



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

AGENDA

TUESDAY, OCTOBER 22, 2019
11:00 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) 999-2704 for assistance.

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 FINANCIAL STATEMENTS AND NOTES
- B. REVIEW THE PERFORMANCE OF DISTRICT'S INVESTMENT MANAGER
- C. OUTLINE THE PROCESS FOR SETTING CY 2020 RATES AND CHARGES
- D. REVIEW OF FISCAL YEAR ENDING JUNE 30, 2018 AUDITOR FINDINGS
- E. REVIEW OF ADDITIONAL COMMITTEE REVIEW REQUESTS WITH AUDITOR

III. ADJOURNMENT OF MEETING

* * * * *

DECLARATION OF POSTING

I, Mary Lou West, Secretary of the Board of Directors of the Fallbrook Public Utility District, do hereby declare that I posted a copy of the foregoing agenda in the glass case at the entrance of the District Office located at 990 East Mission Road, Fallbrook, California, at least 72 hours prior to the meeting in accordance with Government Code § 54954.2.

I, Mary Lou West, further declare under penalty of perjury and under the laws of the State of California that the foregoing is true and correct.

October 17, 2019
Dated / Fallbrook, CA

Mary Lou West
Secretary, Board of Directors

M E M O

TO: Fiscal Policy and Insurance Committee
FROM: David Shank, Assistant General Manager/CFO 
DATE: October 22, 2019
SUBJECT: Review of Draft Financial Statements and Notes

Purpose

Review the District's Draft Financial Statements and Notes for Fiscal Year ending June 30, 2019, Attachment A. These are the core elements of the District's Comprehensive Annual Financial Report (CAFR). This is the second year that the District will prepare a CAFR. In prior years, the District prepared and issued an Annual Financial Report (AFR). As part of the District's continuous improvement efforts, staff have implemented the best management practice of issuing a CAFR. The CAFR provides all of the information provided in prior AFRs but includes additional components designed to enhance both transparency and financial data. Two notable additions are:

- Transmittal Letter – This section provides additional information on the District including District Profile, economic conditions, major initiatives and other basic information critical to understanding the District.
- Statistical Section – This section presents unaudited and historic data related to the District's financial position, operations, customers and rates and charges. This information helps readers get a more complete understanding of the District.

The preliminary schedule for completing this year's CAFR is as follows:

- November – Review draft CAFR with Committee incorporate comments and prepare final draft for Board review.
- December – Present CAFR to the Board for approval.

It should be noted that the District's CAFR for Fiscal Year ending June 30, 2018, received the Governmental Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting. Receipt of this award demarks a notable achievement for the District and demonstrates significant improvements to the District's public financial disclosure.

Summary

The District's draft basic financial statements and notes attached were prepared by White, Nelson, Diehl, Evans, LLP's, the District's independent auditor. The basic financial statements and notes provide detailed information on the District's financial position for Fiscal Year ending June 30, 2019.

David Forman, the engagement Partner, will be present at the Committee meeting to review the statements and his findings. At the meeting, the findings report will be reviewed and discussed in detail.

Recommended Action

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

Attachment A

FALLBROOK PUBLIC UTILITY DISTRICT**ENTERPRISE FUND
STATEMENT OF NET POSITION
June 30, 2019**

	<u>2019</u>
ASSETS	
Current Assets	
Cash and cash equivalents (Note 2)	\$ 3,997,334
Investments (Note 2)	11,647,359
Receivables - water sales and services	4,029,630
Accrued interest receivable	79,724
Property taxes receivable	12,370
Other receivables	87,217
Inventory (Note 5)	1,839,995
Prepaid expenses and other deposits	43,393
Total current assets	<u>21,737,022</u>
Noncurrent Assets	
Restricted Assets	
Cash and cash equivalents	6,693,439
Investments	3,059,526
Total Restricted Assets	<u>9,752,965</u>
Capital assets (Note 3)	
Capital assets, not being depreciated	14,145,536
Capital assets being depreciated, net	99,454,241
Total capital assets, net	<u>113,599,777</u>
Total noncurrent assets	<u>123,352,742</u>
Total assets	<u>145,089,764</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts from Pension (Note 6)	3,197,216
Deferred amounts from OPEB (Note 7)	222,552
Total Deferred Outflows of Resources	<u>\$ 3,419,768</u>

(continued)

FALLBROOK PUBLIC UTILITY DISTRICT**ENTERPRISE FUND
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2019**

	<u>2019</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 2,871,022
Accrued wages	247,894
Construction and other deposits	8,908
Accrued interest payable	217,795
Compensated absences, current portion (Note 1)	586,045
Current portion of other long-term debt (Note 4)	<u>1,893,596</u>
Total current liabilities	<u>5,825,260</u>
Noncurrent Liabilities	
Health retirement account liability	258,421
Net OPEB obligation (Note 7)	135,077
Net pension liability (Note 6)	12,541,929
Retention payable	30,098
Compensated absences, net of current portion (Note 1)	879,067
Long-term debt - net of current portion (Note 4)	<u>31,580,781</u>
Total Noncurrent Liabilities	<u>45,425,373</u>
Total Liabilities	<u>51,250,633</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred amounts from Pension (Note 6)	957,275
Deferred amounts from OPEB (Note 7)	118,346
Deferred revenue	<u>114,851</u>
Total Deferred Inflows of Resources	<u>1,190,472</u>
NET POSITION	
Net investment in capital assets	80,125,400
Restricted for	
1958 Annex projects	1,213,780
Debt service	2,162,451
Pension Assets (Note 6)	6,101,463
Unrestricted	<u>6,465,333</u>
Total Net Position	<u>\$ 96,068,427</u>

FALLBROOK PUBLIC UTILITY DISTRICT

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

	<u>2019</u>
OPERATING REVENUES	
Water	\$ 20,481,788
Recycled water	998,942
Wastewater	<u>5,463,820</u>
Total operating revenues	<u>26,944,550</u>
OPERATING EXPENSES	
Cost of water	12,650,795
Water operations	7,252,060
Recycled water operations	600,294
Wastewater operations	<u>5,046,679</u>
Operating expenses before depreciation	25,549,828
Depreciation	<u>6,158,589</u>
Total operating expenses including depreciation	<u>31,708,417</u>
Operating (Loss)	<u>(4,763,867)</u>
NONOPERATING REVENUES (EXPENSES)	
Property taxes	2,106,034
Capital improvements charges	2,505,876
Investment income	915,275
Water availability charges	204,359
Lease revenue	199,433
Intergovernmental revenue - federal interest rate subsidy	134,924
Connection fees	180,966
Net gain on disposal of capital assets	9,338,297
Interest expense	<u>(909,966)</u>
Total nonoperating revenues (expenses)	<u>14,675,198</u>
Changes in net position before capital contributions	<u>9,911,331</u>
Capital contributions	
Capital asset contributions - donated from developers	<u>73,789</u>
Total capital contributions	<u>73,789</u>
Change in net position	<u>9,985,120</u>
Net position, beginning of year	86,083,307
Net position - end of year	<u>\$ 96,068,427</u>

FALLBROOK PUBLIC UTILITY DISTRICT**ENTERPRISE FUND
STATEMENT OF CASH FLOWS
For the year ended June 30, 2019****CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 26,957,492
Payments for water	(13,239,336)
Payments for services and supplies	(5,099,812)
Payments for employee wages, benefits and related costs	(7,046,803)
Net cash provided by operating activities	<u>1,571,541</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Property taxes	<u>2,102,847</u>
Net cash provided by noncapital financing activities	<u>2,102,847</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(5,977,474)
Proceeds from sales of capital assets	9,975,952
Principal payments on long-term debt	(1,839,651)
Interest paid	(922,536)
Lease revenues collected	199,433
Intergovernmental revenue - federal interest rate subsidy	134,924
Capital improvement charges and connection fees	2,742,322
Water availability charges	204,359
Net cash used by capital and related financing activities	<u>4,517,329</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	(5,416,513)
Sales of investments	3,135,714
Interest received	580,308
Net cash provided by investing activities	<u>(1,700,491)</u>
Net change in cash and cash equivalents	6,491,226
Cash and cash equivalents - beginning	<u>4,199,547</u>
Cash and cash equivalents - ending	<u>\$ 10,690,773</u>

Financial Statement Presentation

Cash and cash equivalents	\$ 3,997,334
Cash and cash equivalents - Restricted Assets	6,693,439
Total Cash and cash equivalents	<u>\$ 10,690,773</u>

FALLBROOK PUBLIC UTILITY DISTRICT

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

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

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FALLBROOK PUBLIC UTILITY DISTRICT

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

Assets

Cash and Cash Equivalents \$ 1,006,649

Net Position

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

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FALLBROOK PUBLIC UTILITY DISTRICT

FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - OPEB TRUST FUND
For the year ended June 30, 2019

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization and Operations of the District

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

In November 1994, the citizens of the Fallbrook Sanitary District (which is wholly included within the Fallbrook Public Utility District) voted to dissolve that district and have the Fallbrook Public Utility District become the provider of wastewater services in Fallbrook. The provisions of the dissolution and assumption of services established a separate improvement district to identify the tax base and debt obligations of the former Fallbrook Sanitary District.

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation: (Continued)

The District, as an enterprise fund, accounts for its operations in a manner similar to private business enterprises. The intent of the governing body is that the costs (including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The focus of enterprise fund measurement is upon determination of operating income, changes in net position, and cash flows. The District follows the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, such as, unbilled but utilized utility services are recorded at year end.

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

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

Net position of the District is classified into three components: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. These classifications are defined as follows:

Net Investment in Capital Assets

This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes or borrowings that are attributable to the acquisition of the asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.

Restricted Net Position

This component of net position consists of net position with constrained use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position

This component of net position consists of net position that does not meet the definition of “net investment in capital assets,” or “restricted net position.”

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. New Accounting Pronouncements:

Current Year Standards:

- GASB 83 – “*Certain Asset Retirement Obligations*,” effective for periods beginning after June 15, 2018, and did not impact the District.
- GASB 88 – “*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*,” effective for periods after June 15, 2018, and did not impact the District.

Pending Accounting Standards:

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

- GASB 84 – “*Fiduciary Activities*,” effective for periods beginning after December 15, 2018.
- GASB 87 – “*Leases*,” effective for periods beginning after December 15, 2019.
- GASB 89 – “*Accounting for Interest Cost Incurred before the End of a Construction Period*,” effective for periods beginning after December 15, 2019.
- GASB 90 – “*Majority Equity Interests an amendment of GASB Statements No. 14 and No. 61*,” effective for periods beginning after December 15, 2018.
- GASB 91– “*Conduit Debt Obligations*,” effective for periods beginning after December 15, 2020.

d. Deferred Outflows/Inflows of Resources:

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Deferred Outflows/Inflows of Resources: (continued)

- Deferred outflow related to other post-employment benefits pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Cash, Cash Equivalents and Investments

Cash and cash equivalents

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

State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Investment Valuation

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

f. Water Sales

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

g. Accounts Receivable and Allowance for Doubtful Accounts

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

h. Inventories

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

i. Prepaid Expenses

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

j. Restricted Assets

Amounts shown as restricted assets have been restricted by debt agreements, by law or regulations, or by contractual obligations to be used for specified purposes, such as service of debt and construction of capital assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k. Capital Assets and Depreciation

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

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

l. Compensated Absences

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. Property Taxes and Assessments

Property taxes in California are levied in accordance with Article XIII A of the State Constitution at 1% of countywide assessed valuations. This levy is allocated pursuant to state law to the appropriate units of local government. Additional levies require two-thirds approval by the voters and are allocated directly to the specific government. Taxes and assessments are recognized as revenue based on amounts reported to the District by the San Diego County Tax Collector's Offices. The San Diego County Tax Collector's Offices acts as a collection agent for the property taxes which are normally collected twice a year.

Lien Date:	January 1
Levy Date:	July 1
Due Dates:	First Installment - November 1 Second Installment - February 1
Delinquent Dates:	First Installment - December 10 Second Installment - April 10

o. Use of Estimates

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

p. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

q. Other Postemployment Benefits

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

2. CASH AND INVESTMENTS

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

	<u>2019</u>
Statement of Net Position:	
Current Assets:	
Cash and cash equivalents	\$ 3,997,334
Restricted cash and cash equivalents	6,693,439
Investments	11,647,359
Restricted investments	3,059,526
Cash and cash equivalents with OPEB trust*	<u>1,006,649</u>
Total cash and investments	<u>\$ 26,404,307</u>

Cash and investments consist of the following:

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

*Reported on statement of fiduciary assets and liabilities.

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

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

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

2. CASH AND INVESTMENTS (Continued)

Investments Authorized by Debt Agreements:

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

Disclosures Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity at June 30, 2019.

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Local Agency Investment Fund (LAIF)	\$ 231,661	\$ 231,661	\$ -	\$ -	\$ -
San Diego County Treasurer Pool	15,077	15,077	-	-	-
California Asset Management Program (CAMP)	2,821,438	2,821,438	-	-	-
Asset Backed Securities	946,827	3,034	103,454	840,339	-
Medium-Term Notes	4,072,362	-	2,412,248	1,660,114	-
Municipal Bonds	172,654	-	172,654	-	-
Supranational Agency Bonds	139,468	-	139,468	-	-
Negotiable Certificates of Deposit	1,105,009	566,199	538,810	-	-
U.S. Agency Securities	253,317	-	253,317	-	-
U.S. Treasury Securities	7,903,944	184,147	231,812	7,487,985	-
Federal Agency Collateralized Mortgage Obligations	112,878	-	-	112,878	-
PARS Pooled Trust - Pension Trust	6,101,463	6,101,463	-	-	-
PARS Pooled Trust - OPEB Trust	1,006,649	1,006,649	-	-	-
Total	#####	\$ 10,929,668	\$ 3,851,763	#####	\$ -

2. CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's Investment Policy, or debt agreements, and the Standard & Poor's (S&P) rating for each investment type at June 30, 2019.

Investment Type	Total	Minimum Legal Rating*	Exempt from Disclosure	Ratings as of Year End			
				AAA	AA	A	Not Rated
Local Agency Investment Fund (LAIF)	\$ 231,661	Exempt	231,661	-	-	-	-
San Diego County Treasurer Pool	15,077	Exempt	15,077	-	-	-	-
California Asset Management Program (CAMP)	2,821,438	AAA	-	2,821,438	-	-	-
Asset Backed Securities	946,827	A	-	946,827	-	-	-
Medium-Term Notes	4,072,362	A	-	-	-	4,072,362	-
Municipal Bonds	172,654	A/A-1	-	-	172,654	-	-
Supranational Agency Bonds	139,468	AA	-	139,468	-	-	-
Negotiable Certificates of Deposit	1,105,009	A/A-1	-	-	538,812	566,197	-
U.S. Agency Securities	253,317	Exempt	253,317	-	-	-	-
U.S. Treasury Securities	7,903,944	Exempt	7,903,944	-	-	-	-
Federal Agency Collateralized Mortgage Obligations	112,878	AA	-	-	112,878	-	-
PARS Pooled Trust - Pension Trust	6,101,463	Exempt	-	-	-	-	6,101,463
PARS Pooled Trust - OPEB Trust	1,006,649	Exempt	-	-	-	-	1,006,649
Total	\$ 24,882,747		\$ 8,403,999	\$ 3,907,733	\$ 824,344	\$ 4,638,559	\$ 7,108,112

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

Concentration of Credit Risk:

The investment policy of the District is in accordance with limitations on the amount that can be invested in any one issuer as stipulated by the California Government Code. The District holds no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments at June 30, 2019.

2. CASH AND INVESTMENTS (Continued)

Custodial Credit Risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2019, \$469,211 of the District's deposits with financial institutions in excess of the Federal insurance limits were held in collateralized accounts.

