



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

AGENDA

MONDAY, NOVEMBER 13, 2017  
2:30 P.M.

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

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

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

**I. PRELIMINARY FUNCTIONS**

CALL TO ORDER / ROLL CALL

PUBLIC COMMENT

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

A. FINAL DRAFT ANNUAL FINANCIAL REPORT

B. REVIEW OF RATE PRESENTATION

C. POTENTIAL FUNDING SUPPORT FOR LOCAL SUPPLY DEVELOPMENT

D. DISCUSSION OF CALENDAR YEAR VERSUS FISCAL YEAR BUDGET PERIOD

**III. ADJOURNMENT OF MEETING**

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### DECLARATION OF POSTING


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

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

November 8, 2017  
Dated / Fallbrook, CA

Mary Lou West  
Secretary, Board of Directors

**M E M O**

**TO:** Fiscal Policy & Insurance Committee  
**FROM:** David Shank, Assistant General Manager/CFO   
**DATE:** November 13, 2017  
**SUBJECT:** Final Draft Annual Financial Report

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Purpose

Discuss the final draft Annual Financial Report (the Report), which contains the District's audited financial statements. The Report will be submitted to the Board on November 15, 2017, for acceptance.

Summary

The firm of Macias, Gini & O'Connell has completed the audit of the District's financial operations in FY 2016-17 and has issued a draft annual report (see attached). The Fiscal Policy & Insurance Committee met with the auditors on October 11, 2017, to review the draft financial statements. The firm issued their draft audit with an unqualified opinion. In addition, the management letter will contain no findings.

Highlights from this Report include:

- The Districts operating loss grew slightly to \$2.6 million up from \$1.8 million.
- Cash and investments decreased from \$15.9 million to \$14.1 million.
- Total net position increased by \$2.4 million largely due to \$5.4 million in non-operating revenues.
- New requirement for the Other Post-Employment Benefits Trust (the Trust) and the addition of Governmental Accounting Standards Board (GASB) Statement No. 74 was added to the disclosure.

Recommended Action

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

**FALLBROOK PUBLIC UTILITY DISTRICT**

Annual Financial Report

For the Years Ended  
June 30, 2017 and 2016

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**FALLBROOK PUBLIC UTILITY DISTRICT**

Annual Financial Report

For the Years Ended

June 30, 2017 and 2016

*Table of Contents*

	<i>Page</i>
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis (Required Supplementary Information - Unaudited) .....	7
<b>Basic Financial Statements:</b>	
Statements of Net Position – Enterprise Fund .....	21
Statements of Revenues, Expenses and Changes in Net Position – Enterprise Fund .....	22
Statements of Cash Flows – Enterprise Fund.....	23
Statement of Fiduciary Net Position – OPEB Trust Fund .....	25
Statement of Changes in Fiduciary Net Position – OPEB Trust Fund.....	26
Notes to the Basic Financial Statements .....	29
<b>Required Supplementary Information (Unaudited):</b>	
Cost-Sharing Defined Benefit Pension Plan Schedule of the District’s Proportionate Share of the Net Pension Liability.....	63
Cost-Sharing Defined Benefit Pension Plan Schedule of Contributions .....	64
OPEB Schedule of Funding Progress .....	65
<b>Other Supplementary Information:</b>	
Schedule of Revenues and Expenses by Operating Department for the Year Ended June 30, 2017 .....	69
Schedule of Revenues and Expenses by Operating Department for the Year Ended June 30, 2016 .....	70
<b>Miscellaneous Statistical Information (Unaudited):</b>	
Board of Directors.....	73
Assessed Valuation .....	74

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## **Independent Auditor's Report**

The Honorable Board of Directors of the  
Fallbrook Public Utility District

### **Report on the Financial Statements**

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

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

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

#### ***Auditor's Responsibility***

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

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

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

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the enterprise fund and OPEB Trust Fund of the District, as of June 30, 2017 and 2016, and the respective changes in its financial position and where applicable, its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



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

As discussed in Note 3 and 12 to the basic financial statements, effective July 1, 2015, the District adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. As a result of the implementation, the District has reported and disclosed its other postemployment benefit plan pursuant to GASB Statement No. 74. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7-17 and the cost-sharing defined benefit pension plan schedule of the District's proportionate share of the net pension liability, the cost-sharing defined benefit pension plan schedule of contributions, and the OPEB schedule of funding progress on pages 63-65, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

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

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

The miscellaneous statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November XX, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

San Diego, California  
November XX, 2017

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## FALLBROOK PUBLIC UTILITY DISTRICT

### Management's Discussion and Analysis (Unaudited)

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

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

- The Design of the Santa Margarita Conjunctive Use water supply project was completed for a total cost of \$3,207,759. Of this cost, a total of \$2.4 million was reimbursed by a State Proposition 50 grant. The construction phase of the project is expected to begin in FY 17-18.
- Wastewater capital projects completed include the Ammunition Road Sewer Upgrade and Plant 2 Force Main Upgrade for a combined total of \$959,309. The replacement of a section of sewer along Alvarado and Brandon Rd was initiated and the cost to date for the projects in progress is \$117,421.
- The District completed the East Line Recycled Pipeline Extension for a total cost of \$2.0 million. This extension is anticipated to provide up to 600 additional acre feet of recycled water sales annually. The District applied for and received \$682,428 in Proposition 84 grant funds to offset the \$2 million cost of the project. Recycled water sales are projected to increase by 200 acre feet per year for the next three years.
- During FY 15-16 the District began a five year meter replacement project at an estimated cost of \$1.5 million to upgrade the meters and remote read devices from Automated Meter Reading (AMR) to Automated Meter Infrastructure (AMI) meters. The new AMI meters allow customers to log in and see real-time water usage, providing information that can be used to curb unintended water use. This technology will be integrated with an online portal, WaterSmart. By logging into their District's WaterSmart account, customers will be able to view and manage their water use through the web browser on a mobile device, tablet or computer. WaterSmart also shows customers how they compare to similar homes in their neighborhood. \$878,941 was spent on the meter replacement program during FY 16-17.
- The District continued an aggressive program of pipeline and valve replacement, along with pump station and reservoir upgrades, completing \$2.3 million in projects in FY 16-17. Completed projects include the waterline replacement at Beavercreek Road and Silversprings Drive. The rehabilitation of the 1 million gallon (MG) reservoir in Deluz, the Toyon Reservoir and the Daily pump station upgrade were completed. Construction projects in progress include installation of an emergency back-up power generator at Donnil Pump Station and the Deluz-Sachse Interconnection Project to improve system reliability.
- Assets and deferred outflows of the District resources exceeded its liabilities and deferred inflows of resources at the close of the June 30, 2017 fiscal year by \$81.7 million (net position), an increase of \$2.4 million from June 30, 2016. The increase in net position was attributable to \$773,163 in State Proposition 50 revenues along with other nonoperating revenues, predominantly from property taxes and capital improvement charges, offset by an operating loss of \$2.6 million.
- Beginning in FY 05-06 all public agencies participating in California Public Employees' Retirement (CalPERS) having less than 100 employees, were pooled into one large group or risk/cost pool by CalPERS. With the implementation of Governmental Accounting Standard Board (GASB) Statements Nos. 68 and 71, the District has reported a net pension liability (NPL) in the

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

amount of \$11,014,856, which was actuarially determined by the CalPERS, including deferred outflows of resources of \$2,980,305 and deferred inflows of resources of \$635,046. This is a \$2,575,760 increase in the NPL over the prior valuation that occurred on June 30, 2015.

