



Comprehensive Annual Financial Report

FISCAL YEAR ENDED JUNE 30, 2016

OLIVENHAIN MUNICIPAL WATER DISTRICT, ENCINITAS, CALIFORNIA





Municipal Water District

Comprehensive Annual Financial Report

Fiscal year ended June 30, 2016

Prepared by the Finance Department

COVER PHOTO



Golden Sunburst Over Escondido Creek by Brian Jolliffe
2016 Elfin Forest Recreational Reserve Photo Contest
Best in Show Winner

Our Mission

Olivenhain Municipal Water District is committed to serving present and future customers with safe, reliable, high quality water while exceeding all regulatory requirements in a cost effective and environmentally responsive manner.

The District is dedicated to providing recycled water, wastewater treatment and hydroelectricity in the most cost effective, environmentally responsive and service oriented manner.

The District is devoted to the safe operation of the Elfin Forest Recreational Reserve and providing all users with a unique recreational, educational, and environmental experience.



L–R: Alfred Smith, Edmund K. Sprague, Gerald E. Varty, Christy Guerin, Lawrence A. Watt, Robert F. Topolovac, Kimberly A. Thorner

Board of Directors

Edmund K. Sprague, President
Robert F. Topolovac, Vice President
Lawrence A. Watt, Treasurer
Christy Guerin, Secretary
Gerald E. Varty, Director

General Manager

Kimberly A. Thorner, Esq.

