



FALLBROOK PUBLIC UTILITY DISTRICT  
MEETING OF THE FISCAL POLICY AND INSURANCE COMMITTEE

**REVISED AGENDA (REV1)**

WEDNESDAY, OCTOBER 11, 2017  
9:00 A.M.

FALLBROOK PUBLIC UTILITY DISTRICT  
990 E. MISSION RD., FALLBROOK, CA 92028  
PHONE: (760) 728-1125

*If you have a disability and need an accommodation to participate in the meeting, please call the Secretary at (760) 728-1125 for assistance so the necessary arrangements can be made.*

*Writings that are public records and are distributed during a public meeting are available for public inspection at the meeting if prepared by the local agency or a member of its legislative body or after the meeting if prepared by some other person.*

**I. PRELIMINARY FUNCTIONS**

CALL TO ORDER / ROLL CALL

PUBLIC COMMENT

**II. ACTION / DISCUSSION -----(ITEMS A—E)**

- A. REVIEW OF DRAFT AUDIT
- B. DISCUSSION OF LAPTOPS FOR STAFF
- C. DISTRICT CREDIT CARD POLICY
- D. PROPOSED REVISIONS TO BILL FORMAT
- E. REVIEW OF BUDGET STATUS REPORT

**III. ADJOURNMENT OF MEETING**

## M E M O

**TO:** Fiscal Policy and Insurance Committee  
**FROM:** David Shank, Assistant General Manager/CFO *DS*  
**DATE:** October 11, 2017  
**SUBJECT:** Review of Draft Audit

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Purpose

Review draft audit and discuss the financial reporting of the pension and Other Postemployment Benefits (OPEB) Trust assets in the audited financial statements.

Summary

On September 26, 2016, the District approved Resolution 4891 authorizing the creation of an irrevocable 115 Trust (the Trust). The purpose of the Trust is to fund/pre-pay a portion of both the District's pension and OPEB liabilities. While in one trust, the assets are tracked separately and restricted in their use. Funds have been placed into the Trust and are available to pay pension and OPEB related costs incurred by the District. On July 1, 2017, the Trust held \$1,366,435.92 of which \$755,951.81 and 610,483.21 was held for OPEB and pension liabilities, respectively.

**Reporting of Pension Trust**

While the PARS pension assets are held in trust for the sole purpose of funding the District's pension obligation, the liability reported in the financial statements under GASB 68 is not reported net of the PARS assets held in the Trust. Because PARS is not the administrator of the pension plan (i.e. CalPERS), the funds are not treated as "direct" offsets to the pension liability reported in accordance with GASB 68. While limited to pension expenses, the PARS assets can be used to pay either current pension expenses (i.e. annual required contributions) or pre-fund the accrued liability with CalPERS. However, because PARS is not the trust that ultimately pays the employer benefits, the Trust assets are not factored into the determination of the District's pension liability. The financial statements reflect that the PARS assets are held in trust and the assets are included in the District's balance sheet as a separate line item under restricted assets. Attachment A provides an excerpt from the GASB 68 Implementation Guidelines, only the relevant portion has been provided.

**Reporting of OPEB Trust**

The District's OPEB liability was pre-funded with a portion of the PARS assets held in the Trust. In accordance with GASB 45, since the District is the administrator of the OPEB Plan, and the funds held in the Trust for the OPEB liability and shows them as a direct offset to the District's OPEB liability. As a result, the District reports an OPEB asset (funds are in excess of the liability). The OPEB asset shows up on the balance sheet under non-current assets. Currently, the OPEB asset/liability changes year-to-year based upon the

District's annual required contribution (ARC) as determined by the actuarial valuation and the market value of assets held in the Trust.

Recommended Action

This item is for discussion only. No action is required.

**ATTACHMENT "A"**



## **GASB STAFF IMPLEMENTATION GUIDANCE NO. 2017-1 (PENSION REPORTING)**

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4.7. Q—An employer provides pensions through a single-employer pension plan that is administered through a trust that meets the criteria in paragraph 4 of Statement 68 (Trust A). Benefits are paid through Trust A. The employer establishes a second trust (Trust B). Assets in Trust B can be used only to make contributions to Trust A and can be moved to Trust A only upon instruction from the employer. Assets accumulated in Trust B are irrevocable by the employer and are protected from creditors of the employer. For purposes of determining the employer's net pension liability, does the pension plan's fiduciary net position include the net position of Trust A and the net position of Trust B?

A—No. In the circumstance described, benefit payments can be made to employees through Trust A but cannot be made through Trust B. As a result, the assets in Trust B do not have present service capacity as pension plan assets. Therefore, only the net position of Trust A is included as part of the pension plan's fiduciary net position. The assets in Trust B should continue to be reported as assets of the employer. Accordingly, amounts associated with Trust B should be reported in the employer's government-wide financial statements as governmental or business-type activities and in the employer's governmental or proprietary fund financial statements.

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4.10. Q—Can the employer in Question 4.7, Question 4.8, or Question 4.9 report its pension liability to employees for benefits net of the fiduciary net position of Trust B?

A—No. As noted in the answers in Questions 4.7–4.9, in all three circumstances, the assets in Trust B are employer assets. Financial reporting standards provide only for the pension plan's fiduciary net position to offset the total pension liability. Because there is no specific right-of-offset provision for reporting an employer's liability to employees for pensions net of related employer assets, the employer assets held in Trust B should not reduce the amount reported by the employer as its liability to employees for pensions.

**FALLBROOK PUBLIC UTILITY DISTRICT**

Annual Financial Report

For the Years Ended  
June 30, 2017 and 2016

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FALLBROOK PUBLIC UTILITY DISTRICT

Annual Financial Report  
For the Years Ended  
June 30, 2017 and 2016

Table of Contents

	<i>Page</i>
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis (Required Supplementary Information - Unaudited) .....	7
<b>Basic Financial Statements:</b>	
Statements of Net Position .....	21
Statements of Revenues, Expenses and Changes in Net Position .....	22
Statements of Cash Flows .....	23
Statement of Fiduciary Net Position – OPEB Trust Fund .....	25
Statement of Changes in Fiduciary Net Position – OPEB Trust Fund.....	26
Notes to the Basic Financial Statements .....	29
<b>Required Supplementary Information (Unaudited):</b>	
Cost-Sharing Defined Benefit Pension Plan Schedule of the District’s Proportionate Share of the Net Pension Liability.....	60
Cost-Sharing Defined Benefit Pension Plan Schedule of Contributions .....	61
OPEB Schedule of Funding Progress .....	62
<b>Other Supplementary Information:</b>	
Schedule of Revenues and Expenses by Operating Department for the Year Ended June 30, 2017 .....	66
Schedule of Revenues and Expenses by Operating Department for the Year Ended June 30, 2016 .....	67
<b>Miscellaneous Statistical Information (Unaudited):</b>	
Board of Directors.....	70
Assessed Valuation .....	71

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## Independent Auditor's Report

The Honorable Board of Directors of the  
Fallbrook Public Utility District

### Report on the Financial Statements

We have audited the accompanying financial statements of the Fallbrook Public Utility District (District) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to 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, 2017 and 2016, 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.

### ***Emphasis of Matter***

As discussed in Note 3 and 5 to the basic financial statements, effective July 1, 2014, 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 XX-XX 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 XX-XX, 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 October XX, 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.

San Diego, California  
October XX, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This Management's Discussion and Analysis (MD&A) of the Fallbrook Public Utility District's (District) financial performance offers readers of the District's financial statements the following narrative overview and analysis of the District's financial activities for the years ended June 30, 2017 and 2016. Please read it in conjunction with the District's basic financial statements, which begin immediately following this analysis.

**Financial Highlights (FY 16-17)**

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

**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 begin 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 Beaver Creek 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

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

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.

### 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 **XX-XX** 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 Position* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported

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

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 **XX-XX** 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**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Change</u>
<b>Assets:</b>			
Current Assets	\$ 19,124,049	\$ 20,732,086	\$ (1,608,037)
OPEB and Restricted Assets	4,114,814	3,471,337	643,477
Capital Assets, net	108,717,795	108,553,869	163,926
<b>Total Assets</b>	<u>131,956,658</u>	<u>132,757,292</u>	<u>(800,634)</u>
<b>Deferred Outflows of Resources:</b>	<u>2,980,305</u>	<u>1,071,999</u>	<u>1,908,306</u>
<b>Liabilities:</b>			
Current liabilities	5,671,488	7,149,490	(1,478,002)
Noncurrent liabilities	46,947,511	46,749,529	197,982
<b>Total Liabilities</b>	<u>52,618,999</u>	<u>53,899,019</u>	<u>(1,280,020)</u>
<b>Deferred Inflows of Resources:</b>	<u>635,046</u>	<u>2,135,413</u>	<u>(1,338,893)</u>
<b>Net Position:</b>			
Net Investment in Capital Assets	72,519,098	70,683,956	1,835,142
Restricted	3,475,457	3,455,377	20,080
Unrestricted	5,688,363	5,170,519	517,844
<b>Total Net Position</b>	<u>\$ 81,682,918</u>	<u>\$ 79,309,852</u>	<u>\$ 2,373,066</u>

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

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 \$ 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.

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

**Condensed Statements of Net Position**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Change</u>
<b>Assets:</b>			
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
<b>Total Assets</b>	<u>132,757,292</u>	<u>125,133,713</u>	<u>7,623,579</u>
<b>Deferred Outflows of Resources</b>	<u>1,248,099</u>	<u>1,071,999</u>	<u>176,100</u>
<b>Liabilities:</b>			
Current liabilities	7,149,490	7,104,196	45,294
Noncurrent liabilities	46,749,529	41,931,112	4,818,417
<b>Total Liabilities</b>	<u>53,899,019</u>	<u>49,035,308</u>	<u>4,863,711</u>
<b>Deferred Inflows of Resources</b>	<u>796,520</u>	<u>2,135,413</u>	<u>(1,338,893)</u>
<b>Net Position:</b>			
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
<b>Total Net Position</b>	<u>\$ 79,309,852</u>	<u>\$ 75,034,991</u>	<u>\$ 4,274,861</u>

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

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

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 Revenues, Expenses and Changes in Net Position**

	<b>For the Year Ended June 30, 2017</b>	<b>For the Year Ended June 30, 2016</b>	<b>Change</b>
Operating revenues	\$ 27,256,065	\$ 25,356,017	\$ 1,900,048
Operating expenses	29,890,177	27,144,267	2,745,910
Operating loss	<u>(2,634,112)</u>	<u>(1,788,250)</u>	<u>(845,862)</u>
Nonoperating revenue, net	4,174,508	4,431,344	(256,838)
Change in net position before capital contributions	1,540,394	2,643,094	(1,102,700)
Capital Contributions	<u>832,672</u>	<u>1,631,767</u>	<u>(799,095)</u>
Change in net position	2,373,066	4,274,861	(1,901,795)
Net position - beginning	<u>79,309,852</u>	<u>75,034,991</u>	<u>4,274,861</u>
Net position - end of year	<u><u>\$ 81,682,918</u></u>	<u><u>\$ 79,309,852</u></u>	<u><u>\$ 2,373,066</u></u>

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 65 of this report.

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

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

	<b>For the Year Ended June 30, 2016</b>	<b>For the Year Ended June 30, 2015</b>	<b>Change</b>
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, as restated	75,034,991	71,380,079	3,654,912
Net position - end of year	<u>\$ 79,309,852</u>	<u>\$ 75,034,991</u>	<u>\$ 4,274,861</u>

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 65 of this report.

