



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

AGENDA

PURSUANT TO WAIVERS TO CERTAIN BROWN ACT PROVISIONS UNDER EXECUTIVE ORDERS ISSUED BY GOVERNOR NEWSOM RELATED TO THE COVID-19 STATE OF EMERGENCY, THIS MEETING WILL BE CONDUCTED VIA TELECONFERENCE USING THE BELOW INFORMATION, AND THERE WILL BE NO PHYSICAL LOCATION FROM WHICH MEMBERS OF THE PUBLIC MAY PARTICIPATE.

INSTEAD MEMBERS OF THE PUBLIC ARE ENCOURAGED TO PARTICIPATE IN THE COMMITTEE MEETING VIA TELECONFERENCE USING THE BELOW CALL-IN AND WEBLINK INFORMATION

MEMBERS OF THE PUBLIC MAY ALSO SUBMIT PUBLIC COMMENTS AND COMMENTS ON AGENDA ITEMS IN ADVANCE IN ONE OF THE FOLLOWING WAYS:

- BY EMAILING TO OUR BOARD SECRETARY AT LECKERT@FPUD.COM
- BY MAILING TO THE DISTRICT OFFICES AT 990 E. MISSION RD., FALLBROOK, CA 92028
- BY DEPOSITING THEM IN THE DISTRICT’S PAYMENT DROP BOX LOCATED AT 990 E. MISSION RD., FALLBROOK, CA 92028

ALL COMMENTS SUBMITTED BY WHAT EVER MEANS MUST BE RECEIVED AT LEAST ONE HOUR IN ADVANCE OF THE MEETING. ALL COMMENTS WILL BE READ TO THE BOARD DURING THE APPROPRIATE PORTION OF THE MEETING. PLEASE KEEP ANY WRITTEN COMMENTS TO 3 MINUTES. THESE PUBLIC COMMENT PROCEDURES SUPERSEDE THE DISTRICT’S STANDARD PUBLIC COMMENT POLICIES AND PROCEDURES TO THE CONTRARY.

**AUDIO CALL-IN +1 (408) 418-9388
ACCESS CODE 126 869 7219
AUDIO PASSWORD 62358392**

<https://fallbrookpublicutilitydistrict.my.webex.com/fallbrookpublicutilitydistrict.my/j.php?MTID=ma2aa1242bf3ee86ffeabf68f47209bdc>

**THURSDAY, NOVEMBER 12, 2020
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.

I. PRELIMINARY FUNCTIONS

CALL TO ORDER / ROLL CALL

PUBLIC COMMENT

II. ACTION / DISCUSSION ----- (ITEMS A – B)

- A. REVIEW DRAFT COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FOR FY ENDING JUNE 30, 2020
- B. REVIEW CALENDAR YEAR 2021 RATES AND CHARGES

III. ADJOURNMENT OF MEETING

* * * * *

DECLARATION OF POSTING

I, Lauren Eckert, Executive Assistant/Board Secretary 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, Lauren Eckert, further declare under penalty of perjury and under the laws of the State of California that the foregoing is true and correct.

November 5, 2020
Dated / Fallbrook, CA

/s/ Lauren Eckert
Executive Assistant/Board Secretary

M E M O

TO: Fiscal Policy and Insurance Committee
FROM: David Shank, Assistant General Manager/CFO
DATE: November 12, 2020
SUBJECT: Review Draft Comprehensive Annual Financial Report (CAFR) for FY Ending June 30, 2020

Purpose

Review the District's Draft Comprehensive Annual Financial Report (CAFR) for Fiscal Year ending June 30, 2020, Attachment A. This year is the third year that the District's staff have prepared 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.

Summary

Last month, the Committee reviewed the District's draft financial statements and notes prepared by White, Nelson, Diehl, Evans, LLP's, the District's independent auditor. These are included in this Draft CAFR. In addition, the draft Transmittal Letter, Management Analysis and Discussion (MD&A) and Statistical Section are included in this complete Draft CAFR. It should be noted at the time this draft was sent out some demographic and socioeconomic data included in the statistical section were not yet updated for 2020. These items will be updated this month prior to any Board action.

Recommended Action

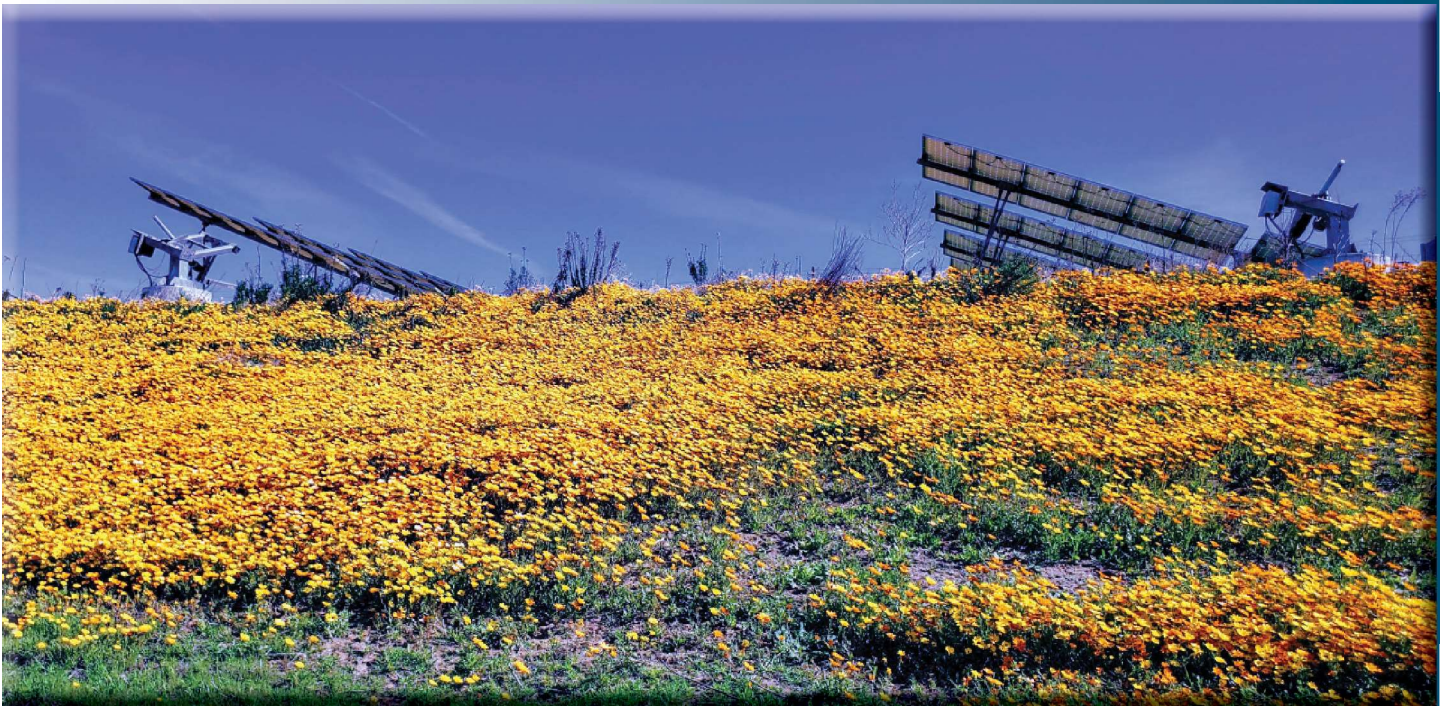
Request that the Committee recommend to the Board that the Draft CAFR be approved.

Attachment A



Fallbrook Public Utility District

A Special District in the State of California



**Comprehensive Annual Financial Report
For the Fiscal Year Ending June 30, 2020**

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year ending June 30, 2020

Current Board of Directors:

District #1 - Dave Baxter

District #2 - Ken Endter, President

District #3 - Jennifer DeMeo, Vice-President

District #4 - Don McDougal

District #5 - Charley Wolk

Prepared by District Management:

General Manager - Jack Bebee

Assistant General Manager/CFO - David Shank

Acknowledgment: District Management would like to thank Jodi Brown, Kelly Laughlin, Mick Cothran, Joye Johnson, Annalece Bokma, Caroline Wilson and Veronica Tamzil for their support in preparing this document.

Fallbrook Public Utility District
990 East Mission Road
Fallbrook, CA 92028
(760) 728-1125
www.fpud.com



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INTRODUCTORY SECTION



November XX, 2020

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

990 East Mission Road
Fallbrook, California
92028-2232
www.fpud.com
(760) 728-1125

Board of Directors

Dave Baxter
Division 1

Ken Endter
Division 2

Jennifer DeMeo
Division 3

Don McDougal
Division 4

Charley Wolk
Division 5

Staff

Jack Bebee
General Manager

David Shank
*Assistant General Manager/
Chief Financial Officer*

Lauren Eckert
*Executive Assistant/
Board Secretary*

General Counsel

Paula de Sousa
Best Best & Krieger

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Fallbrook Public Utility District (District) for the fiscal year ended June 30, 2020. The purpose of this report is to provide the Board, the public, and other interested parties, with reliable and transparent financial information about the District.

The CAFR is being produced as part of management’s efforts to enhance the District’s fiscal transparency and to support a better understanding of the District’s financial operations. Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

CliftonLarsonAllen, LLP, Certified Public Accountants, have issued an unmodified opinion on the Fallbrook Public Utility District’s financial statements for the year ended June 30, 2020. The independent auditors’ report is located at the front of the financial section of this report.

Management’s Discussion and Analysis (MD&A) immediately follows the independent auditors’ report in the Financial Section and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it. Following the MD&A are the basic financial statements, notes to the statements, and an unaudited section of statistical information.

This report has been prepared using the financial reporting model recommended in the Government Accounting Standards Board’s (GASB) Statement 34. The GASB requires proprietary fund governments to use the full accrual basis of accounting. The accompanying statements have been prepared using the full accrual basis.



District Profile

Fallbrook is an unincorporated community in San Diego County. The first permanent recorded settlement in Fallbrook was in 1869, in the east area of the District, which later became Live Oak County Park. While agriculture has always played a major role in the community, the first plantings were olives and citrus. These crops were replaced in the 1920's by avocados and it wasn't long before Fallbrook became generally recognized as the "Avocado Capital of the World."

Fallbrook Public Utility District (District) was incorporated on June 5, 1922 to serve water from local area wells along the San Luis Rey River. Soon after it was established, the District began to grow. Annexations into the District have expanded the service area from 500 acres to 28,000 acres (44 square miles). To meet the growing demand for water, additional ground water supplies were developed along both the San Luis Rey and Santa Margarita rivers.

The District became a member of the San Diego County Water Authority (SDCWA) at its formation on June 9, 1944, and thus was eligible to receive a portion of Colorado River water that would be diverted by the Metropolitan Water District of Southern California (MWD). When Colorado River water became available in 1948, consumption within the District gradually increased to approximately 10,000 acre-feet per year by 1959. Then in 1978, MWD augmented its supply system with water from the California State Water Project and began delivering water from both systems to San Diego County. Today, the SDCWA provides virtually all of the District's potable water.

The District provides residents, businesses and agricultural customers with full-service water, wastewater and recycled water services.

Water System

The District imports 99% of its water from the SDCWA with the remaining 1% coming from a local well. The District has 4 connections to the imported water system, three of the four are directly connected to MWD owned pipelines and the fourth, which is currently not in use, is connected to SDCWA's pipeline. The District's water distribution system is comprised of 270 miles of pipeline, 6,800 valves, an ultraviolet disinfection water treatment plant, nine steel reservoirs, a 300-million-gallon treated water reservoir, five pump stations and plans for a groundwater treatment plant. District staff operate the system, and conduct all system maintenance and repairs. The District is in the middle of an Advanced Metering Infrastructure (AMI) system upgrade that will enable real-time meter reading and provide customers with real-time water use.

The District also recently finalized an agreement with U.S. Marine Corps Base Camp Pendleton to share local water in the Santa Margarita River, of the Santa Margarita River Conjunctive Use Project (SMRCUP). The SMRCUP was originally projected to provide a long-term average annual of 3,100 acre-feet per year to the District's ratepayers based on an assessment of available supplies and demands for both the District and Camp Pendleton. The District's demands were also originally projected to be approximately 9,500 acre-feet per year so the project was projected to provide roughly 30% of the District's demands. Based on demand reductions from Camp Pendleton the available supplies from the SMRCUP project has increased to approximately 4,300 acre-feet per year of average annual water supplies. In addition, the District's long-term demand projections have decreased to roughly 8,100 acre-feet per year, so the long term expected supply percentage is now projected to be just over half of the District's total demands. Construction of a bi-directional pipeline and groundwater treatment plant began construction in the Fall of 2019.



The District's five-year average annual water sales is 8,263 acre-feet. Residential and commercial customers represent 64% of sales, and agricultural customers make up the remaining 36%. The District's historic sales trend is down due to improved water efficiency for both residential and commercial indoor and outdoor use, combined with sharp decreases in agricultural water demands. The decrease in agricultural water demands is being driven by the economics of agriculture production and the fact that high wholesale water costs make only limited crops profitable. The District's agricultural water sales have gone from 7,000 acre-feet in Fiscal Year 2008 to 2,350 in Fiscal Year 2020 or down 34%.

Wastewater System

The District's wastewater system is comprised of 78 miles of buried sewer lines and force mains, a 2.7 million gallon per day water reclamation plant, a 1-megawatt solar facility and a 23-mile ocean outfall line.

In an effort to go green, and to save money by reducing hauling and disposal costs of sewage sludge, the District began recycling its sewage sludge in 2008. A state-of-the-art thermal dryer heats the sludge to extremely high temperatures, killing all harmful pathogens. The end product is a sterile fertilizer that can be safely returned to the soil and is classified as a Class A soil amendment. Instead of paying to haul sewage sludge to a landfill, the fertilizer is sold to commercial growers.

The environmentally conscious decision to turn sludge into fertilizer came about as the cost of trucking the sludge out of the county had begun to skyrocket. The District was spending \$150,000 per year to haul its sludge to Riverside County, but that location was set to close and the nearest site was Kern County or out of state. This technology was cutting edge in 2008 and remains so today, reducing the District's environmental footprint, and reducing waste and saving money, all while meeting California's strict emissions standards.

Recycled Water System

The District's recycled water system includes 10.5 miles of buried pipe. Currently the District has 29 recycled water customers, and delivers an average of 0.6 million gallons per day to them. The District provides recycled water for nurseries, sports fields, home owners' associations, Fallbrook High School, street medians, and for freeway irrigation. In 2015, the District completed a \$27 million expansion and upgrade to the water reclamation plant to improve reliability of operation and provide storage for recycled water. The project was completed ahead of schedule and under budget.

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

The District has recently applied for grant funding to explore development of a joint Indirect Potable Reuse Project with Camp Pendleton Marine Corps Base. The District is in the process of securing grant funding to help off-set the cost of the project feasibility studies.

Governance and Organizational Structure

The District’s Board is made up of five community members who serve overlapping four-year terms. In March 2016, the Board unanimously approved a resolution to change the method of electing board members to “election by district” and approved a map identifying five territorial units within the District. Each director, therefore, is elected by the registered voters of the sub-district he or she resides in, within the District’s service area. To run for office, a candidate must live in the area he or she is running to represent. Prior to 2016, directors would win a seat on the board by being the top vote-getters, regardless of where they lived within the District.

Elected District Officials (As of 06/30/2020):

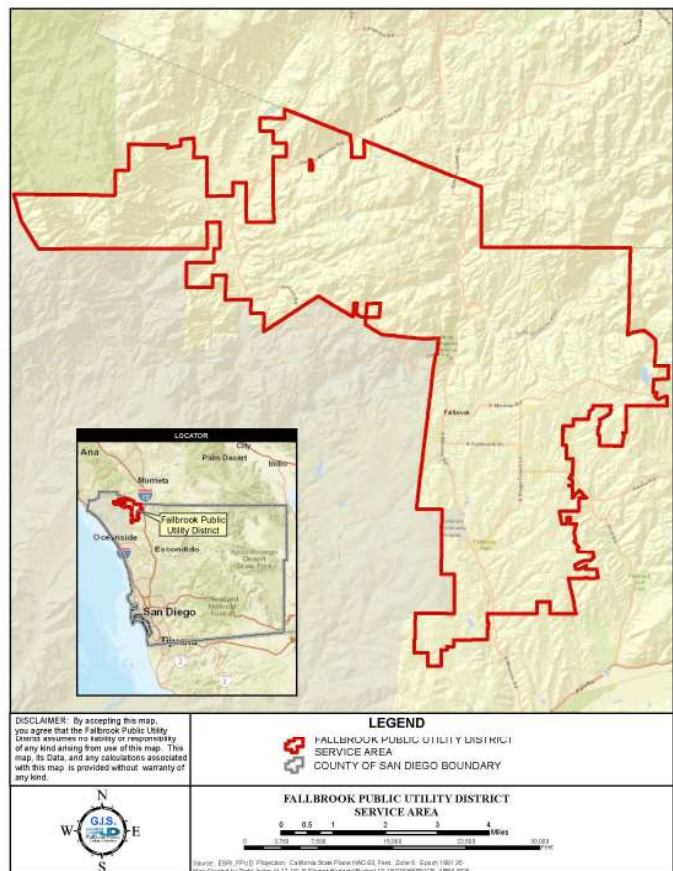
- District #1 - Dave Baxter**
- District #2 - Ken Endter, President**
- District #3 - Jennifer DeMeo, Vice-President**
- District #4 - Don McDougal**
- District #5 - Charley Wolk**

Service Area and Local Economy

San Diego County is the second-most populous county in the state and the fifth-most populous in the United States. The District is located in the north-east region of the county and is rural in character. The District’s service area and pipeline is shown in the accompanying maps. The District is bordered to the west by the Naval Weapons Station and U.S. Marine Corps Base Camp Pendleton, making the District’s service area a bedroom community for Camp Pendleton’s active military and civilian-service workers. The service area’s 2018 population is estimated to be 33,021 with 11,289 households. Fallbrook’s population has remained relatively unchanged over the past several years.

