# FALLBROOK PUBLIC UTILITY DISTRICT

## Annual Financial Report

**For the Years Ended**
**June 30, 2015 and 2014**

Certified
Public
Accountants

**FALLBROOK PUBLIC UTILITY DISTRICT**
**Annual Financial Report**
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Certified Public Accountants

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# Independent Auditor's Report

The Honorable Board of Directors of the
Fallbrook Public Utility District

## Report on the Financial Statements

We have audited the accompanying financial statements of the Fallbrook Public Utility District (District) as of and for the years ended June 30, 2015 and 2014, 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 error or fraud.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity'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 entity'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 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 reasonable basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Macias Gini & O'Connell LLP
225 Broadway, Suite 1750
San Diego, CA 92101



www.mgocpa.com

***Emphasis of Matter***

As discussed in Notes 3 and 10 to the basic financial statements, effective July 1, 2014, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No.71, *Pension Transaction for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68.* As a result of the implementation of GASB Statement Nos. 68 and 71, net position as of July 1, 2014 was restated and reduced by $7,734,801. The District's basic financial statements as of and for the fiscal year ended June 30, 2014 were not restated because defined benefit plan pension information prepared in accordance with the requirements of GASB Statement No. 68 was not available for periods prior to July 1, 2014. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-14 and the cost-sharing defined benefit pension plan schedule of the District's proportionate share of the net pension liability, the cost-sharing defined benefit pension plan schedule of contributions, and the OPEB schedule of funding progress on pages 47-49, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedules of Revenues and Expenses by Operating Department and miscellaneous statistical information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The miscellaneous statistical information has 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 it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

San Diego, California
January 5, 2016

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# MANAGEMENT’S DISCUSSION AND ANALYSIS

# FALLBROOK PUBLIC UTILITY DISTRICT
## Management's Discussion and Analysis
## (Unaudited)

This Management's Discussion and Analysis (MD&A) of the Fallbrook Public Utility District's (District) financial performance offers readers of the District's financial statements the following narrative overview and analysis of the District's financial activities for the years ended June 30, 2015 and 2014. Please read it in conjunction with the District's basic financial statements, which begin immediately following this analysis.

**Financial Highlights (FY 14-15)**

- The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. With the required reporting change, the District was allocated its proportionate share of the California Public Employees' Retirement System's (CalPERS) collective net pension liability, deferred outflows of resources, deferred inflow of resources and pension expense. As a result of the implementation of GASB Statements No. 68 and No. 71, a restatement to record the cumulative effect of the change in accounting principles caused beginning net position to be reduced by $7,734,801 as reported in the Statements of Revenues, Expenses and Changes in Net Position. The allocation of costs are actuarially determined by the administrators of the CalPERS in accordance with the requirements of GASB Statement No. 68.

- As a result of the implementation of GASB Statement Nos. 68 and 71, the District has reported a net pension liability in the amount of $6,888,378, which was actuarially determined by CalPERS, including deferred outflows of resources of $1,071,999 and deferred inflows of resources of $2,135,413. Beginning in FY 05-06 all public agencies participating in CalPERS having less than 100 employees, were pooled into one large group, or cost pool, by CalPERS.

- Assets and deferred outflows of resources of the District, exceeded its liabilities and deferred inflows of resources at the close of the June 30, 2015 fiscal year by $75.0 million (net position), down $4 million from June 30, 2014. The decrease in net position was primarily attributable to the implementation of GASB Statement No. 68 and the recognition of the District's proportionate share of the collective net pension liability.

- Construction of the Wastewater Treatment Plant rehabilitation plant is projected to be complete by December 31, 2015. Costs totaling $25.2 million have been incurred-to-date with estimated total project costs being $28 million, secured by a low interest State Revolving Fund (SRF) loan. The South Mission Road sewer line replacement is nearly complete at an estimated cost of $989,000.

- The District continued an aggressive program of pipeline and valve replacement, completing $1.05 million in projects with another $2.3 million of costs remaining in construction in progress. These construction projects in progress include waterline replacements on Olive Hill Road and South Mission Road at Fallbrook Street. The reservoir upgrade is at the Rattlesnake reservoir and the pump station upgrade is at the Donnil pump station.

- The District's operating loss of $1.12 million when netted with the nonoperating revenue (net) of $4.34 million results in a $3.27 million increase in net position before capital contributions. The largest sources of nonoperating revenues are property taxes, the water and wastewater capital improvement charges and the California Solar Initiative rebate. These combine for $4.58 million. Nonoperating expenses of $1.08 million were incurred from interest accruing on the Wastewater Treatment Plant SRF loan and the disposal of the Wastewater Treatment Plant assets which were replaced during construction.

- In FY 14-15 operating revenue decreased by $1.47 million. Operating revenues are comprised of potable and recycled water sales, recycled rebates, monthly water and wastewater service charges and all San Diego County Water Authority (SDCWA) fixed fees such as the Infrastructure Access Charge (IAC) and Readiness-to-Serve Charge (RTS) which are passed directly through to the customer. Potable water sales declined in FY 14-15 to 11,211 acre-feet (AF) from 12,571 AF in FY 13-14. This decline resulted in a decrease in water sales revenue of $1.8 million. Recycled water sales were 556 AF in FY 14-15 versus 717 in FY 13-14. Revenues due to reduced sales were approximately $140,000. As of December 31, 2015 the Metropolitan Water District of Southern California (MWD) recycled rebate in the amount of $250 per AF contractually expired, reducing the FY 14-15 rebate revenue by $110,000. Wastewater service charges increased by $366,000.

- Recycled sales is anticipated to increase by approximately 600 AF after completion of the East Line Recycled line is extended. Sales are expected to increase by 200 AF per year until the 600 AF is reached. Construction is in progress on this extension with approximately half the cost, estimated at $1.7 million, to be paid with Proposition 84 grant funds.

- Water cutbacks will begin July 1, 2015 as mandated by the State of California. Pricing and tiered water rates structures will be set in accordance with the District's Water Shortage Response Plan.

- During FY 14-15 the District sold 21 new water meters and 11 sewer permits collecting $208,521. Twelve water meters and five sewer permits were sold in FY 13-14. The increased connection fee revenue was the result of the State of California declaring a mandatory water cutback. Future customers with water availability letters were securing rights to water meters in case the event of a potential moratorium.

**Financial Highlights (FY 13-14)**

- The assets of the District exceeded its liabilities at the close of the June 30, 2014 fiscal year by $79.1 million (net position).

- Construction of the Wastewater Treatment Plant rehabilitation began in December 2013. As of June 30, 2014 costs totaling $12.5 million were incurred with the remainder of the $28 million project to be completed by December 31, 2015.

- During FY 12-13 the District began an aggressive program of water pipeline and valve replacement which continued into FY 13-14. During the fiscal year a large section of 8" water pipeline was replaced on Hillcrest Drive. Also during the fiscal year, the Red Mountain Reservoir was relined and the interior of the Sachse reservoir was recoated. The total capitalized expense for all water capital expenses was $2.8 million.

- Also during FY 13-14, a sewer force main and several manholes were replaced as was a large valve along the District's ocean outfall line. Wastewater capital expenses excluding the Wastewater Treatment Plant rehabilitation were $426,700 during the year.

- The District's operating loss of $3.4 million when netted against nonoperating revenue of $4.9 million results in a $1.5 million increase in net position before accounting for capital contributions. The $3.4 million loss is due to the Board's decision to pay off the CalPERS side fund in FY 13-14 in the amount of $3.15 million. The three largest sources of nonoperating revenues were property taxes and water and wastewater capital improvement charges and the California Solar Initiative rebate. These combined account for $4.5 million of the $4.9 million in nonoperating revenue. During FY 13-14 the District sold 12 new water meters and 5 sewer permits collecting $118,500 in connection fee revenue.

- During FY 13-14 the District's operating revenue increased by $1.37 million. $1.2 million of this increase was due to slightly higher water sales of 383 AF over FY 12-13. Sales in FY 13-14 remained relatively level to FY 12-13 sales, 12,571 AF and 12,188 AF, respectively. Recycled water sales in FY 13-14 remained level at 717 AF versus 735 in FY 12-13. A three tiered rate structure was put into place in FY 08-09 in response to water shortages. Should mandatory cutbacks take place, based on the level of the water shortage, the percentage increase between tiers will be increased according to the District's Water Shortage Response Plan.

- The North County Joint Powers Authority (JPA) was formed by the District and Rainbow Municipal Water District board of directors in April 2013 to decrease expenses for both agencies as resources such as manpower and heavy equipment were shared. In March 2014, the Rainbow Municipal Water District's board of directors voted to dissolve the JPA. During FY 13-14, the District's portion of the JPA savings was $223,483.

**Overview of the Basic Financial Statements**

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District operates as a utility enterprise. The District's basic financial statements include two components: (1) enterprise fund financial statements and (2) notes to the basic financial statements.

**Basic Financial Statements**

The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The basic financial statements can be found on pages 15-18 of this report.

The *Statement of Net Position* presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows 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 Positon* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The *Statement of Cash Flows* presents relevant information about the cash receipts and cash payments for the period categorized according to whether they stem from operating, noncapital financing, capital and related financing, or investing activities. This statement helps users assess the District's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its needs for financing. It also helps assess the effects on the District's financial position and changes in its cash and noncash investing, capital and financing transactions during the period.

The *Notes to the Basic Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements and are an integral part of the financial statements. The notes to the financial statements can be found on pages 19-46 of this report.

**Financial Analysis of the District**

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the District's 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.

## Condensed Statements of Net Position

| | June 30, 2015 | June 30, 2014 | Change |
|---|---|---|---|
| **Assets:** | | | |
| Current Assets | $ 22,516,838 | $ 21,781,856 | $ 734,982 |
| Restricted Assets | 2,247,904 | 2,447,935 | (200,031) |
| Capital Assets, net | 100,368,971 | 85,998,192 | 14,370,779 |
| **Total Assets** | 125,133,713 | 110,227,983 | 14,905,730 |
| **Deferred Outflows of Resources:** | | | |
| Pension plan - employer contributions made subsequent to the measurement date | 1,071,999 | - | 1,071,999 |
| **Liabilities:** | | | |
| Current liabilities | 7,104,196 | 8,053,217 | (949,021) |
| Noncurrent liabilities | 41,931,112 | 23,059,886 | 18,871,226 |
| **Total Liabilities** | 49,035,308 | 31,113,103 | 17,922,205 |
| **Deferred Inflows of Resources:** | | | |
| Pension plan - differences between projected and actual earnings on pension plan investments | 2,135,413 | - | 2,135,413 |
| **Net Position:** | | | |
| Net Investment in Capital Assets | 67,995,640 | 64,203,257 | 3,792,383 |
| Restricted | 2,231,947 | 2,431,978 | (200,031) |
| Unrestricted | 4,807,404 | 12,479,645 | (7,672,241) |
| **Total Net Position** | $ 75,034,991 | $ 79,114,880 | $ (4,079,889) |

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.

