



Fallbrook Public Utility District
A special district in the State of California



Comprehensive Annual Financial Report
for the Fiscal Year Ending June 30, 2019



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COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year ending June 30, 2019

Current Board of Directors:

- District #1 - Dave Baxter
- District #2 - Ken Endter
- District #3 - Jennifer DeMeo, Vice-President
- District #4 - Don McDougal, President
- District #5 - Charley Wolk

Prepared by District Management:

- General Manager - Jack Bebee
- Assistant General Manager/CFO - David Shank

Acknowledgment: District Management would like to thank Kelly Laughlin, Mick Cothran, Jeff Marchand, Joye Johnson, Annalece Bokma, Caroline Wilson and Veronica Tamzil for their support in preparing this document.

Fallbrook Public Utility District
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(760) 728-1125
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INTRODUCTORY SECTION



November 25, 2019

Board of Directors
Fallbrook Public Utility District
990 East Mission Road
Fallbrook, California 92028

990 East Mission Road
Fallbrook, California
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(760) 728-1125

Board of Directors

Dave Baxter
Division 1

Ken Endter
Division 2

Jennifer DeMeo
Division 3

Don McDougal
Division 4

Charley Wolk
Division 5

Staff

Jack Bebee
General Manager

David Shank
*Assistant General Manager/
Chief Financial Officer*

Mary Lou West
Secretary

General Counsel

Paula de Sousa Mills
Best Best & Krieger

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Fallbrook Public Utility District (District) for the fiscal year ended June 30, 2019. The purpose of this report is to provide the Board, the public, and other interested parties, with reliable and transparent financial information about the District.

The CAFR is being produced as part of management’s efforts to enhance the District’s fiscal transparency and to support a better understanding of the District’s financial operations. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

White Nelson Diehl Evans, LLP, Certified Public Accountants, have issued an unmodified opinion on the Fallbrook Public Utility District’s financial statements for the year ended June 30, 2019. The independent auditors’ report is located at the front of the financial section of this report.

Management’s Discussion and Analysis (MD&A) immediately follows the independent auditors’ report in the Financial Section and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it. Following the MD&A are the basic financial statements, notes to the statements, and an unaudited section of statistical information.

This report has been prepared using the financial reporting model recommended in the Government Accounting Standards Board’s (GASB) Statement 34. The GASB requires proprietary fund governments to use the full accrual basis of accounting. The accompanying statements have been prepared using the full accrual basis.



District Profile

Fallbrook is an unincorporated community in San Diego County. The first permanent recorded settlement in Fallbrook was in 1869, in the east area of the District, which later became Live Oak County Park. While agriculture has always played a major role in the community, the first plantings were olives and citrus. These crops were replaced in the 1920's by avocados and it wasn't long before Fallbrook became generally recognized as the "Avocado Capital of the World."

Fallbrook Public Utility District (District) was incorporated on June 5, 1922 to serve water from local area wells along the San Luis Rey River. Soon after it was established, the District began to grow. Annexations into the District have expanded the service area from 500 acres to 28,000 acres (44 square miles). To meet the growing demand for water, additional ground water supplies were developed along both the San Luis Rey and Santa Margarita rivers.

The District became a member of the San Diego County Water Authority (Water Authority) at its formation on June 9, 1944, and thus was eligible to receive a portion of Colorado River water that would be diverted by the Metropolitan Water District of Southern California (Metropolitan). When Colorado River water became available in 1948, consumption within the District gradually increased to approximately 10,000 acre-feet per year by 1959. Then in 1978, Metropolitan augmented its supply system with water from the California State Water Project and began delivering water from both systems to San Diego County. Today, the Water Authority provides virtually all of the District's potable water.

The District provides residents, businesses and agricultural customers with full-service water, wastewater and recycled water services.

Water System

The District imports 99% of its water from the Water Authority with the remaining 1% coming from a local well. The District has four connections to the Water Authority's system. The District's water distribution system is comprised of 270 miles of pipeline, 6,800 valves, an ultraviolet disinfection water treatment plant, nine steel reservoirs, a 300-million-gallon treated water reservoir, five pump stations and plans for a groundwater treatment plant. District staff operate the system, and conduct all system maintenance and repairs. The District is in the middle of an Advanced Metering Infrastructure (AMI) system upgrade that will enable real-time meter reading and provide customers with real-time water use.

The District also recently signed an agreement with U.S. Marine Corps Base Camp Pendleton to share local water in the Santa Margarita River. The river is expected to provide 30% of the District's total water needs, reducing reliance on the Water Authority. Construction of a bi-directional pipeline and groundwater treatment plant began in Fall 2019.

The District's five-year average annual water sales is 9,944 acre-feet. Residential and commercial customers represent 59% of sales, and agricultural customers make up the remaining 41%. The District's historic sales trend is down due to improved water efficiency for both residential and commercial indoor and outdoor use, combined with sharp decreases in agricultural water demands. The decrease in agricultural water demands is due to drought and the increases in water costs over the last decade. The District's agricultural water sales have gone from 7,000 acre-feet in Fiscal Year 2008 to 2,333 in Fiscal Year 2019 or down 33%.



Wastewater System

The District's wastewater system is comprised of 78 miles of buried sewer lines and force mains, a 2.7 million gallon per day water reclamation plant, a 1-megawatt solar facility and a 23-mile ocean outfall line.

In an effort to go green, and to save money by reducing hauling and disposal costs of sewage sludge, the District began recycling its sewage sludge in 2008. A state-of-the-art thermal dryer heats the sludge to extremely high temperatures, killing all harmful pathogens. The end product is a sterile fertilizer that can be safely returned to the soil and is classified as a Class A soil amendment. Instead of paying to haul sewage sludge to a landfill, the fertilizer is sold to commercial growers.

The environmentally conscious decision to turn sludge into fertilizer came about as the cost of trucking the sludge out of the county had begun to skyrocket. The District was spending \$150,000 per year to haul its sludge to Riverside County, but that location was set to close and the nearest site was Kern County or out of state. This technology was cutting edge in 2008 and remains so today, reducing the District's environmental footprint, and reducing waste and saving money, all while meeting California's strict emissions standards.

Recycled Water System

The District's recycled water system includes 10.5 miles of buried pipe. Currently the District has 16 recycled water customers, and delivers an average of 0.6 million gallons per day to them. The District provides recycled water for nurseries, sports fields, home owners' associations, Fallbrook High School, street medians, and for freeway irrigation. In 2015, the District completed a \$27 million expansion and upgrade to the water reclamation plant to improve reliability of operation and provide storage for recycled water. The project was completed ahead of schedule and under budget.

Demand for recycled water has been down due to changes in recycled water customers' water demands. The primary recycled water customers are nurseries and with rising costs many of these customers have switched from growing water intensive plants to drought tolerant plants. As a result of this change, recycled water demands have decreased. With idle capacity to produce recycled water, the District is exploring alternative uses for the recycled water.

Governance and Organizational Structure

The District's Board is made up of five community members who serve overlapping four-year terms. In March 2016, the Board unanimously approved a resolution to change the method of electing board members to "election by district" and approved a map identifying five territorial units within the District. Each director, therefore, is elected by the registered voters of the sub-district he or she resides in, within the District's service area. To run for office, a candidate must live in the area he or she is running to represent. Prior to 2016, directors would win a seat on the board by being the top vote-getters, regardless of where they lived within the District.

Elected District Officials (As of 06/30/2019):

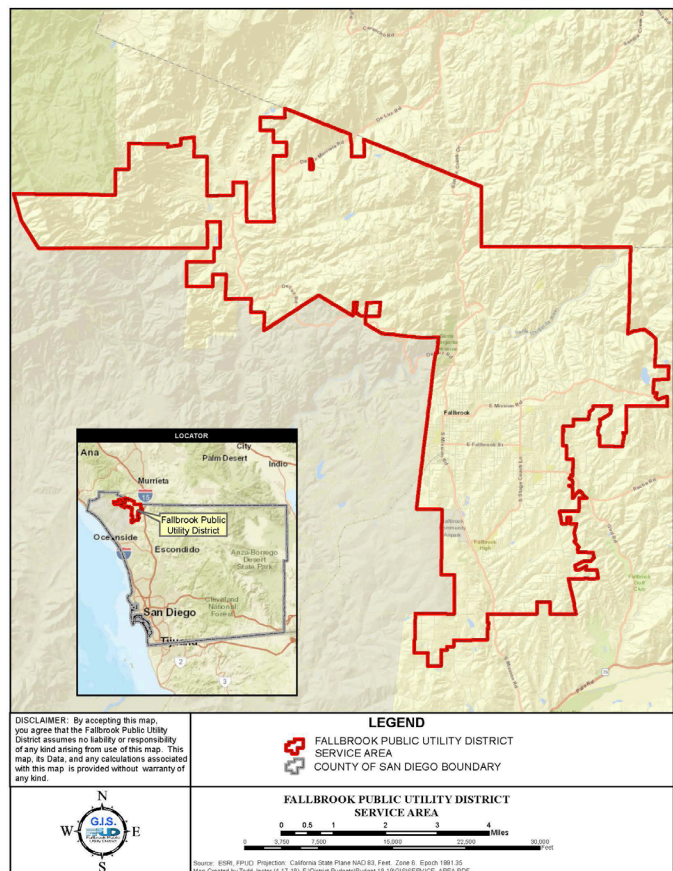
- District #1 - Al Gebhart**
- District #2 - Ken Endter**
- District #3 - Jennifer DeMeo, Vice-President**
- District #4 - Don McDougal, President**
- District #5 - Charley Wolk**

Service Area and Local Economy

San Diego County is the second-most populous county in the state and the fifth-most populous in the United States. The District is located in the north-east region of the county and is rural in character. The District’s service area and pipeline is shown in the accompanying maps. The District is bordered to the west by the Naval Weapons Station and U.S. Marine Corps Base Camp Pendleton, making the District’s service area a bedroom community for Camp Pendleton’s active military and civilian-service workers. The service area’s 2017 population is estimated to be 34,602 with 11,418 households. Fallbrook’s population has remained relatively unchanged over the past several years.

The median household income in Fallbrook was \$60,546, which is less than the state median of \$67,739 and slightly higher than the national average of \$59,039. Being only slightly higher than the national average is noteworthy since California is one of the most expensive states to live in.

The San Diego Association of Governments (SANDAG) projects that the County’s population will approach 4.4 million residents in 2050, up from 3.3 million in 2016. The District’s 2050 housing density is expected to increase slightly as housing demands increase. Employment is also expected to slightly increase by 2050.



Financial Policies

The District maintains certain policies that govern aspects of the District's financial management. The District's maintains the following policies:

- Debt Management Policy – Defines the District's debt management.
- Investment Policy – Establishes permitted investments in compliance with State Code.
- Fund Balance/Reserve Policies – Set target balances for reserves and working capital.
- Capitalization Policy – Establishes the parameters for defining an operating or capital expenditure.

These policies can be found on the District's website as standalone documents or as part of the District's Administrative Code.

Long-Range Planning

The District engages in a wide range of long range planning activities. In 2017, the District completed a comprehensive 10-year financial plan. As part of the financial plan, a Capital Improvement Plan was developed for water, recycled water and wastewater services. In addition, the District also restructured its rates and charges to better align them with the cost of service. Other planning activities include establishing and funding a 115 Trust to offset the District's pension and Other Post Employment Benefits (OPEB) liabilities. On June 30, 2019, the trust held \$7.1 million in assets to offset in District's OPEB and Pension liabilities.

In 2018, the District adopted a new Mission Statement to ensure the District's activities are aligned with the stakeholder interests. To benefit the community of Fallbrook by providing efficient and reliable services the District has identified the following long-range strategic focus areas.

#1 Strategic Focus Area | Water Supply

Need: *The District is almost 100% reliant on imported water purchased from the SDCWA, and has little control over the cost of this water. While our water is reliable due to regional investments in supply and storage, this has also resulted in the cost of water increasing significantly.*

Goal: Provide a reliable, cost-effective water supply through implementation of local water supply projects.

Strategy: Maximize available local water resources through development of our Santa Margarita River water rights settlement, which will provide low-cost water from the Santa Margarita River and resolve over 60 years of water rights litigation between the United States Government and the District. Evaluate further expansion of recycled water supplies, which provide a local, cost-effective drought-proof supply.

#2 Strategic Focus Area | Infrastructure

Need: *The District was formed in 1922 and has aging infrastructure throughout its service area. Over the last few years, pipe failures have caused increased service disruptions and property damage. If not addressed, these problems will increase significantly as the existing infrastructure reaches the end of its useful life.*

Goal: Maintain reliable infrastructure to our customers in the most cost-effective manner.

Strategy: Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

#3 Strategic Focus Area | Efficiency

Need: *While the District has been able to maintain reliable service with limited resources, additional legal and environmental requirements along with rising employee costs require the District to do more with less to help control water and wastewater rates.*

Goal: Create a District culture of continuous improvement through the implementation of systems, processes and goals for all aspects of the organization.

Strategy: Continue taking incremental steps toward developing an organization that is a model in the industry for operational practices and efficiency, and one that is looked to as an industry leader for a smaller utility. Collaborate with other agencies locally and nationally to implement best practices in the industry.

#4 Strategic Focus Area | Community

Need: *The District was formed by the community as a local resource, but the need to increase rates for long-term fiscal sustainability and to address past under-investments in infrastructure negatively affects our customers' public opinion of the District.*

Goal: Improve experience for our customers to help provide a positive impact on the community we serve.

Strategy: Improve messaging and District approach, from field staff to management, to make sure we are approaching our activities with a focus on the customer's perspective. Establish programs that help invest in our community.

#5 Strategic Focus Area | Workforce

Need: *Approximately 40% of our staff are currently eligible or within five years of being eligible for retirement. Recruiting is challenging for qualified replacements with necessary knowledge in water and wastewater operations, heavy construction, finance, and engineering.*

Goal: Develop a resilient organization so that key positions can be filled internally with capable staff with proper training and education.

Strategy: Create an organization where many key positions are developed internally and a formal



program exists to identify staff with management potential and provide necessary training. Establish a work environment and reputation in the industry that draws qualified candidates with external recruitments.

Major Initiatives

Water Affordability

The District has been faced in the past with escalating wholesale water costs driven by major investments in supply reliability made by the San Diego County Water Authority. While the result of these investments is improved water supply reliability, it has also resulted in a corresponding increase in our water rates. The cost of the water we purchase is 50% of our total operating costs for our water enterprise.

Local water supply development, which will reduce our dependence on costly imported water, is one way to mitigate continued wholesale water rate increases. With the water rights litigation with Camp Pendleton

Marine Corps Base settled, the District now has a local supply of untreated water available. The Santa Margarita Conjunctive Use Project (SMCUP) includes a treatment plant and related transmission lines to treat water from the Santa Margarita River and deliver it to the District's customers. Once completed, the SMCUP will provide up to 30% of the District water supply. In addition, the District has secured funding from the Metropolitan Water District to offset some of the costs associated with this local supply. The result of these actions is a cost effective local water supply that provides the District's ratepayers with long-term rate relief from increasing wholesale water costs. This project will begin construction in fiscal year 2020 and it will be one of the major capital investments by the District for the next decade.

Santa Margarita River Conjunctive Use Project

Development of a new groundwater treatment plant to treat water delivered by Camp Pendleton per the executed settlement agreement of US vs FPU. Projected to provide on average 3,100 acre-feet per year of local water. The project construction is expected to take 24 months. Construction began in September 2019 and is expected to be completed in September 2021.

Asset Management

The District has implemented an asset management program that balances the cost of infrastructure rehabilitation with the cost of emergency repairs. Our critical buried infrastructure, such as water mains, have an average service life of 80 to 100 years. In the past, the District's replacement cycle for buried assets was on a replacement cycle of 400 years. With this replacement cycle, the frequency of asset failures was expected to increase significantly over the near-term resulting in an increasing number of emergency water disruptions and property damage claims. In response, the District has proactively managed the renewal and rehabilitation program and is on a path to drive the system service life down from 400 years to 100 years. The recent decreased frequency of asset failures shows that some progress on this program has made, but this is a long-term program to meet the future replacement needs on this program has made, but this is a long-term program to meet the future replacement needs.

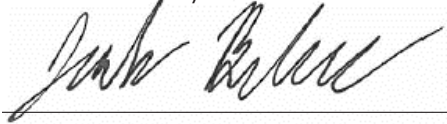
Continuous Improvement

The District is focused on improving the level of service to its customers in the most cost-effective manner and to continuously evaluate and modify operational practices to achieve this goal. This document is an

example of the District’s commitment to continuous improvement and improved financial management and transparency. The District’s organizational chart is shown on the next page.

Acknowledgments

Management would like to thank the Board of Directors for their leadership and vision guiding the implementation of the highest standards of financial management and securing District’s long-term financial sustainability.



