



Rincon del Diablo Municipal Water District

Annual Financial Report

**For the Fiscal Years Ended
June 30, 2017 and 2016**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Rincon del Diablo Municipal Water District as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Rincon del Diablo Municipal Water District as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

The Budgetary Comparison 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.

Other Matters (Continued)

Other Information

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

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

In our opinion, the Schedule of Revenues and Expenses by Operating Department – Proprietary Funds is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

White Nelson Dick Evans LLP

Carlsbad, California
December 5, 2017

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The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Rincon del Diablo Municipal Water District (District) provides an introduction to the financial statements of the District for the fiscal year ended June 30, 2017. 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 23 through 51.

Financial Highlights

Highlights for Fiscal Year 2017 are as follows:

- The District's net position for the current fiscal year increased by \$4,377,280 or 8%.
- All revenues for the year totaled \$21,352,553, an increase of \$3,800,835 or 22% over the prior year.
- Revenues from charges for services during the year totaled \$14,936,819, an increase of \$1,691,994 or 13% over the prior year.
- All expenses for the year totaled \$16,975,273, an increase of \$1,512,753 or 9% over the prior year.
- Total assets at year-end were \$74,582,778, an increase of \$11,594,388 or 18% over the prior year.
- Total liabilities at year end were \$16,884,726, an increase of \$7,954,439 or 89% over the prior year.
- Operating revenues covered operating expenses, resulting in enterprise-related operating income of \$234,779, after depreciation.

Financial Analysis

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

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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

	2017	2016	2015 (as restated)	Change
ASSETS:				
Current assets	\$ 37,782,532	\$ 26,119,284	\$ 26,400,584	\$ 11,663,248
Capital assets, net	36,800,246	36,869,106	35,369,739	(68,860)
Total Assets	<u>74,582,778</u>	<u>62,988,390</u>	<u>61,770,323</u>	<u>11,594,388</u>
DEFERRED OUTFLOWS OF RESOURCES:	<u>883,874</u>	<u>329,173</u>	<u>287,309</u>	<u>554,701</u>
LIABILITIES:				
Current liabilities	3,928,991	6,158,474	7,023,376	(2,229,483)
Noncurrent liabilities	12,955,735	2,771,813	2,526,421	10,183,922
Total liabilities	<u>16,884,726</u>	<u>8,930,287</u>	<u>9,549,797</u>	<u>7,954,439</u>
DEFERRED INFLOWS OF RESOURCES:	<u>640,495</u>	<u>823,125</u>	<u>1,032,882</u>	<u>(182,630)</u>
NET POSITION:				
Net investment in capital assets	36,074,771	36,869,106	35,369,739	(794,335)
Restricted for capital projects	725,475	-	-	725,475
Unrestricted	21,141,185	16,695,045	16,105,214	4,446,140
Total Net Position	<u>\$ 57,941,431</u>	<u>\$ 53,564,151</u>	<u>\$ 51,474,953</u>	<u>\$ 4,377,280</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$57,941,431 and \$53,564,151 as of June 30, 2017 and 2016, respectively.

Current assets and the District's investments in capital assets (net of accumulated depreciation) each comprise approximately 50% of the District's net position as of June 30, 2017. Current assets increased primarily due to the proceeds from the issuance of debt during FY 2016-17. 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. Non-current liabilities also increased due to the issuance of debt during FY 2016-17.

At the end of fiscal years 2017 and 2016, the District showed a positive balance in its unrestricted net position of \$21,141,185 and \$16,695,045, respectively, which may be utilized in future years.

The increase in Total Net Position is primarily due to increases in potable water sales, increases in connection fees from new development, and higher returns on investments during the year.

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

	2017	2016	2015 (as restated)	Change
REVENUE:				
Charges for services	\$ 14,936,819	\$ 13,244,825	\$ 14,497,603	\$ 1,691,994
Capital grants and contributions	3,314,726	1,046,536	1,747,979	2,268,190
General revenues	3,101,008	3,260,357	2,872,091	(159,349)
Total Revenue	<u>21,352,553</u>	<u>17,551,718</u>	<u>19,117,673</u>	<u>3,800,835</u>
EXPENSE:				
Public Safety - fire services	2,097,780	1,979,113	1,938,629	118,667
Potable water service	14,569,398	13,167,106	13,790,806	1,402,292
Recycled water service	308,095	316,301	372,169	(8,206)
Total Expense	<u>16,975,273</u>	<u>15,462,520</u>	<u>16,101,604</u>	<u>1,512,753</u>
Change in Net Position	<u>4,377,280</u>	<u>2,089,198</u>	<u>3,016,069</u>	<u>2,288,082</u>
Net position at beginning of year, as previously stated	53,564,151	51,474,953	51,702,577	2,089,198
Prior Period Adjustment	-	-	(3,243,693)	-
Net position at beginning of year, as restated	<u>53,564,151</u>	<u>51,474,953</u>	<u>48,458,884</u>	<u>2,089,198</u>
Net position at end of year	<u>\$ 57,941,431</u>	<u>\$ 53,564,151</u>	<u>\$ 51,474,953</u>	<u>\$ 4,377,280</u>

The statement of activities shows how the District's net position changed during the fiscal years. The District's change in net position increased by \$4,377,280 and \$2,089,198 for the fiscal years ended June 30, 2017 and 2016, respectively.

Revenues

A closer examination of the sources of changes in net position reveals that in 2017, the District's charges for services increased by 13% or \$1,691,994 primarily due to an increase in water sales.

Revenue from capital grants and contributions increased 216%, or \$2,268,190 primarily due to an increase in connection fees from new development in the District.