The median household income in Fallbrook was \$60,223, which is less than the state median of \$71,228 and slightly higher than the national average of \$60,293. Being only slightly higher than the national average is noteworthy since California is one of the most expensive states to live in.

The San Diego Association of Governments (SANDAG) projects that the County’s population will approach 4.1 million residents in 2050, up from 3.4 million in 2020. The District’s 2050 housing density is expected to increase slightly as housing demands increase. Employment is also expected to slightly increase by 2050.



Financial Policies

The District maintains certain policies that govern aspects of the District's financial management. The District's maintains the following policies:

- Debt Management Policy – Defines the District's debt management.
- Investment Policy – Establishes permitted investments in compliance with State Code.
- Fund Balance/Reserve Policies – Set target balances for reserves and working capital.
- Capitalization Policy – Establishes the parameters for defining an operating or capital expenditure.

These policies can be found on the District's website as standalone documents or as part of the District's Administrative Code.

Long-Range Planning

The District engages in a wide range of long range planning activities. In 2017, the District completed a comprehensive 10-year financial plan. As part of the financial plan, a Capital Improvement Plan was developed for water, recycled water and wastewater services. In addition, the District also restructured its rates and charges to better align them with the cost of service. Other planning activities include establishing and funding a 115 Trust to offset the District's pension and Other Post Employment Benefits (OPEB) liabilities. On June 30, 2020, the trust held \$7.9 million in assets to offset in District's OPEB and Pension liabilities.

In 2018, the District adopted a new Mission Statement to ensure the District's activities are aligned with the stakeholder interests. To benefit the community of Fallbrook by providing efficient and reliable services the District has identified the following long-range strategic focus areas.

#1 Strategic Focus Area | Water Supply

Need: *The District is almost 100% reliant on imported water purchased from the SDCWA, and has little control over the cost of this water. While our water is reliable due to regional investments in supply and storage, this has also resulted in the cost of water increasing significantly.*

Goal: Provide a reliable, cost-effective water supply through implementation of local water supply projects and securing the most cost effective source of imported water.

Strategy: Maximize available local water resources through development of our Santa Margarita River water rights settlement, which will provide low-cost water from the Santa Margarita River and resolve over 60 years of water rights litigation between the United States Government and the District. Evaluate further expansion of recycled water supplies, which provide a local, cost-effective drought-proof supply.

#2 Strategic Focus Area | Infrastructure

Need: *The District was formed in 1922 and has aging infrastructure throughout its service area. Over the last few years, pipe failures have caused increased service disruptions and property damage. If not addressed, these problems will increase significantly as the existing infrastructure reaches the end of its useful life.*

Goal: Maintain reliable infrastructure to our customers in the most cost-effective manner.

Strategy: Continue implementation of an asset-management program to improve system reliability by replacing existing aging infrastructure before its failure in an effort to avoid service disruptions and property damage.

#3 Strategic Focus Area | Efficiency

Need: *While the District has been able to maintain reliable service with limited resources, additional legal and environmental requirements along with rising employee costs require the District to do more with less to help control water and wastewater rates.*

Goal: Create a District culture of continuous improvement through the implementation of systems, processes and goals for all aspects of the organization.

Strategy: Continue taking incremental steps toward developing an organization that is a model in the industry for operational practices and efficiency, and one that is looked to as an industry leader for a smaller utility. Collaborate with other agencies locally and nationally to implement best practices in the industry.

#4 Strategic Focus Area | Community

Need: *The District was formed by the community as a local resource, but the need to increase rates for long-term fiscal sustainability and to address past under-investments in infrastructure negatively affects our customers' public opinion of the District.*

Goal: Improve experience for our customers to help provide a positive impact on the community we serve.

Strategy: Improve messaging and District approach, from field staff to management, to make sure we are approaching our activities with a focus on the customer's perspective. Establish programs that help invest in our community.

#5 Strategic Focus Area | Workforce

Need: *Approximately 40% of our staff are currently eligible or within five years of being eligible for retirement. Recruiting is challenging for qualified replacements with necessary knowledge in water and wastewater operations, heavy construction, finance, and engineering.*

Goal: Develop a resilient organization so that key positions can be filled internally with capable staff with proper training and education.

Strategy: Create an organization where many key positions are developed internally and a formal



program exists to identify staff with management potential and provide necessary training. Establish a work environment and reputation in the industry that draws qualified candidates with external recruitments.

Major Initiatives

Overcoming Challenges

This year has brought unprecedented challenges to the District and the World. The District's ability to adapt business practices to effectively manage the changes in operations required by the pandemic speak directly to management's recent efforts to both enhance and update the District's operations. The new phone system allowed Customer Service to receive calls like normal with staff working remotely. Remote access to the billing and water use information allowed them to answer customer questions. The payment options like PayNearMe and credit cards recently implemented provide customers more payment options. This ensured cash and other payments could be made even with the offices closed. Dedicated operators ensured uninterrupted service.

Water Affordability

The District has been faced in the past with escalating wholesale water costs driven by major infrastructure investments by the San Diego County Water Authority (SDCWA) in supply reliability. The SDCWA water purchase costs represent over 50% of the District's water enterprise operating costs. With SDCWA facing operational inefficiencies that result from declining water demands and considering the construction of a more than \$4 billion dollar pipeline to the All-American Canal, the District is facing significant water cost increases from SDCWA. To address this, the District has initiated a process to change its water wholesaler to Eastern Municipal Water District (EMWD). This change would reduce the District's cost of water by approximately 30% and not impact water reliability. The significant cost savings that would result from this change would help make the District's water more affordable for the community and help revitalize the region's agricultural industry.

Santa Margarita River Conjunctive Use Project

Development of a new groundwater treatment plant to treat water delivered by Camp Pendleton per the executed settlement agreement of US vs FPUD. Projected to provide on average 3,100 acre-feet per year of local water. The project construction is expected to take 24 months. Construction began in September 2019 and is expected to be completed in September 2021.

In addition to the regional investments in San Diego County water supplies, there is a significant proposed statewide water project to fix the Bay-Delta State Water Project, also known as the WaterFix, which delivers our key water supplies from Northern California. While the impact of the WaterFix on the cost of water is not known, the original cost in 2017 was expected to be just over \$16 billion. Since this cost is to be recovered on water rates, the project will cause an ongoing increase to wholesale water costs. With the additional increases in water costs due to WaterFix on the horizon, local water supply development, which will reduce our dependence on costly imported water, is another way to mitigate continued wholesale water rate increases.

The District recently settled over 66 years of water rights litigation with Camp Pendleton Marine Corps Base, which had been a hurdle to the District in securing a local water supply. This settlement allows the District to move forward on the Santa Margarita River Conjunctive Use Project (SMRCUP), which will make local supply for the District a reality and will provide District ratepayers long-term rate relief from increasing wholesale water costs. This project is under construction and is scheduled to begin producing water in fiscal year ending June 30, 2022. This project will be one of the largest capital investments made by the District over the next decade. The District has secured local supply development incentives from the Metropolitan Water District that will offset some of the projects operating costs and make the supply even more cost effective.

Asset Management

The District has implemented an asset management program that balances the cost of infrastructure rehabilitation with the cost of emergency repairs. Our critical buried infrastructure, such as water mains, have an average service life of 80 to 100 years. In the past, the District’s replacement cycle for buried assets was on a replacement cycle of 400 years. With this replacement cycle, the frequency of asset failures was expected to increase significantly over the near-term resulting in an increasing number of emergency water disruptions and property damage claims. In response, the District has proactively managed the renewal and rehabilitation program and is on a path to drive the system service life down from 400 years to 100 years. The recent decreased frequency of asset failures shows that some progress on this program has made, but this is a long-term program to meet the future replacement needs.

Continuous Improvement

The District is focused on improving the level of service to its customers in the most cost-effective manner and to continuously evaluate and modify operational practices to achieve this goal. This document is an example of the District’s commitment to continuous improvement and improved financial management and transparency. The District’s organizational chart is shown on the page 9.

Acknowledgments

Management would like to thank the Board of Directors for their leadership and vision guiding the implementation of the highest standards of financial management and securing District’s long-term financial sustainability.



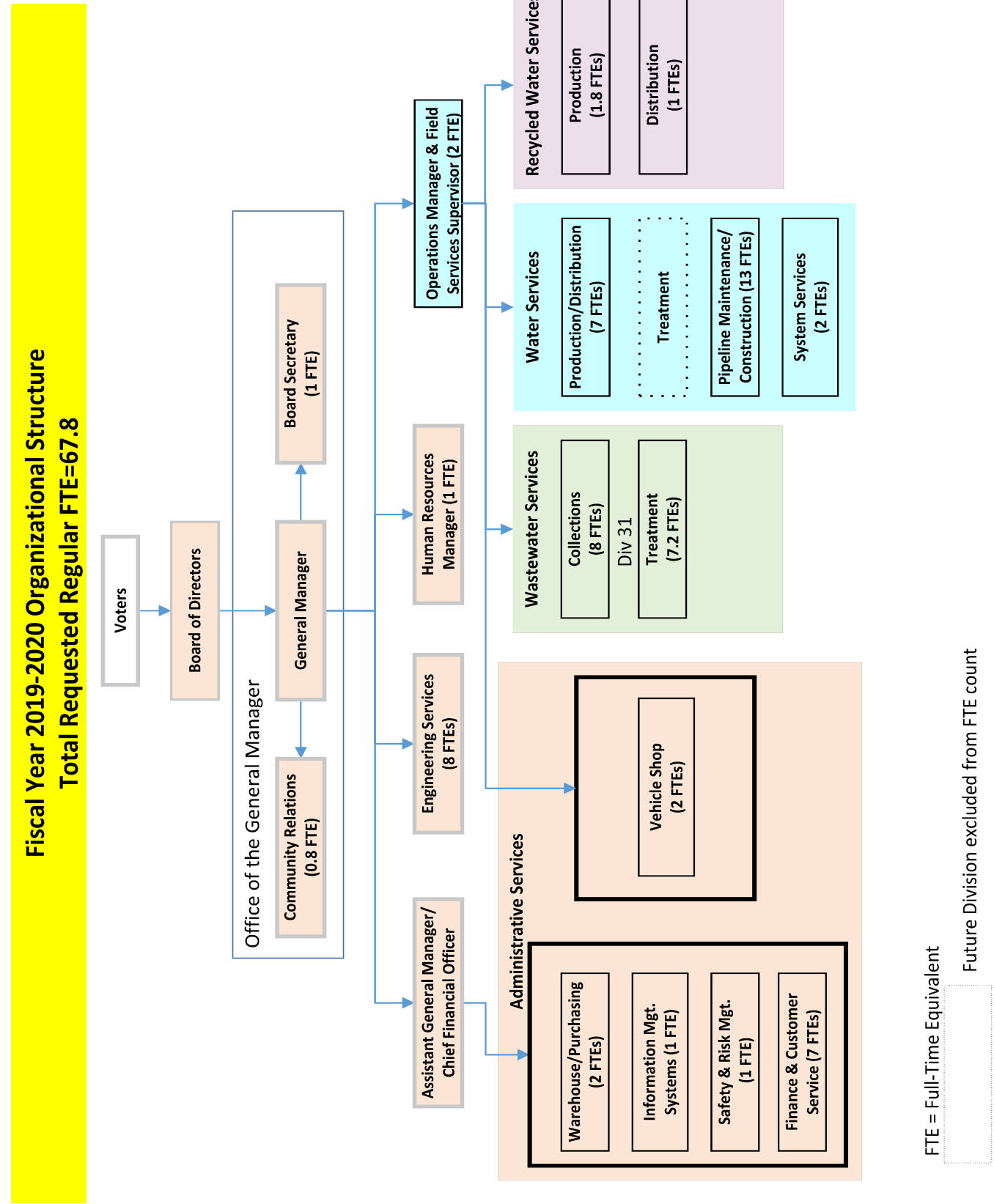
Jack Bebee
General Manager



David Shank
Assistant General Manager/CFO



Fiscal Year Organizational Structure (Total FTE 67.8)



Certificate of Achievement for Excellence in Financial Reporting



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Reporting

Presented to

**Fallbrook Public Utility District
California**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morill

Executive Director/CEO

FINANCIAL SECTION

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Fallbrook Public Utility District
Fallbrook, California

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Fallbrook Public Utility District (District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

2965 Roosevelt Street, Carlsbad, CA 92008-2389 • Tel: 760.729.2343 • Fax: 760.729.2234

Offices located in Orange and San Diego Counties

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fallbrook Public Utility District as of June 30, 2020, and the respective changes in financial position and, when applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in notes 3 and 10 to the financial statements, the District restated net position at June 30, 2019 in the amount of \$1,139,122 to correct an overstatement of accumulated depreciation in prior years. Our opinions are not modified with respect to these matters.

Other Matters*Prior-Year Comparative Information*

The statements include summarized prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements as of and for the year ended June 30, 2019, from which such summarized information was derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of the Proportionate Share of the Net Pension Liability - Defined Benefit Pension Plans, Schedule of Contributions - Defined Benefit Pension Plans, Schedule of Changes in the Net OPEB Liability and Related Ratios, and Schedule of Contributions - OPEB, identified as Required Supplementary Information (RSI) in the accompanying Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Introductory Section, the Schedule of Operating Income and Expenses, and Statistical Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Operating Income and Expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Operating Income and Expenses is fairly stated, in all material

respects, in relation to the basic financial statements as a whole

The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated **November**, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Carlsbad, California
November XX, 2020

2nd Draft - For Review Only

Management's Discussion and Analysis

This section of the Fallbrook Public Utility District's (District) annual financial report provides management's summary and analysis of the District's financial performance for fiscal year ending June 30, 2020. Management's Discussion and Analysis (MD&A) are broken into the following sections:

- Financial Statement Overview
- Financial Highlights & Analysis
- Capital Assets
- Debt Management
- Currently Known Facts, Conditions and Decisions

Interested parties are encouraged to read this section of the District's annual financial report in conjunction with the Letter of Transmittal and the detailed financial statements included in this report.

Financial Statement Overview

The financial statements report information about the District's financial position and result of operations using the accrual basis of accounting, similar to methods used by private sector companies. The statements also present changes in cash balances, and information about both short and long-term activities. This section of the annual report contains three components: Management's Discussion and Analysis, the Basic Financial Statements, and the Notes to the Financial Statements.

The Basic Financial Statements include the following:

- The Statement of Net Position present financial information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The Statement of Revenues, Expenses and Changes in Net Position accounts for the District's activities during the last year. It provides the basis for measuring the relative success in recovering operational costs.
- The Statement of Cash Flows report the District's cash receipts and disbursements during the period, classified into operating, financing, and investing categories.
- The Notes to the Financial Statements provide additional information and present material disclosures required by generally accepted accounting principles that are not otherwise visible in the financial statements. The notes immediately follow the statements.

Financial Highlights

This year the District's net financial position increased 1.5% from the June 30, 2019 restated balance of \$97,207,549 to a June 30, 2020 balance of \$98,704,754. The District's total assets increased to \$189,612,774, which is a 30.7% increase from last year. The increase in District's assets is being driven by the construction of a water treatment plant, which is part of the District's Santa Margarita Conjunctive Use Project (SMRCUP). The treatment plant construction is being funded by a State Revolving Fund (SRF) Loan. Liabilities increased to \$93,128,287 by 81.7% from year ending June 30, 2019 due to the new SRF Loan funding the SMRCUP water treatment plant and construction related payments. Of the District's assets, 74.4% are related to infrastructure, which is the largest class of assets.

The District’s operating loss decreased from \$4,763,867 in fiscal year ending June 30, 2019 to \$4,303,252 in fiscal year ending June 30, 2020. Overall the District’s operating revenues increased 7.4% or from \$26,944,550 to \$28,931,007 in fiscal years ending June 30, 2019 and 2020, respectively. After net non-operating revenues and capital contributions the District’s fiscal year ending June 30, 2020 change in net position was \$1,497,205. During the past year, the District made contributions to the Pension and OPEB 115 Trust that when combined with investment earnings bring the trust balance from \$7,108,112 fiscal year ending June 30, 2019 to \$7,852,397 fiscal year ending June 30, 2020.

Condensed Statements of Net Position

	For the Year Ended June 30, 2020	For the Year Ended June 30, 2019	For the Year Ended June 30, 2018
Assets			
Current Assets	\$ 37,944,043	\$ 21,737,022	\$ 17,589,075
OPEB and Restricted Assets	10,556,480	9,752,965	4,968,360
Capital Assets, net	141,112,251	113,599,777	114,647,596
Total Assets	189,612,774	145,089,764	137,205,031
Deferred Outflows of Resources	3,235,682	3,419,768	4,014,167
Liabilities			
Current liabilities	21,205,499	5,825,259	6,679,433
Noncurrent liabilities	71,922,788	45,425,373	47,605,222
Total Liabilities	93,128,287	51,250,632	54,284,655
Deferred Inflows of Resources	1,015,415	1,190,472	851,236
Net Position			
Net Investment in Capital Assets	82,199,752	80,125,400	79,333,568
Restricted	10,188,202	9,477,694	4,711,487
Unrestricted	6,316,800	6,465,333	2,038,252
Total Net Position	\$ 98,704,754	\$ 96,068,427	\$ 86,083,307

Financial Analysis

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the District's enterprise fund activities in a way that will help answer questions as to whether the District, as a whole, is better or worse off as a result of this year's activities. These two statements report the net position of the District and changes in it. One can think of the District's net position as the difference between assets and deferred outflows of resources (what is owned) and liabilities and deferred inflows of resources (what is owed) and is one way to measure its financial health or financial position.

Fiscal year 2020 compared to Fiscal Year 2019

The largest and most significant portion of the District's net position is its investment in capital assets, which are used to provide services to its customers. Water assets include the pipeline distribution system, the dam at the Red Mountain reservoir and equipment and structures. Wastewater assets include the sewage collections system, wastewater treatment plant, solar generating plant, equipment and ownership of the Oceanside Ocean Outfall. Capital assets increased to \$141,112,251 in fiscal year ending June 30, 2020. In fiscal year ending June 30, 2020, the District spent \$27,331,718 million on the construction of a \$62.9 million dollar water treatment plant. This investment in District assets is driving the increase in capital assets.

