



Fallbrook Public Utility District

A special district in the State of California



Comprehensive Annual Financial Report
for the Fiscal Year Ending June 30, 2018

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year ending June 30, 2018

Current Board of Directors:

- District #1 - Al Gebhart
- 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.

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INTRODUCTORY SECTION



January 24, 2019

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Fallbrook, California
92028-2232
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Board of Directors
Fallbrook Public Utility District
990 East Mission Road
Fallbrook, California 92028

(760) 728-1125

Board of Directors

Al Gebhart
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, 2018. The purpose of this report is to provide the Board, the public, and other interested parties, with reliable financial information about the District.

This is the first time the District has produced a CAFR, which is an industry wide best management practice. 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 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, 2018. 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 is expected to begin in the Summer of 2019.

The District's five-year average annual water sales is 10,596 acre-feet. Residential and commercial customers represent 58% of sales, and agricultural customers make up the remaining 42%. 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 reduced from 7,000 acre-feet in Fiscal Year 2008 to 3,644 in Fiscal Year 2018.



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.

To help new users tap into the expanding recycled water system, the District secured funding from the Department of Water Resources through the Prop. 84 grant program. In 2014, the District held a workshop to assist growers with planning, getting permits, purchasing new equipment, and receiving grant funds. Assisting growers through the entire process has helped bring new recycled customers online. The project included expanding the recycle water distribution system in order to add new large water users.

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 06/30/2018):

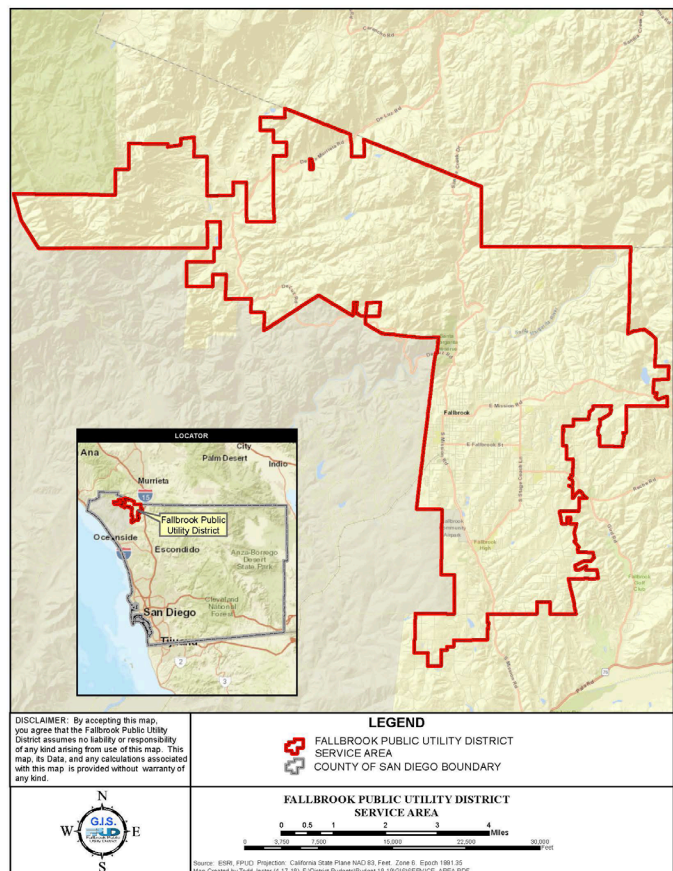
- District #1 - Al Gebhart, President**
- District #2 - Milt Davies**
- District #3 - Jennifer DeMeo**
- District #4 - Don McDougal, Vice-President**
- District #5 - Charley Wolk**

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.

In addition to the policies listed above, the Board has adopted a cost recovery approach for certain pension liability related expenditures funded by reserves. In 2014, the District paid off a CalPERS liability related to the District pension plan being included into the small agency pool. The payment of \$3.1 million was made the District's reserves and the Board established a 5-year plan to recover the reserves from operations. To achieve this, each year the District included in the rates and charges the recovery of \$585,000 in total from water, recycled water and wastewater. Fiscal year ending June 30, 2019 marks the end of the 5-year cost recovery plan and the complete planned repayment of reserves.

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, 2018, the trust held \$2.3 million in assets to offset in District's OPEB and Pension liability.

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. In addition to the regional investments in San Diego County supplies, there is a significant proposed statewide water project to fix the Bay-Delta State Water Project, which delivers our key water supplies from Northern California, also known as the WaterFix. While the exact cost of the WaterFix to our ratepayers is not known, due to the size of the overall project, which is expected to be \$11.8 billion, and the fact that the cost is to be recovered on regional water rates, the project will cause an ongoing increase in wholesale water costs. With the additional increases due the WaterFix on the horizon, local water supply development, which will reduce our dependence on costly imported water, is one way to mitigate continued wholesale water rate increases. The District recently settled over 60 years of water rights litigation with Camp Pendleton Marine Corps Base, which has been a hurdle to the District in achieving our own local water supply. This settlement allows the District to finally move forward on the Santa Margarita Conjunctive Use Project (SMCUP) which will make local supply for the District a reality and will provide District ratepayers 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

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 live 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

Continuous Improvement

This has been a year of transition for the District. With new leadership in the organization, significant changes to business processes and procedures and implementation of an Enterprise Resource Planning (ERP) system, the District is set on a course to adopt many industry-wide best management practices. 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.



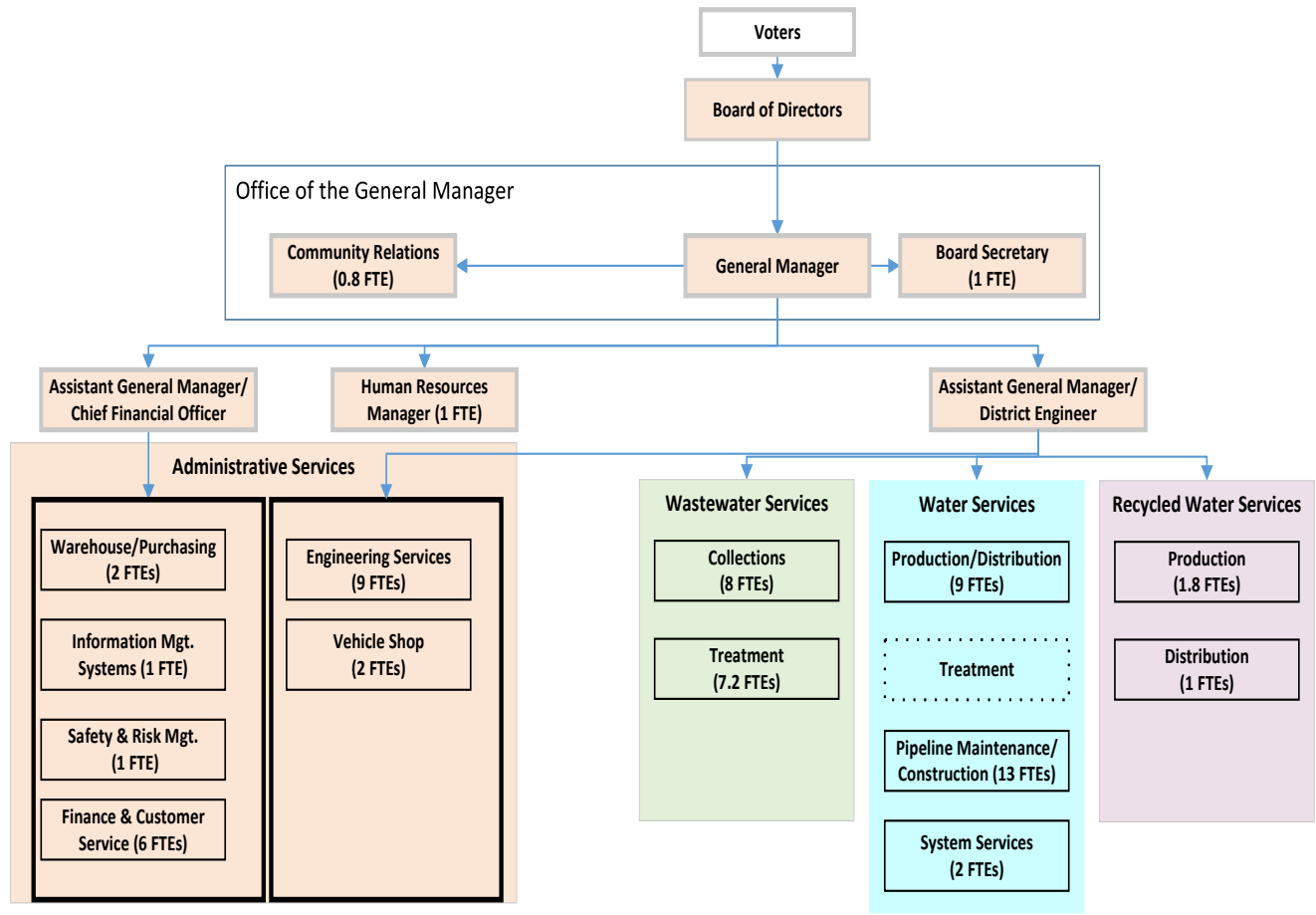
Jack Bebee
General Manager



David Shank
Assistant General Manager/CFO



Fiscal Year Organizational Structure (Total FTE 67.8)



Future Division excluded from FTE count

FTE = Full-Time Equivalent

FINANCIAL SECTION

The logo for White Nelson Diehl Evans LLP is centered in a dark blue rectangular box. The word "WAND" is written in large, light blue, serif capital letters, with the "E" being significantly larger and overlapping the other letters. Below this, the full name "WHITE NELSON DIEHL EVANS LLP" is written in smaller, white, sans-serif capital letters. Underneath the name, the text "Certified Public Accountants & Consultants" is written in an even smaller, white, sans-serif font.