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

**Capital Asset and Debt Administration**

*Capital Assets*

	<u>Balance at July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2016</u>
Capital Assets				
Nondepreciable assets	\$ 19,457,200	\$ 5,693,570	\$ (7,448,598)	\$ 17,702,172
Depreciable assets	151,109,576	7,350,841	-	158,460,417
Accumulated depreciation	<u>(62,012,907)</u>	<u>(5,294,310)</u>	<u>-</u>	<u>(67,307,217)</u>
<b>Total capital assets, net</b>	<u>\$ 108,553,869</u>	<u>\$ 7,750,101</u>	<u>\$ (7,448,598)</u>	<u>\$ 108,855,372</u>

The District's capital assets increased by \$301,503 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 FY 15-16.
- 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.

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

**Capital Assets**

	<u>Balance at July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2016</u>
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)
<b>Total capital assets, net</b>	<u>\$ 100,368,971</u>	<u>\$ 43,788,732</u>	<u>\$ (35,603,834)</u>	<u>\$ 108,553,869</u>

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 vacator/flush truck in the amount of \$406,700.

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



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

**Capital Commitments**

At June 30, 2017, the District has the following commitments with respect to unfinished capital projects:

<b>Capital Projects</b>	<b>Remaining Construction Commitment</b>	<b>Expected Completion Date</b>
Santa Margarita Conjunctive Use Project - Design	\$ 790,467	2019
SCADA Services	75,000	2017
Santa Margarita Mainstream Project - USACE Support	52,298	2019
Reservoir Recoating	48,540	2017
WRP Operational Support	40,000	2017
Santa Margarita Conjunctive Use Project - NPDES Discharge Permit	21,780	2017
Santa Margarita Conjunctive Use Project - EIR/EIS Support	14,315	2019

**Debt Administration**

At June 30, 2017, the District had \$37.1 million of long-term debt outstanding. \$4.1 million of this debt is attributable to the wastewater Qualified Energy Conservation Bonds (QECCB) solar loan. The loan was originally for \$7.227 million. Federal sequestration began in FY 13-14. Sequestration during FY 16-17 caused the District to lose 6.9%, or \$2,715 of the Federal Interest Rate Subsidy. An additional \$4.6 million of indebtedness is attributable to the Red Mountain Filtration Plant SRF loan, which was originally for \$6.16 million. \$28.4 million of indebtedness is attributable to the Wastewater Treatment Plant SRF loan. The total loan principal amount was \$29.6 million with payments on the loan commencing in March 2017. During the year ended June 30, 2017, \$1.7 million of principal payments were made on the District's outstanding long-term obligations.

More detailed information about the District's debt structure is found in Note 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.

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

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.

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Jack Beebe  
Acting General Manager  
Fallbrook Public Utility District

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David Shanks  
Assistant General Manager/CFO  
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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Assets:</b>		
Current assets:		
Cash and investments (Note 5)	\$ 14,078,080	\$ 15,854,427
Receivables (Note 6)	3,529,646	2,692,263
Inventory	1,424,501	2,079,890
Other assets	91,822	105,506
Total current assets	<u>19,124,049</u>	<u>20,732,086</u>
Noncurrent assets:		
Net OPEB asset (Note 12):	12,909	-
Restricted cash and investments (Note 5):		
Debt service - Red Mountain State Revolving Fund	436,109	395,851
Debt service - Wastewater Treatment Plant State Revolving Fund	1,825,568	1,845,746
Held for 1958 Annex Projects	1,213,780	1,213,780
Held for pension benefits	610,483	-
Capital improvements	15,965	15,960
Total restricted cash and investments	<u>4,101,905</u>	<u>3,471,337</u>
Capital assets (Note 7):		
Capital assets, not being depreciated	17,702,172	19,457,200
Capital assets being depreciated, net	91,015,623	89,096,669
Total capital assets, net	<u>108,717,795</u>	<u>108,553,869</u>
Total noncurrent assets	<u>112,832,609</u>	<u>112,025,206</u>
Total assets	<u>131,956,658</u>	<u>132,757,292</u>
<b>Deferred Outflows of Resources:</b>		
Employer contributions made subsequent to the measurement date (Note 10)	968,372	870,680
Differences between projected and actual earnings on pension plan investments (Note 10)	1,527,583	-
Changes in proportion (Note 10)	453,328	328,918
Difference between expected and actual actuarial experience (Note 10)	31,022	48,501
	<u>2,980,305</u>	<u>1,248,099</u>
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	2,716,802	4,441,219
Accrued wages	260,265	221,375
Construction and other deposits	5,060	10,745
Accrued interest payable	224,095	73,749
Current portion of other long-term liabilities (Note 8)	2,465,266	2,402,402
Total current liabilities	<u>5,671,488</u>	<u>7,149,490</u>
Noncurrent liabilities:		
HRA liability (Note 12)	136,528	182,694
Net OPEB obligation (Note 12)	-	634,637
Net pension liability (Note 10)	11,014,856	8,439,096
Retention payable	122,700	128,063
Other long-term liabilities - net of current portion (Note 8)	35,673,427	37,365,039
Total noncurrent liabilities	<u>46,947,511</u>	<u>46,749,529</u>
Total liabilities	<u>52,618,999</u>	<u>53,899,019</u>
<b>Deferred Inflows of Resources:</b>		
Differences between projected and actual earnings on pension plan investments (Note 10)	-	230,036
Difference between actual and proportionate share of contributions (Note 10)	334,436	107,617
Difference between expected and actual actuarial experience (Note 10)	7,108	-
Changes in assumptions (Note 10)	293,502	458,867
	<u>635,046</u>	<u>796,520</u>
<b>Net position:</b>		
Net investment in capital assets	72,519,098	70,683,956
Restricted for:		
1958 Annex projects	1,213,780	1,213,780
Debt service and capital improvements	2,261,677	2,241,597
Unrestricted	5,688,363	5,170,519
Total net position	<u>\$ 81,682,918</u>	<u>\$ 79,309,852</u>

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, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Operating revenues:</b>		
Water sales	\$ 21,466,220	\$ 19,722,200
Wastewater services	5,627,476	5,402,354
Other	162,369	231,463
Total operating revenues	27,256,065	25,356,017
<b>Operating expenses:</b>		
Cost of water sold	13,067,064	12,950,598
General and administration	5,701,867	4,852,459
Depreciation	5,294,310	3,640,118
Transmission and distribution	3,030,201	2,991,808
Wastewater operations and maintenance	2,796,735	2,709,284
Total operating expenses	29,890,177	27,144,267
Operating loss	(2,634,112)	(1,788,250)
<b>Nonoperating revenues (expenses):</b>		
Property taxes	1,889,808	1,815,734
Capital improvement charges	2,283,558	2,224,529
California Solar Initiative rebate	234,930	740,125
Investment income	63,861	324,126
Water availability charges	200,730	200,808
Lease revenue	166,012	185,220
Intergovernmental revenue - federal interest rate subsidy	238,765	185,040
Connection fees	238,124	131,894
Other revenue	32,729	91,361
Loss on disposal of capital assets	-	(551,281)
Interest expense	(1,174,011)	(916,212)
Total nonoperating revenues (expenses), net	4,174,506	4,431,344
Changes in net position before capital contributions	1,540,394	2,643,094
<b>Capital contributions:</b>		
State Proposition 50	773,163	874,040
State Proposition 84	-	682,428
Capital asset contributions - donated from developers	59,509	75,299
Change in net position	2,373,066	4,274,861
Net position - beginning	79,309,852	75,034,991
Net position - ending	\$ 81,682,918	\$ 79,309,852

See accompanying Notes to the Basic Financial Statements.

**FALLBROOK PUBLIC UTILITY DISTRICT**

Statements of Cash Flows (Continued)

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 26,260,787	\$ 25,041,753
Receipts from others	361,110	508,044
Payments to suppliers and vendors	(17,300,071)	(15,778,973)
Payments to employees	<u>(7,276,949)</u>	<u>(7,317,896)</u>
Net cash provided by operating activities	<u>2,044,877</u>	<u>2,452,928</u>
<b>Cash flows from noncapital financing activities:</b>		
Property taxes	1,889,808	1,815,734
California Solar Initiative rebate	<u>234,930</u>	<u>740,125</u>
Net cash provided by noncapital financing activities	<u>2,124,738</u>	<u>2,555,859</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(6,483,061)	(18,086,413)
Principal payments on long-term debt	(1,739,972)	(895,981)
Interest paid	(1,023,665)	(744,265)
Intergovernmental revenue - federal interest rate subsidy	238,765	185,040
Proceeds from contracts payable	-	6,461,327
Capital improvement charges and connection fees	2,521,682	2,356,423
State Proposition 50	773,163	874,040
State Proposition 84	-	682,428
Water availability charges	<u>200,730</u>	<u>200,808</u>
Net cash used by capital and related financing activities	<u>(5,512,358)</u>	<u>(8,966,593)</u>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(750,178)	(11,152,468)
Sales of investments	478,618	8,461,976
Interest received	<u>59,387</u>	<u>332,805</u>
Net cash used by investing activities	<u>(212,173)</u>	<u>(2,357,687)</u>
Net change in cash and cash equivalents	(1,554,916)	(6,315,493)
Cash and cash equivalents - beginning	<u>4,007,459</u>	<u>10,322,952</u>
Cash and cash equivalents - ending	<u>\$ 2,452,543</u>	<u>\$ 4,007,459</u>

See accompanying Notes to the Basic Financial Statements.

**FALLBROOK PUBLIC UTILITY DISTRICT**

Statements of Cash Flows (Continued)

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Reconciliation of cash and cash equivalents to the Statement of Net Position:</b>		
Cash and investments	\$ 14,078,080	\$ 15,854,427
Restricted cash and investments	4,101,905	3,471,337
Less investments not meeting the definition of cash and cash equivalents	<u>(15,727,442)</u>	<u>(15,318,305)</u>
Cash and cash equivalents	<u>\$ 2,452,543</u>	<u>\$ 4,007,459</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating loss	(2,634,112)	\$ (1,788,250)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	5,294,310	3,640,118
Lease revenue	166,012	185,220
Other revenue	32,729	91,361
(Increase) decrease in:		
Receivables	(832,909)	(82,801)
Inventory	655,389	(145,884)
Other assets	13,684	(6,542)
Net OPEB asset	(12,909)	-
Deferred outflows of resources	(1,732,206)	(176,100)
Increase (decrease) in:		
Accounts payable	(783,023)	277,355
Accrued wages	38,890	87,592
Construction and other deposits	(5,685)	1,019
HRA liability	(46,166)	38,286
Net OPEB obligation	(634,637)	90,341
Net pension liability	2,575,760	1,550,718
Compensated absences	111,224	29,388
Deferred inflows of resources	<u>(161,474)</u>	<u>(1,338,893)</u>
Net cash provided by operating activities	<u>\$ 2,044,877</u>	<u>\$ 2,452,928</u>
<b>Noncash investing and capital and related financing activities:</b>		
Capital assets contributed	\$ 59,509	\$ 75,299
Book value of capital asset dispositions	-	(551,281)
Capital asset acquisitions included in accounts payable	(941,394)	1,247,915
Capital asset acquisitions included in retention payable	(5,363)	-
Change in fair value of investments	(187,513)	125,393

See accompanying Notes to the Basic Financial Statements.

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Statement of Fiduciary Net Position - OPEB Trust Fund  
June 30, 2017 and 2016

	<b>2017</b>	<b>2016</b>
<b>Assets:</b>		
Cash and investments (Note 5)	\$ 755,952	\$ -
<b>Net Position:</b>		
Restricted for other postemployment benefits	\$ 755,952	\$ -

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**FALLBROOK PUBLIC UTILITY DISTRICT**  
Statement of Changes in Fiduciary Net Position - OPEB Trust Fund  
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Additions</b>		
Employer contributions	\$ 736,000	\$ -
Investment income	20,571	-
Total additions	<u>756,571</u>	<u>-</u>
<b>Deductions</b>		
Administration	619	-
Change in net position	<u>755,952</u>	<u>-</u>
Net position - beginning of year	-	-
Net position - end of year	<u>\$ 755,952</u>	<u>\$ -</u>

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See accompanying Notes to the Basic Financial Statements.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS**



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## FALLBROOK PUBLIC UTILITY DISTRICT

Notes to the Basic Financial Statements  
For the Years Ended June 30, 2017 and 2016

### (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.

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

***(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, 2017 and 2016.

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

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

**(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, 2017 and 2016, 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, 2017 and 2016, the District also reports restricted net position in the amount of \$2,261,677 and \$2,241,597, 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 16-17 is \$450,409 and FY 15-16 is \$395,851); and the Wastewater Treatment Plan I Rehabilitation project (FY 16-17 is \$1,825,568 and FY 15-16 is \$1,845,746).
- **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.