Current assets increased by \$16,207,021 million from fiscal year ending June 30, 2019. The increase is primarily driven by \$15,412,415 in loan proceeds receivable, which are pending SMRCUP water treatment plant project reimbursements from the SRF Loan program. The loan proceeds receivable is included in Other Receivables in the financial statements. At year-end, the trust offsetting the District's OPEB and pension liabilities held \$7,852,396, \$1,040,486 for OPEB and \$6,811,910, for pensions. The OPEB assets are reported in this report as a Fiduciary Fund in compliance with GASB 75.

Net capital assets increased \$27,512,474 in fiscal year ending June 30, 2020, as restated. District wide depreciation in fiscal year ending June 30, 2020 was \$6,637,996. The increase in net capital assets indicates that the District's capital investments in system assets during fiscal year ending June 30, 2020 greatly outpaced the rate of asset depreciation.

Current liabilities increased by \$15,380,240 from fiscal year ending June 30, 2019. The driver behind the increase in current liabilities was corresponding increase in accounts payable, which is related to SMRCUP water treatment plant construction related outflows.

The District's total net position increased by \$1,497,205 primarily attributable to the \$6,369,624 in nonoperating revenue, which is predominantly made up of property taxes and capital improvement charges, and investment income. These along with offsetting nonoperating expenses of \$941,674, compensated for the operating loss of \$4,303,252.

Fiscal year 2019 compared to Fiscal Year 2018

The largest and most significant portion of the District's net position is its investment in capital assets, which are used to provide services to its customers. Water assets include the pipeline distribution system, the dam at the Red Mountain reservoir and equipment and structures. Wastewater assets include the sewage collections system, wastewater treatment plant, solar generating plant, equipment and ownership of the Oceanside Ocean Outfall. Capital assets decreased to \$113,599,777 in fiscal year ending June 30, 2019.

Current assets increased by \$4,147,947 from fiscal year ending June 30, 2018. The increase is primarily driven by the sale of the District’s Santa Margarita River properties for \$10 million. At year-end, the trust offsetting the District’s OPEB and pension liabilities held \$7,108,112, \$1,006,649 for OPEB and \$6,101,463 for pensions. The OPEB assets are reported in this report as a Fiduciary Fund in compliance with GASB 75.

Net capital assets remained relatively flat with a decrease of \$1,047,819 in fiscal year ending June 30, 2019. The decrease was driven by the sale of the Santa Margarita River properties with a cost basis of \$667,000. District wide depreciation in fiscal year ending June 30, 2019 was \$6,158,589. The slight decrease in net capital assets indicates that the District’s capital investments in fiscal year ending June 30, 2019 were slightly outpaced by the rate of asset depreciation.

Current liabilities decrease by \$854,174 from fiscal year ending June 30, 2018. The driver behind the decrease in current liabilities was corresponding decrease in accounts payable, which is related to construction related outflows.

The District’s total net position increased by \$9,985,121 primarily attributable to the \$9,338,297 net gain on disposal of capital assets. Other nonoperating revenue, which is predominantly made up of property taxes and capital improvement charges, and investment income.

These along with offsetting nonoperating expenses of \$909,966, compensated for the operating loss of \$4,763,867.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	For the Year Ended June 30, 2020	For the Year Ended June 30, 2019	For the Year Ended June 30, 2018
Operating revenues	\$ 28,931,007	\$ 26,944,550	\$ 29,882,022
Operating expenses	33,234,259	31,708,417	33,319,799
Operating loss	(4,303,252)	(4,763,867)	(3,437,777)
Non-Operating revenue, net	5,427,950	14,675,198	4,211,886
Change in net position before capital contributions	1,124,698	9,911,331	774,109
Capital Contributions	372,507	73,789	140,761
Change in net position	1,497,205	9,985,120	914,870
Net Position - beginning	97,207,549	86,083,307	81,682,918
Prior Period Adjustments	-	1,139,122	3,485,519
Net position - end of year	\$ 98,704,754	\$ 97,207,549	\$ 86,083,307

Fiscal year 2020 compared to Fiscal Year 2019

Fiscal year ending June 30, 2020 water sales revenues were up 7.1% or \$1,458,446 from fiscal year ending June 30, 2019 due to increased rates. Wastewater revenues were up 8.5% from fiscal year ending June 30, 2019 levels due to rate increases and higher billable flows. While the Statements of Net Position shows the District's overall financial position, the Statements of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of the changes in the District's fiscal year ending June 30, 2020 net position. The District's restated net position increased by \$2,636,327 during fiscal year ending June 30, 2020.

Operating revenue increased \$1,986,457 due to rate increases and higher billable flows. Recycled water sales were flat at 560 AF as compared to 562 AF in fiscal year ending June 30, 2019. Wastewater revenues increased by \$467,648 versus fiscal year ending June 30, 2019. Operating revenues included potable water and recycled sales, monthly District water and wastewater operations charges and pass-through charges from the SDCWA.

Operating expenses increased by \$1,525,842 versus fiscal year ending June 30, 2019. The increase in operating expense was driven by a \$718,419 increase in water operations and a \$418,655 increase in wastewater operations from fiscal year ending June 30, 2019. Depreciation expense increased by \$479,407 from fiscal year ending June 30, 2019 while other operating costs increased by \$1,046,435. The operating increase also included costs associated with changes in the actuarial valuation of the District's pension obligation, which like depreciation, is the systematic allocation of the cost over a specified time horizon.

The District's operating loss of \$4,303,252 when netted against combined nonoperating revenues and expenses of \$5,427,950 results in a \$1,124,698 increase in net position before capital contributions. The District's nonoperating revenues come from six primary sources, property taxes in the amount of \$2,205,975, water and wastewater capital improvement charges in the amount of \$2,559,135, investment income in the amount of \$920,135, water availability charges in the amount of \$204,418, connection fees in the amount of \$107,107 and the Federal Interest Rates Subsidy Payments of \$123,762.

Fiscal year 2019 compared to Fiscal Year 2018

Fiscal year ending June 30, 2019 water revenues were down 12.1% or \$2,829,984 from fiscal year ending June 30, 2018. Wastewater revenues were up 4.2% from fiscal year ending June 30, 2018 levels due to rate increases and higher billable flows. While the Statements of Net Position shows the District's overall financial position, the Statements of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of the changes in the District's fiscal year ending June 30, 2019 net position. The District's net position increased by \$9,985,121 during fiscal year ending June 30, 2019.

Operating revenue decreased \$2,937,472 primarily due to water sales of 7,496 AF in fiscal year ending June 30, 2019 compared to 9,313 during fiscal year ending June 30, 2018. Recycled water sales were 562 AF, which was down from 704 AF in fiscal year ending June 30, 2018. Wastewater revenues increased by \$220,757 versus fiscal year ending June 30, 2018. Operating revenues included potable water and recycled sales, monthly District water and wastewater operations charges and pass-through charges from the SDCWA.

Operating expenses decreased by \$1,611,382 versus fiscal year ending June 30, 2018. The decrease in operating expense was driven by a \$1,802,434 decrease in the cost of water from fiscal year ending June 30, 2018. Depreciation expense increased by \$464,866 from fiscal year ending June 30, 2018 while other operating costs decreased by \$273,814. The operating expenses decrease also included costs associated with changes in the actuarial valuation of the District’s pension obligation, which like depreciation, is the systematic allocation of the cost over a specified time horizon.

The District’s operating loss of \$4,763,867 when netted against combined nonoperating revenues and expenses of \$14,675,198 results in a \$9,911,331 increase in net position before capital contributions. This is a \$10,463,312 increase from fiscal year ending June 30, 2018. The majority of revenues came from the District’s sale of the Santa Margarita River properties which resulted in a net gain of \$9,308,952. The District’s other nonoperating revenues come from six primary sources, property taxes in the amount of \$2,106,034, water and wastewater capital improvement charges in the amount of \$2,505,876, investment income of \$915,275, water availability charges in the amount of \$204,359, lease revenues in the amount of \$199,433 and connection fees of \$180,966.

Supplemental information for each of the three operations divisions can be found on page 63 of this report.

Capital Assets

The District’s has implemented an asset management program to improve the system reliability and reduce the number of unscheduled repairs. A critical component of the asset management program is the District’s pipeline and valve replacement program. In fiscal year ending June 30, 2020, the District replaced 16,042 feet of pipe and 427 valves. The District’s pipeline and valve replacement program’s goal is to reduce the replacement cycle of pipelines to 100 years from the previous 400 year replacement cycle. Last year the District completed and capitalized its Santa Margarita Water Rights capital project. This multi-decade project resulted in perpetual rights to Santa Margarita River water. This local supply will provide water to future generations to come. This year, the District began construction of the SMRCUP water treatment plant, which when completed will provide the District’s ratepayers with a local water supply, which is not only reliable but also affordable. The water treatment plant will treat the District’s share of the Santa Margarita River water.

June 30, 2020, the District has the following commitments with respect to unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Completion Date
Overland Trail Lift Station Rehabilitation	\$ 2,220,000	2/1/2021
Santa Margarita Conjunctive Use Project (SMRCUP)	31,900,000	12/1/2021
Winterhaven Pipeline Replacement	250,000	9/1/2021
Water Supply Reliability Project	350,000	10/1/2021
EAM Implementation	35,000	6/1/2021

Additional information on the District’s capital asset activity can be found at Note 3 of the Notes to the Basic Financial Statements.

Debt Administration

At June 30, 2020, the District had \$58.9 million of long-term debt outstanding. \$3.1 million of this debt is attributable to the wastewater Qualified Energy Conservation Bonds (QECCB) solar loan, which qualifies for Federal Interest Rate Subsidy payments. The loan was originally for \$7.2 million. An additional \$3.8 million of indebtedness is attributable to the Red Mountain Filtration Plant SRF loan, which was originally for \$6.16 million. \$24.7 million of indebtedness is attributable to the Wastewater Treatment Plant SRF loan, which was originally for \$29.6 million. Of the approved \$62.9 SRF loan for the SMRCUP water treatment plant, only \$27.3 million had been drawn at the end of fiscal year ending June 30, 2020. Scheduled debt service payments (principal and interest) on this loan commence once the project is completed, which is anticipated to occur in the winter of 2022. During construction, the District only pays interest on the balance of loan proceeds received. During the year ending June 30, 2020 \$1.9 million of principal payments were made on the District's outstanding long-term obligations.

More detailed information about the District's debt structure is found in Note 4 to the Basic Financial Statements

FALLBROOK PUBLIC UTILITY DISTRICT

STATEMENT OF NET POSITION
 June 30, 2020
 (with prior year data for comparison only)

	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 8,137,414	\$ 3,997,334
Investments (Note 2)	7,831,917	11,647,359
Receivables - water sales and services	4,478,619	4,029,630
Accrued interest receivable	64,434	79,724
Property taxes receivable	10,160	12,370
Other receivables (Note 4)	15,519,773	87,217
Inventory (Note 5)	1,845,755	1,839,995
Prepaid expenses and other deposits	55,971	43,393
Restricted Assets		
Cash and cash equivalents	7,496,954	6,693,439
Investments	3,059,526	3,059,526
Total current assets	<u>48,500,523</u>	<u>31,489,987</u>
Noncurrent Assets		
Capital assets (Note 3)		
Capital assets, not being depreciated	42,118,554	14,145,536
Capital assets being depreciated, net	<u>98,993,697</u>	<u>99,454,241</u>
Total capital assets, net	<u>141,112,251</u>	<u>113,599,777</u>
Total noncurrent assets	<u>141,112,251</u>	<u>113,599,777</u>
Total assets	<u>189,612,774</u>	<u>145,089,764</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts from Pension (Note 6)	3,004,079	3,197,216
Deferred amounts from OPEB (Note 7)	<u>231,603</u>	<u>222,552</u>
Total Deferred Outflows of Resources	<u>\$ 3,235,682</u>	<u>\$ 3,419,768</u>

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

(continued)

FALLBROOK PUBLIC UTILITY DISTRICT

STATEMENT OF NET POSITION (CONTINUED)
 June 30, 2020
 (with prior year data for comparison only)

	<u>2020</u>	<u>2019</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 18,213,752	\$ 2,871,022
Accrued wages	208,653	247,894
Construction and other deposits	14,884	8,908
Accrued interest payable	258,156	217,795
Compensated absences, current portion (Note 1)	560,892	586,045
Current portion of other long-term debt (Note 4)	1,949,162	1,893,596
Total current liabilities	<u>21,205,499</u>	<u>5,825,260</u>
Noncurrent Liabilities		
Health retirement account liability	351,796	258,421
Net OPEB liability (Note 7)	109,213	135,077
Net pension liability (Note 6)	13,629,333	12,541,929
Retention payable	27,771	30,098
Compensated absences, net of current portion (Note 1)	841,338	879,067
Long-term debt - net of current portion (Note 4)	56,963,337	31,580,781
Total Noncurrent Liabilities	<u>71,922,788</u>	<u>45,425,373</u>
Total Liabilities	<u>93,128,287</u>	<u>51,250,633</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts from Pension (Note 6)	915,032	957,275
Deferred amounts from OPEB (Note 7)	100,383	118,346
Deferred revenue	-	114,851
Total Deferred Inflows of Resources	<u>1,015,415</u>	<u>1,190,472</u>
NET POSITION		
Net investment in capital assets	82,199,752	80,125,400
Restricted for:		
1958 Annex projects	1,213,780	1,213,780
Debt service	2,162,512	2,162,451
Pension	6,811,910	6,101,463
Unrestricted	6,316,800	6,465,333
Total Net Position	<u>\$ 98,704,754</u>	<u>\$ 96,068,427</u>

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

FALLBROOK PUBLIC UTILITY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 For the year ended June 30, 2020
 (with prior year data for comparison only)

	2020	2019
OPERATING REVENUES		
Water	\$ 21,940,234	\$ 20,481,788
Recycled water	1,059,305	998,942
Wastewater	5,931,468	5,463,820
Total operating revenues	<u>28,931,007</u>	<u>26,944,550</u>
OPERATING EXPENSES		
Cost of water	12,663,006	12,650,795
Water operations	7,970,479	7,252,060
Recycled water operations	497,444	600,294
Wastewater operations	5,465,334	5,046,679
Operating expenses before depreciation	26,596,263	25,549,828
Operating income before depreciation	2,334,744	1,394,722
Depreciation	6,637,996	6,158,589
Operating loss	<u>(4,303,252)</u>	<u>(4,763,867)</u>
NONOPERATING REVENUES (EXPENSES)		
Property taxes	2,205,975	2,106,034
Capital improvements charges	2,559,135	2,505,876
Investment income	920,135	915,275
Water availability charges	204,418	204,359
Lease revenue	249,092	199,433
Intergovernmental revenue - federal interest rate subsidy	123,762	134,924
Connection fees	107,107	180,966
Net gain (loss) on disposal of capital assets	(31,450)	9,338,297
Interest expense	(910,224)	(909,966)
Total nonoperating revenues (expenses)	<u>5,427,950</u>	<u>14,675,198</u>
Changes in net position before capital contributions	1,124,698	9,911,331
Capital contributions	372,507	73,789
Change in net position	<u>1,497,205</u>	<u>9,985,120</u>
Net position, beginning of year, as originally stated	96,068,427	86,083,307
Prior period adjustment	1,139,122	-
Net position - beginning of year, as restated	<u>97,207,549</u>	<u>86,083,307</u>
Net position - end of year	<u>\$ 98,704,754</u>	<u>\$ 96,068,427</u>

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

FALLBROOK PUBLIC UTILITY DISTRICT

STATEMENT OF CASH FLOWS
For the year ended June 30, 2020
(with prior year data for comparison only)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 28,461,877	\$ 26,957,492
Lease revenues collected	249,092	199,433
Payments for water	(12,513,388)	(13,239,336)
Payments for services and supplies	(3,846,281)	(5,099,812)
Payments for employee wages, benefits and related costs	(8,854,503)	(7,046,803)
Net cash provided by operating activities	<u>3,496,797</u>	<u>1,770,974</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	<u>2,208,185</u>	<u>2,102,847</u>
Net cash provided by noncapital financing activities	<u>2,208,185</u>	<u>2,102,847</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(17,662,519)	(5,977,474)
Proceeds from sales of capital assets	-	9,975,952
Proceeds of Issuance of Debt	11,919,303	-
Principal payments on long-term debt	(1,893,596)	(1,839,651)
Interest paid	(869,863)	(922,536)
Intergovernmental revenue - federal interest rate subsidy	123,762	134,924
Capital improvement charges and connection fees	2,666,242	2,742,322
Water availability charges	<u>204,418</u>	<u>204,359</u>
Net cash provided (used) by capital and related financing activities	<u>(5,512,253)</u>	<u>4,317,896</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(4,536,297)	(5,416,513)
Sales of investments	8,684,567	3,135,714
Interest received	<u>602,596</u>	<u>580,308</u>
Net cash provided (used) by investing activities	<u>4,750,866</u>	<u>(1,700,491)</u>
Net change in cash and cash equivalents	4,943,595	6,491,226
Cash and cash equivalents - beginning	<u>10,690,773</u>	<u>4,199,547</u>
Cash and cash equivalents - ending	<u>\$ 15,634,368</u>	<u>\$ 10,690,773</u>
Financial Statement Presentation		
Cash and cash equivalents	\$ 8,137,414	\$ 3,997,334
Cash and cash equivalents - Restricted Assets	7,496,954	6,693,439
Total Cash and cash equivalents	<u>\$ 15,634,368</u>	<u>\$ 10,690,773</u>

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

(Continued)

FALLBROOK PUBLIC UTILITY DISTRICT

STATEMENT OF CASH FLOWS (CONTINUED)
 For the year ended June 30, 2020
 (with prior year data for comparison only)

	<u>2020</u>	<u>2019</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating loss	\$ (4,303,252)	\$ (4,763,867)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	6,637,996	6,158,589
Lease revenues collected	249,092	199,433
(Increase) Decrease in:		
Receivables	(469,130)	12,942
Inventory	(5,760)	145,478
Prepaid expenses and other deposits	(12,578)	19,207
Deferred outflows of resources	184,086	594,399
Increase (decrease) in:		
Accounts payable	338,608	(722,062)
Accrued wages	(39,241)	(49,918)
HRA liability	93,375	17,607
Net OPEB obligation	(25,864)	(148,692)
Net pension liability	1,087,404	(204,365)
Compensated absences	(62,882)	172,987
Deferred inflows of resources	(60,206)	224,385
Deferred revenue	(114,851)	114,851
Net cash provided by operating activities	<u>\$ 3,496,797</u>	<u>\$ 1,770,974</u>
Noncash investing and capital and related financing activities		
Change in fair value of investments	\$ 332,828	\$ 334,417
Capital assets contributed	\$ 311,842	\$ 73,789

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

FALLBROOK PUBLIC UTILITY DISTRICT

STATEMENT OF FIDUCIARY NET POSITION - OPEB TRUST FUND
 June 30, 2020
 (with prior year data for comparison only)

	<u>2020</u>	<u>2019</u>
Assets		
Cash and Cash Equivalents	\$ 1,040,486	\$ 1,006,649
Net Position		
Restricted for other postemployment benefits	<u>\$ 1,040,486</u>	<u>\$ 1,006,649</u>

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



FALLBROOK PUBLIC UTILITY DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - OPEB TRUST FUND
 For the year ended June 30, 2020
 (with prior year data for comparison only)

	<u>2020</u>	<u>2019</u>
Additions		
Employer contributions	\$ -	\$ -
Investment income	36,239	61,267
Total additions	<u>36,239</u>	<u>61,267</u>
Deductions		
Administration	2,402	2,402
Change in net position	<u>33,837</u>	<u>58,865</u>
Net position - beginning of year	1,006,649	947,784
Net position - end of year	<u>\$ 1,040,486</u>	<u>\$ 1,006,649</u>

Draft - For Review Only

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

June 30, 2020

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 Fallbrook Sanitary District (which is wholly included within the Fallbrook Public Utility District) dissolved that district and was incorporated into the Fallbrook Public Utility District to provide 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

Proprietary Fund

The District's activities are reported in an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to business enterprises, where the intent of providing goods and services to the general public on a continuing basis is financed or recovered primarily through user charges.