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our 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, 2018, 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.

Emphasis of Matters

As discussed in Notes 1c and 10 to the financial statements, the District adopted Governmental Accounting Standards Board's Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which required retrospective application resulting in a \$217,110 reduction of previously reported net position. As discussed in Note 10 to the financial statements, the District also recorded prior period adjustments resulting in a decrease of net position of \$542,795 related to compensated absences liability and an increase in net position in the amount of \$4,245,424 related to capital assets. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, 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 and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Matters (Continued)

Other Information (Continued)

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 Dick Evans LLP

Carlsbad, California
January 24, 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, 2018. 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.
- 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.

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 1.1% from the June 30, 2017 restated balance of \$85,168,437 to a June 30, 2018 balance of \$86,083,307. The District's total assets increased to \$137,205,031 which is a 0.7% increase from last year as restated. Liabilities increased to \$54,284,655 or 3.2% from year ending June 30, 2017. Of the District's assets, 83.6% are related to infrastructure, which is the largest class of assets.

This year the District restated its fiscal year ending June 30, 2017 net position. The change in net position was the result of adjustment to three components: 1) decrease to net position as of June 30, 2017 in the amount of \$542,795 to restate the balance of the compensated absences liability; 2) a decrease to the net position as of June 30, 2017 of \$217,110 relating to the District's implementation of GASB 75; and 3) an increase to the net position in the amount of \$4,245,424 to restate the balance of capital assets as of June 30, 2017. The restatement of capital assets was the result of a detailed review of the District's fixed asset records and the identification of assets not properly booked in the past. Similarly, the District recalculated its compensated absences liability based upon the District policies, which resulted in higher compensated absence expense in fiscal year ending June 30, 2017.

The District's operating loss widened from \$2,634,112 in fiscal year ending June 30, 2017 to \$3,437,777 in fiscal year ending June 30, 2018 as expenses outpaced increases in revenues. Overall the District's operating revenues increased 9.6% or from \$27,256,065 to \$29,882,022 in fiscal years ending June 30, 2017 and 2018, respectively. After net non-operating revenues and capital contributions the District's fiscal year ending June 30, 2018 change in net position was \$914,870. During the past year the District made contributions to the Pension and OPEB 115 Trust bring the trust balance to \$2,336,531.

Condensed Statements of Net Position

	For the Year Ended June 30, 2018	For the Year Ended June 30, 2017	For the Year Ended June 30, 2016
Assets			
Current Assets	\$ 17,589,075	\$ 19,124,049	\$ 20,732,086
OPEB and Restricted Assets	4,968,360	4,114,814	3,471,337
Capital Assets, net	114,647,596	108,717,795	108,553,869
Total Assets	137,205,031	131,956,658	132,757,292
Deferred Outflows of Resources	4,014,167	2,980,305	1,248,099
Liabilities			
Current liabilities	6,679,433	5,671,488	7,149,490
Noncurrent liabilities	47,605,222	46,947,511	46,749,529
Total Liabilities	54,284,655	52,618,999	53,899,019
Deferred Inflows of Resources	851,236	635,046	796,520
Net Position			
Net Investment in Capital Assets	79,333,568	72,519,098	70,683,956
Restricted	4,711,487	3,475,457	3,455,377
Unrestricted	2,038,252	5,688,363	5,170,519
Total Net Position	\$ 86,083,307	\$ 81,682,918	\$ 79,309,852

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 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 increase 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, 2018. 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 non-operating revenue, which is predominantly made up of property taxes and capital improvement charges, and \$140,761 in capital contributions. These along with offsetting non-operating expenses of \$1,232,411, compensated for the operating loss of \$3,437,777.

Fiscal year 2017 compared to Fiscal Year 2016

Current assets decreased by \$1,608,037 from fiscal year ending June 30, 2016. The decrease is found in Cash and Investments as unrestricted cash became restricted, in order to fund the 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 \$1,367,435, \$756,952 for OPEB and \$610,483, respectively.

Net capital assets remained relatively flat with an increase of \$4,409,350 in fiscal year ending June 30, 2017 before prior period adjustments. With the Wastewater Treatment Plant completed and placed in service in fiscal year ending June 30, 2016, District wide depreciation in fiscal year ending in June 30, 2017 was \$5,294,310. The increase in net capital assets indicates that the District's capital investments in fiscal year ending June 30, 2017 slightly outpaced the rate of asset depreciation.

Current liabilities decreased by \$1,478,002 from fiscal year ending June 30, 2016. The driver behind the decrease in current liabilities was corresponding decrease in accounts payable, which is related to reduced construction related outflows.

The District's total net position increased by \$2,373,066 before restatements primarily attributable to the \$6,181,189 in non-operating revenue, which is predominantly made up of property taxes and capital improvement charges and capital contributions. These along with offsetting non-operating expenses of \$1,174,011, compensated for the operating loss of \$2,634,112.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	For the Year Ended June 30, 2018	For the Year Ended June 30, 2017	For the Year Ended June 30, 2016
Operating revenues	\$ 29,882,022	\$ 27,256,065	\$ 25,356,017
Operating expenses	33,319,799	29,890,177	27,144,267
Operating loss	(3,437,777)	(2,634,112)	(1,778,250)
Non-Operating revenue, net	4,211,886	4,174,506	4,431,344
Change in net position before capital contributions	774,109	1,540,394	2,643,094
Capital Contributions	140,761	832,672	1,631,767
Change in net position	914,870	2,373,066	4,274,861
Net Position - beginning	81,682,918	79,309,852	75,034,991
Prior Period Adjustments	3,485,519	—	—
Net position - end of year	\$ 86,083,307	\$ 81,682,918	\$ 79,309,852

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 non-operating revenue of \$4,211,886 results in a \$774,109 increase in net position before capital contributions. The District's non-operating 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.

Fiscal year 2017 compared to Fiscal Year 2016

The District's net position increased by \$2,373,066 during fiscal year ending June 30, 2017.

Before prior period adjustment, operating revenue increased \$1,900,048 due to increased water sales of 9,785 AF in fiscal year ending in June 30, 2017 compared to 8,680 during fiscal year ending in June 30, 2016. Recycled water sales were up slightly to 641 AF as compared to 575 AF in fiscal year ending June 30, 2016. Wastewater revenues increased by \$225,122 versus fiscal year ending June 30, 2016. 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 \$2,745,910 versus fiscal year ending June 30, 2016. Depreciation expense increased by \$1,654,192 from fiscal year ending June 30, 2016 due to the completion of the Wastewater Treatment Plant while other operating costs increased by \$1,091,718. 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 \$2,634,112 when netted against non-operating revenue of \$4,174,506 results in a \$1,540,394 increase in net position before capital contributions. The District's \$4,174,506 in non-operating revenues come from five primary sources, property taxes in the amount of \$1,889,808 water and wastewater capital improvement charges in the amount of \$2,283,558, intergovernmental revenue in the amount of \$238,765, connection fees in the amount of \$238,124 and the California Solar Initiative rebate in the amount of \$234,930, which is down from the prior year and represents the final rebate payments. Other revenue was down from the prior year primarily due to fewer assets being sold.

Capital Assets

The District’s has 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, 2018, 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. At June 30, 2018, the District has the following commitments with respect to unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Completion Date
Harris PS Improvements	\$ 227,045	2019
Old Hwy 395 Pipelines	27,311	2019
Old Stage Road Pipeline	136,184	2019
Santa Margarita Drive Pipeline	1,023,962	2019
Overland Trail Lift Station Design	172,802	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, 2018, the District had \$35.3 million of long-term debt outstanding. \$3.8 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 \$4.4 million of indebtedness is attributable to the Red Mountain Filtration Plant SRF loan, which was originally for \$6.16 million. \$27.2 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, 2018 \$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 December 19, 2018, the Distinct closed escrow on the sale of its Santa Margarita property. The property was sold for \$9.98 million. The Board used the proceeds from the sale to fund the District’s Water Rate Stabilization Fund with \$6.2 million and \$3.78 million was set aside for the Districts Pension Trust Fund, which reduces the District’s pension liabilities. These actions further strengthened the District’s short and long-term financial position.