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

**(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.

**(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 pursuant to debt restrictions or a trust arrangement. Pooling is for the purpose of increasing interest earnings and administrative efficiency.

Restricted cash and investments represents amounts held with outside third party fiscal agents that are restricted for the payment of debt service and capital improvements. Also, as of June 30, 2017 the District has investments held by a trustee which are restricted for the payment of pension benefits.

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

Cash and investments as of June 30, 2017 and 2016 are classified in the accompanying statements of net position as follows:

	<u>2017</u>	<u>2016</u>
Cash and investments	\$ 14,834,032	\$ 15,854,427
Restricted cash and investments	4,101,905	3,471,337
Total cash and investments	<u>\$ 18,935,937</u>	<u>\$ 19,325,764</u>

Cash and investments as of June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Cash on hand	1,150	\$ 850
Deposits with financial institutions	2,672,208	2,227,369
Investments	16,262,579	17,097,545
Total cash and investments	<u>\$ 18,935,937</u>	<u>\$ 19,325,764</u>

***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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>	<u>Minimum Credit Rating (S&amp;P / Moody's)</u>
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.

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

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, 2017:

<b>Investments</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>
<b>Investments subject to fair value hierarchy:</b>			
Asset Backed Securities	752,684	\$ -	\$ 752,684
Commercial Paper	99,566	-	99,566
Medium-Term Notes	4,197,857	-	4,197,857
Money Market Mutual Fund	157,749	-	157,749
Negotiable Certificates of Deposit	3,930,926	-	3,930,926
U.S. Agency Securities	898,533	-	898,533
U.S. Treasury Securities	4,447,491	4,447,491	-
Mutual Funds	1,242,636	-	1,242,636
<b>Total investments subject to fair value hierarchy</b>	<b>15,727,442</b>	<b>\$ 4,447,491</b>	<b>\$ 11,279,951</b>
<b>Investments not subject to fair value hierarchy:</b>			
Local Agency Investment Fund	520,496		
San Diego County Treasurer Pool	14,641		
<b>Total investments</b>	<b>\$ 16,262,579</b>		

Investments classified in Level 1 of the Fair Value Hierarchy, valued at \$5,690,127, 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.

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

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

<b>Investments</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>
<b>Investments subject to fair value hierarchy:</b>			
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	-
<b>Total investments subject to fair value hierarchy</b>	<b>15,318,505</b>	<b>\$ 2,220,083</b>	<b>\$ 13,098,222</b>
<b>Investments not subject to fair value hierarchy:</b>			
Local Agency Investment Fund	1,764,649		
San Diego County Treasurer Pool	14,591		
<b>Total investments</b>	<b>\$ 17,097,545</b>		

***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.



**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

As of June 30, 2017, the District had the following investments and maturities:

Investment Type	Fair Value	Remaining Maturity (in Months)		
		12 Months or Less	13 - 24 Months	25-60 Months
Local Agency Investment Fund	\$ 520,496	\$ 520,496	\$ -	\$ -
San Diego County Treasurer Pool	14,641	-	14,641	-
Asset Backed Securities	752,684	-	-	752,684
Commercial Paper	99,566	99,566	-	-
Medium-Term Notes	4,197,857	-	399,192	3,798,665
Money Market Mutual Fund	33,950	33,950	-	-
Negotiable Certificates of Deposit	3,930,926	385,133	3,051,697	494,096
U.S. Agency Securities	898,533	-	135,497	763,036
U.S. Treasury Securities	4,447,491	-	-	4,447,491
Mutual Funds	1,366,435	-	-	-
<b>Total investments</b>	<b>\$ 16,262,579</b>	<b>\$ 1,039,145</b>	<b>\$ 3,601,027</b>	<b>\$ 10,255,972</b>

As of June 30, 2016, the District had the following investments and maturities:

Investment Type	Fair Value	Remaining Maturity (in Months)		
		12 Months or Less	13 - 24 Months	25-60 Months
Local Agency Investment Fund	\$ 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. Treasury Securities	2,220,083	-	-	2,220,083
Commercial Paper	487,045	487,045	-	-
Money Market Mutual Fund	1,137,686	1,137,686	-	-
<b>Total investments</b>	<b>\$ 17,097,545</b>	<b>\$ 3,897,717</b>	<b>\$ 3,088,225</b>	<b>\$ 10,111,603</b>

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2016 and 2015

***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, 2017 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	\$ 520,496
San Diego County Treasurer Pool	N/A	Not Rated	AAA	14,641
Asset Backed Securities	AA	Aaa	AAA	499,288
Asset Backed Securities	AA	Aa	Not Rated	159,808
Asset Backed Securities	AA	Not Rated	AAA	93,588
Medium-Term Notes	A/A	A1	A	354,031
Medium-Term Notes	A/A	A1	A+	90,197
Medium-Term Notes	A/A	A2	A	389,416
Medium-Term Notes	A/A	A2	A-	837,040
Medium-Term Notes	A/A	A3	A	783,457
Medium-Term Notes	A/A	A3	A-	484,543
Medium-Term Notes	A/A	A3	BBB+	859,981
Medium-Term Notes	A/A	Aa2	AAA	299,127
Medium-Term Notes	A/A	Baa1	BBB+	100,065
Negotiable Certificates of Deposit	N/A	A1	A	250,000
Negotiable Certificates of Deposit		A1	A+	279,835
Negotiable Certificates of Deposit		Aa2	AA-	199,456
Negotiable Certificates of Deposit		Aa3	A+	562,800
Negotiable Certificates of Deposit		Aa3	AA-	281,173
Negotiable Certificates of Deposit		P-1	A-1	285,008
Negotiable Certificates of Deposit		P-1	A-2	739,932
Negotiable Certificates of Deposit		Not Rated	Not Rated	1,332,722
U.S. Agency Securities	N/A	Aaa	AA+	898,533
Commercial Paper	P-1/A1	P-1	A-1	99,566
Money Market Mutual Fund	Aaa/AAA	Aaa	AAA	157,749
U.S. Treasury Securities	Exempt	Exempt	Exempt	4,447,491
Mutual Funds	Aaa/AAA	Aaa	AAA	1,242,636
Total Investments				<u>\$ 16,262,579</u>

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

A summary of disclosures relating to credit risk at June 30, 2016 is as follows:

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Moody's</u>	<u>Standard and Poors</u>	<u>Fair Value</u>
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	<u>2,220,083</u>
Total Investments				<u>\$ 17,097,545</u>

**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 are noted below. The District did not have any concentration of credit risk as of June 30, 2017.

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

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

**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

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

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, 2017 and 2016 was \$22.8 billion and \$22.7 billion, respectively. LAIF is part of the California Pooled Money Investment Account (PMIA), which at June 30, 2017 and 2016 had a balance of \$75.5 billion and \$75.5 billion, respectively, and of those amounts, 2.89% and 2.81% were invested in medium-term and short-term structured notes and asset-backed securities as of June 30, 2017 and 2016, respectively. The average maturity of PMIA investments as of June 30, 2017 and 2016 was 194 and 167 days, respectively.

**(6) RECEIVABLES**

Receivables of the District as of June 30, 2017 and 2016 were as follows:

	<b>2017</b>	<b>2016</b>
Water and wastewater billings	\$ 1,927,272	\$ 1,854,756
Unbilled water sales	1,528,158	738,379
Accrued interest receivable	59,476	55,002
Other	14,740	44,126
Total Receivables	\$ 3,529,646	\$ 2,692,263

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

**(7) CAPITAL ASSETS**

Changes in capital assets for the year ended June 30, 2017 were as follows:

	<b>Balance July 1, 2016</b>	<b>Additions and Transfers In</b>	<b>Retirements and Transfers Out</b>	<b>Balance June 30, 2017</b>
<b>Capital assets, not being depreciated:</b>				
Land and property rights-water	\$ 4,672,770	\$ 97,757	\$ -	\$ 4,770,527
Land and property rights-wastewater	2,422,706	-	-	2,422,706
Construction in progress	12,361,724	5,595,813	(7,448,598)	10,508,939
Total capital assets, not being depreciated	<u>19,457,200</u>	<u>5,693,570</u>	<u>(7,448,598)</u>	<u>17,702,172</u>
<b>Capital assets, being depreciated:</b>				
<b>Water operations:</b>				
Impounding dam	12,006,272	-	-	12,006,272
Distribution system	51,842,497	3,680,111	-	55,522,613
Buildings and structures	17,414,045	575,746	-	17,989,791
Equipment	2,684,145	177,557	-	3,161,902
Total water operations	<u>83,946,959</u>	<u>4,733,619</u>	<u>-</u>	<u>88,680,578</u>
<b>Wastewater operations:</b>				
Collection system	8,745,749	192,401	-	8,938,150
Treatment facilities	50,379,219	374,467	-	50,753,686
Disposal facilities	7,427,478	-	-	7,427,478
Equipment	610,171	44,071	-	654,242
Total wastewater operations	<u>67,162,617</u>	<u>610,939</u>	<u>-</u>	<u>67,773,556</u>
<b>Recycle operations:</b>				
Distribution system	-	2,006,283	-	2,006,283
Total capital assets being depreciated	<u>151,109,576</u>	<u>7,350,841</u>	<u>-</u>	<u>158,460,417</u>
Less accumulated depreciation	<u>(62,012,907)</u>	<u>(5,294,310)</u>	<u>-</u>	<u>(67,307,217)</u>
Total capital assets being depreciated, net	<u>89,096,669</u>	<u>2,056,531</u>	<u>-</u>	<u>91,153,200</u>
Total capital assets, net	<u>\$ 108,553,869</u>	<u>\$ 7,750,101</u>	<u>\$ (7,448,598)</u>	<u>\$ 108,855,372</u>

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

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

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions and</u> <u>Transfers In</u>	<u>Retirements and</u> <u>Transfers Out</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>Capital assets, not being depreciated:</b>				
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	<u>40,765,906</u>	<u>14,212,131</u>	<u>(35,520,837)</u>	<u>19,457,200</u>
<b>Capital assets, being depreciated:</b>				
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	<u>80,615,063</u>	<u>4,097,061</u>	<u>(765,165)</u>	<u>83,946,959</u>
Wastewater operations:				
Collection system	7,657,165	1,088,584	-	8,745,749
Treatment facilities	22,817,072	27,572,003	(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	<u>42,537,392</u>	<u>29,119,638</u>	<u>(4,494,433)</u>	<u>67,162,617</u>
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	<u>59,603,065</u>	<u>29,576,601</u>	<u>(82,997)</u>	<u>89,096,669</u>
Total capital assets, net	<u>\$ 100,368,971</u>	<u>\$ 43,788,732</u>	<u>\$ (35,603,834)</u>	<u>\$ 108,553,869</u>

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

**(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, 2017 consist of the following:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2017</u>	<u>Current Portion</u>
Contracts payable	\$ 38,841,278	\$ -	\$ (1,739,972)	\$ 37,101,306	\$ 1,787,278
Compensated absences	926,163	779,409	(668,185)	1,037,387	677,988
<b>Total long-term liabilities</b>	<b>\$ 39,767,441</b>	<b>\$ 779,409</b>	<b>\$ (2,408,157)</b>	<b>\$ 38,138,693</b>	<b>\$ 2,465,266</b>