The basic financial statements are prepared using the *economic resource measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus all assets, deferred outflows of resources, liabilities and deferred inflows of resources (whether current or noncurrent) associated with the District's activities are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned while expenses are recognized when the liability is incurred regardless of the timing of cash flow.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, delivering water, and collecting, treating and disposing of wastewater in connection with the District's principal ongoing operations. The District's principal operating revenues 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 non-operating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses, and Changes in Net Position.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation: (Continued)****Fiduciary Fund**

Fiduciary fund financial statements include a statement of fiduciary net position and a statement of changes in fiduciary net position. The District's other post-employment benefit (OPEB) trust fund is accounted for using the economic resources measurement focus and accrual basis of accounting. The OPEB trust fund accounts for the activities of the City's plan for post-retirement medical benefits.

Net Position

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 95 – The Governmental Accounting Standards Board issued Statement No. 95, “*Postponement of the Effective Dates of Certain Authority Guidance*” to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic.

Pending Accounting Standards:

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

- GASB 84 – In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, “*Fiduciary Activities*”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.
- GASB 87 – In June 2017, the Governmental Accounting Standards Board issued Statement No. 87, “*Leases*”. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.
- GASB 92 – In January 2020, the Governmental Accounting Standards Board issued Statement No. 92, “*Omnibus 2020*”. The requirements of this Statement are effective for fiscal years beginning after June 15, 2020.
- GASB 97 – In June 2020, the Governmental Accounting Standards Board issued Statement No. 97, “*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.*” The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.

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 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 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 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.
- 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.

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 are carried at fair value. In the financial statements, changes in fair value that occur during a fiscal year are recognized as *investment income* reported for the fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

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 accounts receivables amount to the District. The advance is then collected from the taxpayer by the County. The County also receives penalty payments. As a result, the District does not record an allowance for doubtful accounts.

h. Inventory

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2020, were as follows:

Balance				Balance		Due Within	
July 1, 2019	Additions	Deletions	June 30, 2020	One Year			
\$ 1,465,112	\$ 662,635	\$ (725,517)	\$ 1,402,230	\$ 560,892			

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 acquisition 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.

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, deferred outflows of resources and deferred inflows of resources and pension expense, information about the fiduciary net position and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the CalPERS financial office. 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. CalPERS audited financial statements are publicly available reports that can be obtained at the CalPERS website under Forms and Publications.

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, 2020 are classified in the accompanying financial statements as follows:

Current Assets:	
Cash and cash equivalents	\$ 8,137,414
Restricted cash and cash equivalents	7,496,954
Investments	7,831,917
Restricted investments	3,059,526
Cash and cash equivalents with OPEB trust*	<u>1,040,486</u>
 Total cash and investments	 <u>\$ 27,566,297</u>

Cash and investments consist of the following:

Cash on hand	\$ 1,150
Deposits with financial institutions	2,601,552
Investments	<u>24,963,595</u>
 Total cash and investments	 <u>\$ 27,566,297</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 funds within the pension and other post-employment benefit (OPEB) trusts that are governed by the agreement of the District and the trustee, and 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, 2020.

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)	\$ 3,676,617	\$ 3,676,617	\$ -	\$ -	\$ -
California Asset Management Program (CAMP)	2,562,569	2,562,569	-	-	-
Asset Backed Securities	775,403	-	97,598	677,805	-
Medium-Term Notes	3,641,149	964,064	813,525	1,863,560	-
Municipal Bonds	172,844	-	172,844	-	-
Negotiable Certificates of Deposit	281,991	281,991	-	-	-
U.S. Treasury Securities	5,886,114	102,125	2,435,356	3,348,633	-
Federal Agency Collateralized Mortgage Obligations	114,512	-	-	114,512	-
PARS Pooled Trust - Pension Trust	6,811,910	6,811,910	-	-	-
PARS Pooled Trust - OPEB Trust	1,040,486	1,040,486	-	-	-
Total	\$ 24,963,595	\$ 15,439,762	\$ 3,519,323	\$ 6,004,510	\$ -

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, 2020.

Investment Type	Total	Minimum Legal Rating*	Exempt from Disclosure	Ratings as of Year End			
				AAA	AA	A	Not Rated
Local Agency Investment Fund (LAIF)	\$ 3,676,617	Exempt	\$ -	\$ -	\$ -	\$ -	\$ 3,676,617
California Asset Management Program (CAMP)	2,562,569	AAA	-	2,562,569	-	-	-
Asset Backed Securities	775,403	A	-	775,403	-	-	-
Medium-Term Notes	3,641,149	A	-	-	-	3,641,149	-
Municipal Bonds	172,844	A/A-1	-	-	172,844	-	-
Negotiable Certificates of Deposit	281,991	A/A-1	-	-	281,991	-	-
U.S. Treasury Securities	5,886,114	Exempt	5,886,114	-	-	-	-
Federal Agency Collateralized Mortgage Obligations	114,512	AA	-	-	114,512	-	-
PARS Pooled Trust - Pension Trust	6,811,910	Exempt	-	-	-	-	6,811,910
PARS Pooled Trust - OPEB Trust	1,040,486	Exempt	-	-	-	-	1,040,486
Total	\$ 24,963,595		\$ 5,886,114	\$ 3,337,972	\$ 569,347	\$ 3,641,149	\$ 11,529,013

* 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, 2020.

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, 2020, \$1,554,442 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). Investments measured at cost or net asset value (NAV) are not subject to fair value measurement hierarchy.

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.

2. CASH AND INVESTMENTS (Continued)

Fair Value Measurements (Continued)

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.

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	June 30, 2020
Investments by Fair Value Level				
Asset Backed Securities	\$ -	\$ 775,403	\$ -	\$ 775,403
Medium-Term Notes	-	3,641,149	-	3,641,149
Municipal Bonds	-	172,844	-	172,844
Negotiable Certificates of Deposit	-	281,991	-	281,991
U.S. Treasury Securities	-	5,886,114	-	5,886,114
Federal Agency Collateralized Mortgage Obligations	-	114,512	-	114,512
Total Investments by Fair Value Level	<u>\$ -</u>	<u>\$ 10,872,013</u>	<u>\$ -</u>	<u>10,872,013</u>
Investments measured at Cost or Net Asset Value (NAV)				
Local Agency Investment Fund (LAIF)				3,676,617
California Asset Management Program (CAMP)				2,562,569
PARS Pooled Trust - Pension Trust				6,811,910
PARS Pooled Trust - OPEB Trust				1,040,486
Total Investments at Cost or Net Asset Value (NAV)				<u>14,091,582</u>
Total Investments				<u>\$ 24,963,595</u>

3. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2020, were as follows:

	(As Restated) Balance June 30, 2019	Additions	Deletions	Transfers/ Reclassifications	Balance June 30, 2020
Capital assets, not being depreciated:					
Land and property rights-water	\$ 11,704,070	\$ -	\$ -	\$ -	\$ 11,704,070
Land and property rights-wastewater	1,128,164	-	-	-	1,128,164
Construction in progress	1,313,302	32,150,949	-	(4,177,931)	29,286,320
Total capital assets, not being depreciated	14,145,536	32,150,949	-	(4,177,931)	42,118,554
Capital assets, being depreciated:					
Water Operations:					
Impounding Dam	30,584,347	-	-	995,040	31,579,387
Distribution System	52,015,901	-	-	2,183,271	54,199,172
Buildings and Structures	4,958,831	-	-	459,018	5,417,849
Equipment	10,357,488	458,579	(752,771)	153,104	10,216,400
Total Water Operations	97,916,567	458,579	(752,771)	3,790,433	101,412,808
Wastewater Operations:					
Collection system	12,747,135	311,842	-	265,142	13,324,119
Treatment and disposal facilities	60,220,650	-	-	107,910	60,328,560
Equipment	872,789	123,561	(144,446)	5,572	857,476
Total wastewater operations	73,840,574	435,403	(144,446)	378,624	74,510,155
Recycle Operations:					
Distribution System	4,653,100	-	-	8,874	4,661,974
Total recycle operations	4,653,100	-	-	8,874	4,661,974
Total capital assets being depreciated	176,410,241	893,982	(897,217)	4,177,931	180,584,937
Less accumulated depreciation	(75,816,878)	(6,637,996)	863,634	-	(81,591,240)
Total capital assets being depreciated, net	100,593,363	(5,744,014)	(33,583)	4,177,931	98,993,697
Total capital assets, net	\$ 114,738,899	\$ 26,406,935	\$ (33,583)	\$ -	\$ 141,112,251

The June 30, 2019 balance is restated to account for the effect of the prior period adjustment. See Note 10.

4. LONG-TERM DEBT

Changes in long-term debt for the year ended June 30, 2020 were as follows:

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020	Due Within One Year
Red Mountain State Revolving Fund Loan	\$ 4,065,140	\$ -	\$ (293,220)	\$ 3,771,920	\$ 300,807
Qualified Energy Conservation Revenue Bonds	3,465,777	-	(325,386)	3,140,391	345,316
Clean Water State Revolving Fund Loan	25,943,460	-	(1,274,990)	24,668,470	1,303,039
State Water Resources Control Board Loan	-	27,331,718	-	27,331,718	-
Total Long-Term Debt	\$ 33,474,377	\$ 27,331,718	\$ (1,893,596)	\$ 58,912,499	\$ 1,949,162

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>
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	333,166	62,685	395,851
2026-2030	1,799,673	179,580	1,979,253
2031	388,348	7,504	395,852
Total	\$ 3,771,920	\$ 582,440	\$ 4,354,360

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>
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	433,953	28,142	462,095
2026-2028	1,196,847	33,776	1,230,623
Total	\$ 3,140,391	\$ 247,271	\$ 3,387,662

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>
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	1,421,547	424,199	1,845,746
2026-2030	7,590,833	1,637,895	9,228,728
2031-2035	8,463,382	765,347	9,228,729
2036	1,806,013	39,732	1,845,745
Total	<u>\$ 24,668,470</u>	<u>\$ 4,863,462</u>	<u>\$ 29,531,932</u>

State Water Resources Control Board Loan

On August 28, 2019, the District entered into a loan agreement with the State Water Resources Control Board (SWRCB) with a principal amount of \$53,334,000 and an interest of 1.9%. On January 31, 2020, the District entered into an amended loan agreement increasing the principal amount to \$62,935,855 and annual debt service payments of \$2,771,216. The proceeds from the loan are funding construction of the District's Santa Margarita Conjunctive Use Project water treatment plant. The new treatment plant will treat locally supplied water taken from the Santa Margarita River Basin in accordance with District's water rights. With the project under currently construction, only interest payments on the amount drawn are due to SMRCB. Debt service payments are due March 1 of each year and full debt service payments are expected to begin 2023. The loan's term is 30-years and the final payment will be made 3/1/2052.

5. INVENTORY

Inventory at June 30, 2020 consisted of the following:

Water inventory	\$ 668,781
Materials inventory	1,176,974
	<u>\$ 1,845,755</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 measurement date, 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	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8%	6.50%
Required employer contribution rates:		
Normal cost rate	11.419%	7.266%
Payment of unfunded liability	\$ 730,148	\$ 534

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, 2020, 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	\$ 13,629,333

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, 2019, 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, 2018 rolled forward to June 30, 2019 using standard update procedures. The District’ proportionate share of the net pension liability was based on a projection of the District’s long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The Fallbrook Public Utility District’s proportionate share of the net pension liability as of the measurement dates ended June 30, 2018 and 2019 was as follows:

	Miscellaneous
Proportion - June 30, 2018	0.33279%
Proportion - June 30, 2019	0.34035%
Change - Increase (Decrease)	0.00756%

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, 2020, the District recognized pension expense of \$2,645,853. At June 30, 2020, 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	\$ 1,407,555	\$ -
Differences between actual and expected experience	946,614	73,343
Change in assumptions	649,910	230,388
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	238,282
Net differences between projected and actual earnings on plan investments	-	373,019
Total	<u>\$ 3,004,079</u>	<u>\$ 915,032</u>

\$1,407,555 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, 2021. 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
2021	\$ 788,163
2022	(232,142)
2023	77,321
2024	48,150
2025	-
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, 2019 measurement period was determined by an actuarial valuation as of June 30, 2018, with update procedures to roll forward the total pension liability to June 30, 2019. The total pension liability was based on the following:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
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 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies.

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	\$ 20,787,184
Current Discount Rate	7.15%
Net Pension Liability	\$ 13,629,333
1% Increase	8.15%
Net Pension Liability	\$ 7,721,033

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), an agent multiple-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, 2020 is \$351,796. The District will pay for half (50%) of the retired employee’s monthly premium.

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. The PARS OPEB Trust issues a publicly available financial report for the fiduciary net position that is available upon request.

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. For the fiscal year ended June 30, 2019, the District made \$42,356 in payments made outside of the trust.

Net OPEB Liability

The District’s net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019 using standard update procedures. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

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, 2019
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	5.90 percent for 2019; 5.80 percent for 2020; 5.70 percent for 2021; and decreasing 0.10 percent per year to an ultimate rate of 5.00 percent for 2028 and later years
Mortality	Based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

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7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

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:

Asset Class	New Strategic Allocation
Cash	0-20%
Fixed Income	40% - 60%
Equity	40% - 60%

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 the actuarially determined contribution rates. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected OPEB payments of current active and inactive employees and beneficiaries. 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, 2018	\$ 1,082,861	\$ 947,784	\$ 135,077
Changes in the Year:			
Service cost **	57,291	-	57,291
Interest on the total OPEB liability	62,409	-	62,409
Contribution - employer	-	86,699	(86,699)
Net investment income	-	61,267	(61,267)
Administrative expenses	-	(2,402)	2,402
Benefit payments	(86,699)	(86,699)	-
Net Changes	33,001	58,865	(25,864)
Balance at June 30, 2019	\$ 1,115,862	\$ 1,006,649	\$ 109,213

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

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

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.

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	\$ 189,321	\$ 109,213	\$ 35,552

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 (4.90% decreasing to 4.00%) or 1 percentage point higher (6.90% decreasing to 6.00%), than the current healthcare cost trend rates:

	1% Decrease (4.90% decreasing to 4.00%)	Current Healthcare Cost Trend Rates (5.90% decreasing to 5.00%)	1% Increase (6.90% decreasing to 6.00%)
Net OPEB Liability	\$ 8,316	\$ 109,213	\$ 224,811

7. OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

For the year ended June 30, 2020, the District recognized OPEB expense of \$66,409. At June 30, 2020, 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	\$ 99,786	\$ -
Differences between actual and expected experience	131,817	-
Change in assumptions	-	(90,337)
Differences between projected and actual earnings	-	(10,046)
Total	\$ 231,603	\$ (100,383)

\$99,786 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, 2021.

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
2021	\$ 3,576
2022	3,578
2023	5,417
2024	7,008
2025	7,406
Thereafter	4,449

Payable to the OPEB Plan

At June 30, 2020, the District had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2020.

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), which arranges for and provides for various insurance programs 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.

At June 30, 2020, the District participated in ACWA/JPIA as follows:

Liability – General, Auto & Public Officials Errors & Omissions – ACWA/JPIA pools for the first \$5 million and purchases excess coverage up to \$55 million per occurrence, except terrorism \$5 million, subsidence \$30 million, lead \$30 million, and mold \$35 million.

Cyber Liability – Insured through Indian Harbor Insurance Company, with coverage limits of \$3 million per claim and \$5 million in the aggregate.

Property Program – ACWA/JPIA pools for the first \$100,000 and purchases excess coverage up to \$500 million, except for Boiler & Machinery \$100 million per occurrence, Earthquake \$2,500,000 program aggregate and Flood \$25 million. Deductibles are \$10,000 for real and personal property, \$10,000 for mobile equipment, licensed vehicles/trailers, \$25,000 for boiler and machinery, except \$50,000 if Turbine or Power Generation equipment, 5% of total insurable values for earthquake and \$100,000 for flood.

Crime Program – coverage limit of \$100,000 per loss, with a \$1,000 deductible.

