 30, 2014 and 2013

(3) Defined Benefit Pension Plan – Safety Employees

Development of the Actuarial Value of Assets Calculation in a Risk Pool			
The District is part of the CalPERS Safety 3.0% at 50 yrs. Risk Pool	June 30, 2011	June 30, 2012	June 30, 2013
1. Plan's accrued liability	\$ 904,401	918,376	1,137,707
2. Plan's side fund	314,301	333,109	352,177
3. Pool's accrued liability	677,648,972	839,968,292	852,436,337
4. Pool's side fund	(10,657,809)	(5,497,590)	(4,579,822)
5. Pool's actuarial value of assets (AVA) including receivables	608,911,358	743,174,027	-
6. Plan's actuarial value of assets (AVA) including receivables [(1+2) / (3+4) x 5]	1,112,581	1,114,564	-
7. Pool's market value of assets (MVA) including receivables	-	619,371,553	-
8. Plan's market value of assets (MVA) including receivables [(1+2) / (3+4) x 7]	985,379	928,893	1,143,687

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Share of Pool's Market Value of Assets (MVA) (b)	Plan's Share of Pool's Unfunded Liability(Asset) (a-b)	Funded Ratio MVA (b/a)	Annual Covered Payroll
June 30, 2011	\$ 904,401	985,379	(80,978)	108.95%	\$ -
June 30, 2012	918,376	928,893	(10,517)	101.15%	-
June 30, 2013	1,137,707	1,143,687	(5,980)	100.53%	-

(4) Other Post-Employment Benefits – Asset

Required Supplemental Information – Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2013	\$ 573,313	3,261,372	2,688,059	17.58%	\$ 1,327,622	202.47%
July 1, 2010	\$ 136,643	2,812,545	2,675,902	4.86%	\$ 1,382,418	193.57%
July 1, 2007	\$ -	2,852,145	2,852,145	0.00%	\$ 1,616,631	176.43%

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every two years, since the plan is being funded, or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2016 based on the year ending June 30, 2015.

Report on Internal Controls and Compliance



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
(562) 598-6565
FAX (714) 527-9154
EMAIL czfco@czfcpa.com
WEB www.czfcpa.com

Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Rincon del Diablo Municipal Water District
Escondido, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Rincon del Diablo Municipal Water District (District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Independent Auditor's Report on Internal Controls Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*, (continued)**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs - An Accountancy Corporation
Cypress, California
October 31, 2014