Jack Bebee
General Manager

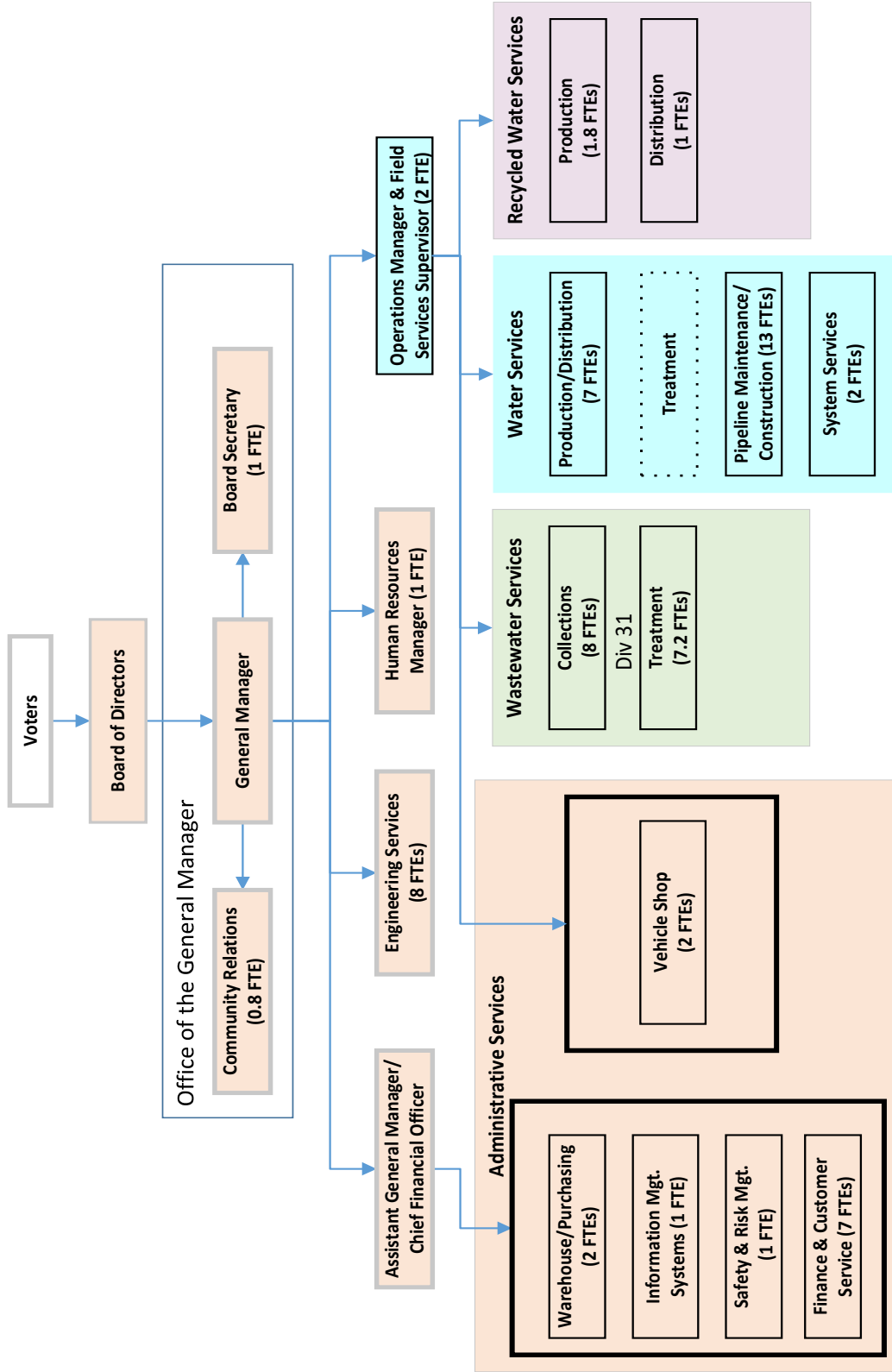


David Shank
Assistant General Manager/CFO



Fiscal Year Organizational Structure (Total FTE 67.8)

**Fiscal Year 2019-2020 Organizational Structure
Total Requested Regular FTE=67.8**



FTE = Full-Time Equivalent
 Future Division excluded from FTE count

Certificate of Achievement for Excellence in Financial Reporting



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Presented to

**Fallbrook Public Utility District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morrill

Executive Director/CEO



FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Directors
Fallbrook Public Utility District
Fallbrook, California

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Fallbrook Public Utility District (District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Offices located in Orange and San Diego Counties

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fallbrook Public Utility District as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the year 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, Schedule of the Proportionate Share of the Net Pension Liability - Defined Benefit Pension Plans, Schedule of Contributions - Defined Benefit Pension Plans, Schedule of Changes in the Net OPEB Liability and Related Ratios, and Schedule of Contributions - OPEB, identified as Required Supplementary Information (RSI) in the accompanying Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Introductory Section, the Schedule of Operating Income and Expenses, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Operating Income and Expenses 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 Operating Income and Expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

White Nelson Nick Evans LLP

Carlsbad, California
November 25, 2019

Management's Discussion and Analysis

This section of the Fallbrook Public Utility District's (District) annual financial report provides management's summary and analysis of the District's financial performance for fiscal year ending June 30, 2019. Management's Discussion and Analysis (MD&A) are broken into the following sections:

- Financial Statement Overview
- Financial Highlights & Analysis
- Capital Assets
- Debt Management
- Currently Known Facts, Conditions and Decisions

Interested parties are encouraged to read this section of the District's annual financial report in conjunction with the Letter of Transmittal and the detailed financial statements included in this report.

Financial Statement Overview

The financial statements report information about the District's financial position and result of operations using the accrual basis of accounting, similar to methods used by private sector companies. The statements also present changes in cash balances, and information about both short and long-term activities. This section of the annual report contains three components: Management's Discussion and Analysis, the Basic Financial Statements, and the Notes to the Financial Statements.

The Basic Financial Statements include the following:

- The Statement of Net Position present financial information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The Statement of Revenues, Expenses and Changes in Net Position accounts for the District's activities during the last year. It provides the basis for measuring the relative success in recovering operational costs.
- The Statement of Cash Flows report the District's cash receipts and disbursements during the period, classified into operating, financing, and investing categories.
- Fiduciary Fund Statements include a Statement of Net Positions and Statement of Changes in Net Fund Position. These provide information about District's OPEB Trust Fund balance and Fund's activity over the year. Because the District has not utilized the Fund for OPEB expenses, there is little Fund activity this year.
- The Notes to the Financial Statements provide additional information and present material disclosures required by generally accepted accounting principles that are not otherwise visible in the financial statements. The notes immediately follow the statements.
- The Supplementary Information provides the District's operating income and expenses for each of the District's services and in aggregate.

Interested parties are encouraged to read this section of the District's annual financial report in conjunction with the Letter of Transmittal and the detailed financial statements included in this report.

Financial Highlights

This year the District's net financial position increased 11.6% from the June 30, 2018 restated balance of \$86,083,307 to a June 30, 2019 balance of \$96,068,427. The District's total assets increased to \$145,089,764 which is a 5.7% increase from last year. Liabilities decreased to \$51,250,632 or 5.6% from year ending June 30, 2018. Of the District's assets, 78.3% are related to infrastructure, which is the largest class of assets.

The District's operating loss widened from \$3,437,777 in fiscal year ending June 30, 2018 to \$4,763,867 in fiscal year ending June 30, 2019 as expenses outpaced increases in revenues. Overall the District's operating revenues decreased 9.8% or from \$29,882,022 to \$26,944,550 in fiscal years ending June 30, 2018 and 2019, respectively. After net non-operating revenues and capital contributions the District's fiscal year ending June 30, 2019 change in net position was \$9,985,120. During the past year the District made contributions to the Pension and OPEB 115 Trust bring the trust balance from \$2,336,531 fiscal year ending June 30, 2018 to \$7,108,112 fiscal year ending June 30, 2019.

Condensed Statements of Net Position

	For the Year Ended June 30, 2019	For the Year Ended June 30, 2018	For the Year Ended June 30, 2017
Assets			
Current Assets	\$ 21,737,022	\$ 17,589,075	\$ 19,124,049
OPEB and Restricted Assets	9,752,965	4,968,360	4,114,814
Capital Assets, net	113,599,777	114,647,596	108,717,795
Total Assets	145,089,764	137,205,031	131,956,658
Deferred Outflows of Resources	3,419,768	4,014,167	2,980,305
Liabilities			
Current liabilities	5,825,260	6,679,433	5,671,488
Noncurrent liabilities	45,425,373	47,605,222	46,947,511
Total Liabilities	51,250,633	54,284,655	52,618,999
Deferred Inflows of Resources	1,190,472	851,236	635,046
Net Position			
Net Investment in Capital Assets	80,125,400	79,333,568	72,519,098
Restricted	9,477,694	4,711,487	3,475,457
Unrestricted	6,465,333	2,038,252	5,688,363
Total Net Position	\$ 96,068,427	\$ 86,083,307	\$ 81,682,918

Financial Analysis

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the District's enterprise fund activities in a way that will help answer questions as to whether the District, as a whole, is better or worse off as a result of this year's activities. These two statements report the net position of the District and changes in it. One can think of the District's net position as the difference between assets and deferred outflows of resources (what is owned) and liabilities and deferred inflows of resources (what is owed) and is one way to measure its financial health or financial position.

Fiscal year 2019 compared to Fiscal Year 2018

The largest and most significant portion of the District's net position is its investment in capital assets, which are used to provide services to its customers. Water assets include the pipeline distribution system, the dam at the Red Mountain reservoir and equipment and structures. Wastewater assets include the sewage collections system, wastewater treatment plant, solar generating plant, equipment and ownership of the Oceanside Ocean Outfall. Capital assets decreased to \$113,599,777 in fiscal year ending June 30, 2019.

Current assets increased by \$4,147,947 from fiscal year ending June 30, 2018. The increase is primarily driven by the sale of the District's Santa Margarita River properties for \$10 million. At year-end, the trust offsetting the District's OPEB and pension liabilities held \$7,108,112, \$1,006,649 for OPEB and \$6,101,463 for pensions. The OPEB assets are reported in this report as a Fiduciary Fund in compliance with GASB 75.

Net capital assets remained relatively flat with a decrease of \$1,047,819 in fiscal year ending June 30, 2019. The decrease was driven by the sale of the Santa Margarita River properties with a cost basis of \$667,000. District wide depreciation in fiscal year ending June 30, 2019 was \$6,158,589. The slight decrease in net capital assets indicates that the District's capital investments in fiscal year ending June 30, 2019 were slightly outpaced by the rate of asset depreciation.

Current liabilities decrease by \$854,173 from fiscal year ending June 30, 2018. The driver behind the decrease in current liabilities was a corresponding decrease in accounts payable, which is related to construction related outflows.

The District's total net position increased by \$9,985,120 primarily attributable to the \$9,338,297 net gain on disposal of capital assets. Other nonoperating revenue, which is predominantly made up of property taxes, an capital improvement charges, and investment income. These along with offsetting nonoperating expenses of \$909,966, compensated for the operating loss of \$4,763,867.

Fiscal year 2018 compared to Fiscal Year 2017

The largest and most significant portion of the District's net position is its investment in capital assets, which are used to provide services to its customers. Water assets include the pipeline distribution system, the dam at the Red Mountain reservoir and equipment and structures. Wastewater assets include the sewage collections system, wastewater treatment plant, solar generating plant, equipment and ownership of the Oceanside Ocean Outfall. Capital assets increased to \$114,647,596 in fiscal year ending June 30, 2018.

Current assets decreased by \$1,534,974 million from fiscal year ending June 30, 2017. The decrease is primarily driven by Pay-as-you-go (PAYGO) funding of capital projects and transfers to the District's Section 115 Trust established with PARS to fund OPEB and pension liabilities. At year-end, the trust offsetting the District's OPEB and pension liabilities held \$2,336,531, \$947,784 for OPEB and \$1,388,747, respectively. The OPEB assets are reported in this report as a Fiduciary Fund in compliance with GASB 75, which is a new requirement.

Net capital assets remained relatively flat with an increase of \$1,684,377 in fiscal year ending June 30, 2018, as restated. District wide depreciation in fiscal year ending June 30, 2018 was \$5,693,723. The slight increase in net capital assets indicates that the District's capital investments in fiscal year ending June 30, 2018 slightly outpaced the rate of asset depreciation.

Current liabilities increased by \$1,007,945 from fiscal year ending June 30, 2017. The driver behind the increase in current liabilities was corresponding increase in accounts payable, which is related to construction related outflows.

The District's total net position increased by \$914,870 primarily attributable to the \$4,211,886 in nonoperating revenue, which is predominantly made up of property taxes and capital improvement charges, and \$140,761 in capital contributions. These along with offsetting nonoperating expenses of \$1,232,411, compensated for the operating loss of \$3,437,777.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	For the Year Ended June 30, 2019	For the Year Ended June 30, 2018	For the Year Ended June 30, 2017
Operating revenues	\$ 26,944,550	\$ 29,882,022	\$ 27,256,065
Operating expenses	31,708,417	33,319,799	29,890,177
Operating loss	(4,763,867)	(3,437,777)	(2,634,112)
Non-Operating revenue, net	14,675,198	4,211,886	4,174,506
Change in net position before capital contributions	9,911,331	774,109	1,540,394
Capital Contributions	73,789	140,761	832,672
Change in net position	9,985,120	914,870	2,373,066
Net Position - beginning	86,083,307	81,682,918	79,309,852
Prior Period Adjustments	—	3,485,519	—
Net position - end of year	\$ 96,068,427	\$ 86,083,307	\$ 81,682,918

Fiscal year 2019 compared to Fiscal Year 2018

Fiscal year ending June 30, 2019 water revenues were down 16% or \$3,984,445 from fiscal year ending June 30, 2018. Wastewater revenues were up 3.9% from fiscal year ending June 30, 2018 levels due to rate increases and higher billable flows. While the Statements of Net Position shows the District's overall financial position, the Statements of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of the changes in the District's fiscal year ending June 30, 2019 net position. The District's net position increased by \$9,985,120 during fiscal year ending June 30, 2019.

Operating revenue decreased \$2,937,472 primarily due to water sales of 7,496 AF in fiscal year ending June 30, 2019 compared to 9,313 during fiscal year ending June 30, 2018. Recycled water sales were 562 AF, which was down from 704 AF in fiscal year ending June 30, 2018. Wastewater revenues increased by \$205,637 versus fiscal year ending June 30, 2018. Operating revenues includes potable water and recycled sales, monthly District water and wastewater operations charges and pass-through charges from the SDCWA.

Operating expenses decreased by \$1,611,382 versus fiscal year ending June 30, 2018. The decrease in operating expense was driven by a \$1,802,434 decrease in the cost of water from fiscal year ending June 30, 2018. Depreciation expense increased by \$464,866 from fiscal year ending June 30, 2018 while other operating costs decreased by \$273,814. The operating expenses decrease also includes costs associated with changes in the actuarial valuation of the District's pension obligation, which like depreciation, is the systematic allocation of the cost over a specified time horizon.

The District's operating loss of \$4,763,867 when netted against nonoperating revenue of \$14,675,198 results in a \$9,911,331 increase in net position before capital contributions. This is a \$10,463,312 increase from fiscal year ending June 30, 2018 in nonoperating revenue. The majority of nonoperating revenues came from the District's sale of the Santa Margarita River properties which resulted in a net gain of \$9,308,952. The District's other nonoperating revenues come from six primary sources, property taxes in the amount of \$1,106,034, water and wastewater capital improvement charges in the amount of \$2,505,876, investment income of \$915,275, water availability charges in the amount of \$204,359, lease revenues in the amount of \$199,433 and connection fees of \$180,966.

Supplemental information for each of the three operations divisions can be found on page 60 of this report.

Fiscal year 2018 compared to Fiscal Year 2017

Fiscal year ending June 30, 2018 water sales were up 14% or \$3,000,013 from fiscal year ending June 30, 2017. Wastewater revenues were down 6.6% from fiscal year ending June 30, 2017 levels due to issues associated with the methodology used to calculate billable wastewater flows. While the Statements of Net Position shows the District's overall financial position, the Statements of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of the changes in the District's fiscal year ending June 30, 2018 net position. The District's net position increased by \$914,870 during fiscal year ending June 30, 2018.

Operating revenue increased \$2,625,957 due to increased water sales of 9,313 AF in fiscal year ending June 30, 2018 compared to 8,592 during fiscal year ending June 30, 2017. Recycled water sales were up slightly to 704 AF as compared to 614 AF in fiscal year ending June 30, 2017. Wastewater revenues decreased by \$369,293 versus fiscal year ending June 30, 2017. Operating revenues includes potable water and recycled sales, monthly District water and wastewater operations charges and pass-through charges from the SDCWA.