Worker’s Compensation and Employer’s Liability Program – Worker’s Compensation coverage limit up to California Statutory Limits. Employer’s Liability coverage limit \$4 million program aggregate.

Dam Failure Liability – For Red Mountain Dam. Coverage limit of \$5 million 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, 2020, the District had the following commitments with respect to unfinished capital projects:

Capital Projects	Remaining	
	Construction Commitment	Expected Completion Date
Overland Trail Lift Station Rehabilitation	\$ 2,200,000	February 2021
SMRCUP	\$ 31,900,000	December 2021
Winterhaven Pipeline Replacement	\$ 250,000	September 2021
Water Supply Reliability Project	\$ 350,000	October 2021
EAM Implementation	\$ 35,000	June 2021

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.

COVID-19

On January 30, 2020 the World Health Organization (WHO) announced a global health emergency based on an outbreak of a new strain of coronavirus (the COVID-19 outbreak) and the risks that are posed to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on the District's financial condition, liquidity, operations, and workforce. The District cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time; however, if the pandemic continues, it may have a material effect on the District's results of future operations and financial position in fiscal year 2021.

10. PRIOR PERIOD ADJUSTMENT

During fiscal year ended June 30, 2020, the District found that three capital assets had been incorrectly depreciated in prior years. This led to an overstatement of accumulated depreciation and an understatement of Net Position in the amount of \$1,139,122. Beginning capital asset balances on Note 3 have been restated to reflect the adjustment to beginning accumulated depreciation.

11. SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through **November XX, 2020**, the date the financial statements were available to be issued.

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

For the Last Ten Fiscal Years*

	2020	2019	2018	2017	2016	2015
Classic & PEPRA Miscellaneous Plan						
Plan's Proportion of the Net Pension Liability	0.13301%	0.13015%	0.12853%	0.12729%	0.12295%	0.11351%
Plan's Proportionate Share of the Net Pension Liability	\$ 13,629,333	\$ 12,541,929	\$ 12,746,294	\$ 11,014,856	\$ 8,439,096	\$ 6,888,388
Covered Payroll	\$ 5,179,369	\$ 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	263.15%	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%	75.26%	73.31%	74.06%	78.40%	83.21%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 1,640,356	\$ 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.

From fiscal year June 30, 2019 to June 30, 2020

There were no changes in assumptions.

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

2. SCHEDULE OF CONTRIBUTIONS – DEFINED BENEFIT PENSION PLANS

For the Last Ten Fiscal Years*

	2020	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 1,407,555	\$ 1,224,180	\$ 1,081,154	\$ 968,372	\$ 870,680	\$ 756,872
Contributions in relation to the actuarially determined contributions	1,407,555	1,224,180	1,081,154	968,372	870,680	756,872
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 5,448,979	\$ 5,179,369	\$ 5,216,869	\$ 5,271,090	\$ 4,743,986	\$ 4,753,842
Contributions as a percentage of covered payroll	25.83%	23.64%	20.72%	18.37%	18.35%	15.92%

Notes to Schedule:

Valuation Date	6/30/2017	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 six 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	6/30/2020	6/30/2019	6/30/2018
Measurement date	6/30/2019	6/30/2018	6/30/2017
Total OPEB Liability:			
Service cost	\$ 57,291	\$ 63,116	\$ 61,278
Interest on total OPEB liability	62,409	39,301	38,242
Difference between expected and actual experience	-	178,893	-
Changes of assumptions	-	(122,601)	-
Benefit payments, including refunds of	(86,699)	(115,569)	(31,396)
Net Change in Total OPEB Liability	33,001	43,140	68,124
Total OPEB Liability - Beginning of Year	1,082,861	1,039,721	971,597
Total OPEB Liability - End of Year (a)	1,115,862	1,082,861	1,039,721
Plan Fiduciary Net Position:			
Contributions - employer	86,699	268,569	767,396
Net investment income	61,267	40,802	20,571
Administrative expenses	(2,402)	(1,970)	(619)
Benefit payments	(86,699)	(115,569)	(31,396)
Net Change in Plan Fiduciary Net Position	58,865	191,832	755,952
Plan Fiduciary Net Position - Beginning of Year	947,784	755,952	-
Plan Fiduciary Net Position - End of Year (b)	1,006,649	947,784	755,952
Net OPEB Liability - Ending (a)-(b)	\$ 109,213	\$ 135,077	\$ 283,769
Plan fiduciary net position as a percentage of the total OPEB liability	90.21%	87.53%	72.71%
Covered-employee payroll	\$ 5,179,369	\$ 5,216,869	\$ 5,684,049
Net OPEB liability as percentage of covered - employee payroll	2.11%	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 three years are shown.

4. SCHEDULE OF CONTRIBUTIONS - OPEB

For the Last Ten Fiscal Years*

	6/30/2020	6/30/2019	6/30/2018
Actuarially determined contribution	\$ 66,239	\$ 72,529	\$ 74,065
Contributions in relation to the actuarially determined contributions	(99,786)	(67,197)	(202,055)
Contribution deficiency (excess)	<u>\$ (33,547)</u>	<u>\$ 5,332</u>	<u>\$ (127,990)</u>
Covered-employee payroll	\$ 5,448,979	\$ 5,179,369	\$ 5,216,869
Contributions as a percentage of covered-employee payroll	1.22%	1.40%	1.42%

Notes to Schedule:

Valuation Date 6/30/2018 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 5.90 percent for 2019; 5.80 percent for 2020; 5.70 percent for 2021; and decreasing 0.10 percent per year to an ultimate rate of 5.00 percent for 2028 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).

FALLBROOK PUBLIC UTILITY DISTRICT

SUPPLEMENTARY INFORMATION

SCHEDULE OF OPERATING INCOME AND EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

	<u>Water</u>	<u>Recycled water</u>	<u>Wastewater</u>	<u>Total</u>
Operating Revenues:				
Water Sales	\$ 21,940,234	\$ -	\$ -	\$ 21,940,234
Recycled Water Sales	-	1,059,305	-	1,059,305
Wastewater Sales	-	-	5,931,468	5,931,468
Total Operating Revenues	<u>21,940,234</u>	<u>1,059,305</u>	<u>5,931,468</u>	<u>28,931,007</u>
Operating Expenses:				
Cost of Water Sold	12,663,006	-	-	12,663,006
Operations and Maintenance	3,984,938	433,945	3,286,965	7,705,848
Administrative and General Expenses	3,985,541	63,499	2,178,369	6,227,409
Total Operating Expenses Before Depreciation	<u>20,633,485</u>	<u>497,444</u>	<u>5,465,334</u>	<u>26,596,263</u>
Depreciation Expense	3,759,996	60,201	2,817,799	6,637,996
Total Operating Expenses	<u>24,393,481</u>	<u>557,645</u>	<u>8,283,133</u>	<u>33,234,259</u>
Operating Income (Loss)	<u>\$ (2,453,247)</u>	<u>\$ 501,660</u>	<u>\$ (2,351,665)</u>	<u>\$ (4,303,252)</u>

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
Administrative and General Expenses	3,807,921	51,473	2,090,222	5,949,616
Total Operating Expenses Before Depreciation	<u>19,902,855</u>	<u>600,294</u>	<u>5,046,679</u>	<u>25,549,828</u>
Depreciation Expense	3,290,052	54,807	2,813,730	6,158,589
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>

STATISTICAL SECTION

Financial Position 65-67

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

District Operations 68-81

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

Debt Capacity 82-83

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

Demographic and Economic Information 84

These tables provide demographic and economic information on the District’s service area. Because the District is part of the unincorporated region of the San Diego County, County wide data is reported.

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Table #1 - Net Positions

Fiscal Year	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2011	\$ 60,487,772	\$ 2,613,866	\$ 7,671,400	\$ 70,773,038
2012	60,609,683	1,212,780	10,336,039	72,158,502
2013	60,609,683	1,213,780	10,336,039	72,159,502
2014	64,203,257	2,431,978	12,479,645	79,114,880
2015	67,995,640	2,231,947	4,807,404	75,034,991
2016	70,683,956	3,455,377	5,170,519	79,309,852
2017	76,004,617	3,495,635	5,668,185	85,168,437
2018	79,333,568	4,711,487	2,038,252	86,083,307
2019	81,264,522	9,477,694	6,465,333	97,207,549
2020	82,199,752	10,188,202	6,316,800	98,704,754

Source: Fallbrook Public Utility District

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

	Fiscal Year 2011	Fiscal Year 2012	Fiscal Year 2013
Changes in Net Position:			
Operating Revenues (See Schedule 2)	\$ 21,255,448	\$ 23,661,715	\$ 27,582,160
Operating Expenses (See Schedule 3)	(24,175,989)	(26,140,572)	(28,007,733)
Other Operating Revenues	363,564	279,560	439,560
Operating Income (loss)	\$ (2,556,977)	\$ (2,199,297)	\$ 13,987
Non-Operating Revenues (expenses)			
Property Taxes Ad-Valorem	\$ 1,549,625	\$ 1,552,911	\$ 1,582,219
Capital Improvement Charges	404,175	414,910	1,252,501
California Solar Initiative Rebate	-	534,835	779,786
Investment income	147,486	87,217	30,507
Water Availability Charges	200,944	200,906	201,037
Lease Revenue	184,983	177,095	181,100
Intergovernmental Revenue - Federal Interest Subsidy	-	-	-
Connection Fees	112,499	190,932	247,607
Federal Grants	-	-	-
Gain (Loss) on disposal of capital assets	-	-	-
Other Non-Operating Revenues	102,704	109,261	81,008
Other Non-Operating Expenses	(508,849)	(294,462)	(291,721)
Total Non-Operating Revenues(expenses), net	\$ 2,193,567	\$ 2,973,605	\$ 4,064,044
Net income Before Capital Contributions	\$ (363,410)	\$ 774,308	\$ 4,078,031
Capital Contributions	3,094,483	273,825	595,205
Capital Grant - Proposition 50	-	338,331	-
Capital Grant - Proposition 84	-	-	-
Extraordinary Items	-	-	-
Changes in Net Position	\$ 2,731,073	\$ 1,386,464	\$ 4,673,236
Net Position			
Beginning, as restated	\$ 68,041,965	\$ 70,773,038	\$ 72,159,502
Adjustments to restate balance	-	-	(154,385)
Ending, as restated	\$ 70,773,038	\$ 72,159,502	\$ 76,678,353

(1) Capital Grant of \$828,598 was received from State of California Wildlife Conservation Board Proposition 50 Funding.

(2) Accumulative effect of change in accounting principals.

(3) State Proposition 50 in the amount of \$874,040 and State Proposition 84 in the amount of \$68,428 was received

Source: Fallbrook Public Utility District

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

Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020
\$ 28,955,183 (33,062,764) 681,876	\$ 27,483,881 (29,367,701) -	\$ 25,356,017 (27,921,351) -	\$ 27,256,065 (30,678,705) -	\$ 29,882,022 (33,319,799) -	\$ 26,944,550 (31,708,417) -	\$ 28,931,007 (33,234,259) -
\$ (3,425,705)	\$ (1,883,820)	\$ (2,565,334)	\$ (3,422,640)	\$ (3,437,777)	\$ (4,763,867)	\$ (4,303,252)
\$ 1,694,090 1,981,822 843,714 209,175 200,779 183,641 - 118,581 - - 69,816 (344,730)	\$ 1,719,296 2,134,025 729,519 141,433 200,810 185,770 - 208,521 - - 162,913 (321,941)	\$ 1,815,734 2,224,529 740,125 324,126 200,808 185,220 185,040 131,894 - - 91,361 (690,409)	\$ 1,889,808 2,283,558 234,930 63,861 200,730 166,012 238,765 238,124 - - 32,729 (385,483)	\$ 1,984,543 2,476,452 - 18,188 229,400 178,602 145,338 411,774 - (273,396) - (959,015)	\$ 2,106,034 2,505,876 - 915,275 204,359 199,433 134,924 180,966 - 9,338,297 - (909,966)	\$ 2,205,975 2,559,135 - 920,135 204,418 249,092 123,762 107,107 - (31,450) - (910,224)
\$ 4,956,888	\$ 5,160,346	\$ 5,208,428	\$ 4,963,034	\$ 4,211,886	\$ 14,675,198	\$ 5,427,950
\$ 1,531,183	\$ 3,276,526	\$ 2,643,094	\$ 1,540,394	\$ 774,109	\$ 9,911,331	\$ 1,124,698
76,746 828,598 ⁽¹⁾ - -	153,790 224,596 ⁽¹⁾ - -	75,299 874,040 ⁽³⁾ 682,428 -	59,509 773,163 - -	73,661 - 67,100 -	73,789 - - -	372,507 - - -
\$ 2,436,527	\$ 3,654,912	\$ 4,274,861	\$ 2,373,066	\$ 914,870	\$ 9,985,120	\$ 1,497,205
\$ 76,678,353	\$ 79,114,880	\$ 75,034,991	\$ 79,309,852	\$ 85,168,437	\$ 86,083,307	\$ 97,207,549
-	(7,734,801) ⁽²⁾	-	3,485,519	-	1,139,122	-
\$ 79,114,880	\$ 75,034,991	\$ 79,309,852	\$ 85,168,437	\$ 86,083,307	\$ 97,207,549	\$ 98,704,754

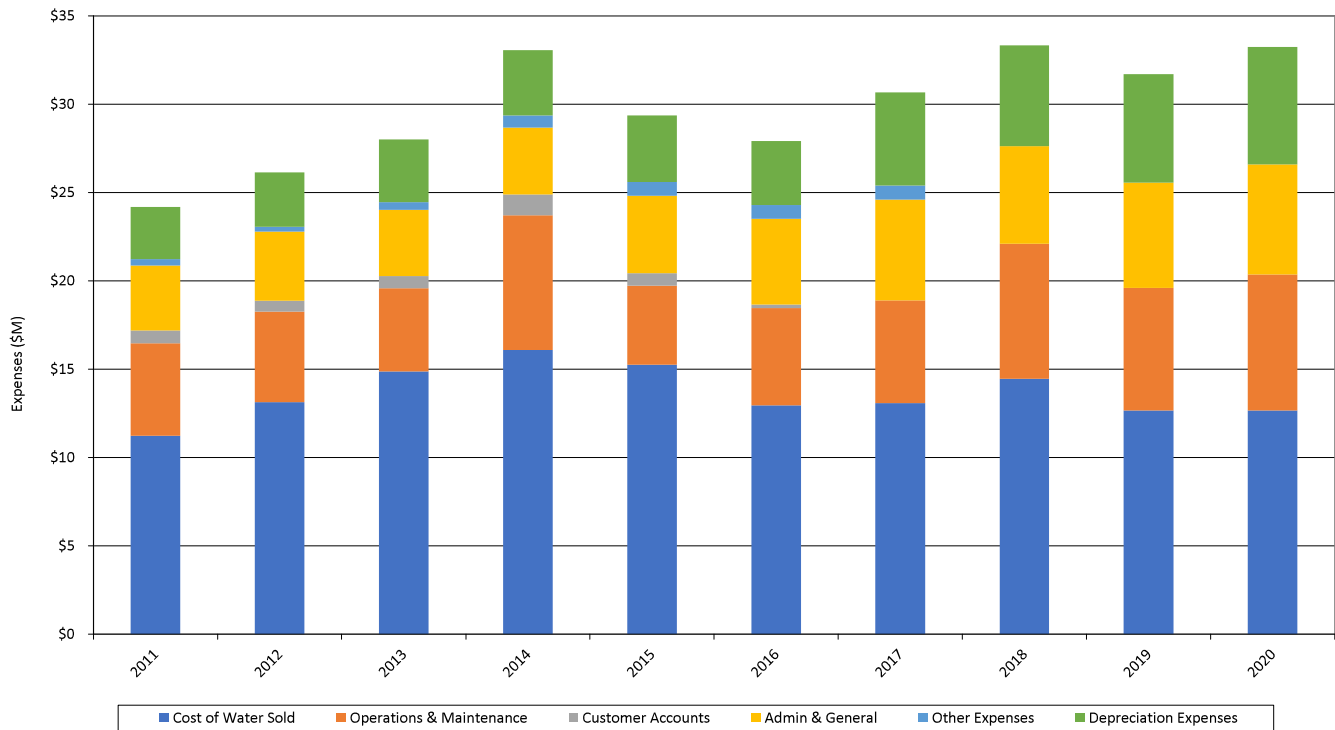
Table #3 - Operating Expenses by Activity (Last Ten Fiscal Years)

Fiscal Year	Water				
	Cost of Water Sold	Operations & Maintenance	Customer Accounts	Admin & General*	Other Expenses
2011	\$ 10,771,752	\$ 2,461,466	\$ 726,636	\$ 2,024,761	N/A
2012	12,647,833	2,570,414	611,736	2,148,057	N/A
2013	14,457,083	2,350,655	700,158	2,056,605	N/A
2014	15,649,781	3,810,606	1,179,998	2,006,124	N/A
2015	14,692,652	2,173,576	725,610	2,286,586	N/A
2016	12,804,470	2,788,548	203,560	2,571,803	N/A
2017	13,067,064	3,030,201	N/A	2,963,305	N/A
2018	14,453,229	3,922,528	N/A	2,868,610	N/A
2019	12,650,795	3,444,139	N/A	3,807,921	N/A
2020	12,663,006	3,984,937	N/A	3,985,542	N/A

* General and administration costs are allocated as follows: 52% water, 42% wastewater, and 6% recycled water.