Expenses

In 2016, the District's expenses increased by 10% or \$1,512,753 primarily due to a \$1,402,292 increase in potable water service expense as a result of increased water purchases.

Financial Analysis (Continued)

Investments

Balances in restricted and non-restricted cash and investment accounts at year end were \$35,142,060, an increase of \$11,770,762 or 50% from the prior year primarily due the invested proceeds from debt issuance. The District's portfolio consists primarily of securities with maturities spread over five years, helping to mitigate the effect of a decline in value or market risk. The District also invests with two pooled funds, the California Local Agency Investment Fund (LAIF) and the San Diego County Treasurer's Pooled Money Fund. The pools provide a flexible, liquid source of funds for the District's operating and capital expenses, and over the past several years have yielded interest earning comparable to that of securities. Yields on the portfolio as of June 30, 2017 were 1.46%.

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 Construction in Progress (CIP) is being funded mainly using the pay-as-you-go method from cash collected from unrestricted funds such as service revenues, reserves, and restricted funds such as grants and developers' fees. Future CIP 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.

Changes in capital asset amounts for 2017 were as follows:

	Balance 2016	Additions	Transfers/ Deletions	Balance 2017
Capital assets:				
Non-depreciable assets	\$ 4,492,237	\$ 1,431,574	\$(2,080,229)	\$ 3,843,582
Depreciable assets	62,917,529	2,015,593	(24,931)	64,908,191
Accumulated depreciation	(30,540,660)	(1,435,798)	24,931	(31,951,527)
Total capital assets, net	\$ 36,869,106	\$ 2,011,369	\$(2,080,229)	\$ 36,800,246

At the end of fiscal year 2016 and 2017, the District's investment in capital assets amounted to \$36,869,106 and \$36,800,246 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, buildings, equipment, vehicles and construction-in-process, etc.

Debt Administration

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” ratio of 1.20. Due to fortunate market timing, the District was able to obtain this debt at below anticipated market rates, which will result in lower annual debt service payments than originally projected.

Economic Factors

The San Diego County Water Authority (SDCWA) has adopted rate increases effective January 2018 that will raise the District’s cost of imported water by approximately 4%. The District’s planned rate increase through 2020 includes pass through of purchased water wholesale costs, which are expected to increase significantly as the SDCWA begins paying for desalinated seawater through its agreement with Poseidon. The Board’s support for raising revenues by adopting pass through ordinance along with its revenue and debt management policy contributed to the District’s financial stability especially in mitigating revenue and expense volatility in current economic conditions. The District continues to seek ways to improve business processes and employee productivity through investment in technology to achieve the lowest cost of service possible.

Contacting the District’s Financial Management

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

Basic Financial Statements

RINCON DEL DIABLO MUNICIPAL WATER DISTRICT

STATEMENT OF NET POSITION
June 30, 2017

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Current Assets:			
Cash and investments	\$ 1,343,490	\$ 24,439,353	\$ 25,782,843
Accrued interest receivable	-	103,782	103,782
Accounts receivable-water sales and services	-	2,355,836	2,355,836
Property taxes receivable	35,832	13,790	49,622
Accounts receivable-other	102	790	892
Prepaid expenses and other assets	436	129,904	130,340
Restricted cash and investments	-	9,359,217	9,359,217
Total Current Assets	1,379,860	36,402,672	37,782,532
Noncurrent Assets:			
Capital Assets:			
Not being depreciated	-	3,843,582	3,843,582
Capital assets, net of depreciation	-	32,956,664	32,956,664
Total Capital Assets	-	36,800,246	36,800,246
Total Noncurrent Assets	-	36,800,246	36,800,246
TOTAL ASSETS	1,379,860	73,202,918	74,582,778
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred amount from Pension	11,299	872,575	883,874
TOTAL DEFERRED OUTFLOWS OF RESOURCES	11,299	872,575	883,874
LIABILITIES:			
Current Liabilities:			
Accounts payable and accrued liabilities	1,320	1,654,554	1,655,874
Accrued Interest Payable	-	37,160	37,160
Installment Purchase Contract, Current Portion	-	580,676	580,676
Customer and developer deposits	-	1,655,281	1,655,281
Total Current Liabilities	1,320	3,927,671	3,928,991
Noncurrent Liabilities:			
Compensated absences	-	198,559	198,559
Installment Purchase Contract, net of Current Portion	-	9,198,149	9,198,149
Net Pension Liability	56,540	3,502,487	3,559,027
Total Noncurrent Liabilities	56,540	12,899,195	12,955,735
TOTAL LIABILITIES	57,860	16,826,866	16,884,726
DEFERRED INFLOWS OF RESOURCES:			
Deferred amount from Pension	85,510	554,985	640,495
TOTAL DEFERRED INFLOWS OF RESOURCES	85,510	554,985	640,495
NET POSITION:			
Net investment in capital assets	-	36,074,771	36,074,771
Restricted for Capital Projects	-	725,475	725,475
Unrestricted	1,247,789	19,893,396	21,141,185
TOTAL NET POSITION	\$ 1,247,789	\$ 56,693,642	\$ 57,941,431

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

RINCON DEL DIABLO MUNICIPAL WATER DISTRICT

STATEMENT OF NET POSITION

June 30, 2016

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

RINCON DEL DIABLO MUNICIPAL WATER DISTRICT

STATEMENT OF ACTIVITIES
For the year ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Public safety- fire services	\$ 2,097,780	\$ 33,635	\$ -	\$ -
Total governmental activities	<u>2,097,780</u>	<u>33,635</u>	<u>-</u>	<u>-</u>
Business-Type Activities:				
Recycled water service	308,095	516,332	-	129,307
Potable water service	14,569,398	14,386,852	-	3,185,419
Total business-type activities	<u>14,877,493</u>	<u>14,903,184</u>	<u>-</u>	<u>3,314,726</u>
Total primary government	<u>\$ 16,975,273</u>	<u>\$ 14,936,819</u>	<u>\$ -</u>	<u>\$ 3,314,726</u>

