FALLBROOK PUBLIC UTILITY DISTRICT

Annual Financial Report

For the Years Ended
June 30, 2016 and 2015

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MGO Certified Public Accountants

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, 2016 and 2015, 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, 2016 and 2015, 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

Emphasis of Matter

As discussed in Note 3 and 5 to the basic financial statements, effective July 1, 20145, the District adopted the provision of Governmental Accounting Standard Board (GASB) Statement No. 72, *Fair Value Measurement and Application.* As a result of the implementation of GASB Statement No. 72, the District disclosed its investments in accordance with the fair value hierarchy. 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 May 24, 2017, 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
May 24, 2017

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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, 2016 and 2015. Please read it in conjunction with the District's basic financial statements, which begin immediately following this analysis.

Financial Highlights (FY 15-16)

- The Wastewater Treatment Plant rehabilitation was completed at a total cost of $30 million. $29.6 million of the total cost is secured by a State Revolving Fund (SRF) loan with an interest rate of 2.2% for 20 years. Payments of $1,845,745 will began in March 2017.

- Other wastewater capital projects completed include the South Mission sewer upgrade for $989,400. Those in progress include Ammunition Road sewer upgrade, plant 2 force main upgrade and a complete inspection of the Oceanside outfall line. Cost to date for the projects in progress is $1.6 million.

- The District began the East Line recycled pipeline extension. This extension will provide 600 additional acre feet of recycled water annually. During FY 15-16 the District budgeted to sell 675 acre feet of recycled water. The District applied for and received $682,428 in Proposition 84 grant funds to offset the $1.9 million cost of the project. Recycled water sales are projected to increase by 200 acre feet per year for the next three years.

- During FY 15-16 the District began a five year meter replacement project at an estimated cost of $1.5 million to upgrade the meters and remote read devices from Automated Meter Reading (AMR) to Automated Meter Infrastructure (AMI) meters. The new AMI meters allow customers to log in and see real-time water usage, providing information that can be used to curb unintended water use. This technology will be integrated with an online portal, WaterSmart. By logging into their District's WaterSmart account, customers will be able to view and manage their water use through the web browser on a mobile device, tablet or computer. WaterSmart also shows customers how they compare to similar homes in their neighborhood. $252,000 was spent on the meter replacement program during FY 15-16.

- The District continued an aggressive program of pipeline and valve replacement, along with pump station and reservoir upgrades, completing $2.4 million in projects with another $2.1 million of costs remaining in construction in progress. Completed projects include the waterline replacement at Olive Hill Road and South Mission at Fallbrook Street. The upgrade at Rattlesnake reservoir and the pump station upgrade at Donnil pump station were also completed. Construction projects in progress include Daily pump station upgrades, Toyon reservoir re-coating and Beavercreek waterline replacement.

- Assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the June 30, 2016 fiscal year by $79 million (net position), an increase of $4.2 million from June 30, 2015. The increase in net position was attributable to $1.4 million in State Proposition 50 and Proposition 84 revenues over those received in FY 14-15 along with other nonoperating revenues, predominantly property taxes and capital improvement charges. These along with an offsetting increase in the net pension liability of $1.5 million comprise the majority of the $4.2 million increase. The increase in noncurrent liabilities was a result of the completion of the Wastewater treatment plant rehabilitation and the State Revolving Fund (SRF) loan which funded the rehabilitation.

- As a result of the second year of implementation of Governmental Accounting Standard Board (GASB) Statements Nos. 68 and 71, the District has reported a net pension liability in the amount of $8,439,096, which was actuarially determined by the California Public Employees' Retirement System (CalPERS), including deferred outflows of resources of $1,248,099 and deferred inflows of resources of $796,520. 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. The Board of Directors (Board) recognized that this net pension liability must be planned for on a long term basis and has instructed staff to set aside additional funds for the upcoming FY 16-17 budget and beyond.

- The District's operating loss of $1.78 million when netted with the nonoperating revenue (net) of $4.43 million results in a $2.6 million increase in net position before capital contributions. The largest sources of nonoperating revenues are the water and wastewater capital improvement charges, property taxes and the California Solar Initiative rebate. These combine for $4.78 million. Nonoperating expenses of $1.46 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 15-16 operating revenue decreased by $2.13 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 customers. Potable water sales declined in FY 15-16 to 8,680 acre-feet (AF) from 11,211 AF in FY 14-15. This decline resulted in a decrease in water sales revenue of $1.7 million and lowest sales since 1960 when the District sold 8,307 AF. Recycled water sales were 600 AF in FY 15-16 versus 556 in FY 14-15. Revenues due to increased sales were approximately $162,000. Wastewater service charges decreased by $169,000.

- During FY 15-16 the District sold 13 water meters and 8 sewer permits, collecting $131,894 in connection fees revenue. Twenty one water meters and eleven sewer permits were sold in FY 14-15 as a result of the State of California declaring a mandatory water cutback and future customers with water availability letters were securing rights to water meters in the event of a moratorium.

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 CalPERS' collective net pension liability, deferred outflows of resources, deferred inflow of resources and pension expense. 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 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 was 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 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 $4.39 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 $1.29 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 SDCWA fixed fees, such as IAC and RTS, which are passed directly through to the customer. Potable water sales declined in FY 14-15 to 11,211 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 extension. 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 began 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 in connection fees revenue. 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.

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 16-19 of this report.

