Rincon del Diablo Municipal Water District

Annual Financial Report

For the Fiscal Year Ended
June 30, 2018

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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 year ended June 30, 2018, 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 audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Offices located in Orange and San Diego Counties

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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the basic financial statements, the District adopted Governmental Accounting Standards Board's Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*." The adoption of this standard required retrospective application resulting in a $1,798,825 reduction of previously reported net position. As discussed in Note 10 to the basic financial statements, the District also recorded a prior period adjustment resulting in a $2,305,544 reduction of previously reported net position. Our opinion is not modified with respect to these matters.

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

The Budgetary Comparison Schedule, 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 Schedule, Governmental Fund is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

White Nelson Diehl Evans LLP

Carlsbad, California
November 7, 2018

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, 2018. 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 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.

- 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 21 through 50.

Financial Highlights

Condensed highlights for Fiscal Year 2018, which consolidate both Governmental (Fire) and Business (Water) activities, are as follows:

- The District's net position for the current fiscal year increased by $1,530,673 or 3%, compared to the unadjusted Fiscal Year 2017 net position.
- A prior period adjustment of ($4,104,369) was recorded to address the implementation of GASB 75 and to correct the recognition of revenue related to meter installations during Fiscal Year 2017. This prior period adjustment resulted in the restating of Fiscal Year 2018 beginning of year net position, as reflected in the Condensed Statement of Activities.
- All revenues for the year totaled $23,750,110, an increase of $2,397,557 or 11% over unadjusted prior year revenues.
- Revenues from charges for services during the year totaled $17,790,663, an increase of $2,853,844 or 19% over unadjusted prior year revenues.
- All expenses for the year totaled $18,115,068, an increase of $1,139,795 or 7% over unadjusted prior year expenses.
- Total assets at year-end were $79,433,153, an increase of $4,850,375 or 7% over unadjusted prior year assets.
- Total liabilities at year end were $20,831,220, a decrease of $3,946,494 or 23% over unadjusted prior year liabilities.

- Business (Water) Only: Operating revenues covered operating expenses, resulting in business-related operating income of $2,065,569, after depreciation.

The Fiscal Year 2018 financial statements and accompanying notes reflect the implementation of GASB 75 and new regulations for reporting of Other Post-Employment Benefits (OPEB).

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 position 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

	2018	2017 (unadjusted)	Change ($)	Change (%)
ASSETS:				
Current assets	$ 40,957,108	$ 37,782,532	$ 3,174,576	8%
Noncurrent assets	38,476,045	36,800,246	1,675,799	5%
Total assets	79,433,153	74,582,778	4,850,375	7%
DEFERRED OUTFLOWS OF RESOURCES:	1,445,065	883,874	561,191	63%
LIABILITIES:				
Current liabilities	6,076,708	3,928,991	2,147,717	55%
Noncurrent liablities	14,754,512	12,955,735	1,798,777	14%
Total liabilities	20,831,220	16,884,726	3,946,494	23%
DEFERRED INFLOWS OF RESOURCES:	574,894	640,495	(65,601)	-10%
NET POSITION:				
Net investment in capital assets	35,539,689	36,074,771	(535,082)	-1%
Restricted for capital projects	990,730	725,475	265,255	37%
Unrestricted	22,941,685	21,141,185	1,800,500	9%
Total Net Position	$ 59,472,104	$ 57,941,431	$ 1,530,673	3%

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 $59,472,104 and $57,941,431 as of June 30, 2018 and 2017 (unadjusted), respectively.

Total assets increased due to growth in cash and investments, as well as a rise in capital assets from higher levels of construction in progress. Total liabilities increased due to the implementation of GASB 75 and the addition of Net OPEB Liability, as well as increases in payables due to increased capital activity and increased customer and developer deposits on file. The adjustment of deferred outflows and inflows is related to GASB related calculations for pension and OPEB.

The District's net investment in capital assets (net of accumulated depreciation) comprises 60% of total net position. The District uses 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 2018 and 2017 (unadjusted), the District showed a positive balance in its unrestricted net position of $22,941,685 and $21,141,185 respectively, which may be utilized in future years. The increase in Total Net Position is primarily due to increases in potable water sales and associated revenues, as well as growth in capital assets.

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

REVENUE:	2018	2017 (unadjusted)	Change ($)	Change (%)
Charges for services	$ 17,790,663	$ 14,936,819	$ 2,853,844	19%
Capital grants and contributions	2,964,398	3,314,726	(350,328)	-11%
General revenues	2,995,049	3,101,008	(105,959)	-3%
Total Revenue	23,750,110	21,352,553	2,397,557	11%
EXPENSE:				
Public Safety - fire services	2,219,414	2,097,780	121,634	6%
Potable water service	15,392,897	14,569,398	823,499	6%
Recycled water service	502,757	308,095	194,662	63%
Total Expense	18,115,068	16,975,273	1,139,795	7%
Change in Net Position	5,635,042	4,377,280	1,257,762	29%
Net position at beginning of year, as previously stated	57,941,431	53,564,151	4,377,280	8%
Prior Period Adjustment	(4,104,369)	-	(4,104,369)	N/A
Net position at beginning of year, as restated	53,837,062	53,564,151	272,911	1%
Net position at end of year	$ 59,472,104	$ 57,941,431	$ 1,530,673	3%

The statement of activities shows how the District's net position changed during the fiscal year. The District's net position increased by $1,530,673 for the fiscal year ended June 30, 2018, compared to unadjusted numbers as of June 30, 2017.