Fair Value Measurements:

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

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

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

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

2. CASH AND INVESTMENTS (Continued)

Fair Value Measurements (Continued)

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

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

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

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

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

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

3. CAPITAL ASSETS

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

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

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

4. LONG-TERM DEBT

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

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

4. LONG TERM DEBT (Continued)

Red Mountain State Revolving Fund Loan

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

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

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

Qualified Energy Conservation Bonds (QECCB) Solar Loan

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

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

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

4. LONG TERM DEBT (Continued)

Clean Water State Revolving Fund Loan

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

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

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

5. INVENTORIES

Inventories at June 30, 2019 consisted of the following:

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

6. PENSION PLANS

a. General Information about the Pension Plan

Plan Description

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

Benefits Provided

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

The Plans' provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or After January 1, 2013
Hire date		
Benefit formula	2.5%@55	2%@62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8%	6.25%
Required employer contribution rates:		
Normal cost rate	10.848%	6.909%
Payment of unfunded liability	\$ 593,281	\$ 47

6. PENSION PLANS (Continued)

a. General Information about the Pension Plan (Continued)

Contributions

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

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

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

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 12,541,929

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2018, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

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

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

6. PENSION PLANS (Continued)

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

For the year ended June 30, 2019, the District recognized pension expense of \$1,755,796. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,224,180	\$ -
Differences between actual and expected experience	481,213	163,754
Change in assumptions	1,429,818	350,421
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	443,100
Net differences between projected and actual earnings on plan investments	62,005	-
Total	<u>\$ 3,197,216</u>	<u>\$ 957,275</u>

\$1,224,180 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2020	\$ 1,037,899
2021	543,131
2022	(452,463)
2023	(112,806)
2024	-
Thereafter	-

6. PENSION PLANS (Continued)

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

Actuarial Assumptions

The total pension liability for the June 30, 2018 measurement period was determined by an actuarial valuation as of June 30, 2017, with update procedures to roll forward the total pension liability to June 30, 2018. The total pension liability was based on the following:

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

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

6. PENSION PLANS (Continued)

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

Long-term Expected Rate of Return

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

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

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

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

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

Discount Rate

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

6. PENSION PLANS (Continued)

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

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

The following presents the District's proportionate share of the net pension liability of the each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

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

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan:

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

7. OTHER POSTEMPLOYMENT BENEFITS

Plan Description:

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

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

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Plan Description (Continued)

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

Employees Covered

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

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

Contributions

The District has historically funded the plan on a pay-as-you-go basis. Plan members are not required to contribute to the OPEB Plan. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2019, the District made \$36,801 in payments made outside of the trust.

Net OPEB Liability

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

Actuarial Methods and Assumptions

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

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

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions (Continued)

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

Investment Policy

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

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

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

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

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

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Discount Rate

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

Changes in the Net OPEB Liability

The changes in the net OPEB liability are as follows:

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

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

Change of Assumptions

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

Change of Benefit Terms

There were no changes of benefit terms.

Subsequent Events

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

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

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

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

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

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

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

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

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

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

Payable to the OPEB Plan

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

8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster.

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

9. COMMITMENTS AND CONTINGENCIES

Construction Commitments

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

<u>Capital Projects</u>	Remaining Construction Commitment	Expected Completion Date
De Luz Road Pipeline Replacement	\$ 850,000	December 2019
Sandia Tank Improvements	117,700	September 2019
North Stagecoach Culvert Replacement	75,900	July 2019
Ranchwood Road Culvert Replacement	75,000	November 2019

9. COMMITMENTS AND CONTINGENCIES (Continued)

Litigation

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

10. SUBSEQUENT EVENTS

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

11. SUBSEQUENT EVENTS

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

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

For the Last Ten Fiscal Years*

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

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

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

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

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

There were no changes in assumptions.

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

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

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

There were no changes in assumptions.

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

2. SCHEDULE OF CONTRIBUTIONS – DEFINED BENEFIT PENSION PLANS

For the Last Ten Fiscal Years*

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

Notes to Schedule:

Valuation Date	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
----------------	-----------	-----------	-----------	-----------	-----------

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry age**
Amortization method	Level percentage of payroll, closed**
Asset valuation method	Market Value***
Inflation	2.75%**
Salary increases	Depending on age, service, and type of employment**
Investment rate of return	7.375%, net of pension plan investment expense, including inflation**
Retirement age	50 years (2% at 55), 62 years (2% at 62), 50 years (2% at 50)
Mortality	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.**

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

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

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

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

For the Last Ten Fiscal Years*

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

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

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

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

4. SCHEDULE OF CONTRIBUTIONS - OPEB

For the Last Ten Fiscal Years*

	<u>6/30/2019</u>	<u>6/30/2018</u>
Actuarially determined contribution	\$ 72,529	\$ 74,065
Contributions in relation to the actuarially determined contributions	<u>(36,801)</u>	<u>(202,055)</u>
Contribution deficiency (excess)	<u>\$ 35,728</u>	<u>\$ (127,990)</u>
Covered- employee payroll	\$ 5,179,369	\$ 5,216,869
Contributions as a percentage of covered payroll	1.40%	1.42%

Notes to Schedule:

Valuation Date	6/30/2018	6/30/2017
Methods and Assumptions Used to Determine Contribution Rates:		
Actuarial Cost Method	Entry age actuarial cost method **	
Discount Rate	6%	
Projected Salary increases	3.0% Per Year	
Expected long term investment rate of return, net of plan investment expenses.	6.00%	
Healthcare Cost Trend Rate	8.0% for 2016, 7.0% for 2017, 6.0% for 2018; and 5.0% for 2019 and later years.	
Mortality	Based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.	

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


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

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

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

Draft dtd 10-17-19-For Review Only

M E M O

TO: Fiscal Policy and Insurance Committee
FROM: David Shank, Assistant General Manager/CFO 
DATE: October 22, 2019
SUBJECT: Review the Performance of District's Investment Manager

Purpose

In 2017, the District hired PFM Asset Management LLC to actively manage the District's long-term investment portfolio. Each quarter the District's investment manager provides a summary of the District's long-term investment portfolio's performance. These periodic reviews allow staff and the Committee to assess the investment manager's performance.

Summary

The quarterly report for the first quarter of FY 2019-2020 is attached for the Committee's review and discussion at the upcoming meeting.

Recommended Action

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



Fallbrook Public Utility District

Investment Performance Review For the Quarter Ended September 30, 2019

Client Management Team

Sarah Meacham, Managing Director

Richard Babbe, CCM, Senior Managing Consultant

601 South Figueroa, Suite 4500

Los Angeles, CA 90017

213-489-4075

PFM Asset Management LLC

213 Market Street

Harrisburg, PA 17101-2141

717-232-2723

Key Themes

Economic Conditions:

- A deteriorating U.S. economic outlook - made worse by ongoing trade tensions - prompted the Federal Reserve to cut rates by 25 basis points (0.25%) at both the July and September FOMC meetings. While Fed Chair Jay Powell characterized the moves as a “mid-cycle policy adjustment,” market expectations are for 1-2 more rate cuts in 2019.
- U.S. Treasury yields continued to fall throughout the quarter, and the inversion of the yield curve worsened, with 10-year Treasuries falling below those of 2-year Treasuries, in a classic early warning sign of recession, for part of the quarter.
- U.S. manufacturing remains under pressure with recent trade conflicts, shifting from slowing to stagnant. The most recent ISM surveys placed both manufacturing and services indicators just below the 50 mark that demarcates expansion and contraction.
- Rising uncertainties, weaker growth prospects, and low inflation are keeping investors on edge. While a U.S. recession is not the immediate forecast, risks are rising.

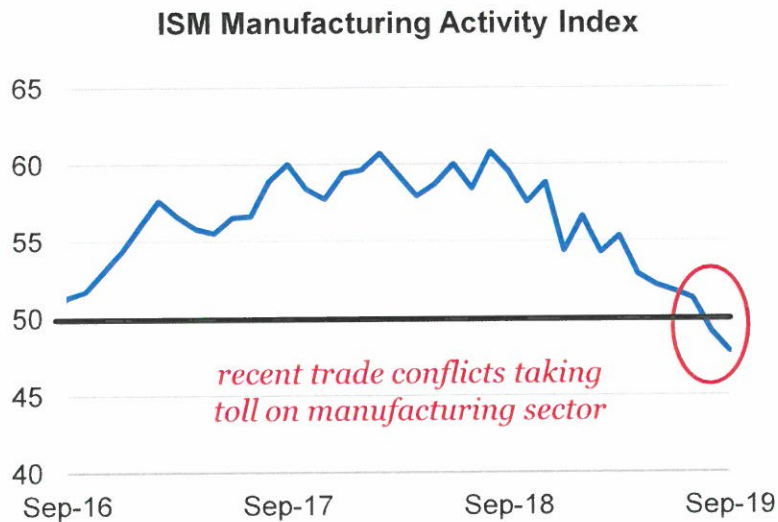
Strategy Considerations:

- We continued to maintain the portfolio’s duration in line with its benchmark, as we have since the beginning of the year, because of growing certainty that the Fed would cut rates, perhaps multiple times. Maintaining durations—despite the inverted yield curve—was just as vital as in previous quarters as the continued drop in yields drove strong fixed income returns.
- Our sector allocation strategy continued to favor broad diversification, including the widest range of permitted investments.
- Yield spreads (the difference in yield between Treasury and other sectors) have been narrow as a more accommodative Fed and a temporary lull in the trade war offensive mitigated some of the imminent risk to the economy and investors look to add yield.
- While we favor diversification, with yield spreads narrow, we have been selective with our non-Treasury purchases waiting for favorable opportunities to add non-Treasury securities.

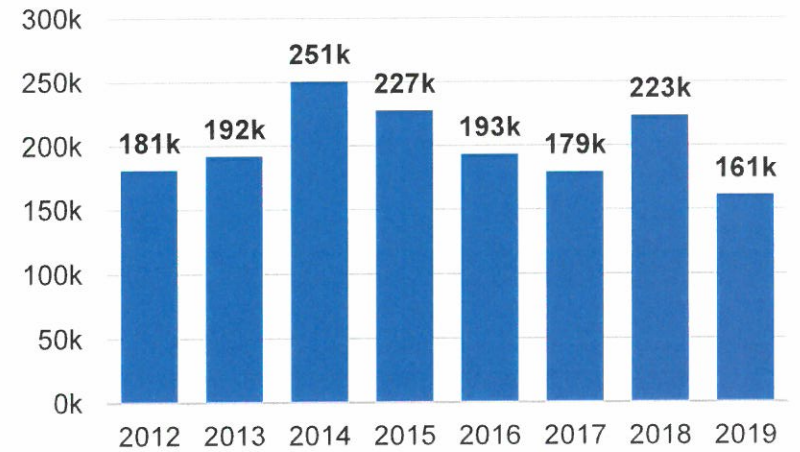
Market Update

Market Indicators Mixed, but Recession Does Not Appear Imminent

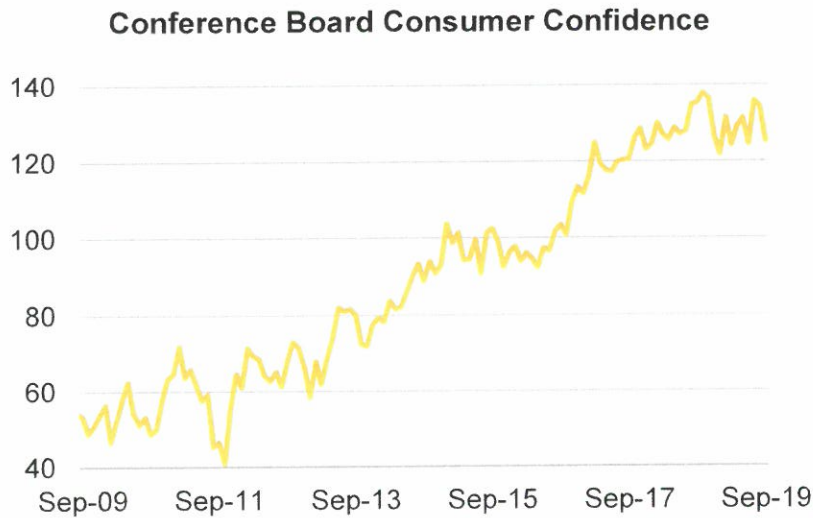
Recession fears growing as manufacturing slows and job growth moderates...