ENTERPRISE FUND
STATEMENT OF NET POSITION
June 30, 2018

ASSETS

Current Assets

Cash and cash equivalents (Note 2)	\$ 2,810,799
Investments (Note 2)	8,512,057
Receivables - water sales and services	3,986,912
Accrued interest receivable	79,174
Property taxes receivable	9,183
Other receivables	142,877
Inventory (Note 5)	1,985,473
Prepaid expenses and other deposits	<u>62,600</u>
Total current assets	<u>17,589,075</u>

Noncurrent Assets

Restricted Assets

Cash and cash equivalents	1,388,748
Investments	<u>3,579,612</u>
Total Restricted Assets	<u>4,968,360</u>

Capital assets (Note 3)

Capital assets, not being depreciated	14,391,257
Capital assets being depreciated, net	<u>100,256,339</u>
Total capital assets, net	<u>114,647,596</u>
Total noncurrent assets	<u>119,615,956</u>
Total assets	<u>137,205,031</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred amounts from Pension (Note 6)	3,819,796
Deferred amounts from OPEB (Note 7)	<u>194,371</u>
Total Deferred Outflows of Resources	<u>\$ 4,014,167</u>

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

(continued)

ENTERPRISE FUND
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2018

LIABILITIES

Current liabilities

Accounts payable	\$ 3,731,613
Accrued wages	297,812
Construction and other deposits	63,142
Accrued interest payable	230,365
Compensated absences, current portion (Note 1)	516,850
Current portion of other long-term debt (Note 4)	1,839,651
	<u>6,679,433</u>

Total current liabilities

Noncurrent Liabilities

Health retirement account liability	240,814
Net OPEB obligation (Note 7)	283,769
Net pension liability (Note 6)	12,746,294
Retention payable	84,693
Compensated absences, net of current portion (Note 1)	775,275
Long-term debt - net of current portion (Note 4)	33,474,377

Total Noncurrent Liabilities

Total Liabilities

47,605,22254,284,655**DEFERRED INFLOWS OF RESOURCES**

Deferred amounts from Pension (Note 6)	843,878
Deferred amounts from OPEB (Note 7)	7,358
	<u>851,236</u>

Total Deferred Inflows of Resources

NET POSITION

Net investment in capital assets	79,333,568
Restricted for	
1958 Annex projects	1,213,780
Debt service	2,108,959
Pension Assets (Note 6)	1,388,748
Unrestricted	2,038,252
	<u>86,083,307</u>

Total Net Position

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

ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the year ended June 30, 2018

OPERATING REVENUES	
Water sales	\$ 24,466,233
Wastewater service	5,258,183
Other	157,606
Total operating revenues	29,882,022
OPERATING EXPENSES	
Cost of water sold	14,453,229
General and administration	5,516,557
Transmission and distribution	3,922,528
Wastewater operations and maintenance	3,733,762
Operating expenses before depreciation	27,626,076
Depreciation	5,693,723
Total operating expenses including depreciation	33,319,799
Operating (Loss)	(3,437,777)
NONOPERATING REVENUES (EXPENSES)	
Property taxes	1,984,543
Capital improvements charges	2,476,452
Investment income	18,188
Water availability charges	229,400
Lease revenue	178,602
Intergovernmental revenue - federal interest rate subsidy	145,338
Connection fees	411,774
Loss on disposal of capital assets	(273,396)
Interest expense	(959,015)
Total nonoperating revenues (expenses)	4,211,886
Changes in net position before capital contributions	774,109
Capital contributions	
State Proposition 84	67,100
Capital asset contributions - donated from developers	73,661
Total capital contributions	140,761
Change in net position	914,870
Net position, beginning of year, as previously stated	81,682,918
Prior period adjustment	3,485,519
Net position - beginning of year, as restated	85,168,437
Net position - end of year	\$ 86,083,307

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

ENTERPRISE FUND
STATEMENT OF CASH FLOWS
For the year ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 29,287,895
Payments for water	(14,453,229)
Payments for services and supplies	(4,744,367)
Payments for employee wages, benefits and related costs	(7,504,397)
	2,585,902
Net cash provided by operating activities	2,585,902

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Property taxes	1,981,314
	1,981,314
Net cash provided by noncapital financing activities	1,981,314

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(7,151,672)
Principal payments on long-term debt	(1,787,278)
Interest paid	(952,745)
Lease revenues collected	178,602
Intergovernmental revenue - federal interest rate subsidy	73,892
Capital improvement charges and connection fees	2,888,226
State Proposition 84	67,100
Water availability charges	229,400
	(6,454,475)
Net cash used by capital and related financing activities	(6,454,475)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	(6,847,809)
Sales of investments	10,208,942
Interest received	273,130
	3,634,263
Net cash provided by investing activities	3,634,263

Net change in cash and cash equivalents	1,747,004
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Cash and cash equivalents - beginning	2,452,543
	2,452,543

Cash and cash equivalents - ending	\$ 4,199,547
	\$ 4,199,547

Financial Statement Presentation

Cash and cash equivalents	\$ 2,810,799
Cash and cash equivalents - Restricted Assets	1,388,748
Total Cash and cash equivalents	\$ 4,199,547

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

(continued)

ENTERPRISE FUND
STATEMENT OF CASH FLOWS (CONTINUED)
For the year ended June 30, 2018

Reconciliation of operating income (loss) to net cash provided by operating activities

Operating (loss)	\$ (3,437,777)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation	5,693,723
(Increase) Decrease in:	
Receivables	(594,127)
Inventory	(560,972)
Prepaid expenses and other deposits	29,222
Net OPEB asset	12,909
Deferred outflows of resources	(1,033,862)
Increase (decrease) in:	
Accounts payable	608,723
Accrued wages	37,547
HRA liability	104,286
Net OPEB obligation	66,659
Net pension liability	1,731,438
Compensated absences	(288,057)
Deferred inflows of resources	216,190
Net cash provided by operating activities	<u>\$ 2,585,902</u>

Noncash investing and capital and related financing activities

Change in fair value of investments	\$ 274,640
Capital assets contributed	\$ 73,661

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

FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET POSITION - OPEB TRUST FUND
June 30, 2018

Assets

Cash and Cash Equivalents	\$ 947,784
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Net Position

Restricted for other postemployment benefits	\$ 947,784
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The accompanying notes are an integral part of the financial statements.

FIDUCIARY FUND
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - OPEB TRUST FUND
 For the year ended June 30, 2018

Additions	
Employer contributions	\$ 153,000
Investment income	40,802
Total additions	193,802
 Deductions	
Administration	1,970
Change in net position	191,832
Net position - beginning of year	755,952
Net position - end of year	\$ 947,784

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

June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization and Operations of the 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 citizens of the Fallbrook Sanitary District (which is wholly included within the Fallbrook Public Utility District) voted to dissolve that district and have the Fallbrook Public Utility District become the provider of 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 Statement No. 75 – “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*,” effective for periods beginning after June 15, 2017. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for postemployment benefits other than pensions. Accounting changes adopted to conform to the implementation of this statement should be applied retroactively. The result of the implementation of this statement decreased net position at July 1, 2017 of the District by \$217,110.
- GASB Statement No. 81 – “*Irrevocable Split-Interest Agreements*,” effective for periods beginning after December 15, 2016, and this did not impact the District.
- GASB Statement No. 82 – “*Pension Issues*,” effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, and did not impact the District.
- GASB Statement No. 85 – “*Omnibus 2017*,” effective for periods beginning after June 15, 2017, and did not impact the District.
- GASB Statement No. 86 – “*Certain Debt Extinguishment Issues*,” effective for periods beginning after June 15, 2017, and did not impact the District.

Pending Accounting Standards:

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

- GASB 83 – “*Certain Asset Retirement Obligations*” effective for periods beginning after June 15, 2018.
- GASB 84 – “*Fiduciary Activities*” effective for periods beginning after December 15, 2018.
- GASB 87- “*Leases*,” effective for periods beginning after December 15, 2019.
- GASB 88 – “*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*” effective for periods after June 15, 2018.
- 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.

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

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

- Deferred outflow related to pensions for employer contributions made after the measurement date of the net pension liability.
- Deferred outflows related to other post-employment benefits for employer contributions made after the measurement date of the net other post-employment benefit liability.
- Deferred 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 changes in proportion. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans.
- 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 outflows from 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.

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 inflows from pensions resulting from the changes in assumptions and differences between employer contributions and proportionate share of contributions. 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.
- Deferred outflow related to other post-employment benefits 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.

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 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, 2018, were as follows:

Balance July 1, 2017 (As Restated)	Additions	Deletions	Balance June 30, 2018
\$ 1,580,180	577,705	(865,760)	\$ 1,292,125

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 fair 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, 2018 are classified in the accompanying financial statements as follows:

	<u>2018</u>
Statement of Net Position:	
Current Assets:	
Cash and cash equivalents	\$ 2,810,799
Restricted cash and cash equivalents	1,388,748
Investments	8,512,057
Restricted investments	3,579,612
Cash and cash equivalents with OPEB trust*	<u>947,784</u>
Total cash and investments	<u>\$ 17,239,000</u>

Cash and investments consist of the following:

Cash on hand	\$ 1,150
Deposits with financial institutions	2,568,290
Investments	<u>14,669,560</u>
Total cash and investments	<u>\$ 17,239,000</u>

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 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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>	<u>Quality Requirements (S & P Rating)</u>
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%	5%	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, 2018.