Changes in long-term liabilities for the year ended June 30, 2016 consist of the following:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2016</u>	<u>Current Portion</u>
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
<b>Total long-term liabilities</b>	<b>\$ 33,286,063</b>	<b>\$ 8,053,480</b>	<b>\$ (1,572,102)</b>	<b>\$ 39,767,441</b>	<b>\$ 2,402,402</b>

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**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

Contracts payables consist of the following:

	2017	2016
<b><i>Contracts Payable:</i></b>		
<p>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).</p>	\$ 4,629,582	\$ 4,901,173
<p>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.</p>	4,060,032	4,330,461



**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

	2017	2016
<p>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.</p>	<del>8,411,692</del>	<u>29,609,644</u>
Subtotal contracts payable	37,101,306	38,841,278
Less: current portion of contracts payable	<u>(1,787,278)</u>	<u>(1,739,972)</u>
Total long-term portion of contracts payable	<u>\$ 35,314,028</u>	<u>\$ 37,101,306</u>

Future long-term debt maturities as of June 30, 2017 are as follows:

Year Ending June 30,	Principal	Interest	Total
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	2,006,400	647,304	2,653,704
2023-2027	10,952,769	2,547,046	13,499,815
2028-2032	9,678,329	1,371,146	11,049,475
2033-2036	6,994,121	388,862	7,382,983
Total	<u>\$ 37,101,306</u>	<u>\$ 7,962,122</u>	<u>\$ 45,063,428</u>

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

**(9) CONSTRUCTION COMMITMENTS**

At June 30, 2017, the District has the following commitments with respect to unfinished capital projects:

<b>Capital Projects</b>	<b>Remaining Construction Commitment</b>	<b>Expected Completion Date</b>
Santa Margarita Conjunctive Use Project - Design	\$ 790,467	2019
SCADA Services	75,000	2017
Santa Margarita Mainstream Project - USACE Support	52,298	2019
Reservoir Recoating	48,540	2017
WRP Operational Support	40,000	2017
Santa Margarita Conjunctive Use Project - NPDES Discharge Permit	21,780	2017
Santa Margarita Conjunctive Use Project - EIR/EIS Support	14,315	2019

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

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

**(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.

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

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, 2017, are summarized as follows:

	<b>Miscellaneous Plan</b>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
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	10.808%	6.73%

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

**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 1<sup>st</sup> 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 30<sup>th</sup> 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, 2017 and 2016, the District's contributions to the Miscellaneous Plan were as follows:

Contributions	2017	2016
Employer	\$ 968,372	\$ 870,680
Employee	396,513	366,769

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

As of June 30, 2017, the District reported a net pension liability for its proportionate share of the net pension liability for its Miscellaneous Plan in the amount of \$11,014,856 and \$8,439,096, respectively. During the year ended June 30, 2017, the District established a trust with the Public Agency Retirement Services (PARS) and contributed \$600,00 to the trust for the purpose of pre-funding pension obligations.

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, 2016 and 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, 2015 and 2014, and rolled forward to June 30, 2016 and 2015 using standard update procedures.

As of June 30, 2016, the District reported a net pension liability for its proportionate share of the net pension liability for its Miscellaneous Plans in the amount of \$8,439,096.

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, 2015 and 2016 was as follows:

	<b>Miscellaneous Plan</b>
Proportion – June 30, 2015	\$ 8,439,096
Proportion – June 30, 2016	11,014,856
Change – Increase (Decrease)	\$ 2,575,760

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

The District's proportionate share of the collective net pension liability as of June 30, 2014 and 2015 was as follows:

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

For the years ended June 30, 2017 and 2016, the District recognized pension expense of \$1,650,452 and \$906,406 respectively. At June 30, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions made subsequent to measurement date of June 30, 2016	\$ 968,372	\$ -
Differences between expected and actual experience	31,022	7,108
Changes of assumptions	-	293,502
Changes in employer's proportion	453,328	-
Difference between the employer's contributions and the employer's proportionate share of contributions	-	334,436
Net differences between projected and actual earnings on pension plan investments	1,527,583	-
Total June 30, 2017	\$ 2,980,305	\$ 635,046
	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)

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

\$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	
2018	\$ 143,773
2019	157,130
2020	680,320
2021	395,662

***Actuarial Assumptions***

For the measurement period ended June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability determined in the June 30, 2015 actuarial accounting valuation. The June 30, 2016 total pension liability was based on the following actuarial methods and assumptions:

<b>Miscellaneous Plan</b>	
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
<b>Actuarial Assumptions:</b>	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase <sup>(1)</sup>	Varies by Entry Age and Service
Investment Rate of Return <sup>(2)</sup>	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 <sup>(3)</sup>	Derived using CalPERS' Membership Data for all funds

<sup>(1)</sup> Depending on age, service and type of employment

<sup>(2)</sup> Net of pension plan administrative expenses, including inflation

<sup>(3)</sup> 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 the mortality table, refer to the 2014 Experience Study Report.

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

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:

	<b>Miscellaneous Plan</b>
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
<b>Actuarial Assumptions:</b>	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase <sup>(1)</sup>	Varies by Entry Age and Service
Investment Rate of Return <sup>(2)</sup>	7.50%
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applied, 2.75% here after
Mortality Rate <sup>(3)</sup>	Derived using CalPERS' Membership Data for all funds

<sup>(1)</sup> Depending on age, service and type of employment

<sup>(2)</sup> Net of pension plan administrative expenses, including inflation

<sup>(3)</sup> 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 the mortality table, refer to the 2014 Experience Study Report.

All other actuarial assumptions used in the June 30, 2014 and 2015 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, 2016 and 2015 was 7.65% 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

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

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 measurement period ended 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 <sup>(1)</sup>	Real Return Years 11+ <sup>(2)</sup>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	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	1.0%	(0.55)%	(1.05)%
Total	100.0%		

<sup>(1)</sup> An expected inflation of 2.5% used for this period.

<sup>(2)</sup> An expected inflation of 3.0% used for this period.



**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

The table below reflects the long-term expected real rate of return by asset class for the measurement period ended 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 <sup>(1)</sup>	Real Return Years 11+ <sup>(2)</sup>
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)%
<b>Total</b>	<b>100.0%</b>		

<sup>(1)</sup> An expected inflation of 2.5% used for this period.

<sup>(2)</sup> 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:

	<b>Miscellaneous Plan</b>	
	<b>2017</b>	<b>2016</b>
1% Decrease	6.65%	6.65%
Net Pension Liability	\$16,959,721	\$14,225,694
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$11,014,856	8,439,096
1% Increase	8.65%	8.65%
Net Pension Liability	\$6,101,720	3,661,588

***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.

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

**(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, 2016:

<b>Assets</b>		<u>\$ 189,566,761</u>
<b>Deferred Outflows of Resources</b>		<u>1,065,779</u>
<b>Liabilities:</b>		
Current liabilities		63,978,099
Noncurrent liabilities		<u>57,496,224</u>
Total liabilities		<u>121,474,323</u>
<b>Deferred Inflows of Resources</b>		<u>454,600</u>
<b>Net position:</b>		
Net investment in capital assets		5,072,656
Unrestricted		<u>63,630,961</u>
Total net position		<u>\$ 68,703,617</u>
<b>Revenues (Operating and Nonoperating)</b>		<u>\$ 149,371,770</u>
<b>Operating expenses</b>		<u>161,601,971</u>
Change in net position		(12,230,201)
Net position, beginning, as restated		<u>80,933,818</u>
Net position, ending		<u>\$ 68,703,617</u>

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

**(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, 2017 and June 30, 2016, there were four (4) and five (5) retirees whose postemployment benefits of \$13,706 and \$24,655, 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, 2017 is \$136,528 and \$182,694 as of June 30, 2016. The District will pay for half (50%) of the retired employee's monthly premium. As of June 30, 2017, there are four (4) 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.

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

*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 30<sup>th</sup> as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Annual required contribution	\$ 113,475	\$ 124,701
Interest on net OPEB obligation	25,386	21,772
Adjustment to annual required contribution	<u>(36,701)</u>	<u>(31,477)</u>
Annual OPEB cost (expense)	102,160	114,996
Contributions made	<u>(749,706)</u>	<u>(24,655)</u>
Increase (decrease) in net OPEB obligation	(7,546)	90,341
Net OPEB obligation - beginning of year	<u>634,637</u>	<u>544,296</u>
Net OPEB obligation (asset) - end of year	<u><u>\$ (12,909)</u></u>	<u><u>\$ 634,637</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB (asset)/obligation for FY 16-17 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2015	\$ 116,406	32.04%	\$ 544,296
June 30, 2016	114,996	21.44%	634,637
June 30, 2017	102,160	733.85%	(12,909)

*Funded Status of the Plan*

The most recent valuation (dated July 1, 2016) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$349,667. At the time of the valuation, there were no plan assets as the District has historically funded on a pay-as-you-go basis. However, during FY16-17 the District established a trust and contributed \$736,000 and reported \$755,952 of plan assets as of June 30, 2017. 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%.

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.

**FALLBROOK PUBLIC UTILITY DISTRICT**  
Notes to the Basic Financial Statements (Continued)  
For the Years Ended June 30, 2017 and 2016

*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 perspective 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)**

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**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)

	<u>2017</u>	<u>2016</u>
Proportion of the collective net pension liability	0.12729%	0.12295%
Proportionate share of the collective net pension liability	\$11,014,856	\$8,439,096
Covered – employee payroll (measurement year)	\$4,743,986	\$4,753,842
Proportionate share of the collective net pension liability as percentage of covered-employee payroll	232.19%	177.52%
Plan fiduciary net position as a percentage of the total pension liability	74.06%	78.40%

***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.

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

	<b>2017</b>	<b>2016</b>
Contractually required contribution (actuarially determined)	\$ 968,372	\$ 870,680
Contributions in relation to the actuarially determined contributions	(968,372)	(870,680)
Contribution excess	\$ -	\$ -
Covered-employee payroll <sup>(1)</sup>	\$ 5,271,090	\$ 4,743,986
Contributions as a percentage of covered-employee payroll	18.37%	18.35%

**Notes to Schedule**

Valuation date: June 30, 2015  
 Measurement date: June 30, 2016

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 <sup>(2)</sup>	Derived using CalPERS' Membership Data for all Funds

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

<sup>(2)</sup> 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, 2017 and 2016  
 (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, 2017**

	<u>Water</u>	<u>Wastewater</u>	<u>Recycled</u>	<u>Total</u>
<b>Operating revenues:</b>				
Water sales	\$ 13,233,057	-	\$ 1,135,841	\$ 14,368,898
Service charges	5,388,463	5,627,476	-	11,015,939
Other revenues	1,783,859	749	86,620	1,871,228
Total operating revenues	<u>20,405,379</u>	<u>5,628,225</u>	<u>1,222,461</u>	<u>27,256,065</u>
<b>Operating expenses:</b>				
Cost of water sold	13,067,064	-	-	13,067,064
Operations and maintenance	3,030,201	2,173,738	622,997	5,826,936
General and administration (Note 1)	2,963,305	2,392,389	346,173	5,701,867
Other (Note 2)	-	694,380	94,248	788,628
Operating expenses before depreciation	19,060,570	5,260,507	1,063,418	25,384,495
Depreciation expense	2,535,018	2,757,292	-	5,292,310
Total operating expenses	<u>21,595,588</u>	<u>8,017,799</u>	<u>1,063,418</u>	<u>30,676,805</u>
Net operating expenses	<u>\$ (1,190,209)</u>	<u>(2,391,574)</u>	<u>\$ 159,043</u>	<u>\$ (3,422,740)</u>

**Note 1:**

General and administration costs are allocated to Water, Wastewater, and Recycled operations based on a budgeted annual percentage. For FY 16-17, general and administration costs were allocated as follows: 52% to Water operations, 42% to Wastewater operations and 6% to Recycled operations. Allocation is analyzed and updated annually as part of the budget process.