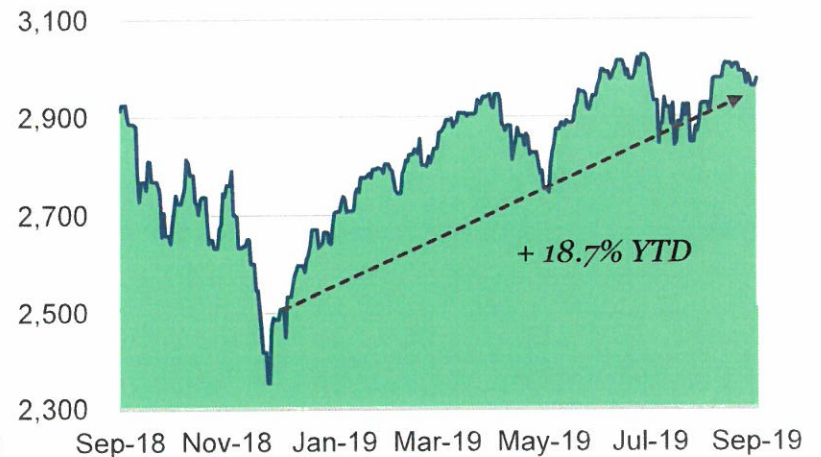
Average Monthly Job Growth



...but consumers remain confident and financial markets seem optimistic



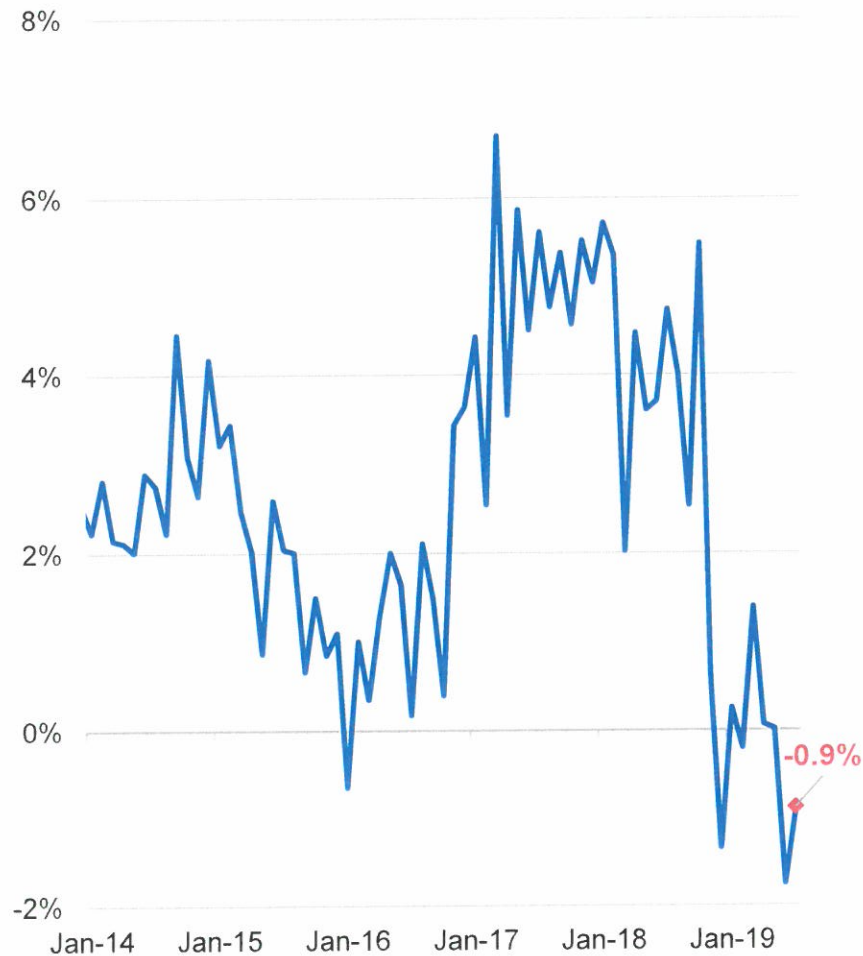
S&P 500 Price Change



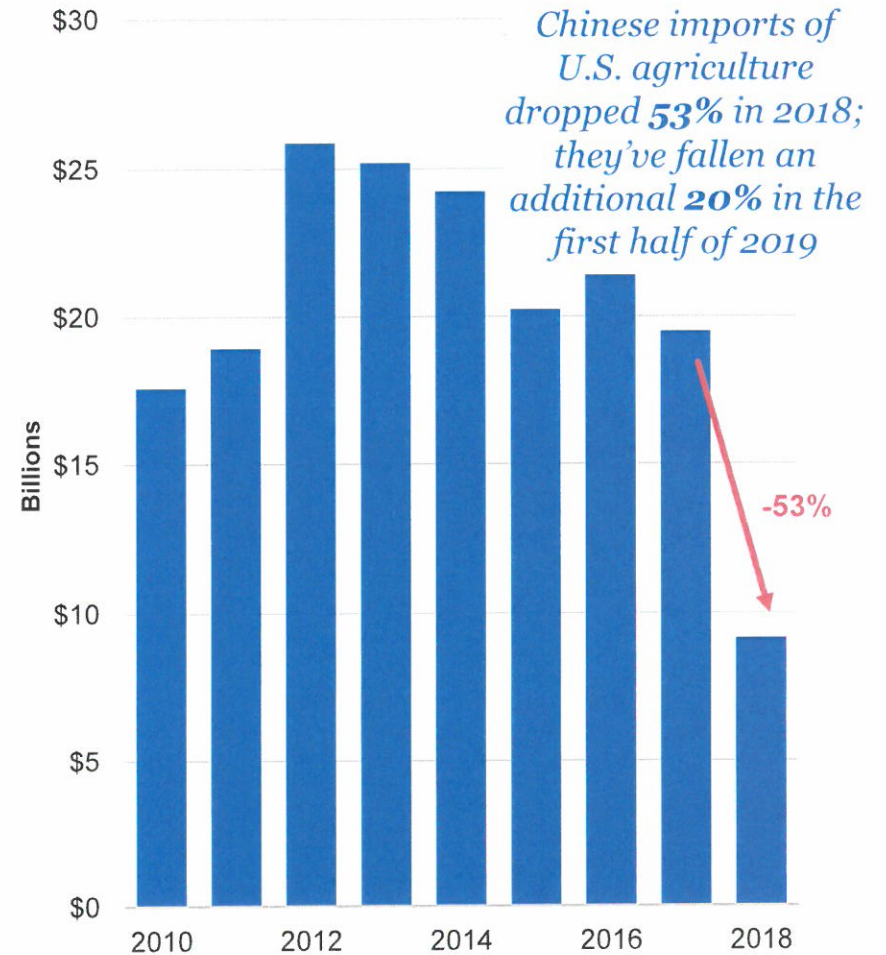
Source: Bloomberg, data available as of 9/30/2019.

Tariffs Take a Toll on Global Trade Volume, Especially U.S. Agriculture

Global Trade Volume YoY



U.S. Agricultural Exports to China

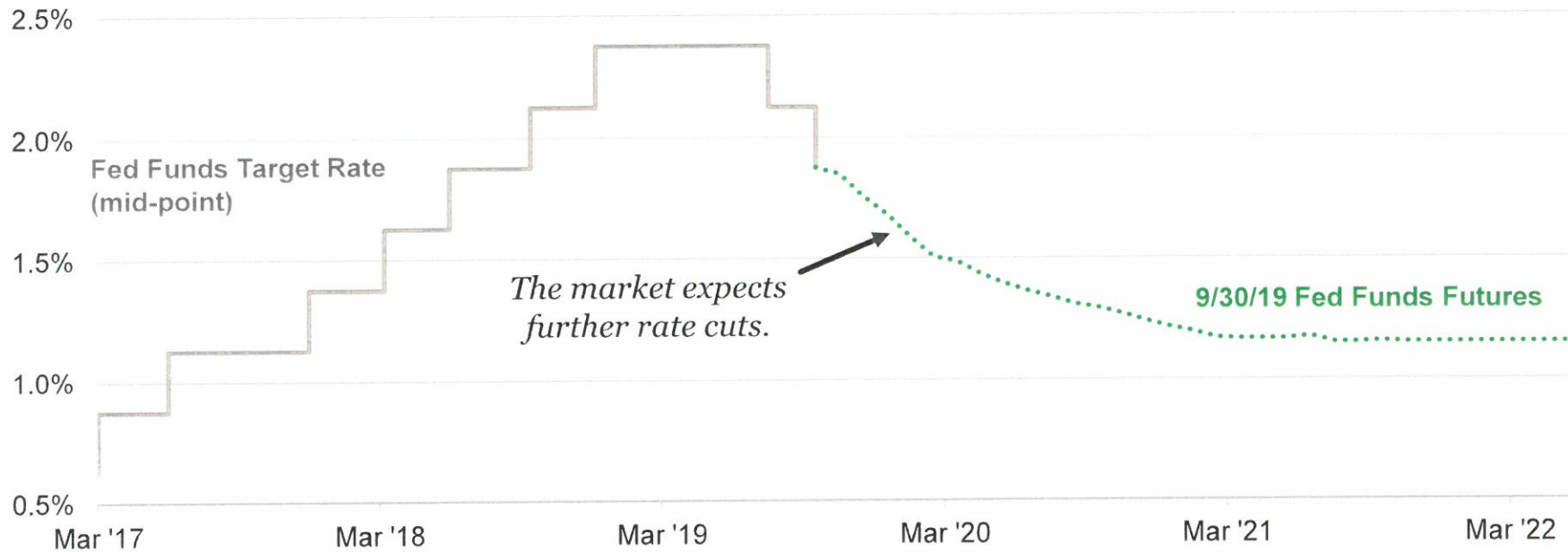


Source: CPB (left); Wall Street Journal & USDA Foreign Agricultural Services (right)

The Federal Reserve Cut Rates in July and September

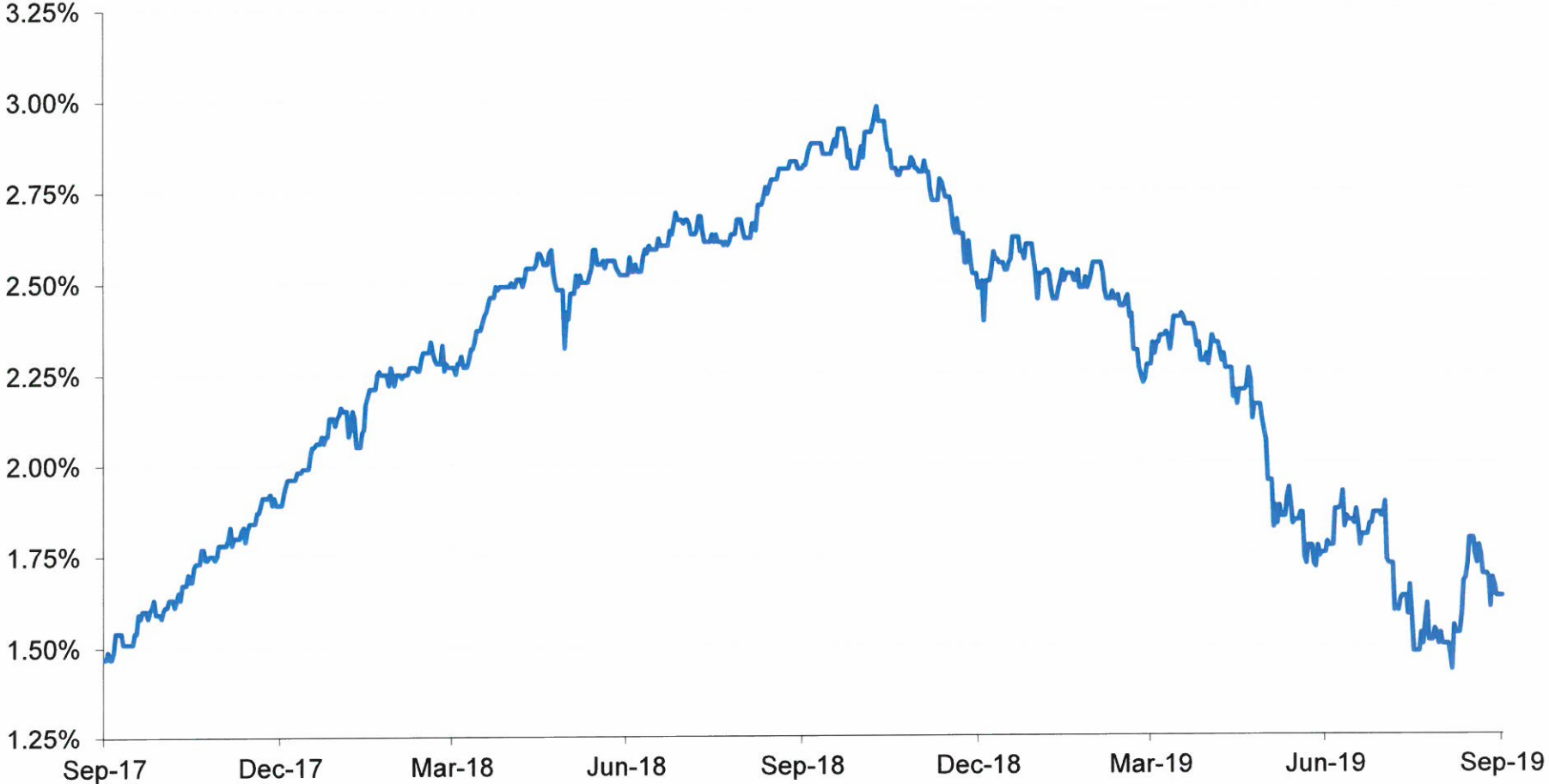


The Fed cited “...weak global growth...trade policy uncertainty...and muted inflation...”



Source: Federal Reserve and Bloomberg.

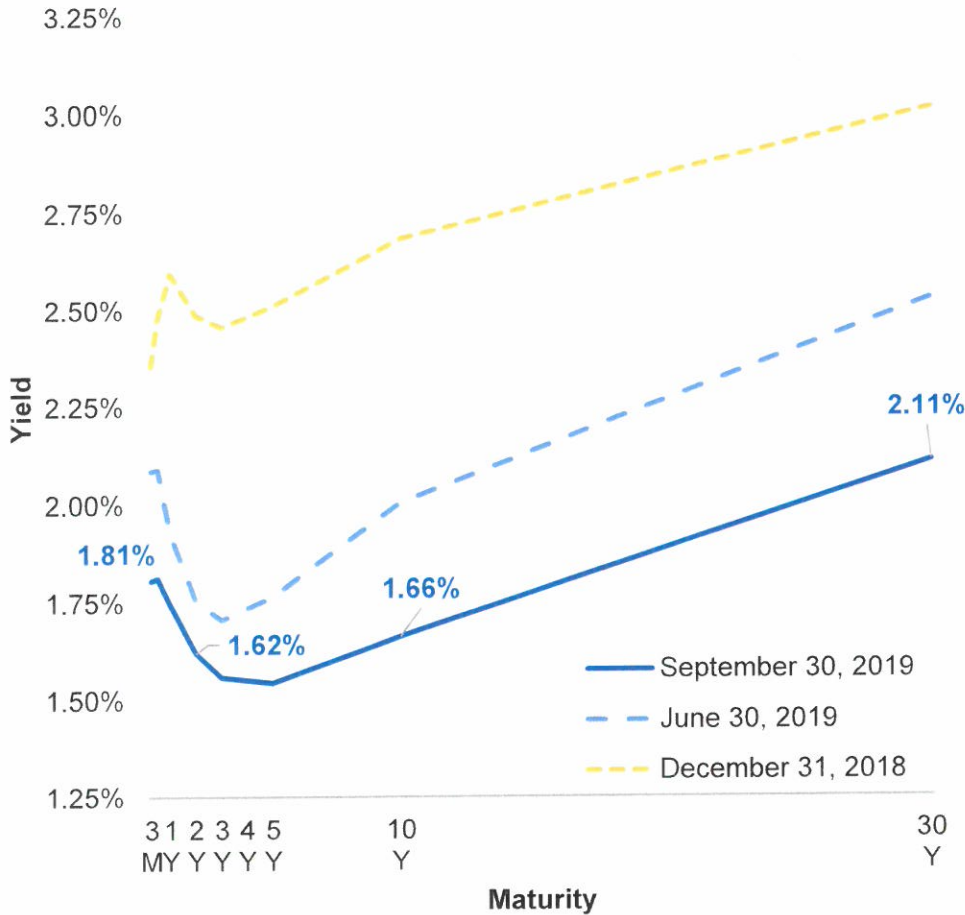
2-Years U.S. Treasury Yield History September 30, 2017 – September 30, 2019



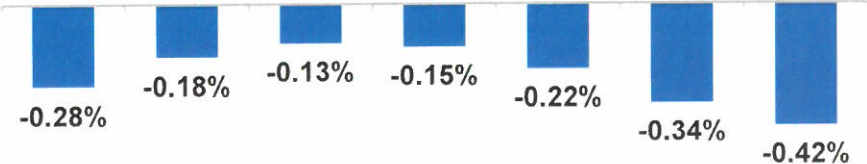
Source: Bloomberg.

Yields Continued to Decline in the Third Quarter

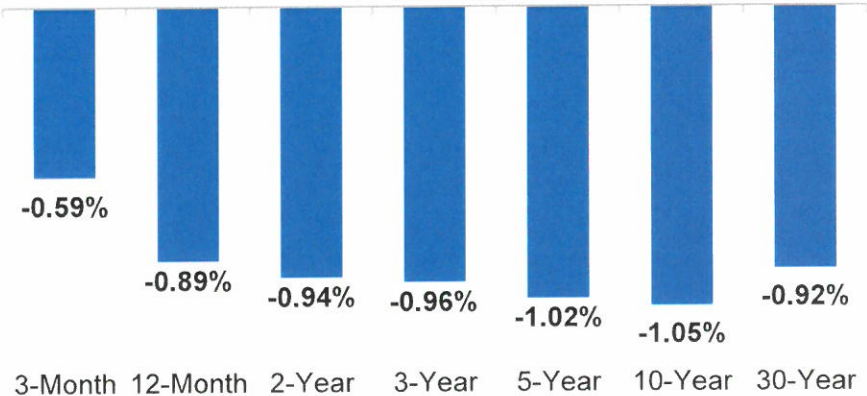
U.S. Treasury Yield Curve



Q3 Change in Yield



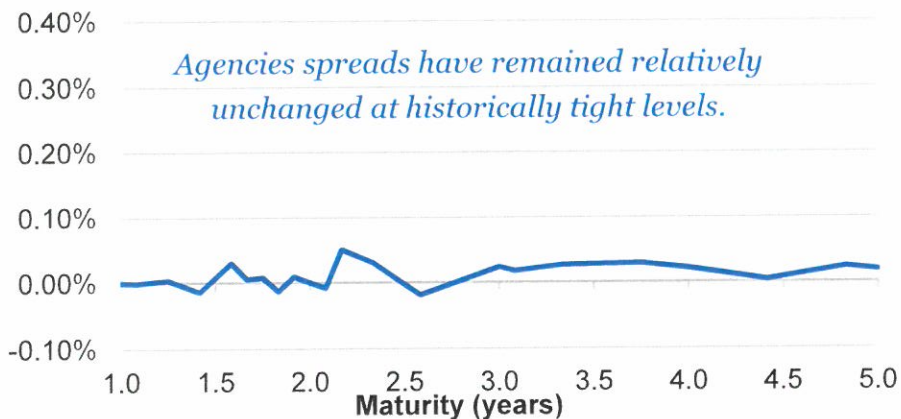
YTD Change in Yield



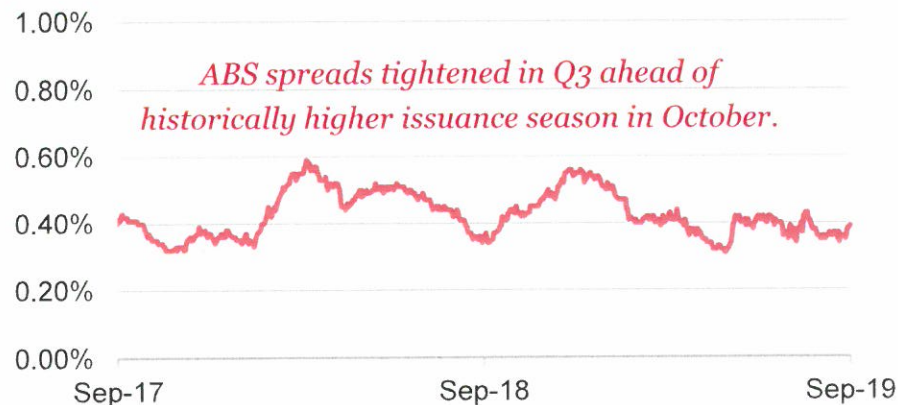
Source: Bloomberg, as of 9/30/19.