- The Board of Directors (Board) recognizes that the District's pension and Other Postemployment Benefit (OPEB) liabilities must be planned for. In FY 16-17, the Board established a Section 115 Trust with Public Agency Retirement Services (PARS) to fund the District's pension and OPEB liabilities. The result of this action was to fully fund the District's OPEB liability and offset a portion of the CalPERS liability.
- The District's operating loss of \$2.6 million when netted with the nonoperating revenue (net) of \$4.2 million results in a \$1.5 million increase in net position before capital contributions. The largest sources of nonoperating revenues are the water and wastewater capital improvement charges, property taxes and the California Solar Initiative rebate. These sources combined represent \$4.4 million in nonoperating revenues. Interest expense associated with the District's long-term debt of \$1.2 million was the only nonoperating expense.
- In FY 16-17, operating revenues increased by \$1.9 million. Operating revenues are comprised of potable and recycled water sales, recycled rebates, monthly water and wastewater service charges and all San Diego County Water Authority (SDCWA) fixed fees, such as the Infrastructure Access Charge (IAC) and Readiness-to-Serve Charge (RTS), which are passed directly through to customers. Potable water sales increased in FY 16-17 to 9,785 acre-feet (AF) from 8,680 AF in FY 15-16. This increase resulted in an increase in water sales revenue of \$1.7 million. Recycled water sales were 614 AF in FY 16-17 versus 600 in FY 15-16. Revenues due to increased sales were approximately \$162,369. Wastewater service charges increased by \$225,122.
- During FY 16-17 the District sold 15 water meters and 5 sewer permits, collecting \$238,124 in connection fees revenue. Thirteen water meters and 8 sewer permits were sold in FY 15-16 collecting \$131,894 in connection fees revenues.

**Financial Highlights (FY 15-16)**

- The Wastewater Treatment Plant rehabilitation was completed at a total cost of \$30 million. \$29.6 million of the total cost is secured by a State Revolving Fund (SRF) loan with an interest rate of 2.2% for 20 years. Payments of \$1.8 million will begin in March 2017.
- Other wastewater capital projects completed include the South Mission sewer upgrade for \$989,400. Those in progress include Ammunition Road sewer upgrade, plant 2 force main upgrade and a complete inspection of the Oceanside outfall line. Cost to date for the projects in progress is \$1.6 million.
- The District began the East Line recycled pipeline extension. This extension will provide 600 additional acre feet of recycled water annually. During FY 15-16 the District budgeted to sell 675 acre feet of recycled water. The District applied for and received \$682,428 in Proposition 84 grant funds to offset the \$1.9 million cost of the project. Recycled water sales are projected to increase by 200 acre feet per year for the next three years.
- During FY 15-16 the District began a five year meter replacement project at an estimated cost of \$1.5 million to upgrade the meters and remote read devices from Automated Meter Reading (AMR)

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

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

- The District continued an aggressive program of pipeline and valve replacement, along with pump station and reservoir upgrades, completing \$2.4 million in projects with another \$2.1 million of costs remaining in construction in progress. Completed projects include the waterline replacement at Olive Hill Road and South Mission at Fallbrook Street. The upgrade at Rattlesnake reservoir and the pump station upgrade at Donnil pump station were also completed. Construction projects in progress include Daily pump station upgrades, Toyon reservoir re-coating and Beavercreek waterline replacement.
- Assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the June 30, 2016 fiscal year by \$79 million (net position), an increase of \$4.2 million from June 30, 2015. The increase in net position was attributable to \$1.4 million in State Proposition 50 and Proposition 84 revenues over those received in FY 14-15 along with other nonoperating revenues, predominantly property taxes and capital improvement charges. These along with an offsetting increase in the net pension liability of \$1.5 million comprise the majority of the \$4.2 million increase. The increase in noncurrent liabilities was a result of the completion of the Wastewater treatment plant rehabilitation and the State Revolving Fund (SRF) loan which funded the rehabilitation.
- As a result of the second year of implementation of GASB Statements Nos. 68 and 71, the District has reported a net pension liability in the amount of \$8,439,096, which was actuarially determined by the CalPERS, including deferred outflows of resources of \$1,248,099 and deferred inflows of resources of \$796,520. Beginning in FY 05-06 all public agencies participating in CalPERS having less than 100 employees, were pooled into one large group, or cost pool, by CalPERS. The Board recognized that this net pension liability must be planned for on a long term basis and has instructed staff to set aside additional funds for FY 16-17 budget and beyond.
- The District's operating loss of \$1.8 million when netted with the nonoperating revenue (net) of \$4.4 million results in a \$2.6 million increase in net position before capital contributions. The largest sources of nonoperating revenues are the water and wastewater capital improvement charges, property taxes and the California Solar Initiative rebate. These combine for \$4.8 million. Nonoperating expenses of \$1.5 million were incurred from interest accruing on the Wastewater Treatment Plant SRF loan and the disposal of the Wastewater Treatment Plant assets which were replaced during construction.
- In FY 15-16 operating revenue decreased by \$2.1 million. Operating revenues are comprised of potable and recycled water sales, recycled rebates, monthly water and wastewater service charges and all SDCWA fixed fees, such as the IAC and RTS, which are passed directly through to customers. Potable water sales declined in FY 15-16 to 8,680 AF from 11,211 AF in FY 14-15. This decline resulted in a decrease in water sales revenue of \$1.7 million and lowest sales since 1960 when the District sold 8,307 AF. Recycled water sales were 600 AF in FY 15-16 versus 556 in FY 14-15. Revenues due to increased sales were approximately \$162,000. Wastewater service charges decreased by \$169,000.



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

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

**Overview of the Basic Financial Statements**

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

**Basic Financial Statements**

The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The basic financial statements can be found on pages 21-26 of this report.

The *Statements of Net Position* presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

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

The *Notes to the Basic Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements and are an integral part of the financial statements. The notes to the financial statements can be found on pages 29-59 of this report.

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

**Financial Analysis of the District**

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

**Condensed Statements of Net Position**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Change</u>
<b>Assets</b>			
Current Assets	\$ 19,124,049	\$ 20,732,086	\$ (1,608,037)
OPEB and Restricted Assets	4,114,814	3,471,337	643,477
Capital Assets, net	108,717,795	108,553,869	163,926
<b>Total Assets</b>	<u>131,956,658</u>	<u>132,757,292</u>	<u>(800,634)</u>
<b>Deferred Outflows of Resources</b>	<u>2,980,305</u>	<u>1,248,099</u>	<u>1,732,206</u>
<b>Liabilities</b>			
Current liabilities	5,671,488	7,149,490	(1,478,002)
Noncurrent liabilities	46,947,511	46,749,529	197,982
<b>Total Liabilities</b>	<u>52,618,999</u>	<u>53,899,019</u>	<u>(1,280,020)</u>
<b>Deferred Inflows of Resources</b>	<u>635,046</u>	<u>796,520</u>	<u>(161,474)</u>
<b>Net Position</b>			
Net Investment in Capital Assets	72,519,098	70,683,956	1,835,142
Restricted	3,475,457	3,455,377	20,080
Unrestricted	5,688,363	5,170,519	517,844
<b>Total Net Position</b>	<u>\$ 81,682,918</u>	<u>\$ 79,309,852</u>	<u>\$ 2,373,066</u>

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

Current assets decreased by \$1.6 million from FY 15-16. The decrease is found in Cash and Investments as unrestricted cash became restricted, in order to fund the Section 115 Trust established with PARS to fund OPEB and pension liabilities. At year-end, the trust offsetting the District's OPEB and pension liabilities held \$756,952 for OPEB and \$610,483, respectively.