The *Statements 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 *Statements 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 *Statements 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 20-48 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, 2016	June 30, 2015	Change
Assets:			
Current Assets	$ 20,732,086	$ 22,516,838	$ (1,784,752)
Restricted Assets	3,471,337	2,247,904	1,223,433
Capital Assets, net	108,553,869	100,368,971	8,184,898
Total Assets	132,757,292	125,133,713	7,623,579
Deferred Outflows of Resources:	1,248,099	1,071,999	176,100
Liabilities:			
Current liabilities	7,149,490	7,104,196	45,294
Noncurrent liabilities	46,749,529	41,931,112	4,818,417
Total Liabilities	53,899,019	49,035,308	4,863,711
Deferred Inflows of Resources:	796,520	2,135,413	(1,338,893)
Net Position:			
Net Investment in Capital Assets	70,683,956	67,995,640	2,688,316
Restricted	3,455,377	2,231,947	1,223,430
Unrestricted	5,170,519	4,807,404	363,115
Total Net Position	$ 79,309,852	$ 75,034,991	$ 4,274,861

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 decreased by $1,784,752 from FY 14-15. The decrease is found in Cash and Investments as unrestricted cash became restricted, a noncurrent asset, in order to comply with the debt covenants of the Wastewater Treatment Plant SRF loan. Per the covenants, one year's principal and interest, or $1,845,745 is to be restricted.

Capital assets, net increased by $8.18 million. The Wastewater Treatment Plant project was completed, capitalized and became a depreciable asset, increasing depreciable assets by $30 million, non-depreciable assets, decreased $28.9 as other water, wastewater and recycled capital projects began but were not completed at June 30, 2015.

Three major occurrences in FY 15-16 caused noncurrent liabilities to increase by $4.8 million. The first being the increase in Wastewater Treatment Plant SRF loan payable in the amount of $7.3 million and the increase of the District's net pension liability in the amount of $1.6 million due to the second year of the implementation of GASB Statement No. 68. A decrease of $2.3 million in retention payable resulting from the Wastewater Treatment Plant project coming to a close and all contractors being paid.

The District's total net position increased by $4.3 million primarily attributable to the $5.9 million in nonoperating revenue, predominantly property taxes and capital improvement charges, and $1.6 million in capital contributions. These along with offsetting nonoperating expenses of $1.5 million, compensated for the operating loss of $1.8 million. The increase in noncurrent liabilities was a result of the completion of the Wastewater treatment plant rehabilitation and the State Revolving Fund (SRF) loan which funded the rehabilitation.

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	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	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 Revenues, Expenses and Changes in Net Position

	For the Year Ended June 30, 2016	For the Year Ended June 30, 2015	Change
Operating revenues	$ 25,356,017	$ 27,483,881	$ (2,127,864)
Operating expenses	27,144,267	28,604,249	(1,459,982)
Operating loss	(1,788,250)	(1,120,368)	(667,882)
Nonoperating revenue, net	4,431,344	4,396,894	34,450
Change in net position before capital contributions	2,643,094	3,276,526	(633,432)
Capital Contributions	1,631,767	378,386	1,253,381
Change in net position	4,274,861	3,654,912	619,949
Net position - beginning	75,034,991	71,380,079	3,654,912
Net position - end of year	$ 79,309,852	$ 75,034,991	$ 4,274,861

While the Statements of Net Position shows the District's financial position, the Statements of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of the changes in the District's net position. The District's net position increased by $4.27 million during FY 15-16.

Operating revenues were down $2.1 million due to decreased water sales of 8,680 AF in FY 15-16 compared to 11,211 during FY 14-15. Recycled water sales were up slightly to 600 AF as compared to 556 AF in FY 14-15. Wastewater revenues decreased by $169,008 versus FY 14-15. Operating revenues includes potable water and recycled sales, monthly water and wastewater operations charge and wastewater treatment charges.

Operating expenses decreased by $1.45 million versus FY 14-15. Water purchases decreased by $2.3 million from FY 14-15 while other operating costs increased by $834,000.

The District's operating loss of $1.78 million when netted against nonoperating revenue of $4.4 million results in a $2.64 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 $1.8 million, water and wastewater capital improvement funds in the amount of $2.2 million and the California Solar Initiative rebate in the amount of $740,125.

Supplemental information for each of the three divisions can be found on page 52 of this report.

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, 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 Statements of Net Position shows the District's financial position, the Statements of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of the changes in the District's 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 from 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 53 of this report.

Capital Asset and Debt Administration

Capital Assets

	Balance at July 1, 2015	Additions	Deletions	Balance at June 30, 2016
Capital Assets				
Nondepreciable assets	$ 40,765,906	$ 14,212,131	$ (35,520,837)	$ 19,457,200
Depreciable assets	123,152,455	33,216,719	(5,259,598)	151,109,576
Accumulated depreciation	(63,549,390)	(3,640,118)	5,176,601	(62,012,907)
Total capital assets, net	$ 100,368,971	$ 43,788,732	$ (35,603,834)	$ 108,553,869

The District's capital assets increased by $8,184,898 as seen in the table above.