**Note 2:**

Wastewater operations contributed \$694,380 towards payment of the annual debt service obligations. The \$694,380 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 \$94,248 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, 2016

	<u>Water</u>	<u>Wastewater</u>	<u>Recycled</u>	<u>Total</u>
<b>Operating revenues:</b>				
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	<u>18,912,917</u>	<u>5,402,463</u>	<u>1,040,637</u>	<u>25,356,017</u>
<b>Operating expenses:</b>				
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	<u>21,232,621</u>	<u>6,205,431</u>	<u>482,999</u>	<u>27,921,051</u>
Net operating expenses	<u>\$ (2,319,704)</u>	<u>\$ (802,968)</u>	<u>\$ 557,638</u>	<u>\$ (2,565,034)</u>

**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.



**MISCELLANEOUS STATISTICAL INFORMATION**

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**FALLBROOK PUBLIC UTILITY DISTRICT**

Board of Directors

For the Year Ended June 30, 2017

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Jennifer DeMeo	Director	November 2020
Al Gebhart	Vice President	December 2020
Don McDougal	Director	December 2020
Charley Wolk	President	December 2018
Milt Davies	Director	December 2018

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**FALLBROOK PUBLIC UTILITY DISTRICT**

Assessed Valuation

For the Year Ended June 30, 2017

The District's, including the Sanitary District, assessed valuation for the year ended June 30, 2017 is as follows:

<b>Assessed valuation:</b>	
Secured property	\$ 3,671,895,432
Unsecured property	<u>36,271,614</u>
<b>Total assessed valuation</b>	<b><u>\$ 3,708,167,046</u></b>

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Source: County of San Diego Property Tax Services

**M E M O**

**TO:** Fiscal Policy & Insurance Committee  
**FROM:** Jack Bebee, Assistant General Manager, JRB  
**DATE:** October 11, 2017  
**SUBJECT:** Discussion on Laptops for Staff

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Purpose

To discuss use of Laptops for staff for Board meetings for the Board package.

Summary

The Board recently began utilizing laptops for the Board meetings, so that the Board package is now delivered electronically to the Directors. A hard copy is still being produced for the General Manager, Assistant General Manager/Chief Financial Officer (AGM/CFO), Assistant General Manager (AGM) and Public Affairs Specialist.

Currently, the General Manager has a District issued tablet that could be used for an electronic board package. The other staff that need to have a full board packages are the AGM/CFO and AGM. The District has two loaner laptops that are used for presentations, meetings and other activities that require the devices. These laptops will be loaded with the board package and used for future board meetings so that the Board package can be done completely electronically and no additional devices are needed.

Recommended Action

This item is for information only.

## M E M O

**TO:** Fiscal Policy & Insurance Committee  
**FROM:** Jack Bebee, Acting General Manager, JAB  
**DATE:** October 11, 2017  
**SUBJECT:** District Credit Card Policy

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Purpose

To discuss the current District Credit Card Policy.

Summary

The District Credit Card Policy was recently updated in June 2017 (see attached board memo from June 2017). The Credit Card Policy allows for use of a District credit card when the transaction is more efficient for smaller transactions, but these purchases must not circumvent other established or required competitive purchasing procedures. A copy of the Administrative Code section 14.12, *Use of District Credit Card*, is attached. The Code section also references the District Credit Card Users Guide, which is also attached.

The credit card is currently used in accordance with the Code for smaller transactions that are more efficient using a credit card. These purchases are typically for office supplies or small items that can be purchased more economically online from sites, such as Amazon. In addition, miscellaneous small field construction items and office supplies are purchased at Lowes, Home Depot and Costco by the Warehouse Supervisor or using District credit cards.

The approval process to ensures appropriate purchases are being made using the District credit card are detailed in the attached District Credit Card Users Guide.

Recommended Action

This item is for information only. No action is required.

preference for the procurement of eligible contracts may be allowed, so long as it is not otherwise prohibited by funding sources, by providing a 5% local preference where the purchase or contracts with a respective local vendor or business during any fiscal year do not exceed \$45,000. In order to qualify for this local preference, a vendor or business must either (a) be a District rate payer in good standing for the past six months, or (b) receive District utility services at its business location for the past six months, paid by a third party.

- b. Eligible procurements include those contracts which are not otherwise subject to competitive bidding, including contracts for the following:
  - (1) Purchases of Public Projects, Maintenance, and Articles in the amount of \$45,000 or less, pursuant to Section 14.5(a).

Sec. 14.11 Sale of Surplus Property/Equipment and Scrap Metal.

- a. Surplus Property/Equipment. When it has been determined by the General Manager that equipment is no longer appropriate because of capability, size, age, etc., to fulfill the District's mission or if a particular piece of equipment is more costly to maintain than to replace, the item will be disposed of through the next scheduled San Diego County auction. Should property become surplus through obsolescence or through a change in operating methodology, the excess property will be disposed of, as determined by District staff, as follows:
  - (1) To other public agencies on a bid basis;
  - (2) San Diego County Auction, or
  - (3) Internet-based inline auction services.
- b. Scrap Metal. The scrap metal which accumulates through the replacing of damaged and/or unserviceable items in the course of District operations, shall be sold as scrap to local scrap dealers at prevailing rates. Sales receipts shall be miscellaneous revenues of the District.

Sec. 14.12 Use of District Credit Card.

- a. There are certain transactions that are more efficient using a credit card transaction. Examples include small purchases that are lower cost on-line, travel arrangements, registration for training and other similar services.
- b. The credit card shall never be used to circumvent established competitive purchasing procedures. The credit card is prohibited from being used to purchase items for personal use under all circumstances. Personal use of the credit card will result in disciplinary action.
- c. Authorized cardholders and credit card use shall be per the District Credit Card Users Guide as approved by the General Manager.

# **DISTRICT CREDIT CARD USERS GUIDE**

**FOR**

**FALLBROOK PUBLIC UTILITY  
DISTRICT**



## District Credit Card

### Objectives

The use of District credit cards instead of other payment options may result in:

- Reduced procurement and payment processing costs.
- Improved vendor relations by making “doing business” with the District easier.
- Enhanced internal control by better identifying specific employees making minor supply and service purchases on behalf of the District and improving the accuracy of account distribution between programs and projects.
- Taking advantage of cost-saving opportunities by purchasing on the Internet or through catalogs.
- Enhancing the ease of education and training processes.
- Allow purchasing to focus on procurement of more significant items, which will help increase quality control and improve pricing.

### OBTAINING AND ACTIVATING A CREDIT CARD

1. A Credit Card Request Form is generated by the department director and forwarded to the General Manager. The form is approved or denied by the General Manager and sent to the Finance Department for processing.
2. Once the card is received, Finance Department will contact the newly approved cardholder (“Cardholder”) to attend a mandatory training. During this training the Cardholder is given their credit card along with a copy of this District Credit Card Users Guide. The Cardholder will also sign any Credit Cardholder Agreement required by the credit card issuer and/or the District.
3. The Cardholder will activate the credit card by following the instructions provided with the card.

**NOTE:** The issuance of District credit card in an employee’s name does not allow issuing financial institution of Bankcard to check the employee’s personal credit history. However, as part of the process for issuing a credit card in an employee’s name, the District provides the issuing financial institution of the Bankcard, with the last four digits of the employee’s social security number. The employee’s whole social security number will not be provided to the issuing financial institution of Bankcard. Should a Cardholder need to contact issuing financial institution Bankcard regarding billing questions, they will identify themselves using the last four digits of their social security number.

## **SPENDING LIMITS and CARDHOLDERS**

The below list provides positions eligible for District credit cards based off department needs and staffing. The limit amounts in each category are expenditure limits and may not reflect that actual amounts of the card limit. The listing of a position eligible for a District credit card in this Credit Card Users Guide does not guarantee approval/ issuance of a District credit card.

### **Supervisors** (Collections Supervisor, Construction/Maintenance Supervisor, System Services Supervisor)

- Single Purchase Limit: Not-to-exceed \$2,500 per transaction including tax and shipping/handling.
- Monthly Transaction Limit: Not-to-exceed \$5,000 per 30 day billing cycle and/or the limit of the credit card.

### **Managers** (Human Resources Manager, System Operations Manager, Chief Plant Operator)

- Single Purchase Limit: Not-to exceed \$2,500 per transaction including tax and shipping/handling.
- Monthly Transaction Limit: Not- to- exceed \$5,000 per 30 day billing cycle and/or the limit of the credit card.

### **General Manager, Assistant General Manager, Assistant General Manager/Chief Financial Officer, Warehouse/Shop Supervisor, Warehouse/Purchasing Specialist**

- Single Purchase Limit: Not-to-exceed \$5,000 per transaction including tax and shipping/handling.
- Monthly Transaction Limit: Not-to-exceed \$10,000 per 30 day billing cycle and/or the limit of the credit card.

## **Processing and Payment Statements**

Cardholders will:

1. Receive notification that their credit card statements are available.
2. Assemble all supporting documentation such as itemized receipts and/or packing slips, as well as credit clips for returned items.
3. Match receipts/packing slips to the transactions listed on their card statement.
4. Verify the charges on the statement are valid: the goods were received and were acceptable, the price is correct, there are no duplicate charges, none of the charges have already been paid, and none of the charges are fraudulent.
5. Enter required information on Reconciliation Form (may be performed by a Cardholder proxy).
6. Mark the appropriate account/project/fund balances to ensure sufficient funds are available to pay Cardholder department's charges on the statement.
7. Assemble the credit card statement and supporting documents:
  - Affidavit of fraudulent charges (if applicable)
  - Credit card statement report

- All ORIGINAL ITEMIZED receipts/packing lists (and credit memos, if any), preferably in the order in which they are listed on the statement
  - Statement of questioned items forms (if applicable)
  - Copy of approved Travel Authorization and Advance Request form (if applicable)
  - Other documentation/checks requested by purchasing such as proof of competitive bids or quotes (if applicable)
8. Sign the Credit Card Statement Report.
  9. If any transactions are being charged to another department's account(s), route the Credit Card Statement Report and attachments to the appropriate department(s) for required signatures. After other department(s) sign, packet is returned to originating department.
  10. Route credit card statement report with attachments to approving official for signature approval.
  11. Submit credit card statement report and attachments to Accounts payable for payment processing.

**Note:** The use of the credit card shall never be used to circumvent established competitive purchasing procedures. The credit card is prohibited from being used to purchase items for personal use under all circumstances. Failure to comply with the requirements of this District Credit Card Users Guide may result in disciplinary action.

#### **Cancelling a Credit Card**

***If a District credit card is cancelled because the Cardholder is leaving employment with the District, the Cardholder must:***

1. Submit credit card receipts to their approving official.
2. Give credit card to the Human Resources Department.
3. The card will be canceled by the Finance Department once notified by the Human Resources Department.

***If a District credit card is cancelled for other reasons (not due to the Cardholder leaving employment with the District) the Cardholder must:***

1. Return the credit card to the Finance Department and request cancellation of the card.

#### **Lost or Stolen Card**

**If a District credit card is lost or stolen, the Cardholder must immediately notify the issuing financial institution, the Cardholder's approving official, and the Finance Department. If theft is involved, the Police Department should also be notified.**

- Contact issuing financial institution.
- Notify the Assistant General Manager/Chief Financial Officer

**Policy Violations**

Cardholders who are found to be in violation of this District Credit Card Users Guide and/or District procurement requirements face possible disciplinary measures including, but not limited to:

- Suspension or termination of credit card privileges
- Suspension or termination of employment
- Civil or criminal action

Suspension or termination of credit card privileges may be documented in the Cardholder's personnel file in the Human Resources Department. If the offense warrants possible suspension or termination of employment, established District disciplinary guidelines will be followed.

