



**Rincon del Diablo Municipal Water District**

**Annual Financial Report**

**For the Fiscal Years Ended  
June 30, 2016 and 2015**

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Rincon del Diablo Municipal Water District as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. 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 assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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 governmental activities, the business-type activities, and each major fund of Rincon del Diablo Municipal Water District as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the California State Controller's Office and California regulations governing Special Districts.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Budgetary Comparison Schedules, Governmental Fund, Schedule of Funding Progress - Other Post Employment Benefit Plan, Schedules of Contributions - Defined Benefit Pension Plans, and Schedules of the Proportionate Share of the Net Pension Liability 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 management's discussion and analysis, Schedule of Funding Progress - Other Post Employment Benefit Plan, Schedules of Contributions - Defined Benefit Pension Plans, and Schedules of the Proportionate Share of the Net Pension Liability because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Budgetary Comparison Schedules, Governmental Fund has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules, Governmental Fund are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

## **Other Matters (Continued)**

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rincon del Diablo Municipal Water District's basic financial statements. The Schedule of Revenues and Expenses by Operating Department – Proprietary Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedules of Revenues and Expenses by Operating Department – Proprietary Funds is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues and Expenses by Operating Department – Proprietary Funds is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*White Nelson Dick Evans LLP*

Carlsbad, California

December 5, 2016

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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 year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section. Topics covered in this section include:

- Financial Statements Overview
- Financial Highlights
- Financial Analysis
- Capital Asset Administration
- Debt Administration
- Economic Factors

### **Financial Statements Overview**

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Change 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 Financial Statements include the following:

- 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.
- The Statement of Revenues, Expenses and Changes in Net Position accounts for all of the current year's revenue and expenses. 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 credit worthiness and positive fiscal operations.
- 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 Statements Overview (Continued)**

- The Notes to the Financial Statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by Generally Accepted Accounting Principles (GAAP) that are not otherwise visible in the financial statements. The notes immediately follow the 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 23 through 50.

**Financial Highlights**

Operating revenues did not cover operating expenses, resulting in an operating loss of \$251,049, after depreciation. This was mainly due to the financial impacts of conservation due to drought.

Highlights for Fiscal Year 2016 are as follows:

- The District's net position for the current fiscal year increased by \$2,089,198 or 4%.
- All revenues for the year totaled \$17,551,718, a decrease of \$1,565,955 or 8% over the prior year.
- Charges for services revenues for the year totaled \$13,244,825, a decrease of \$1,252,778 or 9% over the prior year.
- Expenses for the year totaled \$15,462,520, a decrease of \$639,084 or 4% over the prior year.
- Total assets at year-end were \$62,988,390, an increase of \$1,218,067 or 2% over the prior year.
- Total liabilities at year end were \$8,930,287, a decrease of \$619,510 over the prior year primarily as the result of application of Harmony Grove Village deposits.

**Financial Analysis**

The following statements contain a summary of financial information that was extracted from the basic financial statements to assist readers in evaluating the District's overall financial position and results of operations as described in this MD&A. Increases or decreases in these statements can be used as performance indicators to assess whether the District's overall financial positions has improved or deteriorated. At the same time, external factors, such as changes in economic conditions, growth, environmental factors, and legislative mandates should also be considered as part of this assessment.

**Financial Analysis (Continued)**

***Net Position***

Net Position is the difference between assets acquired, owned, and operated by the District and amounts owed (liabilities). In accordance with GAAP, capital assets acquired through purchase or construction by the District are recorded at historical cost. Capital assets contributed by developers are recorded at developers' construction cost. Net Position represents the District's net worth including, but not limited to, capital contributions received to date and all investment in capital assets since formation.

**Condensed Statements of Net Position**

	2016	2015 (as restated)	2014	Change
<b>ASSETS:</b>				
Current assets	\$ 26,119,284	\$ 26,400,584	\$ 19,142,567	\$ (281,300)
Noncurrent assets	-	-	112,570	-
Capital assets, net	<u>36,869,106</u>	<u>35,369,739</u>	<u>34,972,120</u>	<u>1,499,367</u>
Total Assets	<u>62,988,390</u>	<u>61,770,323</u>	<u>54,227,257</u>	<u>1,218,067</u>
DEFERRED OUTFLOWS OF RESOURCES:	<u>329,173</u>	<u>287,309</u>	<u>-</u>	<u>41,864</u>
<b>LIABILITIES:</b>				
Current liabilities	6,158,474	7,023,376	2,524,680	(864,902)
Noncurrent liabilities	<u>2,771,813</u>	<u>2,526,421</u>	<u>-</u>	<u>245,392</u>
Total liabilities	<u>8,930,287</u>	<u>9,549,797</u>	<u>2,524,680</u>	<u>(619,510)</u>
DEFERRED INFLOWS OF RESOURCES:	<u>823,125</u>	<u>1,032,882</u>	<u>-</u>	<u>(209,757)</u>
<b>NET POSITION:</b>				
Investment in capital assets	36,869,106	35,369,739	34,972,120	1,499,367
Unrestricted	<u>16,695,045</u>	<u>16,105,214</u>	<u>16,730,457</u>	<u>589,831</u>
Total Net Position	<u>\$ 53,564,151</u>	<u>\$ 51,474,953</u>	<u>\$ 51,702,577</u>	<u>\$ 2,089,198</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 \$53,564,151 and \$51,474,953 as of June 30, 2016 and 2015, respectively.

By far the largest portion of the District's net position (69% as of June 30, 2016 and 69% as of June 30, 2015) 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 2016 and 2015, the District showed a positive balance in its unrestricted net position of \$16,695,045 and \$16,105,214, respectively, which may be utilized in future years.

The increase in Total Net Position is primarily due to an increase in Capital Replacement Reserves as a result of project delays.

**Financial Analysis (Continued)**

***Changes in Net Position***

While the Statement of Net Position focuses on the District's financial position at June 30 of each year, the Statement of Revenues, Expenses, and Changes in Net Position summarizes the District's operations during the year. Revenues are recorded when water or services are provided, and expenses are recorded when incurred.

**Condensed Statement of Activities**

	2016	2015 (as restated)	2014	Change
<b>REVENUE:</b>				
Charges for services	\$ 13,244,825	\$ 14,497,603	\$ 15,281,446	\$ (1,252,778)
Operating grants and contributions	-	-	-	-
Capital grants and contributions	1,046,536	1,747,979	3,567,233	(701,443)
General revenues	3,260,357	2,872,091	2,783,588	388,266
Total Revenue	<u>17,551,718</u>	<u>19,117,673</u>	<u>21,632,267</u>	<u>(1,565,955)</u>
<b>EXPENSE:</b>				
Public Safety - fire services	1,979,113	1,938,629	1,488,012	40,484
Potable water service	13,167,106	13,790,806	14,502,503	(623,700)
Recycled water service	316,301	372,169	405,870	(55,868)
Total Expense	<u>15,462,520</u>	<u>16,101,604</u>	<u>16,396,385</u>	<u>(639,084)</u>
Change in Net Position	<u>2,089,198</u>	<u>3,016,069</u>	<u>5,235,882</u>	<u>(926,871)</u>
Net position at beginning of year, as previously stated	51,474,953	51,702,577	46,466,695	(227,624)
Prior Period Adjustment	<u>-</u>	<u>(3,243,693)</u>	<u>-</u>	<u>3,243,693</u>
Net position at beginning of year, as restated	<u>51,474,953</u>	<u>48,458,884</u>	<u>46,466,695</u>	<u>3,016,069</u>
Net position at end of year	<u>\$ 53,564,151</u>	<u>\$ 51,474,953</u>	<u>\$ 51,702,577</u>	<u>\$ 2,089,198</u>

The statement of activities shows how the District's net position changed during the fiscal years. In 2016, the District's change in net position increased by \$2,089,198 and \$3,016,069 for the fiscal years ended June 30, 2016 and 2015, respectively.