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)	\$ 226,523	\$ 226,523	\$ -	\$ -	\$ -
San Diego County Treasurer Pool	14,840	14,840	-	-	-
Asset Backed Securities	1,263,200	-	89,270	1,173,930	-
Medium-Term Notes	3,842,158	99,199	640,963	3,101,996	-
Municipal Bonds	169,595	-	-	169,595	-
Supranational Agency Bonds	136,910	-	-	136,910	-
Negotiable Certificates of Deposit	2,211,585	448,068	1,233,479	530,038	-
U.S. Agency Securities	247,924	-	-	247,924	-
U.S. Treasury Securities	4,087,223	441,582	353,065	3,292,576	-
Federal Agency Collateralized Mortgage Obligations	133,070	23,027	-	110,043	-
PARS Pooled Trust - Pension Trust	1,388,748	1,388,748	-	-	-
PARS Pooled Trust - OPEB Trust	947,784	947,784	-	-	-
Total	\$ 14,669,560	\$ 3,589,771	\$ 2,316,777	\$ 8,763,012	\$ -

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, 2018.

Investment Type	Total	Minimum Legal Rating*	Exempt from Disclosure	S&P Rating as of Year End				
				AAA	AA	A	BBB	Not Rated
Local Agency Investment Fund (LAIF)	\$ 226,523	Exempt	226,523	-	-	-	-	-
San Diego County Treasurer Pool	14,840	Exempt	14,840	-	-	-	-	-
Asset Backed Securities	1,263,200	A	-	1,263,200	-	-	-	-
Medium-Term Notes	3,842,158	A	-	2,991,845	-	-	850,313	-
Municipal Bonds	169,595	A/A-1	-	-	169,595	-	-	-
Supranational Agency Bonds	136,910	AA	-	136,910	-	-	-	-
Negotiable Certificates of Deposit	2,211,585	A/A-1	-	-	808,561	915,067	-	487,957
U.S. Agency Securities	247,924	Exempt	247,924	-	-	-	-	-
U.S. Treasury Securities	4,087,223	Exempt	4,087,223	-	-	-	-	-
Federal Agency Collateralized Mortgage Obligations	133,070	AA	-	-	133,070	-	-	-
PARS Pooled Trust - Pension Trust	1,388,748	Exempt	-	-	-	-	-	1,388,748
PARS Pooled Trust - OPEB Trust	947,784	Exempt	-	-	-	-	-	947,784
Total	\$ 14,669,560		\$ 4,576,510	\$ 4,391,955	\$ 1,111,226	\$ 915,067	\$ 850,313	\$ 2,824,489

* 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. 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 is as follows:

Issuer	Investment Type	Reported Amount 2018
United States Treasury	U.S. Treasury Securities	\$ 4,087,223

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, 2018, \$1,996,047 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).

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

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

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

2. CASH AND INVESTMENTS (Continued)

Fair Value Measurements (Continued)

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

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

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

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

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

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	June 30, 2018
Investments by Fair Value Level				
Asset Backed Securities	\$ -	\$ 1,263,200	\$ -	\$ 1,263,200
Medium-Term Notes	-	3,842,158	-	3,842,158
Municipal Bonds	-	169,595	-	169,595
Supranational Agency Bonds	-	136,910	-	136,910
Negotiable Certificates of Deposit	-	2,211,585	-	2,211,585
U.S. Agency Securities	-	247,924	-	247,924
U.S. Treasury Securities	-	4,087,223	-	4,087,223
Federal Agency Collateralized Mortgage Obligations	-	133,070	-	133,070
Total Investments by Fair Value Level	<u>\$ -</u>	<u>\$ 12,091,665</u>	<u>\$ -</u>	<u>\$ 12,091,665</u>
Investments measured at Cost or Net Asset Value (NAV)				
Local Agency Investment Fund (LAIF)				226,523
San Diego County Treasurer Pool				14,840
PARS Pooled Trust - Pension Trust				1,388,748
PARS Pooled Trust - OPEB Trust				947,784
Total Investments at Cost or Net Asset Value (NAV)				<u>2,577,895</u>
Total Investments				<u>\$ 14,669,560</u>

3. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2018, were as follows:

	June 30, 2017 As restated	Additions	Deletions	Transfers/ Reclassifications	Balance June 30, 2018
Capital assets, not being depreciated:					
Land and property rights-water	\$ 5,868,531	\$ -	\$ (97,757)	\$ -	\$ 5,770,774
Land and property rights-wastewater	1,128,164		-	-	1,128,164
Construction in progress	10,411,182	7,125,600	(195,190)	(9,849,273)	7,492,319
Total capital assets, not being depreciated	<u>17,407,877</u>	<u>7,125,600</u>	<u>(292,947)</u>	<u>(9,849,273)</u>	<u>14,391,257</u>
Capital assets, being depreciated:					
Water Operations:					
Impounding Dam	28,394,374	525,896	-	1,602,241	30,522,511
Distribution System	44,147,467	-	-	4,199,948	48,347,415
Buildings and Structures	4,790,915	-	-	258,212	5,049,127
Equipment	7,464,546	-	-	1,751,512	9,216,058
Total Water Operations	<u>84,797,302</u>	<u>525,896</u>	<u>-</u>	<u>7,811,913</u>	<u>93,135,111</u>
Wastewater Operations:					
Collection system	10,715,914	-	-	1,775,160	12,491,074
Treatment and disposal facilities	60,022,107	-	-	-	60,022,107
Equipment	871,062	-	-	-	871,062
Total wastewater operations	<u>71,609,083</u>	<u>-</u>	<u>-</u>	<u>1,775,160</u>	<u>73,384,243</u>
Recycle Operations:					
Distribution System	4,338,130	-	-	262,200	4,600,330
Total recycle operations	<u>4,338,130</u>	<u>-</u>	<u>-</u>	<u>262,200</u>	<u>4,600,330</u>
Total capital assets being depreciated	160,744,515	525,896	-	9,849,273	171,119,684
Less accumulated depreciation	<u>(65,189,173)</u>	<u>(5,693,723)</u>	<u>19,551</u>	<u>-</u>	<u>(70,863,345)</u>
Total capital assets being depreciated, net	<u>95,555,342</u>	<u>(5,167,827)</u>	<u>19,551</u>	<u>9,849,273</u>	<u>100,256,339</u>
Total capital assets, net	<u>\$ 112,963,219</u>	<u>\$ 1,957,773</u>	<u>\$ (273,396)</u>	<u>\$ -</u>	<u>\$ 114,647,596</u>

Depreciation expense for depreciable capital assets was \$5,693,723 for the year ended June 30, 2018.

4. LONG-TERM DEBT

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

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Red Mountain State Revolving Fund Loan	\$ 4,629,582	\$ -	\$ (278,617)	\$ 4,350,965	\$ 285,825
Qualified Energy Conservation Revenue Bonds	4,060,032	-	(287,973)	3,772,059	306,282
Clean Water State Revolving Fund Loan	28,411,692	-	(1,220,688)	27,191,004	1,247,544
Total Long-Term Debt	<u>\$ 37,101,306</u>	<u>\$ -</u>	<u>\$ (1,787,278)</u>	<u>\$ 35,314,028</u>	<u>\$ 1,839,651</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>
2019	\$ 285,825	\$ 110,025	\$ 395,850
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
2024-2028	1,710,043	269,209	1,979,252
2029-2031	1,135,908	51,645	1,187,553
Total	\$ 4,350,965	\$ 795,094	\$ 5,146,059

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>
2019	\$ 306,282	\$ 68,299	\$ 374,581
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
2024-2028	2,041,188	97,752	2,138,940
Total	\$ 3,772,059	\$ 378,121	\$ 4,150,180

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>
2019	\$ 1,247,544	\$ 598,202	\$ 1,845,746
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
2024-2028	7,267,544	1,961,185	9,228,729
2029-2033	8,102,931	1,125,798	9,228,729
2034-2035	5,302,246	234,991	5,537,237
Total	<u>\$ 27,191,004</u>	<u>\$ 6,032,421</u>	<u>\$ 33,223,425</u>

5. INVENTORIES

Inventories at June 30, 2018 consisted of the following:

Water inventory	\$ 1,002,130
Materials inventory	<u>983,343</u>
	<u>\$ 1,985,473</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, 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	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8%	6.25%
Required employer contribution rates:		
Normal cost rate	10.848%	6.909%
Payment of unfunded liability	\$ 593,281	\$ 47

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, 2018, 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>\$ 12,746,294</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, 2017, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District’ 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 date ended June 30, 2016 and 2017 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2016	0.30670%
Proportion - June 30, 2017	0.29991%
Change - Increase (Decrease)	-0.00679%

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, 2018, the District recognized pension expense of \$2,291,903. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,081,154	\$ -
Differences between actual and expected experience	16,155	231,445
Change in assumptions	2,004,406	152,838
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	264,767	459,595
Net differences between projected and actual earnings on plan investments	453,314	-
Total	\$ 3,819,796	\$ 843,878

\$1,081,154 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2019	\$ 460,031
2020	1,073,687
2021	630,186
2022	(269,141)
2023	-
Thereafter	-

6. PENSION PLANS (Continued)

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

Actuarial Assumptions

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

	<u>Miscellaneous</u>
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
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 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available on the CalPERS website.
- (3) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

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

Change of Assumptions

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

6. PENSION PLANS (Continued)

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

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for each Plan and reflects the long-term expected rate of return for the each Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the Plans, the tests revealed the assets would not run out. Therefore, the current 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained from the CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds’ asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period
 (b) An expected inflation of 3.0% used for this period

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	\$ 19,353,390
Current Discount Rate	7.15%
Net Pension Liability	\$ 12,746,294
1% Increase	8.15%
Net Pension Liability	\$ 7,274,178

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

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, 2018 is \$240,814. 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, 2017 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	4
Participating Active Employees	<u>69</u>
Total	<u><u>73</u></u>

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. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2018, the District’s cash contributions were \$153,000 in payments to the trust and \$49,055 in payments made outside of the trust, resulting in total payments of \$202,055.