Yield Spreads Narrow Across All Spread Sectors

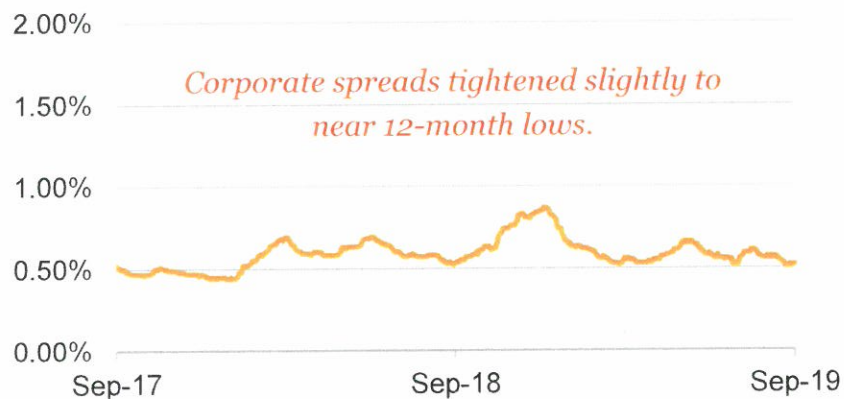
Federal Agency Yield Spreads



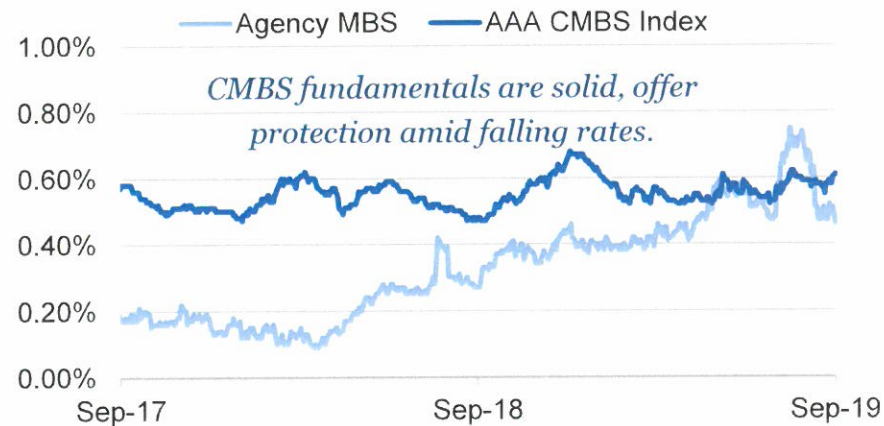
Auto Asset-Backed Securities Yield Spreads



Corporate Notes (1-5 yr. A-AAA) Yield Spreads



Mortgage-Backed Securities Yield Spreads



Source: Bloomberg, MarketAxess, and PFM. Spreads on ABS and MBS are option-adjusted spreads of 0-5 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. ICE BofAML 1-5 year Indices. Data as of 9/30/19. CMBS refers to Commercial Mortgage-Backed Securities.

Investment Strategy & Portfolio Review

Sector Allocation & Compliance

- The portfolio is in compliance with the District's Investment Policy and the California Government Code.

Security Type	Market Value as of 9/30/19	% of Portfolio	% Change vs. 6/30/19	Permitted by Policy	In Compliance
U.S. Treasury	\$8,270,552	55.5%	2.0%	100%	✓
Federal Agency	\$728,096	4.9%	3.2%	100%	✓
Agency CMOs	\$112,498	0.8%	-	100%	✓
Supranationals	\$139,764	0.9%	-	30%	✓
Municipal Obligations	\$172,474	1.2%	1.2%	25%	✓
Asset-Backed Securities	\$862,564	5.8%	-0.6%	20%	✓
Negotiable CDs	\$541,070	3.6%	-3.9%	30%	✓
Corporate Notes	\$4,051,128	27.2%	-0.4%	30%	✓
Securities Sub-Total	\$14,878,145	99.8%			
Accrued Interest	\$69,965				
Securities Total	\$14,948,110				
Money Market Fund	\$34,512	0.2%	-0.2%	20%	✓
Total Investments	\$14,982,622	100.0%			

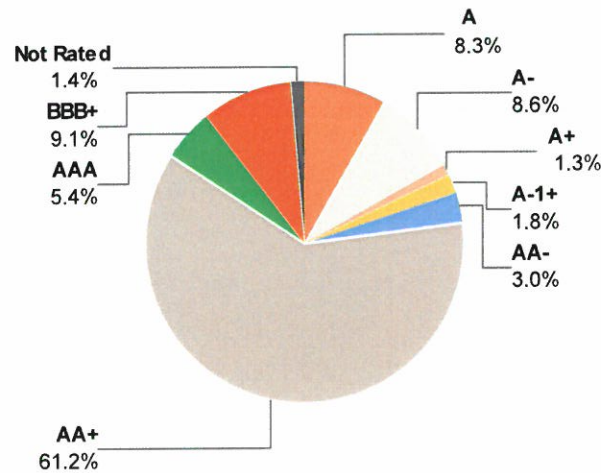
Market values, excluding accrued interest. Detail may not add to total due to rounding.

Portfolio Statistics

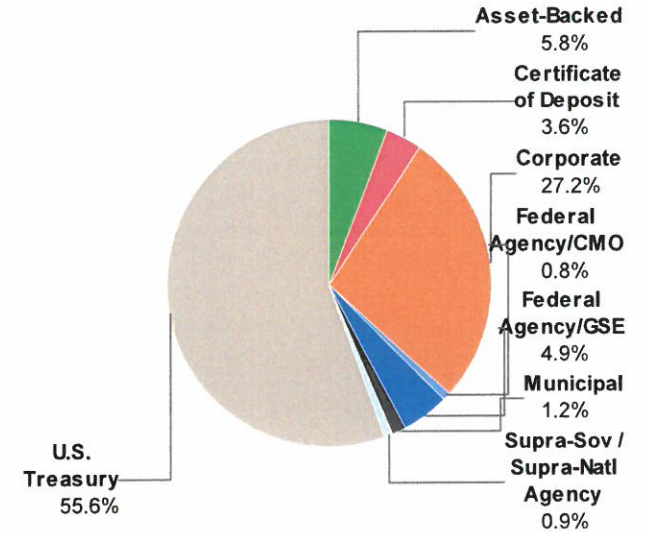
As of September 30, 2019

Par Value:	\$14,731,148
Total Market Value:	\$14,982,622
Security Market Value:	\$14,878,145
Accrued Interest:	\$69,965
Cash:	\$34,512
Amortized Cost:	\$14,701,670
Yield at Market:	1.80%
Yield at Cost:	2.19%
Effective Duration:	2.61 Years
Duration to Worst:	2.60 Years
Average Maturity:	2.84 Years
Average Credit: *	AA

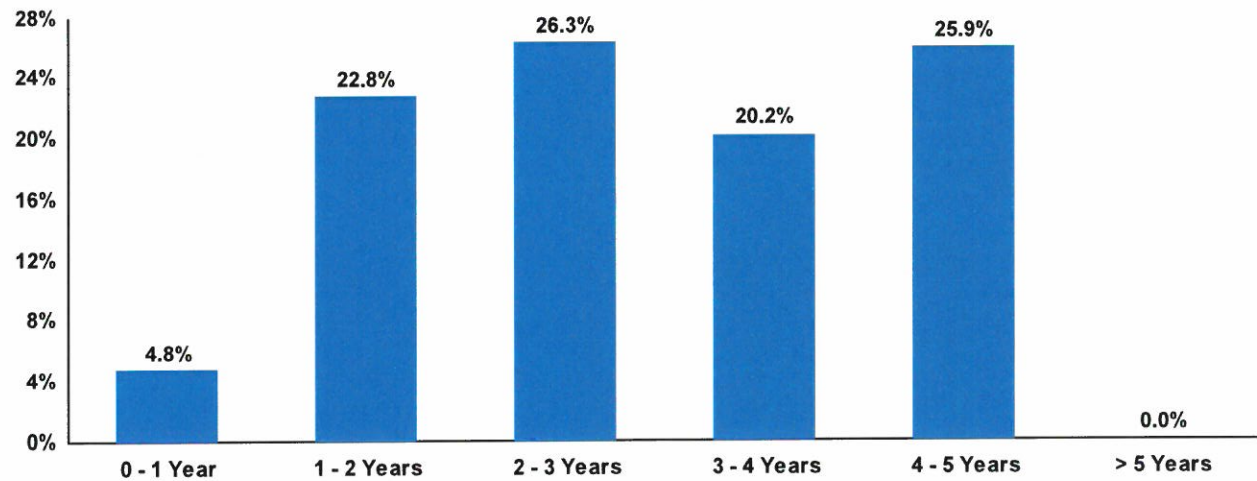
Credit Quality (S&P Ratings)**



Sector Allocation



Maturity Distribution

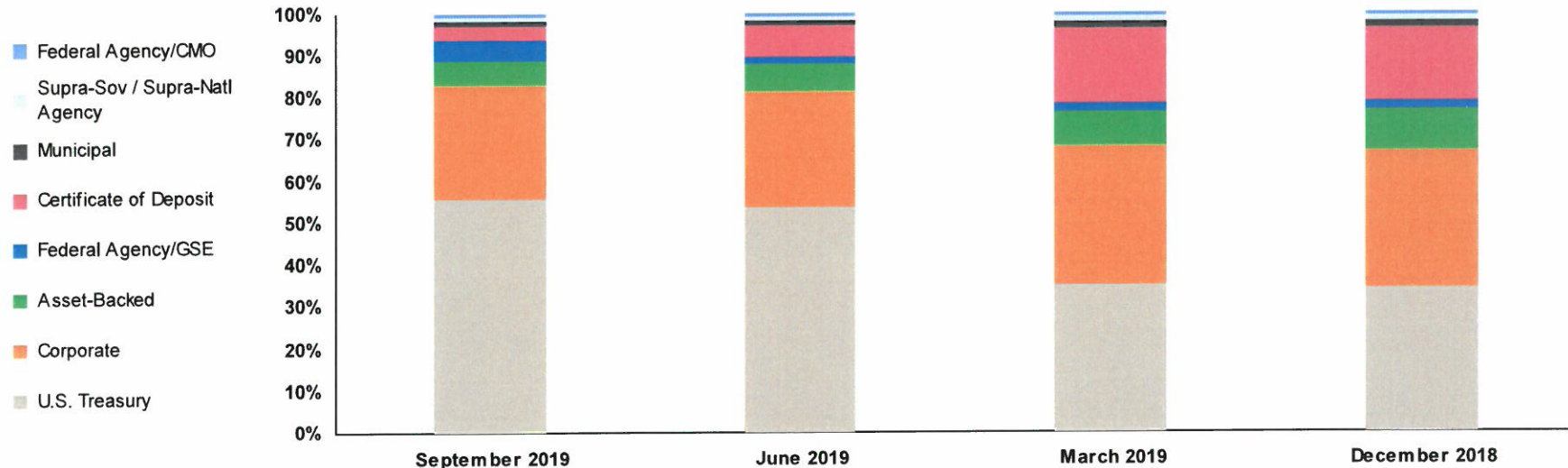


* An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.

**Securities held in the District's Portfolio are in compliance with the rating requirements of the California Government Code and the District's Investment Policy.

Sector Allocation

Sector	September 30, 2019		June 30, 2019		March 31, 2019		December 31, 2018	
	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total	MV (\$MM)	% of Total
U.S. Treasury	8.3	55.6%	7.9	53.7%	4.0	35.1%	4.0	34.4%
Corporate	4.1	27.2%	4.1	27.7%	3.8	33.2%	3.7	32.5%
Asset-Backed	0.9	5.8%	0.9	6.4%	0.9	8.1%	1.1	9.7%
Federal Agency/GSE	0.7	4.9%	0.3	1.7%	0.3	2.2%	0.2	2.2%
Certificate of Deposit	0.5	3.6%	1.1	7.5%	2.0	17.7%	2.0	17.5%
Municipal	0.2	1.2%	0.2	1.2%	0.2	1.5%	0.2	1.5%
Supra-Sov / Supra-Natl Agency	0.1	0.9%	0.1	1.0%	0.1	1.2%	0.1	1.2%
Federal Agency/CMO	0.1	0.8%	0.1	0.8%	0.1	1.0%	0.1	1.0%
Total	\$14.9	100.0%	\$14.7	100.0%	\$11.4	100.0%	\$11.5	100.0%

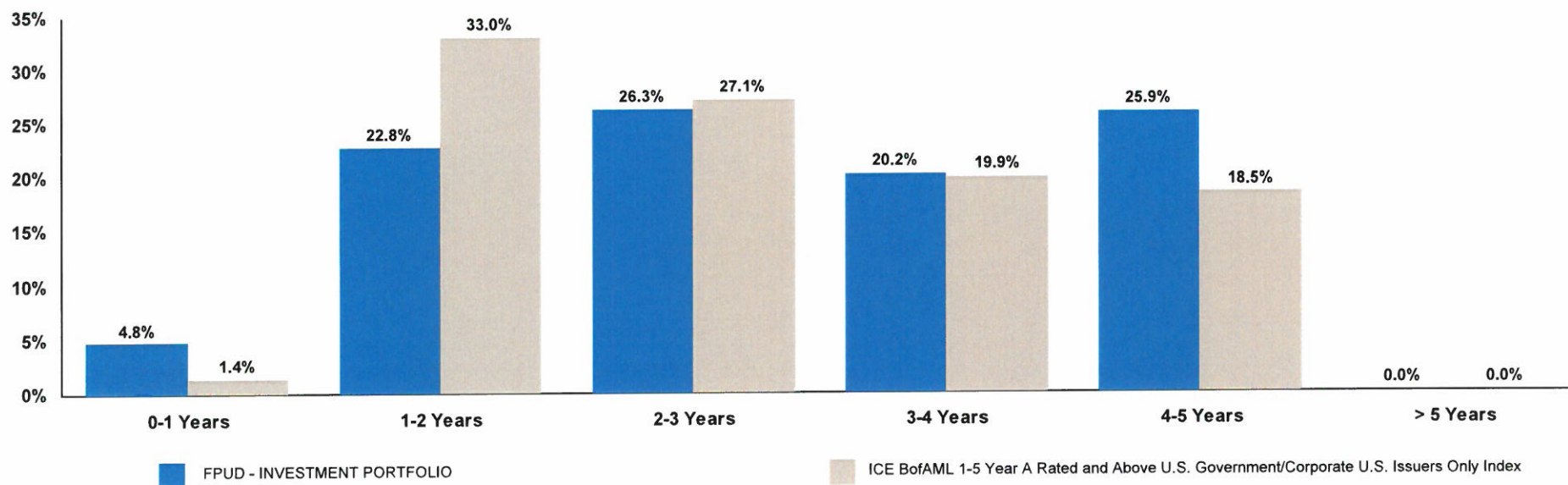


Detail may not add to total due to rounding.