***Revenues***

A closer examination of the sources of changes in net position reveals that in 2016, the District's charges for services decreased by 9% or \$1,252,778 primarily due to a decrease in water sales.

***Expenses***

In 2016, the District's expenses decreased by 4% or \$639,084 primarily due to a \$623,700 decrease in potable water service expense.

**Financial Analysis (Continued)**

***Investments***

Balances in cash and investment accounts at year end were \$23,371,298, a decrease of \$694,527 or 3% from the prior year primarily due to a decrease in revenues. The District's portfolio consists primarily of securities with maturities spread over five years, helping to mitigate the effect of a decline in value or market risk. The District also invests with two pooled funds, the California Local Agency Investment Fund (LAIF) and the San Diego County Treasurer's Pooled Money Fund. The pools provide a flexible, liquid source of funds for the District's operating and capital expenses, and over the past several years have yielded interest earning comparable to that of securities. Yields on the portfolio as of June 30, 2016 were 1.26%.

**Capital Asset Administration**

The District's capital assets were financed through a combination of current revenues, available reserves from the capital funds and capacity and connection charges. The Construction in Progress (CIP) is being funded mainly using the pay-as-you-go method from cash collected from unrestricted funds such as service revenues, reserves and restricted funds such as grants and developers' fees. The District's CIP is expected to fluctuate from year to year depending on the construction cost of infrastructure projects that are currently under construction or are in the planning stages. The District's Water Master Plan Update was completed June 2014. The master plan is updated every five years and combines all facilities planning efforts within the District's enterprise areas of potable and recycled water.

Changes in capital asset amounts for 2016 were as follows:

	Balance 2015	Additions	Transfers/ Deletions	Balance 2016
Capital assets:				
Non-depreciable assets	\$ 1,949,795	\$ 2,904,592	\$ (362,150)	\$ 4,492,237
Depreciable assets	62,525,938	391,591	-	62,917,529
Accumulated depreciation	(29,105,994)	(1,434,666)	-	(30,540,660)
 Total capital assets, net	 <u>\$ 35,369,739</u>	 <u>\$ 1,861,517</u>	 <u>\$ (362,150)</u>	 <u>\$ 36,869,106</u>

At the end of fiscal year 2016 and 2015, the District's investment in capital assets amounted to \$36,869,106 and \$35,369,739 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, buildings, equipment, vehicles and construction-in-process, etc.

### **Debt Administration**

All long-term debt has been paid-off as of June 30, 2013. Based on recommendations from the 2015 Comprehensive Cost of Service and Rate Study and to help finance capital improvements while avoiding large variations in water rates, the District voted on November 8, 2016 to enter into agreements to obtain \$10 million in debt by June 30, 2017.

### **Economic Factors**

The San Diego County Water Authority (SDCWA) has adopted rate increases effective January 2017 that will raise the District's cost of imported water by approximately 8%. The District's planned rate increase through 2020 includes pass through of purchased water wholesale costs, which are expected to increase significantly as the SDCWA begins paying for desalinated seawater through its agreement with Poseidon. The Board's support for raising revenues by adopting pass through ordinance along with its revenue and debt management policy contributed to the District's financial stability especially in mitigating revenue and expense volatility in current economic conditions. The District continues to seek ways to improve business processes and employee productivity through investment in technology to achieve the lowest cost of service possible.

### **Contacting the District's Financial Management**

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, call (760) 745-5522, or send inquiries to our website at [www.rinconwater.org](http://www.rinconwater.org).

## **Basic Financial Statements**

**RINCON DEL DIABLO MUNICIPAL WATER DISTRICT**

## STATEMENT OF NET POSITION

June 30, 2016

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>ASSETS:</b>			
Current Assets:			
Cash and investments	\$ 1,196,682	\$ 22,174,616	\$ 23,371,298
Accrued interest receivable	-	60,832	60,832
Accounts receivable-water sales and services	-	2,207,733	2,207,733
Property taxes receivable	28,868	10,792	39,660
Accounts receivable-other	89	323,719	323,808
Prepaid expenses and other assets	454	115,499	115,953
Total Current Assets	<u>1,226,093</u>	<u>24,893,191</u>	<u>26,119,284</u>
Noncurrent Assets:			
Capital Assets:			
Not being depreciated	-	4,492,237	4,492,237
Capital assets, net of depreciation	-	32,376,869	32,376,869
Total Capital Assets	<u>-</u>	<u>36,869,106</u>	<u>36,869,106</u>
Total Noncurrent Assets	<u>-</u>	<u>36,869,106</u>	<u>36,869,106</u>
TOTAL ASSETS	<u>1,226,093</u>	<u>61,762,297</u>	<u>62,988,390</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred amount from Pension	<u>15,637</u>	<u>313,536</u>	<u>329,173</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>15,637</u>	<u>313,536</u>	<u>329,173</u>
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts payable and accrued liabilities	2,980	1,464,429	1,467,409
Accrued salaries and related payables	-	148,979	148,979
Customer and developer deposits	-	4,542,086	4,542,086
Total Current Liabilities	<u>2,980</u>	<u>6,155,494</u>	<u>6,158,474</u>
Noncurrent Liabilities:			
Compensated absences	-	162,625	162,625
Net Pension Liability / (Asset)	<u>(24,044)</u>	<u>2,633,232</u>	<u>2,609,188</u>
Total Noncurrent Liabilities	<u>(24,044)</u>	<u>2,795,857</u>	<u>2,771,813</u>
TOTAL LIABILITIES	<u>(21,064)</u>	<u>8,951,351</u>	<u>8,930,287</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred amount from Pension	<u>86,148</u>	<u>736,977</u>	<u>823,125</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>86,148</u>	<u>736,977</u>	<u>823,125</u>
<b>NET POSITION:</b>			
Investment in capital assets	-	36,869,106	36,869,106
Unrestricted	<u>1,176,646</u>	<u>15,518,399</u>	<u>16,695,045</u>
TOTAL NET POSITION	<u>\$ 1,176,646</u>	<u>\$ 52,387,505</u>	<u>\$ 53,564,151</u>

See accompanying independent auditors' report and notes to financial statements.

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# RINCON DEL DIABLO MUNICIPAL WATER DISTRICT

## STATEMENT OF NET POSITION

June 30, 2015

	Primary Government		Total
	Governmental Activities	(As Restated) Business-Type Activities	
<b>ASSETS:</b>			
Current Assets:			
Cash and investments	\$ 1,758,885	\$ 22,306,940	\$ 24,065,825
Accrued interest receivable	20	39,749	39,769
Accounts receivable-water sales and services	-	1,817,191	1,817,191
Property taxes receivable	9,936	3,545	13,481
Accounts receivable-other	10,882	380,765	391,647
Prepaid expenses and other assets	-	72,671	72,671
<b>Total Current Assets</b>	<b>1,779,723</b>	<b>24,620,861</b>	<b>26,400,584</b>
Noncurrent Assets:			
Capital Assets:			
Not being depreciated	-	1,949,795	1,949,795
Capital assets, net of depreciation	-	33,419,944	33,419,944
<b>Total Capital Assets</b>	<b>-</b>	<b>35,369,739</b>	<b>35,369,739</b>
<b>Total Noncurrent Assets</b>	<b>-</b>	<b>35,369,739</b>	<b>35,369,739</b>
<b>TOTAL ASSETS</b>	<b>1,779,723</b>	<b>59,990,600</b>	<b>61,770,323</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Deferred amount from Pension	24,324	262,985	287,309
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>24,324</b>	<b>262,985</b>	<b>287,309</b>
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts payable and accrued liabilities	692,652	1,134,408	1,827,060
Accrued salaries and related payables	-	55,327	55,327
Customer and developer deposits	-	5,140,989	5,140,989
<b>Total Current Liabilities</b>	<b>692,652</b>	<b>6,330,724</b>	<b>7,023,376</b>
Noncurrent Liabilities:			
Compensated absences	-	148,206	148,206
Net Pension Liability / (Asset)	(66,430)	2,444,645	2,378,215
<b>Total Noncurrent Liabilities</b>	<b>(66,430)</b>	<b>2,592,851</b>	<b>2,526,421</b>
<b>TOTAL LIABILITIES</b>	<b>626,222</b>	<b>8,923,575</b>	<b>9,549,797</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Deferred amount from Pension	91,435	941,447	1,032,882
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>91,435</b>	<b>941,447</b>	<b>1,032,882</b>
<b>NET POSITION:</b>			
Investment in capital assets	-	35,369,739	35,369,739
Unrestricted	1,086,390	15,018,824	16,105,214
<b>TOTAL NET POSITION</b>	<b>\$ 1,086,390</b>	<b>\$ 50,388,563</b>	<b>\$ 51,474,953</b>