Operating expenses increased by \$3,429,622 versus fiscal year ending June 30, 2017. The increase in operating expense was driven by a \$1,386,165 increase in the cost of water from fiscal year ending June 30, 2017. Depreciation expense increased by \$399,413 from fiscal year ending June 30, 2017 while other operating costs increased by \$3,030,209. The operating increase also includes costs associated with changes in the actuarial valuation of the District’s pension obligation, which like depreciation, is the systematic allocation of the cost over a specified time horizon.

The District’s operating loss of \$3,437,777 when netted against nonoperating revenue of \$4,211,886 results in a \$774,109 increase in net position before capital contributions. The District’s nonoperating revenues come from five primary sources, property taxes in the amount of \$1,984,543, water and wastewater capital improvement charges in the amount of \$2,476,452, water availability charges in the amount of \$229,400, connection fees in the amount of \$411,774 and the Federal Interest Rates Subsidy Payments of \$145,338. Other revenue was slightly up from the prior year primarily due to connection fee revenues.

Supplemental information for each of the three operations divisions can be found on page 65 of this report.

Capital Assets

The District implemented an asset management program to improve the system reliability and reduce the number of unscheduled repairs. A critical component of the asset management program is the District’s pipeline and valve replacement program. In fiscal year ending June 30, 2019, the District replaced 16,042 feet of pipe and 427 valves. The District’s pipeline and valve replacement program’s goal is to reduce the replacement cycle of pipelines to 100 years from the previous 400 year replacement cycle. This year the District completed and capitalized its Santa Margarita Water Rights capital project. This multi-decade project resulted in perpetual rights to the Santa Margarita River water. This local supply will provide water to future generations to come. The District also sold land that was purchased decades ago to support impounding water in the Santa Margarita River Valley to The Wildlands Conservancy. The \$10 million in sale proceeds were used to fund pension obligations and to create a reserve to pay debt service on the Santa Margarita Conjunctive Use Water Treatment Plant in cases of extreme drought.

June 30, 2019, the District has the following commitments with respect to unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Completion Date
De Luz Road Pipeline Replacement	\$ 850,000	2019
Sandia Tank Improvements	\$ 117,700	2019

Additional information on the District’s capital asset activity can be found at Note 3 of the Notes to the Basic Financial Statements.

Debt Administration

At June 30, 2019, the District had \$33.5 million of long-term debt outstanding. \$3.5 million of this debt is attributable to the wastewater Qualified Energy Conservation Bonds (QECCB) solar loan, which qualifies for Federal Interest Rate Subsidy payments. The loan was originally for \$7.227 million. An additional \$4.1 million of indebtedness is attributable to the Red Mountain Filtration Plant SRF loan, which was originally for \$6.16 million. \$25.9 million of indebtedness is attributable to the Wastewater Treatment Plant SRF loan. The total loan principal amount was \$29.6 million with payments on the loan commencing in March 2017. During the year ended June 30, 2019 \$1.8 million of principal payments were made on the District's outstanding long-term obligations.

More detailed information about the District's debt structure is found in Note 4 to the Basic Financial Statements.

Currently Known Facts

On August 28, 2019, the District executed a Drinking Water State Revolving Fund Loan for \$53.3 million to fund the District's Santa Margarita Conjunctive-Use Project Water Treatment Plant. Construction on the project has begun and it is expected to be completed in Fiscal Year Ending June 30, 2022.

FALLBROOK PUBLIC UTILITY DISTRICT

ENTERPRISE FUND
STATEMENT OF NET POSITION
June 30, 2019

ASSETS

Current Assets

Cash and cash equivalents (Note 2)	\$ 3,997,334
Investments (Note 2)	11,647,359
Receivables - water sales and services	4,029,630
Accrued interest receivable	79,724
Property taxes receivable	12,370
Other receivables	87,217
Inventory (Note 5)	1,839,995
Prepaid expenses and other deposits	<u>43,393</u>
Total current assets	<u>21,737,022</u>

Noncurrent Assets

Restricted Assets

Cash and cash equivalents	6,693,439
Investments	<u>3,059,526</u>
Total Restricted Assets	<u>9,752,965</u>

Capital assets (Note 3)

Capital assets, not being depreciated	14,145,536
Capital assets being depreciated, net	<u>99,454,241</u>
Total capital assets, net	<u>113,599,777</u>
Total noncurrent assets	<u>123,352,742</u>
Total assets	<u>145,089,764</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred amounts from Pension (Note 6)	3,197,216
Deferred amounts from OPEB (Note 7)	<u>222,552</u>
Total Deferred Outflows of Resources	<u>\$ 3,419,768</u>

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

(continued)

FALLBROOK PUBLIC UTILITY DISTRICT

ENTERPRISE FUND
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2019

LIABILITIES

Current liabilities	
Accounts payable	\$ 2,871,022
Accrued wages	247,894
Construction and other deposits	8,908
Accrued interest payable	217,795
Compensated absences, current portion (Note 1)	586,045
Current portion of other long-term debt (Note 4)	1,893,596
Total current liabilities	<u>5,825,260</u>
Noncurrent Liabilities	
Health retirement account liability	258,421
Net OPEB liability (Note 7)	135,077
Net pension liability (Note 6)	12,541,929
Retention payable	30,098
Compensated absences, net of current portion (Note 1)	879,067
Long-term debt - net of current portion (Note 4)	31,580,781
Total Noncurrent Liabilities	<u>45,425,373</u>
Total Liabilities	<u>51,250,633</u>

DEFERRED INFLOWS OF RESOURCES

Deferred amounts from Pension (Note 6)	957,275
Deferred amounts from OPEB (Note 7)	118,346
Deferred revenue	114,851
Total Deferred Inflows of Resources	<u>1,190,472</u>

NET POSITION

Net investment in capital assets	80,125,400
Restricted for:	
1958 Annex projects	1,213,780
Debt service	2,162,451
Pension (Note 6)	6,101,463
Unrestricted	6,465,333
Total Net Position	<u>\$ 96,068,427</u>

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

FALLBROOK PUBLIC UTILITY DISTRICT

ENTERPRISE FUND
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 For the year ended June 30, 2019

OPERATING REVENUES	
Water	\$ 20,481,788
Recycled water	998,942
Wastewater	<u>5,463,820</u>
Total operating revenues	<u>26,944,550</u>
OPERATING EXPENSES	
Cost of water	12,650,795
Water operations	7,252,060
Recycled water operations	600,294
Wastewater operations	<u>5,046,679</u>
Operating expenses before depreciation	<u>25,549,828</u>
Operating income before depreciation	1,394,722
Depreciation	<u>6,158,589</u>
Operating loss	<u>(4,763,867)</u>
NONOPERATING REVENUES (EXPENSES)	
Property taxes	2,106,034
Capital improvements charges	2,505,876
Investment income	915,275
Water availability charges	204,359
Lease revenue	199,433
Intergovernmental revenue - federal interest rate subsidy	134,924
Connection fees	180,966
Net gain on disposal of capital assets	9,338,297
Interest expense	<u>(909,966)</u>
Total nonoperating revenues (expenses)	<u>14,675,198</u>
Changes in net position before capital contributions	<u>9,911,331</u>
Capital contributions	
Capital asset contributions - donated from developers	<u>73,789</u>
Total capital contributions	<u>73,789</u>
Change in net position	<u>9,985,120</u>
Net position, beginning of year	86,083,307
Net position - end of year	<u><u>\$ 96,068,427</u></u>

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

FALLBROOK PUBLIC UTILITY DISTRICT

ENTERPRISE FUND
STATEMENT OF CASH FLOWS
For the year ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 26,957,492
Payments for water	(13,239,336)
Payments for services and supplies	(5,099,812)
Payments for employee wages, benefits and related costs	(7,046,803)
	<u>1,571,541</u>
Net cash provided by operating activities	<u>1,571,541</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property taxes	<u>2,102,847</u>
Net cash provided by noncapital financing activities	<u>2,102,847</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(5,977,474)
Proceeds from sales of capital assets	9,975,952
Principal payments on long-term debt	(1,839,651)
Interest paid	(922,536)
Lease revenues collected	199,433
Intergovernmental revenue - federal interest rate subsidy	134,924
Capital improvement charges and connection fees	2,742,322
Water availability charges	204,359
	<u>4,517,329</u>
Net cash provided by capital and related financing activities	<u>4,517,329</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(5,416,513)
Sales of investments	3,135,714
Interest received	580,308
	<u>(1,700,491)</u>
Net cash used by investing activities	<u>(1,700,491)</u>
Net change in cash and cash equivalents	6,491,226
Cash and cash equivalents - beginning	<u>4,199,547</u>
Cash and cash equivalents - ending	<u>\$ 10,690,773</u>
Financial Statement Presentation	
Cash and cash equivalents	\$ 3,997,334
Cash and cash equivalents - Restricted Assets	6,693,439
Total Cash and cash equivalents	<u>\$ 10,690,773</u>

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

FALLBROOK PUBLIC UTILITY DISTRICT

ENTERPRISE FUND
STATEMENT OF CASH FLOWS (CONTINUED)
For the year ended June 30, 2019

Reconciliation of operating income (loss) to net cash provided by operating activities	
Operating loss	\$ (4,763,867)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	6,158,589
(Increase) Decrease in:	
Receivables	12,942
Inventory	145,478
Prepaid expenses and other deposits	19,207
Deferred outflows of resources	594,399
Increase (decrease) in:	
Accounts payable	(722,062)
Accrued wages	(49,918)
HRA liability	17,607
Net OPEB obligation	(148,692)
Net pension liability	(204,365)
Compensated absences	172,987
Deferred inflows of resources	224,385
Deferred revenue	114,851
Net cash provided by operating activities	<u>\$ 1,571,541</u>
 Noncash investing and capital and related financing activities	
Change in fair value of investments	\$ 334,417
Capital assets contributed	\$ 73,789

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

FALLBROOK PUBLIC UTILITY DISTRICT

FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET POSITION - OPEB TRUST FUND
June 30, 2019

Assets

Cash and Cash Equivalents \$ 1,006,649

Net Position

Restricted for other postemployment benefits \$ 1,006,649

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

FALLBROOK PUBLIC UTILITY DISTRICT

FIDUCIARY FUND

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - OPEB TRUST FUND

For the year ended June 30, 2019

Additions	
Employer contributions	\$ -
Investment income	61,267
Total additions	<u>61,267</u>
Deductions	
Administration	<u>2,402</u>
Change in net position	<u>58,865</u>
Net position - beginning of year	<u>947,784</u>
Net position - end of year	<u>\$ 1,006,649</u>

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

June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization and Operations of the District

Fallbrook Public Utility District (District) was incorporated as a political subdivision of the State of California in 1922 and operates under the provisions of the Public Utility District Code as adopted in 1953. The District constructs, operates and maintains facilities to supply water to the town of Fallbrook and the surrounding residential and agricultural areas comprising approximately 27,963 acres, which includes the former De Luz Heights Municipal Water District (annexed in 1990). The District is a member of the San Diego County Water Authority, and as that organization is a member of the Metropolitan Water District of Southern California, the District is entitled to pro rata participation in all water supplies available to those agencies. The District is governed by a Board of Directors consisting of five board members, each of whom is elected to office for a term of four years by registered voters of the District.

In November 1994, the Fallbrook Sanitary District (which is wholly included within the Fallbrook Public Utility District) dissolved that district and was incorporated into the Fallbrook Public Utility District to provide wastewater services in Fallbrook. The provisions of the dissolution and assumption of services established a separate improvement district to identify the tax base and debt obligations of the former Fallbrook Sanitary District.

Under the terms and conditions of the Local Agency Formation Commission (LAFCO), a San Diego County agency that oversees special districts, the debt of the former Fallbrook Sanitary District, now identified as Improvement District S, existing at the time of the merger was paid from taxes and other revenues raised within the Improvement District "S". The debt of the former De Luz Heights Municipal Water District was also paid from revenues and taxes paid in the De Luz area.

b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The District's enterprise and fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Under the economic measurement focus, all assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses and Changes in Net Position. When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation: (Continued)**

The District, as an enterprise fund, accounts for its operations in a manner similar to private business enterprises. The intent of the governing body is that the costs (including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The focus of enterprise fund measurement is upon determination of operating income, changes in net position, and cash flows. The District follows the accrual basis of accounting. 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.

The District also reports a fiduciary fund for the activity related to its other postemployment benefits (OPEB) trust. Fiduciary funds are used to account for assets held by the District in a trustee capacity.

The basic financial statements of the Fallbrook Public Utility District have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting financial reporting purposes.

Net position of the District is classified into three components: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. These classifications are defined 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 borrowings 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 net position with constrained 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)**c. New Accounting Pronouncements:**Current Year Standards:

- GASB 83 – “*Certain Asset Retirement Obligations*,” effective for periods beginning after June 15, 2018, and did not impact the District.
- GASB 88 – “*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*,” effective for periods after June 15, 2018, 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 84 – “*Fiduciary Activities*,” effective for periods beginning after December 15, 2018.
- GASB 87 – “*Leases*,” effective for periods beginning after December 15, 2019.
- GASB 89 – “*Accounting for Interest Cost Incurred before the End of a Construction Period*,” effective for periods beginning after December 15, 2019.
- GASB 90 – “*Majority Equity Interests an amendment of GASB Statements No. 14 and No. 61*,” effective for periods beginning after December 15, 2018.
- GASB 91– “*Conduit Debt Obligations*,” effective for periods beginning after December 15, 2020.

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 outflow related to pensions for employer contributions made after the measurement date of the net pension liability.
- Deferred outflow related to other post-employment benefits for employer contributions made after the measurement date of the net other post-employment benefit liability.
- Deferred outflow related to pensions resulting from the difference in projected and actual earnings on investments of the pension plan fiduciary net position. This amount is amortized over five years.
- Deferred outflow related to pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans.
- Deferred outflow related to pensions resulting from the changes in assumptions. These amounts are 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**d. Deferred Outflows/Inflows of Resources: (continued)**

- Deferred outflow related to other post-employment benefits 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.

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 that will qualify for reporting in this category:

- Deferred inflow 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.
- Deferred inflow related to pensions resulting from the 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 inflow related to other post-employment benefits resulting from the 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 inflow related to changes in proportion and differences between employer contributions and proportionate share of contributions. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans.
- Deferred inflow related to other post-employment benefits resulting from the difference in projected and actual earnings on investments of the other post-employment benefits plan fiduciary net position. This amount is amortized over five years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**e. Cash, Cash Equivalents and Investments**Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents include petty cash, demand deposits with financial institutions, deposits in money market mutual funds (SEC registered), and deposits in external investment pools, and marketable securities that mature within 90 days of purchase. Such marketable securities and deposits in money market funds are carried at fair value. Investment pool deposits are carried at the District's proportionate share of the fair value of each pool's underlying portfolio.

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.

Investment Valuation

Investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

f. Water Sales

Water sales revenue is recorded when water is delivered and service is rendered, including an estimated amount for unbilled service.

g. Accounts Receivable and Allowance for Doubtful Accounts

The District participates in the County of San Diego's Teeter Plan. Under the Plan, each year in June, the County advances the delinquent accounts receivables amount to the District. The advance is then collected from the taxpayer by the County. The County also receives penalty payments.

h. Inventories

Inventory consists of water stored at Red Mountain Reservoir and in any of the District's water distribution tanks in the service area, warehouse materials, supplies and equipment necessary to support operations. Inventory is valued at cost using the weighted average cost method. Warehouse materials, supplies and equipment are charged to inventory stores expense when they are issued at the weighted average cost. Water inventory is charged to the cost of water when sold.

i. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses and are recorded utilizing the consumption method.

j. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k. Capital Assets and Depreciation

Capital assets are valued at cost when constructed or purchased. Donated assets, donated works of art and similar assets, and capital assets received in a service concession arrangement are reported at acquisition value. The District capitalizes all plant and office equipment with a value of \$5,000 or greater and a useful life of greater than three years. Improvements to existing capital assets are capitalized if they extend the useful life of the asset by three or more years and the cost of the improvement is \$5,000 or greater. Interest costs incurred while constructing capital assets can be capitalized as part of the specific capital assets. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Depreciation on capital assets in service, excluding land, is computed using the straight-line method over the estimated useful lives of such assets and is reported as an operating expense. Capital projects are subject to depreciation or amortization when completed and placed in service. The ranges of estimated useful lives of capital assets are as follows:

Water Transmission and Distribution System:	
Impounding dams and reservoirs	50 years
Pipelines	50 years
Other	20 to 25 years
Wastewater collection system, and treatment and disposal facilities	20 to 50 years
Buildings and structures	45 years
Equipment	3 to 10 years

l. Compensated Absences

Vested or accumulated vacation and sick leave is recorded as an expense and liability as benefits accrue to employees. Changes in compensated absences for the year ended June 30, 2019, were as follows:

Balance			Balance	Due Within
July 1, 2018	Additions	Deletions	June 30, 2019	One Year
\$ 1,292,125	\$ 809,305	\$ (636,318)	\$ 1,465,112	\$ 586,045

m. Contributed Capital, Connection Fees and Water Availability Charges (Capacity Fees)

Capital contributions for water and wastewater represent contributions of capital assets from developers and revenues from the California State proposition programs. Capital contributions are recorded in the statement of revenues, expenses and changes in net position at acquisition value at the date the ownership is transferred to the District.