GENERAL REVENUES:

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

Total General Revenues

CHANGES IN NET POSITION

NET POSITION - BEGINNING OF YEAR

NET POSITION - END OF YEAR

(Continued)

RINCON DEL DIABLO MUNICIPAL WATER DISTRICT

(Continued)

Net (Expense)/Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (2,064,145)	\$ -	\$ (2,064,145)
<u>(2,064,145)</u>	<u>-</u>	<u>(2,064,145)</u>
-	337,544	337,544
<u>-</u>	<u>3,002,873</u>	<u>3,002,873</u>
<u>-</u>	<u>3,340,417</u>	<u>3,340,417</u>
<u>(2,064,145)</u>	<u>3,340,417</u>	<u>1,276,272</u>
1,828,150	691,779	2,519,929
-	20,485	20,485
306,123	-	306,123
-	271,046	271,046
<u>1,015</u>	<u>(17,590)</u>	<u>(16,575)</u>
<u>2,135,288</u>	<u>965,720</u>	<u>3,101,008</u>
71,143	4,306,137	4,377,280
<u>1,176,646</u>	<u>52,387,505</u>	<u>53,564,151</u>
<u>\$ 1,247,789</u>	<u>\$ 56,693,642</u>	<u>\$ 57,941,431</u>

RINCON DEL DIABLO MUNICIPAL WATER DISTRICT

STATEMENT OF ACTIVITIES
For the year ended June 30, 2016

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

GENERAL REVENUES:

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

Total General Revenues

CHANGES IN NET POSITION

NET POSITION - BEGINNING OF YEAR

NET POSITION - END OF YEAR

(Continued)

RINCON DEL DIABLO MUNICIPAL WATER DISTRICT

(Continued)

Net (Expense)/Revenue and Changes in Net Position Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (1,946,481)	\$ -	\$ (1,946,481)
(1,946,481)	-	(1,946,481)
-	387,906	387,906
-	387,416	387,416
-	775,322	775,322
(1,946,481)	775,322	(1,171,159)
1,727,630	651,400	2,379,030
-	16,217	16,217
308,700	-	308,700
-	143,087	143,087
407	412,916	413,323
2,036,737	1,223,620	3,260,357
90,256	1,998,942	2,089,198
1,086,390	50,388,563	51,474,953
\$ 1,176,646	\$ 52,387,505	\$ 53,564,151

RINCON DEL DIABLO MUNICIPAL WATER DISTRICT

GOVERNMENTAL FUND BALANCE SHEETS AND
RECONCILIATION OF THE BALANCE SHEETS OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
June 30, 2017 and 2016

	2017	2016
	Governmental Fund	Governmental Fund
ASSETS:		
Cash and investments	\$ 1,343,490	\$ 1,196,682
Property taxes receivable	35,832	28,868
Prepaid expenses and other assets	436	454
Accounts receivable-other	102	89
Total Assets	\$ 1,379,860	\$ 1,226,093
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 1,320	\$ 2,980
Total Liabilities	1,320	2,980
FUND BALANCE:		
Assigned for public safety	1,378,540	1,223,113
Total Fund Balance	1,378,540	1,223,113
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,379,860	\$ 1,226,093
Amounts reported for governmental activities in the statement of net position are different because:		
Fund balance of governmental fund	\$ 1,378,540	\$ 1,223,113
The net pension asset (liability) is not collectible and receivable in the current period, and therefore, is not reported on the governmental fund balance sheet	(56,540)	24,044
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	11,299	15,637
Deferred Inflows of Resources	(85,510)	(86,148)
Net position of governmental activities	\$ 1,247,789	\$ 1,176,646

RINCON DEL DIABLO MUNICIPAL WATER DISTRICT

STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS AND THE
RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For the years ended June 30, 2017 and 2016

	2017	2016
	Governmental Fund	Governmental Fund
REVENUES:		
Property taxes	\$ 1,828,150	\$ 1,727,630
Voter-approved tax	306,123	308,700
Charges for services	33,635	32,632
Investment earnings	1,015	407
	2,168,923	2,069,369
Total Revenues		
EXPENDITURES:		
Fire services operating services contract	1,946,527	1,861,507
General and administrative	66,969	71,820
	2,013,496	1,933,327
Total Expenditures		
NET CHANGES IN FUND BALANCE	155,427	136,042
FUND BALANCE, July 1,	1,223,113	1,087,071
FUND BALANCE, June 30,	\$ 1,378,540	\$ 1,223,113
Amounts reported for governmental activities in the statement of activities are different because:		
Net changes in fund balance of total governmental funds	\$ 155,427	\$ 136,042
Pension related expenses attributable to the implementation of GASB 68.	(84,284)	(45,786)
Change in net position of governmental activities	\$ 71,143	\$ 90,256