General Counsel

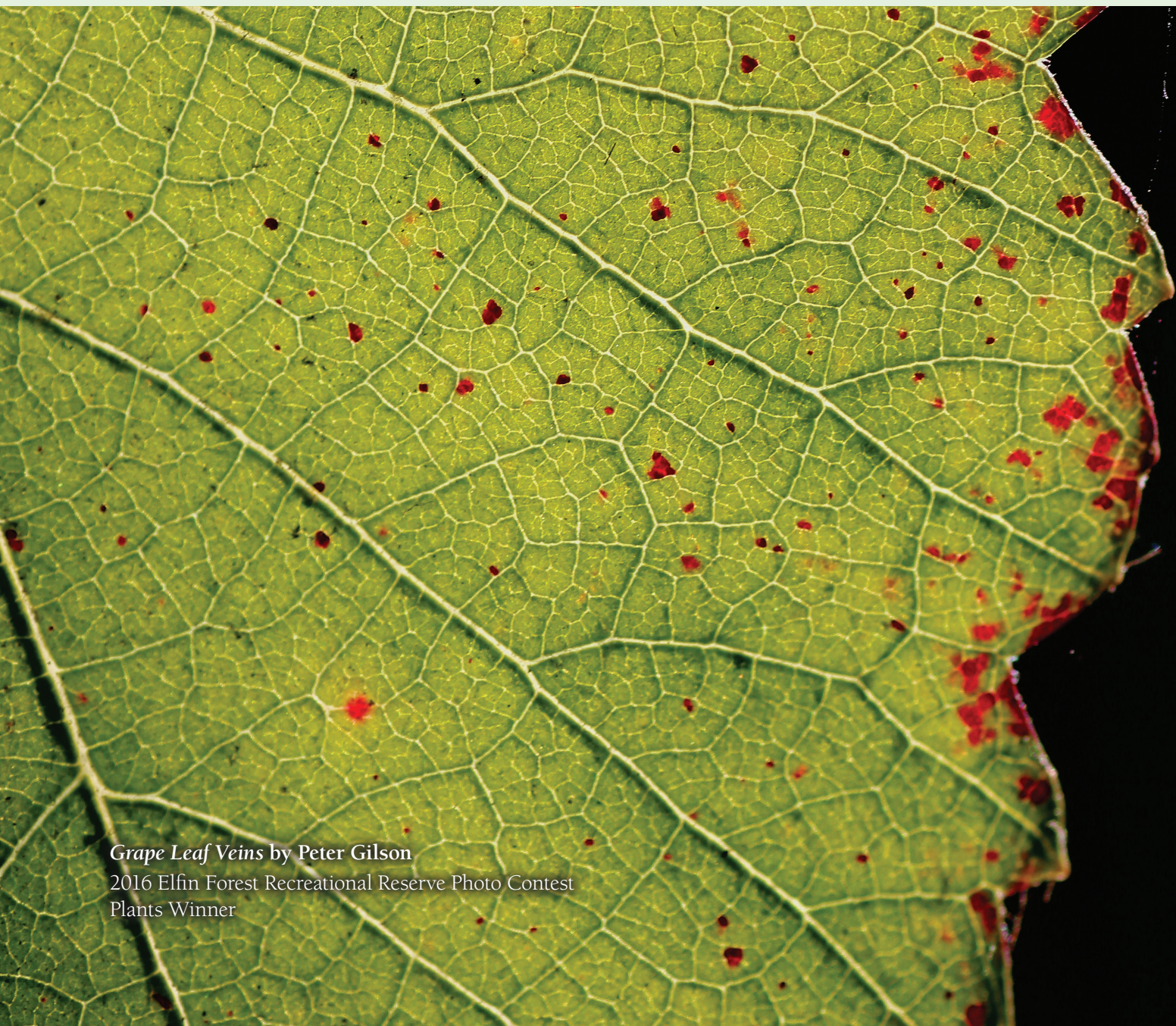
Alfred Smith, Esq., Nossaman LLP



Olivenhain Municipal Water District is a public agency proudly serving portions of Encinitas, Carlsbad, Solana Beach, Rancho Santa Fe, San Marcos, Elfin Forest, 4S Ranch, San Diego and the Olivenhain Valley.

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Grape Leaf Veins by Peter Gilson
2016 Elfin Forest Recreational Reserve Photo Contest
Plants Winner



Introductory Section

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Waterfall by Joseph Rawa

2016 Elfin Forest Recreational Reserve Photo Contest
People's Choice Winner



December 7, 2016

Members of the Board of Directors
Olivenhain Municipal Water District
1966 Olivenhain Road
Encinitas, CA 92024-5699



We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Olivenhain Municipal Water District (District) for the fiscal year ended June 30, 2016. The purpose of the report is to provide citizens, investors, and other interested parties with reliable financial information about the District.

This CAFR was prepared by the District's Finance Department in accordance with Generally Accepted Accounting Principles (GAAP). Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with District management. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner designed to fairly set forth the financial position and the results of operations of the District, and that all disclosures necessary to enable readers to gain the maximum understanding of the District's financial activity have been included.

The District's financial statements have been audited by White Nelson Diehl Evans LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2016, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the District's financial statements for the fiscal year ended June 30, 2016, were fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

This letter of transmittal is designed to complement the Management's Discussion & Analysis (MD&A) and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

Reporting Entity

The District is a governmental corporation governed by a publicly elected five member Board of Directors. The District was incorporated in 1959 under the provisions of the *California Municipal Water District Act of 1911, section 71000 et.seq.* of the *California Water Code* as amended.

In keeping its books and records, the District has established various self-balancing groups of accounts in order to enhance internal control and to further the attainment of other management objectives. These groups of accounts, which are sub-funds of the reporting entity, are identified in the District's books and records as the General Fund, Recycled Water Capacity Fee Fund, Treated Water Capacity Fee Fund, Reassessment District 96-1 Fund, 4S Ranch Sanitation District Fund, Rancho Cielo Sanitation District Fund, 4S Regional Recycled Water Fund, 2006 Water Revenue Refunding Bond Fund, 2009 Water Revenue Bond Fund, 2012 Note Payable Fund, 2013 Note Payable Fund, and 2015 Water Revenue Refunding Bond Fund. All significant inter sub-fund transactions and accounts are eliminated in the combination of the accounts of the sub-funds at the end of each fiscal year for the consolidated financial statements of the District as presented in the financial section of this report. More detailed information on the District's accounting policies can be found in note 1 of the Notes to the Basic Financial Statements.

General District Operations

The District is operated as an enterprise fund. The finances of the District are kept on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

As an enterprise fund, the District maintains a self-balancing set of accounts established to record the financial position and results that pertain to each activity. The activities of enterprise funds are similar to regular businesses whereby a governmental agency collects sufficient revenues through user charges to pay for on-going operating expenses and maintaining infrastructure in order to sustain operations.

The District's service area is approximately 48 square miles. This service area lies within the northern region of San Diego County and includes portions of incorporated areas such as Encinitas, Carlsbad, San Diego, Solana Beach, San Marcos and large portions of unincorporated areas such as 4S Ranch, Rancho Cielo, Rancho Santa Fe, Elfin Forest, and Santa Fe Valley. All these communities are fairly affluent.

The District utilizes a Comprehensive Master Plan (CMP) as a long-term capital planning tool to address existing and future facility needs within the District's three enterprise areas: potable water, wastewater, and recycled water. The District's CMP is updated every five years.