Source: Fallbrook Public Utility District

Chart #1 - Operating Expenses by Activity



Source: Fallbrook Public Utility District

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

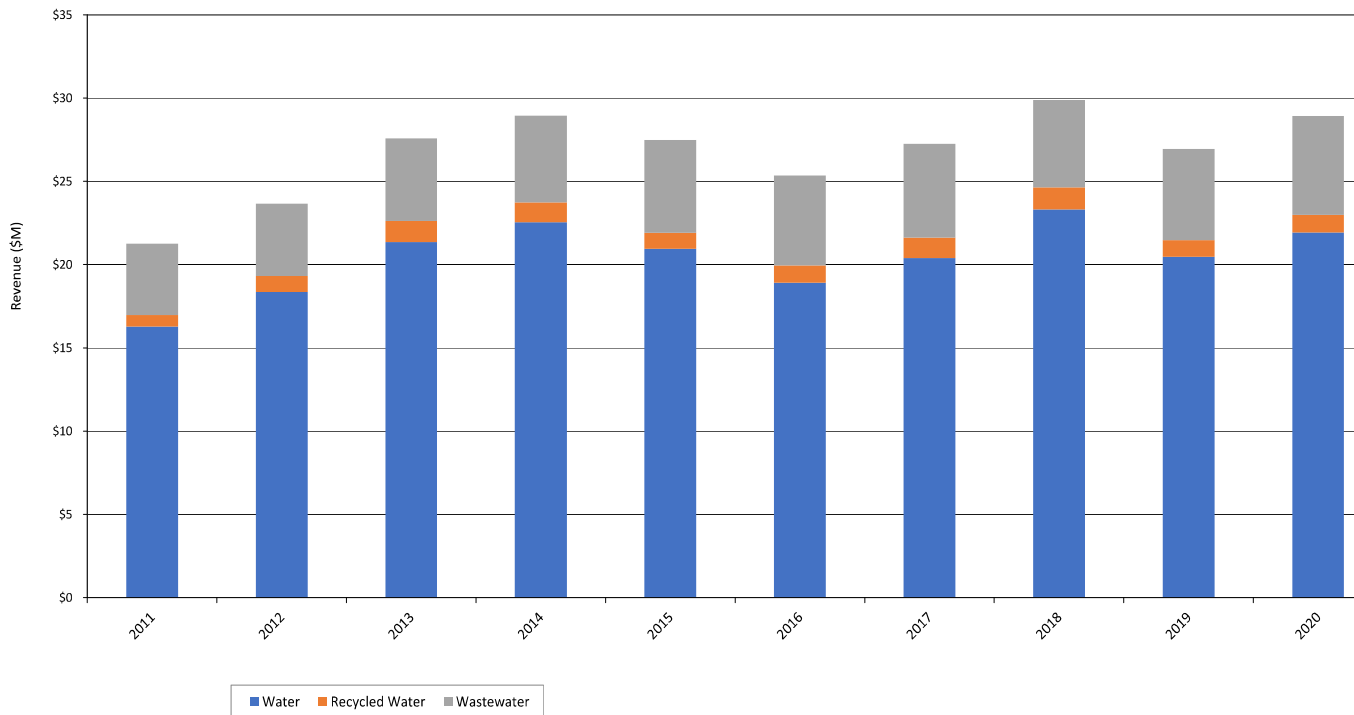
Recycled				Wastewater			Depreciation Expenses	Total Operating Expenses
Cost of Water Sold	Operations & Maintenance	Admin & General*	Other Expenses	Operations & Maintenance	Admin & General*	Other Expenses		
\$ 461,085	\$ 32,320	\$ 146,516	\$ 193,560	\$ 2,742,465	\$ 1,501,790	\$ 170,004	\$ 2,943,634	\$ 24,175,989
492,962	53,275	156,733	79,560	2,494,189	1,606,509	200,000	3,079,304	26,140,572
403,582	52,675	149,252	79,560	2,309,384	1,529,836	360,000	3,558,943	28,007,733
427,328	63,620	188,964	171,960	3,765,046	1,584,190	509,916	3,705,231	33,062,764
551,866	N/A	337,226	92,400	2,296,712	1,763,527	671,052	3,776,494	29,367,701
146,128	N/A	242,623	94,248	2,709,284	2,038,033	682,536	3,640,118	27,921,351
N/A	622,997	346,173	94,248	2,173,738	2,392,289	694,380	5,294,310	30,678,705
N/A	693,971	330,993	N/A	3,039,790	2,316,954	N/A	5,693,723	33,319,799
N/A	548,821	51,473	N/A	2,956,457	2,090,222	N/A	6,158,589	31,708,417
N/A	433,945	63,499	N/A	3,286,965	2,178,369	N/A	6,637,996	33,234,259

Table #4 - Operating Revenues by Source (Last Ten Fiscal Years)

Fiscal Year	Water			Recycled			Wastewater		Total Operating Revenue
	Water Sales	Service Charges	Other Charges	Water Sales	Service Charges	Other Charges	Service Charges	Other Charges	
2011	\$ 10,728,119	\$ 4,531,720	\$ 1,029,567	\$ 449,322	\$ 43,576	\$ 200,345	\$ 4,162,654	\$ 110,145	\$ 21,255,448
2012	12,778,113	4,524,843	1,062,054	592,986	55,373	312,948	4,331,022	4,376	23,661,715
2013	15,458,783	4,702,564	1,190,568	777,329	50,316	445,859	4,950,757	5,984	27,582,160
2014	16,587,771	4,772,242	1,188,741	802,509	50,972	344,423	5,205,516	3,009	28,955,183
2015	14,722,792	4,930,254	1,295,660	662,849	53,011	244,466	5,571,362	3,487	27,483,881
2016	12,328,995	5,000,621	1,583,301	824,925	59,359	156,353	5,402,353	110	25,356,017
2017	13,233,057	5,388,463	1,783,859	1,135,841	N/A	86,620	5,627,476	749	27,256,065
2018	16,194,537	5,777,173	1,340,062	1,153,170	17,956	156,060	5,258,183	(15,119)	29,882,022
2019	12,997,586	6,291,436	1,192,767	920,376	(17,974)	96,541	5,453,590	10,230	26,944,550
2020	14,040,914	6,782,468	1,116,852	949,040	51,745	58,520	5,924,878	6,590	28,931,007

Source: Fallbrook Public Utility District

Chart #2 - Operating Revenues by Source



Source: Fallbrook Public Utility District

Table #5 - Water Rates (\$/Kgal*) ⁽¹⁾

Fiscal Year	Domestic Tier 1	Domestic Tier 2	Domestic Tier 3	Commercial Tier 1	Commercial Tier 2	Government	Special Ag Rate	Commercial Ag Rate
2011	\$ 3.06	\$ 3.52	\$ 3.88	\$ 3.06	\$ 3.52	\$ 3.52	\$ 2.63	3.06
2012	3.51	4.04	4.45	3.51	4.04	4.04	2.81	3.45
2013	3.86	4.44	4.89	3.86	4.44	4.44	3.05	3.86
2014	4.03	4.64	5.11	4.03	4.64	4.64	3.14	4.06
2015	4.19	4.61	5.08	4.19	4.61	4.61	3.14	4.06
2016	4.38	4.82	5.31	4.38	4.82	4.82	3.18	4.28
2017	5.21	5.74	6.32	5.21	5.74	5.74	3.65	4.97
2018	5.62	5.71	6.95	5.79	5.79	5.70	4.17	4.83
2019	5.96	6.05	6.04	6.14	6.14	6.04	4.42	5.12
2020	6.44	6.53	7.96	6.63	6.63	6.52	4.77	5.53

*Kgal = 1,000 gal

(1) The District is required to follow the rules of Proposition 218 when raising or adjusting its rates.

Source: Fallbrook Public Utility District

Table #6 - Non-Agricultural/Government Monthly Water Service Charge (\$/month)

Fiscal Year	3/4" Meter	1" Meter	1 1/2" Meter	2" Meter	3" Meter	4" Meter	6" Meter	Standby
2011	\$ 34.87	\$ 45.37	\$ 64.74	\$ 94.75	\$ 154.57	\$ 245.77	\$ 439.24	20.78
2012	34.87	45.37	64.74	94.75	154.57	245.77	439.24	20.78
2013	36.09	46.96	67.01	98.07	159.98	254.37	454.61	21.51
2014	36.63	47.66	68.02	99.54	162.38	258.19	461.43	21.83
2015	38.10	49.57	70.74	103.52	168.88	268.52	479.89	22.70
2016	39.24	51.06	72.86	106.63	173.95	276.58	494.29	23.38
2017	41.59	54.12	77.23	113.03	184.39	293.17	523.95	24.78
2018	44.10	67.33	125.36	195.01	380.73	589.67	1,170.06	*Variable
2019	46.75	71.37	132.88	206.71	403.57	625.05	1,242.26	*Variable
2020	50.49	77.08	143.51	223.25	435.86	675.05	1,339.48	*Variable

* Standby rates are based on meter size

For more information on the District's rate structure, visit www.fpud.com

Source: Fallbrook Public Utility District

Table #7 - Monthly Water Service Charge (Ag/Gov) (\$/month)

Fiscal Year	3/4" Meter	1" Meter	1 ½" Meter	2" Meter	3" Meter	4" Meter	6" Meter	Standby
2011	\$ 43.37	\$ 57.26	\$ 82.77	\$ 122.31	\$ 201.26	\$ 312.70	\$ 563.53	\$ 20.78
2012	43.37	57.26	82.77	122.31	201.26	312.70	563.53	20.78
2013	44.45	58.69	84.84	125.37	206.29	320.52	57.62	21.51
2014	44.89	59.28	85.69	126.62	208.35	323.73	583.40	21.83
2015	44.89	59.28	85.69	126.62	208.35	323.73	583.40	21.83
2016	46.24	61.06	88.26	130.42	214.60	333.44	600.90	23.38
2017	49.01	64.72	93.56	138.25	227.48	353.45	636.95	24.78
2018	44.10	67.33	125.36	195.01	380.73	589.67	1,170.06	*Variable
2019	46.75	71.37	132.88	206.71	403.57	625.05	1,242.26	*Variable
2020	50.49	77.08	143.51	223.25	435.86	675.05	1,339.48	*Variable

* Standby rates are based on meter size

For more information on the District's rate structure, visit www.fpud.com

Source: Fallbrook Public Utility District

Table #8 - Monthly Water Capital Improvement Charge (CIC) (\$/month)

Fiscal Year	3/4" Meter	1" Meter	1 ½" Meter	2" Meter	3" Meter	4" Meter	6" Meter	Standby
2011	\$ 3.20	\$ 4.40	\$ 6.40	\$ 10.00	\$ 16.80	\$ 26.40	\$ 48.00	\$ 1.92
2012	3.29	4.52	6.58	10.28	\$17.27	27.14	49.35	1.97
2013	4.00	5.50	8.00	12.50	21.00	33.00	60.00	2.40
2014	8.00	11.00	16.00	25.00	42.00	66.00	120.00	4.80
2015	8.59	11.81	17.18	26.84	45.10	70.87	128.85	5.15
2016	9.06	12.46	18.12	28.31	47.57	74.75	135.90	5.44
2017	9.45	12.99	18.90	29.53	49.61	77.96	141.75	5.67
2018	8.58	14.30	28.60	45.76	91.52	143.00	286.00	*Variable
2019	9.12	15.20	30.40	48.64	97.29	152.01	304.02	*Variable
2020	9.47	15.78	31.56	50.49	100.98	157.79	315.57	*Variable

* Standby rates are based on meter size

For more information on the District's rate structure, visit www.fpud.com Source: Fallbrook Public Utility District

Source: Fallbrook Public Utility District

Table #9 - Sewer Rates by Customer Class (2011 - 2020)

	2011	2012	2013	2014	2015	2016	2017	2018**	2019**	2020**
Fixed Rates (by meter size) (\$/month)										
3/4"	\$ 12.15	\$ 12.15	\$ 12.69	\$13.19	\$ 14.10	\$ 14.23	\$ 16.12	B Y	B Y	B Y
1"	18.33	18.33	19.23	19.95	21.23	21.55	24.01			
1 1/2"	33.79	33.79	35.59	36.86	39.06	39.86	43.75	EDU	EDU	EDU
2"	52.35	52.35	55.23	57.15	60.46	61.84	67.42			
3"	95.63	95.63	101.03	104.49	110.38	113.14	122.67	\$9.28/ EDU	\$9.70/ EDU	\$10.14/ EDU
4"	157.48	157.48	166.47	172.12	181.70	186.36	201.60			
6"	312.08	312.08	330.06	341.20	359.99	369.49	398.91			
Billable Flow Rates * (\$/Kgal)										
Single Family Residence, Ag Domestic, Multi - Family	\$ 5.88	\$ 6.72	\$ 7.64	\$ 7.64	\$ 7.64	\$ 8.21	\$ 8.77	\$ 9.44	\$ 9.86	\$ 10.32
Low -Strength Commercial, Schools, Churches	8.81	10.09	11.54	11.54	11.54	12.35	13.27	9.37	9.79	10.25
Medium Strength Commercial	8.81	10.09	11.54	11.54	11.54	12.35	13.27	11.57	12.09	12.65
High Strength Commercial	14.67	16.83	19.35	19.35	19.35	20.63	22.28	14.44	15.09	15.77

* Billable flow rates are calculated based upon water usage adjusted for outdoor use.

** Rates switched from fiscal year to calendar year January 1, 2018.

Source: Fallbrook Public Utility District

Table #10 - Monthly Sewer Capital Improvement Charge (CIC) (\$/month)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Per EDU	N/A	N/A	\$ 8.00	\$ 10.00	\$ 10.44	\$ 10.70	\$ 10.84	\$ 11.16	\$ 11.53	\$ 11.62

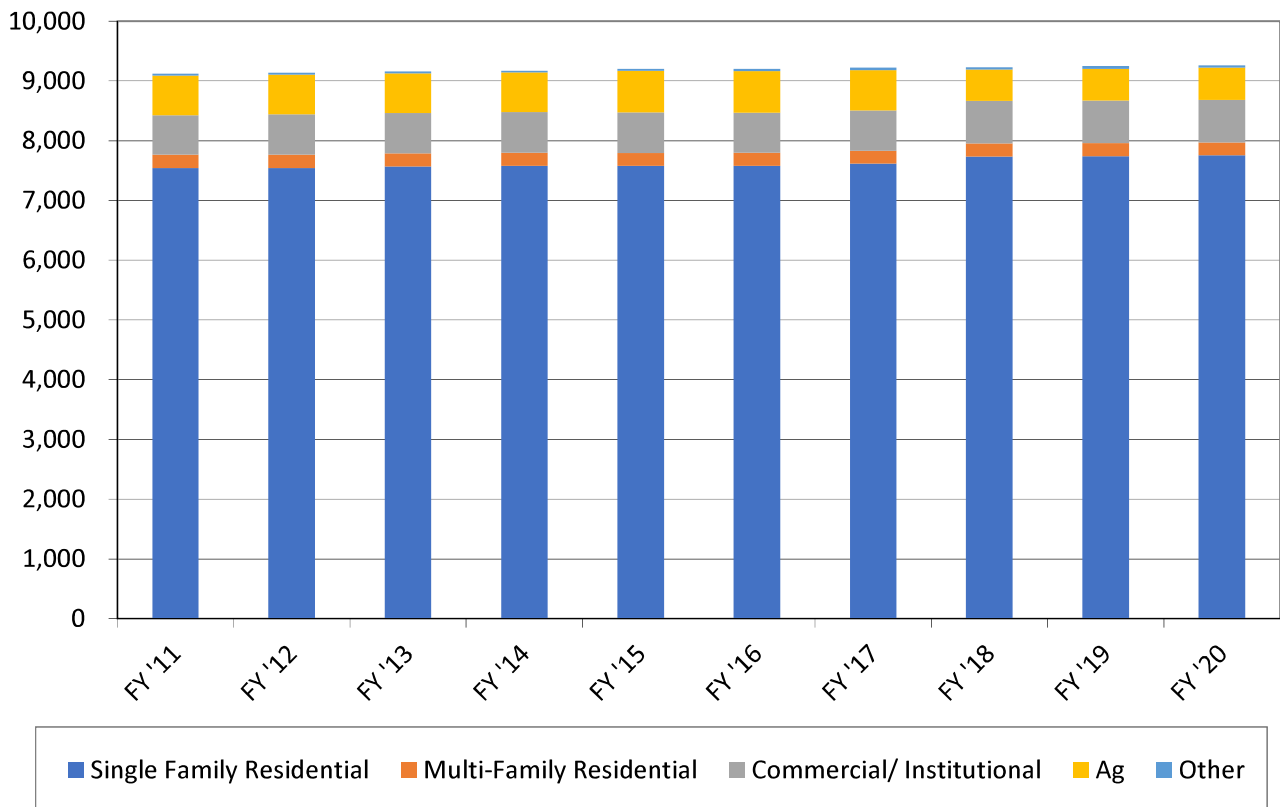
Source: Fallbrook Public Utility District

Table #11 - Number of Water Customers by Type

As of June 30	Single Family Residential	Multi-Family Residential	Commercial/ Institutional	Ag	Other	Total
2011	7,540	223	663	666	28	9,120
2012	7,545	219	678	667	29	9,138
2013	7,569	217	678	663	31	9,158
2014	7,582	217	680	660	32	9,171
2015	7,581	217	679	695	33	9,205
2016	7,582	217	671	699	37	9,206
2017	7,617	217	673	674	38	9,219
2018	7,735	218	711	529	40	9,233
2019	7,742	218	713	533	45	9,251
2020	7,755	216	712	535	41	9,259