Revenues

In 2018, the District's charges for services increased by 19% or $2,853,844, primarily due to an increase in water sales and scheduled water rate increases. Revenue from capital grants and contributions decreased by 11% or $350,328 primarily due to year-to-year fluctuations in meter installations and connection fees from new development in the District.

Expenses

In 2018, the District's expenses increased by 7% or $1,139,795 primarily as a result of increased potable water purchases in order to meet higher customer demand during the year, as well as increased water costs.

Financial Analysis (Continued)

Current Year Net

In 2018, revenues exceeded expenses by $5,635,042, however this was partially offset by a prior period adjustment, to be discussed.

Prior Period Adjustment

A prior period adjustment of ($4,104,369) was recorded, which restated the FY 2018 beginning of year net position. The prior period adjustment was recorded in order to address two items. First an adjustment of ($1,798,825) was recorded related to the implementation of GASB 75 and new regulations for reporting of Other Post-Employment Benefits (OPEB). The second adjustment of ($2,305,544) was recorded to correct the recognition of revenue related to meter installations during that year.

Investments

Balances in restricted and non-restricted cash and investment accounts at year end were $38,068,197, an increase of $2,926,137 or 8.3% from the prior year primarily due to an increase in cash from customer receipts and the acceptance of developer-related capital contributions during the year. The District's portfolio consists primarily of certificates and 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 three pooled funds, the California Local Agency Investment Fund (LAIF), the California Asset Management Program (CAMP), and the San Diego County Treasurer's Investment 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 the certificates and securities. Average yield on the portfolio as of June 30, 2018 was 2.13%.

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. Historically, the Capital Improvement Program (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. Future CIP projects will be partially funded through the proceeds of debt issued in November 2016. 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 in 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.

Financial Analysis (Continued)

Changes in capital asset amounts for 2018 were as follows:

	Balance 06/30/2017	Additions	Transfers/ Deletions	Balance 06/30/2018
Capital assets:				
Non-depreciable assets	$ 3,843,582	$ 3,089,847	$ (873,782)	$ 6,059,647
Depreciable assets	64,908,191	873,782	-	65,781,973
Accumulated depreciation	(31,951,527)	(1,414,048)	-	(33,365,575)
Total capital assets, net	$ 36,800,246	$ 2,549,581	$ (873,782)	$ 38,476,045

At the end of fiscal year 2017 and 2018, the District's investment in capital assets amounted to $36,800,246 and $38,476,045 (net of accumulated depreciation), respectively. The net increase in assets for 2018 is due to a high level of capital project activity during the year. This investment in capital assets includes land, transmission and distribution systems, buildings, equipment, vehicles and construction-in-process, etc.

Debt Administration

Based on recommendations from the 2015 Comprehensive Cost of Service and Rate Study to help finance capital improvements while avoiding large variations in water rates, the District obtained $10,068,250 in debt on November 16, 2016. The debt service payment is based upon a 15-year loan with an interest rate of 2.28%. The debt also requires a minimum "debt coverage" ration of 1.20, which the District has consistently achieved.

Economic Factors

The San Diego County Water Authority (SDCWA) adjusts their wholesale commodity rates and fixed charges each January. Wholesale water purchase costs are the largest category of District expenses. The District's planned rate increase through 2020 includes a pass through of wholesale water costs, which have historically increased over time. The Board's support for raising revenues by adopting a pass-through ordinance, along with its revenue and debt management policy, contribute to the District's financial stability especially in mitigating revenue and expense volatility in current economic and water supply 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.

Basic Financial Statements

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STATEMENT OF NET POSITION
June 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	$ 1,338,781	$ 10,379,933	$ 11,718,714
Investments	-	19,096,960	19,096,960
Accrued interest receivable	-	123,946	123,946
Accounts receivable-water sales and services	-	2,573,153	2,573,153
Property taxes receivable	22,051	8,656	30,707
Accounts receivable-other	16,141	79,048	95,189
Prepaid expenses and other assets	429	65,487	65,916
Restricted cash and cash equivalents	-	7,252,523	7,252,523
Total Current Assets	1,377,402	39,579,706	40,957,108
Noncurrent Assets:			
Capital Assets:			
Not being depreciated	-	6,059,647	6,059,647
Capital assets, net of depreciation	-	32,416,398	32,416,398
Total Capital Assets	-	38,476,045	38,476,045
Total Noncurrent Assets	-	38,476,045	38,476,045
TOTAL ASSETS	1,377,402	78,055,751	79,433,153
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred amount from OPEB	-	191,027	191,027
Deferred amount from Pension	75,926	1,178,112	1,254,038
TOTAL DEFERRED OUTFLOWS OF RESOURCES	75,926	1,369,139	1,445,065
LIABILITIES:			
Current Liabilities:			
Accounts payable and accrued liabilities	159	2,207,276	2,207,435
Accrued Interest Payable	-	34,953	34,953
Installment Purchase Contract, Current Portion	-	589,182	589,182
Compensated absences		169,459	169,459
Customer and developer deposits	-	3,075,679	3,075,679
Total Current Liabilities	159	6,076,549	6,076,708
Noncurrent Liabilities:			
Compensated absences, net of current portion	-	55,275	55,275
Installment Purchase Contract, net of Current Portion	-	8,608,967	8,608,967
Net OPEB Liability	-	1,930,469	1,930,469
Net Pension Liability	85,135	4,074,666	4,159,801
Total Noncurrent Liabilities	85,135	14,669,377	14,754,512
TOTAL LIABILITIES	85,294	20,745,926	20,831,220
DEFERRED INFLOWS OF RESOURCES:			
Deferred amount from Pension	103,932	470,962	574,894
TOTAL DEFERRED INFLOWS OF RESOURCES	103,932	470,962	574,894
NET POSITION:			
Net investment in capital assets	-	35,539,689	35,539,689
Restricted for Capital Projects	-	990,730	990,730
Unrestricted	1,264,102	21,677,583	22,941,685
TOTAL NET POSITION	$ 1,264,102	$ 58,208,002	$ 59,472,104