Current assets increased by $734,982 over FY 13-14. Water stored in the Red Mountain reservoir is an asset of the District and as of June 30, 2015 held 1,047 acre feet of water as compared to 430 acre feet as of June 30, 2014, adding $818,166 to the value of water in inventory. Under normal conditions the reservoir is kept at 70% to 90%, however, as of June 30, 2014, due to the recent completion of the liner replacement, the reservoir was significantly below that benchmark. Cash and Investments of the District increased nearly $480,000. Accounts receivable decreased by $580,000 as water sales and recycled sales were lower in FY 14-15 than in FY 13-14.

Capital assets, net increased by $14.3 million due to the ongoing Construction in Progress at the Wastewater Treatment Plant. Additional ongoing water pipeline and reservoir projects include the Olive Hill pipeline and the Rattlesnake reservoir project.

During FY 14-15, $1.1 million in water and wastewater projects were completed. The largest water projects were the completion of Stagecoach & Devin 8" water line totaling $315,000 and Phase 1 of De Luz Road Southeast at $142,000. Plant improvements such as telemetry improvements and field equipment purchases including a loader/backhoe were completed totaling nearly $318,000. Sewer pipeline at Devin Road and manhole replacements totaled $68,000 during the fiscal year.

Current liabilities decreased by $949,000. At June 30, 2014 two large invoices totaling $2.5 million were due to the contractor at the Wastewater treatment plant. At June 30, 2015 this amount was only $1.3 million.

Two major occurrences in FY 14-15 caused noncurrent liabilities to increase by $18.9 million. The first being the increase in Wastewater Treatment Plant SRF loan payable in the amount of $11.4 million and the District's recognition of its net pension liability in the amount of $6.8 million due to the implementation of GASB Statement No. 68. The remaining increase of $1.1 million was due to retention payable for three large construction projects: (1) the Wastewater Treatment Plant rehabilitation; (2) the South Mission Sewer project; and (3) the Rattlesnake reservoir upgrade.

The District's total net position decreased by $4.0 million primarily as a result of the implementation of GASB Statement No. 68 and reporting of the net pension liability.

**Condensed Statements of Net Position**

| | June 30, 2014 | June 30, 2013 | Change |
|---|---|---|---|
| **Assets:** | | | |
| Current Assets | $ 21,781,856 | $ 19,487,033 | $ 2,294,823 |
| Restricted Assets | 2,447,935 | 1,466,499 | 981,436 |
| Capital Assets, net | 85,998,192 | 73,421,598 | 12,576,594 |
| Total Assets | 110,227,983 | 94,375,130 | 15,852,853 |
| **Liabilities:** | | | |
| Current Liabilities | 8,053,217 | 4,009,552 | 4,043,665 |
| Noncurrent Liabilities | 23,059,886 | 13,687,225 | 9,372,661 |
| Total Liabilities | 31,113,103 | 17,696,777 | 13,416,326 |
| **Net Position:** | | | |
| Net Investment in Capital Assets | 64,203,257 | 60,195,379 | 4,007,878 |
| Restricted | 2,431,978 | 1,213,780 | 1,218,198 |
| Unrestricted | 12,479,645 | 15,269,194 | (2,789,549) |
| Total Net Position | $ 79,114,880 | $ 76,678,353 | $ 2,436,527 |

During FY 13-14, $3.3 million in water and wastewater capital projects were completed. The largest water projects were the relining of the Red Mountain Reservoir, recoating the Sachse reservoir and an 8" water pipeline replacement. These three projects accounted for $2.3 million of the total capitalized expenses. The largest completed wastewater project was a sewer forcemain replacement and replacement of a large valve on the District's ocean outfall. These two projects accounted for $321,600 of the $426,600 of wastewater capital expenses. Current assets increased by $2.3 million in FY 13-14 over FY 12-13. $943,000 of this was cash and investments as required by a covenant of the Wastewater Treatment Plant State Revolving Fund (SRF) loan. This covenant requires the establishment of a reserve fund in the amount of one year's debt service, or $1,767,875. This reserve must be established before commencement of principal and interest payments on the loan. Half of this amount was budgeted for FY 13-14 with the remainder budgeted in FY 14-15. $1 million of the increase in current assets is SRF loan proceeds were received in June 2014 with contractor invoices totaling $2.5 million which were paid after June 30, 2014. Another factor in the $2.3 million increase in Current Assets is that at June 30, 2014 the District's Red Mountain Reservoir was only 25% of capacity. Under normal conditions it is kept at 70% to 90% full but was not at this level due to the recent completion of the liner replacement. Additional funds will be spent in future years to refill the reservoir and increase the water inventory. Water and Wastewater Accounts Receivable increased by nearly $411,000 mostly due to the increase in water rates and monthly operations charges.

Capital assets, net increased by $12.6 million due to the ongoing Construction in Progress at the Wastewater Treatment Plant.

Current liabilities increased by $4.0 million over FY 12-13, $2.5 million of which was relate to unpaid invoices to the Wastewater Treatment Plant rehabilitation contractor. The remaining $0.9 million were increases in two invoices for FY 13-14 due to our water wholesaler, SDCWA over those due for the same period in FY 12-13, due to increased rates. The remainder was due to the increase in the current portion of long-term debt and current interest payable on that debt.

Noncurrent liabilities increased $9.3 million, $8.6 million of which is long-term debt for the Wastewater Treatment Plant SRF loan and the remaining portion is the retention payable to the contractors performing the construction and rehabilitation of the Treatment Plant, which will be paid upon completion of the project.

Total net position increased by $2.4 million due to the capitalization of over $3 million in assets and a decrease of $2.8 in unrestricted net position. The decrease in unrestricted net position is partially due to the payoff of the CalPERS side fund during FY2013-14 which is described in the next section.

## Condensed Statements of Revenues, Expenses and Changes in Net Position

| | For the Year Ended June 30, 2015 | For the Year Ended June 30, 2014 | Change |
|---|---|---|---|
| Operating revenues | $ 27,483,881 | $ 28,955,183 | $ (1,471,302) |
| Operating expenses | 28,604,249 | 32,380,888 | (3,776,639) |
| Operating loss | (1,120,368) | (3,425,705) | 2,305,337 |
| Nonoperating revenue, net | 4,396,894 | 4,956,888 | (559,994) |
| Change in net position before capital contributions | 3,276,526 | 1,531,183 | 1,745,343 |
| Capital Contributions | 378,386 | 905,344 | (526,958) |
| Change in net position | 3,654,912 | 2,436,527 | 1,218,385 |
| Net position - beginning of year, as previously reported | 79,114,880 | 76,678,353 | 2,436,527 |
| Cumulative effect of change in accounting principles | (7,734,801) | - | (7,734,801) |
| Net position - beginning, as restated | 71,380,079 | 76,678,353 | (5,298,274) |
| Net position - end of year | $ 75,034,991 | $ 79,114,880 | $ (4,079,889) |

While the Statement of Net Position shows the District's financial position, the Statement of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of the changes in the District’s net position. The District’s net position decreased by $4.1 million during FY 14-15.

Operating revenues are down $1.4 million due to decreased water sales of 11,200 AF in FY 14-15 compared to 12,571 during FY 13-14. Recycled water sales were also down to 560 AF in FY 14-15 compared to FY 13-14 sales of 721 AF. As of December 31, 2014, the Metropolitan Water District recycled rebate of $250 per AF contractually expired. Wastewater revenues increased by $365,800 over FY 13-14 revenues. Operating revenues includes potable water and recycled sales, monthly water and wastewater operations charge and wastewater treatment charges.

Operating expenses decreased by $3.7 million over FY 13-14. During FY 13-14 the Board of Directors voted to pay off the $3.1 million CalPERS side fund. The remainder of the decrease is attributable to reduced water purchases from our wholesaler, San Diego County Water Authority. Purchases decreased from 12,300 AF in FY 13-14 to 12,000 AF in FY 14-15.

The District's operating loss of $1.12 million when netted against nonoperating revenue of $4.4 million results in a $3.2 million increase in net position before capital contributions. The District's $4.4 million in nonoperating revenues come from three primary sources, property taxes in the amount of $1.7 million, water and wastewater capital improvement funds in the amount of $2.1 million and the California Solar Initiative rebate in the amount of $729,519.

Supplemental information for each of the three divisions can be found on page 50 of this report.

**Condensed Statements of Revenues, Expenses and Changes in Net Position**

| | For the Year Ended June 30, 2014 | For the Year Ended June 30, 2013 | Change |
|---|---|---|---|
| Operating revenues | $ 28,955,183 | $ 27,582,160 | $ 1,373,023 |
| Operating expenses | 32,380,888 | 27,568,173 | 4,812,715 |
| Operating income (loss) | (3,425,705) | 13,987 | (3,439,692) |
| Nonoperating revenue, net | 4,956,888 | 4,064,044 | 892,844 |
| Change in net position before capital contributions | 1,531,183 | 4,078,031 | (2,546,848) |
| Capital contributions | 905,344 | 595,205 | 310,139 |
| Change in net position | 2,436,527 | 4,673,236 | (2,236,709) |
| Net position - beginning of year | 76,678,353 | 72,005,117 | 4,673,236 |
| Net position - end of year | $ 79,114,880 | $ 76,678,353 | $ 2,436,527 |

Potable and recycled water sales remained level between FY 13-14 and FY 12-13. Water sales and monthly service charge revenues increased $1.2 million for the year ended June 30, 2014. Revenues include sales and monthly charges and pass through charges including the Readiness to Serve (RTS) charge and Infrastructure Access Charge (IAC). The increase in revenue was due to the increase in the wholesale cost of water and the fixed fees such as RTS and IAC. Reclaimed rebates from the SDCWA and MWD are also included. For FY 13-14, Operating Revenue for the Water Division was 78% of total operating revenues, Wastetwater revenues were 18% of total operating revenue and the remaining 4% were from the Recycled division.

Operating Expenses increased by $4.8 million over FY 12-13. Increases to the District's wholesale cost of water accounted for $1.2 million of this increase. Prior to June 30, 2014, the Board approved a payoff of the $3.1 million CalPERS side fund. The side fund was established in FY 05-06 when all CalPERS agencies with less than 100 employees were pooled into one large group. The side fund was created to account for the differential between the funded status of the pool versus the funded status for each individual agency included in the pool. By paying off the side fund, the employer contribution rate for the District will decrease by nearly 11.8%. Payment of the side fund resulted in an increase in expenses for the Water, Wastewater and Recycled divisions of $3.1 million.

The District's operating loss of $3.4 million when netted against nonoperating revenue of $4.9 million results in a $1.5 million increase in net position before capital contributions. The $3.4 million loss is due to the Board's decision to pay off the CalPERS side fund in FY 13-14 in the amount of $3.15 million. The District's $4.9 million nonoperating revenues come from three primary sources, property taxes in the amount of $1.7 million, water and wastewater capital improvement funds in the amount of nearly $2 million, and the California Solar Initiative rebate in the amount of $843,714. The remaining nonoperating revenues of $437,000 come from connection fee revenue, water availability charges, lease revenue and investment income.

Supplemental information for each of the three divisions can be found on page 51 of this report.