RINCON DEL DIABLO MUNICIPAL WATER DISTRICTSTATEMENTS OF NET POSITION
PROPRIETARY FUNDS
June 30, 2017 and 2016

	2017	2016
CURRENT ASSETS:		
Cash and investments	\$ 24,439,353	\$ 22,174,616
Accrued interest receivable	103,782	60,832
Accounts receivable-water sales and services	2,355,836	2,207,733
Property taxes receivable	13,790	10,792
Accounts receivable-other	790	323,719
Prepaid expenses and other assets	129,904	115,499
Restricted cash and investments	9,359,217	-
Total Current Assets	36,402,672	24,893,191
NONCURRENT ASSETS:		
Capital assets-not being depreciated	3,843,582	4,492,237
Capital assets-net of depreciation	32,956,664	32,376,869
Total Noncurrent Assets	36,800,246	36,869,106
Total Assets	73,202,918	61,762,297
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amount from Pension	872,575	313,536
TOTAL DEFERRED OUTFLOWS OF RESOURCES	872,575	313,536
LIABILITIES:		
Accounts payable and accrued liabilities	1,487,792	1,464,429
Accrued salaries and related payables	166,763	148,979
Accrued Interest Payable	37,160	-
Deposits and unearned revenue	1,655,281	4,542,086
Compensated absences	198,559	162,625
Installment Purchase Contract	9,778,824	-
Net pension liability	3,502,487	2,633,232
Total Liabilities	16,826,866	8,951,351
DEFERRED INFLOWS OF RESOURCES:		
Deferred amount from Pension	554,985	736,977
TOTAL DEFERRED INFLOWS OF RESOURCES	554,985	736,977
NET POSITION:		
Net investment in capital assets	36,074,771	36,869,106
Restricted for Capital Projects	725,475	-
Unrestricted	19,893,396	15,518,399
Total Net Position	\$ 56,693,642	\$ 52,387,505

RINCON DEL DIABLO MUNICIPAL WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND
CHANGE IN NET POSITION
PROPRIETARY FUNDS
For the years ended June 30, 2017 and 2016

	2017	2016
OPERATING REVENUES:		
Water consumption sales	10,504,359	\$ 8,713,088
Water service charges	3,845,820	3,932,828
Other charges and services	553,005	566,277
Total Operating Revenues	14,903,184	13,212,193
OPERATING EXPENSES:		
Source of supply	8,343,276	7,728,264
Pumping and water treatment	138,565	87,937
Transmission and distribution	1,883,421	1,819,915
Customer service	242,207	149,828
General and administrative	2,625,138	2,242,633
Total Operating Expenses	13,232,607	12,028,577
Operating Income (Loss) Before Depreciation	1,670,577	1,183,616
Depreciation	(1,435,798)	(1,434,666)
Operating Income	234,779	(251,050)
NONOPERATING REVENUES (EXPENSES):		
Property taxes- ad valorem	691,779	651,400
Redevelopment agency-property tax increment	20,485	16,217
Rental income	271,046	143,087
Investment earnings	(17,590)	412,916
Other nonoperating expenses	(66,715)	(20,164)
Interest Expense	(142,373)	-
Total Nonoperating Revenues, net	756,632	1,203,456
Income before capital contributions	991,411	952,406
CAPITAL CONTRIBUTIONS:		
Connection fees	2,931,817	521,066
Capacity charges	129,307	187,750
Capital contributions	253,602	337,720
Total Capital Contributions	3,314,726	1,046,536
Change In Net Position	4,306,137	1,998,942
Net position at beginning of year	52,387,505	50,388,563
Net position at end of year	\$ 56,693,642	\$ 52,387,505

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

RINCON DEL DIABLO MUNICIPAL WATER DISTRICT

STATEMENTS OF CASH FLOWS
 PROPRIETARY FUNDS
 For the years ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 14,755,081	\$ 12,821,651
Cash payments for source of supply	(8,343,276)	(7,728,264)
Cash payments for services and supplies	(863,879)	(743,844)
Cash payments for wages, benefits and related costs	(3,511,621)	(3,140,000)
Net Cash Provided (Used) by Operating Activities	2,036,305	1,209,543
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:		
Other non-operating expense	(66,715)	(20,164)
Property taxes-ad valorem received	688,781	644,153
Redevelopment agency-property tax increment received	20,485	16,217
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	642,551	640,206
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(1,366,937)	(2,934,032)
Proceeds from capital contributions	427,919	417,039
Proceeds from Issuance of Debt	10,068,250	-
Principal Payments on Long-Term Debt	(289,425)	-
Interest Paid	(105,215)	-
Rental income received	271,046	143,087
Net Cash and Investments Provided (Used) by Capital and Related Financing Activities	9,005,638	(2,373,906)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment earnings	(60,540)	391,833
Net Cash Provided (Used) by Investing Activities	(60,540)	391,833
Net Increase (Decrease) in Cash and Investments	11,623,954	(132,324)
Cash and Investments, Beginning of Year	22,174,616	22,306,940
Cash and Investments, End of Year	\$ 33,798,570	\$ 22,174,616
Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities:		
Operating income (loss)	\$ 234,779	\$ (251,049)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	1,435,798	1,434,666
GASB 68 Adjustment to Pension Expense	128,227	(66,434)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable-water sales and services	(148,103)	(390,542)
(Increase) decrease in accounts receivable-other	322,929	87,639
(Increase) decrease in prepaid expenses and other assets	(14,405)	(42,828)
Increase (decrease) in accounts payable and accrued liabilities	23,363	330,021
Increase (decrease) in accrued salaries and related payables	17,784	93,652
Increase (decrease) in compensated absences	35,933	14,418
Total Adjustments	1,801,526	1,460,592
Net Cash Provided (Used) by Operating Activities	\$ 2,036,305	\$ 1,209,543

June 30, 2017 and 2016

1. Summary of Significant Accounting Policies

a. Organization and Operations of the Reporting Entity

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

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

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

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

1. Summary of Significant Accounting Policies (Continued)

b. Basis of Accounting and Measurement Focus

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

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

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

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

1. Summary of Significant Accounting Policies (Continued)

b. Basis of Accounting and Measurement Focus (Continued)