- 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 15-16 approximately $1.8 million was spent on this project, with a project-to-date of capitalized expenses in the amount of $5.8 million. During FY 15-16 the final design of the project facilities was in progress to be completed in FY 16-17. A draft agreement between Camp Pendleton and the District was being finalized with an expected completion in FY 16-17 and a draft Environment Impact Report/Environment Impact Statement (EIR/EIS) was been completed and certified. The District has been approved for 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 15-16 the District recognized $874,040 from Proposition 50 funds. The District is in the process of securing low interest SRF loan for construction funding which is expected to begin in FY 18-19.

- Construction continued at the Wastewater Treatment Plant rehabilitation; $5.8 million was spent for construction during FY15-16.

- Olive Hill waterline was completed at a cost of $827,700 along with a mainline from Knoll Park to Stagecoach at a cost of $447,300. Additionally, South Mission and Fallbrook Street mainline was replaced for $176,300

- The Donnil pump station upgrade was completed at a cost of $660,600 and the Rattlesnake reservoir was recoated and repainted for $695,000. Joan Road booster pump improvements $192,700 were also completed.
- Completed sewer improvements include the South Mission sewer project totaling $989,400. Additionally, the Wastewater Treatment Plant rehab was completed at a cost of $30 million.

The sewer department also purchased a new vactor/flush truck in the amount of $406,700.

Capital Assets

	Balance at July 1, 2014	Additions	Deletions	Balance at June 30, 2015
Capital Assets				
Nondepreciable 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.

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 $4.0 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 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 estimated to be $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.

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, 2016, the District has the following commitments with respect to unfinished capital projects:

Capital Projects		Remaining Construction Commitment	Expected Completion Date
Santa Margarita Conjunctive Use Project - Design	$	776,328	2019
Beavercreek Pipeline Replacement		687,288	2017

Debt Administration

At June 30, 2016, the District had $38.8 million of long-term debt outstanding. $4.3 million of this debt is attributable to the wastewater Qualified Energy Conservation Bonds (QECB) solar loan. The loan was originally for $7.227 million. Federal sequestration began in FY 13-14. Sequestration during FY 15-16 caused the District to lose 6.9%, or $12,715 of the Federal Interest Rate Subsidy. An additional $4.9 million of indebtedness is attributable to the Red Mountain Filtration Plant SRF loan, which was originally for $6.16 million. $29.6 million of indebtedness is attributable to the Wastewater Treatment Plant SRF loan. The loan principal amount increased to $29.6 million from $22.0 million during FY 15-16. Payments on the loan commenced in March 2017. During the year ended June 30, 2016, $895,981 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 15-16 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 2016, a 6% increase in the cost of water was implemented by SDCWA on January 1, 2016.

SDCWA purchases the majority of its water from the Metropolitan Water District (MWD).

The SDCWA alleges that MWD's adopted rates for 2011 and beyond, violate California law, the state Constitution and common law that all require rates to be set based upon cost of service.

SDCWA has filed a total of four lawsuits against MWD on these issues. Litigation is expected to continue for 18 to 24 months.

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

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FALLBROOK PUBLIC UTILITY DISTRICT

Statements of Net Position

For the Years Ended June 30, 2016 and 2015

	2016	2015
Assets:		
Current assets:		
Cash and investments (Note 5)	15,854,427	$ 17,865,727
Receivables (Note 6)	2,692,263	2,618,141
Inventory	2,079,890	1,934,006
Other assets	105,506	98,964
Total current assets	20,732,086	22,516,838
Noncurrent assets:		
Restricted cash and investments (Note 5):		
Debt service - Red Mountain State Revolving Fund	395,851	395,852
Debt service - Wastewater Treatment Plant State Revolving Fund	1,845,746	622,315
Held for 1958 Annex Projects	1,213,780	1,213,780
Capital improvements	15,960	15,957
Total restricted cash and investments	3,471,337	2,247,904
Capital assets (Note 7):		
Capital assets, not being depreciated	19,457,200	40,765,906
Capital assets being depreciated, net	89,096,669	59,603,065
Total capital assets, net	108,553,869	100,368,971
Total noncurrent assets	112,025,206	102,616,875
Total assets	132,757,292	125,133,713
Deferred Outflows of Resources:		
Employer contributions made subsequent to the measurement date (Note 10)	870,680	756,871
Difference between actual and proportionate share of contributions (Note 10)	-	315,128
Changes in proportion (Note 10)	328,918	-
Difference between expected and actual actuarial experience (Note 10)	48,501	-
	1,248,099	1,071,999
Liabilities:		
Current liabilities:		
Accounts payable	4,441,219	5,144,322
Accrued wages	221,375	133,783
Construction and other deposits	10,745	9,726
Accrued interest payable	73,749	453,671
Current portion of other long-term liabilities (Note 8)	2,402,402	1,362,694
Total current liabilities	7,149,490	7,104,196
Noncurrent liabilities:		
HRA liability (Note 12)	182,694	144,408
Net OPEB obligation (Note 12)	634,637	544,296
Net pension liability (Note 10)	8,439,096	6,888,378
Retention payable	128,063	2,430,661
Other long-term liabilities - net of current portion (Note 8)	37,365,039	31,923,369
Total noncurrent liabilities	46,749,529	41,931,112
Total liabilities	53,899,019	49,035,308
Deferred Inflows of Resources:		
Differences between projected and actual earnings on pension plan investments (Note 10	230,036	2,128,364
Difference between actual and proportionate share of contributions (Note 10)	107,617	7,049
Changes in assumptions (Note 10)	458,867	-
	796,520	2,135,413
Net position:		
Net investment in capital assets	70,683,956	67,995,640
Restricted for:		
1958 Annex projects	1,213,780	1,213,780
Debt service and capital improvements	2,241,597	1,018,167
Unrestricted	5,170,519	4,807,404
Total net position	79,309,852	$ 75,034,991