## Capital Asset and Debt Administration

***Capital Assets***

| | Balance at July 1, 2014 | Additions | Deletions | Balance at June 30, 2015 |
|---|---|---|---|---|
| Capital Assets | | | | |
| Non-depreciable assets | $ 23,244,088 | $ 18,363,172 | $ (841,354) | $ 40,765,906 |
| Depreciable assets | 123,560,354 | 1,069,706 | (1,477,605) | 123,152,455 |
| Accumulated Depreciation | (60,806,250) | (3,776,493) | 1,033,353 | (63,549,390) |
| **Total capital assets, net** | $ 85,998,192 | $ 15,656,385 | $ (1,285,606) | $ 100,368,971 |

The District's investment in capital assets as of June 30, 2015 increased by $14,370,779 to $100,368,971 as seen in the table above.

Major capital asset events during the fiscal year include the following:

- Conjunctive Use-Camp Pendleton will be responsible for development of additional groundwater recharge facilities on Camp Pendleton, pumping facilities on Camp Pendleton, and conveyance facilities to deliver water from Camp Pendleton to Fallbrook. The District will be responsible for construction of the pipeline required to deliver the water from the Fallbrook gate on the Naval Weapons Station to Red Mountain Reservoir and any necessary treatment facilities. For FY 14-15 approximately $952,189 was spent on this project, with a project-to-date of capitalized expenses in the amount of $4 million. The 30% design was completed for the project and final design is in progress. A draft agreement between Camp Pendleton and the District is being finalized and a draft Environment Impact Report/Environment Impact Statement (EIR/EIS) has been completed and released for public review. The District applied for and has been approved from Proposition 50 state grants for water project expenses to receive a total of approximately $2.4 million in reimbursements over the upcoming 2-3 years. During FY 14-15 the District received $153,790 from Proposition 50 funds. The District is in the process of determining funding alternatives for construction funding which is expected to occur in FY 16-17.

- Construction continued at the Wastewater Treatment Plant rehabilitation. Total cost of the project is $28 million. $12.7 million has been spent for design and construction during FY 14-15, for total project costs of $25.2 million as of June 30, 2015, and project completion anticipated in December 2015.

- The Stagecoach & Devin 8" water line totaling $315,000 was completed during FY 14-15.

- Phase 1 of De Luz Road Southeast water line was completed at a cost of $142,000.

- Plant improvements such as telemetry improvements and field equipment purchases including a loader/backhoe were completed totaling nearly $318,000.

- Sewer pipeline at Devin Road and manhole replacements totaled $68,000 during the fiscal year.

| | Balance at June 30, 2013 | Additions and Transfers In | Retirements and Transfers Out | Balance at June 30, 2014 |
|---|---|---|---|---|
| Capital Assets | | | | |
| Nondepreciable assets | $ 10,144,414 | $ 16,154,128 | $ (3,054,454) | $ 23,244,088 |
| Depreciable assets | 121,262,867 | 3,182,153 | (884,666) | 123,560,354 |
| Accumulated depreciation | (57,985,683) | (3,705,233) | 884,666 | (60,806,250) |
| **Total capital assets, net** | $ 73,421,598 | $ 15,631,048 | $ (3,054,454) | $ 85,998,192 |

The District's investment in capital assets as of June 30, 2014 increased by $12,576,594 to $85,998,192 as seen in the table above.

Major capital asset events during the fiscal year included the following:

- Completion of the $1.1 million Red Mountain Reservoir lining.

- Completion of the Sachse reservoir recoating and repainting project totaling $988,000.

- Construction began at the Wastewater Treatment Plant rehabilitation. Total cost of the project is $28 million. $12.5 million has been spent for design and construction as of June 30, 2014, with project completion in December 2015.

- A continued program of aggressive water pipeline replacement including the completion of an 8" pipeline on Hillcrest Drive and began construction of another 8" pipeline project on Stagecoach & Devin Drive. The District capitalized $2.8 million in water projects.

- Sewer forcemain and manhole replacement. The District capitalized $426,700 in wastewater projects during the period ending June 30, 2014.

- Conjunctive Use-Camp Pendleton will be responsible for development of additional groundwater recharge facilities on Camp Pendleton, pumping facilities on Camp Pendleton, and conveyance facilities to deliver water from Camp Pendleton to Fallbrook. For FY 13-14 approximately $272,500 was spent on this project, with a project-to-date of capitalized expenses in the amount of $3 million. The District will be responsible for construction of the pipeline required to deliver the water from the Fallbrook gate on the Naval Weapons Station to Red Mountain Reservoir and any necessary treatment facilities. The final feasibility study was completed by the United States Bureau of Reclamation for the project. A draft agreement between Camp Pendleton and the District is being finalized and a draft Environment Impact Report/Environment Impact Statement (EIR/EIS) has been completed and released for public review. The District applied for and has been approved from Prop 50 state grants for water project expenses to receive a total of approximately $2.4 million in reimbursements over the upcoming 2-3 years. During FY 13-14 the District received $828,598 from Prop 50 funds.

Additional information on the District's capital asset activity can be found at Note 7 of the Notes to the Basic Financial Statements.

### *Capital Commitments*

At June 30, 2015, the District has the following commitments with respect to unfinished capital projects:

| Capital Projects | | Remaining Construction Commitment | Expected Completion Date |
|---|---|---|---|
| Water Reclamation Plant | $ | 3,533,502 | 2015 |
| Recycled Waterline Extention - East | | 1,724,618 | 2015 |
| Santa Margarita Conjunctive Use Project EIS/EIR | | 2,458,897 | 2016 |

### *Debt Administration*

At June 30, 2015, the District had $32.4 million of long-term debt outstanding. $4.9 million of this debt is attributable to the wastewater QECB solar loan. The loan was originally for $7.227 million. Federal sequestration began in FY 13-14. Sequestration during FY 14-15 caused the District to lose 7.3%, or $15,403 of the Federal Interest Rate Subsidy. An additional $5.1 million of indebtedness is attributable to the Red Mountain Filtration Plant SRF loan, which was originally for $6.16 million. The newest debt is for the Wastewater Treatment Plant SRF loan. Of the total $28.0 million loan, $22.2 has been reimbursed through this loan as of June 30, 2015. Payments on the loan will commence in December 2016. During the year ended June 30, 2015, $870,056 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 8 to the Financial Statements.

### Economic Factors

The District's Board of Directors uses a budget philosophy of collecting 80% of fixed costs through the monthly water operations charge and 20% of fixed costs through the markup of the wholesale cost of water to our Municipal and Industrial (M&I) customers. Agricultural customers pay our wholesale cost of water, without markup. Because of this philosophy, fluctuating water sales have minimal impact on the District's ability to cover 80% of its operating expenses and the District remains in a very stable, financially sound condition, due to management and the Board's conservative budgeting and spending strategies. 100% of fixed costs are allocated from the wastewater monthly operations charges. The FY 14-15 budgeted operating revenues included Board objectives to reach or maintain equity goals in the three operating divisions, water, wastewater and recycled operations.

Since the District purchases all of its water supply from SDCWA, and since SDCWA projects annual water rate increases over the next decade, water costs will continue to rise. For calendar year 2015, a 4.5% increase in the cost of water was implemented by SDCWA on January 1, 2015.

SDCWA and its member agencies are currently challenging two components of Metropolitan Water District's rate structure. The following is from SDCWA's website:

> October 10, 2015 – A San Francisco Superior Court judge ruled late Friday that the Metropolitan Water District of Southern California (MWD) owes the San Diego County Water Authority $43.4 million in prejudgment interest, in addition to the $188.3 million awarded on Aug. 28 as contract damages for illegal rates MWD charged from 2011 to 2014. The order brings the amount MWD owes the SDCWA to $231.7 million.
>
> Judge Curtis E.A. Karnow ruled that the SDCWA is entitled to 10 percent interest annually on money that MWD overcollected, applying the mandatory prejudgment interest rate set by the state Legislature to encourage defendants to pay their debts on time. The post-judgment interest rate is 7

percent annually, meaning the total amount due to the SDCWA under the court's final judgment will continue to grow until MWD pays what it owes.

MWD argued it owed only $4.16 million in prejudgment interest; the SDCWA argued it was owed $43.4 million. Judge Karnow awarded $43,415,802. Added to the damages Judge Karnow awarded in August, this fixes the final judgment amount at $231,711,404. Under state law, this amount will accrue 7 percent interest annually until MWD pays the judgment.

Judge Karnow's ruling will be incorporated into the final judgment concluding the two cases, which is expected to be entered later this year. Once final judgment is entered, MWD will have 60 days to file an appeal. MWD already has said it will appeal the trial court's decision, a move that could significantly delay payment of the SDCWA's judgment.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the Fallbrook Public Utility District Finance Department at 990 East Mission Road, Fallbrook, California.

| | |
|---|---|
| Brian J. Brady | Marcie Eilers |
| General Manager | Administrative Services Manager/Treasurer |
| Fallbrook Public Utility District | Fallbrook Public Utility District |

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# BASIC FINANCIAL STATEMENTS

# FALLBROOK PUBLIC UTILITY DISTRICT
## Statements of Net Position
## June 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **Assets:** | | |
| Current assets: | | |
| Cash and investments (Note 5) | $ 17,865,727 | $ 17,385,829 |
| Receivables (Note 6) | 2,618,141 | 3,197,806 |
| Inventory | 1,934,006 | 1,115,840 |
| Other assets | 98,964 | 82,381 |
| Total current assets | 22,516,838 | 21,781,856 |
| Noncurrent assets: | 1,034,124 | 1,234,155 |
| Restricted cash and investments (Note 5): | | |
| Debt service - Red Mountain State Revolving Fund | 395,852 | 286,617 |
| Debt service - Wastewater Treatment Plant State Revolvoing Fund | 622,315 | 931,581 |
| Held for 1958 Annex Projects | 1,213,780 | 1,213,780 |
| Capital improvements | 15,957 | 15,957 |
| Total restricted cash and investments | 2,247,904 | 2,447,935 |
| Capital assets (Note 7): | | |
| Capital assets, not being depreciated | 40,765,906 | 23,244,088 |
| Capital assets being depreciated, net | 59,603,065 | 62,754,104 |
| Total capital assets, net | 100,368,971 | 85,998,192 |
| Total noncurrent assets | 102,616,875 | 88,446,127 |
| Total assets | 125,133,713 | 110,227,983 |
| **Deferred Outflows of Resources:** | | |
| Pension plan - employer contributions made subsequent to the measurement date (Note 10) | 1,071,999 | - |
| **Liabilities:** | | |
| Current liabilities: | | |
| Accounts payable | 5,144,322 | 6,328,203 |
| Accrued wages | 133,783 | 129,892 |
| Construction and other deposits | 9,726 | 14,485 |
| Accrued interest payable | 453,671 | 165,748 |
| Current portion of other long-term liabilities (Note 8) | 1,362,694 | 1,414,889 |
| Total current liabilities | 7,104,196 | 8,053,217 |
| Noncurrent liabilities: | | |
| HRA liability (Note 12) | 144,408 | 103,033 |
| OPEB liability (Note 12) | 544,296 | 465,185 |
| Net pension liability (Note 10) | 6,888,378 | - |
| Retention payable | 2,430,661 | 1,173,821 |
| Other long-term liabilities - net of current portion (Note 8) | 31,923,369 | 21,317,847 |
| Total noncurrent liabilities | 41,931,112 | 23,059,886 |
| Total liabilities | 49,035,308 | 31,113,103 |
| **Deferred Inflows of Resources:** | | |
| Pension plan - differences between projected and actual earnings on pension plan investments (Note 10) | 2,135,413 | - |
| **Net position:** | | |
| Net investment in capital assets | 67,995,640 | 64,203,257 |
| Restricted for: | | |
| 1958 Annex projects | 1,213,780 | 1,213,780 |
| Debt service and capital improvements | 1,018,167 | 1,218,198 |
| Unrestricted | 4,807,404 | 12,479,645 |
| Total net position | $ 75,034,991 | $ 79,114,880 |

See accompanying Notes to the Basic Financial Statements.