Net capital assets remained relatively flat with an increase of \$163,926 in FY 16-17. With the Wastewater Treatment Plant completed and placed in service in FY 15-16, District wide depreciation in FY 16-17 was \$5.3 million. The slight increase in net capital assets indicates that the District's capital investments in FY 16-17 slightly outpaced the rate of asset depreciation.

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

Current liabilities decreased by \$1.5 million from FY 15-16. The driver behind the decrease in current liabilities was corresponding decrease in accounts payable, which is related to reduced construction related outflows.

The District's total net position increased by \$2.4 million primarily attributable to the \$5.4 million in nonoperating revenue, which is predominantly made up of property taxes and capital improvement charges, and \$832,672 in capital contributions. These along with offsetting nonoperating expenses of \$1.2 million, compensated for the operating loss of \$2.6 million.

**Condensed Statements of Net Position**

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

In FY 15-16, current assets decreased by \$1.8 million from FY 14-15. The decrease is found in Cash and Investments as unrestricted cash became restricted, a noncurrent asset, in order to comply with the debt covenants of the Wastewater Treatment Plant SRF loan. Per the covenants, one year's principal and interest, or \$1.8 million is to be restricted.

Capital assets, net increased by \$8.2 million in FY 15-16. The Wastewater Treatment Plant project was completed, capitalized and became a depreciable asset, increasing depreciable assets by \$30 million, non-depreciable assets, decreased \$28.9 as other water, wastewater and recycled capital projects began but were not completed at June 30, 2015.

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

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

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

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

	<b>For the Year Ended June 30, 2017</b>	<b>For the Year Ended June 30, 2016</b>	<b>Change</b>
Operating revenues	\$ 27,256,065	\$ 25,356,017	\$ 1,900,048
Operating expenses	29,890,177	27,144,267	2,745,910
Operating loss	<u>(2,634,112)</u>	<u>(1,788,250)</u>	<u>(845,862)</u>
Nonoperating revenue, net	4,174,506	4,431,344	(256,838)
Change in net position before capital contributions	1,540,394	2,643,094	(1,102,700)
Capital Contributions	<u>832,672</u>	<u>1,631,767</u>	<u>(799,095)</u>
Change in net position	2,373,066	4,274,861	(1,901,795)
Net position - beginning	<u>79,309,852</u>	<u>75,034,991</u>	<u>4,274,861</u>
Net position - end of year	<u><u>\$ 81,682,918</u></u>	<u><u>\$ 79,309,852</u></u>	<u><u>\$ 2,373,066</u></u>

While the Statements of Net Position shows the District's 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 FY 16-17 net position. The District's net position increased by \$2.4 million during FY 16-17.

Operating revenue increased \$1.9 million due to increased water sales of 9,785 AF in FY 16-17 compared to 8,680 during FY 15-16. Recycled water sales were up slightly to 614 AF as compared to 600 AF in FY 15-16. Wastewater revenues increased by \$225,122 versus FY 15-16. Operating revenues includes potable water and recycled sales, monthly District water and wastewater operations charges and pass-through charges from the SDCWA.

Operating expenses increased by \$2.7 million versus FY 15-16. Depreciation expense increased by \$1.6 million from FY 15-16 due to the completion of the Wastewater Treatment Plant while other operating costs increased by \$1.1 million. The operating increase also includes 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 \$2.6 million when netted against nonoperating revenue of \$4.2 million results in a \$1.5 million increase in net position before capital contributions. The District's \$4.2 million in nonoperating revenues come from five primary sources, property taxes in the amount of \$1.9 million, water and wastewater capital improvement funds in the amount of \$2.3 million, intergovernmental revenue in the amount of \$238,765, connection fees in the amount of \$238,124 and the California Solar Initiative rebate in the amount of \$234,930.

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

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

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

The District's net position increased by \$4.3 million during FY 15-16 primarily driven by the increase in capital contributions and higher nonoperating revenues with the operating loss remaining fairly stable.

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

Operating expenses decreased by \$1.5 million versus FY 14-15. Water purchases decreased by \$2.3 million from FY 14-15 while other operating costs increased by \$834,000.

The District's operating loss of \$1.8 million when netted against nonoperating revenue of \$4.4 million results in a \$2.6 million increase in net position before capital contributions. The District's \$4.4 million in nonoperating revenues come from three primary sources, property taxes in the amount of \$1.8 million, water and wastewater capital improvement funds in the amount of \$2.2 million and the California Solar Initiative rebate in the amount of \$740,125.

Supplemental information for each of the three operations divisions can be found on pages 69-70 of this report.

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

**Capital Asset and Debt Administration**

*Capital Assets*

	<u>Balance at July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2017</u>
Capital Assets				
Nondepreciable assets	\$ 19,457,200	\$ 5,693,570	\$ (7,448,598)	\$ 17,702,172
Depreciable assets	151,109,576	7,213,264	-	158,322,840
Accumulated depreciation	(62,012,907)	(5,294,310)	-	(67,307,217)
<b>Total capital assets, net</b>	<u>\$ 108,553,869</u>	<u>\$ 7,612,524</u>	<u>\$ (7,448,598)</u>	<u>\$ 108,717,795</u>

The District's capital assets increased by \$163,926 as seen in the table above.

- Santa Margarita Conjunctive Use Project – This project will provide local water for the District's customers. The design phase of the project was completed in FY 16-17. For FY 16-17, approximately \$506,000 was spent on this project, with a total project-to-date of \$6.3 million of capitalized expenses. During FY 18-19, the construction phase of the project will be initiated. The District is in the process of securing low interest SRF loan for construction funding which is expected to begin in FY 18-19.
- Replacement of existing water meters that reached the end of their useful life with AMI meters to allow remote monitoring of water usage. A total of \$848,932 in new AMI water meters were installed in FY 16-17.
- The Beavercreek Waterline replacement was completed at a cost of \$852,560 along with a mainline valve replacement throughout the District at a total cost of \$433,287.
- The 1 MG reservoir in Deluz was rehabilitated and recoated for \$404,001.
- Additional smaller valve and pipeline replacement projects were also completed.

*Capital Assets*

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

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

- Conjunctive Use-Camp Pendleton will be responsible for development of additional groundwater recharge facilities on Camp Pendleton, pumping facilities on Camp Pendleton, and conveyance facilities to deliver water from Camp Pendleton to Fallbrook. The District will be responsible for construction of the pipeline required to deliver the water from the Fallbrook gate on the Naval Weapons

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

Station to Red Mountain Reservoir and any necessary treatment facilities. For FY 15-16 approximately \$1.8 million was spent on this project, with a project-to-date of capitalized expenses in the amount of \$5.8 million. During FY 15-16 the final design of the project facilities was in progress to be completed in FY 16-17. A draft agreement between Camp Pendleton and the District was being finalized with an expected completion in FY 16-17 and a draft Environment Impact Report/Environment Impact Statement (EIR/EIS) was been completed and certified. The District has been approved for Proposition 50 state grants for water project expenses to receive a total of approximately \$2.4 million in reimbursements over the upcoming 2-3 years. During FY 15-16 the District recognized \$874,040 from Proposition 50 funds. The District is in the process of securing low interest SRF loan for construction funding which is expected to begin in FY 18-19.