Net OPEB Liability

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

Actuarial Methods and Assumptions

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Actuarial Cost Method
Actuarial Assumptions:	
Discount Rate	4.00%
Projected Salary Increase	3.00% per year
Expected long term investment rate of return, net of plan investment expense	4.00%
Healthcare Cost Trend Rates	8.00%
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, 2017 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 4.0%;
- 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	100.00%

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 4.0 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at rates equal to pay-as-you-go. Based on those assumptions, the OPEB 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 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, 2016	\$ 971,597	\$ -	\$ 971,597
Changes in the Year:			
Service cost **	61,278	-	61,278
Interest on the total OPEB liability	38,242	-	38,242
Contribution - employer	-	767,396	(767,396)
Net investment income	-	20,571	(20,571)
Administrative expenses	-	(619)	619
Benefit payments	(31,396)	(31,396)	-
Net Changes	<u>68,124</u>	<u>755,952</u>	<u>(687,828)</u>
Balance at June 30, 2017	<u>\$ 1,039,721</u>	<u>\$ 755,952</u>	<u>\$ 283,769</u>

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

Change of Assumptions

There were no changes of assumptions.

Change of Benefit Terms

There were no changes of benefit terms.

Subsequent Events

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

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 (3.00%) or 1-percentage point higher (5.00%) than the current discount rate:

	1% Decrease (3.0%)	Discount Rate (4.0%)	1% Increase (5.0%)
Net OPEB Liability	\$ 353,205	\$ 283,769	\$ 217,481

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 (7.00% decreasing to 4.00%) or 1 percentage point higher (9.00% decreasing to 6.00%) than the current healthcare cost trend rates:

	1% Decrease (7.00% decreasing to 4.00%)	Current Healthcare Cost Trend Rates (8.00% decreasing to 5.00%)	1% Increase (9.00% decreasing to 6.00%)
Net OPEB Liability	\$ 179,196	\$ 283,769	\$ 404,884

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$86,926. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to the measurement date	\$ 202,055	\$ -
Differences between projected and actual earnings	-	7,358
Total	<u>\$ 202,055</u>	<u>\$ 7,358</u>

\$202,055 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

The net difference between projected and actual earnings on plan investments is amortized over a five year period.

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

Amounts reported as deferred inflows of resources will be recognized in OPEB expense as follows:

Year Ending June 30,	Amount
2019	\$ (1,840)
2020	(1,840)
2021	(1,840)
2022	(1,838)
2023	-
Thereafter	-

Payable to the OPEB Plan

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

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, 2018, the District had the following commitments with respect to unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Completion Date
Harris PS Improvements	\$ 227,045	2019
Old Hwy 395 Pipeline	27,311	2019
Old Stage Road Pipeline	136,184	2019
Santa Margarita Drive Pipeline	1,023,962	2019
Overland LS Design	172,802	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. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

The District recorded a prior period adjustment in the amount of \$3,485,519. This prior period adjustment consists of three components: (1) decrease to net position as of June 30, 2017 in the amount of \$542,795 to restate the balance of the compensated absences liability; (2) a decrease to net position as of June 30, 2017 of \$217,110 relating to the District's implementation of GASB 75; and (3) an increase to net position in the amount of \$4,245,424 to restate the balance of capital assets as of June 30, 2017.

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

For the Last Ten Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Classic & PEPRA Miscellaneous Plan				
Plan's Proportion of the Net Pension Liability	0.12853%	0.12729%	0.12295%	0.11351%
Plan's Proportionate Share of the Net Pension Liability	\$ 12,746,294	\$ 11,014,856	\$ 8,439,096	\$ 6,888,388
Plan's Covered Payroll	\$ 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	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	73.31%	74.06%	78.40%	83.21%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 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%.

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

2. SCHEDULE OF CONTRIBUTIONS – DEFINED BENEFIT PENSION PLANS

For the Last Ten Fiscal Years*

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

Notes to Schedule:

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

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

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

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

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

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

	For the Last Ten Fiscal Years*	6/30/2018
Fiscal year end		<u>6/30/2018</u>
Measurement date		<u>6/30/2017</u>
Total Pension Liability:		
Service cost		\$ 61,278
Interest on total OPEB liability		38,242
Benefit payments, including refunds of		<u>(31,396)</u>
Net Change in Total OPEB Liability		68,124
Total OPEB Liability - Beginning of Year		<u>971,597</u>
Total OPEB Liability - End of Year (a)		<u>1,039,721</u>
Plan Fiduciary Net Position:		
Contributions - employer		767,396
Net investment income		20,571
Administrative expenses		(619)
Benefit payments		<u>(31,396)</u>
Net Change in Plan Fiduciary Net Position		755,952
Plan Fiduciary Net Position - Beginning of Year		<u>-</u>
Plan Fiduciary Net Position - End of Year (b)		<u>755,952</u>
Net OPEB Liability - Ending (a)-(b)		<u>\$ 283,769</u>
Plan fiduciary net position as a percentage of the total OPEB liability		72.71%
Covered payroll		\$ 5,684,049
Net OPEB liability as percentage of covered - employee payroll		4.99%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

There were no changes in assumptions.

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

4. SCHEDULE OF CONTRIBUTIONS - OPEB

For the Last Ten Fiscal Years*

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

Notes to Schedule:

Valuation Date 6/30/2017

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry age actuarial cost method **
Discount Rate	4%
Projected Salary increases	3.0% Per Year
Expected long term investment rate of return, net of plan investment expenses.	4.00%
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, one year shown.

** Entry age is based on the age at hire for eligible employees. The To the extent that different benefit formulas apply to different employees

STATISTICAL SECTION

Financial Position 59-61

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

District Operations 62-76

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

Debt Capacity 77-78

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

Demographic and Economic Information 79

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
2009	\$ 55,276,250	\$ 11,294,440	\$ 578,780	\$ 67,149,470
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

Source: Fallbrook Public Utility District

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

	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011
Changes in Net Position:			
Operating Revenues (See Schedule 2)	\$ 21,252,330	\$ 21,795,259	\$ 21,255,448
Operating Expenses (See Schedule 3)	(22,452,094)	(24,347,069)	(24,175,989)
Other Operating Revenues	-	142,229	363,564
Operating Income (loss)	\$ (1,199,764)	\$ (2,409,581)	\$(2,556,977)
Non-Operating Revenues (expenses)			
Property Taxes Ad-Valorem	\$ 1,753,229	\$ 1,602,551	\$ 1,549,625
Capital Improvement Charges	-	-	404,175
California Solar Initiative Rebate	-	-	-
Investment income	515,239	490,664	147,486
Water Availability Charges	200,748	201,397	200,944
Lease Revenue	188,810	215,154	184,983
Intergovernmental Revenue - Federal Interest Subsidy	-	-	-
Connection Fees	154,798	108,631	112,499
Federal Grants	14,097	-	-
Gain (Loss) on disposal of capital assets	-	-	-
Other Non-Operating Revenues	762,228	748,834	102,704
Other Non-Operating Expenses	(358,671)	(276,937)	(508,849)
Total Non-Operating Revenues (expenses), net	\$ 3,230,478	\$ 3,090,294	\$ 2,193,567
Net income Before Capital Contributions	\$ 2,030,714	\$ 680,713	\$ (363,410)
Capital Contributions	508,887	211,782	3,094,483
Capital Grant - Proposition 50	-	-	-
Capital Grant - Proposition 84	-	-	-
Extraordinary Items	-	-	-
Changes in Net Position	\$ 2,539,601	\$ 892,495	\$ 2,731,073
Net Position			
Beginning, as restated	\$ 64,609,869	\$ 67,149,470	\$ 68,041,965
Adjustments to restate balance	-	-	-
Ending, as restated	\$ 67,149,470	\$ 68,041,965	\$70,773,038