**Questions**

Questions regarding specific credit card procedures and this District Credit Card Users Guide should be directed to the Finance Department.

Approved by:



\_\_\_\_\_  
GENERAL MANAGER

Date: July 11, 2017

**M E M O**

**TO:** Board of Directors  
**FROM:** Jack Bebee, Assistant General Manager *NRO*  
**DATE:** June 26, 2017  
**SUBJECT:** Establishing District Procurement Procedures compliant with the Uniform Public Construction Cost Accounting Act (Public Contract Code Section 22000 et seq.), and Electing to Become Subject to the Act (Resolution electing to become subject to the provisions of the Act and Ordinance repealing and replacing Article 14)

Purpose

To introduce for Board consideration updates to Article 14 of the Administrative Code to incorporate the District electing to become subject to the Uniform Public Construction Cost Accounting Act, Public Contract Code § 22000 et seq.

Background

At the September 2016 regular Board meeting, the Board requested a review of the District's local preferences policy for purchases, which staff and legal counsel conducted. At the December regular 2016 Board meeting, staff and legal counsel provided an overview of the results of that review, informing the Board that a local preference for local vendors could be implemented, to a limited extent, for purchases for public projects and goods which fall beneath the dollar thresholds for contracts that must be awarded to the lowest responsible bidder. Staff and legal counsel cautioned that constitutional equal protection issues must be considered in implementing such a policy to mitigate the risk of legal challenge. The Board then directed staff and legal counsel formalize a local preference policy for inclusion in the District's Administrative Code, for Board review and approval including a process to better solicit local vendors.

Thereafter, staff and legal counsel, while moving forward with the update to the District's Administrative Code bidding and purchasing provisions, identified an opportunity to increase efficiency and implement a more workable cohesive bidding and purchasing procedure in light of the current legal requirements under which the District operates by selecting to operate under the Uniform Public Construction Cost Accounting Act. The Act enables the District to raise its bidding threshold to \$45,000 and establishes both informal and formal bidding procedures. The informal bid procedures would apply to public projects in excess of \$45,000 and less than or equal to \$175,000. At the May 2017 regular board meeting the Board directed staff and legal counsel to move forward with formalizing changes necessary to operate under the Act.

## Summary

The District presently operates under Public Contract Code §§ 20200 et seq. and 20202.1 et seq., which generally require competitive bidding for all contracts for construction (including alteration, maintenance, and repair) in excess of \$15,000 and contracts for “articles” in excess of \$10,000.

As identified in the May 2017 meeting, staff has concluded that there is a need to increase efficiency and implement a more workable, cohesive bidding and purchasing procedure. To achieve these goals, staff proposes that the District elect to follow the alternate bidding and purchasing procedures known as the Uniform Public Construction Cost Accounting Act, Public Contract Code § 22000 et seq., (the “Act”).

An updated Article 14 of the Administrative Code is attached and it has been updated to incorporate operation under the Act. Because the revisions to current Article 14 (Purchases and Sales, Regulations Governing) were so extensive, a redline version was not created. If approved, the Board’s action will repeal the current version of Article 14 and replace it with the updated Article 14 (District Procurement Procedures)

The Act enables the District to raise its bidding threshold to \$45,000 and establishes both informal and formal bidding procedures. The informal bid procedures would apply to public projects in excess of \$45,000 and less than or equal to \$175,000, and the formal bid procedures would apply to public projects in excess of \$175,000. While the purchase of articles is not included in the Act’s definition of a “public project,” the Act does permit a public agency which has elected to become subject to the Act to utilize the bidding procedures “when contracting for any other work which does not fall within the definition of ‘public project.’” (Pub. Contract Code § 22003.) Therefore, should the District elect to become subject to the Act, it may utilize the same bidding procedures for both construction projects and the purchase of articles.

In sum, opting into the Act would enable the District to create a single cohesive bidding procedure for all contracts, whether for construction contracts or for purchases of articles, instead of the bifurcated Public Contract Code scheme public utility districts must otherwise follow. In addition, staff has determined that 1) opting in will ensure the District’s job cost accounting provides an apples to apples comparison of outside contractor costs to better evaluate internal versus external services 2) the Act provides the District greater flexibility to address procurement needs over the existing somewhat outdated procurement requirements, and 3) the streamlined procurement process, especially the informal bidding process, will also help the District to better utilize local suppliers.

In order to take advantage of the benefits of the Act, the District must adopt the attached resolution (Attachment 1) to elect to become subject to the Act and notify the State Controller. The District will also need adopt the attached revised Administrative Code Article 14 (Attachment 2) to implement the updated procurement procedure.

As part of the revisions to the Administrative Code it is also recommended to adjust the GM authorization from \$22,000 to \$45,000 to make the authorization consistent with the bidding limit of the Act and to assist with streamlining of purchases for equipment, valves, pipe and other materials. As material and equipment costs have continued to rise the authorization limit has only slightly increased which has started to require Board approval of more routine items such as valves, hydrants and routine services. This modification will also make the GM authority for the District similar to other District's as shown in Table 1.

<b>Agency</b>	<b>Limit</b>
Eastern MWD	\$100,000
Elsinore Valley MWD	\$50,000
Encina Wastewater Authority	\$50,000
Helix WD	\$50,000
Leucadia Wastewater District	\$25,000
Olivenhain MWD	\$50,000
Otay Water District	\$75,000
Padre Dam MWD	\$50,000
Rainbow MWD	\$50,000
Santa Fe Irrigation District	\$35,000
SDCWA	\$150,000
Sweetwater Authority	\$50,000
Vallecitos Water District	\$50,000
	\$35,000; \$100,000 immediate non-emergencies
Valley Center MWD	
Vista Irrigation District	\$50,000
Yuima MWD	\$35,000

**Table 1 – GM purchasing authority for other Agencies**

In addition to the above changes the following additional updates are included in the proposed revised Article 14:

1. Added Section 14.7 to specify requirements to prequalify contractors. Contractors for the Santa Margarita Conjunctive Use Project will be pre-qualified in accordance with the Section.
2. Added Section 14.10 to formalize a local procurement preference with a 5% preference to local suppliers for contracts under \$45,000.
3. Updated Section 14.12 regarding use of the District Credit Card and developed a more detailed policy on credit card use (See Attachment 3)

4. Adjusted the percentage that can be requested from the board regarding charge order allowance from 5% to 10% in Section 14.13. The Board is not required to grant this authority and it must be requested for each project.

#### Recommendation

It is recommended that the Board take the following actions:

1. Adopt Resolution 4916 electing to become subject to the provisions of the Uniform Public Construction Cost Accounting Act.
2. Adopt Ordinance 339 Repealing current Article 14 (Purchases and Sales, Regulations Governing) and replacing it with revised Article 14 (District Procurement Procedures), which establishes procurement procedures compliant with the Uniform Public Construction Cost Accounting Act, will help streamline the purchasing and contracting process, and maximize the use of qualified local contractors and service providers where possible.



Dr. Brady reported the staff memo from Mrs. Eilers includes a list of tasks to assist in developing an internal procedure to close the year end and will facilitate timely completion of the annual audit.

President Wolk suggested the Fiscal Policy & Insurance Committee meet to review the tasks outlined in the staff memo and make recommendations as needed, and Dr. Brady stated a meeting would be scheduled as soon as possible.

Vice-President Gebhart asked why the procedure to close jobs was changed from "at the end of the fiscal year" to "when jobs are completed." Mrs. Eilers noted the change was due to the Springbrook conversion.

- L. ESTABLISHING DISTRICT PROCUREMENT PROCEDURES COMPLIANT WITH THE UNIFORM PUBLIC CONSTRUCTION COST ACCOUNTING ACT (PUBLIC CONTRACT CODE SECTION 22000 ET SEQ.), AND ELECTING TO BECOME SUBJECT TO THE ACT (RESOLUTION ELECTING TO BECOME SUBJECT TO THE PROVISIONS OF THE ACT AND ORDINANCE REPEALING AND REPLACING ARTICLE 14)

Recommendation:

*It is recommended that the Board take the following actions:*

- 1. Adopt Resolution 4916 electing to become subject to the provisions of the Uniform Public Construction Cost Accounting Act.*
- 2. Adopt Ordinance 339 Repealing current Article 14 (Purchases and Sales, Regulations Governing) and replacing it with revised Article 14 (District Procurement Procedures), which establishes procurement procedures compliant with the Uniform Public Construction Cost Accounting Act, will help streamline the purchasing and contracting process, and maximize the use of qualified local contractors and service providers where possible.*

Mr. Bebee reported that General Legal Counsel provided assistance in revising Article 14 and for opting into the Uniform Public Construction Cost Accounting Act (Act). Mr. Bebee provided an overview of the proposed revisions, including prequalification of contractors, formalizing a local procurement preference, updating the policy on credit card use, and adjusting the percentage of change order allowance. In addition, the proposal includes adjusting the general manager's approval limit to be consistent with the Act from \$22,000 to \$45,000.

Mrs. de Sousa Mills reported the proposal includes the ability for the District to utilize the design-build-construction method as authorized by statute and requires an informal bidding procedure for those projects between \$45,000 and \$175,000. Mrs. de Sousa Mills further reported the credit card policy will be updated by BB&K with some minor revisions that will include a signature line for employees.

In response to President Wolk, Mrs. de Sousa Mills stated the Board's action will repeal and replace Article 14 by adoption of Ordinance No. 339. Mrs. de Sousa Mills further stated the District typically amends the Administrative Code by resolution; however, the Act requires informal bidding practices adopted by an agency that has opted into the Act be adopted by ordinance.

MOTION: Vice-President Gebhart moved to adopt Resolution No. 4916; Director DeMeo seconded. Motion carried; VOTE:

AYES: Directors Davies, DeMeo, Gebhart, McDougal, and Wolk

NOES: None

ABSTAIN: None

ABSENT: None

MOTION: Vice-President Gebhart moved to adopt Ordinance No. 339; Director McDougal seconded. Motion carried; ROLL CALL VOTE:

AYES: Directors Davies, DeMeo, Gebhart, McDougal, and Wolk

NOES: None

ABSTAIN: None

ABSENT: None

#### M. REPLACEMENT OF 5<sup>TH</sup> WHEEL 3-AXLE TRACTOR

*Recommendation: That the Board approve the purchase of one 5<sup>th</sup> Wheel 3 axle day cab tractor for \$138,754.93 from San Diego Freightliner in San Diego, which was the lowest responsive bidder, in order to maintain a reliable District fleet to complete necessary infrastructure repairs and replacement.*

Vice-President Gebhart stated that an aluminum body truck would save the District approximately \$10,000 and suggested an aluminum body truck be purchased instead of a steel body truck. Mr. Bebee proposed that a Request for Proposals could be issued for an aluminum body truck if the Board felt it would meet the needs of the District.


Brief discussion ensued, and staff was directed to reject all bids and issue a Requests for Proposals for an aluminum body truck.

#### IV. ORAL / WRITTEN REPORTS----- (ITEMS 1 – 7)

##### 1. General Legal Counsel

- Mrs. de Sousa Mills announced that as a report out of a previous Closed Session, a settlement agreement was executed and finalized with the Beaver Creek Homeowners Association (HOA); and in accordance with the

## M E M O

**TO:** Fiscal Policy and Insurance Committee  
**FROM:** David Shank, Assistant General Manager/CFO   
**DATE:** October 11, 2017  
**SUBJECT:** Proposed Revisions to Bill Format

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Purpose

Discuss proposed changes to the Districts bill format to reduce customer bill related questions.