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

STATEMENT OF ACTIVITIES
For the year ended June 30, 2018

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Public safety- fire services	$ 2,219,414	$ 46,891	$ -	$ -
Total governmental activities	2,219,414	46,891	-	-
Business-Type Activities:				
Recycled water service	497,087	744,515	-	739,349
Potable water service	15,398,567	16,999,257	-	2,225,049
Total business-type activities	15,895,654	17,743,772	-	2,964,398
Total primary government	$ 18,115,068	$ 17,790,663	$ -	$ 2,964,398

GENERAL REVENUES:
- Property taxes-ad valorem
- Redevelopment agency
- Voter-approved tax
- Rental income and Annexation Fees
- 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, AS RESTATED

NET POSITION - END OF YEAR

(Continued)

Net (Expense)/Revenue and Changes in Net Position — Primary Government		
Governmental Activities	Business-Type Activities	Total
$ (2,172,523)	$ -	$ (2,172,523)
(2,172,523)	-	(2,172,523)
-	986,777	986,777
-	3,825,739	3,825,739
-	4,812,516	4,812,516
(2,172,523)	4,812,516	2,639,993
1,881,251	720,672	2,601,923
-	54,773	54,773
306,244	-	306,244
-	161,306	161,306
1,341	(130,538)	(129,197)
2,188,836	806,213	2,995,049
16,313	5,618,729	5,635,042
1,247,789	56,693,642	57,941,431
-	(4,104,369)	(4,104,369)
1,247,789	52,589,273	53,837,062
$ 1,264,102	$ 58,208,002	$ 59,472,104

GOVERNMENTAL FUND BALANCE SHEET AND
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
June 30, 2018

		Governmental Fund
ASSETS:		
Cash and investments	$	1,338,781
Property taxes receivable		22,051
Prepaid items		429
Accounts receivable-other		16,141
Total Assets	$	1,377,402
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable and accrued liabilities	$	159
Total Liabilities		159
FUND BALANCE:		
Assigned for public safety		1,377,243
Total Fund Balance		1,377,243
TOTAL LIABILITIES AND FUND BALANCE	$	1,377,402

Amounts reported for governmental activities in the statement of net position are different because:

Fund balance of governmental fund	$	1,377,243
The net pension liability is not payable in the current period, and therefore, is not reported on the governmental fund balance sheet		(85,135)
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		75,926
Deferred Inflows of Resources		(103,932)
Net position of governmental activities	$	1,264,102

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

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS AND THE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For the year ended June 30, 2018

	Governmental Fund
REVENUES:	
Property taxes	$ 1,881,251
Voter-approved tax	306,244
Charges for services	46,891
Investment earnings	1,341
Total Revenues	2,235,727
EXPENDITURES:	
Fire services operating services contract	2,160,277
General and administrative	76,747
Total Expenditures	2,237,024
NET CHANGES IN FUND BALANCE	(1,297)
FUND BALANCE, July 1,	1,378,540
FUND BALANCE, June 30,	$ 1,377,243

Amounts reported for governmental activities in the statement of activities are different because

Net changes in fund balance of total governmental funds	$ (1,297)
Pension related expenses attributable to the implementation of GASB 68.	17,610
Change in net position of governmental activities	$ 16,313

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2018

ASSETS	
Current assets:	
Unrestricted assets	
Cash and cash equivalents	$ 10,379,933
Investments	19,096,960
Accrued interest receivable	123,946
Accounts receivable-water sales and services	2,573,153
Property taxes receivable	8,656
Accounts receivable-other	79,048
Prepaid expenses and other assets	65,487
Total unrestricted assets	32,327,183
Restricted assets	
Restricted cash and cash equivalents	7,252,523
Total restricted assets	7,252,523
Total current assets	39,579,706
Noncurrent Assets:	
Capital assets-not being depreciated	6,059,647
Capital assets-net of depreciation	32,416,398
Total noncurrent assets	38,476,045
Total assets	78,055,751
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred amount from OPEB	191,027
Deferred amount from Pension	1,178,112
Total deferred outflows of resources	1,369,139

(continued)

STATEMENT OF NET POSITION (continued)
PROPRIETARY FUNDS
June 30, 2018

LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	$ 2,204,480
Accrued salaries and related payables	2,796
Accrued interest payable	34,953
Deposits and unearned revenue	3,075,679
Compensated absences, current portion	169,459
Current portion of installment purchase contract	589,182
Total current liabilities	6,076,549
Noncurrent liabilities:	
Compensated absences, net of current portion	55,275
Installment Purchase Contract, net of current portion	8,608,967
Net OPEB Liability	1,930,469
Net pension liability	4,074,666
Total noncurrent liabilities	14,669,377
Total liabilities	20,745,926
DEFERRED INFLOWS OF RESOURCES:	
Deferred amount from Pension	470,962
Total deferred inflows of resources	470,962
NET POSITION	
Net investment in capital assets	35,539,689
Restricted for Capital Projects	990,730
Unrestricted	21,677,583
Total net position	$ 58,208,002

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

STATEMENT OF REVENUES, EXPENSES AND
CHANGE IN NET POSITION
PROPRIETARY FUNDS
For the year ended June 30, 2018