**FALLBROOK PUBLIC UTILITY DISTRICT**
**Statements of Revenues, Expenses and Changes in Net Position**
**For the Years Ended June 30, 2015 and 2014**

| | 2015 | 2014 |
|---|---|---|
| **Operating revenues:** | | |
| Water sales | $ 21,460,798 | $ 23,363,837 |
| Wastewater services | 5,571,362 | 5,205,516 |
| Other | 451,721 | 385,830 |
| Total operating revenues | 27,483,881 | 28,955,183 |
| **Operating expenses:** | | |
| Cost of water sold | 15,244,518 | 16,077,109 |
| General and administration | 4,391,631 | 3,779,278 |
| Depreciation | 3,776,494 | 3,705,231 |
| Transmission and distribution | 2,169,284 | 3,874,226 |
| Wastewater operations and maintenance | 2,296,712 | 3,765,046 |
| Customer accounts | 725,610 | 1,179,998 |
| Total operating expenses | 28,604,249 | 32,380,888 |
| Operating loss | (1,120,368) | (3,425,705) |
| **Nonoperating revenues (expenses):** | | |
| Property taxes | 1,719,296 | 1,623,510 |
| Capital improvement charges | 2,134,025 | 1,981,822 |
| California Solar Initiative rebate | 729,519 | 843,714 |
| Investment income | 141,433 | 209,175 |
| Water availability charges | 200,810 | 200,779 |
| Lease revenue | 185,770 | 183,641 |
| Connection fees | 208,521 | 118,581 |
| Other revenue | 162,913 | 140,396 |
| Loss on disposal of capital assets | (444,252) | - |
| Interest expense | (641,141) | (344,730) |
| Total nonoperating revenues (expenses), net | 4,396,894 | 4,956,888 |
| Changes in net position before capital contributions | 3,276,526 | 1,531,183 |
| Capital contributions: | | |
| State Proposition 50 | 153,790 | 828,598 |
| Capital asset contributions - donated from developers | 224,596 | 76,746 |
| Change in net position | 3,654,912 | 2,436,527 |
| Net position - beginning, as previously reported | 79,114,880 | 76,678,353 |
| Cumulative effect of change in accounting princples (Note 14) | (7,734,801) | - |
| Net position - beginning, as restated | 71,380,079 | 76,678,353 |
| Net position - ending | $ 75,034,991 | $ 79,114,880 |

See accompanying Notes to the Basic Financial Statements.

# FALLBROOK PUBLIC UTILITY DISTRICT
## Statements of Cash Flows
## For the Years Ended June 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Receipts from customers | $ 27,643,563 | $ 28,129,649 |
| Receipts from others | 757,094 | 751,027 |
| Payments to suppliers and vendors | (18,851,236) | (16,747,636) |
| Payments to employees | (7,194,522) | (7,701,836) |
| Other payments (CalPERS side fund) | - | (3,154,895) |
| Net cash provided by operating activities | 2,354,899 | 1,276,309 |
| **Cash flows from noncapital financing activities:** | | |
| Property taxes | 1,719,296 | 1,623,510 |
| California Solar Initiative rebate | 729,519 | 843,714 |
| Net cash provided by noncapital financing activities | 2,448,815 | 2,467,224 |
| **Cash flows from capital and related financing activities:** | | |
| Acquisitions and construction of capital assets | (17,481,370) | (12,619,185) |
| Principal payments on long-term debt | (870,056) | (922,148) |
| Interest paid | (353,218) | (279,452) |
| Proceeds from contracts payable | 11,448,452 | 9,490,867 |
| Capital improvement charges and connection fees | 2,342,546 | 2,100,403 |
| State Proposition 50 | 153,790 | 828,598 |
| Water availability charges | 200,810 | 200,779 |
| Net cash used by capital and related financing activities | (4,559,046) | (1,200,138) |
| **Cash flows from investing activities:** | | |
| Purchases of investments | (3,192,224) | (4,158,334) |
| Sales of investments | 3,046,994 | 2,360,034 |
| Interest received | 136,422 | 194,228 |
| Net cash provided by investing activities | (8,808) | (1,604,072) |
| Net change in cash and cash equivalents | 235,860 | 939,323 |
| Cash and cash equivalents - beginning | 10,087,092 | 9,147,769 |
| Cash and cash equivalents - ending | $ 10,322,952 | $ 10,087,092 |

See accompanying Notes to the Basic Financial Statements.

## FALLBROOK PUBLIC UTILITY DISTRICT
## Statements of Cash Flows (Continued)
## For the Years Ended June 30, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **Reconciliation of cash and cash equivalents to the Statement of Net Position:** | | |
| Cash and investments | $ 17,865,727 | $ 17,385,829 |
| Resticted cash and investments | 2,247,904 | 2,447,935 |
| Less investments not meeting the definition of cash and cash equivalents | (9,790,679) | (9,746,672) |
| Cash and cash equivalents | $ 10,322,952 | $ 10,087,092 |
| **Reconciliation of operating income loss to net cash provided by operating activities:** | | |
| Operating loss | (1,120,368) | $ (3,425,705) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | |
| Depreciation | 3,776,494 | 3,705,231 |
| Lease revenue | 185,770 | 183,641 |
| Other revenue | 162,913 | 140,396 |
| (Increase) decrease in: | | |
| Receivables | 584,676 | (395,800) |
| Inventory | (818,166) | 28,349 |
| Other assets | (16,583) | (2,744) |
| Increase (decrease) in: | | |
| Accounts payable | (711,377) | 881,916 |
| Accrued wages | 3,891 | 29,145 |
| Construction and other deposits | (4,759) | 9,018 |
| HRA liability | 41,375 | (4,414) |
| OPEB liability | 79,111 | 88,377 |
| Compensated absences | (25,069) | 38,899 |
| Deferred outflows/infloiws of resources | 216,991 | - |
| Net cash provided by operating activities | $ 2,354,899 | $ 1,276,309 |
| **Noncash capital and related financing activities:** | | |
| Capital assets contributed | $ 224,596 | $ 76,746 |
| Book value of capital asset dispositions | (444,252) | - |
| Capital asset acquisitions included in accounts payable | 2,228,373 | 2,700,877 |
| Capital asset acquisitions included in retention payable | 1,256,840 | 1,173,821 |
| Change in fair value of investments | 46,116 | 7,676 |

See accompanying Notes to the Basic Financial Statements.

# NOTES TO THE BASIC FINANCIAL STATEMENTS

## (1) 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 prorata 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.

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *(a) Basis of Accounting*

The accounting methods and procedures adopted by the District conform to generally accepted accounting principles as applied to governmental enterprise funds as prescribed by the Governmental Accounting Standards Board (GASB).

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 District's operating revenues and expenses are those that result from providing services and producing and delivering goods. The focus of enterprise fund measurement is upon determination of operating income, changes in net position, and cash flows.

### *(b) Use of Estimates*

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

***(c) Revenue Recognition***

The District recognizes water and wastewater revenue on the accrual basis and includes an accrual for services provided in June but not yet billed. Property taxes are collected by the County of San Diego through property tax billings. Real property taxes are levied on October 15 against owners of record at January 1, the lien date. The taxes are due in two installments on November 1 and February 1 and become delinquent after December 10 and April 10, respectively. Property tax revenues are recognized when levied to the extent that they are available to the District's current operations. Other revenues such as grants and similar items are recognized in the fiscal year in which all eligibility requirements have been satisfied. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then use unrestricted resources as needed.

***(d) Investments***

Investments are recorded at fair value based on published market quotations as provided by the District's third party broker-dealers. Changes in the fair value of investments, both realized and unrealized, are recognized in the statements of revenues, expenses and changes in net position as a component of investment income.

***(e) Inventory***

Inventory consists of water stored at Red Mountain Reservoir and various warehouse materials, supplies and equipment necessary for the District's operations. Inventory is stated at the lower of cost or market, and is determined on a first-in, first-out basis.

***(f) Capital Assets, Depreciation and Amortization***

Capital assets are stated at cost. Contributed pipelines are valued at estimated fair value on the date of contribution and recorded as capital contributions. Generally, capital asset purchases in excess of $2,000 are capitalized, if the assets have an expected useful life of one year or more.

Interest costs incurred while constructing capital assets can be capitalized as part of the specific capital assets. The District did not capitalize any interest costs during the years ended June 30, 2015 and 2014.

Depreciation is charged to expense for all capital assets, including assets contributed to the District, and is computed using the straight-line method over the estimated useful asset lives as follows:

| | |
|---|---|
| Water transmission and distribution system: | |
| Impounding dams and reservoirs | 50 Years |
| Pipelines | 50 Years |
| Other | 20-25 Years |
| Wastewater collection system, and treatment and disposal facilities | 20-50 Years |
| Buildings and structures | 45 Years |
| Equipment | 3-10 Years |

### *(g) Net Position*

In the *statement of net position*, the District's net position is classified into three components, which 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 any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, as well as deferred outflows of resources and deferred inflows of resources (e.g. deferred amounts of refunding).

- **Restricted -** This component of net position consists of restricted assets which are reduced by liabilities related to those assets. As of June 30, 2015 and 2014, the District reports restricted net position in the amount of $1,213,780 for 1958 Annex projects. The 1958 Annex projects represents amounts that are restricted to fund water line improvements only within the 1958 Annex area. As of June 30, 2015 and 2014, the District also reports restricted net position in the amount of $1,018,167 and $1,218,198, respectively, for debt service and capital improvements. The restricted for debt service and capital improvements primarily represents amounts set-aside pursuant to loan covenants to fund future debt service related to the Red Mountain UV Filtration Plant (FY 14-15 is $395,852 and FY 13-14 is $286,617); and the Wastewater Treatment Plan I Rehabilitation project (FY 14-15 is $622,315 and FY 13-14 is $931,581).

- **Unrestricted -** This component of net position does not meet the definition of "net investment in capital assets" or "restricted".

### *(h) Connection Fees and Water Availability Charges (Capacity Fees)*

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 connection to the wastewater collections system by developers or landowners. Connection fees are to be used strictly for capital improvements.

### *(i) Capital Contributions*

Capital contributions for water and wastewater represent contributions of capital assets from developers. Capital contributions are recorded in the statements of revenues, expenses and changes in net position at fair value at the date ownership is transferred to the District.