Connection and water availability charges (capacity fees) for water and sewer represent purchases of water meters and fees to connect to the water distribution system or connect to the wastewater collections system by developers or landowners. Connection fees and water availability charges are used strictly for capital improvement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. 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.

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

o. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

p. 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.

q. Other Postemployment Benefits

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District’s OPEB Plan and additions to/deductions from the OPEB Plans’ fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the District’s OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2019 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Current Assets:

Cash and cash equivalents	\$ 3,997,334
Restricted cash and cash equivalents	6,693,439
Investments	11,647,359
Restricted investments	3,059,526
Cash and cash equivalents with OPEB trust*	<u>1,006,649</u>
Total cash and investments	<u><u>\$26,404,307</u></u>

Cash and investments consist of the following:

Cash on hand	\$ 1,150
Deposits with financial institutions	1,520,410
Investments	<u>24,882,747</u>
Total cash and investments	<u><u>\$26,404,307</u></u>

*Reported on statement of fiduciary assets and liabilities.

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

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of funds within the pension and other post-employment benefit (OPEB) trusts that are governed by the agreement of the District and the trustee, and debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District’s investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Quality Requirements (S & P Rating)
U.S. Treasury Obligations	5 Years	No Limitation	No Limitation	No Limitation
Federal Agencies	5 Years	No Limitation	75%	No Limitation
State Obligations	5 Years	25%	5%	A/A-1
Supranationals	5 Years	30%	No Limitation	AA
Banker's Acceptances	180 Days	25%	5%	A-1
Commercial Paper	270 Days	25%	10%	A-1
Negotiable Certificates of Deposit	5 Years	30%	5%	A/A-1
Repurchase Agreements	1 Year	10%	No Limitation	No Limitation
Medium-Term Notes	5 Years	30%	5%	A
Passbook and Money Market Savings Accounts	No Limitation	No Limitation	No Limitation	No Limitation
Local Agency Investment Fund (LAIF)	No Limitation	No Limitation	No Limitation	No Limitation
County Pooled Investment Funds	No Limitation	No Limitation	No Limitation	No Limitation
California Local Agency Obligations	5 Years	25%	5%	A/A-1
Joint Powers Authority Pool	No Limitation	No Limitation	No Limitation	No Limitation
Money Market Mutual Funds	No Limitation	20%	No Limitation	AAA
Mortgage Pass-Through Securities	5 Years	20%	5%	AA

2. CASH AND INVESTMENTS (Continued)

Investments Authorized by Debt Agreements:

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

Disclosures Relating to 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 is maturing or coming close to maturity evenly over time to provide the 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 at June 30, 2019.

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)	\$ 231,661	\$ 231,661	\$ -	\$ -	\$ -
San Diego County Treasurer Pool	15,077	15,077	-	-	-
California Asset Management Program (CAMP)	2,821,438	2,821,438	-	-	-
Asset Backed Securities	946,827	3,034	103,454	840,339	-
Medium-Term Notes	4,072,362	-	2,412,248	1,660,114	-
Municipal Bonds	172,654	-	172,654	-	-
Supranational Agency Bonds	139,468	-	139,468	-	-
Negotiable Certificates of Deposit	1,105,009	566,199	538,810	-	-
U.S. Agency Securities	253,317	-	253,317	-	-
U.S. Treasury Securities	7,903,944	184,147	231,812	7,487,985	-
Federal Agency Collateralized Mortgage Obligations	112,878	-	-	112,878	-
PARS Pooled Trust - Pension Trust	6,101,463	6,101,463	-	-	-
PARS Pooled Trust - OPEB Trust	1,006,649	1,006,649	-	-	-
Total	\$ 24,882,747	\$ 10,929,668	\$ 3,851,763	\$ 10,101,316	\$ -

2. CASH AND INVESTMENTS (Continued)

Disclosures Relating to 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 Standard & Poor’s (S&P) rating for each investment type at June 30, 2019.

Investment Type	Total	Minimum Legal Rating*	Ratings as of Year End				
			Exempt from Disclosure	AAA	AA	A	Not Rated
Local Agency Investment Fund (LAIF)	\$ 231,661	Exempt	\$ -	\$ -	\$ -	\$ -	\$ 231,661
San Diego County Treasurer Pool	15,077	Exempt	-	-	-	-	15,077
California Asset Management Program (CAMP)	2,821,438	AAA	-	2,821,438	-	-	-
Asset Backed Securities	946,827	A	-	946,827	-	-	-
Medium-Term Notes	4,072,362	A	-	-	-	4,072,362	-
Municipal Bonds	172,654	A/A-1	-	-	172,654	-	-
Supranational Agency Bonds	139,468	AA	-	139,468	-	-	-
Negotiable Certificates of Deposit	1,105,009	A/A-1	-	-	538,812	566,197	-
U.S. Agency Securities	253,317	N/A	-	-	253,317	-	-
U.S. Treasury Securities	7,903,944	Exempt	7,903,944	-	-	-	-
Federal Agency Collateralized Mortgage Obligations	112,878	AA	-	-	112,878	-	-
PARS Pooled Trust - Pension Trust	6,101,463	Exempt	-	-	-	-	6,101,463
PARS Pooled Trust - OPEB Trust	1,006,649	Exempt	-	-	-	-	1,006,649
Total	\$ 24,882,747		\$ 7,903,944	\$ 3,907,733	\$ 1,077,661	\$ 4,638,559	\$ 7,354,850

* Required to be rated accordingly by at least one Nationally Recognized Statistical Rating Organization (NRSRO)

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. The District holds no 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, 2019.

2. CASH 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 custodial credit 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 California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government 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. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2019, \$469,211 of the District's deposits with financial institutions in excess of the Federal insurance limits were held in collateralized accounts.

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). Investments measured at cost or net asset value (NAV) are not subject to fair value measurement hierarchy.

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.
- Level 2: Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

2. CASH AND INVESTMENTS (Continued)Fair Value Measurements (Continued)

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

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	June 30, 2019
Investments by Fair Value Level				
Asset Backed Securities	\$ -	\$ 946,827	\$ -	\$ 946,827
Medium-Term Notes	-	4,072,362	-	4,072,362
Municipal Bonds	-	172,654	-	172,654
Supranational Agency Bonds	-	139,468	-	139,468
Negotiable Certificates of Deposit	-	1,105,009	-	1,105,009
U.S. Agency Securities	-	253,317	-	253,317
U.S. Treasury Securities	-	7,903,944	-	7,903,944
Federal Agency Collateralized Mortgage Obligations	-	112,878	-	112,878
Total Investments by Fair Value Level	<u>\$ -</u>	<u>\$ 14,706,459</u>	<u>\$ -</u>	<u>14,706,459</u>
Investments measured at Cost or Net Asset Value (NAV)				
Local Agency Investment Fund (LAIF)				231,661
San Diego County Treasurer Pool				15,077
California Asset Management Program (CAMP)				2,821,438
PARS Pooled Trust - Pension Trust				6,101,463
PARS Pooled Trust - OPEB Trust				1,006,649
Total Investments at Cost or Net Asset Value (NAV)				<u>10,176,288</u>
Total Investments				<u>\$ 24,882,747</u>

3. CAPITAL ASSETS

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

	Balance June 30, 2018	Additions	Deletions	Transfers/ Reclassifications	Balance June 30, 2019
Capital assets, not being depreciated:					
Land and property rights-water	\$ 5,770,774	\$ -	\$ (667,000)	\$ 6,600,296	\$ 11,704,070
Land and property rights-wastewater	1,128,164	-	-	-	1,128,164
Construction in progress	7,492,319	5,420,961	(52,212)	(11,547,766)	1,313,302
Total capital assets, not being depreciated	<u>14,391,257</u>	<u>5,420,961</u>	<u>(719,212)</u>	<u>(4,947,470)</u>	<u>14,145,536</u>
Capital assets, being depreciated:					
Water Operations:					
Impounding Dam	30,522,511	-	-	61,836	30,584,347
Distribution System	48,347,415	-	-	3,668,486	52,015,901
Buildings and Structures	5,049,127	-	-	(90,296)	4,958,831
Equipment	9,216,058	397,883	(73,105)	816,652	10,357,488
Total Water Operations	<u>93,135,111</u>	<u>397,883</u>	<u>(73,105)</u>	<u>4,456,678</u>	<u>97,916,567</u>
Wastewater Operations:					
Collection system	12,491,074	18,309	-	237,752	12,747,135
Treatment and disposal facilities	60,022,107	-	-	198,543	60,220,650
Equipment	871,062	-	-	1,727	872,789
Total wastewater operations	<u>73,384,243</u>	<u>18,309</u>	<u>-</u>	<u>438,022</u>	<u>73,840,574</u>
Recycle Operations:					
Distribution System	4,600,330	-	-	52,770	4,653,100
Total recycle operations	<u>4,600,330</u>	<u>-</u>	<u>-</u>	<u>52,770</u>	<u>4,653,100</u>
Total capital assets being depreciated	171,119,684	416,192	(73,105)	4,947,470	176,410,241
Less accumulated depreciation	<u>(70,863,345)</u>	<u>(6,158,589)</u>	<u>65,934</u>	<u>-</u>	<u>(76,956,000)</u>
Total capital assets being depreciated, net	<u>100,256,339</u>	<u>(5,742,397)</u>	<u>(7,171)</u>	<u>4,947,470</u>	<u>99,454,241</u>
Total capital assets, net	<u>\$ 114,647,596</u>	<u>\$ (321,436)</u>	<u>\$ (726,383)</u>	<u>\$ -</u>	<u>\$ 113,599,777</u>

Depreciation expense for depreciable capital assets was \$6,158,589 for the year ended June 30, 2019.

4. LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2019 were as follows:

	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019	Due Within One Year
Red Mountain State Revolving Fund Loan	\$ 4,350,965	\$ -	\$ (285,826)	\$ 4,065,139	\$ 293,220
Qualified Energy Conservation Revenue Bonds	3,772,059	-	(306,281)	3,465,778	325,386
Clean Water State Revolving Fund Loan	27,191,004	-	(1,247,544)	25,943,460	1,274,990
Total Long-Term Debt	<u>\$ 35,314,028</u>	<u>\$ -</u>	<u>\$ (1,839,651)</u>	<u>\$ 33,474,377</u>	<u>\$ 1,893,596</u>

4. LONG TERM DEBT (Continued)

Red Mountain State Revolving Fund Loan

On June 21, 2010, The District entered into a loan agreement with the State of California Department of Public Health with interest at 2.57% payable semi-annually, and principal payments ranging from \$118,751 to \$195,414 due semi-annually beginning July 1, 2011 through January 1, 2031. The proceeds of the loan (\$6,159,773 disbursed during the fiscal year ending June 30, 2011) assisted the District in financing construction of the Red Mountain UV Filtration Plant, which enabled the District to meet the Federal safe drinking water standards. This standard is incorporated into the Long-Term Two Enhanced Surface Water Treatment Rule (LT2).

Future debt service requirements for the above loan payable based on the initial loan rate is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 293,220	\$ 102,631	\$ 395,851
2021	300,807	95,044	395,851
2022	308,589	87,262	395,851
2023	316,573	79,278	395,851
2024	324,764	71,087	395,851
2025-2029	1,754,286	224,967	1,979,253
2030-2031	766,900	24,798	791,698
Total	\$ 4,065,139	\$ 685,067	\$ 4,750,206

Qualified Energy Conservation Bonds (QECCB) Solar Loan

On November 18, 2010, the District borrowed \$7,227,000 from the California Alternative Energy and Advanced Transportation Financing Authority, the proceeds of which were used to finance the construction of a solar project. Financing was secured at an interest rate of 5.74%. The Federal government will pay 70% of the Tax Credit Rate, which is 5.56% or 3.89%. The District’s applicable interest rate is the difference between the taxable rate and the Federal Direct Pay rate, equivalent to 1.85% interest with principal payments ranging from \$134,593 to \$317,071 until November 18, 2027.

Future debt service requirements for the above loan payable based on the initial loan rate is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 325,386	\$ 62,551	\$ 387,937
2021	345,316	56,446	401,762
2022	366,104	49,969	416,073
2023	387,783	43,104	430,887
2024	410,388	35,834	446,222
2025-2028	1,630,801	61,918	1,692,719
Total	\$ 3,465,778	\$ 309,822	\$ 3,775,600

4. LONG TERM DEBT (Continued)

Clean Water State Revolving Fund Loan

On November 2, 2012, the District entered into a loan agreement with the California State Water Resources Control Board in the principal amount of \$22,154,148 with interest of 2.20%. In September 2013, the District entered into an amended loan agreement increasing the principal amount to \$28,723,000. The proceeds of the loan assisted the District fund costs associated with the Fallbrook Wastewater Treatment Plan I Rehabilitation project. Upon completion of the project in May 2016, accrued interest of \$886,644 on the amount drawn down was transferred to the loan principal, increasing the principal amount to \$29,609,644. Annual payments in the amount of \$1,845,746 including principal and interest is due beginning March 2017 through March 2036.

Future debt service requirements for the above loan payable based on the initial loan rate is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,274,990	\$ 570,756	\$ 1,845,746
2021	1,303,039	542,707	1,845,746
2022	1,331,706	514,040	1,845,746
2023	1,361,004	484,742	1,845,746
2024	1,390,946	454,800	1,845,746
2025-2029	7,427,430	1,801,299	9,228,729
2030-2034	8,281,195	947,534	9,228,729
2035-2036	3,573,150	118,342	3,691,492
Total	<u>\$ 25,943,460</u>	<u>\$ 5,434,220</u>	<u>\$ 31,377,680</u>

5. INVENTORIES

Inventories at June 30, 2019 consisted of the following:

Water inventory	\$ 776,964
Materials inventory	<u>1,063,031</u>
	<u>\$ 1,839,995</u>

6. PENSION PLANS

a. General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (the Plan), administered by the California Public Employees’ Retirement System (CalPERS). The Plan’s benefit provisions are established by statute. The Plan is included as a pension trust fund in the CalPERS Comprehensive Annual Financial Report, which is available online at www.calpers.ca.gov.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after five (5) years of service. The death benefit is one of the following: the basic death benefit or the 2W death benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law. Employees are eligible for service-related disability benefits regardless of length of service. An employee must be actively employed by the District at the time of disability in order to be eligible for this benefit. Disability benefits are determined by the products of 1.8 percent of final compensation and the factor of years of service. The basic death benefit is a lump sum in the amount of the member’s accumulated contributions, where interest is currently credited at 7.5 percent per year, plus a lump sum in the amount of one month’s salary for each completed year of current service, up to a maximum of six months’ salary. Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree’s designated survivor(s), or to the retiree’s estate.

The Plans’ provisions and benefits in effect at June 30, 2018 measurement date, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013
Hire date		
Benefit formula	2.5%@55	2%@62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8%	6.50%
Required employer contribution rates:		
Normal cost rate	11.419%	7.266%
Payment of unfunded liability	\$ 730,148	\$ 534

6. PENSION PLANS (Continued)

a. General Information about the Pension Plan (Continued)

Contributions

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. District contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

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

As of June 30, 2019, Fallbrook Public Utility District reported net pension liabilities for its proportionate shares of the net pension liability of each risk pool as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	<u>\$ 12,541,929</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, 2018, 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, 2017 rolled forward to June 30, 2018 using standard update procedures. The District’ proportionate share 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.

The Fallbrook Public Utility District’s proportionate share of the net pension liability as of the measurement dates ended June 30, 2017 and 2018 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2017	0.32334%
Proportion - June 30, 2018	0.33279%
Change - Increase (Decrease)	0.00945%

6. PENSION PLANS (Continued)

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

For the year ended June 30, 2019, the District recognized pension expense of \$1,755,796. At June 30, 2019, 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
Pension contributions subsequent to measurement date	\$ 1,224,180	\$ -
Differences between actual and expected experience	481,213	163,754
Change in assumptions	1,429,818	350,421
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	443,100
Net differences between projected and actual earnings on plan investments	62,005	-
Total	<u>\$ 3,197,216</u>	<u>\$ 957,275</u>

\$1,224,180 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2020	\$ 1,037,899
2021	543,131
2022	(452,463)
2023	(112,806)
2024	-
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 liability for the June 30, 2018 measurement period was determined by an actuarial valuation as of June 30, 2017, with update procedures to roll forward the total pension liability to June 30, 2018. The total pension liability was based on the following:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	(1)
Mortality Rate Table	(2)
Post Retirement Benefit Increase	(3)

- (1) Varies by entry age and service
- (2) The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using the Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) available on the CalPERS website.
- (3) Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter.