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, 2016 and 2015

	2016	2015
Operating revenues:		
Water sales	$ 19,722,200	$ 21,460,798
Wastewater services	5,402,354	5,571,362
Other	231,463	451,721
Total operating revenues	25,356,017	27,483,881
Operating expenses:		
Cost of water sold	12,950,598	15,244,518
General and administration	4,852,459	4,391,631
Depreciation	3,640,118	3,776,494
Transmission and distribution	2,788,548	2,169,284
Wastewater operations and maintenance	2,709,284	2,296,712
Customer accounts	203,260	725,610
Total operating expenses	27,144,267	28,604,249
Operating loss	(1,788,250)	(1,120,368)
Nonoperating revenues (expenses):		
Property taxes	1,815,734	1,719,296
Capital improvement charges	2,224,529	2,134,025
California Solar Initiative rebate	740,125	729,519
Investment income	324,126	141,433
Water availability charges	200,808	200,810
Lease revenue	185,220	185,770
Intergovernmental revenue - federal interest rate subsidy	185,040	206,584
Connection fees	131,894	208,521
Other revenue	91,361	162,913
Loss on disposal of capital assets	(551,281)	(444,252)
Interest expense	(916,212)	(847,725)
Total nonoperating revenues (expenses), net	4,431,344	4,396,894
Changes in net position before capital contributions	2,643,094	3,276,526
Capital contributions:		
State Proposition 50	874,040	153,790
State Proposition 84	682,428	-
Capital asset contributions - donated from developers	75,299	224,596
Change in net position	4,274,861	3,654,912
Net position - beginning	75,034,991	71,380,079
Net position - ending	$ 79,309,852	$ 75,034,991

See accompanying Notes to the Basic Financial Statements.

FALLBROOK PUBLIC UTILITY DISTRICT

Statements of Cash Flows

For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Receipts from customers	$ 25,041,753	$ 27,643,563
Receipts from others	508,044	757,094
Payments to suppliers and vendors	(15,778,973)	(18,851,236)
Payments to employees	(7,317,896)	(7,194,522)
Net cash provided by operating activities	2,452,928	2,354,899
Cash flows from noncapital financing activities:		
Property taxes	1,815,734	1,719,296
California Solar Initiative rebate	740,125	729,519
Net cash provided by noncapital financing activities	2,555,859	2,448,815
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(18,086,413)	(17,481,370)
Principal payments on long-term debt	(895,981)	(870,056)
Interest paid	(744,265)	(559,802)
Intergovernmental revenue - federal interest rate subsidy	185,040	206,584
Proceeds from contracts payable	6,461,327	11,448,452
Capital improvement charges and connection fees	2,356,423	2,342,546
State Proposition 50	874,040	153,790
State Proposition 84	682,428	-
Water availability charges	200,808	200,810
Net cash used by capital and related financing activities	(8,966,593)	(4,559,046)
Cash flows from investing activities:		
Purchases of investments	(11,152,468)	(3,192,224)
Sales of investments	8,461,976	3,046,994
Interest received	332,805	136,422
Net cash used by investing activities	(2,357,687)	(8,808)
Net change in cash and cash equivalents	(6,315,493)	235,860
Cash and cash equivalents - beginning	10,322,952	10,087,092
Cash and cash equivalents - ending	$ 4,007,459	$ 10,322,952

See accompanying Notes to the Basic Financial Statements.

FALLBROOK PUBLIC UTILITY DISTRICT

Statements of Cash Flows (Continued)

For the Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of cash and cash equivalents to the Statement of Net Position:		
Cash and investments	$ 15,854,427	$ 17,865,727
Resticted cash and investments	3,471,337	2,247,904
Less investments not meeting the definition of cash and cash equivalents	(15,318,305)	(9,790,679)
Cash and cash equivalents	$ 4,007,459	$ 10,322,952
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	(1,788,250)	$ (1,120,368)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	3,640,118	3,776,494
Lease revenue	185,220	185,770
Other revenue	91,361	162,913
(Increase) decrease in:		
Receivables	(82,801)	584,676
Inventory	(145,884)	(818,166)
Other assets	(6,542)	(16,583)
Deferred outflows of resources	(176,100)	-
Increase (decrease) in:		
Accounts payable	277,355	(711,377)
Accrued wages	87,592	3,891
Construction and other deposits	1,019	(4,759)
HRA liability	38,286	41,375
Net OPEB obligation	90,341	79,111
Net pension liability	1,550,718	-
Compensated absences	29,388	(25,069)
Deferred inflows of resources	(1,338,893)	216,991
Net cash provided by operating activities	$ 2,452,928	$ 2,354,899
Noncash investing and capital and related financing activities:		
Capital assets contributed	$ 75,299	$ $ 224,596
Book value of capital asset dispositions	(551,281)	(444,252)
Capital asset acquisitions included in accounts payable	1,247,915	2,228,373
Capital asset acquisitions included in retention payable	-	1,256,840
Change in fair value of investments	125,393	46,116

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 in accordance with GASB Statement No. 72, *Fair Value Measurement and Application.* The District categorizes their fair value measurements within the fair value hierarchy established by GASB Statement No. 72 based on the valuation inputs 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, 2016 and 2015.