Fund Financial Statements (Continued)

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

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

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

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

Enterprise Funds

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

1. Summary of Significant Accounting Policies (Continued)

c. New Accounting Pronouncements

Current Year Standards

- GASB Statement No. 74 - *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,”* effective for periods beginning after June 15, 2016 and did not impact the District.
- GASB Statement No. 77 - *“Tax Abatement Disclosure,”* effective for periods beginning after December 15, 2015 and did not impact the District.
- GASB Statement No. 78 - *“Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,”* effective for periods beginning after December 15, 2015 and did not impact the District.
- GASB Statement No. 79 - *“Certain External Investment Pools and Pool Participants,”* was required to be implemented in the current fiscal year, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for periods beginning after December 15, 2015, and did not impact the District.
- GASB Statement No. 80 - *“Blending Requirements for Certain Component Units,”* effective for periods beginning after June 15, 2016 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. 75 - *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,”* effective for periods beginning after June 15, 2017.
- GASB Statement No. 81 - *“Irrevocable Split-Interest Agreements,”* effective for periods beginning after December 15, 2016.
- 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.
- GASB Statement No. 84 - *“Omnibus 2017,”* effective for periods beginning after June 15, 2017.
- GASB Statement No. 85 - *“Certain Debt Extinguishment Issues,”* effective for periods beginning after June 15, 2017.
- GASB Statement No. 87 - *“Leases,”* effective for periods beginning after December 15, 2019.

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 pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans determined as of June 30, 2016.
- 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, 2016.
- 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.

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, 2016.
- Deferred inflows 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.
- 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.
- 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, 2016.

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 assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

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

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 2017 were as follows:

Balance 2016	Earned	Taken	Balance 2017
\$ 162,625	\$ 223,758	\$ (187,824)	\$ 198,559

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

The property tax calendar is as follows:

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

h. Water Sales and Services

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

i. Capital Contributions

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

j. Pensions

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

k. Budgetary Policies

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

1. Summary of Significant Accounting Policies (Continued)

1. Use of Estimates

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

2. Cash, Cash Equivalents and Investments

Cash and investments at June 30, 2017 and 2016 are classified in the accompanying financial statements as follows:

	2017	2016
Statement of Net Position:		
Current Assets:		
Cash and investments	\$ 25,782,843	\$ 23,371,298
Restricted cash and investments	9,359,217	-
Total cash and investments	\$ 35,142,060	\$ 23,371,298

Cash and investments consist of the following:

Cash on hand	\$ -	\$ 1,717
Deposits with financial institutions	6,119,417	3,399,916
Investments	29,022,643	19,969,665
Total cash and investments	\$ 35,142,060	\$ 23,371,298

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

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

Investments Authorized by Debt Agreements

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

Investment in State Investment Pool

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

2. Cash, Cash Equivalents and Investments (Continued)

Custodial Credit Risk

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

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to \$250,000 held at each institution were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name. As of June 30, 2017 and 2016, \$5,849,059 and \$3,522,517, respectively, of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date at June 30, 2017:

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Local Agency Investment Fund (LAIF)	\$ 9,902,988	\$ 9,902,988	\$ -	\$ -	\$ -
San Diego County Pooled Investment Fund	3,038,527	3,038,527	-	-	-
Government sponsored agency securities	12,505,086	-	-	12,505,086	-
Negotiable certificates of deposit	3,576,042	-	-	3,576,042	-
Total	\$ 29,022,643	\$ 12,941,515	\$ -	\$ 16,081,128	\$ -

2. Cash, Cash Equivalents and Investments (Continued)

Interest Rate Risk (Continued)

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date at June 30, 2016:

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

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, 2017.

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End			
				AAA	AA	A	Not Rated
Local Agency Investment Fund (LAIF)	\$ 9,902,988	N/A	\$ -	\$ -	\$ -	\$ -	\$ 9,902,988
San Diego County Pooled Investment Fund	3,038,527	N/A	-	3,038,527	-	-	-
Government sponsored agency securities	12,505,086	A-	-	10,001,611	-	-	2,503,475
Negotiable certificates of deposit	3,576,042	N/A	-	-	-	-	3,576,042
Total	\$ 29,022,643		\$ -	\$ 13,040,138	\$ -	\$ -	\$ 15,982,505

2. Cash, Cash Equivalents and Investments (Continued)

Credit Risk (Continued)

Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the Moody's rating for each investment type at June 30, 2016.

Investment Type	Total	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End			
				AAA	AA	A	Not Rated
Local Agency Investment Fund (LAIF)	\$ 6,509,662	N/A	\$ -	\$ -	\$ -	\$ -	\$ 6,509,662
California Asset Management Program	3,024,910	N/A	-	3,024,910	-	-	-
Government sponsored agency securities	7,995,317	A-	-	7,995,317	-	-	-
Negotiable certificates of deposit	2,439,776	N/A	-	-	-	-	2,439,776.00
Total	\$ 19,969,665		\$ -	\$ 11,020,227	\$ -	\$ -	\$ 8,949,438

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, 2017 and 2016 is as follows:

Issuer	Investment Type	Reported Amount	
		2017	2016
Federal Home Loan Banks	U.S. Gov't Sponsored Entities	\$ 5,715,502	\$ 3,163,542
Federal National Mortgage Association	U.S. Gov't Sponsored Entities	\$ 2,267,909	\$ 2,250,750
Federal Agricultural Mortgage Corp	U.S. Gov't Sponsored Entities	\$ 2,503,475	\$ 2,581,025
Federal Farm Credit Bank	U.S. Gov't Sponsored Entities	\$ 2,018,200	\$ -