OPERATING REVENUES	
Water consumption sales	$ 12,996,004
Water service charges	4,213,630
Other charges and services	534,138
Total operating revenues	17,743,772
OPERATING EXPENSES	
Source of supply	9,352,434
Pumping and water treatment	142,267
Transmission and distribution	1,603,586
Customer service	335,578
General and administrative	2,830,290
Total operating expenses before depreciation	14,264,155
Operating income (loss) before depreciation	3,479,617
Depreciation	(1,414,048)
Operating income	2,065,569
NONOPERATING REVENUES (EXPENSES):	
Property taxes- ad valorum	720,672
Redevelopment agency-property tax increment	54,773
Rental income	146,306
Investment earnings	(130,538)
Other nonoperating revenue	15,000
Interest Expense	(217,451)
Total nonoperating revenues (expenses)	588,762
Income before capital contributions	2,654,331
Connection fees	1,061,746
Capacity charges	129,307
Capital contributions	1,773,345
Total capital contributions	2,964,398
Change In Net Position	5,618,729
Net position at beginning of year, as previously stated	56,693,642
Prior Period Adjustment	(4,104,369)
Net position at beginning of year, as restated	52,589,273
Net position at end of year	$ 58,208,002

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	$	17,526,455
Cash payments for source of supply		(9,537,256)
Cash payments for services and supplies		(853,745)
Cash payments for wages, benefits and related costs		(3,815,108)
Net Cash Provided (Used) by Operating Activities		3,320,346
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:		
Other non-operating revenue		15,000
Property taxes-ad valorum received		725,806
Redevelopment agency-property tax increment received		54,773
Net Cash Provided (Used) by Non-Capital and Related Financing Activities		795,579
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets		(2,451,944)
Proceeds from capital contributions		2,071,588
Principal Payments on Long-Term Debt		(580,675)
Interest Paid		(219,659)
Rental income received		146,306
Net Cash Provided (Used) by Capital and Related Financing Activities		(1,034,384)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale and maturities of investments		12,316,234
Purchases of investments		(15,960,360)
Investment income received		477,598
Net Cash Provided (Used) by Investing Activities		(3,166,528)
Net Increase (Decrease) in Cash and Cash Equivalents		(84,987)
Cash and Cash Equivalents, Beginning of Year		17,717,443
Cash and Cash Equivalents, End of Year	$	17,632,456

(continued)

STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
For the year ended June 30, 2018

Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities:		
Operating income (loss)	$	2,065,569
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation		1,414,048
GASB 68 and 75 Adjustments to Pension and OPEB Expenses		154,547
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable-water sales and services		(217,317)
(Increase) decrease in accounts receivable-other		(78,258)
(Increase) decrease in prepaid expenses and other assets		33,102
Increase (decrease) in accounts payable and accrued liabilities		78,785
Increase (decrease) in accrued salaries and related payables		(163,967)
Increase (decrease) in customer deposits		7,662
Increase (decrease) in compensated absences		26,175
Total Adjustments		1,254,777
Net Cash Provided (Used) by Operating Activities	$	3,320,346

NONCASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain (losses) on investments	$	(628,293)
Recognition of previously received developer deposits	$	892,808

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

June 30, 2018

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 the 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 nonoperating 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 balance 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 Balance presents 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 nonoperating 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 nonoperating 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

- GASB Statement No. 75 – *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,"* effective for periods beginning after June 15, 2017. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for postemployment benefits other than pensions. Accounting changes adopted to conform to the implementation of this statement should be applied retroactively. The result of the implementation of this statement decreased net position at July 1, 2017 of the business-type activities by $1,798,825.
- GASB Statement No. 81 - *"Irrevocable Split-Interest Agreements,"* effective for periods beginning after December 15, 2016, and did not impact the District.
- GASB Statement No. 82 – *"Pension Issues,"* effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, and did not impact the District.
- GASB Statement No. 85 – *"Omnibus 2017,"* effective for periods beginning after June 15, 2017, and did not impact the District.
- GASB Statement No. 86 – *"Certain Debt Extinguishment Issues,"* effective for periods beginning after June 15, 2017, and did not impact the District.

Pending Accounting Standards

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

- GASB Statement No. 83 -*"Certain Asset Retirement Obligations,"* effective for periods beginning after June 15, 2018.
- GASB Statement No. 84 -*"Fiduciary Activities,"* effective for periods beginning after December 15, 2018.
- GASB Statement No. 87 - "*Leases,"* effective for periods beginning after December 15, 2019.
- GASB Statement No. 88 -*"Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements,"* effective for reporting periods beginning after June 15, 2018.
- GASB Statement No. 89 -*"Accounting for Interest Cost Incurred Before the End of a Construction Period,"* effective for reporting periods beginning after December 15, 2019.
- GASB Statement No. 90 -*"Majority Equity Interests-an Amendment of GASB Statement No. 14 and 61"* effective for reporting periods beginning after December 15, 2018.

1. Summary of Significant Accounting Policies (Continued)

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 pensions for employer contributions made after the measurement date of the net pension liability.
- Deferred outflows related to other post-employment benefits for employer contributions made after the measurement date of the net other post-employment benefit liability.
- Deferred outflows from pensions for differences between expected and actual experiences. 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, 2017.
- Deferred outflows 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, 2017.
- Deferred outflows related to pensions resulting from the difference in projected and actual earnings on plan investments of the pension plan fiduciary net position. This amount is amortized over five years.
- Deferred outflow from pensions 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, 2017.
- Deferred outflows related to pensions for the 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 service lives of all employees that are provided with pensions through the Plans determined as of June 30, 2017.