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, 2016 and 2015, 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, 2016 and 2015, the District also reports restricted net position in the amount of $2,241,597 and $1,018,167, 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 15-16 is $395,851 and FY 14-15 is $395,852); and the Wastewater Treatment Plan I Rehabilitation project (FY 15-16 is $1,845,746 and FY 14-15 is $622,315).

- **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 and from the California State proposition programs. 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 STANDARD

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

GASB Statement No. 72

GASB issued Statement No. 72, *Fair Value Measurement and Application* 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.

(4) UPCOMING GOVERNMENTAL ACCOUNTING STANDARD

The requirements of the following accounting standard will be required to be implemented for the District's year ended June 30, 2018. District management are in the process of evaluating the potential impacts to the District's basic financial statements.

GASB Statement No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which applies to state and local government employers who provide other postemployment benefits (OPEB) to employees, such as the District. GASB Statement No. 75 replaces previously issued statements related to accounting and reporting for OPEB. This statement details the recognition and disclosure requirements for employers and payables to defined benefit OPEB plans that are not administered through trusts that meet specific criteria, and for employers whose employees are provided defined contribution OPEB. For OPEB administered through trusts, GASB Statement No. 75 requires the liability of employers to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

This Statement is effective for fiscal years beginning after June 15, 2017.

(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, 2016 and 2015 are classified in the accompanying statements of net position as follows:

	2016	2015
Statement of net position:		
Cash and investments	$ 15,854,427	$ 17,865,727
Restricted cash and investments	3,471,337	2,247,904
Total cash and investments	$ 19,325,764	$ 20,113,631

Cash and investments as of June 30, 2016 and 2015 consist of the following:

	2016	2015
Cash on hand	$ 850	$ 850
Deposits with financial institutions	2,227,369	4,347,248
Investments	17,097,545	15,765,533
Total cash and investments	$ 19,325,764	$ 20,113,631

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 represents the District's fair value hierarchy as of June 30, 2016:

Investments	Fair Value	Level 1	Level 2
Investments subject to fair value hierarchy:			
Asset Backed Securities	$ 110,502	-	$ 110,502
Commercial Paper	487,045	-	487,045
Medium-Term Notes	4,232,392	-	4,232,392
Money Market Mutual Fund	1,137,686	-	1,137,686
Negotiable Certificates of Deposit	3,088,811	-	3,088,811
U.S. Agency Securities	4,041,786	-	4,041,786
U.S. Treasury Securities	2,220,083	2,220,083	-
Total investments subject to fair value hierarchy	15,318,305	$ 2,220,083	$ 13,098,222
Investments not subject to fair value hierarchy:			
Local Agency Investment Fund	1,764,649		
San Diego County Treasurer Pool	14,591		
Total investments	$ 17,097,545		

Investments classified in Level 1 of the Fair Value Hierarchy, valued at $2,220,083, are valued using quoted prices in active markets.

Asset backed securities, commercial paper, medium-term notes, money market mutual funds, negotiable certificates of deposit, and U.S. agency securities are all classified in level 2 of the fair value hierarchy. These investments are valued using either bid evaluation or matrix pricing techniques. Bid evaluations may include market quotations, yields, maturities, call features, and ratings. Matrix pricing is used to value the securities based on the securities' relationship to benchmark quoted prices which are maintained by various pricing vendors. Those prices are obtained from various pricing sources by the District's custodian banks.

The District has shares in LAIF and the San Diego County Treasurer Pool. These investments utilize a stable one dollar per share value and are exempt from reporting under the fair value measurement levels defined by GASB Statement No.72.

The table below represents the District's fair value hierarchy as of June 30, 2015:

Investments	Fair Value	Level 1	Level 2
Investments subject to fair value hierarchy:			
Medium-Term Notes	$ 5,876,319	$ -	$ 5,876,319
Money Market Mutual Fund	296,933	-	296,933
Negotiable Certificates of Deposit	3,133,280	-	3,133,280
U.S. Agency Securities	500,105	-	500,105
Total investments subject to fair value hierarchy	9,806,637	$ -	$ 9,806,637
Investments not subject to fair value hierarchy:			
Local Agency Investment Fund	5,944,458		
San Diego County Treasurer Pool	14,438		
Total investments	$ 15,765,533		

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, 2016, the District had the following investments and maturities:

		Remaining Maturity (in Months)		
Investment Type	**Fair Value**	**12 Months or Less**	**13 - 24 Months**	**25-60 Months**
Local Agency Investment Fund	$ 1,764,649	$ 1,764,649	$ -	$ -
San Diego County Treasurer Pool	14,591	14,591	-	-
Asset Backed Securities	110,502	-	-	110,502
Medium-Term Notes	4,232,392	-	542,050	3,690,342
Negotiable Certificates of Deposit	3,088,811	493,746	595,473	1,999,592
U.S. Agency Securities	4,041,786	-	1,950,702	2,091,084
U.S. Treasurey Securities	2,220,083	-	-	2,220,083
Commercial Paper	487,045	487,045	-	-
Money Market Mutual Fund	1,137,686	1,137,686	-	-
Total investments	$ 17,097,545	$ 3,897,717	$ 3,088,225	$ 10,111,603