**RINCON DEL DIABLO MUNICIPAL WATER DISTRICT**

STATEMENT OF ACTIVITIES  
For the year ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
Governmental Activities:				
Public safety- fire services	\$ 1,979,113	\$ 32,632	\$ -	\$ -
<b>Total governmental activities</b>	<u>1,979,113</u>	<u>32,632</u>	<u>-</u>	<u>-</u>
Business-Type Activities:				
Recycled water service	316,301	516,457	-	187,750
Potable water service	13,167,106	12,695,736	-	858,786
<b>Total business-type activities</b>	<u>13,483,407</u>	<u>13,212,193</u>	<u>-</u>	<u>1,046,536</u>
<b>Total primary government</b>	<u>\$ 15,462,520</u>	<u>\$ 13,244,825</u>	<u>\$ -</u>	<u>\$ 1,046,536</u>

GENERAL REVENUES:

Property taxes-ad valorem  
Redevelopment agency  
Voter-approved tax  
Rental income  
Investment earnings

Total General Revenues

CHANGES IN NET POSITION

NET POSITION - BEGINNING OF YEAR

NET POSITION - END OF YEAR

(Continued)

**RINCON DEL DIABLO MUNICIPAL WATER DISTRICT**

(Continued)

Net (Expense)/Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (1,946,481)	\$ -	\$ (1,946,481)
(1,946,481)	-	(1,946,481)
-	1,058,942	1,058,942
-	(283,620)	(283,620)
-	775,322	775,322
(1,946,481)	775,322	(1,171,159)
1,727,630	651,400	2,379,030
-	16,217	16,217
308,700	-	308,700
-	143,087	143,087
407	412,916	413,323
2,036,737	1,223,620	3,260,357
90,256	1,998,942	2,089,198
1,086,390	50,388,563	51,474,953
\$ 1,176,646	\$ 52,387,505	\$ 53,564,151

See accompanying independent auditors' report and notes to financial statements.

**RINCON DEL DIABLO MUNICIPAL WATER DISTRICT**

STATEMENT OF ACTIVITIES  
For the year ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	(As Restated) Capital Grants and Contributions
<b>Primary Government</b>				
Governmental Activities:				
Public safety- fire services	\$ 1,938,629	\$ 81,472	\$ -	\$ -
<b>Total governmental activities</b>	<u>1,938,629</u>	<u>81,472</u>	<u>-</u>	<u>-</u>
Business-Type Activities:				
Recycled water service	372,169	507,296	-	117,739
Potable water service	13,790,806	13,908,835	-	1,630,240
<b>Total business-type activities</b>	<u>14,162,975</u>	<u>14,416,131</u>	<u>-</u>	<u>1,747,979</u>
<b>Total primary government</b>	<u>\$ 16,101,604</u>	<u>\$ 14,497,603</u>	<u>\$ -</u>	<u>\$ 1,747,979</u>

GENERAL REVENUES:

Property taxes-ad valorem  
Redevelopment agency  
Voter-approved tax  
Rental income  
Investment earnings

Total General Revenues

CHANGES IN NET POSITION

NET POSITION - BEGINNING OF YEAR, AS ORIGINALLY STATED

PRIOR PERIOD ADJUSTMENT

NET POSITION BEGINNING OF YEAR, RESTATED

NET POSITION - END OF YEAR

(Continued)

**RINCON DEL DIABLO MUNICIPAL WATER DISTRICT**

(Continued)

<u>Net (Expense)/Revenue and</u> <u>Changes in Net Position</u> <u>Primary Government</u>		
<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ (1,857,157)	\$ -	\$ (1,857,157)
<u>(1,857,157)</u>	<u>-</u>	<u>(1,857,157)</u>
-	252,866	252,866
<u>-</u>	<u>1,748,269</u>	<u>1,748,269</u>
<u>-</u>	<u>2,001,135</u>	<u>2,001,135</u>
<u>(1,857,157)</u>	<u>2,001,135</u>	<u>143,978</u>
1,630,051	617,588	2,247,639
-	15,270	15,270
305,922	-	305,922
-	128,562	128,562
<u>680</u>	<u>174,018</u>	<u>174,698</u>
<u>1,936,653</u>	<u>935,438</u>	<u>2,872,091</u>
<u>79,496</u>	<u>2,936,573</u>	<u>3,016,069</u>
1,018,150	50,684,427	51,702,577
<u>(11,256)</u>	<u>(3,232,437)</u>	<u>(3,243,693)</u>
<u>1,006,894</u>	<u>47,451,990</u>	<u>48,458,884</u>
<u>\$ 1,086,390</u>	<u>\$ 50,388,563</u>	<u>\$ 51,474,953</u>

**RINCON DEL DIABLO MUNICIPAL WATER DISTRICT**

GOVERNMENTAL FUND BALANCE SHEETS AND  
RECONCILIATION OF THE BALANCE SHEETS OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF NET POSITION  
June 30, 2016 and 2015

	2016	2015
	Governmental Fund	Governmental Fund
<b>ASSETS:</b>		
Cash and investments	\$ 1,196,682	\$ 1,758,885
Accrued interest receivable	-	20
Property taxes receivable	28,868	9,936
Prepaid expenses and other assets	454	-
Accounts receivable-other	89	10,882
Total Assets	\$ 1,226,093	\$ 1,779,723
<b>LIABILITIES AND FUND BALANCE</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 2,980	\$ 692,652
Total Liabilities	2,980	692,652
<b>FUND BALANCE:</b>		
Assigned for public safety	1,223,113	1,087,071
Total Fund Balance	1,223,113	1,087,071
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,226,093	\$ 1,779,723
Amounts reported for governmental activities in the statement of net position are different because:		
Fund balance of governmental fund	\$ 1,223,113	\$ 1,087,071
The net pension asset is not collectible and receivable in the current period, and therefore, is not reported on the governmental fund balance sheet	24,044	66,430
Deferred Outflows and Inflows of Resources present sources and uses of funds that are not available in the current period and therefore are not reported on the governmental fund balance sheet.		
Deferred Outflows of Resources	15,637	24,324
Deferred Inflows of Resources	(86,148)	(91,435)
Net position of governmental activities	\$ 1,176,646	\$ 1,086,390

**RINCON DEL DIABLO MUNICIPAL WATER DISTRICT**

STATEMENTS OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS AND THE  
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
For the years ended June 30, 2016 and 2015

	2016	2015
	Governmental Fund	Governmental Fund
REVENUES:		
Property taxes	\$ 1,727,630	\$ 1,630,051
Voter-approved tax	308,700	305,922
Charges for services	32,632	81,472
Investment earnings	407	680
	2,069,369	2,018,125
EXPENDITURES:		
Fire services operating services contract	1,861,507	1,868,389
General and administrative	71,820	80,815
	1,933,327	1,949,204
NET CHANGES IN FUND BALANCE	136,042	68,921
FUND BALANCE, July 1,	1,087,071	1,018,150
FUND BALANCE, June 30,	\$ 1,223,113	\$ 1,087,071
Amounts reported for governmental activities in the statement of activities are different because:		
Net changes in fund balance of total governmental funds	\$ 136,042	\$ 68,921
Pension related expenses attributable to the implementation of GASB	(45,786)	10,575
Change in net position of governmental activities	\$ 90,256	\$ 79,496