- Construction continued at the Wastewater Treatment Plant rehabilitation; \$5.8 million was spent for construction during FY15-16.
- Olive Hill waterline was completed at a cost of \$827,700 along with a mainline from Knoll Park to Stagecoach at a cost of \$447,300. Additionally, South Mission and Fallbrook Street mainline was replaced for \$176,300
- The Donnil pump station upgrade was completed at a cost of \$660,600 and the Rattlesnake reservoir was recoated and repainted for \$695,000. Joan Road booster pump improvements \$192,700 were also completed.
- Completed sewer improvements include the South Mission sewer project totaling \$989,400. Additionally, the Wastewater Treatment Plant rehab was completed at a cost of \$30 million.
- The sewer department also purchased a new vector/flush truck in the amount of \$406,700.

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

***Capital Commitments***

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

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

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

***Debt Administration***

At June 30, 2017, the District had \$37.1 million of long-term debt outstanding. \$4.1 million of this debt is attributable to the wastewater Qualified Energy Conservation Bonds (QECCB) solar loan. The loan was originally for \$7.227 million. Federal sequestration began in FY 13-14. Sequestration during FY 16-17 caused the District to lose 6.9%, or \$11,449 of the Federal Interest Rate Subsidy. An additional \$4.6 million of indebtedness is attributable to the Red Mountain Filtration Plant SRF loan, which was originally for \$6.16 million. \$28.4 million of indebtedness is attributable to the Wastewater Treatment Plant SRF loan. The total loan principal amount was \$29.6 million with payments on the loan commencing in March 2017. During the year ended June 30, 2017, \$1.7 million of principal payments were made on the District's outstanding long-term obligations.

More detailed information about the District's debt structure is found in Note 8 to the Financial Statements.

**Economic Factors**

The District's Board of Directors uses a budget philosophy of collecting 80% of fixed costs through the monthly water operations charge and 20% of fixed costs through the markup of the wholesale cost of water to our Municipal and Industrial (M&I) customers. Agricultural customers pay our wholesale cost of water, without markup. Because of this philosophy, fluctuating water sales have minimal impact on the District's ability to cover 80% of its operating expenses and the District remains in a very stable, financially sound condition, due to management and the Board's conservative budgeting and spending strategies. 100% of fixed costs are allocated from the wastewater monthly operations charges. The FY 16-17 budgeted operating revenues included Board objectives to reach or maintain equity goals in the three operating divisions, water, wastewater and recycled operations.

Since the District purchases all of its water supply from SDCWA, and since SDCWA projects annual water rate increases over the next decade, water costs will continue to rise. For calendar year 2017, a 5.9% increase in the cost of water was implemented by SDCWA on January 1, 2017. SDCWA purchases the majority of its water from the Metropolitan Water District (MWD).

**Contacting the District's Financial Management**

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

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Jack Beebe  
Acting General Manager  
Fallbrook Public Utility District

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David Shank  
Assistant General Manager/CFO  
Fallbrook Public Utility District



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**BASIC FINANCIAL STATEMENTS**

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**FALLBROOK PUBLIC UTILITY DISTRICT**  
**Enterprise Fund**  
**Statements of Net Position**  
**June 30, 2017 and 2016**

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

See accompanying Notes to the Basic Financial Statements.

**FALLBROOK PUBLIC UTILITY DISTRICT**  
**Enterprise Fund**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended June 30, 2017 and 2016**

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

See accompanying Notes to the Basic Financial Statements.

**FALLBROOK PUBLIC UTILITY DISTRICT**  
**Enterprise Fund**  
**Statements of Cash Flows (Continued)**  
**For the Years Ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 26,260,787	\$ 25,041,753
Receipts from others	361,110	508,044
Payments to suppliers and vendors	(17,300,071)	(15,778,973)
Payments to employees	(7,276,949)	(7,317,896)
	2,044,877	2,452,928
<b>Cash flows from noncapital financing activities:</b>		
Property taxes	1,889,808	1,815,734
California Solar Initiative rebate	234,930	740,125
	2,124,738	2,555,859
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(6,483,061)	(18,086,413)
Principal payments on long-term debt	(1,739,972)	(895,981)
Interest paid	(1,023,665)	(744,265)
Intergovernmental revenue - federal interest rate subsidy	238,765	185,040
Proceeds from contracts payable	-	6,461,327
Capital improvement charges and connection fees	2,521,682	2,356,423
State Proposition 50	773,163	874,040
State Proposition 84	-	682,428
Water availability charges	200,730	200,808
	(5,512,358)	(8,966,593)
<b>Cash flows from investing activities:</b>		
Purchases of investments	(750,178)	(11,152,468)
Sales of investments	291,105	8,461,976
Interest received	246,900	332,805
	(212,173)	(2,357,687)
Net cash used by investing activities	(212,173)	(2,357,687)
Net change in cash and cash equivalents	(1,554,916)	(6,315,493)
Cash and cash equivalents - beginning	4,007,459	10,322,952
Cash and cash equivalents - ending	\$ 2,452,543	\$ 4,007,459

See accompanying Notes to the Basic Financial Statements.

**FALLBROOK PUBLIC UTILITY DISTRICT**  
**Enterprise Fund**  
**Statements of Cash Flows (Continued)**  
**For the Years Ended June 30, 2017 and 2016**

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

See accompanying Notes to the Basic Financial Statements.

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

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

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See accompanying Notes to the Basic Financial Statements.



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

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

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See accompanying Notes to the Basic Financial Statements.

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

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# FALLBROOK PUBLIC UTILITY DISTRICT

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

## (1) ORGANIZATION AND OPERATIONS OF THE DISTRICT

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

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

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

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) *Basis of Accounting*

The accounting methods and procedures adopted by the District conform to generally accepted accounting principles as applied to governmental units as prescribed by the Governmental Accounting Standards Board (GASB). The District's enterprise and fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The District, as an enterprise fund, accounts for its operations in a manner similar to private business enterprises. The intent of the governing body is that the costs (including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The District's operating revenues and expenses are those that result from providing services and producing and delivering goods. The focus of enterprise fund measurement is upon determination of operating income, changes in net position, and cash flows.

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

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

***(b) Use of Estimates***

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

***(c) Revenue Recognition***

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

***(d) Investments***

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. The District categorizes their fair value measurements within the fair value hierarchy established by GASB Statement No. 72 based on the valuation inputs provided by the District's third party broker-dealers. Changes in the fair value of investments, both realized and unrealized, are recognized in the statements of revenues, expenses and changes in net position as a component of investment income.

***(e) Inventory***

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

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

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

Interest costs incurred while constructing capital assets can be capitalized as part of the specific capital assets. The District did not capitalize any interest costs during the years ended June 30, 2017 and 2016.

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

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

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

**(g) Net Position**

In the *statements of net position*, the District’s net position is classified into three components, which are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, as well as deferred outflows of resources and deferred inflows of resources (e.g. deferred amounts of refunding).
- **Restricted** - This component of net position consists of restricted assets which are reduced by liabilities related to those assets. As of June 30, 2017 and 2016, the District reports restricted net position in the amount of \$1,213,780 for 1958 Annex projects. The 1958 Annex projects represents amounts that are restricted to fund water line improvements only within the 1958 Annex area. As of June 30, 2017 and 2016, the District also reports restricted net position in the amount of \$2,261,677 and \$2,241,597, respectively, for debt service and capital improvements. The restricted for debt service and capital improvements primarily represents amounts set-aside pursuant to loan covenants to fund future debt service related to the Red Mountain UV Filtration Plant (FY 16-17 is \$436,109 and FY 15-16 is \$395,851); and the Wastewater Treatment Plan I Rehabilitation project (FY 16-17 is \$1,825,568 and FY 15-16 is \$1,845,746).
- **Unrestricted** - This component of net position does not meet the definition of “net investment in capital assets” or “restricted”.