### *(j) Cash and Cash Equivalents*

For purposes of the statements of cash flows, the District considers highly liquid debt instruments (including cash and investments whose use is limited and reported as restricted cash and investments) purchased with a maturity of three months or less to be cash equivalents. Funds invested with the Local Agency Investment Fund and the County Treasurer's investment pool are considered to be cash equivalents because amounts can be withdrawn on demand.

### *(k) Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense, information about the fiduciary net position of the District's defined benefit pension plan (Plan), which is administered by the California Public Employees'

Retirement System (CalPERS), 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 the benefit terms. Investments are reported at fair value.

***(l) Reclassifications***

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

## (3) IMPLEMENTATION OF NEW GOVERNMENTAL ACCOUNTING STANDARDS

Effective July 1, 2014, the District implemented the following new GASB statements:

<u>GASB Statement No. 68</u>

The primary objective of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An amendment of GASB Statement No. 27*, is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* as well as the requirements of Statement No. 50, *Pension Disclosures* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pensions. For defined benefit pensions, GASB Statement No. 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

GASB Statement No. 68 requires the liability of employers to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent year-end). Unless otherwise specified by this Statement, all assumptions underlying the determination of the total pension liability and related measures set forth by this Statement are required to be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Projections of benefit payments are required to be based on the benefit terms and legal agreements existing at the measurement date and to incorporate the effects of projected salary changes (if the pension formula incorporates future compensation levels) and service credits (if the pension formula incorporates periods of service), as well as projected automatic postemployment benefit changes, including automatic cost-of-living-adjustments (COLAs). Projections also are required to include the effects of ad hoc postemployment benefit changes (including ad hoc COLAs), if they are considered to be substantively automatic.

Projected benefit payments are required to be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.

<u>GASB Statement No. 71</u>

The objective of this GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An amendment of GASB Statement No. 68* was to address an issue regarding application of the transition provisions of GASB Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer contributing to a defined benefit pension plan after the measurement date of the entity's beginning net pension liability.

GASB Statement No. 68 requires a state or local government employer to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, GASB Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, GASB Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, Statement No. 68 requires that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

GASB Statement No. 71 requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

The impact on the District's financial statements resulting from of the implementation of GASB Statements No. 68 and 71 are further described in Note 10 and Note 14.

## (4) UPCOMING GOVERNMENTAL ACCOUNTING STANDARDS

The requirements of the following accounting standards will be required to be implemented for the District's year ended June 30, 2016. District management are in the process of evaluating the potential impacts to the District's basic financial statements.

<u>GASB Statement No. 72</u>

GASB issued Statement No. 72, *Fair Value Measurement and Application.* GASB Statement No. 72 to address accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The objectives of GASB Statement No. 72 is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements.

This statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

GASB Statement No. 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs – other than quoted prices – included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

The provisions of GASB Statement No. 72 are effective for financial statements for periods beginning after June 15, 2015.

GASB Statement No. 76

In June 2015, the GASB issued Statement No. 76, *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*

The object of this Statement is to identify – in the context of the current governmental financial reporting environment the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

The provisions of Statement No. 76 are effective for reporting periods beginning after June 15, 2015.

## (5) CASH AND INVESTMENTS

The District accounts for various activities in separate funds in its accounting records and consolidates all of its funds into a single enterprise fund for financial reporting purposes. The District follows the practice of pooling cash and investments of all funds except funds for those required to be held separately by debt restrictions. Pooling is for the purpose of increasing interest earnings and administrative efficiency.

Restricted cash and investments represents amounts held with third party fiscal agents that are restricted for the payment of debt service and capital improvements.

Cash and investments as of June 30, 2015 and 2014 are classified in the accompanying statements of net position as follows:

| | 2015 | 2014 |
|---|---|---|
| **Statement of net position:** | | |
| Cash and investments | $ 17,865,727 | $ 17,385,829 |
| Restricted cash and investments | 2,247,904 | 2,447,935 |
| Total cash and investments | $ 20,113,631 | $ 19,833,764 |

Cash and investments as of June 30, 2015 and 2014 consist of the following:

| | 2015 | 2014 |
|---|---|---|
| Cash on hand | $ 850 | $ 850 |
| Deposits with financial institutions | 4,347,248 | 4,929,550 |
| Investments | 15,765,533 | 14,903,364 |
| Total cash and investments | $ 20,113,631 | $ 19,833,764 |

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

The table below identifies the investment types that are authorized by the District's investment policy. The table also identifies certain provisions of the District's investment policy that address interest rate risk and concentration of credit risk, which is more restrictive than California Government Code. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio* | Maximum Investment in One Issuer | Minimum Credit Rating (S&P / Moody's) |
|---|---|---|---|---|
| U.S. Treasury Securities | 5 Years | No Limitation | No Limitation | No Limitation |
| U.S. Agency Securities | 5 Years | No Limitation | 75% | No Limitation |
| State Obligations | 5 Years | 25% | 5% | BBB/Baa2 |
| Bankers' Acceptances | 180 Days | 25% | 25% | A1/P1 |
| Commercial Paper | 270 Days | 15% | 10% | A1/P1 |
| Negotiable Certificates of Deposit | 5 Years | 30% | No Limitation | No Limitation |
| Repurchase Agreements | 1 year | 10% | 10% | No Limitation |
| Medium-Term Notes | 5 Years | 30% | 10% | A/A |
| Passbook and Money Market Savings Account | N/A | No Limitation | No Limitation | No Limitation |
| Local Agency Investment Fund (LAIF) | N/A | No Limitation | No Limitation | No Limitation |
| County Pooled Investment Funds | N/A | No Limitation | No Limitation | No Limitation |
| California Local Agency Obligations and Local Agency Obligations of Other States | 5 years | 25% | 5% | BBB/Baa2 |
| Joint Powers Authority Pool | 5 years | No Limitation | No Limitation | No Limitation |
| Money Market Mutual Funds | 5 years | 20% | 10% | AAA/Aaa |
| Mutual Funds | 5 years | 20% | 10% | AAA/Aaa |
| Mortgage Pass-Through Securities | 5 years | 20% | No Limitation | AA |

* Excluding amounts held by bond trustees that are not subject to California Government Code restrictions.

In addition to the allowable investments noted in the preceding table pursuant to the District's investment policy, the California Government Code also permits the following investments: reverse repurchase agreements; securities lending agreements; Supranational Obligations (e.g. the International Bank for Reconstruction and Development, the Inter-American Development Bank; and the International Finance Corporation); and California Voluntary Investment Program Fund. However, the District does not permit investments in these additional types of investments. Also, California Government Code and the District's investment policy prohibits investments in inverse floaters, range notes, interest-only strips derived from a pool of mortgages, and any security that might result in zero interest accrual.

The table below compares the maximum percentage of the District's investments and maximum investment by any one issuer allowable per the California Government Code to the District's investment policy, which is more restrictive. There are no differences between the minimum credit ratings for allowable investments pursuant to the District's investment policy and California Government Code.

| Authorized Investment Type | California Government Code | District's Investment Policy | California Government Code | District's Investment Policy |
|---|---|---|---|---|
| U.S. Agency Securities | None | None | None | 75% |
| State Obligations | None | 25% | None | 5% |
| Bankers' Acceptances | 40% | 25% | 30% | 25% |
| Commercial Paper | 25% | 15% | 10% | 10% |
| Repurchase Agreements | None | 10% | None | 10% |
| California Local Agency Obligations and Local Agency Obligationof Others States | None | 25% | None | 5% |

***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 its fair value is 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 as necessary to provide the cash flow and liquidity needed for the District's operations.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the tables on the following page that shows the distribution of the District's investments by maturity.

As of June 30, 2015, the District had the following investments and maturities:

| Investment Type | Fair Value | Remaining Maturity (in Months) 12 Months or Less | 13 - 24 Months | 25-60 Months |
|---|---|---|---|---|
| Local Agency Investment Fund | $ 5,944,458 | $ 5,944,458 | $ - | $ - |
| San Diego County Treasurer Pool | 14,438 | 14,438 | - | - |
| Medium-Term Notes | 5,876,319 | 142,693 | 500,104 | 5,233,522 |
| Negotiable Certificates of Deposit | 3,133,280 | 560,516 | 496,421 | 2,076,343 |
| Federal Home Loan Bank | 500,105 | - | - | 500,105 |
| Money Market Mutual Fund | 296,933 | 296,933 | - | - |
| Total investments | $ 15,765,533 | $ 6,959,038 | $ 996,525 | $ 7,809,970 |

As of June 30, 2014, the District had the following investments and maturities:

| Investment Type | Fair Value | Remaining Maturity (in Months) 12 Months or Less | 13 - 24 Months | 25-60 Months |
|---|---|---|---|---|
| Local Agency Investment Fund | $ 5,428,932 | $ 5,428,932 | $ - | $ - |
| San Diego County Treasurer Pool | 14,378 | 14,378 | - | - |
| Medium-Term Notes | 5,803,270 | 827,736 | 149,302 | 4,826,232 |
| Negotiable Certificates of Deposit | 2,848,505 | 456,634 | 564,155 | 1,827,716 |
| Federal Home Loan Bank | 496,725 | - | - | 496,725 |
| Money Market Mutual Fund | 311,554 | 311,554 | - | - |
| Total investments | $ 14,903,364 | $ 7,039,234 | $ 713,457 | $ 7,150,673 |

### *Disclosure Relating to Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The following presentation is the minimum rating required by (where applicable) the California Government Code, or the District's investment policy, and the actual rating as of year-end for each investment type:

A summary of disclosures relating to credit risk at June 30, 2015 is as follows:

| | | Minimum | | Credit Rating (Moody's/Standard & Poors) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Investment Type | Fair Value | Legal Rating | Not Rated | AAA/ AA+ | AA1/AA+ | A1/AA+ and A1/AA- | A1/A+ and A1/A | A2/A and A2/A- | A3/A | A3/BBB+ | Baa1/BBB+ |
| Local Agency Investment Fund | $ 5,944,458 | N/A | $ 5,944,458 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| San Diego County Treasurer Pool | 14,438 | N/A | - | 14,438 | - | - | - | - | - | - | - |
| Medium-Term Notes | 5,876,319 | A | - | - | 328,273 | 825,594 | 1,101,758 | 2,331,726 | 549,150 | 376,728 | 363,090 |
| Negotiable Certificates of Deposit | 3,133,280 | N/A | 3,133,280 | - | - | - | - | - | - | - | - |
| Federal Home Loan Bank | 500,105 | N/A | - | 500,105 | - | - | - | - | - | - | - |
| Money Market Mutual Funds | 296,933 | AAA | - | 296,933 | - | - | - | - | - | - | - |
| | $ 15,765,533 | | $ 9,077,738 | $ 811,476 | $ 328,273 | $ 825,594 | $ 1,101,758 | $ 2,331,726 | $ 549,150 | $ 376,728 | $ 363,090 |