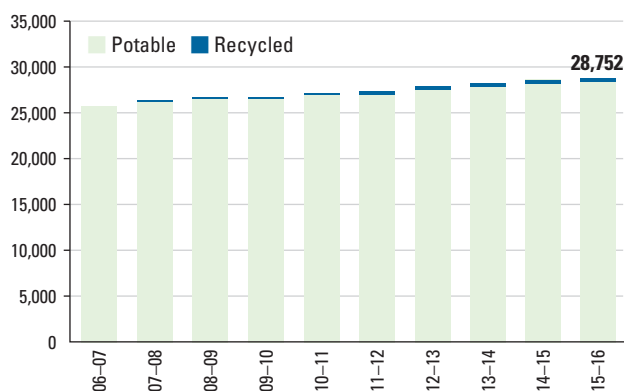
Based on the 2015 CMP Update, the District is at approximately 90% of its ultimate build-out of approximately 34,400 equivalent dwelling units. For the fiscal year ended June 30, 2016, 68.7% of water delivered was for domestic use, 28.3% for commercial and irrigation use (including construction and recycled water), and 3.0% for agricultural use. The District relies on the San Diego County Water Authority (SDCWA) as a sole source of untreated water. The District's primary treated water source is the David C. McCollom Water Treatment Plant.

The District also provides sewer collection and treatment services to a portion of the District's service area and sells recycled water to golf courses and other customers for irrigation. The District's 4S Water Reclamation Facility (WRF) currently produces approximately one million gallons per day (mgd) of recycled water. The District also purchases recycled water from Santa Fe Valley Community Services District and City of San Diego to meet recycled water demand in the southeast quadrant. In order to meet recycled water demand in the northwest quadrant of its recycled water system, the District has entered into recycled water purchase agreements with Vallecitos Water District and San Elijo Joint Powers Authority. Recycled water is delivered through the utilization of interagency service connections.

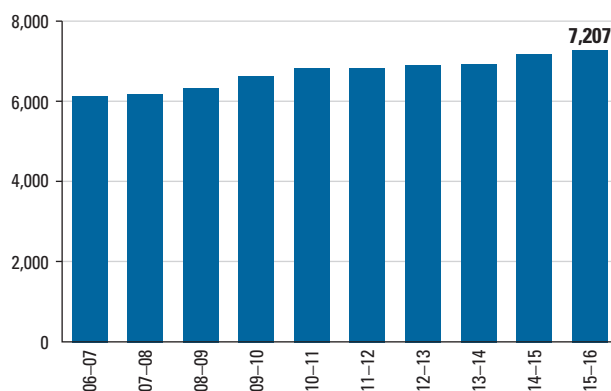
The 4S WRF collects and treats sewage from two specific areas of the District, Rancho Cielo and 4S Ranch. Sewage is processed in the 4S WRF through various treatment stages to produce California Title 22 tertiary treated recycled water that can be used for unrestricted irrigation purposes. The 4S WRF's maximum production is 2.0 million gallons per day.

During the fiscal year ended June 30, 2016, the District billed 14,807 acre-feet (AF) of potable water through 28,472 potable water meters and 1,856 AF of recycled water through 280 meters. The District provided wastewater collection services to 7,207 sewer equivalent dwelling units (EDUs) in 4S Ranch and Rancho Cielo. Historical information of the District's number of water meters and sewer EDUs is shown in the graphs below.

Active Potable & Recycled Water Meters



Active Sewer EDUs



Conservation – A California Way of Life

California has experienced challenging environmental conditions from a water supply standpoint over the last several years. The prolonged drought led to the issuance of an Executive Order by Governor Jerry Brown on April 1, 2015 to cut urban water use under the California Emergencies Services Act.

Following the governor's proclamation, the State Water Resources Control Board (SWRCB) assigned mandatory conservation standards to urban water suppliers to reduce urban water use by 25% state-wide due to drought conditions. In addition, SWRCB implemented emergency regulations to limit outdoor irrigation and wasteful water practices.

In March 2016, SWRCB recognized the Claude "Bud" Lewis Carlsbad Desalination Plant as a drought-resilient water supply and reduced its conservation target for the San Diego County region. The Carlsbad Desalination Plant was in the planning stages prior to the current drought. The plant currently produces 50 million gallons of water per day, enough to serve approximately 400,000 people in San Diego County.