Maturity Distribution

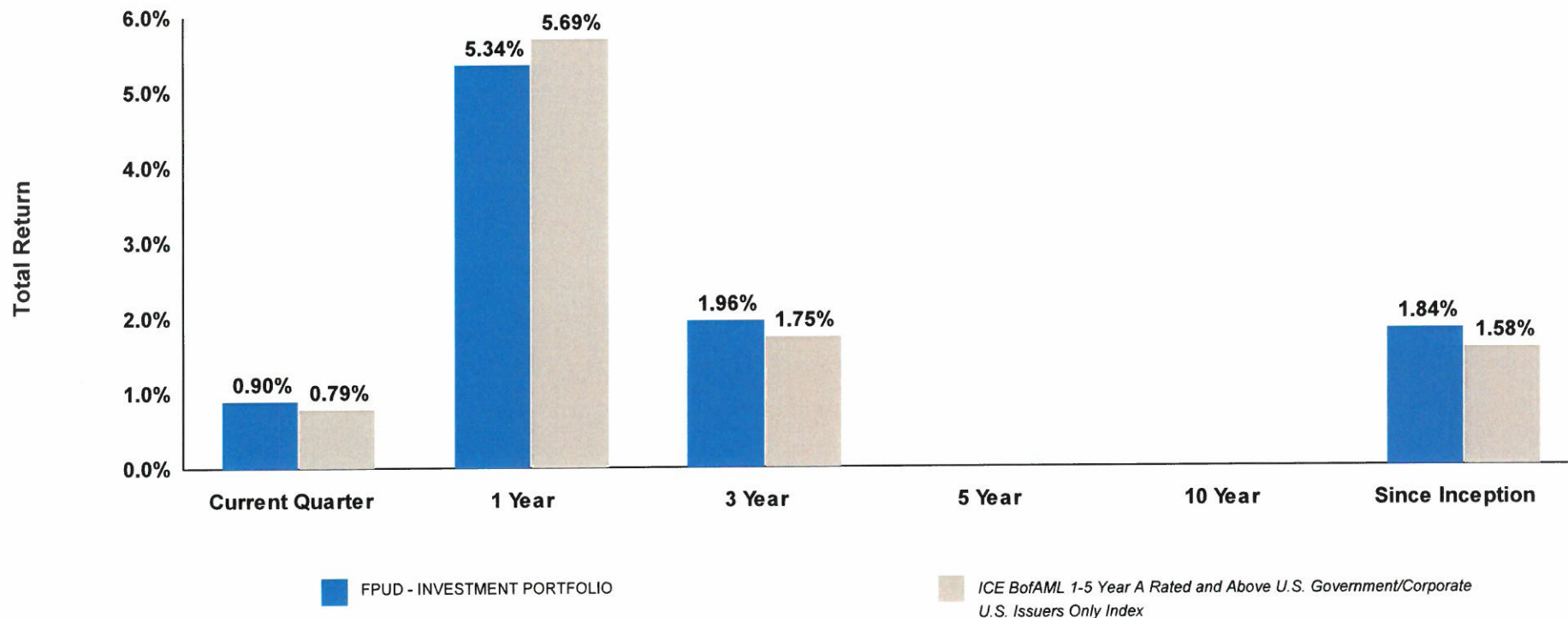
As of September 30, 2019

Portfolio/Benchmark	Yield at Market	Average Maturity	0-1 Years	1-2 Years	2-3 Years	3-4 Years	4-5 Years	>5 Years
FPUD - INVESTMENT PORTFOLIO	1.80%	2.84 yrs	4.8%	22.8%	26.3%	20.2%	25.9%	0.0%
ICE BofAML 1-5 Year A Rated and Above U.S. Government/Corporate U.S. Issuers Only Index	1.70%	2.74 yrs	1.4%	33.0%	27.1%	19.9%	18.5%	0.0%



Portfolio Performance (Total Return)

Portfolio/Benchmark	Effective Duration	Current Quarter	Annualized Return				Since Inception (06/30/16) **
			1 Year	3 Year	5 Year	10 Year	
FPUD - INVESTMENT PORTFOLIO	2.61	0.90%	5.34%	1.96%	-	-	1.84%
ICE BofAML 1-5 Year A Rated and Above U.S. Government/Corporate U.S. Issuers Only Index	2.53	0.79%	5.69%	1.75%	-	-	1.58%
Difference		0.11%	-0.35%	0.21%	-	-	0.26%



Portfolio performance is gross of fees unless otherwise indicated. **Since Inception performance is not shown for periods less than one year.

Portfolio Earnings**Quarter-Ended September 30, 2019**

	Market Value Basis	Accrual (Amortized Cost) Basis
Beginning Value (06/30/2019)	\$14,706,461.70	\$14,574,622.32
Net Purchases/Sales	\$118,218.30	\$118,218.30
Change in Value	\$53,464.69	\$8,829.11
Ending Value (09/30/2019)	\$14,878,144.69	\$14,701,669.73
Interest Earned	\$79,748.27	\$79,748.27
Portfolio Earnings	\$133,212.96	\$88,577.38

Investment Strategy Outlook

- Our strategy as we enter the final quarter of 2019 is to maintain a well-diversified portfolio as we seek to balance portfolio earnings potential with profit-taking in sectors that appear overly expensive. Issue selection has become increasingly important, regardless of sector, as market cross-currents have created both risks and opportunities.
- Our outlook for the major investment-grade fixed income sectors is as follows:
 - Federal agency yield spreads remain very tight. In some cases, agencies offer yields less than those on Treasuries of similar maturity. The U.S. Treasury Department also released an updated housing reform plan that seeks to reduce the role of the Federal Government, but implementation faces many political and practical difficulties. We continue to favor further reductions in agency holdings because their upside is limited.
 - Supranational yield spreads remain at multi-year lows, and we plan to further reduce allocations.
 - In the investment-grade (IG) corporate sector, we remain cautiously optimistic. Stable fundamentals, positive earnings growth, and a resilient equity market support the underlying stability of the credit markets; however, in addition to the myriad of geopolitical issues that have yet to be resolved, increased balance sheet leverage translates into somewhat elevated financial risks, especially in light of the narrow spreads currently available. As a result, we plan to reduce “rich” corporate holdings while creating room for new corporate opportunities as they become available.
 - ABS spreads are near multi-year lows, but underlying fundamentals remain firm. We plan to maintain ABS positions near current levels while seeking to opportunistically reduce allocations to structures inside of one year.
 - On the heels of two Fed rate cuts in the third quarter, money market investors may see further rate adjustments in the coming months. Short-term credit spreads have widened recently, creating investment opportunities that offset some of the Fed’s lower overnight target rate.

Issuer Distribution

Issuer Distribution
As of September 30, 2019

Issuer	Market Value (\$)	% of Portfolio
UNITED STATES TREASURY	8,270,552	55.6%
FEDERAL HOME LOAN BANKS	728,096	4.9%
BB&T CORPORATION	554,291	3.7%
MORGAN STANLEY	482,338	3.2%
WELLS FARGO & COMPANY	387,066	2.6%
THE BANK OF NEW YORK MELLON CORPORATION	362,665	2.4%
GOLDMAN SACHS GROUP INC	291,682	2.0%
CAPITAL ONE FINANCIAL CORP	283,851	1.9%
AMERICAN EXPRESS CO	282,375	1.9%
SWEDBANK AB	280,526	1.9%
WESTPAC BANKING CORP	260,544	1.8%
BANK OF AMERICA CO	230,838	1.6%
HONDA AUTO RECEIVABLES	201,202	1.4%
CALIFORNIA ST	172,474	1.2%
CITIGROUP INC	155,395	1.0%
CHARLES SCHWAB	153,290	1.0%
US BANCORP	146,864	1.0%
THE WALT DISNEY CORPORATION	143,571	1.0%

Top 5 = 70.0%

Top 10 = 80.1%

Issuer	Market Value (\$)	% of Portfolio
ABBOTT LABORATORIES	141,582	1.0%
IBM CORP	141,243	1.0%
INTL BANK OF RECONSTRUCTION AND DEV	139,764	0.9%
AMERICAN HONDA FINANCE	120,578	0.8%
FREDDIE MAC	112,498	0.8%
UNITED PARCEL SERVICE INC	110,085	0.7%
WASTE MANAGEMENT INC	103,476	0.7%
CATERPILLAR INC	97,781	0.7%
JOHN DEERE OWNER TRUST	94,193	0.6%
NISSAN AUTO RECEIVABLES	75,355	0.5%
ALLY AUTO RECEIVABLES TRUST	61,553	0.4%
NATIONAL RURAL UTILITIES CO FINANCE CORP	60,752	0.4%
GM FINANCIAL SECURITIZED TERM	50,298	0.3%
BOEING COMPANY	45,196	0.3%
CAPITAL ONE PRIME AUTO REC TRUST	40,454	0.3%
PACCAR FINANCIAL CORP	40,059	0.3%
FORD CREDIT AUTO OWNER TRUST	35,293	0.2%
HYUNDAI AUTO RECEIVABLES	18,879	0.1%
TOYOTA MOTOR CORP	1,486	0.0%
Grand Total:	14,878,145	100.0%

Portfolio Transactions

Quarterly Portfolio Transactions

Tran. Type	Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield	Realized G/L (BV)
INTEREST	7/1/19	7/1/19	0.00	MONEY0002	MONEY MARKET FUND			76.98		
BUY	7/1/19	7/3/19	300,000.00	3130AGLD5	FEDERAL HOME LOAN BANKS NOTES	1.87%	7/7/21	(300,652.25)	1.83%	
BUY	7/1/19	7/3/19	200,000.00	912828XX3	US TREASURY N/B NOTES	2.00%	6/30/24	(202,181.05)	1.77%	
BUY	7/1/19	7/3/19	95,000.00	14913Q2V0	CATERPILLAR FINL SERVICE CORP NOTES	2.85%	5/17/24	(97,611.71)	2.33%	
BUY	7/1/19	7/3/19	170,000.00	3130A5P45	FEDERAL HOME LOAN BANKS NOTES	2.37%	6/10/22	(172,933.75)	1.82%	
SELL	7/1/19	7/3/19	200,000.00	912828T91	US TREASURY NOTES	1.62%	10/31/23	199,448.03	1.76%	4,256.72
SELL	7/1/19	7/3/19	100,000.00	14913Q2A6	CATERPILLAR FINL SERVICE NOTE	1.85%	9/4/20	100,280.53	2.14%	(297.59)
SELL	7/1/19	7/3/19	280,000.00	65590ASN7	NORDEA BANK AB NY CD	2.72%	2/20/20	283,548.13	2.30%	734.44
SELL	7/1/19	7/3/19	145,000.00	22549LFR1	CREDIT SUISSE NEW YORK CERT DEPOS	2.67%	2/7/20	150,715.20	2.31%	284.35
INTEREST	7/1/19	7/25/19	110,000.00	3137BM6P6	FHLMC SERIES K721 A2	3.09%	8/25/22	283.25		
INTEREST	7/7/19	7/7/19	300,000.00	3130AGLD5	FEDERAL HOME LOAN BANKS NOTES	1.87%	7/7/21	468.75		
BUY	7/10/19	7/12/19	270,000.00	025816CC1	AMERICAN EXPRESS CO CORP NOTES	3.40%	2/22/24	(284,391.60)	2.47%	
SELL	7/10/19	7/12/19	285,000.00	0258M0EB1	AMERICAN EXPRESS CREDIT (CALLABLE) NOTES	2.25%	5/5/21	286,258.99	2.24%	(504.24)
BUY	7/12/19	7/16/19	25,000.00	02665WCZ2	AMERICAN HONDA FINANCE CORP NOTE	2.40%	6/27/24	(24,903.17)	2.51%	
SELL	7/12/19	7/16/19	25,000.00	02665WBT7	AMERICAN HONDA FINANCE CORP NOTES	1.95%	7/20/20	25,166.83	2.24%	(62.82)
INTEREST	7/15/19	7/15/19	75,000.00	65478DAD9	NAROT 2018-A A3	2.65%	5/15/22	165.63		
INTEREST	7/15/19	7/15/19	103,964.26	02007YAC8	ALLYA 2017-5 A3	1.99%	3/15/22	172.41		
INTEREST	7/15/19	7/15/19	80,551.40	02007FAC9	ALLY ABS 2017-4 A3	1.75%	12/15/21	117.47		
INTEREST	7/15/19	7/15/19	140,000.00	34532AAD5	FORDO 2017-C A3	2.01%	3/15/22	234.50		
INTEREST	7/15/19	7/15/19	1,004.81	89231UAD9	TOYOTA ABS 2016-B A3	1.30%	4/15/20	1.09		

FPUD

Portfolio Activity

Tran. Type	Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield	Realized G/L (BV)
INTEREST	7/15/19	7/15/19	31,240.52	44891EAC3	HYUNDAI ABS 2016-B A3	1.29%	4/15/21	33.58		
INTEREST	7/15/19	7/15/19	125,000.00	43814UAC3	HAROT 2018-1 A3	2.64%	2/15/22	275.00		
INTEREST	7/15/19	7/15/19	35,000.00	47788CAC6	JDOT 2018-A A3	2.66%	4/15/22	77.58		
INTEREST	7/15/19	7/15/19	24,315.73	47788BAD6	JOHN DEERE ABS 2017-B A3	1.82%	10/15/21	36.88		
INTEREST	7/15/19	7/15/19	40,000.00	14042WAC4	COPAR 2019-1 A3	2.51%	11/15/23	83.67		
INTEREST	7/15/19	7/15/19	6,509.17	89237WAD9	TOYOTA ABS 2016-C A3	1.14%	8/15/20	6.18		
INTEREST	7/15/19	7/15/19	51,928.20	34531EAD8	FORD ABS 2017-A A3	1.67%	6/15/21	72.27		
INTEREST	7/15/19	7/15/19	2,032.24	47788NAC2	JOHN DEERE ABS 2016-B A3	1.25%	6/15/20	2.12		
INTEREST	7/15/19	7/15/19	14,077.65	47787XAC1	JOHN DEERE ABS 2017-A A3	1.78%	4/15/21	20.88		
PAYDOWNS	7/15/19	7/15/19	6,053.63	02007FAC9	ALLY ABS 2017-4 A3	1.75%	12/15/21	6,053.63		0.00
PAYDOWNS	7/15/19	7/15/19	1,648.05	89237WAD9	TOYOTA ABS 2016-C A3	1.14%	8/15/20	1,648.05		0.00
PAYDOWNS	7/15/19	7/15/19	4,185.66	44891EAC3	HYUNDAI ABS 2016-B A3	1.29%	4/15/21	4,185.66		0.00
PAYDOWNS	7/15/19	7/15/19	1,004.81	89231UAD9	TOYOTA ABS 2016-B A3	1.30%	4/15/20	1,004.81		0.00
PAYDOWNS	7/15/19	7/15/19	1,396.45	47788BAD6	JOHN DEERE ABS 2017-B A3	1.82%	10/15/21	1,396.45		0.00
PAYDOWNS	7/15/19	7/15/19	1,426.97	47787XAC1	JOHN DEERE ABS 2017-A A3	1.78%	4/15/21	1,426.97		0.00
PAYDOWNS	7/15/19	7/15/19	5,331.84	34531EAD8	FORD ABS 2017-A A3	1.67%	6/15/21	5,331.84		0.00
PAYDOWNS	7/15/19	7/15/19	1,141.40	47788NAC2	JOHN DEERE ABS 2016-B A3	1.25%	6/15/20	1,141.40		0.00
PAYDOWNS	7/15/19	7/15/19	7,050.01	02007YAC8	ALLYA 2017-5 A3	1.99%	3/15/22	7,050.01		0.00
PAYDOWNS	7/15/19	7/15/19	839.08	34532AAD5	FORDO 2017-C A3	2.01%	3/15/22	839.08		0.00
BUY	7/16/19	7/24/19	50,000.00	36257PAD0	GM FINANCIAL SECURITIZED TERM	2.18%	4/16/24	(49,993.91)	2.19%	
BUY	7/16/19	7/24/19	30,000.00	477870AC3	JOHN DEERE OWNER TRUST	2.21%	12/15/23	(29,993.63)	2.22%	
SELL	7/17/19	7/24/19	60,000.00	912828T67	US TREASURY NOTES	1.25%	10/31/21	59,376.36	1.85%	324.36