Source: Fallbrook Public Utility District

Chart #3 - Number of Water Customers by Type



Source: Fallbrook Public Utility District

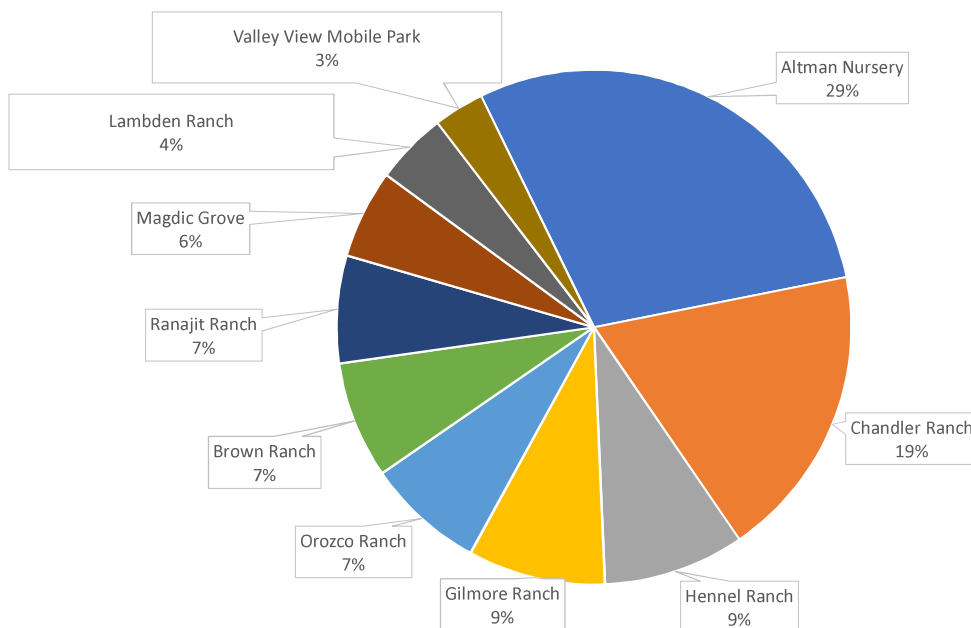
Table #12 - Top Ten Water Customers

Fiscal Year 2011		
Customer	Annual Usage (Kgal)	Percent of Total
Ross Ranch	115,181	3.30%
Sparrow Hawk Ranch	51,325	1.47%
Chandler Ranch	47,293	1.36%
Magdic Grove	29,601	0.85%
Color Spot Nursery	29,432	0.84%
ACW Ranch	25,807	0.74%
Serafina Holdings	25,065	0.72%
Hennel Ranch	22,676	0.65%
Lilac 124 Inc	22,438	0.64%
Brown Ranch	21,167	0.61%
Total Top 10 Customers	389,985	11.18%
Total All Other Water Customers	3,098,000	88.82%
Total Water Consumed	3,487,985	100.00%

Fiscal Year 2020		
Customer	Annual Usage (Kgal)	Percent of Total
Altman Nursery	87,478	3.68%
Chandler Ranch	55,696	2.34%
Hennel Ranch	26,708	1.12%
Gilmore Ranch	25,953	1.09%
Orozco Ranch	22,309	0.94%
Brown Ranch	22,100	0.93%
Ranajit Ranch	20,309	0.85%
Magdic Grove	16,735	0.70%
Lambden Ranch	13,562	0.57%
Valley View Mobile Park	9,598	0.40%
Total Top 10 Customers	300,448	12.62%
Total All Other Water Customers	2,079,731	87.38%
Total Water Consumed	2,380,179	100.00%

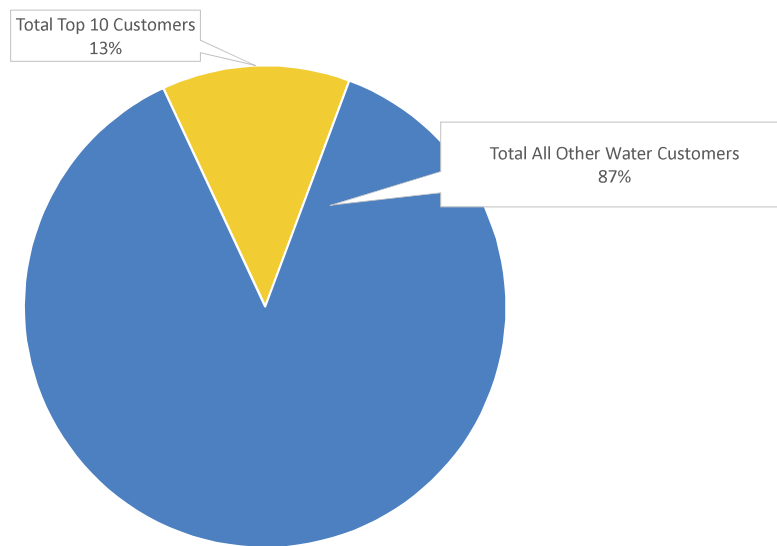
Source: Fallbrook Public Utility District

Chart #4 - Top Ten Water Customers and their Relative Consumption Fiscal Year 2020



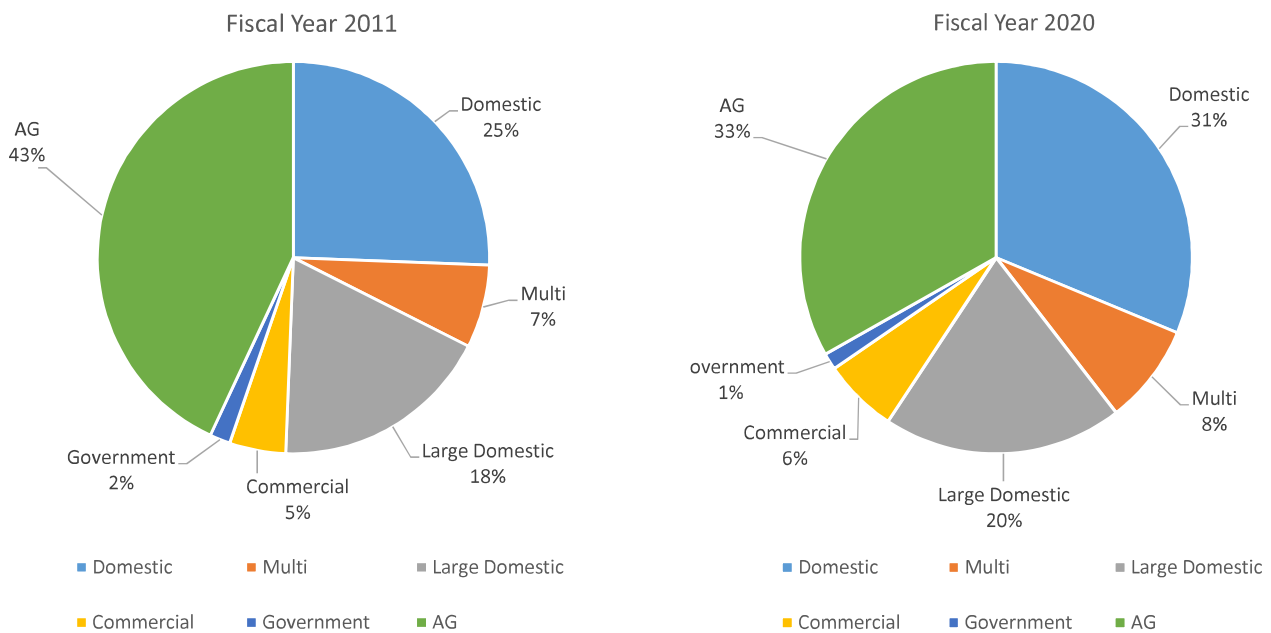
Source: Fallbrook Public Utility District

Chart #5 - Total Water Consumed Fiscal Year 2020



Source: Fallbrook Public Utility District

Chart #6 - Breakdown of Water Sales by Customer Class for Fiscal Year 2011 vs Fiscal Year 2020



Source: Fallbrook Public Utility District

Table #13 - Water System

Fiscal Year	Miles of Water Mains	Service Connections	Annual Production (G)	Average Daily Production (gpd)
2011	268.38	9,124	3,863,212,430	10,584,144
2012	268.89	9,130	4,201,053,710	11,509,736
2013	268.89	9,142	4,159,247,155	11,395,198
2014	268.94	9,154	4,178,179,040	11,447,066
2015	268.98	9,166	3,327,254,350	9,115,765
2016	269.11	9,197	3,235,951,180	8,865,620
2017	269.11	9,211	3,114,930,490	8,534,056
2018	269.11	9,244	3,287,934,350	9,008,039
2019	269.29	9,253	2,684,556,048	7,354,948
2020	269.36	9,262	2,602,343,841	7,129,709

Source: Fallbrook Public Utility District

Table #14 - Water System Total Production*

Fiscal Year	Total Used/Prod. (AF)	HCF
2011	11,855.80	5,164,386.48
2012	12,892.60	5,616,016.56
2013	12,764.30	5,560,129.08
2014	12,822.40	5,585,437.44
2015	10,211.00	4,447,911.60
2016	9,930.80	4,325,856.48
2017	9,559.40	4,164,074.64
2018	10,090.30	4,395,334.68 *
2019	8,238.60	3,588,734.16 *
2020	7,986.30	3,478,832.28

*Total Production before system losses.

**FY 2019 CAFR had incorrect data, this is updated data.

Source: Fallbrook Public Utility District

Table #15 - Sewer System

Fiscal Year	Miles of Sewer Lines	Service Connections	Annual Sewerage (G)	Daily Sewerage (GD)
2011	78.53	4,975	636,329,979.08	1,743,369.81
2012	78.62	4,994	609,826,887.99	1,670,758.60
2013	78.62	5,008	557,909,048.16	1,528,517.94
2014	78.62	5,028	540,541,189.86	1,480,934.77
2015	78.64	5,034	562,027,804.80	1,539,802.20
2016	78.64	5,044	499,860,321.77	1,369,480.33
2017	78.64	5,049	507,140,810.66	1,389,426.88
2018	78.64	5,049	486,337,179.41	1,332,430.63
2019	78.70	5,004	556,424,471.00	1,524,450.00
2020	79.14	5,011	539,782,514.55	1,478,856.20

Source: Fallbrook Public Utility District

Table #16 - Sewer System Influent Flow

Fiscal Year	Total Used/Prod. (AF)
2011	1,985.67
2012	1,968.83
2013	1,883.86
2014	1,873.30
2015	1,997.62
2016	1,639.42
2017	1,706.45
2018	1,592.26
2019	1,707.60
2020	1,693.60

Source: Fallbrook Public Utility District

Table #17 - Recycled Water System

Fiscal Year	Miles of Recycled Pipes	Service Connections	Used Annual Recycled Water (AF)*	Daily Usage (MGD)
2011	8.28	28	536.83	0.5
2012	8.28	28	603.50	0.5
2013	8.28	28	758.70	0.7
2014	8.28	28	746.80	0.7
2015	8.28	28	598.80	0.5
2016	10.53	29	599.83	0.5
2017	10.53	30	671.34	0.6
2018	10.53	32	740.40	0.7
2019	10.53	33	562.66	0.5
2020	10.53	30	559.89	0.5

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

Table #18 - Recycled Water System Production

Fiscal Year	Total Prod./Disposed (AF)
2011	1952.83
2012	1871.49
2013	1712.16
2014	1658.86
2015	1724.80
2016	1534.02
2017	1556.36
2018	1492.51
2019	1617.50
2020	1656.50

Notes:
 G- Gallons
 GD - Gallons per Day
 AF - Acre Feet
 MG - Millions of Gallons
 MGD - Millions of Gallons per Day

Source: Fallbrook Public Utility District

FPUD treats all water to recycled standards. This tables includes both recycled water used as well as discharged to the ocean outfall.

Table #19- Annual RW Production and WRP Influent Flow

	Recycled Water (Acre-Feet)				WRP Influent Flow (Acre-Ft)
	Annual Production	Daily Average Production	Total Used Production	Total Disposed	
2011	1,962.58	5.38	607.88	1,354.69	1,999.50
2012	1,795.23	4.92	702.99	1,092.23	1,933.72
2013	1,661.57	4.55	714.98	946.59	1,892.02
2014	1,756.49	4.81	690.15	1,066.34	1,888.80
2015	1,588.47	4.35	584.11	1,004.36	1,878.31
2016	1,489.03	4.08	694.37	794.66	1,600.40
2017	1,570.92	4.30	664.82	906.11	1,694.43
2018	1,492.51	4.09	740.39	752.12	1,592.26
2019	1,617.50	4.43	562.70	1,054.80	1,707.60
2020	1,656.50	4.54	559.90	1,096.60	1,693.60

Source: Fallbrook Public Utility District

Table #20 - Full Time Equivalent (FTE) Employees by Function

Fiscal Year	Water Services	Wastewater Services	Recycled Water Services	General & Administrative	Total FTE Employees
2011	23	15	5	.8	71.8
2012	23	14	5	2 .8	71.8
2013	22	14	6	2 .8	70.8
2014	21	13	6	27.8	67.8
2015	21	13	5	2 .8	67.8
2016	20	13	5	28.8	66.8
2017	23	12	5	2 .8	67.8
2018	24	15.2	2.8	25.8	67.8
2019	24	15.2	2.8	25.8	67.8
2020	24	15.2	2.8	25.8	67.8

Source: Fallbrook Public Utility District

Table #21 -Assessed Valuation of Taxable Property

Fiscal Year	Secured				Unsecured		Total Assessed Value
	Water		Sewer		Water	Sewer	
	Local Assessed	State Assessed	Local Assessed	State Assessed			
2011	\$ 3,037,269,947	\$ 225,000	\$ 1,781,731,084	\$ 225,000	\$ 42,343,299	\$ 37,141,389	\$ 4,898,935,719
2012	3,023,254,725	225,000	1,783,734,000	225,000	39,028,848	33,883,225	4,880,350,798
2013	3,005,131,868	225,000	1,773,732,093	225,000	40,228,753	35,613,386	4,855,156,100
2014	3,058,914,090	-	1,811,990,591	-	39,761,073	34,916,821	4,945,582,575
2015	3,234,556,718	-	1,928,060,834	-	40,480,476	35,184,912	5,238,282,940
2016	3,390,367,447	-	2,021,437,198	-	37,440,559	32,152,307	5,481,397,511
2017	3,518,846,961	-	2,098,501,032	-	36,135,611	31,163,876	5,684,647,480
2018	3,709,470,372	-	2,220,524,962	-	36,271,614	31,902,804	3,989,169,752
2019	3,895,955,738	-	2,337,209,037	-	41,211,234	35,075,356	6,309,451,365
2020	4,078,331,287	-	2,463,512,540	-	41,515,562	35,305,514	6,618,664,903

Source: County of San Diego, Office of the Auditor & Controller

Table #22 -Property Tax

Fiscal Year	Current Year Levy*			Revenues Collected **			Uncollected Collected			Percent Uncollected
	Water	Sewer	Total	Water	Sewer	Total	Water	Sewer	Total	
2011	\$ 865,466	\$ 769,673	\$ 1,635,140	\$ 853,568	\$ 759,066	\$ 1,612,634	\$ 11,898	\$ 10,607	\$ 22,506	1.4%
2012	859,279	769,708	1,628,987	848,048	758,639	1,606,687	11,230	11,069	22,300	1.4%
2013	866,702	776,960	1,643,662	855,046	766,457	1,621,503	11,656	10,504	22,159	1.3%
2014	887,378	798,786	1,686,164	874,729	787,339	1,662,068	12,649	11,447	24,096	1.4%
2015	933,206	847,121	1,780,327	921,440	836,401	1,757,840	11,766	10,721	22,487	1.3%
2016	982,997	890,717	1,873,715	970,998	879,769	1,850,767	11,999	10,949	22,948	1.2%
2017	1,022,747	927,792	1,950,539	1,009,595	915,788	1,925,384	13,151	12,004	25,155	1.3%
2018	1,072,468	978,636	2,051,105	1,060,447	967,619	2,028,066	12,021	11,017	23,039	1.1%
2019	1,122,771	1,028,393	2,151,164	1,108,272	1,015,057	2,123,329	14,499	13,336	27,835	1.3%
2020	1,169,224	1,079,727	2,248,951	1,154,850	1,066,408	2,221,258	14,374	13,319	27,693	1.2%

* Total levy including penalties before administrative fees.

** Amount before administrative and other fees deducted.

Source: County of San Diego, Office of the Auditor & Controller

Table #23 -Pledged-Revenue Debt Service Coverage Ratio

Fiscal Year	Total Operating Revenues	Total Operating Expenses*	Non-Operating Revenue**	Net Revenue Available for Debt Service	Debt Service	Coverage Ratio	Required Coverage Level
2011	\$ 21,255,448	\$ 21,232,355	\$ 2,702,416	\$ 2,725,509	\$ 1,148,552	2.37	1.20
2012	23,661,715	23,061,268	3,268,067	3,868,514	1,567,663	2.47	1.20
2013	27,582,160	24,448,790	4,355,765	7,489,135	1,490,434	5.02	1.20
2014	28,955,183	29,357,533	5,301,618	4,899,268	1,414,198	3.46	1.20
2015	27,483,881	25,591,207	5,482,287	7,374,961	1,319,031	5.59	1.20
2016	25,356,017	24,281,233	5,898,837	6,973,621	1,302,876	5.35	1.20
2017	27,256,065	25,384,395	5,348,517	7,220,187	2,756,731	2.62	1.20
2018	29,882,022	27,626,075	5,170,901	7,426,848	2,758,501	2.69	1.20
2019	26,944,550	25,549,828	***6,246,867	6,731,623	2,760,019	2.44	1.20
2020	28,931,007	26,596,263	6,338,174	7,762,694	2,761,290	2.81	1.20

*Excludes depreciation

** Excludes debt interest expenses

*** Excludes one-term gain of \$9,338,297 on the sale of assets.

Source: Fallbrook Public Utility District

Table #24 Computation of Direct and Overlapping Debt (As of 06/30/2020)

2019-20 Assessed Valuation: \$4,119,846,849

OVERLAPPING TAX AND ASSESSMENT DEBT:	Total Debt (6/30/20)	% Applicable ⁽¹⁾	District's Share of Debt (6/30/20)
Metropolitan Water District	\$ 37,300,000	0.133%	\$ 49,609
Palomar Community College District	610,657,763	3.199	19,534,942
Bonsall Unified School District	9,921,618	0.500	49,608
Fallbrook Union High School District	9,000,000	64.080	5,767,200
Fallbrook Union School District	16,674,476	67.980	11,335,309
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$ 36,736,668
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	231,350,000	0.741%	1,714,304
San Diego County Pension Obligation Bonds	456,040,000	0.741	3,379,256
San Diego County Superintendent of Schools Certificates of Participation	9,350,000	0.741	69,284
Palomar Community College District Certificates of Participation	1,675,000	3.199	53,583
Bonsall Unified School District Certificates of Participation	7,100,000	0.500	35,500
Fallbrook Public Utility District	0	100.	0
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$ 5,251,927
TOTAL DIRECT DEBT			\$ 0
TOTAL OVERLAPPING DEBT			\$ 41,988,595
COMBINED TOTAL DEBT			\$ 41,988,595 ⁽²⁾

(1) The percentage of overlapping debt applicable to the public utility district is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the public utility divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2019-20 Assessed Valuation:

Total Overlapping Tax and Assessment Debt	0.89%
Total Direct Debt	0.00%
Combined Total Debt	1.02%

Source: California Municipal Statistics Inc.