2. Cash, Cash Equivalents and Investments (Continued)

Fair Value Measurements

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

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

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

Level 2: Inputs to the valuation methodology include:

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

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

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

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

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

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

2. Cash, Cash Equivalents and Investments (Continued)

Fair Value Measurements (Continued)

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

The District has no investments categorized in Level 3 at June 30, 2017. 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, 2017
Investments by Fair Value Level				
U.S. Government Sponsored				
Entity Securities:				
FHLB	\$ -	\$ 5,715,502	\$ -	\$ 5,715,502
FNMA	-	2,267,909	-	2,267,909
FAMC	-	2,503,475	-	2,503,475
FFCB	-	2,018,200	-	2,018,200
Total Investments by Fair Value Level	<u>\$ -</u>	<u>\$ 12,505,086</u>	<u>\$ -</u>	<u>12,505,086</u>

Investments measured at Cost or Net Asset Value

Local Agency Investment Fund	9,902,988
San Diego County Pooled Investment Fund	3,038,527
Negotiable Certificates of Deposit	<u>3,576,042</u>
Total Investments at Cost or Net Asset Value	<u>16,517,557</u>
Total Investments	<u>\$ 29,022,643</u>

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	June 30, 2016
Investments by Fair Value Level				
U.S. Government Sponsored				
Entity Securities:				
FHLB	\$ -	\$ 3,163,542	\$ -	\$ 3,163,542
FNMA	-	2,250,750	-	2,250,750
FHLMC	-	2,581,025	-	2,581,025
Total Investments by Fair Value Level	<u>\$ -</u>	<u>\$ 7,995,317</u>	<u>\$ -</u>	<u>7,995,317</u>

Investments measured at Cost or Net Asset Value

Local Agency Investment Fund	6,509,662
San Diego County Pooled Investment Fund	3,024,910
Held by Fiscal Agent:	
Negotiable Certificates of Deposit	<u>2,439,776</u>
Total Investments at Cost or Net Asset Value	<u>11,974,348</u>
Total Investments	<u>\$ 19,969,665</u>

3. Capital Assets

Major capital asset additions for the year ended June 30, 2017 include upgrades and extensions to the District's water transmission and distribution systems in the following schedule:

	Balance June 30, 2016	Additions	Disposals/ Transfers	Balance June 30, 2017
Capital assets, nondepreciable				
Land	\$ 656,151	\$ -	\$ -	\$ 656,151
Construction in progress	3,836,086	1,431,574	(2,080,229)	3,187,431
Total capital assets, nondepreciable	<u>4,492,237</u>	<u>1,431,574</u>	<u>(2,080,229)</u>	<u>3,843,582</u>
Capital assets, depreciable				
Transmission and distribution system	54,539,404	2,015,593	-	56,554,997
Recycled water system	5,995,104	-	-	5,995,104
Structures and improvements	1,352,387	-	-	1,352,387
Vehicles and equipment	802,017	-	(24,931)	777,086
Machinery and equipment	228,617	-	-	228,617
Total capital assets, depreciable	<u>62,917,529</u>	<u>2,015,593</u>	<u>(24,931)</u>	<u>64,908,191</u>
Accumulated Depreciation				
Transmission and distribution system	(27,630,570)	(1,103,887)	-	(28,734,457)
Recycled water system	(1,066,873)	(102,557)	-	(1,169,430)
Structures and improvements	(1,012,187)	(168,666)	-	(1,180,853)
Vehicles and equipment	(622,082)	(55,561)	24,931	(652,712)
Machinery and equipment	(208,948)	(5,127)	-	(214,075)
Total accumulated depreciation	<u>(30,540,660)</u>	<u>(1,435,798)</u>	<u>24,931</u>	<u>(31,951,527)</u>
Total depreciable assets, net	<u>32,376,869</u>	<u>579,795</u>	<u>-</u>	<u>32,956,664</u>
Total capital assets	<u>\$ 36,869,106</u>	<u>\$ 2,011,369</u>	<u>\$ (2,080,229)</u>	<u>\$ 36,800,246</u>

3. Capital Assets (Continued)

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

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

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	2017	2016
Administration facility refurbishment	\$ 297,588	\$ 336,224
Waterline projects	1,603,858	2,346,721
Automated meter intelligence system	729,806	729,806
Groundwater exploration	273,977	272,982
Reservoir projects	282,202	150,353
Total Construction in progress	<u>\$ 3,187,431</u>	<u>\$ 3,836,086</u>

4. Long-Term Debt

Changes in long-term debt for the year ended June 30, 2017 were as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
2016 Installment Purchase Contract	\$ -	\$ 10,068,250	\$ (289,425)	\$ 9,778,825	\$ 580,676
Total	<u>\$ -</u>	<u>\$ 10,068,250</u>	<u>\$ (289,425)</u>	<u>\$ 9,778,825</u>	<u>\$ 580,676</u>

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, 2017 is \$11,538,478. For the current year, principal and interest paid on the Contract was \$394,638. The Contract contain various covenants and restrictions, principally that the District fix, prescribe, 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, 2017.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 580,676	\$ 219,658	\$ 800,334
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 - 2027	3,376,911	601,012	3,977,923
2028-2032	3,382,203	195,695	3,577,898
Total	<u>\$ 9,778,825</u>	<u>\$ 1,759,653</u>	<u>\$ 11,538,478</u>

5. Other Post-Employment Benefits

Plan Description – Benefits

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

Funding Policy

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

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

For the year ended June 30, 2017, the District’s ARC cost was \$207,139 and the District contributed \$87,261 to the irrevocable trust and paid \$151,193 in retiree benefits.