6. PENSION PLANS (Continued)

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

Long-term Expected Rate of Return

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

In determining the long term expected rate of return, CalPERS took into account both short term and long term market return expectations as well as the expected pension fund cash flows. Using 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 PERF 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 equal to the rounded single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

- (a) In the CalPERS CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities
- (b) An expected inflation of 2.0% used for this period
- (c) An expected inflation of 2.92% used for this period

Discount Rate

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

6. PENSION PLANS (Continued)

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

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

The following presents the District’s proportionate share of the net pension liability of the 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:

		<u>Miscellaneous Plan</u>
1% Decrease		6.15%
Net Pension Liability	\$	19,246,014
Current Discount Rate		7.15%
Net Pension Liability	\$	12,541,929
1% Increase		8.15%
Net Pension Liability	\$	7,007,818

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan:

At June 30, 2019, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2019.

7. OTHER POSTEMPLOYMENT BENEFITS

Plan Description:

The District administers its Public Agencies Post-Employment Health Care Plan (OPEB Plan), a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions. The District’s OPEB Plan provides continued medical dental, and vision coverage for an eligible retired employee, spouse or legal dependent. Coverage will continue for the retiree and spouse or legal dependent until they become entitled to Medicare Benefits at age 65.

Employees retiring after age 50, with 10 or more years of continuous employment, will have the mandatory amount estimated by the District at the date of retirement to be necessary to pay for 50% of the employee’s monthly health insurance premium, and any additional costs for spouse and dependent(s) covered at the time of retirement. The difference between the total value of sick leave at retirement and the estimated cost benefit (medical, dental and vision) minus the estimated costs of 50% of the retiree’s medical premium is deposited into a health reimbursement account at the District to pay for retiree benefits until Medicare entitlement or the account is depleted. The District’s health reimbursement account (HRA) balance as of June 30, 2019 is \$258,421. The District will pay for half (50%) of the retired employee’s monthly premium.

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Plan Description (Continued)

During the year ended June 30, 2017, the District entered into a trust agreement with Public Agency Retirement Services (PARS), as the trust administrator and U.S. Bank National Association (US Bank) as the trustee. Management of the OPEB Plan is vested with the General Manager of the District with oversight and governance by the District’s Finance Committee. Benefit terms are as established by the District’s board of directors and agreed upon between the District and the Fallbrook Public Utility District Employees’ Association through Memorandum of Understanding.

Employees Covered

As of the June 30, 2018 actuarial valuation, the following current and former employees were covered by the benefit terms under the plan:

	<u>Number of Participants</u>
Inactive employees currently receiving benefits	10
Participating Active Employees	63
Total	73

Contributions

The District has historically funded the plan on a pay-as-you-go basis. Plan members are not required to contribute to the OPEB Plan. For the fiscal year ended June 30, 2019, the District made \$67,197 in payments made outside of the trust.

Net OPEB Liability

The District’s net OPEB liability was measured as of June 30, 2018, and was determined by an actuarial valuation as of June 30, 2018. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

Actuarial Methods and Assumptions

The total OPEB liability as of June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Actuarial Cost Method
Actuarial Assumptions:	
Discount Rate	6.00%
Projected Salary Increase	3.0% per year
Expected long term investment rate of return, net of plan investment expense	6.00%
Healthcare Cost Trend Rates	6.00% for 2018, decreasing to 5% for 2028
Mortality	Based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions (Continued)

The actuarial assumptions used in the June 30, 2018 valuation were based on a standard set of assumptions the actuary has used for similar valuations, modified as appropriate for the District.

Investment Policy

The OPEB Plan has an established investment guidelines policy document which provides a framework for a well-diversified asset mix that can potentially be expected to meet the trusts short and long-term needs consistent with the District’s investment objectives, liquidity considerations and risk tolerance. The investment guidelines facilitate the process of ongoing communication between the District and the plan fiduciaries and help maintain a long-term perspective when market volatility is caused by short-term market movements. As the trustee, US Bank has delegated investment authority to Highmark Capital Management (Highmark) as the investment manager. Highmark has full investment discretion over the managed assets in the trust and is authorized to purchase, sell, exchange, invest, reinvest, and manage the OPEB Plan assets in accordance with the trust’s investment objectives.

The goal of the trust’s investment program is to generate adequate long-term returns that, when combined with contributions, will result in sufficient assets to pay the present and future obligations of the OPEB Plan. The following objectives are intended to assist in achieving this goal:

- The OPEB Plan assets should earn, on a long-term average basis, a rate of return equal to or more than the target rate of return of 5.35%;
- The OPEB Plan trust should seek to earn a return more than its policy benchmark over the long-term;
- The OPEB Plan assets will be managed on a total return basis which considers both investment income and capital appreciation. As the plan sponsor the District recognizes the importance of preservation of capital, but also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns.

To achieve the objectives above, the District has established an asset allocation which strives for the growth of income and principal with a strategic, long-term perspective of the capital markets. With a moderate risk tolerance, the following table summarizes the District’s OPEB Plan trust asset allocation policy:

Asset Class	New Strategic Allocation
Cash	5.00%
Fixed Income	45.00%
Equity	50.00%
Total	<u>100.00%</u>

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)Discount Rate

The discount rate used to measure the total OPEB liability was 6.0 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected OPEB payments of current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability

The changes in the net OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2017	\$ 1,039,721	\$ 755,952	\$ 283,769
Changes in the Year:			
Service cost **	63,116	-	63,116
Interest on the total OPEB liability	39,301	-	39,301
Differences between actual and expected experience	178,893	-	178,893
Changes in assumptions	(122,601)	-	(122,601)
Changes in benefit terms	-	-	-
Contribution - employer	-	268,569	(268,569)
Net investment income	-	40,802	(40,802)
Administrative expenses	-	(1,970)	1,970
Benefit payments	(115,569)	(115,569)	-
Net Changes	43,140	191,832	(148,692)
Balance at June 30, 2018	\$ 1,082,861	\$ 947,784	\$ 135,077

** - Service Cost - The actuarial present value of projected benefits payments that are attributed to the valuation year.

Change of Assumptions

From the June 30, 2017 to the June 30, 2018 Valuation, the discount rate used increased by 2% (from 4% to 6%), the expected long-term rate of return, net of plan investment expense increased by 2% (from 4% to 6%), and healthcare trend rate assumptions decreased by 2% (from 8% to 6%).

Change of Benefit Terms

There were no changes of benefit terms.

Subsequent Events

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

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

The following presents the net OPEB liability of the District, as well as what the District’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.00%) or 1-percentage point higher (7.00%) than the current discount rate:

	1% Decrease (5.0%)	Discount Rate (6.0%)	1% Increase (7.0%)
Net OPEB Liability	\$ 212,859	\$ 135,077	\$ 63,596

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

The following presents the total OPEB liability of the District, as well as what the District’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (5.00% decreasing to 4.00%, 3%) or 1 percentage point higher (7.00% decreasing to 5.00%), 4% than the current healthcare cost trend rates:

	1% Decrease (5.00% decreasing to 4.00%, 3%)	Current Healthcare Cost Trend Rates (6.00% decreasing to 5.00%, 4%)	1% Increase (7.00% decreasing to 6.00%, 5%)
Net OPEB Liability	\$ 47,306	\$ 135,077	\$ 235,093

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$75,510. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to the measurement date	\$ 67,197	\$ -
Differences between actual and expected experience	155,355	-
Change in assumptions	-	(106,469)
Differences between projected and actual earnings	-	(11,877)
Total	<u>\$ 222,552</u>	<u>\$ (118,346)</u>

\$67,197 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020.

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Payable to the OPEB Plan

At June 30, 2019, the District had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2019.

Year Ending June 30,	Amount
2020	\$ 3,977
2021	3,977
2022	3,979
2023	5,818
2024	7,407
Thereafter	11,851

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 disaster.

The District is a participating member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA) (Authority), which arranges for and provides general liability, property damage, worker’s compensation, and dam failure liability insurance to its member agencies. The District pays a premium commensurate with the level of coverage requested. The District has elected to self-insure for a portion of property damage coverage in the amount of \$10,000 per occurrence. During the past three years, there have been no instances where the amount of claims settlements exceeded insurance coverage, nor have there been any significant reductions of insurance coverage.

9. COMMITMENTS AND CONTINGENCIES

Construction Commitments

At June 30, 2019, the District had the following commitments with respect to unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Completion Date
De Luz Road Pipeline Replacement	\$ 850,000	December 2019
Sandia Tank Improvements	117,700	September 2019

9. COMMITMENTS AND CONTINGENCIES (Continued)Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. The District has (a) determined that it has no litigation pending with service of process completed which would have a material effect on its financial condition and (b) believes, to its current actual knowledge and after due inquiry and consultation with legal counsel, that no litigation has been threatened against the District in any court which would have a material effect on its financial condition.

10. GAIN ON SALE OF LAND

On December 13, 2018, the District sold the Santa Margarita River Trails land for \$10,000,000 less selling expenses of \$24,048. The land was originally purchased for \$667,000 resulting in a gain of \$9,308,952. The gain, combined with a gain on other asset disposals, is reflected as a \$9,338,297 non-operating revenue on the Statement of Revenues, Expenses, and Changes in Net Position.

11. SUBSEQUENT EVENTS

On August 28, 2019, the District executed a Drinking Water State Revolving Fund Loan for \$53.3 million to fund the District's Santa Margarita Conjunctive-Use Project Water Treatment Plant. Construction on the project has begun and it is expected to be completed in Fiscal Year Ending June 30, 2022.

1. SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – DEFINED BENEFIT PENSION PLANS

For the Last Ten Fiscal Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Classic & PEPR Miscellaneous Plan					
Plan's Proportion of the Net Pension Liability	0.13015%	0.12853%	0.12729%	0.12295%	0.11351%
Plan's Proportionate Share of the Net Pension Liability	\$ 12,541,929	\$ 12,746,294	\$ 11,014,856	\$ 8,439,096	\$ 6,888,388
Covered Payroll	\$ 5,216,869	\$ 5,271,090	\$ 4,743,986	\$ 4,753,842	\$ 4,683,594
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	240.41%	241.82%	232.19%	177.52%	147.07%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	75.26%	73.31%	74.06%	78.40%	83.21%
Plan's Proportionate Share of Aggregate Employer Contribution	\$ 1,410,070	\$ 1,335,205	\$ 1,234,176	\$ 1,177,856	\$ 1,014,669

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

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

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

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

There were no changes in assumptions.

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

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

From fiscal year June 30, 2018 to June 30, 2019

There were no changes in assumptions.

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

2. SCHEDULE OF CONTRIBUTIONS – DEFINED BENEFIT PENSION PLANS

For the Last Ten Fiscal Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 1,224,180	\$ 1,081,154	\$ 968,372	\$ 870,680	\$ 756,872
Contributions in relation to the actuarially determined contributions	<u>1,224,180</u>	<u>1,081,154</u>	<u>968,372</u>	<u>870,680</u>	<u>756,872</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 5,179,369	\$ 5,216,869	\$ 5,271,090	\$ 4,743,986	\$ 4,753,842
Contributions as a percentage of covered payroll	23.64%	20.72%	18.37%	18.35%	15.92%

Notes to Schedule:

Valuation Date	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
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Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry age**
Amortization method	Level percentage of payroll, closed**
Asset valuation method	Market Value***
Inflation	2.75%**
Salary increases	Depending on age, service, and type of employment**
Investment rate of return	7.375%, net of pension plan investment expense, including inflation**
Retirement age	50 years (2% at 55), 62 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.**

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

** - The valuations for June 30, 2012 through June 30, 2016 (applicable to fiscal years ended June 30, 2015 through June 30, 2019) included the same actuarial assumptions.

*** - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using a 15 Year Smoothed Market method. The market value asset valuation method was utilized for the June 30, 2013 through June 30, 2016 valuations (applicable to fiscal years ended June 30, 2016 through June 30, 2019).

3. SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

For the Last Ten Fiscal Years*

Fiscal year end	6/30/2019	6/30/2018
Measurement date	6/30/2018	6/30/2017
Total OPEB Liability:		
Service cost	\$ 63,116	\$ 61,278
Interest on total OPEB liability	39,301	38,242
Difference between expected and actual experience	178,893	-
Changes of assumptions	(122,601)	-
Benefit payments, including refunds of	(115,569)	(31,396)
Net Change in Total OPEB Liability	43,140	68,124
Total OPEB Liability - Beginning of Year	1,039,721	971,597
Total OPEB Liability - End of Year (a)	1,082,861	1,039,721
Plan Fiduciary Net Position:		
Contributions - employer	268,569	767,396
Net investment income	40,802	20,571
Administrative expenses	(1,970)	(619)
Benefit payments	(115,569)	(31,396)
Net Change in Plan Fiduciary Net Position	191,832	755,952
Plan Fiduciary Net Position - Beginning of Year	755,952	-
Plan Fiduciary Net Position - End of Year (b)	947,784	755,952
Net OPEB Liability - Ending (a)-(b)	\$ 135,077	\$ 283,769
Plan fiduciary net position as a percentage of the total OPEB liability	87.53%	72.71%
Covered- employee payroll	\$ 5,216,869	\$ 5,684,049
Net OPEB liability as percentage of covered - employee payroll	2.59%	4.99%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From the June 30, 2017 to the June 30, 2018 Valuation, the discount rate used increased by 2% (from 4% to 6%), the expected long-term rate of return, net of plan investment expense increased by 2% (from 4% to 6%), and healthcare trend rate assumptions decreased by 2% (from 8% to 6%).

* Fiscal year 2018 was the first year of implementation; therefore, only two year are shown.

4. SCHEDULE OF CONTRIBUTIONS - OPEB

For the Last Ten Fiscal Years*

	<u>6/30/2019</u>	<u>6/30/2018</u>
Actuarially determined contribution	\$ 72,529	\$ 74,065
Contributions in relation to the actuarially determined contributions	<u>(67,197)</u>	<u>(202,055)</u>
Contribution deficiency (excess)	<u>\$ 5,332</u>	<u>\$ (127,990)</u>
Covered- employee payroll	\$ 5,179,369	\$ 5,216,869
Contributions as a percentage of covered payroll	1.40%	1.42%

Notes to Schedule:

Valuation Date	6/30/2018	6/30/2017
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Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry age actuarial cost method **
Discount Rate	6%
Projected Salary increases	3.0% Per Year
Expected long term investment rate of return, net of plan investment expenses.	6.00%
Healthcare Cost Trend Rate	8.0% for 2016, 7.0% for 2017, 6.0% for 2018; and 5.0% for 2019 and later years.
Mortality	Based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

* Fiscal year 2018 was the first year of implementation; therefore, two years are shown.

** Entry age is based on the age at hire for eligible employees. The attribution period is determined as the difference between the expected retirement age and the age at hire. The actuarial present value of projected benefits and present value of future service costs are determined on an employee by employee basis and then aggregated. To the extent that different benefit formulas apply to different employees of the same class, the service cost is based on the benefit plan applicable to the most recently hired employees (including future hires if a new benefit formula has been agreed to and communicated to employees).

FALLBROOK PUBLIC UTILITY DISTRICT

SUPPLEMENTARY INFORMATION

SCHEDULE OF OPERATING INCOME AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Water</u>	<u>Recycled water</u>	<u>Wastewater</u>	<u>Total</u>
Operating Revenues:				
Water Sales	\$ 20,481,788	\$ -	\$ -	\$ 20,481,788
Recycled Water Sales	-	998,942	-	998,942
Wastewater Sales	-	-	5,463,820	5,463,820
Total Operating Revenues	<u>20,481,788</u>	<u>998,942</u>	<u>5,463,820</u>	<u>26,944,550</u>
Operating Expenses:				
Cost of Water Sold	12,650,795	-	-	12,650,795
Operations and Maintenance	3,444,139	548,821	2,956,457	6,949,417
Administrative and General Expenses	3,807,921	51,473	2,090,222	5,949,616
Total Operating Expenses Before Depreciation	<u>19,902,855</u>	<u>600,294</u>	<u>5,046,679</u>	<u>25,549,828</u>
Depreciation Expense	3,290,052	54,807	2,813,730	6,158,589
Total Operating Expenses	<u>23,192,907</u>	<u>655,101</u>	<u>7,860,409</u>	<u>31,708,417</u>
Operating Income (Loss)	<u>\$ (2,711,119)</u>	<u>\$ 343,841</u>	<u>\$ (2,396,589)</u>	<u>\$ (4,763,867)</u>

STATISTICAL SECTION

Financial Position 61-63

These tables show the District’s financial position over the reporting period.