(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 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018
\$ 23,661,715	\$ 27,582,160	\$ 28,955,183	\$ 27,483,881	\$ 25,356,017	\$ 27,256,065	\$ 29,882,022
(26,140,572)	(28,007,733)	(33,062,764)	(29,367,701)	(27,921,351)	(30,678,705)	(33,319,799)
279,560	439,560	681,876	-	-	-	-
\$(2,199,297)	\$ 13,987	\$ (3,425,705)	\$ (1,883,820)	\$ (2,565,334)	\$(3,422,640)	\$(3,437,777)
\$ 1,552,911	\$ 1,582,219	\$ 1,694,090	\$ 1,719,296	\$ 1,815,734	\$ 1,889,808	\$ 1,984,543
414,910	1,252,501	1,981,822	2,134,025	2,224,529	2,283,558	2,476,452
534,835	779,786	843,714	729,519	740,125	234,930	-
87,217	30,507	209,175	141,433	324,126	63,861	18,188
200,906	201,037	200,779	200,810	200,808	200,730	229,400
177,095	181,100	183,641	185,770	185,220	166,012	178,602
-	-	-	-	185,040	238,765	145,338
190,932	247,607	118,581	208,521	131,894	238,124	411,744
-	-	-	-	-	-	-
-	-	-	-	-	-	(273,396)
109,261	81,008	69,816	162,913	91,361	32,729	-
(294,462)	(291,721)	(344,730)	(321,941)	(690,409)	(385,483)	(959,015)
\$ 2,973,605	\$ 4,064,044	\$ 4,956,888	\$ 5,160,346	\$ 5,208,428	\$ 4,963,034	\$ 4,211,886
\$ 774,308	\$ 4,078,031	\$ 1,531,183	\$ 3,276,526	\$ 2,643,094	\$ 1,540,394	\$ 774,109
273,825	595,205	76,746	153,790	75,299	59,509	73,661
338,331	-	828,598 ⁽¹⁾	224,596 ⁽¹⁾	874,040 ⁽³⁾	773,163	-
-	-	-	-	682,428	-	67,100
-	-	-	-	-	-	-
\$ 1,386,464	\$ 4,673,236	\$ 2,436,527	\$ 3,654,912	\$ 4,274,861	\$ 2,373,066	\$ 914,870
\$70,773,038	\$ 72,159,502	\$ 76,678,353	\$ 79,114,880	\$ 75,034,991	\$ 79,309,852	\$ 85,168,437
-	(154,385)	-	(7,734,801) ⁽²⁾	-	3,485,519	-
\$72,159,502	\$76,678,353	\$79,114,880	\$75,034,991	\$79,309,852	\$ 85,168,437	\$ 86,083,307

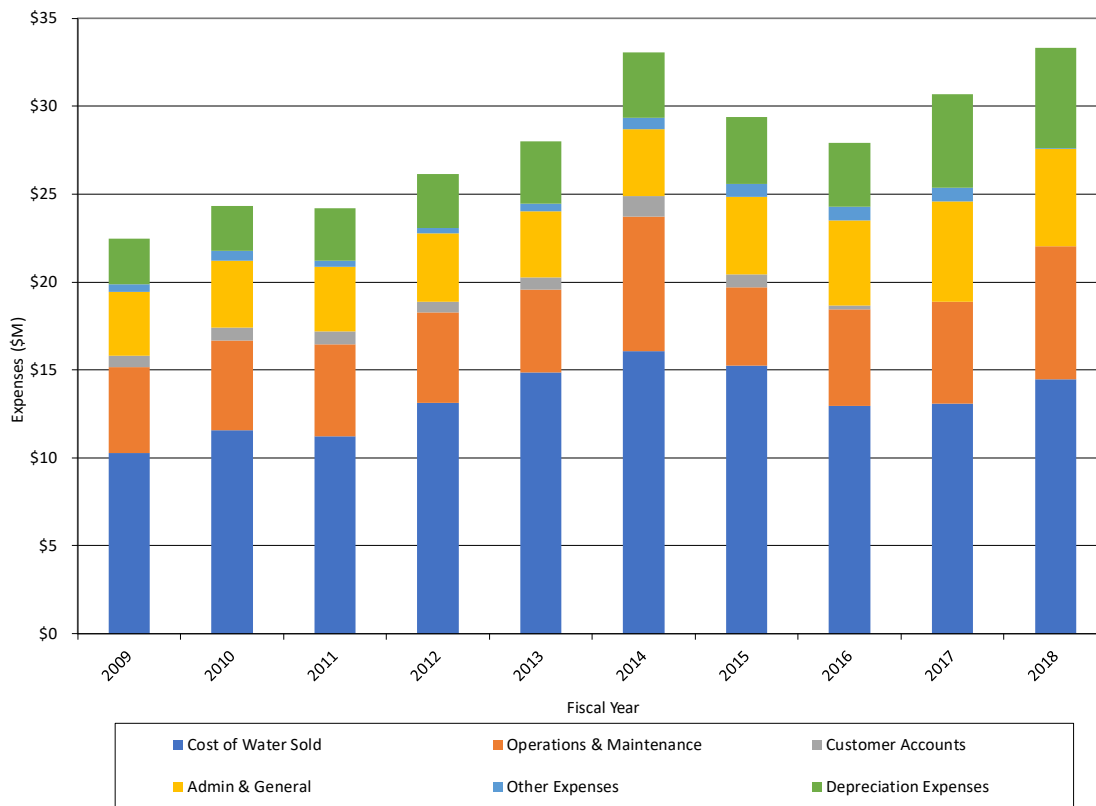
Table #3 - Operating Expenses by Activity (Last Ten Fiscal Years)

Fiscal Year	Water				
	Cost of Water Sold	Operations & Maintenance	Customer Accounts	Admin & General*	Other Expenses
2009	\$ 9,858,637	\$ 2,323,269	\$ 632,005	\$ 1,902,446	\$ 54,551
2010	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

* 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)

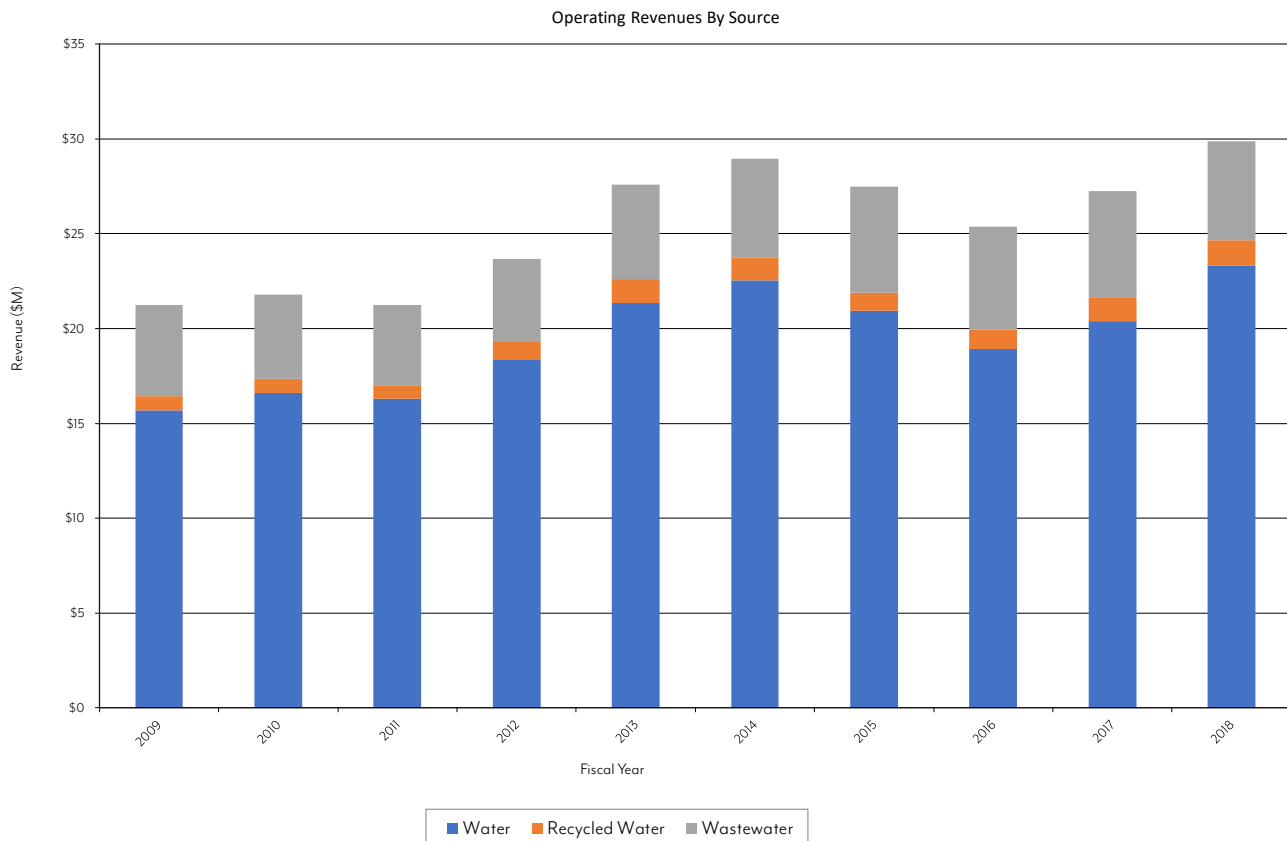
Recycled				Wastewater			Depreciation Expenses	Total Operating Expenses
Cost of Water Sold	Operations & Maintenance	Admin & General*	Other Expenses	Operations & Maintenance	Admin & General*	Other Expenses		
\$ 421,605	\$ 43,448	\$ 120,180	\$ 215,160	\$ 2,516,297	\$ 1,602,391	\$ 170,004	\$ 2,592,101	\$ 22,452,094
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