Table #25 - San Diego County Principal Employers

Fiscal Year 2011			Fiscal Year 2019**		
Employer Name	Number of Employees ⁽¹⁾	Percentage of Total County Employment	Employer Name	Number of Employees	Percentage of Total County Employment
University of California San Diego	46,300	3.30%	University of California San Diego	34,448	2.26%
Naval Base San Diego	45,500	3.24%	Naval Base San Diego	34,185	2.24%
Sharp Healthcare	27,393	1.95%	Sharp Healthcare	18,364	1.20%
County of San Diego	15,842	1.13%	County of San Diego	17,413	1.14%
Scripps Health	14,969	1.07%	Scripps Health	14,941	0.98%
San Diego Unified School District	13,830	0.99%	San Diego Unified School District	13,815	0.91%
Qualcomm Inc.	13,730	0.98%	Qualcomm Inc.	11,800	0.77%
City of San Diego	10,509	0.75%	City of San Diego	11,462	0.75%
Kaiser Permanente San Diego	10,211	0.73%	Kaiser Permanente San Diego	9,606	0.63%
UC San Diego Health	8,200	0.58%	UC San Diego Health	8,932	0.59%
Total Top Ten County Employers	206,484	14.72%	Total Top Ten County Employers	174,966	11.47%
All Other County Employers	1,196,416	85.28%	All Other County Employers	1,354,514	88.79%
Total County Employment ⁽¹⁾	1,402,900	100.00%	Total County Employment ⁽²⁾	1,525,500	100.00%

Source: County of San Diego

Note: (1) Numbers are based on County of San Diego Comprehensive Annual Financial Report for 2011

(2) Numbers are based on County of San Diego Comprehensive Annual Financial Report for 2019

**Data for FY 2020 not available as of publication date. Data shown is for the most recently available version.

Table #26 - Outstanding Debt, Demographic Statistics and Per Capita Statistics

Fiscal Year	District's Outstanding Long-Term Debt ⁽¹⁾		Total Outstanding Debt	Demographic Statistics				Per Capita Outstanding Debt	Per Capita Debt as a Percent of Personal Income
	Notes	Contracts		Population Estimate ⁽²⁾	Per Capita Personal Income ⁽³⁾	Unemployment Rate ⁽⁴⁾	Total Estimated Personal Income		
2011	\$ 224,814	\$ 13,386,773	\$ 13,611,587	33,645	\$ 46,496	10.7%	\$1,564,343,649	\$ 405	0.9%
2012	152,008	1,263,686	1,415,694	33,780	48,110	9.5%	1,625,146,771	42	0.1%
2013	77,090	13,165,083	13,242,173	33,915	49,162	8.2%	1,667,352,544	390	0.8%
2014	-	21,810,892	21,810,892	34,052	51,444	6.5%	1,751,754,674	641	1.2%
2015	-	32,389,288	32,389,288	34,188	53,696	5.3%	1,835,782,189	947	1.8%
2016	-	38,841,278	38,841,278	34,326	55,797	4.9%	1,915,273,183	1,132	2.0%
2017	-	37,101,306	37,101,306	34,464	57,878	4.2%	1,994,683,778	1,077	1.9%
2018	-	35,314,028	35,314,028	34,602	60,510	3.7%	2,093,767,020	1,021	1.7%
2019	-	33,474,377	33,474,377	34,740	63,280	3.7%	2,198,347,200	964	1.5%
2020	-	⁽⁵⁾ 58,912,499	58,912,499	34,879	65,811	13.9%	2,295,453,171	1,689	2.6%

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

(2) - Historic population estimated based upon a 0.4% growth rate and the 2019 population estimate of 34,602.

(3) - Per capita personal income of for the San Diego County Region. Source: California Department of Transportation

(4) - Source Employee Development Department Labor Market Information Division June unemployment rate

(5) - Includes \$27.3 million in construction expenses/withdrawals.

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M E M O

TO: Fiscal Policy & Insurance Committee
FROM: David Shank, Assistant General Manager/CFO
DATE: November 12, 2020
SUBJECT: Review Calendar Year 2021 Rates and Charges

Purpose

The Proposition 218 noticed maximum rate and charge increases adopted by the Board in December 2018 were the culmination of a long and thorough financial planning process that began in April of 2017 (Attachment A - Schedule of Maximum Rates). Not only did the process involved 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 permitted 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.

Summary

Calendar year 2021 is the fourth year of the adopted five-year plan. In preparation for the review and adoption of rates and charges for calendar year 2021, the District's financial data, sales projections, and water cost data were updated. This provides the Committee with the most up to date information to base the CY 2021 rate increase on. As discussed with the Committee, a few of the notable updates have been made to the financial projections in the Fiscal Year 20-21 Adopted Budget are as follows:

- Water Sales – Sales have consistently underperformed the budgeted levels. To address this, the FY 2020-21 and beyond water sales level are set to 8,100 AF.
- Wastewater Billable Flow – The domestic billable wastewater flow calculation methodology continues to be a challenge. However, the two-year average winter flow methodology continues to be the best option for approximating expected billable wastewater flows for CY 2021.
- Santa Margarita Conjunctive Use Project Costs – The debt service for the project has been updated to reflect the terms of the loan. In addition, the project's average water yield was set at 3,100 AF a year and all the cost estimates have been updated. The cost is also adjusted for the grant funding approved by the Metropolitan Water District (MWD).

The financial results of these assumptions will be presented to the Committee as well as potential rate and charge increase alternatives for CY 2021.

Recommended Action

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

Attachment A

MAXIMUM RATES FOR WATER CHARGES

MONTHLY WATER FIXED CHARGES

Monthly Water Fixed Charges (\$/meter size)					
Meter Size	Rates and Effective Date				
	Jan. 1, 2018	Jan. 1, 2019	Jan. 1, 2020	Jan. 1, 2021	Jan. 1, 2022
3/4"	\$44.72	\$48.30	\$52.17	\$56.35	\$60.86
1"	\$68.27	\$73.74	\$79.64	\$86.02	\$92.91
1 1/2"	\$127.12	\$137.29	\$148.28	\$160.15	\$172.97
2"	\$197.75	\$213.57	\$230.66	\$249.12	\$269.05
3"	\$386.09	\$416.98	\$450.34	\$486.37	\$525.28
4"	\$597.97	\$645.81	\$697.48	\$753.28	\$813.55
6"	\$1,186.53	\$1,281.46	\$1,383.98	\$1,494.70	\$1,614.28
Monthly Standby Service Charge					
3/4"	\$20.06	\$21.67	\$23.41	\$25.29	\$27.32
1"	\$27.17	\$29.35	\$31.70	\$34.24	\$36.98
1 1/2"	\$44.93	\$48.53	\$52.42	\$56.62	\$61.15
2"	\$66.24	\$71.54	\$77.27	\$83.46	\$90.14
3"	\$123.08	\$132.93	\$143.57	\$155.06	\$167.47
4"	\$187.02	\$201.99	\$218.15	\$235.61	\$254.46
6"	\$364.64	\$393.82	\$425.33	\$459.36	\$496.11
Monthly Private Fire Services Charge					
2"	\$9.74	\$10.52	\$11.37	\$12.28	\$13.27
3"	\$10.39	\$11.23	\$12.13	\$13.11	\$14.16
4"	\$11.51	\$12.44	\$13.44	\$14.52	\$15.69
6"	\$15.51	\$16.76	\$18.11	\$19.56	\$21.13
8"	\$22.42	\$24.22	\$26.16	\$28.26	\$30.53

Water CIC (\$/meter size)		
Effective January 1, 2018		
Meter Size	Water CIC (Regular Service)*	Water CIC (Standby Service)
3/4"	\$8.58	\$3.89
1"	\$14.30	\$6.48
1 1/2"	\$28.60	\$12.96
2"	\$45.76	\$20.74
3"	\$91.52	\$41.47
4"	\$143.00	\$64.80
6"	\$286.00	\$129.59

VOLUMETRIC WATER CHARGES

Monthly Water Volumetric Charges and Pumping Charges (\$/kgal)						
		Rates and Effective Dates				
Customer Class		Jan. 1, 2018	Jan. 1, 2019	Jan. 1, 2020	Jan. 1, 2021	Jan. 1, 2022
Ag SAWR		\$4.22	\$4.56	\$4.93	\$5.33*	\$5.76*
Commercial Ag		\$4.89	\$5.29	\$5.72	\$6.18	\$6.68
Ag Domestic						
Tier 1	0 – 5 kgal	\$5.69	\$6.15	\$6.65	\$7.19	\$7.77
Tier 2	6 – 20 kgal	\$4.89	\$5.29	\$5.72	\$6.18	\$6.68
Tier 3	Above 20 kgal	\$4.22	\$4.56	\$4.93	\$5.33*	\$5.76*
Commercial Domestic Ag						
Tier 1	0 – 5 kgal	\$5.69	\$6.15	\$6.65	\$7.19	\$7.77
Tier 2	Above 5 kgal	\$4.89	\$5.29	\$5.72	\$6.18	\$6.68
Residential						
Tier 1	0 – 5 kgal	\$5.69	\$6.15	\$6.65	\$7.19	\$7.77
Tier 2	6 – 30 kgal	\$5.79	\$6.26	\$6.77	\$7.32	\$7.91
Tier 3	Above 30 kgal	\$7.04	\$7.61	\$8.22	\$8.88	\$9.60
Commercial		\$5.87	\$6.34	\$6.85	\$7.40	\$8.00
Government		\$5.78	\$6.25	\$6.75	\$7.29	\$7.88
Irrigation Only		\$5.88	\$6.36	\$6.87	\$7.42	\$8.02
Pumping Surcharges (DSA, Toyon service areas)		\$0.69	\$0.75	\$0.81	\$0.88	\$0.96

**The SAWR program expires on December 31, 2020. If the SAWR program is not extended, Ag SAWR and Ag Domestic customers (Tier 2 only) will be charged the rates for Commercial Ag customers (i.e. \$6.18/kgal effective January 1, 2021, and \$6.68/kgal effective January 1, 2022.)*

Water CIC Pumping (\$/kgal)	
Effective January 1, 2018	
Water CIC Pumping	\$0.10

MONTHLY WATER MWD RTS AND CWA IAC PASS-THROUGHS

Monthly MWD RTS Charge and CWA IAC (\$/meter size)		
Effective January 1, 2018		
Meter Size	MWD RTS	CWA IAC
3/4"	\$2.34	\$2.93
1"	\$3.91	\$4.88
1 1/2"	\$7.79	\$9.76
2"	\$12.47	\$15.62
3"	\$24.97	\$31.24
4"	\$39.01	\$48.80
6"	\$77.99	\$97.60

DROUGHT RATES

2018 Monthly Drought Rates by Drought Levels (\$/kgal)			
Customer Class	Level 1	Level 2	Level 3 and 4
Residential			
Tier 1	\$5.98	\$6.24	\$7.01
Tier 2	\$6.08	\$6.35	\$7.13
Tier 3	\$7.40	\$7.72	\$8.67
Ag Domestic			
Tier 1 only	\$5.98	\$6.24	\$7.01
Commercial Dom Ag			
Tier 1	\$5.98	\$6.24	\$7.01
Tier 2	\$5.14	\$5.36	\$6.02
Uniform			
Commercial Ag	\$5.14	\$5.36	\$6.02
Commercial	\$6.17	\$6.44	\$7.23
Irrigation Only	\$6.07	\$6.34	\$7.12
Government	\$6.18	\$6.45	\$7.24

2019 Monthly Drought Rates by Drought Levels (\$/kgal)			
Customer Class	Level 1	Level 2	Level 3 and 4
Residential			
Tier 1	\$6.46	\$6.75	\$7.57
Tier 2	\$6.58	\$6.87	\$7.71
Tier 3	\$7.99	\$8.35	\$9.37
Ag Domestic			
Tier 1 only	\$6.46	\$6.75	\$7.57
Commercial Dom Ag			
Tier 1	\$6.46	\$6.75	\$7.57
Tier 2	\$5.56	\$5.80	\$6.51
Uniform			
Commercial Ag	\$5.56	\$5.80	\$6.51
Commercial	\$6.66	\$6.95	\$7.81
Irrigation Only	\$6.57	\$6.86	\$7.69
Government	\$6.68	\$6.98	\$7.83

2020 Monthly Drought Rates by Drought Levels (\$/kgal)			
Customer Class	Level 1	Level 2	Level 3 and 4
Residential			
Tier 1	\$6.99	\$7.29	\$8.19
Tier 2	\$7.11	\$7.43	\$8.33
Tier 3	\$8.63	\$9.01	\$10.12
Ag Domestic			
Tier 1 only	\$6.99	\$7.29	\$8.19
Commercial Dom Ag			
Tier 1	\$6.99	\$7.29	\$8.19
Tier 2	\$6.01	\$6.27	\$7.04
Uniform			
Commercial Ag	\$6.01	\$6.27	\$7.04
Commercial	\$7.20	\$7.51	\$8.43
Irrigation Only	\$7.09	\$7.40	\$8.31
Government	\$7.22	\$7.53	\$8.46

2021 Monthly Drought Rates by Drought Levels (\$/kgal)			
Customer Class	Level 1	Level 2	Level 3 and 4
Residential			
Tier 1	\$7.55	\$7.89	\$8.85
Tier 2	\$7.69	\$8.03	\$9.01
Tier 3	\$9.33	\$9.74	\$10.93
Ag Domestic			
Tier 1 only	\$7.55	\$7.89	\$8.85
Commercial Dom Ag			
Tier 1	\$7.55	\$7.89	\$8.85
Tier 2	\$6.49	\$6.78	\$7.61
Uniform			
Commercial Ag	\$6.49	\$6.78	\$7.61
Commercial	\$7.77	\$8.12	\$9.11
Irrigation Only	\$7.66	\$8.00	\$8.97
Government	\$7.79	\$8.14	\$9.13

2022 Monthly Drought Rates by Drought Levels (\$/kgal)			
Customer Class	Level 1	Level 2	Level 3 and 4
Residential			
Tier 1	\$8.16	\$8.52	\$9.56
Tier 2	\$8.31	\$8.67	\$9.74
Tier 3	\$10.08	\$10.53	\$11.82
Ag Domestic			
Tier 1 only	\$7.55	\$7.89	\$8.85
Commercial Dom Ag			
Tier 1	\$8.16	\$8.52	\$9.56
Tier 2	\$7.02	\$7.33	\$8.22
Uniform			
Commercial Ag	\$7.02	\$7.33	\$8.22
Commercial	\$8.40	\$8.77	\$9.85
Irrigation Only	\$8.28	\$8.64	\$9.70
Government	\$8.42	\$8.80	\$9.87

MAXIMUM RATES FOR RECYCLED WATER CHARGES

MONTHLY FIXED RECYCLED WATER CHARGES

Monthly Fixed Recycled Water Charges (\$/meter size)					
	Rates and Effective Dates				
Meter Size	Jan. 1, 2018	Jan. 1, 2019	Jan. 1, 2020	Jan. 1, 2021	Jan. 1, 2022
3/4"	\$20.06	\$21.67	\$23.41	\$25.29	\$27.32
1"	\$27.17	\$29.35	\$31.70	\$34.24	\$36.98
1 1/2"	\$44.93	\$48.53	\$52.42	\$56.62	\$61.15
2"	\$66.24	\$71.54	\$77.27	\$83.46	\$90.14
3"	\$123.08	\$132.93	\$143.57	\$155.06	\$167.47
4"	\$187.02	\$201.99	\$218.15	\$235.61	\$254.46
6"	\$364.64	\$393.82	\$425.33	\$459.36	\$496.11

VOLUMETRIC RECYCLED WATER CHARGES

Monthly Volumetric Recycled Water Charges (\$/kgal)					
	Rates and Effective Date				
	Jan 1, 2018	Jan 1, 2019	Jan 1, 2020	Jan 1, 2021	Jan 1, 2022
Recycled Water	\$4.92	\$5.32	\$5.73	\$6.19	\$6.69

MAXIMUM RATES FOR WASTEWATER CHARGES

MONTHLY FIXED WASTEWATER CHARGES

Monthly Fixed Wastewater Charges (\$/EDU*/month)					
	Effective Date				
	Jan 1, 2018	Jan 1, 2019	Jan 1, 2020	Jan 1, 2021	Jan 1, 2022
Wastewater (\$/EDU)	\$9.28	\$9.70	\$10.14	\$10.60	\$11.08

*EDUs are defined and set forth in Section 20.7.2 of the District's Administrative Code.

Wastewater CIC (\$/EDU/month)	
Effective January 1, 2018	
Wastewater CIC	\$11.16

VOLUMETRIC WASTEWATER CHARGES

Monthly Volumetric Wastewater Charges (\$/kgal)					
Customer Classes	Rates and Effective Dates				
	Jan. 1, 2018	Jan. 1, 2019	Jan. 1, 2020	Jan. 1, 2021	Jan. 1, 2022
Ag Domestic	\$9.44	\$9.87	\$10.32	\$10.79	\$11.28
Commercial Ag	\$9.44	\$9.87	\$10.32	\$10.79	\$11.28
Residential (Single, Multi-Family)	\$9.44	\$9.87	\$10.32	\$10.79	\$11.28
Government	\$9.37	\$9.80	\$10.25	\$10.72	\$11.21
School	\$9.37	\$9.80	\$10.25	\$10.72	\$11.21
Church	\$9.37	\$9.80	\$10.25	\$10.72	\$11.21
Commercial - Low Strength	\$9.37	\$9.80	\$10.25	\$10.72	\$11.21
Commercial-Med Strength	\$11.57	\$12.10	\$12.65	\$13.22	\$13.82
Commercial - High Strength	\$14.44	\$15.09	\$15.77	\$16.48	\$17.23