1. Summary of Significant Accounting Policies (Continued)

d. Deferred Outflows/Inflows of Resources (Continued)

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:

- Deferred inflows from pensions for differences between expected and actual experiences. 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, 2017.
- Deferred inflow from pensions 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, 2017.
- Deferred inflows related to pensions for the 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 service lives of all employees that are provided with pensions through the Plans determined as of June 30, 2017.
- Deferred inflows 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, 2017.

1. Summary of Significant Accounting Policies (Continued)

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.

Restricted Assets
Amounts shown as restricted assets have been restricted by debt agreements, by law or regulations, or by contractual obligations to be used for specified purposes, such as service of debt and construction of capital assets.

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.

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 capital assets, donated works of art and similar assets, and capital assets received in a service concession arrangement are reported at acquisition value. 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

1. Summary of Significant Accounting Policies (Continued)

f. Assets, Liabilities and Net Position (Continued)

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 2018 were as follows:

Balance 2017	Earned	Taken	Balance 2018	Due Within One Year
$ 198,559	$ 165,847	$ (139,672)	$ 224,734	$ 169,459

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

- Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by 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 “net 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 XIIIA 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 and services 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.

k. Postemployment Benefits Other than Pensions (OPEB)

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

1. Summary of Significant Accounting Policies (Continued)

l. Budgetary Policies

The District Board adopts a two-year budget for planning, control, and evaluation purposes. If necessary, revisions may be made to the second year of the two-year budget by separate Board action. 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.

m. 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, cash equivalents and investments at June 30, 2018 are classified in the accompanying financial statements as follows:

	2018
Statement of Net Position:	
Current Assets:	
Cash and cash equivalents	$ 11,718,714
Investments	19,096,960
Restricted cash and cash equivalents	7,252,523
Total cash and investments	$ 38,068,197

Cash and investments consist of the following:	
Deposits with financial institutions	$ 6,092,320
Investments	31,975,877
Total cash and investments	$ 38,068,197

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.

2. Cash, Cash Equivalents and Investments (Continued)

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

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

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

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to $250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name. As of June 30, 2018, $5,844,562 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).

2. Cash, Cash Equivalents and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date at June 30, 2018:

		Remaining Maturity (in Months)			
Investment Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Local Agency Investment Fund (LAIF)	$ 8,301,333	$ 8,301,333	$ -	$ -	$ -
California Asset Management Program	1,003,238	1,003,238			
San Diego County Pooled Investment Fund	3,574,346	3,574,346	-	-	-
Government sponsored agency securities	13,238,212	-	499,190	12,739,022	-
Negotiable certificates of deposit	5,858,748	-	737,329	5,121,419	-
Total	$ 31,975,877	$ 12,878,917	$ 1,236,519	$ 17,860,441	$ -

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, 2018.

				Rating as of Year End			
Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	AAA	AA	A	Not Rated
Local Agency Investment Fund (LAIF)	$ 8,301,333	N/A	$ -	$ -	$ -	$ -	$ 8,301,333
California Asset Management Program	1,003,238	AAA	-	1,003,238	-	-	-
San Diego County Pooled Investment Fund	3,574,346	N/A	-	3,574,346	-	-	-
Government sponsored agency securities	13,238,212	A-	-	11,278,633	-	-	1,959,579
Negotiable certificates of deposit	5,858,748	N/A	-	-	-	-	5,858,748
Total	$ 31,975,877		$ -	$ 15,856,217	$ -	$ -	$ 16,119,660

2. Cash, Cash Equivalents and Investments (Continued)

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, 2018 are as follows:

Issuer	Investment Type	Reported Amount 2018
Federal Home Loan Banks	U.S. Gov't Sponsored Entities	$ 5,240,154
Federal National Mortgage Association	U.S. Gov't Sponsored Entities	$ 4,555,648
Federal Farm Credit Bank	U.S. Gov't Sponsored Entities	$ 2,469,550

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.

2. Cash, Cash Equivalents and Investments (Continued)

Fair Value Measurements (Continued)

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.

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, 2018. 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, 2018
Investments by Fair Value Level				
U.S. Government Sponsored				
Entity Securities:				
FHLB	$ -	$ 5,240,154	$ -	$ 5,240,154
FNMA	-	4,555,648	-	4,555,648
FFCB	-	2,469,550	-	2,469,550
FHLMC	-	972,860	-	972,860
Total Investments by Fair Value Level	$ -	$ 13,238,212	$ -	13,238,212
Investments measured at Cost or Net Asset Value				
Local Agency Investment Fund				8,301,333
California Asset Management Program (CAMP)				1,003,238
San Diego County Pooled Investment Fund				3,574,346
Negotiable Certificates of Deposit				5,858,748
Total Investments at Cost or Net Asset Value				18,737,665
Total Investments				$ 31,975,877

3. Capital Assets

Major capital asset additions for the year ended June 30, 2018 include upgrades and extensions to the District's water transmission and distribution systems in the following schedule:

	Balance June 30, 2017	Additions	Disposals/ Transfers	Balance June 30, 2018
Capital assets, nondepreciable				
Land	$ 656,151	$ -	$ -	$ 656,151
Construction in progress	3,187,431	3,089,847	(873,782)	5,403,496
Total capital assets, nondepreciable	3,843,582	3,089,847	(873,782)	6,059,647
Capital assets, depreciable				
Transmission and distribution system	56,554,997	873,782	-	57,428,779
Recycled water system	5,995,104	-	-	5,995,104
Structures and improvements	1,352,387	-	-	1,352,387
Vehicles and equipment	777,086	-	-	777,086
Machinery and equipment	228,617	-	-	228,617
Total capital assets, depreciable	64,908,191	873,782	-	65,781,973
Accumulated Depreciation				
Tansmission and distribution system	(28,734,457)	(1,088,555)	-	(29,823,012)
Recycled water system	(1,169,430)	(102,557)	-	(1,271,987)
Structures and improvements	(1,180,853)	(168,665)	-	(1,349,518)
Vehicles and equipment	(652,712)	(49,689)	-	(702,401)
Machinery and equipment	(214,075)	(4,582)	-	(218,657)
Total accumulated depreciation	(31,951,527)	(1,414,048)	-	(33,365,575)
Total depreciable assets, net	32,956,664	(540,266)	-	32,416,398
Total capital assets	$ 36,800,246	$ 2,549,581	$ (873,782)	$ 38,476,045