The balance at June 30, consists of the following:

	<u>2017</u>	<u>2016</u>
Annual OPEB expense:		
Annual required contribution (ARC)	\$ 207,139	\$ 207,139
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Total annual OPEB expense	<u>207,139</u>	<u>207,139</u>
Contributions made:		
Contributions made to irrevocable trust	(87,261)	(55,946)
Retiree benefit payments paid outside of the trust	<u>(151,193)</u>	<u>(151,193)</u>
Total contributions made	<u>(238,454)</u>	<u>(207,139)</u>
Total change in net OPEB payable obligation	<u>(31,315)</u>	<u>-</u>
OPEB payable (asset) - July 1	<u>-</u>	<u>-</u>
OPEB payable (asset) - June 30	<u>\$ (31,315)</u>	<u>\$ -</u>

5. Other Post-Employment Benefits (Continued)

Funding Policy (Continued)

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2017 and the three preceding years were as follows:

Three-Year History of Net OPEB Obligations			
Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable/(Asset)
2017	\$ 207,139	115%	\$ (31,315)
2016	\$ 207,139	100%	\$ -
2015	\$ 225,428	100%	\$ -
2014	\$ 218,862	100%	\$ -

Funded Status and Funding Progress of the Plan

As of June 30, 2015, the most recent actuarial valuation date, the plan was 25 percent funded. The actuarial accrued liability for benefits was \$3,052,640, and the actuarial value of assets was \$773,843, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 2,278,806. The covered payroll (annual payroll of active employees covered by the plan) was \$1,171,322 and the ratio of the UAAL to the covered payroll was 171.65%.

Actuarial Methods and Assumptions

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

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

6. 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, 2017, are summarized as follows:

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

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.

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

As of June 30, 2017 and 2016, the District reported net pension (Asset)/liabilities for its proportionate shares of the net pension (Asset)/liabilities as follows:

	<u>2017</u>	<u>2016</u>
Governmental Activities		
Safety Plan	\$ 56,540	\$ (24,044)
Business-Type Activities		
Classic & PEPRA Miscellaneous Plan	<u>3,502,487</u>	<u>2,633,232</u>
Total Net Pension Liability	<u>\$ 3,559,027</u>	<u>\$ 2,609,188</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, 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, 2015 rolled forward to June 30, 2016 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, 2015 and 2016 was as follows:

	Class & PEPRA Miscellaneous Plan	Safety Plan
Proportion - June 30, 2015	0.0960%	-0.0006%
Proportion - June 30, 2016	0.1008%	0.0011%
Change - increase (decrease)	0.0048%	0.0017%

For the year ended June 30, 2017 and 2016, the District recognized pension expense of \$84,284 and \$45,784, respectively, related to its Governmental Activities and \$406,285 and \$223,923, respectively, related to its business-type activities.

At June 30, 2017, 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		
Pension contributions subsequent to measurement date	\$ -	\$ -
Differences between actual and expected experience	-	-
Change in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	11,299	(85,510)
Net differences between projected and actual earnings on plan investments	-	-
Total	<u>\$ 11,299</u>	<u>\$ (85,510)</u>

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
	<u> </u>	<u> </u>
Business-Type Activities		
Pension contributions subsequent to measurement date	\$ 278,062	\$ -
Differences between actual and expected experience	8,800	(2,016)
Change in assumptions	-	(83,257)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	152,390	(469,712)
Net differences between projected and actual earnings on plan investments	433,323	-
Total	<u>\$ 872,575</u>	<u>\$ (554,985)</u>

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

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

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

The \$278,062 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Governmental Activities Amount	Business-Type Activities Amount
2018	\$ (33,366)	\$ (162,108)
2019	(34,162)	(108,763)
2020	(6,683)	198,163
2021	-	112,236
2022	-	-
Thereafter	-	-

6. Pension Plans (Continued)

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

Actuarial Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

	Classic & PEPR Miscellaneous Plan	Safety Plan
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	(1)	(1)
Investment Rate of Return	7.5% (2)	7.5% (2)
Mortality	(3)	(3)

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

6. Pension Plans (Continued)

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

Change of Assumptions

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.65% used for the June 30, 2016 measurement date is without reduction of pension plan administrative expense.

Discount Rate

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

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

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2015.

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	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	100.00%		

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

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

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

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

	Classic & PEPR Miscellaneous Plan	Safety Plan
1% Decrease	6.65%	6.65%
Net Pension (Asset)/ Liability	\$ 5,429,964	\$ 226,416
Current Discount Rate	7.65%	7.65%
Net Pension (Asset)/ Liability	\$ 3,502,487	\$ 56,540
1% Increase	8.65%	8.65%
Net Pension (Asset)/ Liability	\$ 1,909,522	\$ (82,910)

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, 2017 and 2016, the District had no outstanding amount of contributions to the pension plan required for the years ended June 30, 2017 and 2016.

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, 2017, 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.

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, 2017. 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, 2017, 2016 and 2015, respectively.

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 \$274,996 as of June 30, 2017.

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. Subsequent Events

On July 11, 2017, the Board of Directors voted to establish health vesting requirements for future annuitants under the Public Employees' Medical and Hospital Care Act. In 2016, the Board directed the Finance, Insurance, and Personnel (FIP) Committee to explore ways to control medical costs, specifically by creating a two-tier system for Other Post-Employment Benefits (OPEB). The Board of Directors voted to have CalPERS administer the two-tier system during fiscal year 2017-2018.