A summary of disclosures relating to credit risk at June 30, 2014 is as follows:

| Investment Type | Fair Value | Minimum Legal Rating | Not Rated | Credit Rating (Moody's/Standard & Poors) AAA/ AA+ | Aa3/AA- | A3/A and A3/A- | A2/A and A2/A- | A2/AA- | AA1/AA+ | A1/AA+ | A1/A | Baa1/A- |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Local Agency Investment Fund | $ 5,428,932 | N/A | $ 5,428,932 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| San Diego County Treasurer Pool | 14,378 | N/A | 14,378 | - | - | - | - | - | - | - | - | - |
| Medium-Term Notes | 5,803,271 | A | - | - | 936,444 | 951,465 | 1,527,231 | 509,655 | 326,638 | 1,079,725 | 149,302 | 322,811 |
| Negotiable Certificates of Deposit | 2,848,504 | N/A | 2,848,504 | - | - | - | - | - | - | - | - | - |
| Federal Home Loan Bank | 496,725 | N/A | - | 496,725 | - | - | - | - | - | - | - | - |
| Money Market Mutual Funds | 311,554 | AAA | 311,554 | - | - | - | - | - | - | - | - | - |
| | $ 14,903,364 | | $ 8,603,368 | $ 496,725 | $ 936,444 | $ 951,465 | $ 1,527,231 | $ 509,655 | $ 326,638 | $ 1,079,725 | $ 149,302 | $ 322,811 |

### *Concentration of Credit Risk*

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represents 5% or more of the District's total investments as of June 30, 2015 and 2014 are as follows:

A summary of disclosures related to concentration of credit risk as of June 30, 2015:

| Issuer | Investment Type | Fair Value |
|---|---|---|
| Qualcomm Incorporated | Medium-Term Notes | $ 959,065 |

A summary of disclosures related to concentration of credit risk at June 30, 2014:

| Issuer | Investment Type | Fair Value |
|---|---|---|
| General Electric Capital Corporation | Medium-Term Notes | $ 1,079,725 |

### *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 risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The 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 governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

### *Local Agency Investment Fund (LAIF)*

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the 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. The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on an amortized cost basis.

The total amount invested by all public agencies in LAIF as of June 30, 2015 and 2014 was $21.5 billion and $21.1 billion, respectively. LAIF is part of the California Pooled Money Investment Account (PMIA), which at June 30, 2015 and 2014 had a balance of $69.6 billion and $64.8 billion, respectively, and of those amounts, 2.08% and 1.86% were invested in medium-term and short-term structured notes and asset-backed securities as of June 30, 2015 and 2014, respectively. The average maturity of PMIA investments as of June 30, 2015 and 2014 was 239 and 232 days, respectively.

## (6) RECEIVABLES

Receivables of the District as of June 30, 2015 and 2014 were as follows:

| | 2015 | 2014 |
|---|---|---|
| Water and wastewater billings | $ 1,826,911 | $ 2,367,643 |
| Unbilled water sales | 672,127 | 742,798 |
| Accrued interest receivable | 63,681 | 58,670 |
| Other | 55,422 | 28,695 |
| Total Receivables | $ 2,618,141 | $ 3,197,806 |

## (7) CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2015 were as follows:

| | Balance July 1, 2014 | Additions and Transfers In | Retirements and Transfers Out | Balance June 30, 2015 |
|---|---|---|---|---|
| **Capital assets, not being depreciated:** | | | | |
| Land and property rights-water | $ 4,353,402 | $ 112,665 | $ - | $ 4,466,067 |
| Land and property rights-wastewater | 2,422,706 | - | - | 2,422,706 |
| Construction in progress | 16,467,980 | 18,250,507 | (841,354) | 33,877,133 |
| Total capital assets, not being depreciated | 23,244,088 | 18,363,172 | (841,354) | 40,765,906 |
| **Capital assets, being depreciated:** | | | | |
| Water operations: | | | | |
| Impounding dam | 12,006,272 | - | - | 12,006,272 |
| Distribution system | 48,931,559 | 615,861 | (74,114) | 49,473,306 |
| Buildings and structures | 15,853,423 | 204,638 | - | 16,058,061 |
| Equipment | 3,512,198 | 147,985 | (582,759) | 3,077,424 |
| Total water operations | 80,303,452 | 968,484 | (656,873) | 80,615,063 |
| Wastewater operations: | | | | |
| Collection system | 7,624,624 | 32,541 | - | 7,657,165 |
| Treatment facilities | 23,205,182 | 35,540 | (423,650) | 22,817,072 |
| Disposal facilities | 12,262,985 | - | (397,082) | 11,865,903 |
| Equipment | 164,111 | 33,141 | - | 197,252 |
| Total wastewater operations | 43,256,902 | 101,222 | (820,732) | 42,537,392 |
| Total capital assets being depreciated | 123,560,354 | 1,069,706 | (1,477,605) | 123,152,455 |
| Less accumulated depreciation | (60,806,250) | (3,776,493) | 1,033,353 | (63,549,390) |
| Total capital assets being depreciated, net | 62,754,104 | (2,706,787) | (444,252) | 59,603,065 |
| Total capital assets, net | $ 85,998,192 | $ 15,656,385 | $ (1,285,606) | $ 100,368,971 |

Changes in capital assets for the year ended June 30, 2014 were as follows:

| | Balance July 1, 2013 | Additions and Transfers In | Retirements and Transfers Out | Balance June 30, 2014 |
|---|---|---|---|---|
| **Capital assets, not being depreciated:** | | | | |
| Land and property rights-water | $ 4,256,183 | $ 97,219 | $ - | $ 4,353,402 |
| Land and property rights-wastewater | 2,422,706 | - | - | 2,422,706 |
| Construction in progress | 3,465,525 | 16,056,909 | (3,054,454) | 16,467,980 |
| Total capital assets, not being depreciated | 10,144,414 | 16,154,128 | (3,054,454) | 23,244,088 |
| **Capital assets, being depreciated:** | | | | |
| Water operations: | | | | |
| Impounding dam | 12,006,272 | - | - | 12,006,272 |
| Distribution system | 49,101,428 | 361,279 | (531,148) | 48,931,559 |
| Buildings and structures | 13,697,957 | 2,155,466 | - | 15,853,423 |
| Equipment | 3,362,231 | 238,723 | (88,756) | 3,512,198 |
| Total water operations | 78,167,888 | 2,755,468 | (619,904) | 80,303,452 |
| Wastewater operations: | | | | |
| Collection system | 7,315,706 | 308,918 | - | 7,624,624 |
| Treatment facilities | 23,233,792 | 23,955 | (52,565) | 23,205,182 |
| Disposal facilities | 12,475,182 | - | (212,197) | 12,262,985 |
| Equipment | 70,299 | 93,812 | - | 164,111 |
| Total wastewater operations | 43,094,979 | 426,685 | (264,762) | 43,256,902 |
| Total capital assets being depreciated | 121,262,867 | 3,182,153 | (884,666) | 123,560,354 |
| Less accumulated depreciation | (57,985,683) | (3,705,233) | 884,666 | (60,806,250) |
| Total capital assets being depreciated, net | 63,277,184 | (523,080) | - | 62,754,104 |
| Total capital assets, net | $ 73,421,598 | $ 15,631,048 | $ (3,054,454) | $ 85,998,192 |

## (8) LONG-TERM LIABILITIES

District long-term liabilities consist of notes payable, contracts payable, and compensated absences. All debt was issued to finance the District's capital improvements.

Changes in long-term liabilities for the year ended June 30, 2015 consist of the following:

| | Balance July 1, 2014 | Additions | Retirements | Balance June 30, 2015 | Current Portion |
|---|---|---|---|---|---|
| Contracts payable | $ 21,810,892 | $ 11,448,452 | $ (870,056) | $ 32,389,288 | $ 895,981 |
| Compensated absences | 921,844 | 508,543 | (533,612) | 896,775 | 466,713 |
| Total long-term liabilities | $ 22,732,736 | $ 11,956,995 | $ (1,403,668) | $ 33,286,063 | $ 1,362,694 |

Changes in long-term liabilities for the year ended June 30, 2014 consist of the following:

| | Balance July 1, 2013 | Additions | Retirements | Balance June 30, 2014 | Current Portion |
|---|---|---|---|---|---|
| Note payable | $ 77,090 | $ - | $ (77,090) | $ - | $ - |
| Contracts payable | 13,165,083 | 9,490,867 | (845,058) | 21,810,892 | 870,056 |
| Compensated absences | 882,945 | 623,698 | (584,799) | 921,844 | 544,833 |
| Total long-term liabilities | $ 14,125,118 | $ 10,114,565 | $ (1,506,947) | $ 22,732,736 | $ 1,414,889 |

Contracts payables consist of the following:

| | 2015 | 2014 |
|---|---|---|
| ***Contracts Payable:*** | | |
| 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 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). | $ 5,165,913 | $ 5,423,978 |
| 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. | 4,961,702 | 5,573,693 |

| | 2015 | 2014 |
|---|---|---|
| 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 at 2.20%. In September 2013, the District entered into an amended Loan Agreement increasing the principal amount to $28,723,000. Annual payments in the estimated amount of $1,791,114 including principal and interest, is due beginning March 2017 through March 2036. The proceeds of the loan will assist the District fund costs associated with the Fallbrook Wastewater Treatment Plan I Rehabilitation project. As of June 30, 2015 and 2014, the District had drawn down $22,261,673 and $10,813,221, respectively, of the total loan balance available. | 22,261,673 | 10,813,221 |
| Subtotal contracts payable | 32,389,288 | 21,810,892 |
| Less: Current portion of contracts payable | (895,981) | (870,056) |
| Total long-term portion of contracts payable | $ 31,493,307 | $ 20,940,836 |

Future long-term debt maturities as of June 30, 2015 are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 895,981 | $ 216,496 | $ 1,112,477 |
| 2017 | 542,020 | 199,553 | 741,573 |
| 2018 | 566,590 | 187,357 | 753,947 |
| 2019 | 592,107 | 174,650 | 766,757 |
| 2020 | 618,606 | 161,412 | 780,018 |
| 2021-2025 | 3,527,442 | 588,491 | 4,115,933 |
| 2026-2030 | 2,996,522 | 190,224 | 3,186,746 |
| 2031 | 388,347 | 2,512 | 390,859 |
| Total | $ 10,127,615 | $ 1,720,695 | $ 11,848,310 |

The long-term debt maturity schedule above does not include the future principal and interest payments associated with the California State Water Resources Control Board (CSWRCB) loan. At the completion of the project, which is anticipated in March 2016, the CSWRCB will complete the District's payment schedule after all loan disbursements have been paid to the District.

## (9) CONSTRUCTION COMMITMENTS

At June 30, 2015, the District has the following commitments with respect to unfinished capital projects:

| Capital Projects | Remaining Construction Commitment | Expected Completion Date |
|---|---|---|
| Water Reclamation Plant | $ 3,533,502 | 2015 |
| Recycled Waterline Extention - East | 1,724,618 | 2015 |
| Santa Margarita Conjunctive Use Project EIS/EIR | 2,458,897 | 2016 |

At June 30, 2014, the District has the following commitments with respect to unfinished capital projects:

| Capital Projects | Construction Commitment | Completion Date |
|---|---|---|
| Water Reclamation Plant | $ 13,540,048 | 2015 |
| Wastewater Treatment Plant Construction Management | 604,774 | 2014 |
| Red Mountain Reservoir Liner Repair | 87,519 | 2014 |
| Wastewater Treatment Plant Rehabilitation Project Design | 44,924 | 2014 |

## (10) PENSION BENEFITS

### *Plan Description*

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Plan administered by the California Public Employees' Retirement System (CalPERS), a cost-sharing public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements are established by District ordinance and state statute within the Public Employees' Retirement Law and. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through action by the District's board of directors.