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

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

**(i) Capital Contributions**

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

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

**(j) Cash and Cash Equivalents**

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

**(k) Pensions**

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

**(l) Reclassifications**

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

**(3) IMPLEMENTATION OF NEW GOVERNMENTAL ACCOUNTING STANDARD**

Effective July 1, 2016, the District implemented the following new GASB statement:

GASB Statement No. 74

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which replaces GASB Statements No. 43 and No. 57. GASB Statement No. 74 establishes financial reporting standards for state and local governmental other postemployment benefit (OPEB) plans that are administered through trusts or equivalent arrangements. It applies to entities that have all the characteristics of an OPEB plan, as defined by Statement No. 74. As a result of the District's establishment of a trust for its OPEB plan during the year ended June 30, 2017, and the District being the plan administrator, Statement No. 74 was applicable. Refer to Note 12 for the District's related disclosures for its OPEB plan.

**(4) UPCOMING GOVERNMENTAL ACCOUNTING STANDARD**

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

GASB Statement No. 75

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which applies to state and local government employers who provide other postemployment benefits (OPEB) to employees, such as the District. GASB Statement No. 75 replaces previously issued statements related to accounting and reporting for OPEB. This statement details the recognition and disclosure requirements for employers and payables to defined benefit OPEB plans that are not administered through trusts that meet specific

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

criteria, and for employers whose employees are provided defined contribution OPEB. For OPEB administered through trusts, GASB Statement No. 75 requires the liability of employers to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

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

**(5) CASH AND INVESTMENTS**

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

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

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

	<b>2017</b>	<b>2016</b>
Cash and investments:		
Enterprise Fund	\$ 14,078,080	\$ 15,854,427
OPEB Trust Fund	755,952	\$ -
Restricted cash and investments	4,101,905	3,471,337
Total cash and investments	\$ 18,935,937	\$ 19,325,764

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

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

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

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



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

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

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

In addition to the allowable investments noted in the preceding table pursuant to the District's investment policy, the California Government Code also permits the following investments: reverse repurchase agreements; securities lending agreements; Supranational Obligations (e.g. the International Bank for Reconstruction and Development, the Inter-American Development Bank; and the International Finance Corporation); and California Voluntary Investment Program Fund. However, the District does not permit investments in these additional types of investments.

Also, California Government Code and the District's investment policy prohibits investments in inverse floaters, range notes, interest-only strips derived from a pool of mortgages, and any security that might result in zero interest accrual.

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

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

The table below represents the District's fair value hierarchy as of June 30, 2017:

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

Investments classified in Level 1 of the Fair Value Hierarchy, valued at \$4,447,491, are valued using quoted prices in active markets.

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

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

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

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

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

***Disclosures Relating to Interest Rate Risk***

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

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

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

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

Investment Type	Fair Value	Remaining Maturity (in Months)		
		12 Months or Less	13 - 24 Months	25-60 Months
Local Agency Investment Fund	\$ 520,496	\$ 520,496	\$ -	\$ -
San Diego County Treasurer Pool	14,641	-	14,641	-
Asset Backed Securities	752,684	-	-	752,684
Commercial Paper	99,566	99,566	-	-
Medium-Term Notes	4,197,857	-	399,192	3,798,665
Money Market Mutual Fund	157,749	157,749	-	-
Negotiable Certificates of Deposit	3,930,926	385,133	3,051,697	494,096
U.S. Agency Securities	898,533	-	135,497	763,036
U.S. Treasury Securities	4,447,491	-	-	4,447,491
Mutual Funds	1,242,636	-	1,242,636	-
Total investments	<u>\$ 16,262,579</u>	<u>\$ 1,162,944</u>	<u>\$ 4,843,663</u>	<u>\$ 10,255,972</u>

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

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

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

***Disclosure Relating to Credit Risk***

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

A summary of disclosures relating to credit risk at June 30, 2017 is as follows:

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

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

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

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

**Concentration of Credit Risk**

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represents 5% or more of the District's total investments are noted below. The District did not have any concentration of credit risk as of June 30, 2017.

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

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

**Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities

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

that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

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

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

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

**(6) RECEIVABLES**

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

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

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

**(7) CAPITAL ASSETS**

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

	<b>Balance July 1, 2016</b>	<b>Additions and Transfers In</b>	<b>Retirements and Transfers Out</b>	<b>Balance June 30, 2017</b>
<b>Capital assets, not being depreciated:</b>				
Land and property rights-water	\$ 4,672,770	\$ 97,757	\$ -	\$ 4,770,527
Land and property rights-wastewater	2,422,706	-	-	2,422,706
Construction in progress	12,361,724	5,595,813	(7,448,598)	10,508,939
Total capital assets, not being depreciated	<u>19,457,200</u>	<u>5,693,570</u>	<u>(7,448,598)</u>	<u>17,702,172</u>
<b>Capital assets, being depreciated:</b>				
Water operations:				
Impounding dam	12,006,272	-	-	12,006,272
Distribution system	51,842,497	3,542,539	-	55,385,036
Buildings and structures	17,414,045	575,746	-	17,989,791
Equipment	2,684,145	477,757	-	3,161,902
Total water operations	<u>83,946,959</u>	<u>4,596,042</u>	<u>-</u>	<u>88,543,001</u>
Wastewater operations:				
Collection system	8,745,749	192,401	-	8,938,150
Treatment facilities	50,379,219	374,467	-	50,753,686
Disposal facilities	7,427,478	-	-	7,427,478
Equipment	610,171	44,071	-	654,242
Total wastewater operations	<u>67,162,617</u>	<u>610,939</u>	<u>-</u>	<u>67,773,556</u>
Recycle operations:				
Distribution system	-	2,006,283	-	2,006,283
Total capital assets being depreciated	<u>151,109,576</u>	<u>7,213,264</u>	<u>-</u>	<u>158,322,840</u>
Less accumulated depreciation	<u>(62,012,907)</u>	<u>(5,294,310)</u>	<u>-</u>	<u>(67,307,217)</u>
Total capital assets being depreciated, net	<u>89,096,669</u>	<u>1,918,954</u>	<u>-</u>	<u>91,015,623</u>
Total capital assets, net	<u>\$ 108,553,869</u>	<u>\$ 7,612,524</u>	<u>\$ (7,448,598)</u>	<u>\$ 108,717,795</u>



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

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

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

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

**(8) LONG-TERM LIABILITIES**

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

Changes in long-term liabilities for the year ended June 30, 2017 consist of the following:

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

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

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

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

Contracts payables consist of the following:

	<b>2017</b>	<b>2016</b>
<b><i>Contracts Payable:</i></b>		
<p>On June 21, 2010, the District entered into a Loan Agreement with the State of California Department of Public Health with interest at 2.57% payable semi-annually, and principal payments ranging from \$118,751 to \$195,414 due semi-annually beginning July 1, 2011 through January 1, 2031. The proceeds of the loan assisted the District in financing construction of the Red Mountain UV Filtration Plant, which enabled the District to meet the Federal safe drinking water standards. This standard is incorporated into the Long-Term Two Enhanced Surface Water Treatment Rule (LT2).</p>	\$ 4,629,582	\$ 4,901,173
<p>On November 18, 2010, the District borrowed \$7,227,000, from the California Alternative Energy and Advanced Transportation Financing Authority, the proceeds of which were used to finance the construction of a solar project. Financing was secured at an interest rate of 5.74%. The Federal government will pay 70% of the Tax Credit Rate, which is 5.56%, or 3.89%. The District's applicable interest rate is the difference between the taxable rate and the Federal Direct Pay rate, equivalent to 1.85% interest with principal payments ranging from \$134,593 to \$317,071 until November 18, 2027.</p>	4,060,032	4,330,461