**RINCON DEL DIABLO MUNICIPAL WATER DISTRICT**STATEMENTS OF NET POSITION  
PROPRIETARY FUNDS  
June 30, 2016 and 2015

	2016	(As Restated) 2015
<b>CURRENT ASSETS:</b>		
Cash and investments	\$ 22,174,616	\$ 22,306,940
Accrued interest receivable	60,832	39,749
Accounts receivable-water sales and services	2,207,733	1,817,191
Property taxes receivable	10,792	3,545
Accounts receivable-other	323,719	380,765
Prepaid expenses and other assets	115,499	72,671
<b>Total Current Assets</b>	<b>24,893,191</b>	<b>24,620,861</b>
<b>NONCURRENT ASSETS:</b>		
Capital assets-not being depreciated	4,492,237	1,949,795
Capital assets-net of depreciation	32,376,869	33,419,944
<b>Total Noncurrent Assets</b>	<b>36,869,106</b>	<b>35,369,739</b>
<b>Total Assets</b>	<b>61,762,297</b>	<b>59,990,600</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Deferred amount from Pension	313,536	262,985
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>313,536</b>	<b>262,985</b>
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities	1,464,429	1,134,408
Accrued salaries and related payables	148,979	55,327
Deposits and unearned revenue	4,542,086	5,140,989
Compensated absences	162,625	148,206
Net pension liability	2,633,232	2,444,645
<b>Total Liabilities</b>	<b>8,951,351</b>	<b>8,923,575</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Deferred amount from Pension	736,977	941,447
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>736,977</b>	<b>941,447</b>
<b>NET POSITION:</b>		
Investment in capital assets	36,869,106	35,369,739
Unrestricted	15,518,399	15,018,824
<b>Total Net Position</b>	<b>\$ 52,387,505</b>	<b>\$ 50,388,563</b>

**RINCON DEL DIABLO MUNICIPAL WATER DISTRICT**STATEMENTS OF REVENUES, EXPENSES AND  
CHANGE IN NET POSITION  
PROPRIETARY FUNDS  
For the years ended June 30, 2016 and 2015

	2016	(As Restated) 2015
<b>OPERATING REVENUES:</b>		
Water consumption sales	\$ 8,713,088	\$ 9,682,084
Water service charges	3,932,828	4,118,076
Other charges and services	566,277	615,971
Total Operating Revenues	13,212,193	14,416,131
<b>OPERATING EXPENSES:</b>		
Source of supply	7,728,264	8,548,909
Pumping and water treatment	87,937	93,790
Transmission and distribution	1,819,915	1,496,410
Customer service	149,828	124,844
General and administrative	2,242,632	2,202,667
Total Operating Expenses	12,028,576	12,466,620
Operating Income (Loss) Before Depreciation	1,183,617	1,949,511
Depreciation	(1,434,666)	(1,616,922)
Operating Income	(251,049)	332,589
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Property taxes- ad valorem	651,400	617,588
Redevelopment agency-property tax increment	16,217	15,270
Rental income	143,087	128,562
Investment earnings	412,916	174,018
Other nonoperating expenses	(20,164)	-
Abandonment of assets - expired plans and studies	-	(79,433)
Total Nonoperating Revenues, net	1,203,456	856,005
Income before capital contributions	952,407	1,188,594
<b>CAPITAL CONTRIBUTIONS:</b>		
Connection fees	521,066	589,956
Capacity charges	187,750	102,758
Capital contributions	337,719	1,055,265
Total Capital Contributions	1,046,535	1,747,979
Change In Net Position	1,998,942	2,936,573
Net position at beginning of year, as previously stated	50,388,563	50,684,427
Prior Period Adjustment	-	(3,232,437)
Net Position at beginning of year, as restated	50,388,563	47,451,990
Net position at end of year	\$ 52,387,505	\$ 50,388,563

*See accompanying independent auditors' report and notes to financial statements.*

**RINCON DEL DIABLO MUNICIPAL WATER DISTRICT**STATEMENTS OF CASH FLOWS  
PROPRIETARY FUNDS  
For the years ended June 30, 2016 and 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash receipts from customers	\$ 12,821,651	\$ 14,964,740
Cash payments for source of supply	(7,728,264)	(8,548,909)
Cash payments for services and supplies	(743,844)	(1,121,939)
Cash payments for wages, benefits and related costs	(3,140,000)	(2,930,170)
Net Cash Provided (Used) by Operating Activities	<u>1,209,543</u>	<u>2,363,722</u>
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Other non-operating expense	(20,164)	-
Property taxes-ad valorem received	644,153	617,728
Redevelopment agency-property tax increment received	16,217	15,270
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	<u>640,206</u>	<u>632,998</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(2,934,032)	(2,076,475)
Proceeds from capital contributions	417,039	5,833,185
Rental income received	143,087	73,271
Net Cash and Cash Equivalents Provided (Used) by Capital and Related Financing Activities	<u>(2,373,906)</u>	<u>3,829,981</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment earnings	391,833	153,245
Net Cash Provided (Used) by Investing Activities	<u>391,833</u>	<u>153,245</u>
Net Increase (Decrease) in Cash and Investments	(132,324)	6,979,946
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>22,306,940</u>	<u>15,326,994</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 22,174,616</u>	<u>\$ 22,306,940</u>
<b>Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities:</b>		
Operating income (loss)	\$ (251,049)	\$ 332,589
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	1,434,666	1,616,922
GASB 68 Adjustment to Pension Expense	(66,434)	(56,507)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable-water sales and services	(390,542)	548,609
(Increase) decrease in accounts receivable-other	87,639	18,337
(Increase) decrease in prepaid expenses and other assets	(42,828)	(9,082)
Increase (decrease) in accounts payable and accrued liabilities	330,021	(97,982)
Increase (decrease) in accrued salaries and related payables	93,652	5,685
Increase (decrease) in compensated absences	14,418	5,151
Total Adjustments	<u>1,460,592</u>	<u>2,031,133</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,209,543</u>	<u>\$ 2,363,722</u>

**June 30, 2016 and 2015**

**1. 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 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 Government-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.

**1. Summary of Significant Accounting Policies (Continued)**

**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 earned and expenses are recorded when 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.

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.

**1. Summary of Significant Accounting Policies (Continued)**

**b. Basis of Accounting and Measurement Focus (Continued)**

*Fund Financial Statements (Continued)*

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, 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:

- i. 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
- ii. 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.
- iii. 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***

Water Service – This fund is used to account for potable and recycled water service operations of the District, including transmission, storage, and distribution.

**1. Summary of Significant Accounting Policies (Continued)**

**c. New Accounting Pronouncements**

*Current Year Standards*

In fiscal year 2015-2016, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "*Fair Value Measurement and Application*". GASB Statement No. 72 requires the District to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that were used for the fair value measurements. There was no material impact on the District's financial statements as a result of the implementation of GASB Statement No. 72.

GASB Statement No. 76 - "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*," was required to be implemented in the current fiscal year and did not impact the District.

GASB Statement No. 79 - "*Certain External Investment Pools and Pool Participants*," was required to be implemented in the current fiscal year, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for periods beginning after December 15, 2015, and did not impact the District.

The District also early implemented GASB Statement No. 82 - "*Pension Issues - an Amendment of GASB Statement No. 67, No. 68 and No. 73*."

*Pending Accounting Standards*

GASB has issued the following statements which may impact the District's financial reporting requirements in the future.

- GASB 73 - "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*," effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*," effective for periods beginning after June 15, 2016.
- GASB 75 - "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*," effective for periods beginning after June 15, 2017.