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

		Remaining Maturity (in Months)		
Investment Type	**Fair Value**	**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
U.S. Agency Securities	500,105	-	-	500,105
Money Market Mutual Funds	296,933	296,933	-	-
Total investments	$ 15,765,533	$ 6,959,038	$ 996,525	$ 7,809,970

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, 2016 is as follows:

Investment Type	Minimum Legal Rating	Moody's	Standard and Poors	Fair Value
Local Agency Investment Fund	N/A	Not Rated	Not Rated	$ 1,764,649
San Diego County Treasurer Pool	N/A	Not Rated	AAA	14,591
Asset Backed Securities	AA	Aaa	AAA	110,502
Medium-Term Notes	A/A	Aa1	AA+	334,461
Medium-Term Notes	A/A	Aa2	AA-	303,360
Medium-Term Notes	A/A	A1	AA+	542,050
Medium-Term Notes	A/A	A1	A	358,850
Medium-Term Notes	A/A	A2	A-	543,718
Medium-Term Notes	A/A	A2	A	977,926
Medium-Term Notes	A/A	A3	A-	496,532
Medium-Term Notes	A/A	A3	A	221,146
Medium-Term Notes	A/A	A3	BBB+	353,661
Medium-Term Notes	A/A	Baa1	BBB+	100,688
Negotiable Certificates of Deposit	N/A	Not Rated	Not Rated	3,088,811
U.S. Agency Securities	N/A	Aaa	AA+	4,041,786
Commercial Paper	P-1/A1	P-1	A-1	487,045
Money Market Mutual Fund	Aaa/AAA	Aaa	Not Rated	1,137,686
U.S. Treasury Securities	Exempt	Exempt	Exempt	2,220,083
Total Investments				$ 17,097,545

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

Investment Type	Minimum Legal Rating	Moody's	Standarand and Poors	Fair Value
Local Agency Investment Fund	N/A	Not Rated	Not Rated	$ 5,944,458
San Diego County Treasurer Pool	N/A	Not Rated	AAA	14,438
Medium-Term Notes	AA	AA1	AA+	328,273
Medium-Term Notes	A/A	A1	AA-	825,594
Medium-Term Notes	A/A	A1	A	1,101,758
Medium-Term Notes	A/A	A2	A	2,331,726
Medium-Term Notes	A/A	A3	A	549,150
Medium-Term Notes	A/A	A3	BBB+	376,728
Medium-Term Notes	A/A	Baa1	BBB+	363,090
Negotiable Certificates of Deposit	N/A	N/A	Not Rated	3,133,280
U.S. Agency Securities	N/A	AAA	AA+	500,105
Money Market Mutual Funds	Aaa/AAA	AAA	AA+	296,933
Total Investments				$ 15,765,533

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, 2016 and 2015 are as follows:

A summary of disclosures related to concentration of credit risk as of June 30, 2016:

Issuer	Investment Type	Fair Value
Federal Home Loan Bank	U.S. Agency Securities	$ 1,950,702
Federal National Mortgage Association	U.S. Agency Securities	1,984,717

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

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

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 valued in the accompanying financial statements using a fair value factor provided by LAIF applied to the value of the District's shares in the investment pool. 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, 2016 and 2015 was $22.7 billion and $21.5 billion, respectively. LAIF is part of the California Pooled Money Investment Account (PMIA), which at June 30, 2016 and 2015 had a balance of $75.5 billion and $69.6 billion, respectively, and of those amounts, 2.81% and 2.08% were invested in medium-term and short-term structured notes and asset-backed securities as of June 30, 2016 and 2015, respectively. The average maturity of PMIA investments as of June 30, 2016 and 2015 was 167 and 239 days, respectively.

(6) RECEIVABLES

Receivables of the District as of June 30, 2016 and 2015 were as follows:

	2016	2015
Water and wastewater billings	$ 1,854,756	$ 1,826,911
Unbilled water sales	738,379	672,127
Accrued interest receivable	55,002	63,681
Other	44,126	55,422
Total Receivables	$ 2,692,263	$ 2,618,141

(7) CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2016 were as follows:

	Balance July 1, 2015	Additions and Transfers In	Retirements and Transfers Out	Balance June 30, 2016
Capital assets, not being depreciated:				
Land and property rights-water	$ 4,466,067	$ 206,703	$ -	$ 4,672,770
Land and property rights-wastewater	2,422,706	-	-	2,422,706
Construction in progress	33,877,133	14,005,428	(35,520,837)	12,361,724
Total capital assets, not being depreciated	40,765,906	14,212,131	(35,520,837)	19,457,200
Capital assets, being depreciated:				
Water operations:				
Impounding dam	12,006,272	-	-	12,006,272
Distribution system	49,473,306	2,508,803	(139,612)	51,842,497
Buildings and structures	16,058,061	1,355,984	-	17,414,045
Equipment	3,077,424	232,274	(625,553)	2,684,145
Total water operations	80,615,063	4,097,061	(765,165)	83,946,959
Wastewater operations:				
Collection system	7,657,165	1,088,584	-	8,745,749
Treatment facilities	22,817,072	27,572,103	(9,956)	50,379,219
Disposal facilities	11,865,903	-	(4,438,425)	7,427,478
Equipment	197,252	458,971	(46,052)	610,171
Total wastewater operations	42,537,392	29,119,658	(4,494,433)	67,162,617
Total capital assets being depreciated	123,152,455	33,216,719	(5,259,598)	151,109,576
Less accumulated depreciation	(63,549,390)	(3,640,118)	5,176,601	(62,012,907)
Total capital assets being depreciated, net	59,603,065	29,576,601	(82,997)	89,096,669
Total capital assets, net	$ 100,368,971	$ 43,788,732	$ (35,603,834)	$ 108,553,869