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

	<b>2017</b>	<b>2016</b>
<p>On November 2, 2012, the District entered into a Loan Agreement with the California State Water Resources Control Board in the principal amount of \$22,154,148, with interest at 2.20%. In September 2013, the District entered into an amended Loan Agreement increasing the principal amount to \$28,723,000. The proceeds of the loan assisted the District fund costs associated with the Fallbrook Wastewater Treatment Plan I Rehabilitation project. Upon completion of the project in May 2016, accrued interest of \$886,644 on the amount draw down was transferred to the loan principal, increasing the principal amount to \$29,609,644. Annual payments in the amount of \$1,845,746 including principal and interest, is due beginning March 2017 through March 2036.</p>	28,411,692	29,609,644
Subtotal contracts payable	37,101,306	38,841,278
Less: current portion of contracts payable	(1,787,278)	(1,739,972)
Total long-term portion of contracts payable	\$ 35,314,028	\$ 37,101,306

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

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 1,787,278	\$ 812,414	\$ 2,599,692
2019	1,839,651	772,852	2,612,503
2020	1,893,596	732,168	2,625,764
2021	1,949,162	690,330	2,639,492
2022	2,006,400	647,304	2,653,704
2023-2027	10,952,769	2,547,046	13,499,815
2028-2032	9,678,329	1,371,146	11,049,475
2033-2036	6,994,121	388,862	7,382,983
Total	\$ 37,101,306	\$ 7,962,122	\$ 45,063,428

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

**(9) CONSTRUCTION COMMITMENTS**

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

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

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

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

**(10) PENSION BENEFITS**

***Plan Description***

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

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

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

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

***Benefits Provided***

CalPERS provides retirement, disability benefits, death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. Retirement benefits are determined as the product of the benefit factor, years of service, and final compensation. Employees with at least five years of credited service are eligible to retire at age 55. PEPRA Miscellaneous Plan members become eligible for service retirement of age 62 with at least five years of credited service. All members are eligible for non-industrial disability benefits after 5 years of service. The death benefit is one of the following: the Basic death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the District’s plan are applied as specified by the Public Employees’ Retirement Law. Employees are eligible for service-related disability benefits regardless of length of service. An employee must be actively employed by the District at the time of disability in order to be eligible for this benefit. Disability benefits are determined by the products of 1.8 percent of final compensation and the factor of years of service. The basic death benefit is a lump sum in the amount of the member’s accumulated contributions, where interest is currently credited at 7.5 percent per year, plus a lump sum in the amount of one month’s salary for each completed year of current service, up to a maximum of six months’ salary. Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree’s designated survivor(s), or to the retiree’s estate.

The District’s Miscellaneous Plan provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<b>Miscellaneous Plan</b>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefit as a % of eligible compensation	2.00% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8%	6.5%
Required employer contribution rates	10.808%	6.73%

***Contributions***

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1<sup>st</sup> following notice of a change in the rate. Funding contributions for the District’s Miscellaneous Plan are determined annually on an actuarial basis as of June 30<sup>th</sup> by

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

CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the years ended June 30, 2017 and 2016, the District's contributions to the Miscellaneous Plan were as follows:

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

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

As of June 30, 2017 and 2016, the District reported a net pension liability for its proportionate share of the net pension liability for its Miscellaneous Plan in the amount of \$11,014,856 and \$8,439,096, respectively. During the year ended June 30, 2017, the District established a trust with the Public Agency Retirement Services (PARS) and contributed \$600,000 to the trust for the purpose of pre-funding pension obligations.

The District's net pension liability for each plan is measured as the proportionate share of the collective net pension liability. The collective net pension liability at June 30, 2017 and 2016 for the District's plan is measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of June 30, 2015 and 2014, and rolled forward to June 30, 2016 and 2015 using standard update procedures.

The District's proportion of the collective net pension liability of 0.12295% and 0.12729%, as of the measurement dates June 30, 2015 and 2016, respectively, was based on an actuarially determined projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers. The change in the District's proportion of the collective net pension liability was 0.00434% and the District's proportionate share of the collective net pension liability as of June 30, 2015 and 2016 was as follows:

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

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

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

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions made subsequent to measurement date of June 30, 2016	\$ 968,372	\$ -
Differences between expected and actual Experience	31,022	(7,108)
Changes of assumptions	-	(293,502)
Changes in employer's proportion	453,328	-
Difference between the employer's contributions and the employer's proportionate share of contributions	-	(334,436)
Net differences between projected and actual earnings on pension plan investments	1,527,583	-
Total June 30, 2017	\$ 2,980,305	\$ (635,046)
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions made subsequent to measurement date of June 30, 2015	\$ 870,680	\$ -
Differences between expected and actual Experience	48,501	-
Changes of assumptions	-	(458,867)
Changes in employer's proportion	328,918	-
Difference between the employer's contributions and the employer's proportionate share of contributions	-	(107,617)
Net differences between projected and actual earnings on pension plan investments	-	(230,036)
Total June 30, 2016	\$ 1,248,099	\$ (796,520)



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

\$968,372 reported as deferred outflows of resources related to contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30	
2018	\$ 143,773
2019	157,130
2020	680,320
2021	395,664

**Actuarial Assumptions**

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

<b>Miscellaneous Plan</b>	
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
<b>Actuarial Assumptions:</b>	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase <sup>(1)</sup>	Varies by Entry Age and Service
Investment Rate of Return <sup>(2)</sup>	7.50%
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% there after
Mortality Rate <sup>(3)</sup>	Derived using CalPERS' Membership Data for all funds

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

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

<sup>(3)</sup> The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on the mortality table, refer to the 2014 Experience Study Report.

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

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

<b>Miscellaneous Plan</b>	
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal Cost Method in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase <sup>(1)</sup>	Varies by Entry Age and Service
Investment Rate of Return <sup>(2)</sup>	7.50%
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% there after
Mortality Rate <sup>(3)</sup>	Derived using CalPERS' Membership Data for all funds

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

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

<sup>(3)</sup> The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on the mortality table, refer to the 2014 Experience Study Report.

All other actuarial assumptions used in the June 30, 2014 and 2015 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be obtained from the CalPERS website under Forms and Publications.

***Discount Rate***

The discount rate used to measure the total pension liability for the measurement period June 30, 2016 and 2015 was 7.65% for the District's plan. To determine whether the municipal bond rate should be used in the calculation of discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plan, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a separate detailed report that can be obtained from the CalPERS website under the GASB 68 section.