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	
2009	\$ 10,364,482	\$ 4,501,750	\$ 829,961	\$ 340,287	\$ 40,757	\$ 347,753	\$ 4,813,589	\$ 13,751	\$ 21,252,330
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

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
2009	\$ 2.17	\$ 2.48	\$ 2.73	\$ 2.48	\$ 2.73	\$ 2.17	\$ 1.57	N/A
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

*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
2009	\$ 34.87	\$ 45.37	\$ 64.74	\$ 94.75	\$ 154.57	\$ 245.77	\$ 439.24	\$ 20.78
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

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
2009	\$ 43.37	\$ 57.26	\$ 82.77	\$ 122.31	\$ 201.26	\$ 312.70	\$ 563.53	\$ 20.78
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

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
2009	\$ 3.00	\$ 4.13	\$ 6.00	\$ 9.38	\$ 15.75	\$ 24.75	\$ 45.00	\$ 1.80
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

Source: Fallbrook Public Utility District

Table #9 - Sewer Rates by Customer Class (2009)

Fiscal Year	2009	
	(Flat)	Metered Flow (per 1,000 Gallons)
Fixed Rates (By account type)		
Residential Unrestricted	\$ 45.96	N/A
Multi-Family	36.77	
Mobile Home	36.77	
Hotel (each unit without kitchen)	22.98	
Hotel (each unit with kitchen)	36.77	
Business (low flow)	61.13	
Service Station (w/out dump station)	137.88	
Service Station (with dump station)	137.88	
Church	45.96	
Bakery	45.96	
Theatre	61.13	
Hospital (per bed)	29.87	
Convalescent home	13.79	
School (per Primary student)	0.77	
School (per Jr H student, staff)	1.15	
School (per High school)	1.53	
Mortuary	45.96	
Special	40.96	
Standby	11.03	
Car Wash	229.80	
Grocery Store (under 2,500 ft ²)	137.88	7.24
Grocery Store (2,501 - 7,000 ft ²)	183.84	7.24
Grocery Store (over 7,000 ft ²)	229.80	7.24
Self Service Laundry	229.80	1.41
Restaurant (under 2,500 ft ²)	137.88	4.45
Restaurant (2,501 - 7,000 ft ²)	183.84	4.45
Restaurant (over 7,000 ft ²)	229.80	4.45

Source: Fallbrook Public Utility District

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018**
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
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	
2"	52.35	52.35	52.35	55.23	57.15	60.46	61.84	67.42	EDU
3"	95.63	95.63	95.63	101.03	104.49	110.38	113.14	122.67	\$9.28/ 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
, Low -Strength Commercial, Schools, Churches	8.47	8.81	10.09	11.54	11.54	11.54	12.35	13.27	9.37
Medium Strength Commercial	8.47	8.81	10.09	11.54	11.54	11.54	12.35	13.27	11.57
High Strength Commercial	14.14	14.67	16.83	19.35	19.35	19.35	20.63	22.28	14.44

* 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)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Per EDU	N/A	N/A	N/A	N/A	\$8.00	\$10.00	\$10.44	\$10.70	\$10.84	\$11.16

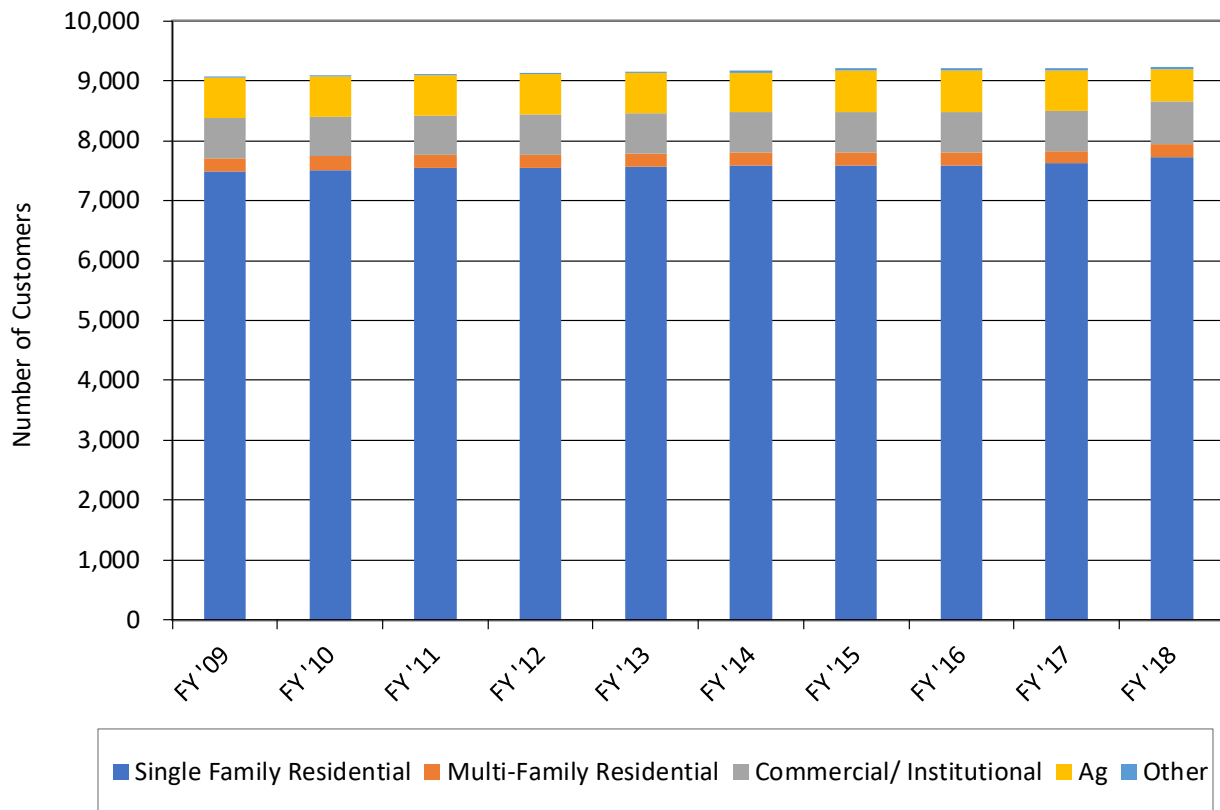
Source: Fallbrook Public Utility District

Table #12 - Number of Water Customers by Type

As of June 30	Single Family Residential	Multi-Family Residential	Commercial/ Institutional	Ag	Other	Total
2009	7,492	220	667	668	28	9,075
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

Source: Fallbrook Public Utility District

Chart #3 - Number of Water Customers by Type



Source: Fallbrook Public Utility District

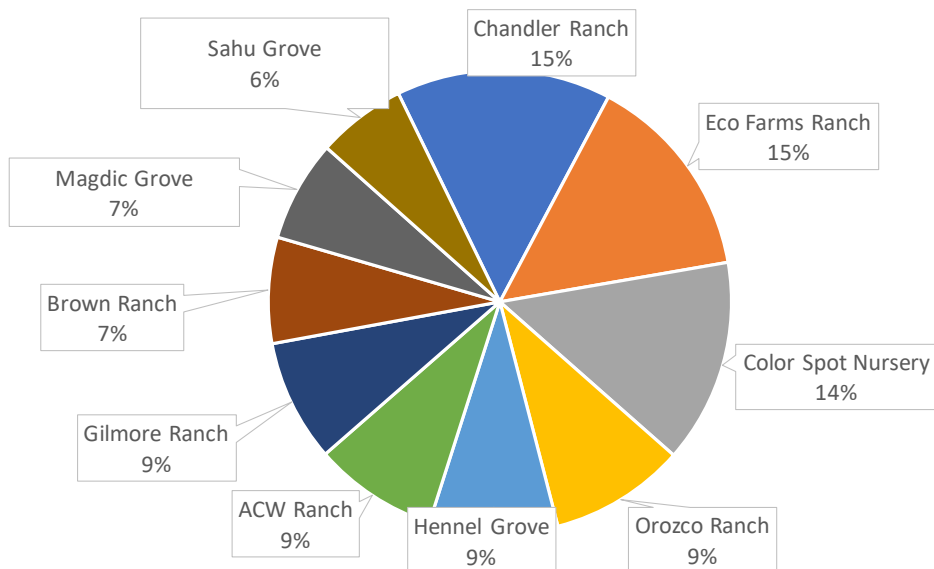
Table #13 - Top Ten Water Customers

Fiscal Year 2009		
Customer	Annual Usage (Kgal)	Percent of Total
Ross Ranch	134,180	2.48%
Chandler Ranch	69,746	1.29%
Sparrow Hawk Ranch	40,020	0.74%
Serafiana Holdings	35,941	0.67%
Lambden Grove	28,513	0.53%
Hennel Grove	28,490	0.53%
Magdic Grove	27,778	0.51%
Gilmore Grove	27,137	0.50%
ACW Ranch	26,980	0.50%
Color Spot Nursery	13,614	0.25%
Total Top 10 Customers	432,399	8.01%
Total All Other Water Customers	4,968,581	91.99%
Total Water Consumed	5,400,980	100.00%