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

(8) LONG-TERM LIABILITIES

District long-term liabilities consist of 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, 2016 consist of the following:

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Current Portion
Contracts payable	$ 32,389,288	$ 7,347,971	$ (895,981)	$ 38,841,278	$ 1,739,972
Compensated absences	896,775	705,509	(676,121)	926,163	662,430
Total long-term liabilities	$ 33,286,063	$ 8,053,480	$ (1,572,102)	$ 39,767,441	$ 2,402,402

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

Contracts payables consist of the following:

	2016	2015
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).	$ 4,901,173	$ 5,165,913
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.	4,330,461	4,961,702

	2016	2015
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. The proceeds of the loan assisted the District fund costs associated with the Fallbrook Wastewater Treatment Plan I Rehabilitation project. Upon completion of the project in May 2016, accrued interest of $886,644 on the amount draw down was transferred to the loan principal, increasing the principal amount to $29,609,644. Annual payments in the amount of $1,845,746 including principal and interest, is due beginning March 2017 through March 2036.	29,609,644	22,261,673
Subtotal contracts payable	38,841,278	32,389,288
Less: Current portion of contracts payable	(1,739,972)	(895,981)
Total long-term portion of contracts payable	$ 37,101,307	$ 31,493,307

Future long-term debt maturities as of June 30, 2016 are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	$ 1,739,972	$ 847,346	$ 2,587,318
2018	1,787,278	812,414	2,599,692
2019	1,839,651	772,852	2,612,503
2020	1,893,596	732,168	2,625,764
2021	1,949,162	690,330	2,639,492
2022-2026	10,639,645	2,781,253	13,420,898
2027-2031	10,342,400	1,593,952	11,936,352
2032-2036	8,649,574	579,154	9,228,728
Total	$ 38,841,278	$ 8,809,469	$ 47,650,747

(9) CONSTRUCTION COMMITMENTS

At June 30, 2016, the District has the following commitments with respect to unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Completion Date
Santa Margarita Conjunctive Use Project - Design	$ 776,328	2019
Beavercreek Pipeline Replacement	687,288	2017

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

(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, 2016, 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	2.00% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8%	6.5%
Required employer contribution rates	10.612%	6.73%

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 years ended June 30, 2016 and 2015, the District's contributions to the Miscellaneous Plan were as follows:

Contributions	**2016**	**2015**
Employer	$ 870,680	$ 756,871
Employee	366,769	372,274

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

As of June 30, 2016, 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	$ 8,440,514
PEPRA Miscellaneous Plan	(1,418)
Total Net Pension Liability	$ 8,439,096

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, 2015, 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, 2014, and rolled forward to June 30, 2015 using standard update procedures.

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 as of June 30, 2014 measurement date, 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, 2014 and 2015 was as follows:

	Miscellaneous Plan
Proportion – June 30, 2014	$ 6,888,378
Proportion – June 30, 2015	8,439,096
Change – Increase (Decrease)	$ 1,550,718

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 years ended June 30, 2016 and 2015, the District recognized pension expense of $906,406 and $973,872, respectively. At June 30, 2016 and 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, 2015	$ 870,680	$ -
Differences between expected and actual experience	48,501	-
Changes of assumptions	-	(458,867)
Changes in employer's proportion	328,918	-
Difference between the employer's contributions and the employer's proportionate share of contributions	-	(107,617)
Net differences between projected and actual earnings on pension plan investments	-	(230,036)
Total June 30, 2016	$ 1,248,099	$ (796,520)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions made subsequent to measurement date of June 30, 2014	$ 756,871	$ -
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 June 30, 2015	$ 1,071,999	$ (2,135,413)

$870,680 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, 2017. 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	
2017	(202,920)
2018	(224,926)
2019	(285,295)
2020	294,040

Actuarial Assumptions

For the measurement period ended June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability determined in the June 30, 2014 actuarial accounting valuation. The June 30, 2015 total pension liability was based on the following actuarial methods and assumptions:

	Miscellaneous Plan
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase (1)	Varies by Entry Age and Service
Investment Rate of Return (2)	7.50%
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% there after
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.

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability determined in the June 30, 2013 actuarial accounting valuation. The June 30, 2014 total pension liability was based on the following actuarial methods and 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 Derived using CalPERS' Membership Data for all funds
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 and 2014 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.

Changes of Assumption

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 % (net of administrative expense in 2014) to 7.65 % as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

Discount Rate

The discount rate used to measure the total pension liability for the measurement period June 30, 2015 and 2014 was 7.65% and 7.50% for the District's plan, respectively. 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 of the plan, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a separate detailed report that can be obtained from the CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected 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. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound 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 for June 30, 2016. 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	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	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.

The table below reflects the long-term expected real rate of return by asset class for June 30, 2015. 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	
	2016	**2015**
1% Decrease	6.65%	6.5%
Net Pension Liability	$14,225,694	$12,331,406
Current Discount Rate	7.65%	7.5%
Net Pension Liability	8,439,096	6,888,388
1% Increase	8.65%	8.5%
Net Pension Liability	3,661,588	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.