3. Capital Assets (Continued)

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	2018
Adminitstration facility refurbishment	$ 305,505
Waterline projects	3,637,582
Automated meter intelligence system	824,626
Master plan and other studies	-
Groundwater exploration	273,977
Reservoir projects	361,806
Total Construction in progress	$ 5,403,496

4. Long-Term Debt

Changes in long-term debt for the year ended June 30, 2018 were as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
2016 Installment Purchase Contract	$ 9,778,825	$ -	$ (580,676)	$ 9,198,149	$ 589,182
Total	$ 9,778,825	$ -	$ (580,676)	$ 9,198,149	$ 589,182

2016 Installment Purchase Contract

On November 1, 2016, the District entered into an Installment Purchase Contract with Pinnacle Public Finance, Inc.in the amount of $10,068,250 to finance the acquisition, construction and improvement of certain property for its water system. The rate of interest to be paid on the principal amount of the loan shall be 2.28% annually, with payments due semi-annually on May 1st and November 1st through November 1, 2031.

The District has pledged all of the Net System Revenues for the debt service payment of the Contract. The total principal and interest remaining to be paid on the contracts at June 30, 2018 is $10,738,144. For the current year, principal and interest paid on the Contract was $800,334. The Contract contains various covenants and restrictions, principally that the District fix, prescribe, and collect rates and charges for the Water Service, which are reasonably expected to be at least sufficient to yield, during each fiscal year, net revenues equal to one hundred and twenty percent (120%) of the debt service on all obligations for such fiscal year. The District was in compliance with this requirement at June 30, 2018.

Future debt service requirements for the above bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	$ 589,182	$ 206,398	$ 795,580
2020	602,692	192,888	795,580
2021	616,512	179,069	795,581
2022	630,649	164,933	795,582
2023	645,110	150,472	795,582
2024-2028	3,454,346	523,582	3,977,928
2029-2033	2,659,658	122,653	2,782,311
Total	$ 9,198,149	$ 1,539,995	$ 10,738,144

5. Other Post-Employment Benefits

Plan Description

The District offers post-employment medical and dental coverage benefits to retired employees who satisfy the eligibility rules. Employees hired prior to July 11, 2017 require 5 years of service and need to be 50 years of age to be eligible. Employees hired after July 11, 2017, require 5 years of service with the District, and become 50% vested after 10 years of service, and fully vested after 20 years of service. 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.

Employees Covered

As of the June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the plan:

	Number of Participants
Inactive employees currently receiving benefits	17
Participating Active Employees	17
Total	34

Contributions

The District's plan and its contribution requirements are established by District policy and may be amended by the Board of Directors. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2018, the District's cash contributions were $13,818 in payments to the trust and $177,209 in payments were made outside of the trust, resulting in payments of $191,027.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2017. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

5. Other Post-Employment Benefits (Continued)

Actuarial Methods and Assumptions

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

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Actuarial Cost Method
Actuarial Assumptions:	
Discount Rate	7.00%
Inflation	2.75 %
Projected Salary Increase	2.75% per year
Expected long term investment rate of return	7.00%
Healthcare Cost Trend Rates	4% per year
Pre-retirement Turnover	Derived from 2009 CalPERS Turnover for Miscellaneous Employees
Mortality	Derived from 2014 CalPERS Active Mortality for Miscellaneous Employees

The actuarial assumptions used in the June 30, 2017 valuation were based on a standard set of assumptions the actuary has used for similar valuations, modified as appropriate for the District.

The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2017 are summarized in the following table:

Asset Class	New Strategic Allocation	Long-Term Expected Real Rate of Return
CEBRT		
US Equity	30.00%	4.85%
International Equity	27.00%	5.85%
REITS	8.00%	3.65%
US Fixed Income	27.00%	2.35%
Commodities	3.00%	1.75%
Inflation Assets	5.00%	1.50%
Total	100.00%	

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that District's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the District's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

5. Other Post-Employment Benefits (Continued)

Changes in the Net OPEB Liability

The changes in the net OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2016	$ 2,848,974	$ 787,064	$ 2,061,910
Changes in the Year:			
Service cost	57,213	-	57,213
Interest on the total OPEB liability	193,030	-	193,030
Differences between actual and expected experience	-	-	-
Changes in assumptions	-	-	-
Changes in benefit terms	-	-	-
Contribution - employer	-	294,400	(294,400)
Net investment income	-	87,734	(87,734)
Administrative expenses	-	(450)	450
Benefit payments	(238,454)	(238,454)	-
Net Changes	11,789	143,230	(131,441)
Balance at June 30, 2017	$ 2,860,763	$ 930,294	$ 1,930,469

Change of Assumptions
There were no changes of assumptions.

Change of Benefit Terms
There were no changes of benefit terms.