Effective, January 1, 2013, the District's new hires who meet the definitions of "new employee" and "new member" accrue and receive defined benefit pension benefits in accordance with the California Public Employees' Pension Reform Act (PEPRA) of 2013.

Financial statements for the District's Miscellaneous Plan are not separately issued. CalPERS issues a separate comprehensive annual financial report, copies of which can be obtained from the CalPERS Fiscal Services Division, P.O. Box 942703, Sacramento, CA 94229-2703 or at the following website http://www.calpers.ca.gov.

***Benefits Provided***

CalPERS provides retirement, disability benefits, death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. Retirement benefits are determined as the product of the benefit factor, years of service, and final compensation. Employees with at least five years of credited service are eligible to retire at age 55. PEPRA Miscellaneous Plan members become eligible for service retirement of age 62 with at least five years of credited service. All members are eligible for non-industrial disability benefits after 5 years of service. The death benefit is one of the following: the Basic death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the District’s 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 District’s Miscellaneous Plan provisions and benefits in effect at June 30, 2015, are summarized as follows:

| | **Miscellaneous Plan** | |
|---|---|---|
| Hire date | Prior to January 1, 2013 | On or after January 1, 2013 |
| Benefit formula | 2.5% @ 55 | 2.0% @ 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | Monthly for life | Monthly for life |
| Retirement age | 55 | 62 |
| Monthly benefit as a % of eligible compensation | 1.426% to 2.5% | 1.0% to 2.0% |
| Required employee contribution rates | 8% | 6.5% |
| Required employer contribution rates | 16.601% | 6.73% |

As a result of the District’s Board approved lump sum pay off of the CalPERS side fund in the amount of $3,154,895 during FY13-14, the FY 14-15 employer contribution rate decreased from 28.396% to 16.601%.

***Contributions***

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

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each plan were as follows:

| | Miscellaneous Plan |
|---|---|
| Contributions – employer | $ 756,871 |
| Contributions – employee | 372,274 |

***Pension Liabilities, Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pensions***

As of June 30, 2015, the District reported a net pension liability for its proportionate share of the net pension liability of each plan as follows:

| | Proportionate Share of the Net Pension Liability |
|---|---|
| Miscellaneous Plan | $ 6,887,895 |
| PEPRA Miscellaneous Plan | 483 |
| Total Net Pension Liability | $ 6,888,378 |

The District's net pension liability for each plan is measured as the proportionate share of the collective net pension liability. The collective net pension liability for each of the District's plans is measured as of June 30, 2014, and the total pension liability for each plan used to calculate the collective net pension liability was determined by an actuarial valuation as of June 30, 2013, and rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the collective net pension liability was based on an actuarially determined projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers. The District's proportionate share of the collective net pension liability as of June 30, 2013 and 2014 was as follows:

| | Miscellaneous Plan |
|---|---|
| Proportion – June 30, 2013 | $ 12,155,273 |
| Proportion – June 30, 2014 | 6,888,378 |
| Change – Increase (Decrease) | $ (5,266,895) |

For the year ended June 30, 2015, the District recognized pension expense of $973,872. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions made subsequent to measurement date of June 30, 2014 | $ 756,871 | $ - |
| Differences between expected and actual experience | - | - |
| Changes of assumptions | - | - |
| Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | 315,128 | (7,049) |
| Net differences between projected and actual earnings on pension plan investments | - | (2,128,364) |
| Total | $ 1,071,999 | $ (2,135,413) |

$756,871 reported as deferred outflows of resources related to contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ended June 30, 2016. 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 | |
|---|---|
| 2016 | $ (422,063) |
| 2017 | (422,063) |
| 2018 | (444,068) |
| 2019 | (532,091) |

***Actuarial Assumptions***

The total pension liability in the June 30, 2013 actuarial valuations was determined using the following actuarial assumptions:

| | **Miscellaneous Plan** |
|---|---|
| Valuation Date | June 30, 2013 |
| Measurement Date | June 30, 2014 |
| Actuarial Cost Method | Entry Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.50% |
| Inflation | 2.75% |
| Payroll Growth | 3.00% |
| Projected Salary Increase (1) | 3.30% to 14.20% |
| Investment Rate of Return (2) | 7.50% |
| Post Retirement Benefit | Contract COLA up to 2.75% until purchasing power |
| Mortality Rate (3) | Derived using CalPERS' membership data for all funds |

(1) Depending on age, service and type of employment
(2) Net of pension plan administrative expenses, including inflation
(3) 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 mortality table, refer to the 2014 Experience Study Report.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be obtained from the CalPERS website under Forms and Publications.

***Discount Rate***

The discount rate used to measure the total pension liability was 7.50% for the District's plan. To determine whether the municipal bond rate should be used in the calculation of discount rate for the 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, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a separate detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 % investment return assumption used in the June 30, 2014 accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. The difference in the calculation is not material to the District's financial statements.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require CalPERS Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for

GASB 67 and GASB 68 calculations through at least the 2017-2018 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as the District has changed its methodology.

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

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

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

| Asset Class | New Strategic Allocation | Real Return Years 1 -10 [1] | Real Return Years 11+ [2] |
|---|---|---|---|
| Global Equity | 47.0% | 5.25% | 5.71% |
| Global Fixed Income | 19.0% | 0.99% | 2.43% |
| Inflation Sensitive | 6.0% | 0.45% | 3.36% |
| Private Equity | 12.0% | 6.83% | 6.95% |
| Real Estate | 11.0% | 4.50% | 5.13% |
| Infrastructure and Forestland | 3.0% | 4.50% | 5.09% |
| Liquidity | 2.0% | (0.55)% | (1.05)% |
| Total | 100.0% | | |

(1) An expected inflation of 2.5% used for this period.
(2) An expected inflation of 3.0% used for this period.

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

The following presents the District's proportionate share of the net pension liability for the District's plan, calculated using the discount rate of the 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:

| | **Miscellaneous Plan** |
|---|---:|
| 1% Decrease | 6.5% |
| Net Pension Liability | $12,331,406 |
| Current Discount Rate | 7.5% |
| Net Pension Liability | 6,888,388 |
| 1% Increase | 8.5% |
| Net Pension Liability | 2,371,201 |

***Pension Plan Fiduciary Net Position***

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

***Fiscal Year 2014 Pension Disclosures – Reporting Under GASB Statement No. 27***

Active plan members in CalPERS are required to contribute 8% of their covered salary. For the fiscal year ended June 30, 2014, District employees contributed 6% with the District contributing the remaining 2% of the required 8% employee contribution. The District makes the contributions required of District employees on their behalf for their account. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for is members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration.

The required employer contribution rate for fiscal year 2013/2014 was 27.468%. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

***Annual Pension Cost***

For the fiscal year 2013/2014, the District's annual pension cost was $1,265,577 and the District contributed its share of $1,265,577 and the employee's share of $89,730.

**Three-Year Trend Information for CalPERS**

| Fiscal Year | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| June 30, 2012 | $ 1,199,838 | 100% | $ - |
| June 30, 2013 | 1,244,521 | 100% | - |
| June 30, 2014 | 1,265,577 | 100% | - |

## (11) 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.

Noted below are condensed audited financial statements of the Authority as of and for the year ended September 30, 2014, the most recent information available:

| | |
|---|---|
| **Assets** | $ 195,584,006 |
| **Liabilities:** | |
| Current liabilities | 53,163,043 |
| Noncurrent liabilities | 54,463,790 |
| Total liabilities | 107,626,833 |
| **Net position:** | |
| Net investment in capital assets | 6,206,203 |
| Unrestricted | 81,750,970 |
| Total liabilities and net position | $ 87,957,173 |

| | |
|---|---|
| **Revenues (Operating and Nonoperating)** | $ 143,125,594 |
| **Operating expenses** | 149,684,189 |
| Change in net position | (6,558,595) |
| Net position, beginning | 94,515,768 |
| Net position, ending | $ 87,957,173 |

## (12) OTHER POSTEMPLOYMENT BENEFITS

The District provides postemployment benefits to certain retired employees. The postemployment benefits consist of medical, dental, and vision coverage. During the years ended June 30, 2015 and June 30, 2014, there were eight (8) and six (6) retirees whose postemployment benefits of $37,295 and $29,605, respectively, were paid by the District.

***Other Postemployment Benefits Obligation***

*Plan Description*

The District administers the Other Postemployment Benefits (OPEB) Plan, a single-employer defined benefit plan. The District's OPEB plan provides continued medical 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. The District's OPEB plan does not issue a separate standalone report.

*Eligibility*

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, 2015 is $144,408 and $103,033 as of June 30, 2014. The District will pay for half (50%) of the retired employee's monthly premium. As of June 30, 2015, there are eight (8) retirees receiving benefits.

*Funding Policy*

The District funds the plan on a pay-as-you-go basis and records a liability for the difference between the pay-as-you-go and the actuarially determined annual OPEB cost. The District's OPEB cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) not to exceed thirty years.

*Annual OPEB Cost*

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation for the year ended June 30th as follows:

| | June 30, 2015 | June 30, 2014 |
|---|---|---|
| Annual required contribution | $ 124,701 | $ 124,701 |
| Interest on net OPEB obligation | 18,607 | 15,072 |
| Adjustment to annual required contribution | (26,902) | (21,791) |
| Annual OPEB cost (expense) | 116,406 | 117,982 |
| Contributions made | (37,295) | (29,605) |
| Increase in net OPEB obligation | 79,111 | 88,377 |
| Net OPEB obligation-beginning of year | 465,185 | 376,808 |
| Net OPEB obligation-end of year | $ 544,296 | $ 465,185 |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for FY 14-15 and the two preceding years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|
| June 30, 2013 | $ 98,499 | 72.40% | $ 376,808 |
| June 30, 2014 | 117,982 | 25.09% | 465,185 |
| June 30, 2015 | 116,406 | 32.04% | 544,296 |

*Funded Status of the Plan*

The most recent valuation (dated July 1, 2013) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $1,042,705. There are no plan assets because the District funds on a pay-as-you-go basis and has begun to designate net position in the amount of $29,954 per year. The covered payroll (active payroll of active employees) was $5,063,842 and the ratio of the UAAL to the covered payroll was 20.6%. The District is evaluating its options in developing a funding policy for its OPEB obligation.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

*Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term respective of the calculations.

The actuarial cost method used for determining the benefit obligation is the Projected Unit Credit method. The actuarial assumptions included a 4% discount rate and an annual healthcare cost trend rate of 8% initially; reduced by decrements of 1% per year to an ultimate rate of 5% after the fourth year. The UAAL is being amortized as a level percentage of projected payroll over an open 30-year period.