Summary

Currently, the water and sewer bills do not provide a customer with the information necessary to calculate their sewer charge. This has been a source of customer billing questions because applying the sewer unit rate (\$/kgal) to the units shown on the bill does not result in the sewer charge that appears on the bill. The current bill format shows the number of sewer units before the Return to Sewer (RTS) flow factor is applied to determine the billable number of sewer units. This adjustment is not noted or shown on the current bill. Once sewer flows are adjusted for the RTS factor, the sewer unit rate can be applied to the billable units and added to the fixed sewer charge to match the charge appearing on the bill. Attachment A shows the current bill format. In this example, the sewer flow of 3 would need to be multiplied by the RTS factor to determine the billable sewer flow that the sewer unit rate would be applied to and the fixed charge added to that amount.

Effective January 1, 2018, it is proposed that the new bill format will show the billable sewer flow, which is already adjusted for the RTS factor and will split out the fixed sewer charge. This will enable the customer to apply the sewer unit rate to the number of units shown on the bill and calculate the charge as it appears on the bill. An example of the same bill presented above with the new format is provided as Attachment B. In this example, the billable sewer flow is 2.25, which in this case is the winter flow multiplied by the RTS factor. The sewer unit rate applied to the billable flow matches the charge appearing on the bill. The fixed sewer charge is also split out allowing the customer to see all the components of the sewer bill clearly.

In addition, a line item on the bill is repositioned to group water related charges together to help make the bill easier for the customer to understand. A quick comparison of Attachments A and B shows that the Water Capital Improvements Charge is moved up to position it with the water related charges in the reformatted bill.

These changes are expected to eliminate some of the more frequent bill related questions received by our customer service representatives and help make the bill easier to follow for our customers.

Recommended Action

Approve recommended modifications to the bill format effective January 1, 2018.

## **Attachment “A”**



CUSTOMERS ARE RESPONSIBLE FOR  
 WATER PIPE BREAKS ON THEIR PROPERTY  
 Service is subject to interruption and applicable fees if not paid by **9/30/2017**

MESSAGE CENTER

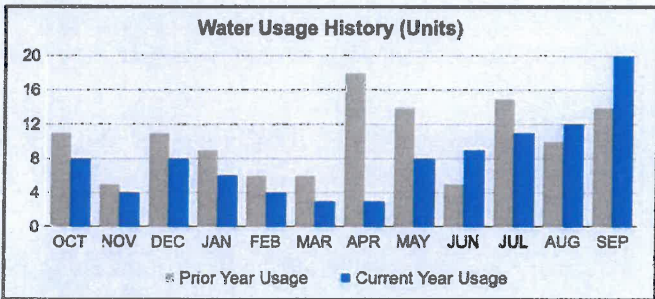
Name:	
[REDACTED]	
Service Address:	
[REDACTED]	
Due Date:	Amount Due:
9/30/2017	\$220.65

SEE REVERSE FOR IMPORTANT BILLING INFORMATION

CURRENT CHARGES DETAIL

Account Number	Class	Meter Serial #	Meter Readings		Total Units	Service Period	8/11/2017 - 9/13/2017
			Current	Previous		Meter Read Dates	Prev: 8/1/2017 - Curr: 9/5/2017
[REDACTED]	D	[REDACTED]	259	239	20		

PREVIOUS BALANCE	\$174.73
PAYMENTS/CR -THANK YOU	\$169.73
ADJUSTMENTS THIS PERIOD	\$5.00 CR
BALANCE FORWARD	\$0.00
WATER USAGE = 20 Units	
5 Units @ Tier 1	\$26.05
15 Units @ Tier 2	\$86.10
TOTAL WATER CHARGE	\$112.15
OPERATIONS CHARGE	\$41.59
SEWER: FLOW = 3	\$39.80
WATER CAPITAL IMPROVEMENT CHRG	\$9.45
SEWER CAPITAL IMPROVEMENT CHRG	\$10.84
CHRGs LEVIED BY OTHERS	
MWD READY TO SERVE	\$4.00
CWA ACCESS CHARGE	\$2.82
TOTAL CURRENT CHARGE	\$220.65
TOTAL DUE	\$220.65



Current Usage this month (Unit = 1000 gallons): **20**  
 Usage last month (Unit = 1000 gallons): **12**

MAKE CHECKS PAYABLE TO:

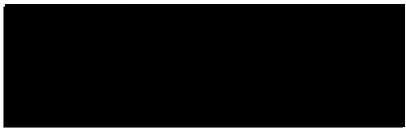


PO BOX 2290 FALLBROOK, CA 92088-2290  
 PHONE: (760) 728-1125 (24 Hrs)  
 FAX: (760) 728-6029 Website: www.fpud.com

Check here for change of address or phone number. Enter the changes on the reverse side.

NAME:

FBS0913A  
 9000000102 00.0000.0102 102/1



Please detach and return bottom portion with your payment.

Due Date:		Amount Due:	
9/30/2017		\$220.65	
Account Number		Meter Serial	
[REDACTED]		[REDACTED]	
Discount received by 9/30/2017		Enter Amount Enclosed:	
\$5.00			

REMIT TO:



FALLBROOK PUBLIC UTILITY DISTRICT  
 P.O. BOX 2290  
 FALLBROOK, CA 92088-2290

0052780000002156500022065

## **Attachment “B”**





CUSTOMERS ARE RESPONSIBLE FOR  
 WATER PIPE BREAKS ON THEIR PROPERTY  
 Service is subject to interruption and applicable fees if not paid by 9/30/2017

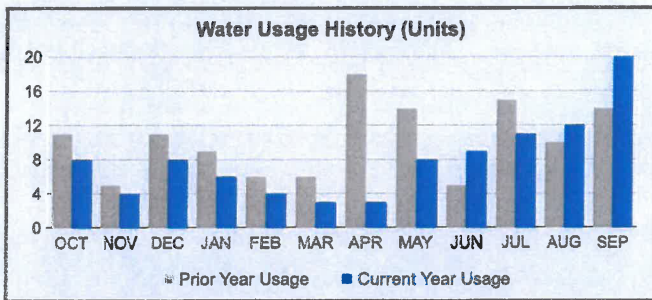
MESSAGE CENTER

Name:	
[REDACTED]	
Service Address:	
[REDACTED]	
Due Date:	Amount Due:
9/30/2017	\$220.65

SEE REVERSE FOR IMPORTANT BILLING INFORMATION

CURRENT CHARGES DETAIL

Account Number	Class	Meter Serial #	Meter Readings Current	Meter Readings Previous	Total Units	Service Period	8/11/2017 - 9/13/2017
[REDACTED]	D	[REDACTED]	259	239	20	Meter Read Dates	Prev: 8/1/2017 - Curr: 9/5/2017



Current Usage this month (Unit = 1000 gallons): 20  
 Usage last month (Unit = 1000 gallons): 12

PREVIOUS BALANCE	\$174.73
PAYMENTS/CR -THANK YOU	\$169.73
ADJUSTMENTS THIS PERIOD	\$5.00 CR
BALANCE FORWARD	\$0.00
WATER USAGE = 20 Units	
5 Units @ Tier 1	\$26.05
15 Units @ Tier 2	\$86.10
TOTAL WATER CHARGE	\$112.15
OPERATIONS CHARGE	\$41.59
WATER CAPITAL IMPROVEMENT CHRG	\$9.45
SEWER CHARGES	
SEWER FLOW = 2.70	\$23.68
SEWER FIXED CHRG	\$16.12
SEWER CAPITAL IMPROVEMENT CHRG	\$10.84
CHRGs LEVIED BY OTHERS	
MWD READY TO SERVE	\$4.00
CWA ACCESS CHARGE	\$2.82
TOTAL CURRENT CHARGE	\$220.65
TOTAL DUE	\$220.65

MAKE CHECKS PAYABLE TO:

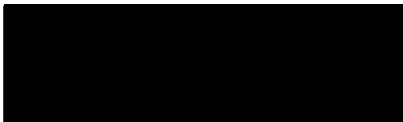


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Check here for change of address or phone number. Enter the changes on the reverse side.

NAME:

FBS0913A  
 9000000102 00.0000.0102 102/1



Please detach and return bottom portion with your payment.

Due Date:	Amount Due:
9/30/2017	\$220.65
Account Number	Adjustments This Period
[REDACTED]	\$0.00
Meter Serial Number	Enter Amount Enclosed:
[REDACTED]	

REMIT TO:




FALLBROOK PUBLIC UTILITY DISTRICT  
 P.O. BOX 2290  
 FALLBROOK, CA 92088-2290

0052780000002156500022065



## M E M O

**TO:** Fiscal Policy & Insurance Committee  
**FROM:** David Shank, Assistant General Manager/CFO   
**DATE:** October 11, 2017  
**SUBJECT:** Review of Budget Status Report

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Purpose

Discuss proposed changes to the District's Budget Status Report (BSR) format and potential enhancements to budget projections.

Summary

The current District BSR provides a snap shot of the District's use of funds and revenue receipts up to the reporting period. This allows management and the Board to quickly assess where the line items are relative to the budget and if budgets are sufficient. This helps to anticipate and prepare for any potential shortfalls or surpluses. This item is expected to facilitate a discussion of what the BSR will look like going forward. The discussion will also focus on ways improve what information is provided as well as discuss line items that have a significant variance from budget already.

**Changes to Existing Report Changes**

The BSR from last month, updated with some initial Board comments, is provided as Attachment A to facilitate the discussion. The primary change is to align the signs on the variance with whether it is favorable or unfavorable to the budget status. The areas where this change occurred are circled and the columns are highlighted in red.

**Alternative Report Format**

A mock-up BSR was developed for Committee discussion. The mock-up provides a high level summary of the District's financial performance. The mock-up is provided as Attachment B and contains the following data:

1. Monthly performance – The monthly data allow sudden shifts in revenues and expenditures to be identified quickly and the impacts assessed.
2. Year-to-date status – The year-to-date provides the cumulative impact of monthly variation and compares it to budgeted revenues and expenses. This helps filter out monthly volatility and shows persistent trends that may need to be addressed.
3. Remaining budget check – The final columns provide a quick way to check remaining budgets and see where revenues and expenses are as a percent of budget. This eliminates the highly volatile projections of year-end amounts ties performance evaluation to the District's budget.

The line items in the report mirror the line items in the first page of the current BSR. The labor breakdown can be incorporated into the proposed format as a separate table

or it can be shown as a line item in the main report depending on the Committee's preferences. The line items identified in the current report were largely carried over into the new format. The CalPERS and PARS were moved out from under debt service and put into "Other Expenses". In addition, the projected year-end fund balance data were eliminated since the BSR no longer projects year-end data.

To develop the monthly BSR each revenue and expense stream has to be converted from an annual estimate into a monthly format. This requires the historic patterns to be identified and incorporated into the monthly and year-to-date budget columns. For example, property taxes are remitted to the District intermittently during a fiscal year. Water sales revenue is another example of a revenue stream that requires analysis to develop good monthly estimates. Developing an estimate for water sales requires the fixed and variable revenues to be split out and the variable portion for each month estimated. All of the monthly and year-to-date amounts need to reflect this level of effort to provide a good comparison in the BSR. The current practice of straight line estimating may work for a limited number of line items.

In addition to the financial data, the District's water, sewer and recycled water deliveries/flows are provided in the charts attached to the proposed BSR. Under the current format these data are shown as part of the financial data. The proposed format breaks this information out into easy to interpret charts. Because these are the major drivers of the District's financial performance, this information is provided as part of the BSR.

#### Recommended Action

This item is for discussion only. No action is required.