Required Supplementary Information

**RINCON DEL DIABLO MUNICIPAL
WATER DISTRICT**

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE, GOVERNMENTAL FUND
For the year ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, JULY 1	\$ 1,223,113	\$ 1,223,113	\$ 1,223,113	\$ -
RESOURCES (INFLOWS):				
Property taxes	1,687,486	1,687,486	1,828,150	140,664
Voter-approved tax	308,000	308,000	306,123	(1,877)
Charges for services	22,005	22,005	33,635	11,630
Investment Earnings	562	562	1,015	453
Amount Available For Appropriations	2,018,053	2,018,053	2,168,923	150,870
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Fire services operating services contract	1,946,530	1,946,530	1,946,527	3
General and administrative	63,034	63,034	66,969	(3,935)
Total Charges to Appropriations	2,009,564	2,009,564	2,013,496	(3,932)
NET CHANGE IN FUND BALANCE	8,489	8,489	155,427	146,938
FUND BALANCE, JUNE 30	\$ 1,231,602	\$ 1,231,602	\$ 1,378,540	\$ 146,938

**RINCON DEL DIABLO MUNICIPAL
WATER DISTRICT**

REQUIRED SUPPLEMENTARY INFORMATION

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

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

Schedule of Funding Progress for OPEB

Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / (c))
6/30/2015	\$ 773,834	\$ 3,052,640	\$ 2,278,806	25.35%	\$ 1,171,322	171.65%
6/30/2013	\$ 573,313	\$ 3,261,372	\$ 2,688,059	17.58%	\$ 1,327,622	202.47%
6/30/2010	\$ 136,643	\$ 2,812,545	\$ 2,675,902	4.86%	\$ 1,382,418	193.57%

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 278,061	\$ 246,264	\$ 164,323
Contributions in relation to the actuarially determined contributions	<u>278,061</u>	<u>246,264</u>	<u>164,323</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 1,698,321	\$ 1,484,877	\$ 1,171,322
Contributions as a percentage of covered - employee payroll	16.37%	16.58%	14.03%

Notes to Schedule:

Valuation Date 6/30/2015

Methods and Assumptions Used to Determine Contribution Rates:

Cost-sharing employers	Entry age normal cost method
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years (2% at 55), 30 years (2% at 62), 30 years (2% at 50)
Asset valuation method	15-year smoothed market
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
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 adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those rates include 20 years of mortality improvements using Scale BB published by the Society of Actuaries. For more details on this table, refer to the 2014 experience study report.

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Classic & PEPR Miscellaneous Plan			
Plan's Proportion of the Net Pension Liability	0.10082%	0.09598%	0.03927%
Plan's Proportionate Share of the Net Pension Liability	\$ 3,502,487	\$ 2,633,232	\$ 2,444,645
Plan's Covered-Employee Payroll	\$ 1,698,321	\$ 1,484,877	\$ 1,171,322
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	206.23%	177.34%	208.71%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	75.87%	80.89%	83.03%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 402,714	\$ 385,481	\$ 323,287
Safety Plan			
Plan's Proportion of the Net Pension Liability/(Asset)	0.00109%	(0.00035%)	(0.00107)%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	\$ 56,540	\$ (24,044)	\$ (66,430)
Plan's Covered-Employee Payroll	N/A	N/A	N/A
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	N/A	N/A	N/A
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	72.69%	101.92%	105.27%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 41,287	\$ 43,345	\$ 37,567

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

There were no changes in the discount rates.

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

Supplementary Information

SCHEDULE OF REVENUES AND EXPENSES BY OPERATING DEPARTMENT
PROPRIETARY FUNDS
For the year ended June 30, 2017

	Potable Water	Recycled Water	Total
OPERATING REVENUES:			
Water consumption sales	\$ 10,075,021	\$ 429,338	\$ 10,504,359
Water service charges	3,789,276	56,544	3,845,820
Other charges and services	522,555	30,450	553,005
Total Operating Revenues	14,386,852	516,332	14,903,184
OPERATING EXPENSES:			
Source of supply	8,174,090	169,186	8,343,276
Pumping and water treatment	123,369	15,196	138,565
Transmission and distribution	1,867,936	15,485	1,883,421
Customer service	242,207	-	242,207
General and administrative	2,617,940	7,198	2,625,138
Total Operating Expenses	13,025,542	207,065	13,232,607
OPERATING INCOME (LOSS) BEFORE DEPRECIATION	1,361,310	309,267	1,670,577
Depreciation	(1,333,241)	(102,557)	(1,435,798)
Operating Income	28,069	206,710	234,779
NONOPERATING REVENUES (EXPENSES)			
Property taxes-ad valorem	691,779	-	691,779
Redevelopment agency-property tax increment	20,485	-	20,485
Rental income	271,046	-	271,046
Investment earnings	(17,590)	-	(17,590)
Investment earnings	(66,715)	-	(66,715)
Interest Expense	(142,373)	-	(142,373)
Total Nonoperating Revenues, net	756,632	-	756,632
Income before capital contributions	784,701	206,710	991,411
CAPITAL CONTRIBUTIONS			
Connection fees	2,931,817	-	2,931,817
Capacity charges	-	129,307	129,307
Capital contributions	253,602	-	253,602
Total Capital Contributions	3,185,419	129,307	3,314,726
Change In Net Position	\$ 3,970,120	\$ 336,017	\$ 4,306,137

NOTES

- (a) General and administrative costs are allocated to Potable Water and Recycled Water operations based on a budgeted annual percentage. For fiscal year June 30, 2017, general and administrative costs were allocated as follows: 99% to Potable Water operations and 1% to Recycled Water operations. Allocation is analyzed annually as part of the budget process.

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

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

NOTES

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