District Operations 64-77

These tables show the Districts revenues and expenses, the District’s rates and charges and the District’s property tax revenues.

Debt Capacity 78-79

These tables show the District’s debt capacity and ability to meet its debt service coverage requirements.

Demographic and Economic Information 80

These tables provide demographic and economic information on the District’s service area. Because the District is part of the unincorporated region of the San Diego County, County wide data is reported.

Table #1 - Net Positions

Fiscal Year	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2010	\$ 60,003,604	\$ 3,669,823	\$ 4,368,538	\$ 68,041,965
2011	60,487,772	2,613,866	7,671,400	70,773,038
2012	60,609,683	1,212,780	10,336,039	72,158,502
2013	60,609,683	1,213,780	10,336,039	72,159,502
2014	64,203,257	2,431,978	12,479,645	79,114,880
2015	67,995,640	2,231,947	4,807,404	75,034,991
2016	70,683,956	3,455,377	5,170,519	79,309,852
2017	76,004,617	3,495,635	5,668,185	85,168,437
2018	79,333,568	4,711,487	2,038,252	86,083,307
2019	80,125,400	9,477,694	6,465,333	96,068,427

Source: Fallbrook Public Utility District

Table #2 - Changes in Net Position and Net Position by Component, Last Ten Fiscal Years

	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2012
Changes in Net Position:			
Operating Revenues (See Schedule 2)	\$ 21,795,259	\$ 21,255,448	\$ 23,661,715
Operating Expenses (See Schedule 3)	(24,347,069)	(24,175,989)	(26,140,572)
Other Operating Revenues	142,229	363,564	279,560
Operating Income (loss)	\$ (2,409,581)	\$(2,556,977)	\$(2,199,297)
Non-Operating Revenues (expenses)			
Property Taxes Ad-Valorem	\$ 1,602,551	\$ 1,549,625	\$ 1,552,911
Capital Improvement Charges	-	404,175	414,910
California Solar Initiative Rebate	-	-	534,835
Investment income	490,664	147,486	87,217
Water Availability Charges	201,397	200,944	200,906
Lease Revenue	215,154	184,983	177,095
Intergovernmental Revenue - Federal Interest Subsidy	-	-	-
Connection Fees	108,631	112,499	190,932
Federal Grants	-	-	-
Gain (Loss) on disposal of capital assets	-	-	-
Other Non-Operating Revenues	748,834	102,704	109,261
Other Non-Operating Expenses	(276,937)	(508,849)	(294,462)
Total Non-Operating Revenues(expenses), net	\$ 3,090,294	\$ 2,193,567	\$ 2,973,605
Net income Before Capital Contributions	\$ 680,713	\$ (363,410)	\$ 774,308
Capital Contributions	211,782	3,094,483	273,825
Capital Grant - Proposition 50	-	-	338,331
Capital Grant - Proposition 84	-	-	-
Extraordinary Items	-	-	-
Changes in Net Position	\$ 892,495	\$ 2,731,073	\$ 1,386,464
Net Position			
Beginning, as restated	\$ 67,149,470	\$ 68,041,965	\$70,773,038
Adjustments to restate balance	-	-	-
Ending, as restated	\$ 68,041,965	\$70,773,038	\$72,159,502

(1) Capital Grant of \$828,598 was received from State of California Wildlife Conservation Board Proposition 50 Funding.

(2) Accumulative effect of change in accounting principals.

(3) State Proposition 50 in the amount of \$874,040 and State Proposition 84 in the amount of \$68,428 was received

Source: Fallbrook Public Utility District

(Continued)

Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019
\$ 27,582,160	\$ 28,955,183	\$ 27,483,881	\$ 25,356,017	\$ 27,256,065	\$ 29,882,022	\$26,944,550
(28,007,733)	(33,062,764)	(29,367,701)	(27,921,351)	(30,678,705)	(33,319,799)	(31,708,417)
439,560	681,876	-	-	-	-	-
\$ 13,987	\$ (3,425,705)	\$ (1,883,820)	\$ (2,565,334)	\$ (3,422,640)	\$ (3,437,777)	(4,763,867)
\$ 1,582,219	\$ 1,694,090	\$ 1,719,296	\$ 1,815,734	\$ 1,889,808	\$ 1,984,543	2,106,034
1,252,501	1,981,822	2,134,025	2,224,529	2,283,558	2,476,452	2,505,876
779,786	843,714	729,519	740,125	234,930	-	-
30,507	209,175	141,433	324,126	63,861	18,188	915,275
201,037	200,779	200,810	200,808	200,730	229,400	204,359
181,100	183,641	185,770	185,220	166,012	178,602	199,433
-	-	-	185,040	238,765	145,338	134,924
247,607	118,581	208,521	131,894	238,124	411,744	180,966
-	-	-	-	-	-	-
-	-	-	-	-	(273,396)	9,338,297
81,008	69,816	162,913	91,361	32,729	-	-
(291,721)	(344,730)	(321,941)	(690,409)	(385,483)	(959,015)	(909,966)
\$ 4,064,044	\$ 4,956,888	\$ 5,160,346	\$ 5,208,428	\$ 4,963,034	\$ 4,211,886	14,675,198
\$ 4,078,031	\$ 1,531,183	\$ 3,276,526	\$ 2,643,094	\$ 1,540,394	\$ 774,109	9,911,331
595,205	76,746	153,790	75,299	59,509	73,661	73,789
-	828,598 ⁽¹⁾	224,596 ⁽¹⁾	874,040 ⁽³⁾	773,163	-	-
-	-	-	682,428	-	67,100	-
-	-	-	-	-	-	-
\$ 4,673,236	\$ 2,436,527	\$ 3,654,912	\$ 4,274,861	\$ 2,373,066	\$ 914,870	\$9,985,120
\$ 72,159,502	\$ 76,678,353	\$ 79,114,880	\$ 75,034,991	\$ 79,309,852	\$ 85,168,437	86,083,307
(154,385)	-	(7,734,801) ⁽²⁾	-	3,485,519	-	-
\$76,678,353	\$79,114,880	\$75,034,991	\$79,309,852	\$ 85,168,437	\$ 86,083,307	\$96,068,427

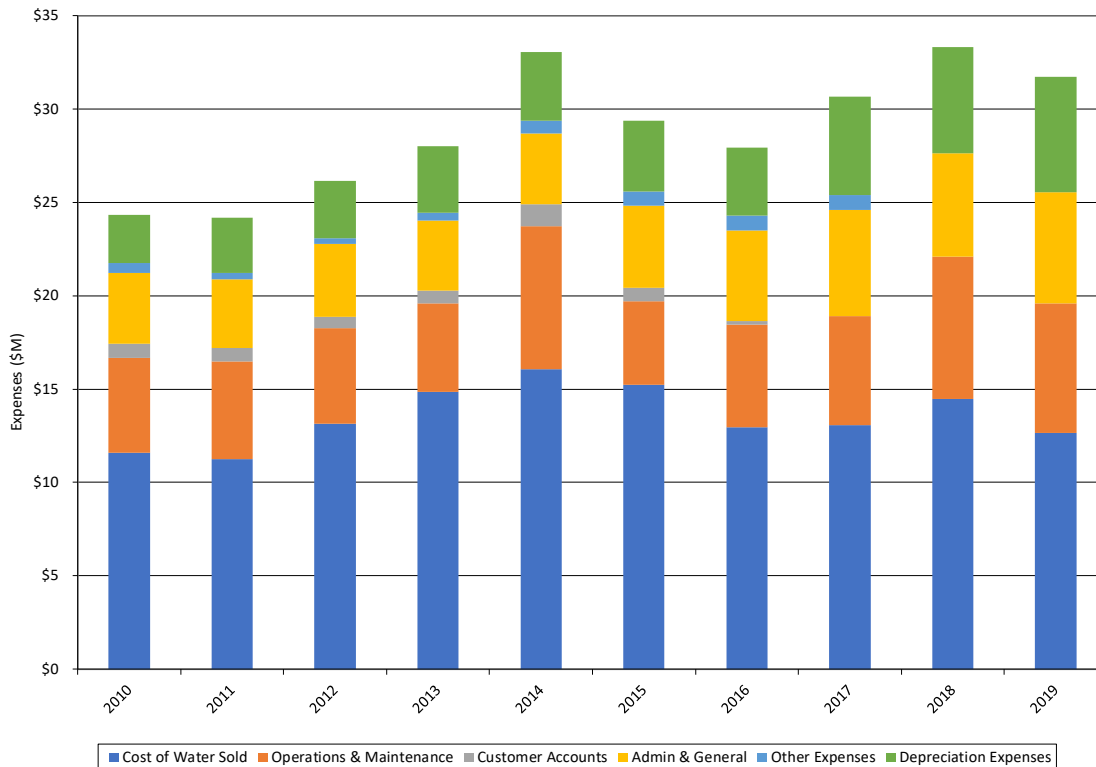
Table #3 - Operating Expenses by Activity (Last Ten Fiscal Years)

Fiscal Year	Water				
	Cost of Water Sold	Operations & Maintenance	Customer Accounts	Admin & General*	Other Expenses
2009	\$ 11,075,601	\$ 2,433,410	\$ 748,604	\$ 2,103,971	\$ 193,320
2011	10,771,752	2,461,466	726,636	2,024,761	N/A
2012	12,647,833	2,570,414	611,736	2,148,057	N/A
2013	14,457,083	2,350,655	700,158	2,056,605	N/A
2014	15,649,781	3,810,606	1,179,998	2,006,124	N/A
2015	14,692,652	2,173,576	725,610	2,286,586	N/A
2016	12,804,470	2,788,548	203,560	2,571,803	N/A
2017	13,067,064	3,030,201	N/A	2,963,305	N/A
2018	14,453,229	3,922,528	N/A	2,868,610	N/A
2019	12,650,795	3,444,139	N/A	3,807,921	N/A

* General and administration costs are allocated as follows: 52% water, 42% wastewater, and 6% recycled water.

Source: Fallbrook Public Utility District

Chart #1 - Operating Expenses by Activity



Source: Fallbrook Public Utility District

(Continued)

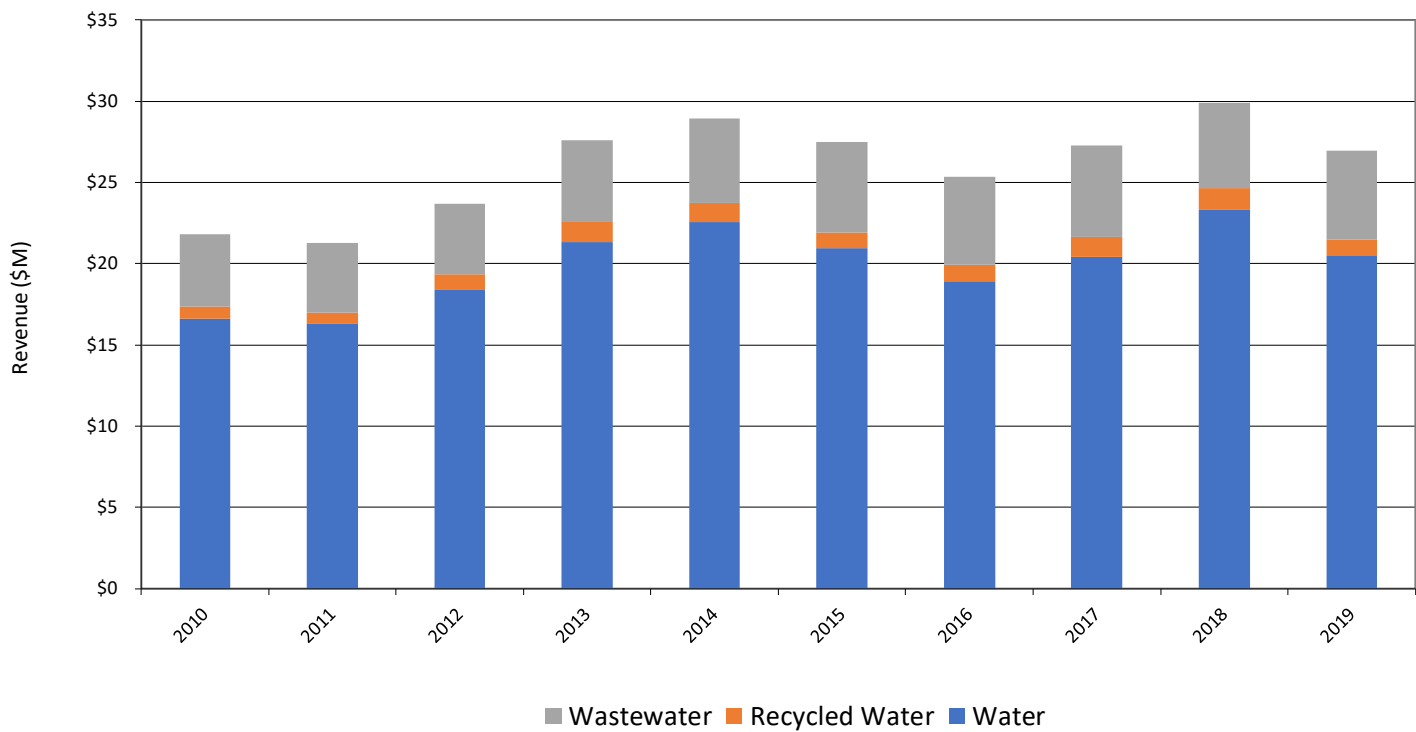
Recycled				Wastewater			Depreciation Expenses	Total Operating Expenses
Cost of Water Sold	Operations & Maintenance	Admin & General*	Other Expenses	Operations & Maintenance	Admin & General*	Other Expenses		
\$ 498,288	\$ 37,426	\$ 147,436	\$ 193,320	\$ 2,624,356	\$ 1,539,276	\$ 170,004	\$ 2,582,057	\$ 24,347,069
461,085	32,320	146,516	193,560	2,742,465	1,501,790	170,004	2,943,634	24,175,989
492,962	53,275	156,733	79,560	2,494,189	1,606,509	200,000	3,079,304	26,140,572
403,582	52,675	149,252	79,560	2,309,384	1,529,836	360,000	3,558,943	28,007,733
427,328	63,620	188,964	171,960	3,765,046	1,584,190	509,916	3,705,231	33,062,764
551,866	N/A	337,226	92,400	2,296,712	1,763,527	671,052	3,776,494	29,367,701
146,128	N/A	242,623	94,248	2,709,284	2,038,033	682,536	3,640,118	27,921,351
N/A	622,997	346,173	94,248	2,173,738	2,392,289	694,380	5,294,310	30,678,705
N/A	693,971	330,993	N/A	3,039,790	2,316,954	N/A	5,693,723	33,319,799
N/A	548,821	51,473	N/A	2,956,457	2,090,222	N/A	6,158,589	31,708,417

Table #4 - Operating Revenues by Source (Last Ten Fiscal Years)

Fiscal Year	Water			Recycled			Wastewater		Total Operating Revenue
	Water Sales	Service Charges	Other Charges	Water Sales	Service Charges	Other Charges	Service Charges	Other Charges	
2010	\$ 10,881,138	\$ 4,591,783	\$ 1,139,365	\$ 389,825	\$ 49,306	\$ 294,834	\$ 4,433,766	\$ 15,242	\$ 21,795,259
2011	10,728,119	4,531,720	1,029,567	449,322	43,576	200,345	4,162,654	110,145	21,255,448
2012	12,778,113	4,524,843	1,062,054	592,986	55,373	312,948	4,331,022	4,376	23,661,715
2013	15,458,783	4,702,564	1,190,568	777,329	50,316	445,859	4,950,757	5,984	27,582,160
2014	16,587,771	4,772,242	1,188,741	802,509	50,972	344,423	5,205,516	3,009	28,955,183
2015	14,722,792	4,930,254	1,295,660	662,849	53,011	244,466	5,571,362	3,487	27,483,881
2016	12,328,995	5,000,621	1,583,301	824,925	59,359	156,353	5,402,353	110	25,356,017
2017	13,233,057	5,388,463	1,783,859	1,135,841	N/A	86,620	5,627,476	749	27,256,065
2018	16,194,537	5,777,173	1,340,062	1,153,170	17,956	156,060	5,258,183	(15,119)	29,882,022
2019	12,997,586	6,291,436	1,192,767	920,376	(17,974)	96,541	5,453,590	10,230	26,944,550

Source: Fallbrook Public Utility District

Chart #2 - Operating Revenues by Source



Source: Fallbrook Public Utility District

Table #5 - Water Rates (\$/Kgal*)⁽¹⁾

Fiscal Year	Domestic Tier 1		Domestic Tier 2		Domestic Tier 3		Commercial Tier 1		Commercial Tier 2		Government	Special Ag Rate	Commercial Ag Rate			
2010	\$	2.55	\$	2.94	\$	3.24	\$	2.55	\$	2.94	\$	2.94	\$	2.38	\$	2.74
2011		3.06		3.52		3.88		3.06		3.52		3.52		2.63		3.06
2012		3.51		4.04		4.45		3.51		4.04		4.04		2.81		3.45
2013		3.86		4.44		4.89		3.86		4.44		4.44		3.05		3.86
2014		4.03		4.64		5.11		4.03		4.64		4.64		3.14		4.06
2015		4.19		4.61		5.08		4.19		4.61		4.61		3.14		4.06
2016		4.38		4.82		5.31		4.38		4.82		4.82		3.18		4.28
2017		5.21		5.74		6.32		5.21		5.74		5.74		3.65		4.97
2018		5.62		5.71		6.95		5.79		5.79		5.70		4.17		4.83
2019		5.96		6.05		6.04		6.14		6.14		6.04		4.42		5.12

*Kgal = 1,000 gal

(1) The District is required to follow the rules of Proposition 218 when raising or adjusting its rates.