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

5. Other Post-Employment Benefits (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current discount rate:

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Net OPEB Liability (Asset)	$ 2,258,933	$ 1,930,469	$ 1,655,818

Sensitivity of the Total OPEB Liability to Changes in Health-Care Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (4.00% decreasing to 3.00%) or 1 percentage point higher (4.00% increasing to 5.00%) than the current healthcare cost trend rates:

	1% Decrease (3.0%)	Current Healthcare Cost Trend Rates (4.0%)	1% Increase (5.0%)
Net OPEB Liability	$ 1,651,705	$ 1,930,469	$ 2,254,817

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $162,959. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 191,027	$ -
Total	$ 191,027	$ -

The net difference between projected and actual earnings on plan investments is amortized over a five year period. The difference between actual and expected experience and change in assumptions are amortized over the expected remaining service life. The expected average remaining service life for the 2016-17 measurement period is 5 years.

$191,207 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

Payable to the OPEB Plan

At June 30, 2018, the District had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2018.

6. Defined Benefit 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, 2018, are summarized as follows:

	Classic Miscellaneous Plan	PEPRA Miscelaneous 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	9.943%	7%	0%

6. 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. District contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

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

As of June 30, 2018, the District reported net pension (Asset)/liabilities for its proportionate shares of the net pension (Asset)/liabilities as follows:

	2018
Governmental Activies	
Safety Plan	$ 85,135
Business-Type Activities	
Classic & PEPRA Miscellaneous Plan	4,074,666
Total Net Pension Liability	$ 4,159,801

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, 2017, 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, 2016 rolled forward to June 30, 2017 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.

6. 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, 2016 and 2017 was as follows:

	Class & PEPRA Miscellaneous Plan	Safety Plan
Proportion - June 30, 2016	0.1008%	0.0011%
Proportion - June 30, 2017	0.1034%	0.0014%
Change - increase (decrease)	0.0025%	0.0003%

For the year ended June 30, 2018, the District recognized pension income of $17,610 related to its Governmental Activities and pension expense of $481,647 related to its business-type activities.

At June 30, 2018, 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
Governmental Activities		
Differences between actual and expected experience	$ 3,920	$ (1,024)
Change in assumptions	56,867	(4,363)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	2,740	(98,545)
Net differences between projected and actual earnings on plan investments	12,399	-
Total	$ 75,926	$ (103,932)

6. 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
Business-Type Activities		
Pension contributions subsequent to measurement date	$ 299,027	$ -
Differences between actual and expected experience	5,217	(74,732)
Change in assumptions	647,216	(49,351)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	80,278	(346,879)
Net differences between projected and actual earnings on plan investments	146,374	-
Total	$ 1,178,112	$ (470,962)

The $299,027 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Governmental Activities Amount	Business-Type Activities Amount
2019	$ (37,883)	$ (28,110)
2020	10,168	334,075
2021	6,965	189,062
2022	(7,256)	(86,904)
2023	-	
Thereafter	-	

6. Pension Plans (Continued)

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

Actuarial Assumptions

For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability determined in the June 30, 2016 actuarial accounting valuation. The June 30, 2017 total pension liability was based on the following actuarial methods and assumptions:

	Classic & PEPRA Miscellaneous Plan	Safety Plan
Valuation Date	June 30, 2016	June 30, 2016
Measurement Date	June 30, 2017	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.15%	7.15%
Inflation	2.75%	2.75%
Projected Salary Increase	(1)	(1)
Mortality	(2)	(2)
Post Retirement Benefit Increase	(3)	(3)

(1) Varies by entry age and service

(2) 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 April 2014 experience study report (based on CalPERS' demographic data from 1997 to 2011) available on the CalPERS website.

(3) Contrat COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at the CalPERS website under Forms and Publications.

6. Pension Plans (Continued)

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

Change of Assumptions
In fiscal year 2017-2018, the financial reporting discount rate was reduced from 7.65% to 7.15%. Deferred outflows of resources and deferred inflows of resources for changes of assumptions represent the unamortized portion of this assumption change and the unamortized portion of the changes of assumptions related to prior measurement periods.

Discount Rate
The discount rate used to measure the total pension liability was 7.15 % for each Plan and reflects the long-term expected rate of return for each Plan net of investment expenses and without reduction for administrative expenses. 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 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.15% 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.

6. Pension Plans (Continued)

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

Discount Rate (Continued)

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
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	6.15%	6.15%
Net Pension (Asset)/ Liability	$ 6,208,076	$ 273,002
Current Discount Rate	7.15%	7.15%
Net Pension (Asset)/ Liability	$ 4,074,666	$ 85,136
1% Increase	8.15%	8.15%
Net Pension (Asset)/ Liability	$ 2,307,736	$ (68,435)

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, 2018, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

7. 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.

8. 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, 2018, 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 $5,000,000. 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.

- Cyber liability coverage which includes cyber security and risks related to electronic data with coverage limits up to $3,000,000 per occurrence and $5,000,000 aggregate.

8. 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, 2018. 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, 2018.

9. 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 $2,141,743 as of June 30, 2018.

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.

10. Restatement of Prior Year Financial Statements

The District recorded a prior period adjustment in the amount of $4,104,369. This adjustment included recording $2,305,544 worth of meter installation fee liabilities previously recorded as revenue on the District's books, and $1,798,825 relating to the District's implementation of GASB 75.