**Attachment “A”**

**Fallbrook Public Utility District  
2017-18 Budget Overview-Through 08/30/17**

	2017-18 Adopted Budget	2017-18 Actual YTD	2017-18 Projected	Change from Projected to Adopted Budget	Percent Change from Prior Budget
				Favorable/(Unfavorable)	
<b>REVENUES:</b>					
Water Sales	8,673	1,873			
Recycled Sales	850	147			
	9,523	2,020	9,523.00	-	0.0%
<b>Operating Revenues:</b>					
Water Sales	16,124,308	3,230,334	16,124,308	-	0.0%
MWD Readiness to Serve	405,267	84,467	506,803	101,536	25.1%
CWA Infrastructure Access Charge	411,331	66,332	397,990	(13,341)	-3.2%
Meter Service Charges	5,348,419	909,285	5,455,710	107,291	2.0%
Wastewater Service Charges	5,787,904	921,666	5,529,994	(257,910)	-4.5%
Overuse Penalties	0		0	-	0.0%
Sundry Other Revenue	306,100	62,392	306,100	-	0.0%
CWA Rebates	162,448	38,320	162,448	-	0.0%
Total Operating Revenue	28,545,777	5,312,796	28,483,353	(62,424)	-0.2%
<b>Non Operating Revenues:</b>					
Capital Improvement Charge	2,396,200	382,156	2,292,933	(103,267)	-4.3%
Property Taxes*	1,916,938	40,568	1,916,938	-	0.0%
Water Standby/Availability Charge	203,000		203,000	-	0.0%
Water/Wastewater Capacity Charges	136,914	12,927	136,914	-	0.0%
Portfolio Interest**	207,356	40,940	245,640	38,284	18.5%
Pumping Charge	131,840	29,799	178,791	46,951	35.6%
Prop 84 & 50 Funds	0	28,500	28,500	28,500	0.0%
SRF Loan Proceeds	0		0	-	0.0%
CSI Rebate	0		0	-	0.0%
Facility Rents & Other Non Operating Revenues	173,055	28,552	171,310	(1,745)	-1.0%
Total Non Operating Revenues	5,165,303	563,440	5,174,026	8,723	0.2%
*FY 16-17 Opening Balances (did not use Raffelis figures) **Portfolio interest as calculated on actual investments					
<b>Total Budgeted Revenues</b>	<b>33,711,080</b>	<b>5,876,236</b>	<b>33,657,379</b>	<b>(53,701)</b>	<b>-0.2%</b>
<b>EXPENDITURES:</b>					
<b>Operating Expenses:</b>					
AF Purchased Potable Water	9,223	2,157			
AF Produced Recycled Water	902	259			
	10,125	2,416	10,125		
Purchased Water Expense	13,228,586	2,823,096	13,228,586	-	0.0%
MWD Readiness to Serve	405,267	59,533	357,195	48,072	11.9%
CWA Infrastructure Access Charge	411,331	67,572	405,432	5,899	1.4%
Production-Water Quality & Treatment	1,388,176	161,552	969,311	418,865	30.2%
Distribution & Pumping	1,896,071	231,670	1,390,078	506,053	26.7%
Customer Service	1,421,119	192,273	1,153,640	267,479	18.8%
General Administration	5,094,194	732,123	4,392,740	701,454	13.8%
Collection, Treatment & Disposal	2,731,560	499,033	2,994,196	(262,636)	-9.6%
Total Operating Expenses	26,576,304	4,766,851	24,891,117	1,685,187	6.3%
<b>Debt Service Expenses</b>					
Red Mountain SRF	395,893	197,712	395,893	-	0.0%
WWTP SRF	1,845,746	0	1,845,746	-	0.0%
QECB Solar Debt	372,854	0	372,854	-	0.0%
CalPERS 17-18 Unfunded Actuarial Liability Lump Sum	572,652	572,652	572,652	-	0.0%
PARS	750,000		750,000	-	0.0%
Total Debt Service Expenses	3,937,145	770,364	3,937,145	-	0.0%
<b>Net Revenue/(loss) From Operations and Debt Service</b>	<b>3,197,631</b>	<b>339,021</b>	<b>4,829,199</b>	<b>1,631,487</b>	<b>51.0%</b>
Capital Project Expenses-completed and ongoing projects	8,395,283	747,964	8,395,283	-	0.0%
<b>NET REVENUES &amp; EXPENDITURES</b>	<b>(5,197,652)</b>	<b>(408,943)</b>	<b>(3,566,165)</b>	<b>1,631,487</b>	<b>-31.4%</b>
Estimated Reserves as of 7/1/17	11,349,777	14,988,998	14,988,998	3,639,221	32.1%
Estimated Reserves as of 6/30/18	6,152,125	14,580,056	11,422,833	8,270,708	85.7%

**Fallbrook Public Utility District  
2017-18 Budget Overview-Through 08/31/17**

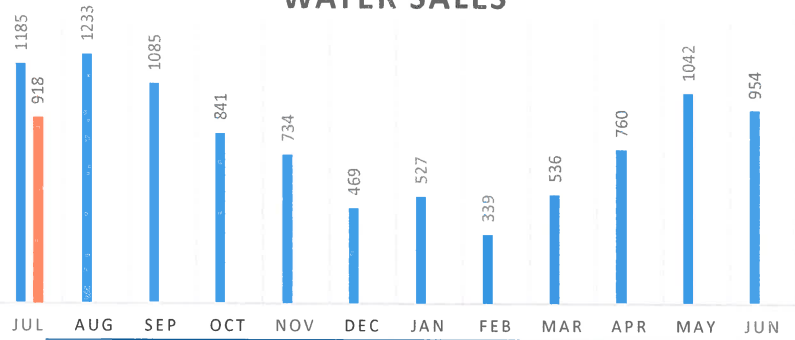
	2017-2018 Adopted Budget	2017-2018 Actual YTD	2017-18 Projected	Change from Projected to Adopted Budget Favorable/(Unfavorable)	
<b>Labor Costs:</b>					
Annual Wages	5,828,492	1,147,958.45	6,887,751	(1,059,259)	18.2%
<b>Direct Benefits:</b>					
Medical/Dental/Vision (ACWA JPIA)	908,782	152,865	901,104	7,678	-0.8%
Other Post Employment Benefits (OPEB) contribution	150,000	0	150,000	-	0.0%
Life Insurance/Long Term Disability(Lincoln Life Ins)	35,780	6,380	38,872	(3,052)	8.5%
Uniforms/Safety Equipment	38,317	1,342	38,317	-	0.0%
Auto Allowance & Rec Fund	18,700	1,504	18,045	655	-3.5%
<b>Total Wages &amp; Direct Benefits</b>	<b>6,980,071</b>	<b>1,310,049</b>	<b>8,034,048</b>	<b>(1,053,977)</b>	<b>15.1%</b>
<b>Indirect Benefits:</b>					
CalPERS/401A* (Lincoln Financial)	558,770 *	86,822	520,932	37,838	-6.8%
CalPERS Lump Sum Unfunded Liability Payment	572,652	572,652	572,652	-	0.0%
CalPERS Side Fund Payoff**	585,000 **		585,000	-	0.0%
CalPERS Unfunded Liability contribution	100,000 ***	0	100,000	-	0.0%
FICA/Social Security	426,321	66,402	398,410	27,911	-6.5%
Workers Comp Premiums (JPIA)	127,023	20,000	127,023	-	0.0%
Other-Unemployment Insurance	0	0	0	-	
**Reimburse Reserves for 6/30/14 Side Fund Payoff				-	
***Actuarial Unfunded Liability of \$9.8M				-	
<b>Total Indirect Benefits</b>	<b>2,369,766</b>	<b>745,876</b>	<b>2,304,016</b>	<b>65,750</b>	<b>-2.8%</b>
<b>Total Wages and Fringe Benefits</b>	<b>9,349,837</b>	<b>2,055,925</b>	<b>10,338,065</b>	<b>(988,228)</b>	<b>10.6%</b>
*Employer Contribution 10.848% for Misc Members and 6.908% for PEPRA Members					
**Reimburse Reserves for 6/30/14 Side Fund Payoff Balance remaining is \$2,058,848 as of 6/30/17					
***Unfunded Actuarial Liability (UAL) of \$9.8M. This action prefunds a portion of the UAL into PARS					

1) Due to the timing of payroll this report includes 5 pay periods over 2 months which increases projection verses overall average of 2.16 per month

## **Attachment “B”**

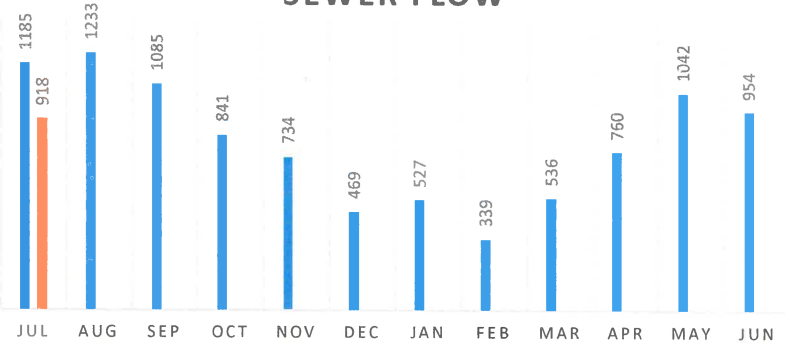
	Current Month				Year-To-Date				Annual Budget		
	Actual	Budget	Variance	%	Actual	Budget	Variance	%	Budget	Remaining Balance	%
<b>Operating Revenues:</b>	<div style="display: flex; justify-content: space-around;"> <div style="background-color: #4a90e2; color: white; padding: 50px; text-align: center;">Current Month Activity</div> <div style="background-color: #4a90e2; color: white; padding: 50px; text-align: center;">Year to Date Status</div> <div style="background-color: #4a90e2; color: white; padding: 50px; text-align: center;">Year end check</div> </div>										
Water Sales											
MWD Readiness to Serve											
CWA Infracture Access Charge											
Meter Service Charges											
Wastewater Service Charges											
Overuse Penalties											
Sundry Other Revenue											
CWA Rebates											
Total Operating Revenue											
<b>Non Operating Revenues:</b>											
Capital Improvement Charge											
Property Taxes*											
Water Standby/Availability Charge											
Water/Wastewater Capacity Charges											
Portfolio Interest**											
Pumping Charge											
Prop 84 & 50 Funds											
SRF Loan Proceeds											
CSI Rebate											
Facility Rents & Other Non Operating Revenues											
Total Non Operating Revenues											
<b>Total Budgeted Revenues</b>											
<b>Expenditures</b>											
Purchased Water Expense											
MWD Readiness to Serve											
CWA Infracture Access Charge											
Production-Water Quality & Treatment											
Distribution & Pumping											
Customer Service											
General Administration											
Collection, Treatment & Disposal											
Total Operating Expenses											
<b>Debt Service Expenses</b>											
Red Mountain SRF											
WWTP SRF											
QECB Solar Debt											
<b>Other Expenses</b>											
CalPERS 17-18 Unfunded Actuarial Liability											
Lump Sum											
PARS											
<b>Net Revenue/(loss) From Operations and Debt Service</b>											
<b>Capital Investment</b>											
Construction Expenditures											
<b>Net Revenue/(Loss)</b>											

### WATER SALES



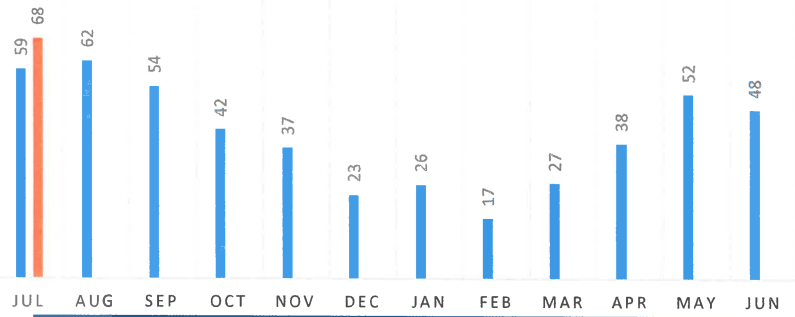
Year to Date Acutal XXX Year to Date Budget XXX

### SEWER FLOW



Year to Date Acutal XXX Year to Date Budget XXX

### RECYCLED WATER



Year to Date Acutal XXX Year to Date Budget XXX