(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, 2015:

Assets	$ 194,775,717
Deferred Outflows of Resources	625,033
Liabilities:	
Current liabilities	55,874,099
Noncurrent liabilities	57,746,678
Total liabilities	113,620,777
Deferred Inflows of Resources	846,155
Net position:	
Net investment in capital assets	5,302,885
Unrestricted	75,630,933
Total net position	$ 80,933,818
Revenues (Operating and Nonoperating)	$ 160,400,697
Operating expenses	164,195,428
Change in net position	(3,794,731)
Net position, beginning, as restated	84,728,549
Net position, ending	$ 80,933,818

(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, 2016 and June 30, 2015, there were five (5) and eight (8) retirees whose postemployment benefits of $24,655 and $37,295, 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, 2016 is $182,694 and $144,408 as of June 30, 2015. The District will pay for half (50%) of the retired employee's monthly premium. As of June 30, 2016, there are five (5) 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, 2016	June 30, 2015
Annual required contribution	$ 124,701	$ 124,701
Interest on net OPEB obligation	21,772	18,607
Adjustment to annual required contribution	(31,477)	(26,902)
Annual OPEB cost (expense)	114,996	116,406
Contributions made	(24,655)	(37,295)
Increase in net OPEB obligation	90,341	79,111
Net OPEB obligation-beginning of year	544,296	465,185
Net OPEB obligation-end of year	$ 634,637	$ 544,296

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for FY 15-16 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, 2014	$ 117,982	25.09%	$ 465,185
June 30, 2015	116,406	32.04%	544,296
June 30, 2016	114,996	21.44%	634,637

Funded Status of the Plan

The most recent valuation (dated July 1, 2016) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $849,667. 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 $16,093 per year. The covered payroll (active payroll of active employees) was $5,580,920 and the ratio of the UAAL to the covered payroll was 15.22%. 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.

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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)

	2016	**2015**
Proportion of the collective net pension liability	0.12295%	0.1107%
Proportionate share of the collective net pension liability	$8,439,096	$6,888,388
Covered – employee payroll (measurement date)	$4,753,842	$4,683,594
Proportionate share of the collective net pension liability as percentage of covered-employee payroll	177.52%	147.07%
Plan fiduciary net position as a percentage of the total pension liability	78.40%	80.43%

Changes in Benefit Terms

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

The discount rate was changed from 7.50% (net of administrative expense in 2014) to 7.65% to correct for an adjustment to exclude administrative expense.

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

	2016	2015
Contractually required contribution (actuarially determined)	$ 870,680	$ 756,872
Contributions in relation to the actuarially determined contributions	(870,680)	(756,872)
Contribution excess	$ -	$ -
Covered-employee payroll[(1)]	$ 4,743,986	$ 4,753,842
Contributions as a percentage of covered-employee payroll	10.12%	16.16%

Notes to Schedule

Valuation date:	June 30, 2014
Measurement date:	June 30, 2015

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	7.65%
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

For the Years Ended June 30, 2016 and 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, 2013	$ 1,042,705	-	$ 1,042,705	0%	$ 5,063,842	20.6%
July 1, 2016	849,667	-	849,667	0%	5,580,920	15.2%

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OTHER SUPPLEMENTARY INFORMATION

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FALLBROOK PUBLIC UTILITY DISTRICT

Schedule of Revenues and Expenses by Operating Department

For the Year Ended June 30, 2016

	Water	Wastewater	Recycled	Total
Operating revenues:				
Water sales	$ 12,328,995	$ -	824,925	$ 13,153,920
Service charges	5,000,621	5,402,353	59,359	10,462,333
Other revenues	1,583,301	110	156,353	1,739,764
Total operating revenues	18,912,917	5,402,463	1,040,637	25,356,017
Operating expenses:				
Cost of water sold	12,804,470	-	146,128	12,950,598
Operations and maintenance	2,788,548	2,709,284	-	5,497,832
Customer accounts	203,260	-	-	203,260
General and administration (Note 1)	2,571,803	2,038,033	242,623	4,852,459
Other (Note 2)	-	682,536	94,248	776,784
Operating expenses before depreciation	18,368,081	5,429,853	482,999	24,280,933
Depreciation expense	2,864,540	775,578	-	3,640,118
Total operating expenses	21,232,621	6,205,431	482,999	27,921,051
Net operating expenses	$ (2,319,704)	(802,968)	$ 557,638	$ (2,565,034)

Note 1:

General and administration costs are allocated to Water, Wastewater, and Recycled operations based on a budgeted annual percentage. For FY 15-16, 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 $682,536 towards payment of the annual debt service obligations. The $682,536 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 $94,248 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 $94,284 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, 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.

MISCELLANEOUS STATISTICAL INFORMATION

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FALLBROOK PUBLIC UTILITY DISTRICT
Board of Directors
For the Year Ended June 30, 2016

At June 30, 2016, the Board of Directors consisted of the following:

Name	Office	Term Expires
Bob Anderson	Director	November 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, 2016

The District's, including the Sanitary District, assessed valuation for the year ended June 30, 2016 is as follows:

Assessed valuation:		
Secured property	$	335,229,948
Unsecured property		3,744,559
Total assessed valuation	$	338,974,507

Source: County of San Diego Property Tax Services