Source: Fallbrook Public Utility District

Table #6 - Non-Agricultural/Government Monthly Water Service Charge (\$/month)

Fiscal Year	3/4" Meter	1" Meter	1 1/2" Meter	2" Meter	3" Meter	4" Meter	6" Meter	Standby
2010	\$ 34.87	\$ 45.37	\$ 64.74	\$ 94.75	\$ 154.57	\$ 245.77	\$ 439.24	\$ 20.78
2011	34.87	45.37	64.74	94.75	154.57	245.77	439.24	20.78
2012	34.87	45.37	64.74	94.75	154.57	245.77	439.24	20.78
2013	36.09	46.96	67.01	98.07	159.98	254.37	454.61	21.51
2014	36.63	47.66	68.02	99.54	162.38	258.19	461.43	21.83
2015	38.10	49.57	70.74	103.52	168.88	268.52	479.89	22.70
2016	39.24	51.06	72.86	106.63	173.95	276.58	494.29	23.38
2017	41.59	54.12	77.23	113.03	184.39	293.17	523.95	24.78
2018	44.10	67.33	125.36	195.01	380.73	589.67	1,170.06	Variable
2019	46.75	71.37	132.88	206.71	403.57	625.05	1,242.26	Variable

For more information on the District's rate structure, visit www.fpud.com

Source: Fallbrook Public Utility District

Table #7 - Monthly Water Service Charge (Ag/Gov) (\$/month)

Fiscal Year	3/4" Meter	1" Meter	1 ½" Meter	2" Meter	3" Meter	4" Meter	6" Meter	Standby
2010	\$ 43.37	\$ 57.26	\$ 82.77	\$ 122.31	\$ 201.26	\$ 312.70	\$ 563.53	\$ 20.78
2011	43.37	57.26	82.77	122.31	201.26	312.70	563.53	20.78
2012	43.37	57.26	82.77	122.31	201.26	312.70	563.53	20.78
2013	44.45	58.69	84.84	125.37	206.29	320.52	57.62	21.51
2014	44.89	59.28	85.69	126.62	208.35	323.73	583.40	21.83
2015	44.89	59.28	85.69	126.62	208.35	323.73	583.40	21.83
2016	46.24	61.06	88.26	130.42	214.60	333.44	600.90	23.38
2017	49.01	64.72	93.56	138.25	227.48	353.45	636.95	24.78
2018	44.10	67.33	125.36	195.01	380.73	589.67	1,170.06	Variable
2019	46.75	71.37	132.88	206.71	403.57	625.05	1,242.26	Variable

Source: Fallbrook Public Utility District

Table #8 - Monthly Water Capital Improvement Charge (CIC) (\$/month)

Fiscal Year	3/4" Meter	1" Meter	1 ½" Meter	2" Meter	3" Meter	4" Meter	6" Meter	Standby
2010	\$ 3.20	\$ 4.40	\$ 6.40	\$ 10.00	\$ 16.80	\$ 26.40	\$ 48.00	\$ 1.92
2011	3.20	4.40	6.40	10.00	16.80	26.40	48.00	1.92
2012	3.29	4.52	6.58	10.28	\$17.27	27.14	49.35	1.97
2013	4.00	5.50	8.00	12.50	21.00	33.00	60.00	2.40
2014	8.00	11.00	16.00	25.00	42.00	66.00	120.00	4.80
2015	8.59	11.81	17.18	26.84	45.10	70.87	128.85	5.15
2016	9.06	12.46	18.12	28.31	47.57	74.75	135.90	5.44
2017	9.45	12.99	18.90	29.53	49.61	77.96	141.75	5.67
2018	8.58	14.30	28.60	45.76	91.52	143.00	286.00	Variable
2019	9.12	15.20	30.40	48.64	97.29	152.01	304.02	Variable

Source: Fallbrook Public Utility District

Table #10 - Sewer Rates by Customer Class (2010 - 2018)

	2010	2011	2012	2013	2014	2015	2016	2017	2018**	2019**
Fixed Rates (by meter size) (\$/month)										
3/4"	\$ 12.15	\$ 12.15	\$ 12.15	\$12.69	\$ 13.19	\$ 14.10	\$14.23	\$ 16.12	B Y	B Y
1"	18.33	18.33	18.33	19.23	19.95	21.23	21.55	24.01		
1 1/2"	33.79	33.79	33.79	35.59	36.86	39.06	39.86	43.75	E D U	E D U
2"	52.35	52.35	52.35	55.23	57.15	60.46	61.84	67.42		
3"	95.63	95.63	95.63	101.03	104.49	110.38	113.14	122.67	\$9.28/ EDU	\$9.70/ EDU
4"	157.48	157.48	157.48	166.47	172.12	181.70	186.36	201.60		
6"	312.08	312.08	312.08	330.06	341.20	359.99	369.49	398.91		
Billable Flow Rates * (\$/Kgal)										
Single Family Residence, Ag Domestic, Multi - Family	\$ 5.63	\$ 5.88	\$ 6.72	\$ 7.64	\$ 7.64	\$ 7.64	\$ 8.21	\$ 8.77	\$ 9.44	\$ 9.86
, Low -Strength Commercial, Schools, Churches	8.47	8.81	10.09	11.54	11.54	11.54	12.35	13.27	9.37	9.86
Medium Strength Commercial	8.47	8.81	10.09	11.54	11.54	11.54	12.35	13.27	11.57	12.09
High Strength Commercial	14.14	14.67	16.83	19.35	19.35	19.35	20.63	22.28	14.44	15.09

* Billable flow rates are calculated based upon water usage adjusted for outdoor use.

** Rates switched from fiscal year to calendar year January 1, 2018.

Source: Fallbrook Public Utility District

Table #11 - Monthly Sewer Capital Improvement Charge (CIC) (\$/month)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Per EDU	N/A	N/A	N/A	\$8.00	\$10.00	\$10.44	\$10.70	\$10.84	\$11.16	\$11.53

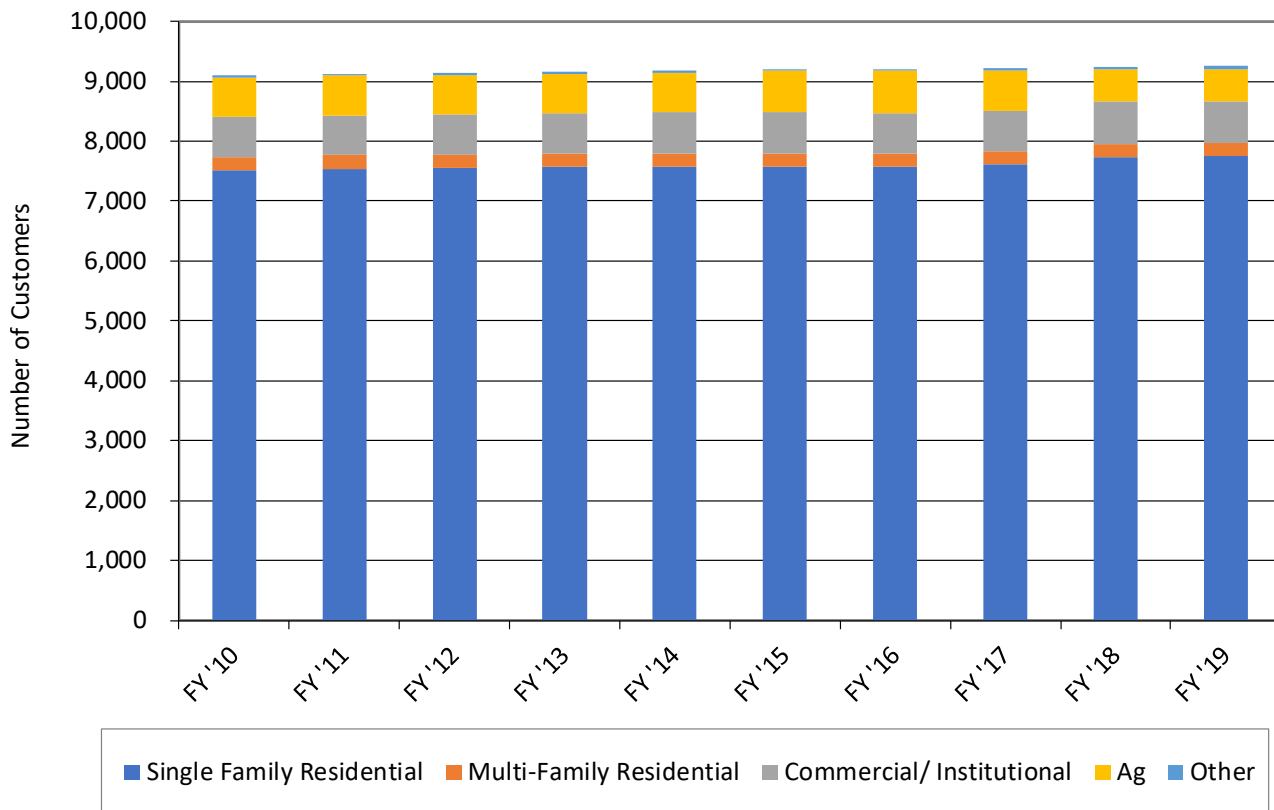
Source: Fallbrook Public Utility District

Table #12 - Number of Water Customers by Type

As of June 30	Single Family Residential	Multi-Family Residential	Commercial/ Institutional	Ag	Other	Total
2010	7,514	222	666	666	28	9,096
2011	7,540	223	663	666	28	9,120
2012	7,545	219	678	667	29	9,138
2013	7,569	217	678	663	31	9,158
2014	7,582	217	680	660	32	9,171
2015	7,581	217	679	695	33	9,205
2016	7,582	217	671	699	37	9,206
2017	7,617	217	673	674	38	9,219
2018	7,735	218	711	529	40	9,233
2019	7,742	218	713	533	45	9,251

Source: Fallbrook Public Utility District

Chart #3 - Number of Water Customers by Type



Source: Fallbrook Public Utility District

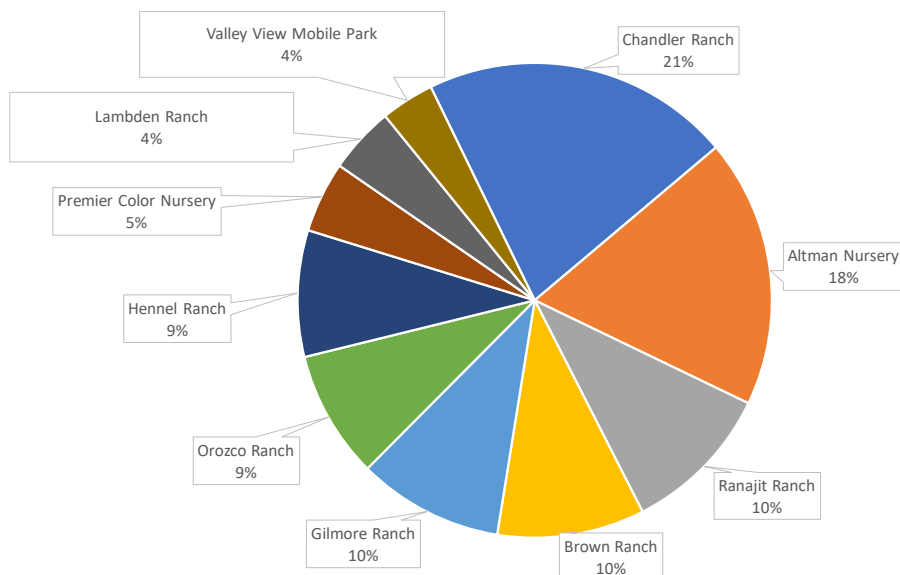
Table #13 - Top Ten Water Customers

Fiscal Year 2010		
Customer	Annual Usage (Kgal)	Percent of Total
Chandler Ranch	58,559	1.25%
Ross Ranch	53,953	1.15%
Ross Ranch	42,878	0.91%
Sparrow Hawk Ranch	36,273	0.77%
Serafiana Holdings	26,027	0.56%
Ross Ranch	31,762	0.68%
Hennel Grove	23,696	0.51%
Magdic Grove	24,525	0.52%
ACW Ranch	48,388	1.03%
Color Spot Nursery	27,046	0.58%
Total Top 10 Customers	373,107	7.96%
Total All Other Water Customers	4,314,390	92.04%
Total Water Consumed	4,687,497	100.00%

Fiscal Year 2019		
Customer	Annual Usage (Kgal)	Percent of Total
Chandler Ranch	53,987	2.21%
Altman Nursery	46,812	1.92%
Ranajit Ranch	26,488	1.08%
Brown Ranch	25,741	1.05%
Gilmore Ranch	25,432	1.04%
Orozco Ranch	22,265	0.91%
Hennel Ranch	22,062	0.90%
Premier Color Nursery	12,363	0.51%
Lambden Ranch	11,636	0.48%
Valley View Mobile Park	9,305	0.38%
Total Top 10 Customers	256,091	10.48%
Total All Other Water Customers	2,186,456	89.52%
Total Water Consumed	2,442,547	100.00%

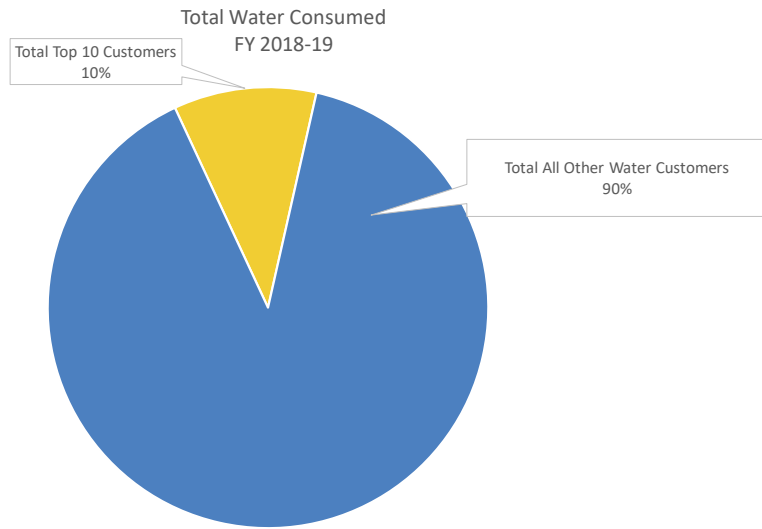
Source: Fallbrook Public Utility District

Chart #4 - Top Ten Water Customers and their Relative Consumption Fiscal Year 2019