Required Supplementary Information

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BUDGETARY COMPARISON SCHEDULE, GOVERNMENTAL FUND
For the year ended June 30, 2018

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
FUND BALANCE, JULY 1	$ 1,378,540	$ 1,378,540	$ 1,378,540	$ -
RESOURCES (INFLOWS):				
Property taxes	1,769,500	1,769,500	1,881,251	111,751
Voter-approved tax	308,000	308,000	306,244	(1,756)
Charges for services	30,500	30,500	46,891	16,391
Investment Earnings	200	200	1,341	1,141
Amount Available For Appropriations	2,108,200	2,108,200	2,235,727	127,527
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Fire services operating services contract	2,033,620	2,033,620	2,160,277	(126,657)
General and administrative	74,580	74,580	76,747	(2,167)
Total Charges to Appropriations	2,108,200	2,108,200	2,237,024	(128,824)
NET CHANGE IN FUND BALANCE	-	-	(1,297)	(1,297)
FUND BALANCE, JUNE 30	$ 1,378,540	$ 1,378,540	$ 1,377,243	$ (1,297)

Schedule of Contributions - Defined Benefit Pension Plans
For the Last Ten Fiscal Years*

	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 299,541	$ 278,061	$ 246,264	$ 164,323
Contributions in relation to the actuarially determined contributions	299,541	278,061	246,264	164,323
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll	$ 1,584,350	$ 1,698,321	$ 1,484,877	$ 1,327,622
Contributions as a percentage of covered payroll	18.91%	16.37%	16.58%	12.38%

Notes to Schedule:

Valuation Date	6/30/2014	6/30/2014	6/30/2013	6/30/2012

Methods and Assumptions Used to Determine Contribution Rates:

Single and agent employers	Entry age**
Amortization method	Level percentage of payroll, closed**
Asset valuation method	Market Value***
Inflation	2.75%**
Salary increases	Depending on age, service, and type of employment**
Investment rate of return	7.50%, net of pension plan investment expense, including inflation**
Retirement age	50 years (2% at 55), 52 years (2% at 62), 50 years (2% at 50)
Mortality	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study

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

** - The valuation for June 30, 2012, 2013, and 2014 (applicable to fiscal years ended June 30, 2015, 2016, and 2017 respectively) included the same actuarial assumptions.

*** - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using a 15 Year Smoothed Market method. The market value asset valuation method was utilized for the June 30, 2013, 2014, and 2015 valuations (applicable to fiscal years ended June 30, 2016, 2017, and 2018 respectively).

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

	2018	2017	2016	2015
Classic & PEPRA Miscellaneous Plan				
Plan's Proportion of the Net Pension Liability	0.04109%	0.04048%	0.03836%	0.00393%
Plan's Proportionate Share of the Net Pension Liability	$ 4,074,666	$ 3,502,487	$ 2,633,232	$ 2,444,645
Plan's Covered Payroll	$ 1,698,321	$ 1,484,877	$ 1,327,622	$ 1,171,322
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	239.92%	235.88%	198.34%	208.71%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	75.39%	75.87%	80.89%	83.03%
Plan's Proportionate Share of Aggregate Employer Contributions	$ 432,688	$ 402,714	$ 385,481	$ 323,287
Safety Plan				
Plan's Proportion of the Net Pension Liability/(Asset)	0.00086%	0.00065%	(0.0004)%	(0.00107)%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	$ 85,135	$ 56,540	$ (24,044)	$ (66,430)
Plan's Covered Payroll	N/A	N/A	N/A	N/A
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	N/A	N/A	N/A	N/A
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	71.74%	72.69%	101.92%	105.27%
Plan's Proportionate Share of Aggregate Employer Contributions	$ 43,398	$ 41,287	$ 43,345	$ 37,567

Notes to Schedule:

Benefit Changes:
There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016

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.

From fiscal year June 30, 2016 to June 30, 2017

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018

The discount rate was reduced from 7.65% to 7.15%.

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

Schedule of Contributions-OPEB

Last Ten Fiscal Years*

	6/30/2018
Actuarially determined contribution	$ 190,483
Contributions in relation to the actuarially determined contributions	(190,483)
Contribution deficiency (excess)	$ -
Covered payroll	$ 1,584,350
Contributions as a percentage of covered payroll	12.02%

Notes to Schedule:

Valuation Date 6/30/2017

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry age actuarial cost method **
Amortization period	Not to exceed 30 years
Inflation	2.75%
Salary increases	2.75%
Investment rate of return	7.00%
Mortality	2014 CalPERS Active Mortality for Miscellaeous Employees ***

* Fiscal year 2018 was the first year of implementation; therefore, one year shown.

** Entry age is based on the age at hire for eligible employees. The attribution period is determined as the
To the extent that different benefit formulas apply to different employees of the same class, the service

*** The mortality assumptions are based on the 2014 CalPERS Retiree Mortality for Miscellaneous

Schedule of Changes in the Net OPEB Liability and Related Ratios

Last Ten Fiscal Years*

Fiscal year end	6/30/2018
Measurement date	6/30/2017
Total Pension Liability:	
Service cost	$ 57,213
Interest on total OPEB liability	193,030
Benefit payments, including refunds of	(238,454)
Net Change in Total OPEB Liability	11,789
Total OPEB Liability - Beginning of Year	2,848,974
Total OPEB Liability - End of Year (a)	2,860,763
Plan Fiduciary Net Position:	
Contributions - employer	294,400
Net investment income	87,734
Administrative expenses	(450)
Benefit payments	(238,454)
Net Change in Plan Fiduciary Net Position	143,230
Plan Fiduciary Net Position - Beginning of Year	787,064
Plan Fiduciary Net Position - End of Year (b)	930,294
Net OPEB Liability - Ending (a)-(b)	$ 1,930,469
Plan fiduciary net position as a percentage of the total OPEB liability	32.52%
Covered payroll	$ 1,698,321
Net OPEB liability as percentage of covered - employee payroll	113.67%

Notes to Schedule:

Benefit Changes:
There were no changes in benefits.

Changes in Assumptions:
There were no changes in assumptions.

* Fiscal year 2018 was the first year of implementation; therefore, only one year is shown.