FPUD

Portfolio Activity

Tran. Type	Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield	Realized G/L (BV)
BUY	7/19/19	7/23/19	150,000.00	61746BDQ6	MORGAN STANLEY CORP NOTES	3.87%	4/29/24	(160,135.75)	2.56%	
SELL	7/19/19	7/23/19	160,000.00	61746BEA0	MORGAN STANLEY CORP NOTES	2.50%	4/21/21	161,345.42	2.38%	(13.81)
INTEREST	7/21/19	7/21/19	75,000.00	43815MAC0	HAROT 2019-2 A3	2.52%	6/21/23	157.50		
INTEREST	7/22/19	7/22/19	455,000.00	46625HHS2	JP MORGAN CHASE & CO NOTES	4.40%	7/22/20	10,010.00		
INTEREST	7/24/19	7/24/19	130,000.00	06051GEM7	BANK OF AMERICA CORP CORP NOTES	5.70%	1/24/22	3,705.00		
INTEREST	7/29/19	7/29/19	200,000.00	06406RAE7	BANK OF NY MELLON CORP NOTE	2.95%	1/29/23	2,950.00		
BUY	7/29/19	7/31/19	45,000.00	097023CL7	BOEING CO	2.30%	8/1/21	(44,998.20)	2.30%	
BUY	7/30/19	8/1/19	145,000.00	91159HHX1	US BANCORP	2.40%	7/30/24	(144,890.28)	2.42%	
SELL	7/30/19	8/1/19	95,000.00	912828XE5	US TREASURY NOTES	1.50%	5/31/20	94,818.34	2.04%	(768.37)
INTEREST	7/31/19	7/31/19	100,000.00	912828P4	US TREASURY NOTES	1.87%	7/31/22	937.50		
INTEREST	7/31/19	7/31/19	245,000.00	912828P4	US TREASURY NOTES	1.87%	7/31/22	2,296.88		
INTEREST	7/31/19	7/31/19	95,000.00	912828P4	US TREASURY NOTES	1.87%	7/31/22	890.63		
INTEREST	7/31/19	7/31/19	460,000.00	912828H86	US TREASURY NOTES	1.50%	1/31/22	3,450.00		
INTEREST	7/31/19	7/31/19	175,000.00	912828S76	US TREASURY NOTES	1.12%	7/31/21	984.38		
SELL	7/31/19	8/1/19	35,000.00	912828XE5	US TREASURY NOTES	1.50%	5/31/20	34,935.81	2.03%	(280.34)
INTEREST	8/1/19	8/1/19	145,000.00	808513AY1	CHARLES SCHWAB CORP NOTES	3.55%	2/1/24	2,573.75		
INTEREST	8/1/19	8/1/19	0.00	MONEY0002	MONEY MARKET FUND			84.10		
BUY	8/1/19	8/5/19	235,000.00	912828L99	US TREASURY NOTES	1.37%	10/31/20	(234,236.10)	1.94%	
SELL	8/1/19	8/5/19	96,914.25	02007YAC8	ALLYA 2017-5 A3	1.99%	3/15/22	96,854.82	2.12%	(161.93)
SELL	8/1/19	8/5/19	139,160.92	34532AAD5	FORDO 2017-C A3	2.01%	3/15/22	139,098.88	2.13%	(201.95)
INTEREST	8/1/19	8/25/19	110,000.00	3137BM6P6	FHLMC SERIES K721 A2	3.09%	8/25/22	283.25		
INTEREST	8/5/19	8/5/19	140,000.00	44932HAG8	IBM CORP CORP NOTES	2.65%	2/5/21	1,855.00		

FPUD

Portfolio Activity

Tran. Type	Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield	Realized G/L (BV)
BUY	8/6/19	8/8/19	140,000.00	912828L24	US TREASURY N/B NOTES	1.87%	8/31/22	(142,460.94)	1.56%	
SELL	8/6/19	8/8/19	140,000.00	17305EGH2	CCCIT 2017-A9 A9	1.80%	9/20/21	140,894.91	1.85%	(65.11)
INTEREST	8/7/19	8/7/19	260,000.00	96121T4A3	WESTPAC BANKING CORP NY CD	2.05%	8/3/20	2,665.00		
INTEREST	8/11/19	8/11/19	150,000.00	06406RAJ6	BANK OF NY MELLON CORP CORP NOTES	3.45%	8/11/23	2,587.50		
INTEREST	8/15/19	8/15/19	12,650.68	47787XAC1	JOHN DEERE ABS 2017-A A3	1.78%	4/15/21	18.77		
INTEREST	8/15/19	8/15/19	890.84	47788NAC2	JOHN DEERE ABS 2016-B A3	1.25%	6/15/20	0.93		
INTEREST	8/15/19	8/15/19	22,919.28	47788BAD6	JOHN DEERE ABS 2017-B A3	1.82%	10/15/21	34.76		
INTEREST	8/15/19	8/15/19	125,000.00	43814UAC3	HAROT 2018-1 A3	2.64%	2/15/22	275.00		
INTEREST	8/15/19	8/15/19	74,497.77	02007FAC9	ALLY ABS 2017-4 A3	1.75%	12/15/21	108.64		
INTEREST	8/15/19	8/15/19	35,000.00	47788CAC6	JDOT 2018-A A3	2.66%	4/15/22	77.58		
INTEREST	8/15/19	8/15/19	40,000.00	14042WAC4	COPAR 2019-1 A3	2.51%	11/15/23	83.67		
INTEREST	8/15/19	8/15/19	27,054.86	44891EAC3	HYUNDAI ABS 2016-B A3	1.29%	4/15/21	29.08		
INTEREST	8/15/19	8/15/19	4,861.12	89237WAD9	TOYOTA ABS 2016-C A3	1.14%	8/15/20	4.62		
INTEREST	8/15/19	8/15/19	75,000.00	65478DAD9	NAROT 2018-A A3	2.65%	5/15/22	165.63		
INTEREST	8/15/19	8/15/19	235,000.00	9128284W7	US TREASURY NOTES	2.75%	8/15/21	3,231.25		
INTEREST	8/15/19	8/15/19	46,596.36	34531EAD8	FORD ABS 2017-A A3	1.67%	6/15/21	64.85		
PAYDOWNS	8/15/19	8/15/19	5,874.19	34531EAD8	FORD ABS 2017-A A3	1.67%	6/15/21	5,874.19		0.00
PAYDOWNS	8/15/19	8/15/19	4,123.91	44891EAC3	HYUNDAI ABS 2016-B A3	1.29%	4/15/21	4,123.91		0.00
PAYDOWNS	8/15/19	8/15/19	890.84	47788NAC2	JOHN DEERE ABS 2016-B A3	1.25%	6/15/20	890.84		0.00
PAYDOWNS	8/15/19	8/15/19	1,763.92	89237WAD9	TOYOTA ABS 2016-C A3	1.14%	8/15/20	1,763.92		0.00
PAYDOWNS	8/15/19	8/15/19	1,950.22	47787XAC1	JOHN DEERE ABS 2017-A A3	1.78%	4/15/21	1,950.22		0.00
PAYDOWNS	8/15/19	8/15/19	1,823.98	47788BAD6	JOHN DEERE ABS 2017-B A3	1.82%	10/15/21	1,823.98		0.00

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Portfolio Activity

Tran. Type	Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield	Realized G/L (BV)
PAYDOWNS	8/15/19	8/15/19	6,631.97	02007FAC9	ALLY ABS 2017-4 A3	1.75%	12/15/21	6,631.97		0.00
INTEREST	8/16/19	8/16/19	50,000.00	36257PAD0	GM FINANCIAL SECURITIZED TERM	2.18%	4/16/24	66.61		
INTEREST	8/21/19	8/21/19	75,000.00	43815MAC0	HAROT 2019-2 A3	2.52%	6/21/23	157.50		
INTEREST	8/22/19	8/22/19	270,000.00	025816CC1	AMERICAN EXPRESS CO CORP NOTES	3.40%	2/22/24	4,590.00		
SELL	8/27/19	8/27/19	455,000.00	46625HHS2	JP MORGAN CHASE & CO NOTES	4.40%	7/22/20	467,047.39	1.91%	1,665.54
BUY	8/28/19	9/5/19	285,000.00	14041NFU0	COMET 2019-A2 A2	1.72%	8/15/24	(284,928.24)	1.73%	
INTEREST	8/31/19	8/31/19	150,000.00	912828D72	US TREASURY NOTES	2.00%	8/31/21	1,500.00		
INTEREST	8/31/19	8/31/19	140,000.00	912828L24	US TREASURY N/B NOTES	1.87%	8/31/22	1,312.50		
INTEREST	9/1/19	9/1/19	150,000.00	172967GL9	CITIGROUP INC CORP NOTES	3.37%	3/1/23	2,531.25		
INTEREST	9/1/19	9/25/19	110,000.00	3137BM6P6	FHLMC SERIES K721 A2	3.09%	8/25/22	283.25		
INTEREST	9/3/19	9/3/19	0.00	MONEY0002	MONEY MARKET FUND			179.95		
BUY	9/3/19	9/6/19	145,000.00	254687FK7	WALT DISNEY COMPANY/THE	1.75%	8/30/24	(144,408.40)	1.84%	
SELL	9/3/19	9/6/19	90,000.00	912828Q29	US TREASURY NOTES	1.50%	3/31/23	91,008.36	1.36%	2,767.47
INTEREST	9/4/19	9/4/19	140,000.00	459058GA5	INTL BANK OF RECON AND DEV GLOBAL NOTES	1.62%	9/4/20	1,138.20		
INTEREST	9/15/19	9/15/19	35,000.00	47788CAC6	JDOT 2018-A A3	2.66%	4/15/22	77.58		
INTEREST	9/15/19	9/15/19	30,000.00	477870AC3	JOHN DEERE OWNER TRUST	2.21%	12/15/23	93.93		
INTEREST	9/15/19	9/15/19	21,095.30	47788BAD6	JOHN DEERE ABS 2017-B A3	1.82%	10/15/21	31.99		
INTEREST	9/15/19	9/15/19	75,000.00	65478DAD9	NAROT 2018-A A3	2.65%	5/15/22	165.63		
INTEREST	9/15/19	9/15/19	3,097.20	89237WAD9	TOYOTA ABS 2016-C A3	1.14%	8/15/20	2.94		
INTEREST	9/15/19	9/15/19	40,000.00	14042WAC4	COPAR 2019-1 A3	2.51%	11/15/23	83.67		
INTEREST	9/15/19	9/15/19	60,000.00	63743HER9	NATIONAL RURAL UTIL COOP NOTE	2.90%	3/15/21	870.00		
INTEREST	9/15/19	9/15/19	10,700.46	47787XAC1	JOHN DEERE ABS 2017-A A3	1.78%	4/15/21	15.87		

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Portfolio Activity

Tran. Type	Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield	Realized G/L (BV)
INTEREST	9/15/19	9/15/19	125,000.00	43814UAC3	HAROT 2018-1 A3	2.64%	2/15/22	275.00		
INTEREST	9/15/19	9/15/19	22,930.95	44891EAC3	HYUNDAI ABS 2016-B A3	1.29%	4/15/21	24.65		
INTEREST	9/15/19	9/15/19	67,865.80	02007FAC9	ALLY ABS 2017-4 A3	1.75%	12/15/21	98.97		
INTEREST	9/15/19	9/15/19	40,722.17	34531EAD8	FORD ABS 2017-A A3	1.67%	6/15/21	56.67		
PAYDOWNS	9/15/19	9/15/19	4,019.88	44891EAC3	HYUNDAI ABS 2016-B A3	1.29%	4/15/21	4,019.88		0.00
PAYDOWNS	9/15/19	9/15/19	1,477.80	47788BAD6	JOHN DEERE ABS 2017-B A3	1.82%	10/15/21	1,477.80		0.00
PAYDOWNS	9/15/19	9/15/19	141.66	43814UAC3	HAROT 2018-1 A3	2.64%	2/15/22	141.66		0.00
PAYDOWNS	9/15/19	9/15/19	1,426.17	47787XAC1	JOHN DEERE ABS 2017-A A3	1.78%	4/15/21	1,426.17		0.00
PAYDOWNS	9/15/19	9/15/19	5,375.02	34531EAD8	FORD ABS 2017-A A3	1.67%	6/15/21	5,375.02		0.00
PAYDOWNS	9/15/19	9/15/19	1,610.21	89237WAD9	TOYOTA ABS 2016-C A3	1.14%	8/15/20	1,610.21		0.00
PAYDOWNS	9/15/19	9/15/19	6,212.67	02007FAC9	ALLY ABS 2017-4 A3	1.75%	12/15/21	6,212.67		0.00
INTEREST	9/16/19	9/16/19	50,000.00	36257PAD0	GM FINANCIAL SECURITIZED TERM	2.18%	4/16/24	90.83		
BUY	9/16/19	9/18/19	100,000.00	94106LBF5	WASTE MANAGEMENT INC CORP NOTES	2.95%	6/15/24	(103,719.56)	2.33%	
SELL	9/16/19	9/18/19	100,000.00	912828XX3	US TREASURY N/B NOTES	2.00%	6/30/24	101,602.75	1.74%	136.98
BUY	9/17/19	9/17/19	125,000.00	313384LW7	FHLB DISC NOTE	0.00%	9/18/19	(124,984.38)	4.50%	
MATURITY	9/18/19	9/18/19	125,000.00	313384LW7	FHLB DISC NOTE	0.00%	9/18/19	125,000.00		0.00
BUY	9/18/19	9/19/19	115,000.00	9128284W7	US TREASURY NOTES	2.75%	8/15/21	(117,470.51)	1.74%	
INTEREST	9/21/19	9/21/19	75,000.00	43815MAC0	HAROT 2019-2 A3	2.52%	6/21/23	157.50		
BUY	9/24/19	9/25/19	215,000.00	912828F21	US TREASURY NOTES	2.12%	9/30/21	(219,044.42)	1.70%	
INTEREST	9/25/19	9/25/19	140,000.00	06539RGM3	MUFG BANK LTD/NY CERT DEPOS	2.07%	9/25/19	2,938.25		
MATURITY	9/25/19	9/25/19	140,000.00	06539RGM3	MUFG BANK LTD/NY CERT DEPOS	2.07%	9/25/19	140,000.00		0.00
INTEREST	9/28/19	9/28/19	10,000.00	3130ACE26	FHLB NOTES	1.37%	9/28/20	68.75		

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Portfolio Activity

Tran. Type	Trade Date	Settle Date	Par (\$)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt (\$)	Yield	Realized G/L (BV)
INTEREST	9/28/19	9/28/19	245,000.00	3130ACE26	FHLB NOTES	1.37%	9/28/20	1,684.38		
INTEREST	9/30/19	9/30/19	110,000.00	912828W89	US TREASURY NOTES	1.87%	3/31/22	1,031.25		
INTEREST	9/30/19	9/30/19	155,000.00	912828L57	US TREASURY NOTES	1.75%	9/30/22	1,356.25		
INTEREST	9/30/19	9/30/19	175,000.00	912828L57	US TREASURY NOTES	1.75%	9/30/22	1,531.25		
INTEREST	9/30/19	9/30/19	250,000.00	912828L57	US TREASURY NOTES	1.75%	9/30/22	2,187.50		
INTEREST	9/30/19	9/30/19	320,000.00	912828T26	US TREASURY N/B	1.37%	9/30/23	2,200.00		
INTEREST	9/30/19	9/30/19	1,400,000.00	912828Q29	US TREASURY NOTES	1.50%	3/31/23	10,500.00		
INTEREST	9/30/19	9/30/19	145,000.00	912828W71	US TREASURY N/B	2.12%	3/31/24	1,540.63		
INTEREST	9/30/19	9/30/19	215,000.00	912828F21	US TREASURY NOTES	2.12%	9/30/21	2,284.38		
TOTALS								(30,356.12)		7,813.70