Fiscal Year 2018		
Customer	Annual Usage (Kgal)	Percent of Total
Chandler Ranch	56,291	1.86%
Eco Farms Ranch	54,465	1.80%
Color Spot Nursery	53,442	1.77%
Orozco Ranch	35,564	1.18%
Hennel Grove	33,641	1.11%
ACW Ranch	32,543	1.08%
Gilmore Ranch	31,971	1.06%
Brown Ranch	27,762	0.92%
Magdic Grove	26,538	0.88%
Sahu Grove	23,331	0.77%
Total Top 10 Customers	375,548	12.43%
Total All Other Water Customers	2,644,732	87.57%
Total Water Consumed	3,020,280	100.00%

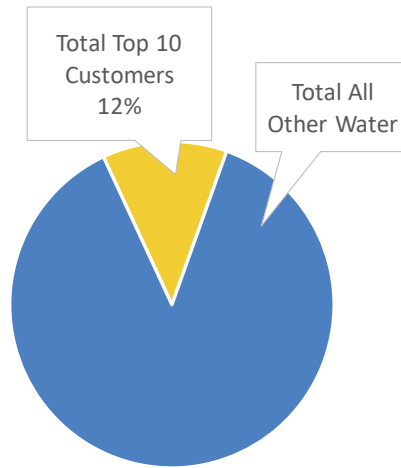
Source: Fallbrook Public Utility District

Chart #4 - Top Ten Water Customers and their Relative Consumption Fiscal Year 2018



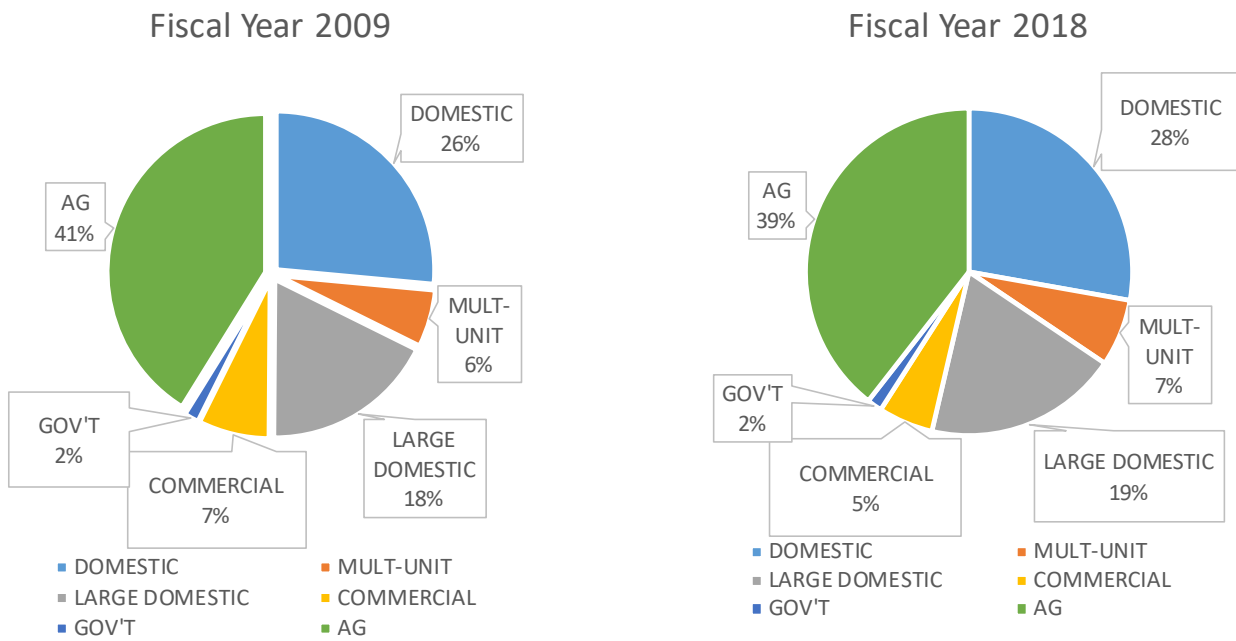
Source: Fallbrook Public Utility District

Chart #5 - Total Water Consumed Fiscal Year 2018



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)
2009	267.85	9,098	4,763,112,375	13,049,623
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	4,159,247,155	11,395,198
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

Source: Fallbrook Public Utility District

Table #15 - Water System Total Production*

Fiscal Year	Total Used/Prod. (AF)	HCF
2009	14,617.50	6,367,383.06
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	4,395,334.72

*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)
2009	77.55	4,947	621,329,428.29	1,702,272.41
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

Source: Fallbrook Public Utility District

Table #17 - Sewer System Influent Flow

Fiscal Year	Total Used/Prod. (AF)
2009	1,914.62
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

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)
2009	8.28	26	602.10	0.5
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

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

Table #19 - Recycled Water System Production

Fiscal Year	Total Prod./Disposed (AF)
2009	1906.79
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

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)				
	Annual Production	Daily Average Production	Total Used Production	Total Disposed	WRP Influent Flow (Acre-Ft)
2009	1,894.39	5.19	674.81	1,219.57	1,914.62
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

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
2009	22	15	6	30.8	73.8
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

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			
2009	\$ 3,303,826,499	\$ 225,000	\$ 1,960,400,429	\$ 225,000	\$ 48,339,127	\$42,692,786	\$5,355,708,841
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	3,700,470,372	-	220,524,962	-	36,271,614	31,902,804	3,989,169,752

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	
2009	\$ 947,297	\$ 856,431	\$1,803,728	\$ 935,118	\$ 845,401	\$ 1,780,519	\$ 12,178	\$ 11,030	\$ 23,208	1.3%
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%

* 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
2009	\$ 21,252,330	\$ 1,392,337	\$ 3,589,149	\$ 4,981,486	\$ 1,281,297	3.89	1.15
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

*Excludes depreciation and interest expenses
 Source: Fallbrook Public Utility District

Table #25 Computation of Direct and Overlapping Debt (As of 06/30/2018)

2017-18 Assessed Valuation: \$3,745,741,986

OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt (6/30/18)	% Applicable ⁽¹⁾	District's Share of Debt (6/30/18)
Metropolitan Water District	\$ 60,600,000	0.136%	\$ 82,416
Palomar Community College District	627,826,320	3.230	20,278,790
Bonsall Unified School District	11,039,906	0.480	52,992
Fallbrook Union High School District	11,152,627	40.495	4,516,256
Fallbrook Union School District	20,119,476	70.118	14,107,374
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$39,037,828
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	273,220,000	0.755%	2,062,811
San Diego County Pension Obligation Bonds	558,525,000	0.755	4,216,864
San Diego County Superintendent of Schools Certificates of Participation	10,785,000	0.755	81,427
Palomar Community College District Certificates of Participation	2,720,000	3.230	87,856
Bonsall Unified School District Certificates of Participation	7,580,000	0.480	36,384
Fallbrook Public Utility District	0	100.	0
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$6,485,342
TOTAL DIRECT DEBT			\$0
TOTAL OVERLAPPING DEBT			\$45,523,170
COMBINED TOTAL DEBT			\$ 45,523,170 ⁽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	1.04%
Total Direct Debt	0.00%
Combined Total Debt	1.22%

Source: California Municipal Statistics Inc.

Table #26 - San Diego County Principal Employers

Fiscal Year 2018			Fiscal Year 2009		
Employer Name	Number of Employees	Percentage of Total County Employment	Employer Name	Number of Employees	Percentage of Total County Employment
University of California San Diego	34,448	2.26%	Federal Government	41,600	2.94%
Naval Base San Diego	34,185	2.24%	State of California	41,600	2.94%
Sharp Healthcare	18,364	1.20%	University of California San Diego	29,337	2.07%
County of San Diego	17,413	1.14%	County of San Diego	17,189	1.22%
Scripps Health	14,941	0.98%	San Diego Unified School District	14,555	1.03%
San Diego Unified School District	13,815	0.91%	Sharp HealthCare	14,400	1.02%
Qualcomm Inc.	11,800	0.77%	Scripps Health	12,622	0.89%
City of San Diego	11,462	0.75%	City of San Diego	11,087	0.78%
Kaiser Permanente San Diego	9,606	0.63%	Qualcomm Inc.	9,859	0.70%
UC San Diego Health	8,932	0.59%	Kaiser Permanente	7,618	0.54%
Total Top Ten County Employers	174,966	11.47%	Total Top Ten County Employers	199,867	14.13%
All Other County Employers	1,350,544	88.53%	All Other County Employers	1,214,733	85.87%
Total County Employment ⁽¹⁾	1,525,510	100.00%	Total County Employment ⁽¹⁾	1,414,600	100.00%

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

Note: (1) 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		
2009	\$ 364,328	\$ 5,186,937	\$ 5,551,265	33,376	\$ 43,038	9.7%	\$ 1,436,439,466	\$ 166	0.4%
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%

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

(2) - Historic population estimated based upon a 0.4% growth rate and the current 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