**1. Summary of Significant Accounting Policies (Continued)**

**c. New Accounting Pronouncements (Continued)**

*Pending Accounting Standards (Continued)*

- GASB 77 - “*Tax Abatement Disclosure*”, effective for periods beginning after December 15, 2015.
- GASB 78 - “*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*”, effective for periods beginning after December 15, 2015.
- GASB 79 - “*Certain External Investment Pools and Pool Participants*”, the certain provisions on portfolio quality, custodial credit risk, and shadow pricing, is effective for periods beginning after December 15, 2015.
- GASB 80 - “*Blending Requirements for Certain Component Units*”, effective for periods beginning after June 15, 2016.
- GASB 81 - “*Irrevocable Split-Interest Agreements*”, effective for periods beginning after December 15, 2016.

**d. Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. The District has the following items that qualify for reporting in this category:

- Deferred outflows related to pension for employer contributions made after the measurement date of the net pension liability.
  - Deferred outflow related to pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans determined as of June 30, 2014 (the beginning of the measurement period ended June 30, 2015), which is 3.8 years.
  - Deferred outflow related to pensions for changes in proportion. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans determined as of June 30, 2014 (the beginning of the measurement period ended June 30, 2015), which is 3.8 years.
- In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category:

**1. Summary of Significant Accounting Policies (Continued)**

**d. Deferred Outflows/Inflows of Resources (Continued)**

- Deferred inflow related to pensions for changes in proportion and differences between employer contributions and proportionate share of contributions. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans determined as of June 30, 2014 (the beginning of the measurement period ended June 30, 2015), which is 3.8 years.
- Deferred inflows resulting from changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of June 30, 2014 (the beginning of the measurement period ended June 30, 2015), which is 3.8 years.
- Deferred inflow related to pensions resulting from the difference in projected and actual earnings on investments of the pension plan fiduciary net position. This amount is amortized over five years.

**e. 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.

**f. Assets, Liabilities and Net Position**

***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.

***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.

***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.

***Prepaid Expenses and Other Assets***

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

**1. Summary of Significant Accounting Policies (Continued)**

**f. Assets, Liabilities and Net Position (Continued)**

***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

***Compensated Absences***

Vested or accumulated vacation and sick leave is recorded as an expense and liability as benefits accrue to employees. Changes to compensated absences for 2016 were as follows:

Balance 2015	Earned	Taken	Balance 2016
\$ 148,206	\$ 195,300	\$ (180,881)	\$ 162,625

***Net Position***

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

- Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes or borrowing that are attributable to the acquisition of the asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.
- Restricted Net Position – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of net position that does not meet the definition of “investment in capital assets” or “restricted net position”.

**1. Summary of Significant Accounting Policies (Continued)**

**g. Property Taxes and Assessments**

Property taxes in California are levied in accordance with Article XIII A of the State Constitution at 1% of countywide assessed valuations. This levy is allocated pursuant to state law to the appropriate units of local government. Additional levies require two-thirds approval by the voters and are allocated directly to the specific government. Taxes and assessments are recognized as revenue based on amounts reported to the District by the San Diego County Tax Collector's Offices. The San Diego County Tax Collector's Offices acts as a collection agent for the property taxes which are normally collected twice a year.

The property tax calendar is as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Dates:	First Installment - November 1 Second Installment - February 1
Delinquent Dates:	First Installment - December 10 Second Installment - April 10

**h. Water Sales and Services**

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

**i. 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.

**j. Pensions**

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

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

Valuation Date:	June 30, 2014
Measurement Date:	June 30, 2015
Measurement Period:	July 1, 2014 to June 30, 2015

**k. 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.

**1. Summary of Significant Accounting Policies (Continued)**

**1. Use of Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**2. Cash, Cash Equivalents and Investments**

Cash and investments at June 30, 2016 and 2015 are classified in the accompanying financial statements as follows:

	2016	2015
Statement of Net Position:		
Current Assets:		
Cash and cash equivalents	\$ 3,401,633	\$ 3,173,924
Investments	19,969,665	20,891,901
Total cash and investments	\$ 23,371,298	\$ 24,065,825

Cash and investments consist of the following:

Cash on hand	\$ 1,717	\$ 1,404
Deposits with financial institutions	3,399,916	3,172,520
Investments	19,969,665	20,891,901
Total cash and investments	\$ 23,371,298	\$ 24,065,825

***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.

**2. Cash, Cash Equivalents and Investments (Continued)**

***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. As of June 30, 2016 and 2015, \$3,522,517 and \$3,095,356, respectively, of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

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).

***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 at June 30, 2016:

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Local Agency Investment Fund (LAIF)	\$ 6,509,662	\$ 6,509,662	\$ -	\$ -	\$ -
San Diego County Pooled Investment Fund	3,024,910	3,024,910	-	-	-
Government sponsored agency securities	7,995,317	-	-	7,995,317	-
Negotiable certificates of deposit	2,439,776	-	151,157	2,288,619	-
<b>Total</b>	<b>\$ 19,969,665</b>	<b>\$ 9,534,572</b>	<b>\$ 151,157</b>	<b>\$ 10,283,936</b>	<b>\$ -</b>

**2. Cash, Cash Equivalents and Investments (Continued)**

***Interest Rate Risk (Continued)***

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 at June 30, 2015:

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Local Agency Investment Fund (LAIF)	\$ 6,984,451	\$ 6,984,451	\$ -	\$ -	\$ -
California Asset Management Program	3,003,946	3,003,946	-	-	-
Government sponsored agency securities	6,786,715	-	-	6,786,715	-
Negotiable certificates of deposit	4,116,789	-	-	4,116,789	-
<b>Total</b>	<b>\$ 20,891,901</b>	<b>\$ 9,988,397</b>	<b>\$ -</b>	<b>\$ 10,903,504</b>	<b>\$ -</b>

***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 Moody's rating for each investment type at June 30, 2016.

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End			
				AAA	AA	A	Not Rated
Local Agency Investment Fund (LAIF)	\$ 6,509,662	N/A	\$ -	\$ -	\$ -	\$ -	\$ 6,509,662
San Diego County Pooled Investment Fund	3,024,910	N/A	-	3,024,910	-	-	-
Government sponsored agency securities	7,995,317	A-	-	5,414,292	-	-	2,581,025
Negotiable certificates of deposit	2,439,776	N/A	-	-	-	-	2,439,776
<b>Total</b>	<b>\$ 19,969,665</b>		<b>\$ -</b>	<b>\$ 8,439,202</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,530,463</b>

**2. Cash, Cash Equivalents and Investments (Continued)**

***Credit Risk (Continued)***

Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the Moody's rating for each investment type at June 30, 2015.

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End			
				AAA	AA	A	Not Rated
Local Agency Investment Fund (LAIF)	\$ 6,984,451	N/A	\$ -	\$ -	\$ -	\$ -	\$ 6,984,451
California Asset Management Program	3,003,946	N/A	-	3,003,946	-	-	-
Government sponsored agency securities	6,786,715	A-	-	6,786,715	-	-	-
Negotiable certificates of deposit	4,116,789	N/A	-	-	-	-	4,116,789.00
<b>Total</b>	<b>\$ 20,891,901</b>		<b>\$ -</b>	<b>\$ 9,790,661</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,101,240</b>

***Concentration of Credit Risk***

The investment policy of the District is in accordance with limitations on the amount that can be invested in any one issuer as stipulated by the California Government Code. Investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments at June 30, 2016 and 2015 is as follows:

Issuer	Investment Type	Reported Amount	
		2016	2015
Federal Home Loan Banks	U.S. Gov't Sponsored Entities	\$ 3,163,542	\$ 2,086,438
Federal National Mortgage Association	U.S. Gov't Sponsored Entities	\$ 2,250,750	\$ 2,232,249
Federal Agricultural Mortgage Corp	U.S. Gov't Sponsored Entities	\$ 2,581,025	-
Federal Home Loan Mortgage Corp	U.S. Gov't Sponsored Entities	\$ -	\$ 2,468,028

**2. Cash, Cash Equivalents and Investments (Continued)**

*Fair Value Measurements*

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

The asset's or liability's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The determination of what constitutes observable requires judgment by the District's management. District management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market.