Portfolio Holdings

Managed Account Detail of Securities Held

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
U.S. Treasury Bond / Note											
US TREASURY NOTES DTD 06/01/2015 1.500% 05/31/2020	912828XE5	55,000.00	AA+	Aaa	9/1/2016	9/2/2016	55,887.31	1.06	277.25	55,159.93	54,864.65
US TREASURY NOTES DTD 10/31/2015 1.375% 10/31/2020	912828L99	235,000.00	AA+	Aaa	8/1/2019	8/5/2019	233,384.38	1.94	1,352.21	233,585.85	233,916.89
US TREASURY NOTES DTD 12/02/2013 2.000% 11/30/2020	912828A42	130,000.00	AA+	Aaa	4/27/2016	4/29/2016	133,971.10	1.31	873.77	131,030.06	130,284.44
US TREASURY NOTES DTD 05/15/2018 2.625% 05/15/2021	9128284P2	100,000.00	AA+	Aaa	4/30/2019	5/3/2019	100,695.31	2.27	991.51	100,557.56	101,441.40
US TREASURY NOTES DTD 08/01/2016 1.125% 07/31/2021	912828S76	175,000.00	AA+	Aaa	5/8/2017	5/10/2017	170,016.60	1.83	331.69	172,794.45	173,256.83
US TREASURY NOTES DTD 08/15/2018 2.750% 08/15/2021	9128284W7	235,000.00	AA+	Aaa	4/30/2019	5/3/2019	237,551.95	2.26	825.37	237,101.67	239,598.95
US TREASURY NOTES DTD 08/15/2018 2.750% 08/15/2021	9128284W7	115,000.00	AA+	Aaa	9/18/2019	9/19/2019	117,169.73	1.74	403.91	117,133.13	117,250.55
US TREASURY NOTES DTD 09/02/2014 2.000% 08/31/2021	912828D72	150,000.00	AA+	Aaa	12/1/2016	12/5/2016	150,527.34	1.92	255.49	150,219.74	150,925.80
US TREASURY NOTES DTD 09/30/2014 2.125% 09/30/2021	912828F21	215,000.00	AA+	Aaa	9/24/2019	9/25/2019	216,822.46	1.70	12.48	216,808.12	216,973.70
US TREASURY NOTES DTD 10/31/2016 1.250% 10/31/2021	912828T67	245,000.00	AA+	Aaa	8/30/2017	8/31/2017	241,152.73	1.64	1,281.59	243,045.84	243,009.38
US TREASURY NOTES DTD 10/31/2016 1.250% 10/31/2021	912828T67	190,000.00	AA+	Aaa	3/14/2017	3/16/2017	182,934.38	2.10	993.89	186,736.15	188,456.25
US TREASURY NOTES DTD 01/03/2017 2.000% 12/31/2021	912828U81	390,000.00	AA+	Aaa	6/26/2017	6/28/2017	394,737.89	1.72	1,971.20	392,408.37	393,168.75
US TREASURY NOTES DTD 02/02/2015 1.500% 01/31/2022	912828H86	460,000.00	AA+	Aaa	7/5/2017	7/7/2017	452,435.16	1.88	1,162.50	456,058.66	458,760.30
US TREASURY NOTES DTD 03/31/2017 1.875% 03/31/2022	912828W89	110,000.00	AA+	Aaa	6/26/2017	6/28/2017	110,648.83	1.75	5.64	110,347.90	110,747.67
UNITED STATES TREASURY NOTES DTD 04/15/2019 2.250% 04/15/2022	9128286M7	120,000.00	AA+	Aaa	5/10/2019	5/14/2019	120,117.19	2.22	1,246.72	120,103.03	121,884.36

Managed Account Detail of Securities Held

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
U.S. Treasury Bond / Note											
US TREASURY NOTES DTD 06/30/2017 1.750% 06/30/2022	912828XW5	235,000.00	AA+	Aaa	9/1/2017	9/7/2017	235,330.47	1.72	1,039.30	235,193.14	236,028.13
US TREASURY NOTES DTD 07/31/2017 1.875% 07/31/2022	9128282P4	100,000.00	AA+	Aaa	2/26/2018	2/28/2018	97,101.56	2.57	315.90	98,107.78	100,746.10
US TREASURY NOTES DTD 07/31/2017 1.875% 07/31/2022	9128282P4	245,000.00	AA+	Aaa	1/2/2018	1/4/2018	241,363.28	2.22	773.95	242,706.80	246,827.95
US TREASURY NOTES DTD 07/31/2017 1.875% 07/31/2022	9128282P4	95,000.00	AA+	Aaa	12/4/2017	12/6/2017	93,883.01	2.14	300.10	94,307.78	95,708.80
US TREASURY N/B NOTES DTD 08/31/2015 1.875% 08/31/2022	912828L24	140,000.00	AA+	Aaa	8/6/2019	8/8/2019	141,312.50	1.56	223.56	141,251.06	141,175.72
US TREASURY NOTES DTD 09/30/2015 1.750% 09/30/2022	912828L57	155,000.00	AA+	Aaa	10/4/2017	10/5/2017	153,571.10	1.94	7.41	154,124.71	155,768.96
US TREASURY NOTES DTD 09/30/2015 1.750% 09/30/2022	912828L57	175,000.00	AA+	Aaa	3/23/2018	3/26/2018	168,697.27	2.60	8.37	170,733.52	175,868.18
US TREASURY NOTES DTD 09/30/2015 1.750% 09/30/2022	912828L57	250,000.00	AA+	Aaa	12/4/2017	12/6/2017	245,429.69	2.15	11.95	247,102.23	251,240.25
US TREASURY NOTES DTD 12/31/2015 2.125% 12/31/2022	912828N30	185,000.00	AA+	Aaa	2/26/2018	2/28/2018	180,989.26	2.60	993.50	182,255.02	188,157.95
US TREASURY NOTES DTD 12/31/2015 2.125% 12/31/2022	912828N30	240,000.00	AA+	Aaa	7/3/2018	7/6/2018	233,915.63	2.73	1,288.86	235,521.79	244,096.80
US TREASURY NOTES DTD 03/31/2016 1.500% 03/31/2023	912828Q29	1,400,000.00	AA+	Aaa	4/30/2019	5/3/2019	1,360,132.81	2.27	57.38	1,364,183.87	1,396,773.00
US TREASURY N/B DTD 09/30/2016 1.375% 09/30/2023	912828T26	320,000.00	AA+	Aaa	6/3/2019	6/5/2019	313,112.50	1.90	12.02	313,609.63	317,649.92
US TREASURY NOTES DTD 10/31/2016 1.625% 10/31/2023	912828T91	800,000.00	AA+	Aaa	4/30/2019	5/3/2019	777,718.75	2.28	5,440.22	779,663.47	801,718.40
US TREASURY NOTES DTD 01/03/2017 2.250% 12/31/2023	912828V23	600,000.00	AA+	Aaa	4/30/2019	5/3/2019	599,156.25	2.28	3,411.68	599,235.22	616,617.00
US TREASURY N/B DTD 03/31/2017 2.125% 03/31/2024	912828W71	145,000.00	AA+	Aaa	4/30/2019	5/3/2019	143,912.50	2.29	8.42	144,000.47	148,506.10

Managed Account Detail of Securities Held

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
U.S. Treasury Bond / Note											
US TREASURY N/B NOTES DTD 05/01/2017 2.000% 04/30/2024	912828X70	115,000.00	AA+	Aaa	5/3/2019	5/7/2019	113,162.70	2.34	962.50	113,302.63	117,187.65
US TREASURY N/B NOTES DTD 06/30/2017 2.000% 06/30/2024	912828XX3	100,000.00	AA+	Aaa	7/1/2019	7/3/2019	101,074.22	1.77	505.43	101,023.69	101,941.40
Security Type Sub-Total		8,225,000.00					8,117,915.86	2.09	27,345.77	8,139,413.27	8,270,552.23
Supra-National Agency Bond / Note											
INTL BANK OF RECON AND DEV GLOBAL NOTES DTD 08/29/2017 1.625% 09/04/2020	459058GA5	140,000.00	AAA	Aaa	8/22/2017	8/29/2017	139,970.60	1.63	170.63	139,990.79	139,763.54
Security Type Sub-Total		140,000.00					139,970.60	1.63	170.63	139,990.79	139,763.54
Municipal Bond / Note											
CA ST TXBL GO BONDS DTD 04/25/2018 2.800% 04/01/2021	13063DGA0	170,000.00	AA-	Aa3	4/18/2018	4/25/2018	170,006.80	2.80	2,380.00	170,002.56	172,473.50
Security Type Sub-Total		170,000.00					170,006.80	2.80	2,380.00	170,002.56	172,473.50
Federal Agency Collateralized Mortgage Obligation											
FHLMC SERIES K721 A2 DTD 12/01/2015 3.090% 08/25/2022	3137BM6P6	110,000.00	AA+	Aaa	4/4/2018	4/9/2018	110,936.72	2.61	283.25	110,565.20	112,498.13
Security Type Sub-Total		110,000.00					110,936.72	2.61	283.25	110,565.20	112,498.13
Federal Agency Bond / Note											
FHLB NOTES DTD 09/08/2017 1.375% 09/28/2020	3130ACE26	10,000.00	AA+	Aaa	9/7/2017	9/8/2017	9,967.90	1.48	1.15	9,989.41	9,954.44
FHLB NOTES DTD 09/08/2017 1.375% 09/28/2020	3130ACE26	245,000.00	AA+	Aaa	9/18/2017	9/19/2017	243,238.45	1.62	28.07	244,412.95	243,883.78

Managed Account Detail of Securities Held

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Federal Agency Bond / Note											
FEDERAL HOME LOAN BANKS NOTES DTD 06/07/2019 1.875% 07/07/2021	3130AGLD5	300,000.00	AA+	Aaa	7/1/2019	7/3/2019	300,246.00	1.83	1,312.50	300,216.34	301,059.60
FEDERAL HOME LOAN BANKS NOTES DTD 06/12/2015 2.375% 06/10/2022	3130A5P45	170,000.00	AA+	Aaa	7/1/2019	7/3/2019	172,675.80	1.82	1,244.90	172,458.53	173,198.21
Security Type Sub-Total		725,000.00					726,128.15	1.75	2,586.62	727,077.23	728,096.03
Corporate Note											
PACCAR FINANCIAL CORP NOTES DTD 11/13/2017 2.050% 11/13/2020	69371RN85	40,000.00	A+	A1	11/6/2017	11/13/2017	39,996.40	2.05	314.33	39,998.63	40,059.44
WELLS FARGO & COMPANY NOTES DTD 12/07/2015 2.550% 12/07/2020	94974BGR5	385,000.00	A-	A2	4/27/2016	4/29/2016	391,579.65	2.16	3,108.88	386,753.38	387,066.30
IBM CORP CORP NOTES DTD 02/06/2018 2.650% 02/05/2021	44932HAG8	140,000.00	A	A2	2/1/2018	2/6/2018	139,931.40	2.67	577.11	139,968.54	141,242.78
NATIONAL RURAL UTIL COOP NOTE DTD 02/26/2018 2.900% 03/15/2021	63743HER9	60,000.00	A	A2	2/21/2018	2/26/2018	59,933.40	2.94	77.33	59,967.22	60,751.68
UNITED PARCEL SERVICE CORPORATE BOND DTD 11/14/2017 2.050% 04/01/2021	911312BP0	110,000.00	A	A2	11/9/2017	11/14/2017	109,826.20	2.10	1,127.50	109,920.89	110,085.14
MORGAN STANLEY CORP NOTES DTD 04/21/2016 2.500% 04/21/2021	61746BEA0	100,000.00	BBB+	A3	5/10/2016	5/13/2016	100,574.00	2.38	1,111.11	100,188.29	100,670.50
GOLDMAN SACHS GRP INC CORP NT (CALLABLE) DTD 04/25/2016 2.625% 04/25/2021	38141GVU5	290,000.00	BBB+	A3	8/10/2016	8/15/2016	296,693.20	2.11	3,298.75	292,226.72	291,682.00
BRANCH BANKING & TRUST (CALLABLE) NOTE DTD 05/10/2016 2.050% 05/10/2021	05531FAV5	250,000.00	A-	A2	5/10/2016	5/16/2016	249,835.00	2.06	2,007.29	249,945.05	249,842.00
BOEING CO DTD 07/31/2019 2.300% 08/01/2021	097023CL7	45,000.00	A	A2	7/29/2019	7/31/2019	44,998.20	2.30	175.38	44,998.35	45,195.66
BANK OF AMERICA CORP (CALLABLE) DTD 09/18/2017 2.328% 10/01/2021	06051GGS2	90,000.00	A-	A2	9/13/2017	9/18/2017	90,000.00	2.33	1,047.60	90,000.00	90,100.89

Managed Account Detail of Securities Held

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Corporate Note											
MORGAN STANLEY BONDS DTD 11/17/2016 2.625% 11/17/2021	61746BED4	220,000.00	BBB+	A3	2/1/2017	2/3/2017	216,755.00	2.96	2,149.58	218,504.62	222,092.86
BANK OF AMERICA CORP CORP NOTES DTD 01/24/2012 5.700% 01/24/2022	06051GEM7	130,000.00	A-	A2	9/1/2017	9/7/2017	147,414.80	2.46	1,379.08	139,429.87	140,736.70
BB&T CORP (CALLABLE) NOTES DTD 03/21/2017 2.750% 04/01/2022	05531FAX1	300,000.00	A-	A2	4/3/2017	4/6/2017	302,265.00	2.59	4,125.00	301,154.28	304,448.70
BANK OF NY MELLON CORP NOTE DTD 01/29/2018 2.950% 01/29/2023	06406RAE7	200,000.00	A	A1	5/31/2019	6/4/2019	202,200.00	2.63	1,016.11	202,015.98	205,391.20
CITIGROUP INC CORP NOTES DTD 02/20/2013 3.375% 03/01/2023	172967GL9	150,000.00	BBB+	A3	5/3/2019	5/7/2019	151,960.50	3.01	421.88	151,769.05	155,394.90
BANK OF NY MELLON CORP CORP NOTES DTD 08/13/2018 3.450% 08/11/2023	06406RAJ6	150,000.00	A	A1	5/3/2019	5/7/2019	153,492.00	2.87	718.75	153,185.53	157,273.65
AMERICAN HONDA FINANCE CORP NOTES DTD 10/10/2018 3.625% 10/10/2023	02665WCQ2	90,000.00	A	A2	5/10/2019	5/14/2019	93,384.90	2.71	1,549.69	93,109.45	95,308.29
ABBOTT LABORATORIES CORP NOTES DTD 11/22/2016 3.400% 11/30/2023	002824BE9	135,000.00	BBB+	A3	5/10/2019	5/14/2019	138,384.45	2.81	1,542.75	138,107.17	141,582.47
CHARLES SCHWAB CORP NOTES DTD 10/31/2018 3.550% 02/01/2024	808513AY1	145,000.00	A	A2	5/3/2019	5/7/2019	149,856.05	2.79	857.92	149,473.19	153,289.65
AMERICAN EXPRESS CO CORP NOTES DTD 02/22/2019 3.400% 02/22/2024	025816CC1	270,000.00	BBB+	A3	7/10/2019	7/12/2019	280,821.60	2.47	994.50	280,337.43	282,375.45
MORGAN STANLEY CORP NOTES DTD 04/28/2014 3.875% 04/29/2024	61746BDQ6	150,000.00	BBB+	A3	7/19/2019	7/23/2019	158,779.50	2.56	2,454.17	158,454.25	159,574.50
CATERPILLAR FINL SERVICE CORP NOTES DTD 05/17/2019 2.850% 05/17/2024	14913Q2V0	95,000.00	A	A3	7/1/2019	7/3/2019	97,265.75	2.33	1,007.79	97,158.81	97,781.41