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

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

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

The table below reflects the long-term expected real rate of return by asset class for measurement period ended June 30, 2016. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 -10 <sup>(1)</sup>	Real Return Years 11+ <sup>(2)</sup>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	(0.55)%	(1.05)%
Total	<u>100.0%</u>		

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

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

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

The table below reflects the long-term expected real rate of return by asset class for the measurement period ended June 30, 2015. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 -10 <sup>(1)</sup>	Real Return Years 11+ <sup>(2)</sup>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	(0.55)%	(1.05)%
Total	100.0%		

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

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

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

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

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

***Pension Plan Fiduciary Net Position***

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

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

**(11) RISK MANAGEMENT**

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

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

Noted below are condensed audited financial statements of the Authority as of and for the year ended September 30, 2016:

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

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

**(12) OTHER POSTEMPLOYMENT BENEFITS**

*Plan Description and Administration*

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

*Eligibility*

Employees retiring after age 50, with 10 or more years of continuous employment, will have the mandatory amount estimated by the District at the date of retirement to be necessary to pay for 50% of the employee’s monthly health insurance premium, and any additional costs for spouse and dependent(s) covered at the time of retirement. The difference between the total value of sick leave at retirement and the estimated cost benefit (medical, dental and vision) minus the estimated costs of 50% of the retiree’s medical premium is deposited into a health reimbursement account at the District to pay for retiree benefits until Medicare entitlement or the account is depleted. The District’s health reimbursement account (HRA) balance as of June 30, 2017 is \$136,528 and \$182,694 as of June 30, 2016. The District will pay for half (50%) of the retired employee’s monthly premium.

At June 30, 2017, the following employees were covered by the benefit terms of the District’s OPEB Plan:

Inactive plan members receive benefits	8
Inactive plan members entitled to but not yet receiving benefit payments	-
Active plan members	67

*Funding Policy*

The District has historically funded the plan on a pay-as-you-go basis and records a liability for the difference between the pay-as-you-go and the actuarially determined annual OPEB cost. The District’s OPEB cost (expense) is calculated based on an actuarially determined contribution (ADC). The ADC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) not to exceed thirty years. However, the District has the option to contribute more or less than the ARC. Plan members are not required to contribute to the OPEB Plan.

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

*Trust Fund 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 in excess of the target rate of return of 4.0%
- the OPEB Plan trust should seek to earn a return in excess of 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	Strategic Asset Allocation
Cash	5%
Fixed income	45%
Equity	50%
Total	100.0%

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

With the exception of the limitations above, the investment manager may allocate the fixed income assets portion among various sectors and industries, as well as varying maturities and credit quality that are consistent with the overall goals and objectives of the portfolio. For the equity portion of the portfolio, the investment manager can allocate assets among various market capitalizations (large, mid, small) and investment styles (value, growth) and among domestic, international developed and emerging market equity securities. The tables below summarize the fixed income and equity portfolio ranges.

Fixed Income	Range
Long-term bonds (maturities > 7 years)	0% - 25%
Intermediate-term bonds (maturities 3-7 years)	25% - 60%
Short-term bonds (maturities < 3 years)	0% - 25%
High yield bonds	0% - 10%

Equity	Range
Domestic large cap equity	15% - 40%
Domestic mid cap equity	0% - 10%
Domestic small cap equity	0% - 15%
International equity	0% - 15%
Real estate investment trust	0% - 15%

Since the District's inception and funding of the trust, which was February 16, 2017, the investment return through June 30, 2017 was 2.42%.

*GASB Statement No. 74 Disclosures and Required Supplementary Information*

Because the District established and funded the OPEB Trust during the year ended June 30, 2017, the requirements of GASB Statement No. 74 were applicable to the District, as the trust administrator. However, because the District did not have an actuarial valuation conducted of the OPEB Plan under the requirements of GASB Statement No. 74, the following disclosures are not included as the information is unavailable: (1) components of the net OPEB liability; (2) significant assumptions and other inputs used to measure the total OPEB liability; and the (3) actuarial valuation date on which the OPEB liability has been based upon.

Also, the following required supplementary information is not available: (1) schedule of changes in the net OPEB liability; (2) schedule presenting the total OPEB liability, OPEB Plan's fiduciary net position, net OPEB liability, OPEB Plan's fiduciary net position as a percentage of the total OPEB liability, covered-employee payroll, and the net OPEB liability as a percentage of covered-employee payroll; (3) schedule presenting actuarially determined employer contribution information; and (4) schedule presenting the annual money-weighted rate of return on OPEB plan assets.



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

Given the relative small size of the District's OPEB Plan and the number of participants currently eligible to receive benefits and/or are receiving benefits, District management does not believe that the missing disclosures required by GASB Statement No. 74, would either enhance and/or misrepresent the District's financial statements. Furthermore, by establishing the OPEB Trust and funding it, the net OPEB liability is not expected to be material to the District's financial statements as a whole. The District will have an actuarial valuation performed on its OPEB Plan to comply with the requirements of GASB Statement No. 74 on a go-forward basis.

**GASB Statement No. 45 Disclosures**

*Annual OPEB Cost*

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

	<b>June 30, 2017</b>	<b>June 30, 2016</b>
Annual required contribution	\$ 113,475	\$ 124,701
Interest on net OPEB obligation	25,386	21,772
Adjustment to annual required contribution	(36,701)	(31,477)
Annual OPEB cost	102,160	114,996
Contributions made	(749,706)	(24,655)
Increase (decrease) in net OPEB obligation	(647,546)	90,341
Net OPEB obligation - beginning of year	634,637	544,296
Net OPEB obligation (asset) - end of year	<u>\$ (12,909)</u>	<u>\$ 634,637</u>

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

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

*Funded Status of the Plan*

The most recent valuation (dated July 1, 2016) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$849,667. At the time of the valuation, there were no plan assets as the District has historically funded on a pay-as-you-go basis. However, during FY16-17 the District established a trust and contributed \$736,000 to the trust, which reported \$755,952 of plan assets as of June 30, 2017. The covered payroll (active payroll of active employees) was \$5,580,920 and the ratio of the UAAL to the covered payroll was 15.22%.

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

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

*Actuarial Methods and Assumptions*

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

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

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**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Proportion of the collective net pension liability	0.12729%	0.12295%	0.11070%
Proportionate share of the collective net pension liability	\$ 11,014,856	\$ 8,439,096	\$ 6,888,388
Covered - employee payroll (measurement year)	4,743,986	4,753,842	4,683,594
Proportionate share of the collective net pension liability as percentage of covered-employee payroll	232.19%	177.52%	147.07%
Plan fiduciary net position as a percentage of the total pension liability	74.06%	78.40%	80.43%

**Changes in Benefit Terms**

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

**Changes in Assumptions**

The discount rate was changed from 7.50% (net of administrative expense in 2014) in 2015 to 7.65% for 2016 (as of the June 30, 2015 measurement date), to correct for an adjustment to exclude administrative expenses.

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution (actuarially determined)	\$ 968,372	\$ 870,680	\$ 756,872
Contributions in relation to the actuarially determined contributions	<u>(968,372)</u>	<u>(870,680)</u>	<u>(756,872)</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 5,271,090	\$ 4,743,986	\$ 4,753,842
Contributions as a percentage of covered-employee payroll	18.37%	18.35%	16.16%

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**FALLBROOK PUBLIC UTILITY DISTRICT**  
**Required Supplementary Information**  
**OPEB Schedule of Funding Progress**  
**For the Years Ended June 30, 2017 and 2016**  
**(Unaudited)**

Actuarial Valuation Date	(a) Actuarial Accrued Liability (AAL)	(b) Actuarial Value of Assets	(c) Unfunded Actuarial Accrued Liability (UAAL)	(b)/(a) Funded Ratio	(d) Annual Covered Payroll	(c)/(d) UAAL as a % of Covered Payroll
July 1, 2013	\$ 1,042,705	-	\$ 1,042,705	0%	\$ 5,063,842	20.6%
July 1, 2016	849,667	-	849,667	0%	5,580,920	15.2%

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**OTHER SUPPLEMENTARY INFORMATION**

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**FALLBROOK PUBLIC UTILITY DISTRICT**  
**Schedule of Revenues and Expenses by Operating Department**  
**For the Year Ended June 30, 2017**