The categorization of an investment or liability within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to District management's perceived risk of that investment or liability.

The following is a description of the recurring valuation methods and assumptions used by the District to estimate the fair value of its investments. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**2. Cash, Cash Equivalents and Investments (Continued)**

*Fair Value Measurements (Continued)*

When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy. When quoted prices in active markets are not available, fair values are based on evaluated prices received by District management.

The District has no investments categorized in Level 3 at June 30, 2016. When valuing Level 3 securities, the inputs or methodology are not necessarily an indication of the risks associated with investing in those securities. Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy.

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	June 30, 2016
<b>Investments by Fair Value Level</b>				
U.S. Government Sponsored				
Entity Securities:				
FHLB	\$ -	\$ 3,163,542	\$ -	\$ 3,163,542
FNMA	-	2,250,750	-	2,250,750
FAMC	-	2,581,025	-	2,581,025
Total Investments by Fair Value Level	<u>\$ -</u>	<u>\$ 7,995,317</u>	<u>\$ -</u>	<u>7,995,317</u>
<b>Investments measured at Cost or Net Asset Value</b>				
Local Agency Investment Fund				6,509,662
San Diego County Pooled Investment Fund				3,024,910
Negotiable Certificates of Deposit				<u>2,439,776</u>
Total Investments at Cost or Net Asset Value				<u>11,974,348</u>
Total Investments				<u>\$ 19,969,665</u>

**3. Capital Assets**

Major capital asset additions for the year ended June 30, 2016 include upgrades and extensions to the District's water transmission and distribution systems in the following schedule:

	Balance June 30, 2015	Additions	Disposals/ Transfers	Balance June 30, 2016
Capital assets, nondepreciable				
Land	\$ 656,151	\$ -	\$ -	\$ 656,151
Construction in progress	1,293,644	2,904,592	(362,150)	3,836,086
Total capital assets, nondepreciable	<u>1,949,795</u>	<u>2,904,592</u>	<u>(362,150)</u>	<u>4,492,237</u>
Capital assets, depreciable				
Transmission and distribution system	54,177,254	362,150	-	54,539,404
Recycled water system	5,995,104	-	-	5,995,104
Structures and improvements	1,352,387	-	-	1,352,387
Vehicles and equipment	772,576	29,441	-	802,017
Machinery and equipment	228,617	-	-	228,617
Total capital assets, depreciable	<u>62,525,938</u>	<u>391,591</u>	<u>-</u>	<u>62,917,529</u>
Accumulated Depreciation				
Transmission and distribution system	(26,526,342)	(1,104,228)	-	(27,630,570)
Recycled water system	(964,316)	(102,557)	-	(1,066,873)
Structures and improvements	(843,521)	(168,666)	-	(1,012,187)
Vehicles and equipment	(567,994)	(54,088)	-	(622,082)
Machinery and equipment	(203,821)	(5,127)	-	(208,948)
Total accumulated depreciation	<u>(29,105,994)</u>	<u>(1,434,666)</u>	<u>-</u>	<u>(30,540,660)</u>
Total depreciable assets, net	<u>33,419,944</u>	<u>(1,043,075)</u>	<u>-</u>	<u>32,376,869</u>
Total capital assets	<u>\$ 35,369,739</u>	<u>\$ 1,861,517</u>	<u>\$ (362,150)</u>	<u>\$ 36,869,106</u>

**3. Capital Assets (Continued)**

Major capital asset additions for the year ended June 30, 2015 include upgrades and extensions to the District's water transmission and distribution systems and recycle water systems in the following schedule:

	As Restated Balance June 30, 2014	Additions	Disposals/ Transfers	Balance June 30, 2015
Capital assets, nondepreciable				
Land	\$ 656,151	\$ -	\$ -	\$ 656,151
Construction in progress	1,676,473	1,257,864	(1,640,693)	1,293,644
Total capital assets, nondepreciable	<u>2,332,624</u>	<u>1,257,864</u>	<u>(1,640,693)</u>	<u>1,949,795</u>
Capital assets, depreciable				
Transmission and distribution system	53,144,009	1,033,245	-	54,177,254
Recycled water system	5,137,329	857,775	-	5,995,104
Structures and improvements	924,968	427,419	-	1,352,387
Vehicles and equipment	742,063	61,433	(30,920)	772,576
Machinery and equipment	228,617	-	-	228,617
Total capital assets, depreciable	<u>60,176,986</u>	<u>2,379,872</u>	<u>(30,920)</u>	<u>62,525,938</u>
Accumulated Depreciation				
Transmission and distribution system	(25,114,854)	(1,411,488)	-	(26,526,342)
Recycled water system	(859,782)	(104,534)	-	(964,316)
Structures and improvements	(821,374)	(22,147)	-	(843,521)
Vehicles and equipment	(531,266)	(67,648)	30,920	(567,994)
Machinery and equipment	(192,717)	(11,104)	-	(203,821)
Total accumulated depreciation	<u>(27,519,993)</u>	<u>(1,616,921)</u>	<u>30,920</u>	<u>(29,105,994)</u>
Total depreciable assets, net	<u>32,656,993</u>	<u>762,951</u>	<u>-</u>	<u>33,419,944</u>
Total capital assets	<u>\$ 34,989,617</u>	<u>\$ 2,020,815</u>	<u>\$ (1,640,693)</u>	<u>\$ 35,369,739</u>

***Construction-In-Progress***

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

Project Description	2016	2015
Administration facility refurbishment	\$ 336,224	\$ 41,555
Waterline projects	2,346,721	296,048
Automated meter intelligence system	729,806	544,438
Groundwater exploration	272,982	272,982
Reservoir projects	150,353	138,621
Total Construction in progress	<u>\$3,836,086</u>	<u>\$1,293,644</u>

**4. Other Post-Employment Benefits**

***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, 2016, the District’s ARC cost was \$207,139 and the District contributed \$55,946 to the irrevocable trust and paid \$151,193 in retiree benefits.

The balance at June 30, consists of the following:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 207,139	\$ 225,428	\$ 218,862
Interest on net OPEB obligation	-	-	-
Adjustment to annual required contribution	-	-	-
Total annual OPEB expense	<u>207,139</u>	<u>225,428</u>	<u>218,862</u>
Contributions made:			
Contributions made to irrevocable trust	(55,946)	(55,871)	(53,508)
Retiree benefit payments paid outside of the trust	<u>(151,193)</u>	<u>(169,557)</u>	<u>(165,354)</u>
Total contributions made	<u>(207,139)</u>	<u>(225,428)</u>	<u>(218,862)</u>
Total change in net OPEB payable obligation	<u>-</u>	<u>-</u>	<u>-</u>
OPEB payable (asset) - July 1	<u>-</u>	<u>-</u>	<u>-</u>
OPEB payable (asset) - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**4. Other Post-Employment Benefits (Continued)**

***Funding Policy (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 2015 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligations			
Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable/(Asset)
2016	\$ 207,139	100%	\$ -
2015	\$ 225,428	100%	\$ -
2014	\$ 218,862	100%	\$ -

***Funded Status and Funding Progress of the Plan***

The most recent valuation (dated July 1, 2015) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$3,052,640. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2016 was \$1,484,877. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 205.58%.

***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.

Valuation Date	July 1, 2015
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Closed 30-Year Period
Average Remaining Period	25 Years as of the Valuation Date
Asset Valuation Method	5 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.00%
Projected Salary Increases	2.75%
Inflation - Discount Rate	2.75%
Health Care Trend Rate	4.00%

**5. Pension Plans**

**a. General Information about the Pension Plans**

***Plan Descriptions***

All qualified permanent and probationary employees are eligible to participate in the District’s 2.0% at 55 (Miscellaneous Plan), and 2.0% at 62 (PEPRA Miscellaneous Plan) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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.