Managed Account Detail of Securities Held

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Corporate Note											
WASTE MANAGEMENT INC CORP NOTES DTD 05/22/2019 2.950% 06/15/2024	94106LBF5	100,000.00	A-	Baa1	9/16/2019	9/18/2019	102,769.00	2.33	1,057.08	102,749.45	103,476.40
AMERICAN HONDA FINANCE CORP NOTE DTD 06/27/2019 2.400% 06/27/2024	02665WCZ2	25,000.00	A	A2	7/12/2019	7/16/2019	24,871.50	2.51	156.67	24,876.69	25,269.53
US BANCORP DTD 07/29/2019 2.400% 07/30/2024	91159HHX1	145,000.00	A+	A1	7/30/2019	8/1/2019	144,870.95	2.42	599.33	144,875.08	146,864.41
WALT DISNEY COMPANY/THE DTD 09/06/2019 1.750% 08/30/2024	254687FK7	145,000.00	A	A2	9/3/2019	9/6/2019	144,408.40	1.84	176.22	144,416.29	143,571.17
Security Type Sub-Total		3,960,000.00					4,032,866.85	2.46	33,051.80	4,013,584.21	4,051,127.68
Certificate of Deposit											
WESTPAC BANKING CORP NY CD DTD 08/07/2017 2.050% 08/03/2020	96121T4A3	260,000.00	A-1+	P-1	8/3/2017	8/7/2017	260,000.00	2.05	799.50	260,000.00	260,544.18
SWEDBANK (NEW YORK) CERT DEPOS DTD 11/17/2017 2.270% 11/16/2020	87019U6D6	280,000.00	AA-	Aa2	11/16/2017	11/17/2017	280,000.00	2.30	2,436.47	280,000.00	280,525.56
Security Type Sub-Total		540,000.00					540,000.00	2.18	3,235.97	540,000.00	541,069.74
Asset-Backed Security											
TOYOTA ABS 2016-C A3 DTD 08/10/2016 1.140% 08/15/2020	89237WAD9	1,486.99	AAA	Aaa	8/1/2016	8/10/2016	1,486.95	1.14	0.75	1,486.98	1,486.37
HYUNDAI ABS 2016-B A3 DTD 09/21/2016 1.290% 04/15/2021	44891EAC3	18,911.07	AAA	Aaa	9/14/2016	9/21/2016	18,908.52	1.30	10.84	18,910.35	18,878.57
JOHN DEERE ABS 2017-A A3 DTD 03/02/2017 1.780% 04/15/2021	47787XAC1	9,274.29	NR	Aaa	2/22/2017	3/2/2017	9,272.96	1.79	7.34	9,273.71	9,265.54
FORD ABS 2017-A A3 DTD 01/25/2017 1.670% 06/15/2021	34531EAD8	35,347.15	NR	Aaa	1/18/2017	1/25/2017	35,347.00	1.67	26.24	35,347.11	35,293.47

Managed Account Detail of Securities Held

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Asset-Backed Security											
JOHN DEERE ABS 2017-B A3 DTD 07/15/2017 1.820% 10/15/2021	47788BAD6	19,617.50	NR	Aaa	7/11/2017	7/18/2017	19,616.06	1.82	15.87	19,616.74	19,587.09
ALLY ABS 2017-4 A3 DTD 08/23/2017 1.750% 12/15/2021	02007FAC9	61,653.13	AAA	NR	8/15/2017	8/23/2017	61,652.34	1.75	47.95	61,652.72	61,552.78
HAROT 2018-1 A3 DTD 02/28/2018 2.640% 02/15/2022	43814UAC3	124,858.34	AAA	Aaa	2/22/2018	2/28/2018	124,842.20	2.65	146.50	124,848.44	125,386.24
JDOT 2018-A A3 DTD 02/28/2018 2.660% 04/15/2022	47788CAC6	35,000.00	NR	Aaa	2/21/2018	2/28/2018	34,997.48	2.66	41.38	34,998.35	35,143.03
NAROT 2018-A A3 DTD 02/28/2018 2.650% 05/15/2022	65478DAD9	75,000.00	AAA	Aaa	2/21/2018	2/28/2018	74,991.43	2.66	88.33	74,994.55	75,354.57
HAROT 2019-2 A3 DTD 05/29/2019 2.520% 06/21/2023	43815MAC0	75,000.00	NR	Aaa	5/21/2019	5/29/2019	74,997.20	2.52	52.50	74,997.44	75,815.65
COPAR 2019-1 A3 DTD 05/30/2019 2.510% 11/15/2023	14042WAC4	40,000.00	AAA	Aaa	5/21/2019	5/30/2019	39,991.90	2.52	44.62	39,992.44	40,453.51
JOHN DEERE OWNER TRUST DTD 07/24/2019 2.210% 12/15/2023	477870AC3	30,000.00	NR	Aaa	7/16/2019	7/24/2019	29,993.63	2.22	29.47	29,993.98	30,197.50
GM FINANCIAL SECURITIZED TERM DTD 07/24/2019 2.180% 04/16/2024	36257PAD0	50,000.00	AAA	NR	7/16/2019	7/24/2019	49,993.91	2.19	45.42	49,994.13	50,298.16
COMET 2019-A2 A2 DTD 09/05/2019 1.720% 08/15/2024	14041NFU0	285,000.00	AAA	NR	8/28/2019	9/5/2019	284,928.24	1.73	354.03	284,929.53	283,851.36
Security Type Sub-Total		861,148.47					861,019.82	2.12	911.24	861,036.47	862,563.84
Managed Account Sub Total		14,731,148.47					14,698,844.80	2.19	69,965.28	14,701,669.73	14,878,144.69
Securities Sub-Total		\$14,731,148.47					\$14,698,844.80	2.19%	\$69,965.28	\$14,701,669.73	\$14,878,144.69
Accrued Interest											\$69,965.28
Total Investments											\$14,948,109.97

Bolted items are forward settling trades.

IMPORTANT DISCLOSURES

This material is based on information obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some, but not all of which, are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.

- Market values that include accrued interest are derived from closing bid prices as of the last business day of the month as supplied by Interactive Data, Bloomberg, or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield based matrix system to arrive at an estimated market value.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances, and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although, they may be called prior to maturity.
- MBS maturities are represented by expected average life.


GLOSSARY

- **ACCRUED INTEREST:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **AGENCIES:** Federal agency securities and/or Government-sponsored enterprises.
- **AMORTIZED COST:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short-term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer-term securities is amortized using the constant yield basis.
- **BANKERS' ACCEPTANCE:** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the insurer.
- **COMMERCIAL PAPER:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **CONTRIBUTION TO DURATION:** Represents each sector or maturity range's relative contribution to the overall duration of the portfolio measured as a percentage weighting. Since duration is a key measure of interest rate sensitivity, the contribution to duration measures the relative amount or contribution of that sector or maturity range to the total rate sensitivity of the portfolio.
- **DURATION TO WORST:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years, computed from cash flows to the maturity date or to the put date, whichever results in the highest yield to the investor.
- **EFFECTIVE DURATION:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **EFFECTIVE YIELD:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while nominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **INTEREST RATE:** Interest per year divided by principal amount and expressed as a percentage.
- **MARKET VALUE:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.
- **NEGOTIABLE CERTIFICATES OF DEPOSIT:** A CD with a very large denomination, usually \$1 million or more, that can be traded in secondary markets.
- **PAR VALUE:** The nominal dollar face amount of a security.

GLOSSARY

- **PASS THROUGH SECURITY:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.
- **REPURCHASE AGREEMENTS:** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- **SETTLE DATE:** The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction (i.e., coupon payments and maturity proceeds) occurs on a non-business day, the funds are exchanged on the next business day.
- **TRADE DATE:** The date on which the transaction occurred; however, the final consummation of the security transaction and payment has not yet taken place.
- **UNSETTLED TRADE:** A trade which has been executed; however, the final consummation of the security transaction and payment has not yet taken place.
- **U.S. TREASURY:** The department of the U.S. government that issues Treasury securities.
- **YIELD:** The rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.
- **YTM AT COST:** The yield to maturity at cost is the expected rate of return based on the original cost, the annual interest receipts, maturity value, and the time period from purchase date to maturity, stated as a percentage on an annualized basis.
- **YTM AT MARKET:** The yield to maturity at market is the rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.

M E M O

TO: Fiscal Policy & Insurance Committee
FROM: David Shank, Assistant General Manager/CFO 
DATE: October 22, 2019
SUBJECT: Outline the Process for setting CY 2020 Rates and Charges

Purpose

Provide the Fiscal Policy & Insurance Committee with an outline of the CY 2020 rate setting process.

Summary

The Proposition 218 noticed maximum rate and charge increases are the culmination of a long and thorough financial planning process that began in April of 2017. Not only did the process involve extensive community outreach and communications but also multiple public hearings to solicit stakeholder feedback. As part of the Board's commitment to fiscal transparency, each year rather than just setting the rates and charges at the maximum level, the Board reviews the updated financial projections and sets rates and charges for the calendar year based upon the District's actual fiscal needs. This review has resulted in smaller than the adopted maximum rate increases for water and recycled water the last two years.


This December the Board will be setting calendar year 2020 rates and charges. Staff are working on updating all the projection data in the District's financial model and will be providing the FP&I Committee with rate and charge increase alternatives to consider. The preliminary schedule for setting calendar year 2020 rates and charges is:

- November – Multiple FP&I Committee meetings to establish the Committee's rate and charges increase recommendation for the Board.
- December – Board presentation of Committee's recommended rate and charge increases.
- January/February – Implementation of rate and charge increases.

Recommended Action

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

M E M O

TO: Fiscal Policy and Insurance Committee
FROM: David Shank, Assistant General Manager/CFO 
DATE: October 22, 2019
SUBJECT: Review of Fiscal Year ending June 30, 2018 Auditor Findings

Purpose

During the Fiscal Year ending June 30, 2018 audit, the engagement Partner from White, Nelson, Diehl, Evans, LLP's, the District's independent auditor, identified several areas where improvement could be made. Over the past year staff have implemented all of the recommendations made by the engagement Partner. The recommendations are provided as Attachment A for ease of reference.

Summary

With the field work done and draft statements and notes completed, the engagement Partner is now able to provide the Committee with a comprehensive evaluation of all the prior year's recommendations. Attachment A from the engagement Partner provides a summary of the current status or District practices as they relate to the prior year's findings.

Recommended Action

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

Attachment A

Memo to Fallbrook Public Utility District

Re: Status of Fiscal Year 2018 Audit Findings

October 15, 2019

During the course of the audit for the fiscal year ended June 30, 2018, we had several findings. We reported these findings in two letters; a management letter for those findings we felt were either material weaknesses or significant deficiencies, and an other comments letter for those findings that we felt were not material weaknesses or significant deficiencies, but still warranted the attention of management.

As part of the audit for the fiscal year ended June 30, 2019 we reviewed these comments. The comments as well as our current status on them is below:

Management Letter Comments:

June 30, 2018 Audit Comment	Current Status
Bank Reconciliations Not Performed Timely or Reviewed and Approved – During the course of testing bank reconciliations, it was noted that the reconciliation was not done timely and there was no indication that it was reviewed or approved. Through discussions with District staff monthly bank reconciliations were not reviewed or approved during the fiscal year.	Per observation of bank reconciliations at June 30, 2019 year end, bank reconciliations are being performed and reviewed on a timely basis.
\$125,307 of Cash Held at Year End Written Off as a Mark-To-Market Adjustment– during the course of our testing over Cash and Investments at year-end, it was noted that the District wrote off as a mark-to-market adjustment \$125,307 of cash and cash equivalents held at Union Bank at year-end.	This item is non-recurring. Cash and cash equivalents held in custodial accounts at MUFG (Union Bank) are properly reported on the District’s General Ledger at June 30, 2019.
Sick Time Expense Overstated in FY 2018 by \$542,795 – During the course of our audit of accrued sick and vacation at year end it was noted that the District recorded a current year fiscal year expense of \$542,795 to adjust a prior year balance which has been incorrectly reported. As a result of our audit this expense was removed from the current year and shown as a prior period adjustment.	This item is non-recurring. Sick time expense and accrual appear to be properly reported on the District’s General Ledger at June 30, 2019.

Other Comments Letter

June 30, 2018 Audit Comment	Current Status
<p>Treasurer’s Reports - Reporting Requirements are not being followed on Treasurer’s Reports. Issuer, Date of Maturity, Par and dollar amount invested, source of valuations and description of contracted parties are not being reported. Type of investment and rate of interest is, in some cases, being summarized and not reported by type of investment.</p>	<p>Government Code Section 53646(b). California law sets minimum investment reporting standards, including listing the types of investment, issuer names, dates of maturity, par amounts, dollar amounts, market values, descriptions of programs under the management of contracted parties, a statement of compliance with the investment policy, and a statement of the ability to meet cash flow needs for six months. The District is currently in compliance with these requirements.</p>
<p>Approval of Credit Card Expenditures – During the course of testing credit card expenditures, we found instances where employees were approving their own credit cards expenditures for payment, with no other evidence of a second person’s approval.</p>	<p>District credit card expenditures are currently being reviewed and approved by department heads.</p>
<p>Credit Card Reconciliation Procedures Not Being Followed - During the course of testing credit card expenditures, we noted that the use of the Credit Card Reconciliation Form is not being followed consistently by all employees who handle District credit cards. The District's Credit Card Policy states that all credit card statements must be reconciled by the cardholder(s), and be given to the AP department along with a completed, signed statement reconciliation form and all original receipts for the transactions on the statement. We noted two out of five credit card statements that did not have this reconciliation form included in the documentation provided to the AP department for payment.</p>	<p>Credit card reconciliation forms appear to be used more consistently and the forms as well as receipts are being forwarded to department heads for approval.</p>
<p>Quarterly 941 Payroll Tax Returns are not being Reviewed or Approved – During the course of testing 941 payroll reconciliations, it was noted that the reconciliation had no indication that it was reviewed or approved. Through discussions with District staff quarterly 941 payroll reconciliations were not reviewed or approved during the fiscal year.</p>	<p>Per discussion with staff and observation 941 payroll tax returns are now being reviewed and approved.</p>
<p>Journal Entries Not Reviewed and Approved – During the course of testing journal entries it was noted that some employees can post a journal entry into the system without another person’s review or approval.</p>	<p>Per discussion with staff and observation journal entries are now being reviewed and approved.</p>

<p>Mileage Reimbursement Paid without Supporting Documentation – During the course of testing travel and entertainment expenses it was noted that an employee received reimbursement for mileage without providing supporting documentation as required by the District’s travel and entertainment policy</p>	<p>Per discussion with staff and observation supporting documentation is now required to be attached to all expense reimbursements.</p>
<p>General Manager’s Time Card Not Approved – During the course of our tests of payroll it was noted that the General Manager’s time card is not approved</p>	<p>Per discussion with staff and observation the General Manager’s time cards are now being approved.</p>
<p>No Support for Payroll Deductions – During the course of our tests of payroll it was noted that the District does not keep support for payroll deductions in employee personnel files</p>	<p>WNDE did not have any similar findings in the FY 19 audit.</p>
<p>Timecard Coding Not Entered Correctly in System – during the course of our tests of payroll one instance was noted that hours reported on vacation time on the timecard were entered as sick time in the payroll system</p>	<p>WNDE did not have any similar findings in the FY 19 audit.</p>
<p>Wire Transfers Not Journalized into General Ledger Timely – during the course of our tests of wire transfers we noted that wire transfers are not entered into the general ledger until month-end closing procedures occur the following month</p>	<p>Per discussions with staff and observation, all journal entries, including journal entries for wire entries are now being entered in the General Ledger on a timely basis.</p>
<p>Union Bank Operating and Money Market Bank Accounts Not Fully Reconciled at Year End – during the course of our testing over cash and investment balances at year end it was noted that the Union Bank operating account bank reconciliation was out of balance by \$2,465.90 and the Union Bank Money Market bank reconciliation was out of balance by \$13,192.55</p>	<p>Per observation of bank reconciliations at June 30, 2019 year end, bank reconciliations are being performed and reviewed on a timely basis. There were small adjustments made to reconcile the June 30, 2019 bank statements; \$1,807.51 on the operating account and \$6,364.85 on the money market account.</p>
<p>Unbilled Water Revenue and Receivable Incorrectly Computed at Year End – during the course of our test of unbilled water receivables it was noted that the District was not using the correct billing registers to compute year-end revenue and receivables, resulting in an understatement of revenue and receivables of \$188,242</p>	<p>This item is non-recurring. WNDE testing at June 30, 2019 indicated that the correct billing registers were being used to compute year-end revenue and receivables.</p>
<p>Inventory Observation – during our testing of inventory we noted that for several items on count sheets the District was not able to locate an invoice to support the costs because the inventory items were so old. When we inquired about whether any of the older inventory was obsolete, we were told that the District does not have a policy to track or write off obsolete inventory</p>	<p>Through discussions with staff and observation, the District has implemented a bar code system for tracking current and obsolete items.</p>

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