## (13) JOINTLY GOVERNED ORGANIZATION

On February 26, 2013, the Board of Directors of the Fallbrook Public Utility District and the Rainbow Municipal Water District (Rainbow), as the member agencies, entered into a joint powers agreement, creating the North County Joint Powers Authority (JPA). The JPA was created to provide for the administration of the member agencies by managing their combined resources, including staffing and physical plant/infrastructure, to obtain cost-effective means of providing services to the ratepayers. However, in March 2014, the JPA was dissolved by Rainbow’s board of directors.

Pursuant to GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34*, the JPA was considered to be a joint venture. A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Since each member agency did not have unilateral control over the financial or operating policies of the JPA, the member agencies were considered to have joint control.

In April 2013, the District and Rainbow entered into an Employee Leasing Agreement (Leasing Agreement). Pursuant to the terms of the Leasing Agreement, any leased employees from and to one another will perform functions comparable to those services performed for the lessor. The lessor organization remains financially and operationally responsible for providing the leased employees their salaries and benefits throughout the leased period. During the year ended June 30, 2014, the General Manager of the District was leased to Rainbow, for which Rainbow paid the District $14,735 per month. During FY 13-14, the District realized savings of $223,483 from the sharing of human resources and heavy equipment pursuant to the JPA.

## (14) RESTATEMENT OF BEGINNING NET POSITION

Effective, July 1, 2014, the District implemented GASB Statements No. 68 and 71. GASB Statement No. 68 requires the recognition of the entire net pension liability, a more comprehensive measure of pension expense, and the disclosure of deferred inflows of resources and deferred outflows of resources for the District. Previously, the net pension liability was not reported in the Statement of Net Position.

The implementation of GASB Statement No. 68 resulted in an increase of $12,155,273 in the net pension liability and decrease in beginning net position. The implementation of GASB Statement No. 71 resulted in an increase of $4,420,472 in deferred outflows of resources (FY2014 employer contributions) and an increase in beginning net position. The overall impact on the District's beginning net position, as of July 1, 2014, from the implementation of GASB Statement No. 68 and No. 71 is as follows:

| | |
|---|---|
| Net position as of June 30, 2014, as previously reported | $ 79,114,880 |
| Cumulative effect of change in accounting principles: | |
| GASB Statement No. 68 – net pension liability | (12,155,273) |
| GASB Statement No. 71 – contributions made prior to the measurement date of June 30, 2014 | 4,420,472 |
| Total cumulative effect of change in accounting principles | (7,734,801) |
| Net position as of July 1, 2014, as restated | $ 71,380,079 |

## REQUIRED SUPPLEMENTARY INFORMATION
## (UNAUDITED)

**FALLBROOK PUBLIC UTILITY DISTRICT**
**Required Supplementary Information**
**Cost-Sharing Defined Benefit Pension Plan - Schedule of the District's Proportionate Share of the Net Pension Liability**
**(Unaudited)**

| | 2015 |
|---|---|
| Proportion of the collective net pension liability | 0.1107% |
| Proportionate share of the collective net pension liability | $6,888,388 |
| Covered – employee payroll | $4,683,594 |
| Proportionate share of the collective net pension liability as percentage of covered-employee payroll | 147.07% |
| Plan fiduciary net position as a percentage of the total pension liability | 80.43% |

***Changes in Benefit Term***

The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

**Changes in Assumptions**

There were no assumption changes.

**FALLBROOK PUBLIC UTILITY DISTRICT**
**Required Supplementary Information**
**Cost-Sharing Defined Benefit Pension Plan**
**Schedule of Contributions**
**(Unaudited)**

| | | 2015 |
|---|---|---|
| Contractually required contribution (actuarially determined) | $ | 756,872 |
| Contributions in relation to the actuarially determined contributions | | (756,872) |
| Contribution excess | $ | - |
| Covered-employee payroll[1] | $ | 4,683,594 |
| Contributions as a percentage of covered-employee payroll | | 16.16% |

**Notes to Schedule**

Valuation date: June 30, 2013

Methods and assumptions used to determine contribution rates:

| | |
|---|---|
| Actuarial funding method | Entry age |
| Amortization method | Level percentage of payroll |
| Asset valuation method | 5-year smoothed market |
| Inflation | 2.75% |
| Salary increases | Varies by entry age, service, and employment type |
| Investment rate of return | 7.50%, net of administrative expenses |
| Post Retirement Benefit | Contract COLA up to 2.00% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter |
| Mortality Rate Table[2] | Derived using CalPERS' Membership Data for all Funds |

(1) Covered – employee payroll represented above is based on pensionable earnings provided by the District to CalPERS.

(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 2014 experience study report at https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2014.pdf

**FALLBROOK PUBLIC UTILITY DISTRICT**
**Required Supplementary Information**
**OPEB Schedule of Funding Progress**
**June 30, 2015**
**(Unaudited)**

| Actuarial Valuation Date | (a) Actuarial Accrued Liability (AAL) | (b) Actuarial Value of Assets | (c) Unfunded Actuarial Accrued Liability (UAAL) | (b)/(a) Funded Ratio | (d) Annual Covered Payroll | (c)/(d) UAAL as a % of Covered Payroll |
|---|---|---|---|---|---|---|
| July 1, 2010 | $ 750,706 | $ - | $ 750,706 | 0% | $ 4,810,694 | 15.6% |
| July 1, 2013 | 1,042,705 | - | 1,042,705 | 0% | 5,063,842 | 20.6% |

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# OTHER SUPPLEMENTARY INFORMATION

# FALLBROOK PUBLIC UTILITY DISTRICT
## Schedule of Revenues and Expenses by Operating Department
## For the Year Ended June 30, 2015

| | Water | Wastewater | Recycled | Total |
|---|---|---|---|---|
| **Operating revenues:** | | | | |
| Water sales | $ 14,722,792 | $ - | 662,849 | $ 15,385,641 |
| Service charges | 4,930,254 | 5,571,362 | 53,011 | 10,554,627 |
| Other revenues | 1,295,660 | 3,487 | 244,466 | 1,543,613 |
| Total operating revenues | 20,948,706 | 5,574,849 | 960,326 | 27,483,881 |
| **Operating expenses:** | | | | |
| Cost of water sold | 14,692,652 | - | 551,866 | 15,244,518 |
| Operations and maintenance | 2,173,576 | 2,296,712 | - | 4,470,288 |
| Customer accounts | 725,610 | - | - | 725,610 |
| General and administration (Note 1) | 2,286,586 | 1,763,527 | 337,226 | 4,387,339 |
| Other (Note 2) | - | 671,052 | 92,400 | 763,452 |
| Operating expenses before depreciation | 19,878,424 | 4,731,291 | 981,492 | 25,591,207 |
| Depreciation expense | 2,501,013 | 1,275,481 | - | 3,776,494 |
| Total operating expenses | 22,379,437 | 6,006,772 | 981,492 | 29,367,701 |
| Net operating expenses | $ (1,430,731) | (431,923) | $ (21,166) | $ (1,883,820) |

**Note 1:**

General and administration costs are allocated to Water, Wastewater, and Recycled operations based on a budgeted annual percentage. For FY 14-15, general and administration costs were allocated as follows: 53% to Water operations, 42% to Wastewater operations and 5% to Recycled operations. Allocation is analyzed and updated annually as part of the budget process.

**Note 2:**

Wastewater operations contributed $671,052 towards payment of the annual debt service obligations. The $671,052 is not reported as an Other expense in the Statement of Revenues, Expenses and Changes in Net Position, as the payment reduces the principal of the outstanding long-term obligations.

Recycled operations contributed a total of $92,400 toward payment of the annual debt service obligation for the State Revolving Fund loan, which allowed expansion of the recycled pumping and distribution system. The $92,400 is not reported as an Other expense in the Statement of Revenues, Expenses and Changes in Net Position, as the payment reduces the principal of the State Revolving Fund loan obligation.

## FALLBROOK PUBLIC UTILITY DISTRICT
## Schedule of Revenues and Expenses by Operating Department
## For the Year Ended June 30, 2014

| | Water | Wastewater | Recycled | Total |
|---|---|---|---|---|
| **Operating revenues:** | | | | |
| Water sales | $ 16,587,771 | $ - | $ 802,509 | $ 17,390,280 |
| Service charges | 4,772,242 | 5,205,516 | 50,972 | 10,028,730 |
| Other revenues | 1,188,741 | 3,009 | 344,423 | 1,536,173 |
| Total operating revenues | 22,548,754 | 5,208,525 | 1,197,904 | 28,955,183 |
| **Operating expenses:** | | | | |
| Cost of water sold | 15,649,781 | - | 427,328 | 16,077,109 |
| Operations and maintenance | 3,810,606 | 3,765,046 | 63,620 | 7,639,272 |
| Customer accounts | 1,179,998 | - | - | 1,179,998 |
| General and administration (Note 1) | 2,006,124 | 1,584,190 | 188,964 | 3,779,278 |
| Other (Note 2) | - | 509,916 | 171,960 | 681,876 |
| Operating expenses before depreciation | 22,646,509 | 5,859,152 | 851,872 | 29,357,533 |
| Depreciation expense | 2,377,829 | 1,327,402 | - | 3,705,231 |
| Total operating expenses | 25,024,338 | 7,186,554 | 851,872 | 33,062,764 |
| Net operating revenues (expenses) | $ (2,475,584) | (1,978,029) | $ 346,032 | $ (4,107,581) |

**Note 1:**

General and administration costs are allocated to Water, Wastewater, and Recycled operations based on a budgeted annual percentage. For FY 13-14, general and administration costs were allocated as follows: 53% to Water operations, 42% to Wastewater operations and 5% to Recycled operations. Allocation is analyzed and updated annually as part of the budget process.

**Note 2:**

Wastewater operations contributed $509,916 towards payment of the annual debt service obligations. The $509,916 is not reported as an Other expense in the Statement of Revenues, Expenses and Changes in Net Position, as the payment reduces the principal of the outstanding long-term obligations.

Recycled operations contributed a total of $171,960 toward payment of the annual debt service obligation for the State Revolving Fund loan, which allowed expansion of the recycled pumping and distribution system. The $171,960 is not reported as an Other expense in the Statement of Revenues, Expenses and Changes in Net Position, as the payment reduces the principal of the State Revolving Fund loan obligation.

## MISCELLANEOUS STATISTICAL INFORMATION

**FALLBROOK PUBLIC UTILITY DISTRICT**
**Board of Directors**
**For the Year Ended June 30, 2015**

At June 30, 2015, the Board of Directors consisted of the following:

| Name | Office | Term Expires |
|---|---|---|
| Bert Hayden | Director | December 2016 |
| Al Gebhart | Director | December 2016 |
| Don McDougal | President | December 2016 |
| Charley Wolk | Director | December 2018 |
| Milt Davies | Vice President | December 2018 |

## FALLBROOK PUBLIC UTILITY DISTRICT
## Assessed Valuation
## For the Year Ended June 30, 2015

The District's, including the Sanitary District, assessed valuation for the year ended June 30, 2015 is as follows:

| | | |
|---|---|---|
| **Assessed valuation:** | | |
| Secured property | $ | 3,195,702,181 |
| Unsecured property | | 40,480,476 |
| Total assessed valuation | $ | 3,236,182,657 |

Source: County of San Diego Property Tax Services