***Benefits Provided***

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Classic members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The Plans’ provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Classic Miscellaneous Plan	PEPRA Miscellaneous Plan	Safety Plan
Hire date	Prior to January 1, 2013	On or After January 1, 2013	Prior to January 1, 2013
Benefit formula	2.0% at 55	2.0% at 62	2.0% at 55
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 63	52-67	50 - 55
Monthly benefits, as a % of eligible compensation	1.4% to 2.4%	1.0% to 2.5%	2.0% to 2.7%
Required employee contribution rates	7%	6.75%	7%
Required employer contribution rates	9.829%	6.953%	0%

**5. Pension Plans (Continued)**

**a. General Information about the Pension Plans (Continued)**

***Contributions***

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

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

As of June 30, 2016 and 2015, the District reported net pension (Asset)/liabilities for its proportionate shares of the net pension (Asset)/liabilities as follows:

	<u>2016</u>	<u>2015</u>
<b>Governmental Activities</b>		
Safety Plan	\$ (24,044)	\$ (66,430)
<b>Business-Type Activities</b>		
Classic & PEPRA Miscellaneous Plan	\$ 2,633,232	\$ 2,444,645
Total Net Pension Liability	<u>\$ 2,609,188</u>	<u>\$ 2,378,215</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

**5. Pension Plans (Continued)**

**b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

The District's proportionate share of the net pension liability for each Plan as of June 30, 2014 and 2015 was as follows:

	Class & PEPRA Miscellaneous Plan	Safety Plan
Proportion - June 30, 2014	0.0989%	-0.0018%
Proportion - June 30, 2015	0.0960%	-0.0006%
Change - increase (decrease)	-0.0029%	0.0012%

For the year ended June 30, 2016 and 2015, the District recognized pension expense of \$45,784 and \$(10,575), respectively, related to its Governmental Activities and \$223,923 and \$119,367, respectively, related to its business-type activities.

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<b>Governmental Activities</b>		
Pension contributions subsequent to measurement date	\$ -	\$ -
Differences between actual and expected experience	-	-
Change in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	15,637	(86,148)
Net differences between projected and actual earnings on plan investments	-	-
Total	<u>\$ 15,637</u>	<u>\$ (86,148)</u>

**5. Pension Plans (Continued)**

**b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

	Deferred Outflows of Resources	Deferred Inflows of Resources
<b>Business-Type Activities</b>		
Pension contributions subsequent to measurement date	\$ 246,264	\$ -
Differences between actual and expected experience	11,272	-
Change in assumptions	-	(106,646)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	56,000	(576,868)
Net differences between projected and actual earnings on plan investments	-	(53,463)
<b>Total</b>	<b>\$ 313,536</b>	<b>\$ (736,977)</b>

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<b>Governmental Activities</b>		
Pension contributions subsequent to measurement date	\$ -	\$ -
Differences between actual and expected experience	-	-
Change in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	24,324	-
Net differences between projected and actual earnings on plan investments	-	(91,435)
<b>Total</b>	<b>\$ 24,324</b>	<b>\$ (91,435)</b>

**5. Pension Plans (Continued)**

**b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>                    </u>	<u>                    </u>
<b>Business-Type Activities</b>		
Pension contributions subsequent to measurement date	\$ 175,874	\$ -
Differences between actual and expected experience	-	-
Change in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	87,111	(119,933)
Net differences between projected and actual earnings on plan investments	-	(821,514)
Total	<u>\$ 262,985</u>	<u>\$ (941,447)</u>

The \$246,264 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Governmental Activities Amount	Business-Type Activities Amount
	<u>                    </u>	<u>                    </u>
2017	\$ (22,080)	\$ (237,639)
2018	(23,817)	(235,294)
2019	(24,614)	(183,406)
2020	-	(13,366)
2021	-	-

**5. Pension Plans (Continued)**

**b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

*Actuarial Assumptions*

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	Classic & PEPR <u>Miscellaneous Plan</u>	<u>Safety Plan</u>
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	(1)	(1)
Investment Rate of Return	7.5% (2)	7.5% (2)
Mortality	(3)	(3)

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) The probabilities of mortality are derived using CalPERS' membership data for all funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

**5. Pension Plans (Continued)**

**b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

*Change of Assumptions*

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the Plans, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

**5. Pension Plans (Continued)**

**b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)**

*Discount Rate (Continued)*

Asset Class	Strategic Allocation	Years 1 - 10 (a)	Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

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

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

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

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

	Classic & PEPRA Miscellaneous Plan	Safety Plan
1% Decrease	6.65%	6.65%
Net Pension (Asset)/ Liability	\$ 4,509,512	\$ 147,343
Current Discount Rate	7.65%	7.65%
Net Pension (Asset)/ Liability	\$ 2,633,232	\$ (24,044)
1% Increase	8.65%	8.65%
Net Pension (Asset)/ Liability	\$ 1,084,145	\$ (164,579)

***Pension Plan Fiduciary Net Position***

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

**c. Payable to the Pension Plan**

At June 30, 2016 and 2015, the District had no outstanding amount of contributions to the pension plan required for the years ended June 30, 2016 and 2015.

## **6. 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.

## **7. 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, 2016, 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 \$2,000,000, combined single limit at \$2,000,000 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 \$150 million per occurrence, subject to a \$2,500 deductible per occurrence.
- 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.

**7. Risk Management (Continued)**

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, 2016. 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, 2016, 2015 and 2014, respectively.

**8. 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. Unfulfilled commitments under open contracts was \$522,945 as of June 30, 2016.

***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.

**9. Subsequent Events**

On November 8, 2016 the Board of Directors voted to enter into agreements to obtain \$10,000,000 in debt financing during fiscal year 2016-2017 to help finance capital improvements. On August 25, 2015, the District Board of Directors voted to exercise latent powers and become a wastewater service agency. Should this action be approved by the San Diego Local Agency Formation Commission, associated revenues and expenses, as well as assets associated with the treatment plant, collection system, and pump station, will be added to the District.

**10. Restatement of 2015 Balances and Fiscal Year 2016 Beginning Net Position**

***Accounts Receivable-Other and Unearned Revenue***

The restatement of the accounts receivable-other and unearned revenue is due to the District not recognizing grant revenue earned as it incurred expenses on the Northwest Recycled Water Line Extension Project under the Proposition 84 Implementation Round I and II grant agreement in the prior fiscal year. The restatement resulted in an increase to accounts receivable-other by \$293,126 and a decrease to unearned revenue of \$10,339, for a total increase to net position for business-type activities of \$303,465 as of July 1, 2015.