	<u>Water</u>	<u>Wastewater</u>	<u>Recycled</u>	<u>Total</u>
<b>Operating revenues:</b>				
Water sales	\$ 13,233,057	-	\$ 1,135,841	\$ 14,368,898
Service charges	5,388,463	5,627,476	-	11,015,939
Other revenues	1,783,859	749	86,620	1,871,228
Total operating revenues	<u>20,405,379</u>	<u>5,628,225</u>	<u>1,222,461</u>	<u>27,256,065</u>
<b>Operating expenses:</b>				
Cost of water sold	13,067,064	-	-	13,067,064
Operations and maintenance	3,030,201	2,173,738	622,997	5,826,936
General and administration (Note 1)	2,963,305	2,392,389	346,173	5,701,867
Other (Note 2)	-	694,380	94,248	788,628
Operating expenses before depreciation	19,060,570	5,260,507	1,063,418	25,384,495
Depreciation expense	2,535,018	2,759,292	-	5,294,310
Total operating expenses	<u>21,595,588</u>	<u>8,019,799</u>	<u>1,063,418</u>	<u>30,678,805</u>
Net operating expenses	<u>\$ (1,190,209)</u>	<u>(2,391,574)</u>	<u>\$ 159,043</u>	<u>\$ (3,422,740)</u>

**Note 1:**

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

**Note 2:**

Wastewater operations contributed \$694,380 towards payment of the annual debt service obligations. The \$694,380 is not reported as an Other expense in the Statement of Revenues, Expenses and Changes in Net Position, as the payment reduces the principal of the outstanding long-term obligations.

Recycled operations contributed a total of \$94,248 toward payment of the annual debt service obligation for the State Revolving Fund loan, which allowed expansion of the recycled pumping and distribution system. The \$94,248 is not reported as an Other expense in the Statement of Revenues, Expenses and Changes in Net Position, as the payment reduces the principal of the State Revolving Fund loan obligation.

**FALLBROOK PUBLIC UTILITY DISTRICT**  
**Schedule of Revenues and Expenses by Operating Department**  
**For the Year Ended June 30, 2016**

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

**Note 1:**

General and administration costs are allocated to Water, Wastewater, and Recycled operations based on a budgeted annual percentage. For FY 15-16, general and administration costs were allocated as follows: 53% to Water operations, 42% to Wastewater operations and 5% to Recycled operations. Allocation is analyzed and updated annually as part of the budget process.

**Note 2:**

Wastewater operations contributed \$682,536 towards payment of the annual debt service obligations. The \$682,536 is not reported as an Other expense in the Statement of Revenues, Expenses and Changes in Net Position, as the payment reduces the principal of the outstanding long-term obligations.

Recycled operations contributed a total of \$94,248 toward payment of the annual debt service obligation for the State Revolving Fund loan, which allowed expansion of the recycled pumping and distribution system. The \$94,284 is not reported as an Other expense in the Statement of Revenues, Expenses and Changes in Net Position, as the payment reduces the principal of the State Revolving Fund loan obligation.

**MISCELLANEOUS STATISTICAL INFORMATION**

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**FALLBROOK PUBLIC UTILITY DISTRICT**

Board of Directors

For the Year Ended June 30, 2017

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

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**FALLBROOK PUBLIC UTILITY DISTRICT**

Assessed Valuation

For the Year Ended June 30, 2017

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

**Assessed Valuation:**


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

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Source: County of San Diego Property Tax Services

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## M E M O

**TO:** Board of Directors  
**FROM:** David Shank, Assistant General Manager/CFO   
**DATE:** November 13, 2017  
**SUBJECT:** Potential Funding Support for Local Supply Development

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Purpose

Discuss the financial incentive options offered by the Metropolitan Water District (MWD) to offset the Santa Margarita Conjunctive Use Project (SMCUP) costs.

Summary

MWD has provided financial incentives for the development of local water supplies since the early 1980s. Currently, MWD maintains the Local Resources Program, which provides incentives designed to offset the cost of securing and utilizing alternative local water supplies. There are three options for participants in the LRP program to select from based upon the individual financial needs of the project. The options are:

1. Sliding scale incentives over 25-years (up to \$340/AF)
2. Sliding scale incentives over 15-years (up to \$475/AF)
3. Fixed incentives over 25-years (up to \$305/AF for 25-years)

The value of incentive Options #1 and #2 is the difference between MWD's treated rate and the cost of the local supply up to the maximum. The options come with different time horizons and the maximum values are adjusted to reflect this. Option #3 is a negotiated amount over a specified time period.

While it is still too early in the process to select a specific funding option, a preliminary assessment was conducted by staff. The assessment looked at the value of the incentive options over time with changes in certain project and MWD rate assumptions. The table below shows the assumptions analyzed.

<b>Assumption</b>	<b>Impacts</b>
Rate of MWD treated water increase	High rate of increase quickly drives the value of the incentive down
SMCUP production	Swings between high and low production extremes significantly reduce the incentives received. High levels of production drive down cost/AF and low production levels limit the units the incentive is applied to.

To illustrate the variability in the value of Option #1 and Option #2, the following table was developed to estimate the present value of the different estimated option payment streams at the start of operations.


Scenario	Present Value (Discount rate 5%)	
	Option #1	Option #2
High MWD rate increases/Above average SMUCP production	\$3.7 Million	\$3.8 Million
High MWD rate increases/Below average SMUCP production	\$3.7 Million	\$3.7 Million
Low MWD rate increases/Above average SMUCP production	\$19.5 Million	\$16.2 Million
Low MWD rate increases/Below average SMUCP production	\$8.9 Million	\$8.0 Million
Low MWD rate increases/Historic estimated SMUCP production	\$2.9 Million	\$2.9 Million
Low MWD rate increases/Historic estimated SMUCP production	\$7.3 Million	\$5.4 Million

Because Option #3 will ultimately be negotiated, it is not shown here but based upon the large variation shown in the other Options might be the optimal choice. However, more work on finalizing project costs is necessary prior to finalizing a recommendation.

Recommended Action

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

## M E M O

**TO:** Fiscal Policy and Insurance Committee  
**FROM:** David Shank, Assistant General Manager/CFO   
**DATE:** November 13, 2017  
**SUBJECT:** Discussion of Calendar Year Versus Fiscal Year Budget Period

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Purpose

Discuss the potential to change the fiscal year to be the same as a calendar year.

Summary

While the fiscal year ends on June 30, rates and charges are set on a calendar year basis. This creates a disconnect between the financial reporting/budget and the setting of rates and charges. Two different calendars for the District complicates measuring the impact of rate and charge changes on the District's financial position. Aligning the fiscal year with calendar year would make some financial comparisons and analysis simpler.

The primary disadvantage of aligning fiscal year and calendar year is related to the annual workload of the finance department. A calendar that illustrates the timing of the primary cyclical Finance Department activities is provide on the next page. As the calendar indicates, the move to a calendar year from the current fiscal year would focus the Finance Department's workload into a relatively short time period. This would raise concerns regarding the required staffing levels and the ability to perform all the necessary tasks. By staggering the fiscal year-end, like it currently is, the workload on can be better distributed across the year allowing staffing to be optimized and costs minimized.

Recommended Action

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

**FYE June 30**

**Tax activities  
W2&1099**

**Budget Activities**

**Audit Activities**

**Rate Setting**

**January-March**

**April - June**

**July - September**

**October - December**

**FYE Dec 31**

**Audit Activities**

**Tax activities  
W2&1099**

**Rate Setting**

**Budget Activities**