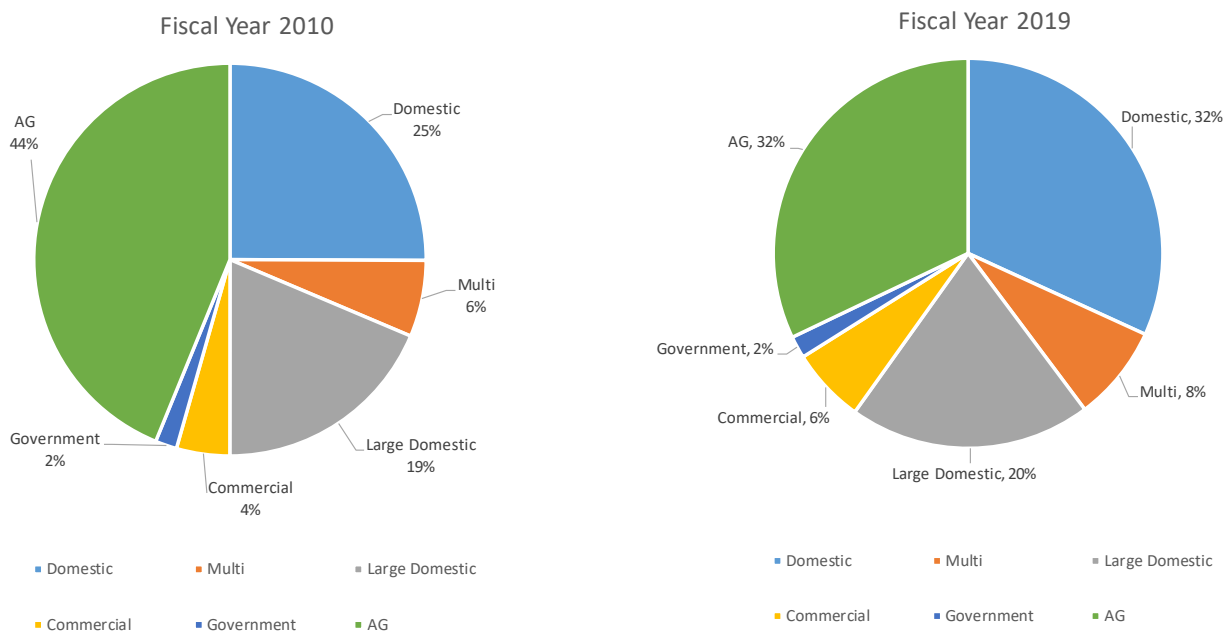
Source: Fallbrook Public Utility District

Chart #5 - Total Water Consumed Fiscal Year 2019



Source: Fallbrook Public Utility District

Chart #6 - Breakdown of Water Sales by Customer Class for Fiscal Year 2009 vs Fiscal Year 2018



Source: Fallbrook Public Utility District

Table #14 - Water System

Fiscal Year	Miles of Water Mains	Service Connections	Annual Production (G)	Average Daily Production (gpd)
2010	268.03	9,116	3,831,051,035	10,496,030
2011	268.38	9,124	3,863,212,430	10,584,144
2012	268.89	9,130	4,201,053,710	11,509,736
2013	268.89	9,142	4,159,247,155	11,395,198
2014	268.94	9,154	4,178,179,040	11,447,066
2015	268.98	9,166	3,327,254,350	9,115,765
2016	269.11	9,197	3,235,951,180	8,865,620
2017	269.11	9,211	3,114,930,490	8,534,056
2018	269.11	9,244	3,287,934,350	9,008,039
2019	269.29	9,253	2,684,556,048	7,354,948

Source: Fallbrook Public Utility District

Table #15 - Water System Total Production*

Fiscal Year	Total Used/Prod. (AF)	HCF
2010	11,757.10	5,121,392.81
2011	11,855.80	5,164,386.53
2012	12,892.60	5,616,016.62
2013	12,764.30	5,560,129.14
2014	12,822.40	5,585,437.50
2015	10,211.00	4,447,911.65
2016	9,930.80	4,325,856.52
2017	9,559.40	4,164,074.68
2018	10,090.30	3,588,734.20
2019	8238.60	

*Total Production before system losses.

Source: Fallbrook Public Utility District

Table #16 - Sewer System

Fiscal Year	Miles of Sewer Lines	Service Connections	Annual Sewerage (G)	Daily Sewerage (GD)
2010	77.55	4,956	630,238,194.63	1,726,679.99
2011	78.53	4,975	636,329,979.08	1,743,369.81
2012	78.62	4,994	609,826,887.99	1,670,758.60
2013	78.62	5,008	557,909,048.16	1,528,517.94
2014	78.62	5,028	540,541,189.86	1,480,934.77
2015	78.64	5,034	562,027,804.80	1,539,802.20
2016	78.64	5,044	499,860,321.77	1,369,480.33
2017	78.64	5,049	507,140,810.66	1,389,426.88
2018	78.64	5,049	486,337,179.41	1,332,430.63
2019	78.70	5,004	556,424,471	1,524,450

Source: Fallbrook Public Utility District

Table #17 - Sewer System Influent Flow

Fiscal Year	Total Used/Prod. (AF)
2010	1,965.79
2011	1,985.67
2012	1,968.83
2013	1,883.86
2014	1,873.30
2015	1,997.62
2016	1,639.416
2017	1,706.45
2018	1,592.26
2019	1,707.60

Source: Fallbrook Public Utility District

Table #18 - Recycled Water System

Fiscal Year	Miles of Recycled Pipes	Service Connections	Used Annual Recycled Water (AF)*	Daily Usage (MGD)
2010	8.28	28	593.90	0.5
2011	8.28	28	536.83	0.5
2012	8.28	28	603.50	0.5
2013	8.28	28	758.70	0.7
2014	8.28	28	746.80	0.7
2015	8.28	28	598.80	0.5
2016	10.53	29	599.83	0.5
2017	10.53	30	671.34	0.6
2018	10.53	32	740.40	0.7
2019	10.53	33	562.66	0.5

*includes water not billed at full rate
 Source: Fallbrook Public Utility District

Table #19 - Recycled Water System Production

Fiscal Year	Total Prod./Disposed (AF)
2010	1934.13
2011	1952.83
2012	1871.49
2013	1712.16
2014	1658.86
2015	1724.80
2016	1534.02
2017	1556.36
2018	1492.51
2019	1617.50

Notes:
 G- Gallons
 GD - Gallons per Day
 AF - Acre Feet
 MG - Millions of Gallons
 MGD - Millions of Gallons per Day

Source: Fallbrook Public Utility District

FPUD treats all water to recycled standards. This tables includes both recycled water used as well as discharged to the ocean outfall.

Table #20 - Annual RW Production and WRP Influent Flow

	Recycled Water (Acre-Feet)				WRP Influent Flow (Acre-Ft)
	Annual Production	Daily Average Production	Total Used Production	Total Disposed	
2010	1,926.46	5.28	486.57	1,439.89	1,971.72
2011	1,962.58	5.38	607.88	1,354.69	1,999.50
2012	1,795.23	4.92	702.99	1,092.23	1,933.72
2013	1,661.57	4.55	714.98	946.59	1,892.02
2014	1,756.49	4.81	690.15	1,066.34	1,888.80
2015	1,588.47	4.35	584.11	1,004.36	1,878.31
2016	1,489.03	4.08	694.37	794.66	1,600.40
2017	1,570.92	4.30	664.82	906.11	1,694.43
2018	1,492.51	4.09	740.39	752.12	1,592.26
2019	1617.50	4.43	562.70	1054.80	1,707.60

Source: Fallbrook Public Utility District

Table #21 - Full Time Equivalent (FTE) Employees by Function

Fiscal Year	Water Services	Wastewater Services	Recycled Water Services	General & Administrative	Total Operating Revenue
2010	22	15	6	31.8	74.8
2011	23	15	5	28.8	71.8
2012	23	14	5	29.8	71.8
2013	22	14	6	28.8	70.8
2014	21	13	6	27.8	67.8
2015	21	13	5	28.8	67.8
2016	20	13	5	28.8	66.8
2017	23	12	5	27.8	67.8
2018	24	15.2	2.8	25.8	67.8
2019	24	15.2	2.8	25.8	67.8

Source: Fallbrook Public Utility District

Table #22 -Assessed Valuation of Taxable Property

Fiscal Year	Secured				Unsecured		Total Assessed Value
	Water		Sewer		Water	Sewer	
	Local Assessed	State Assessed	Local Assessed	State Assessed			
2010	\$ 3,104,742,322	\$ 225,000	\$ 1,821,146,148	\$ 225,000	\$ 41,608,589	\$ 36,302,150	\$ 5,004,249,209
2011	3,037,269,947	225,000	1,781,731,084	225,000	42,343,299	37,141,389	4,898,935,719
2012	3,023,254,725	225,000	1,783,734,000	225,000	39,028,848	33,883,225	4,880,350,798
2013	3,005,131,868	225,000	1,773,732,093	225,000	40,228,753	35,613,386	4,855,156,100
2014	3,058,914,090	-	1,811,990,591	-	39,761,073	34,916,821	4,945,582,575
2015	3,234,556,718	-	1,928,060,834	-	40,480,476	35,184,912	5,238,282,940
2016	3,390,367,447	-	2,021,437,198	-	37,440,559	32,152,307	5,481,397,511
2017	3,518,846,961	-	2,098,501,032	-	36,135,611	31,163,876	5,684,647,480
2018	3,709,470,372	-	2,220,524,962	-	36,271,614	31,902,804	3,989,169,752
2019	3,895,955,738	-	2,337,209,037	-	41,211,234	35,075,356	6,309,451,365

Source: County of San Diego, Office of the Auditor & Controller

Table #23 -Property Tax

Fiscal Year	Current Year Levy*			Revenues Collected **			Uncollected Collected			Percent Uncollected
	Water	Sewer	Total	Water	Sewer	Total	Water	Sewer	Total	
2010	\$ 884,001	\$ 785,885	\$1,669,885	\$ 870,482	\$ 773,715	\$ 1,644,197	\$ 13,519	\$ 12,170	\$ 25,688	1.5%
2011	865,466	769,673	1,635,140	853,568	759,066	1,612,634	11,898	10,607	22,506	1.4%
2012	859,279	769,708	1,628,987	848,048	758,639	1,606,687	11,230	11,069	22,300	1.4%
2013	866,702	776,960	1,643,662	855,046	766,457	1,621,503	11,656	10,504	22,159	1.3%
2014	887,378	798,786	1,686,164	874,729	787,339	1,662,068	12,649	11,447	24,096	1.4%
2015	933,206	847,121	1,780,327	921,440	836,401	1,757,840	11,766	10,721	22,487	1.3%
2016	982,997	890,717	1,873,715	970,998	879,769	1,850,767	11,999	10,949	22,948	1.2%
2017	1,022,747	927,792	1,950,539	1,009,595	915,788	1,925,384	13,151	12,004	25,155	1.3%
2018	1,072,468	978,636	2,051,105	1,060,447	967,619	2,028,066	12,021	11,017	23,039	1.1%
2019	1,122,771	1,028,393	2,151,164	1,108,272	1,015,057	2,123,329	14,499	13,336	27,835	1.3%

* Total levy including penalties before administrative fees.

** Amount before administrative and other fees deducted.

Source: County of San Diego, Office of the Auditor & Controller

Table #24 -Pledged-Revenue Debt Service Coverage Ratio

Fiscal Year	Total Operating Revenues	Total Operating Expenses*	Non-Operating Revenue**	Net Revenue Available for Debt Service	Debt Service	Coverage Ratio	Required Coverage Level
2010	\$ 21,795,259	\$ 30,247	\$ 3,367,231	\$ 3,397,478	\$ 1,279,841	2.65	1.15
2011	21,255,448	23,093	2,702,416	2,725,509	1,148,552	2.37	1.20
2012	23,661,715	600,447	3,268,067	3,868,514	1,567,663	2.47	1.20
2013	27,582,160	3,133,370	4,355,765	7,489,135	1,490,434	5.02	1.20
2014	28,955,183	(402,350)	5,301,618	4,899,268	1,414,198	3.46	1.20
2015	27,483,881	1,892,674	5,482,287	7,374,961	1,319,031	5.59	1.20
2016	25,356,017	1,074,784	5,898,837	6,973,621	1,302,876	5.35	1.20
2017	27,256,065	1,871,670	5,348,517	7,220,187	2,756,731	2.62	1.20
2018	29,882,022	2,255,947	5,170,901	7,426,848	2,758,501	2.69	1.20
2019	26,944,550	25,549,828	5,336,901**	6,731,623	2,760,019	2.44	1.20

*Excludes depreciation and interest expenses

** Excludes one-term gain of \$9,338,297 on the sale of assets.

Source: Fallbrook Public Utility District

Table #25 Computation of Direct and Overlapping Debt (As of 06/30/2019)

2017-18 Assessed Valuation: \$3,937,116,972

OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt (6/30/19)	% Applicable ⁽¹⁾	District's Share of Debt (6/30/19)
Metropolitan Water District	\$ 48,050,000	0.135%	\$ 64,868
Palomar Community College District	618,718,625	3.213	19,879,429
Bonsall Unified School District	10,505,021	0.494	51,895
Fallbrook Union High School District	10,071,101	40.346	4,063,286
Fallbrook Union School District	18,474,476	69.404	12,822,025
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 36,881,503
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	255,365,000	0.748%	1,910,130
San Diego County Pension Obligation Bonds	508,765,000	0.748	3,805,562
San Diego County Superintendent of Schools Certificates of Participation	10,085,000	0.748	75,436
Palomar Community College District Certificates of Participation	2,140,000	3.213	68,758
Bonsall Unified School District Certificates of Participation	7,345,000	0.494	36,284
Fallbrook Public Utility District	0	100.	0
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$5,896,170
TOTAL DIRECT DEBT			\$0
TOTAL OVERLAPPING DEBT			\$ 42,777,673
COMBINED TOTAL DEBT			\$ 42,777,673 ⁽²⁾

(1) The percentage of overlapping debt applicable to the public utility district is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the public utility divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2017-18 Assessed Valuation:

Total Overlapping Tax and Assessment Debt	0.94%
Total Direct Debt	0.00%
Combined Total Debt	1.09%

Source: California Municipal Statistics Inc.

Table #26 - San Diego County Principal Employers

Fiscal Year 2019			Fiscal Year 2010		
Employer Name	Number of Employees ⁽¹⁾	Percentage of Total County Employment	Employer Name	Number of Employees	Percentage of Total County Employment
University of California San Diego	34,448	2.25%	Federal Government	43,000	3.27%
Naval Base San Diego	34,185	2.24%	State of California	35,600	2.71%
Sharp Healthcare	18,364	1.20%	University of California San Diego	20,653	1.57%
County of San Diego	17,413	1.14%	County of San Diego	16,555	1.26%
Scripps Health	14,941	0.98%	Sharp HealthCare	12,784	0.97%
San Diego Unified School District	13,815	0.90%	Scripps Health	11,500	0.88%
Qualcomm Inc.	11,800	0.77%	Qualcomm Inc.	8,003	0.61%
City of San Diego	11,462	0.75%	City of San Diego	7,124	0.54%
Kaiser Permanente San Diego	9,606	0.63%	Kaiser Permanente	7,000	0.53%
UC San Diego Health	8,932	0.58%	U.S. Postal Service, San Diego District	6,000	0.50%
Total Top Ten County Employers	174,966	11.44%	Total Top Ten County Employers	168,819	12.84%
All Other County Employers	1,354,514	88.56%	All Other County Employers	1,238,981	87.16%
Total County Employment ⁽²⁾	1,529,480	100.00%	Total County Employment ⁽¹⁾	1,407,800	100.00%

Source: *San Diego Business Journal*, County of San Diego, Bureau of Labor Statistics

Note: (1) Numbers are based on most recent data available for San Diego Business Journal as of October 2019

(2) Bureau of Labor Statistics (not seasonally adjusted)

Table #27 - Outstanding Debt, Demographic Statistics and Per Capita Statistics

Fiscal Year	District's Outstanding Long-Term Debt ⁽¹⁾		Total Outstanding Debt	Demographic Statistics				Per Capita Outstanding Debt	Per Capita Debt as a Percent of Personal Income
	Notes	Contracts		Population Estimate ⁽²⁾	Per Capital Personal Income ⁽³⁾	Unemployment Rate ⁽⁴⁾	Total Estimated Personal Income		
2010	\$ 295,568	\$ 4,198,000	\$ 4,493,568	33,510	\$ 44,016	10.7%	\$ 1,474,981,191	\$ 134	0.3%
2011	224,814	13,386,773	13,611,587	33,645	46,496	10.7%	1,564,343,649	405	0.9%
2012	152,008	1,263,686	1,415,694	33,780	48,110	9.5%	1,625,146,771	42	0.1%
2013	77,090	13,165,083	13,242,173	33,915	49,162	8.2%	1,667,352,544	390	0.8%
2014	-	21,810,892	21,810,892	34,052	51,444	6.5%	1,751,754,674	641	1.2%
2015	-	32,389,288	32,389,288	34,188	53,696	5.3%	1,835,782,189	947	1.8%
2016	-	38,841,278	38,841,278	34,326	55,797	4.9%	1,915,273,183	1,132	2.0%
2017	-	37,101,306	37,101,306	34,464	57,878	4.2%	1,994,683,778	1,077	1.9%
2018	-	35,314,028	35,314,028	34,602	60,510	3.7%	2,093,767,020	1,021	1.7%
2019	-	33,474,377	33,474,377	34,740	63,280	3.7%	2,198,347,200	964	1.5%

(1) - Debt secured by District's net revenues

(2) - Historic population estimated based upon a 0.4% growth rate and the 2018 population estimate of 34,602.

(3) - Per capital personal income of for the San Diego County Region. Source: California Department of Transportation

(4) - Source Employee Development Department Labor Market Information Division June unemployment rate

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