## **Required Supplementary Information**

BUDGETARY COMPARISON SCHEDULE, GOVERNMENTAL FUND  
 For the year ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, JULY 1	\$ 1,087,071	\$ 1,087,071	\$ 1,087,071	\$ -
RESOURCES (INFLOWS):				
Property taxes	1,622,581	1,622,581	1,727,630	105,049
Voter-approved tax	308,000	308,000	308,700	700
Charges for services	21,157	21,157	32,632	11,475
Investment Earnings	539	539	407	(132)
Amount Available For Appropriations	1,952,277	1,952,277	2,069,369	117,092
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Fire services operating services contract	1,861,509	1,861,509	1,861,507	2
General and administrative	82,607	82,607	71,820	10,787
Total Charges to Appropriations	1,944,116	1,944,116	1,933,327	10,789
NET CHANGE IN FUND BALANCE	8,161	8,161	136,042	127,881
FUND BALANCE, JUNE 30	\$ 1,095,232	\$ 1,095,232	\$ 1,223,113	\$ 127,881

BUDGETARY COMPARISON SCHEDULE, GOVERNMENTAL FUND  
 For the year ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, JULY 1	\$ 1,018,150	\$ 1,018,150	\$ 1,018,150	\$ -
RESOURCES (INFLOWS):				
Property taxes	1,444,000	1,444,000	1,630,051	186,051
Voter-approved tax	315,000	315,000	305,922	(9,078)
Charges for services	31,000	31,000	81,472	50,472
Investment Earnings	2,250	2,250	680	(1,570)
Amount Available For Appropriations	1,792,250	1,792,250	2,018,125	225,875
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Fire services operating services contract	1,675,719	1,675,719	1,868,389	(192,670)
General and administrative	95,281	95,281	80,815	14,466
Total Charges to Appropriations	1,771,000	1,771,000	1,949,204	(178,204)
NET CHANGE IN FUND BALANCE	21,250	21,250	68,921	47,671
FUND BALANCE, JUNE 30	\$ 1,039,400	\$ 1,039,400	\$ 1,087,071	\$ 47,671

Schedule of Funding Progress for OPEB

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 )
6/30/2015	\$ 773,834	\$ 3,052,640	\$ 2,278,806	25.35%	\$ 1,484,877	153.47%
6/30/2013	\$ 573,313	\$ 3,261,372	\$ 2,688,059	17.58%	\$ 1,327,622	202.47%
6/30/2010	\$ 136,643	\$ 2,812,545	\$ 2,675,902	4.86%	\$ 1,382,418	193.57%



Proportionate Share of the Net Pension Liability  
 For the Last Ten Fiscal Years\*

	<u>2016</u>	<u>2015</u>
<b>Classic &amp; PEPRA Miscellaneous Plan</b>		
Plan's Proportion of the Net Pension Liability	0.03836%	0.03927%
Plan's Proportionate Share of the Net Pension Liability	\$ 2,633,232	\$ 2,444,645
Plan's Covered-Employee Payroll	\$ 1,327,622	\$ 1,171,322
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	198.34%	208.71%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	80.89%	83.03%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 385,481	\$ 323,287
<b>Safety Plan</b>		
Plan's Proportion of the Net Pension Liability/(Asset)	(0.00035%)	(0.00107%)
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$ (24,044)	\$ (66,430)
Plan's Covered-Employee Payroll	N/A	N/A
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	N/A	N/A
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	101.92%	105.27%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 43,345	\$ 37,567

**Notes to Schedule:**

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

The discount rate was changed from 7.5% (net of administrative expense) to 7.65%.

\* Fiscal year 2015 was the 1st year of implementation, therefore only two years are shown.

## **Supplementary Information**

SCHEDULE OF REVENUES AND EXPENSES BY OPERATING DEPARTMENT  
PROPRIETARY FUNDS  
For the year ended June 30, 2016

	<u>Potable Water</u>	<u>Recycled Water</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>			
Water consumption sales	\$ 8,291,672	\$ 421,416	\$ 8,713,088
Water service charges	3,870,872	61,956	3,932,828
Other charges and services	533,193	33,084	566,277
<b>Total Operating Revenues</b>	<b>12,695,737</b>	<b>516,456</b>	<b>13,212,193</b>
<b>OPERATING EXPENSES:</b>			
Source of supply	7,569,729	158,535	7,728,264
Pumping and water treatment	79,225	8,712	87,937
Transmission and distribution	1,778,785	41,130	1,819,915
Customer service	149,828	-	149,828
General and administrative	2,223,288	19,344	2,242,632
<b>Total Operating Expenses</b>	<b>11,800,855</b>	<b>227,721</b>	<b>12,028,576</b>
<b>OPERATING INCOME (LOSS) BEFORE DEPRECIATION</b>	<b>894,882</b>	<b>288,735</b>	<b>1,183,617</b>
Depreciation	(1,347,102)	(87,564)	(1,434,666)
<b>Operating Income</b>	<b>(452,220)</b>	<b>201,171</b>	<b>(251,049)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Property taxes-ad valorem	651,400	-	651,400
Redevelopment agency-property tax increment	16,217	-	16,217
Rental income	143,087	-	143,087
Investment earnings	412,916	-	412,916
Other nonoperating expenses	(19,149)	(1,015)	(20,164)
<b>Total Nonoperating Revenues, net</b>	<b>1,204,471</b>	<b>(1,015)</b>	<b>1,203,456</b>
<b>Income before capital contributions</b>	<b>752,251</b>	<b>200,156</b>	<b>952,407</b>
<b>CAPITAL CONTRIBUTIONS</b>			
Connection fees	521,066	-	521,066
Capacity charges	-	187,750	187,750
Capital contributions	337,719	-	337,719
<b>Total Capital Contributions</b>	<b>858,785</b>	<b>187,750</b>	<b>1,046,535</b>
<b>Change In Net Position</b>	<b>\$ 1,611,036</b>	<b>\$ 387,906</b>	<b>\$ 1,998,942</b>

NOTES

- (a) General and administrative costs are allocated to Potable Water and Recycled Water operations based on a budgeted annual percentage. For fiscal year June 30, 2016, general and administrative costs were allocated as follows: 99% to Potable Water operations and 1% to Recycled Water operations. Allocation is analyzed annually as part of the budget process.

SCHEDULE OF REVENUES AND EXPENSES BY OPERATING DEPARTMENT  
PROPRIETARY FUNDS  
For the year ended June 30, 2015

	(As Restated)		
	Potable Water	Recycled Water	Total
<b>OPERATING REVENUES:</b>			
Water consumption sales	\$ 9,241,968	\$ 440,116	\$ 9,682,084
Water service charges	4,055,938	62,138	4,118,076
Other charges and services	610,929	5,042	615,971
<b>Total Operating Revenues</b>	<b>13,908,835</b>	<b>507,296</b>	<b>14,416,131</b>
<b>OPERATING EXPENSES:</b>			
Source of supply	8,360,908	188,001	8,548,909
Pumping and water treatment	82,845	10,945	93,790
Transmission and distribution	1,461,146	35,264	1,496,410
Customer service	123,783	1,061	124,844
General and administrative	2,170,304	32,363	2,202,667
<b>Total Operating Expenses</b>	<b>12,198,986</b>	<b>267,634</b>	<b>12,466,620</b>
<b>OPERATING INCOME (LOSS) BEFORE DEPRECIATION</b>	<b>1,709,849</b>	<b>239,662</b>	<b>1,949,511</b>
Depreciation	(1,512,388)	(104,534)	(1,616,922)
<b>Operating Income</b>	<b>197,461</b>	<b>135,128</b>	<b>332,589</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Property taxes-ad valorem	617,588	-	617,588
Redevelopment agency-property tax increment	15,270	-	15,270
Rental income	128,562	-	128,562
Investment earnings	174,018	-	174,018
Abandonment of Assets	(79,433)	-	(79,433)
<b>Total Nonoperating Revenues, net</b>	<b>856,005</b>	<b>-</b>	<b>856,005</b>
<b>Income before capital contributions</b>	<b>1,053,466</b>	<b>135,128</b>	<b>1,188,594</b>
<b>CAPITAL CONTRIBUTIONS</b>			
Connection fees	574,975	14,981	589,956
Capacity charges	-	102,758	102,758
Capital contributions	1,055,265	-	1,055,265
<b>Total Capital Contributions</b>	<b>1,630,240</b>	<b>117,739</b>	<b>1,747,979</b>
<b>Change In Net Position</b>	<b>\$ 2,683,706</b>	<b>\$ 252,867</b>	<b>\$ 2,936,573</b>

NOTES

- (a) General and administrative costs are allocated to Potable Water and Recycled Water operations based on a budgeted annual percentage. For fiscal year June 30, 2015, general and administrative costs were allocated as follows: 98% to Potable Water operations and 2% to Recycled Water operations. Allocation is analyzed annually as part of the budget process.