In May 2016, SWRCB called for urban water suppliers to self-certify their conservation targets utilizing a supply-demand stress test. All urban water suppliers in San Diego County certified in aggregate to a 0% regional conservation target to affirm that, due to the County's commitment to local water supplies, San Diego has adequate water supply to meet its demand even if drought continues over the next three years.

The District has been working aggressively in the past few years to offset potable water use for irrigation through expansion of its existing recycled water system. Construction on the Village Park Recycled Water Project was completed in November 2016. Seven miles of recycled water lines are now ready to serve up to 114 million gallons per year of drought-resilient supply, reducing dependence on costly, imported water for outdoor irrigation in the Village Park community. Each acre-foot of recycled water used in Village Park can be considered a direct offset to meet the required 20% reduction by 2020 for potable water use under the SBX7-7 mandate. To potentially increase its local potable water supply resources, the District has also invested in planning a 1.0 million gallons per day brackish groundwater desalination plant.

District customers have taken extraordinary efforts to conserve water during this time of declared emergency, and immediately responded to the governor's call for Californians to reduce their water use. SWRCB officials will meet to determine future conservation mandates for urban water suppliers and possible permanent water use restrictions to limit potable water use for outdoor irrigation. The District continues its efforts to promote indoor and outdoor water use efficiency in order to support the governor's call to "make conservation a California way of life."

More information on how SWRCB's mandate impacts the District's financial performance can be found in the Management's Discussion and Analysis section of the report.



Internal Controls

District Management is responsible for establishing and maintaining a system of internal controls designed to safeguard District assets from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with generally accepted accounting principles. The internal control structure is designed to provide reasonable assurance that these objectives are met. When establishing or reviewing controls, management must recognize that the cost to implement a control should not exceed the benefits likely to be derived, and that in order to assess cost versus benefit, estimates and judgment on the part of management will be required. All internal control evaluations occur within the above framework. Management believes the current system of internal controls adequately safeguards District assets and provides reasonable assurance that accounting transactions are properly recorded.

Budget Process

The District utilizes a Board-approved annual operating and capital budget as a management tool for estimating and planning District revenues and expenditures and it is used only for comparative purposes to identify unusual or unexpected trends. The Finance Department prepares estimates for departmental review. Department managers review and revise the estimates. All managers meet several times to discuss the budgets, after which there is a final review by the General Manager prior to submittal to the Board of Directors for their consideration.

The proposed operating and capital budget is submitted to the Board within 45 days prior to July 1st of each year. The budget does not go into effect until approved by the Board. Once approved, the budget becomes the basis for operating and capital expenditures for that fiscal year.

The District has been the proud recipient of the Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award and the California Society of Municipal Finance Officers (CSMFO) Excellence in Budgeting Award for its budget in previous fiscal years. These awards reflect the commitment of the District's Board of Directors and staff to apply the highest principles of governmental budgeting to satisfy nationally recognized guidelines for effective budget presentation.

In January of each fiscal year, the District conducts a review to analyze actual operating and capital expenditures and compares the numbers to the original budget amounts. The purpose of this review is to present the Board with amended budget amounts when required, due to changes in circumstances that were not anticipated at the time the original budget was developed. Threat analysis is also conducted at least once per year to identify and quantify any potential threats to the District's financial picture. Project managers may find after the first half of the year that some projects need to be accelerated or delayed due to changes in housing development conditions in the District. This mid-year review is also used to update the Board on completed capital projects.

Designated Fund Balances

The District's Designated Fund Balances Policy is adopted by the District's Board of Directors. This policy represents affirmation of the Board's commitment to financial prudence and careful stewardship of community assets. These funds are designated to carry out specific purposes to ensure prudent management of the District's financial resources. The policy specifies minimum and maximum target balances to be established in each Board-designated fund. All fund balances will be subject to review by the Board when the District's annual financial audit is completed to ensure fund balances meet the goals established in the policy.

To ensure adequate funding to meet the District's short-term and long-term planned capital expenditures and its commitment to the community, the maximum target balance of the District's designated fund balance for capital and equipment for water operations has been adjusted so as not to exceed five fiscal years of approved planned capital expenditures.

Contacting the District's Finance Department

This financial report is designed to provide the Board, customers, creditors and investors with a general overview of the District's financial condition. Should you have any questions regarding the content of this report, please contact Rainy Selamat, OMWD Finance Manager, at (760) 753-6466.

Certificate of Achievement

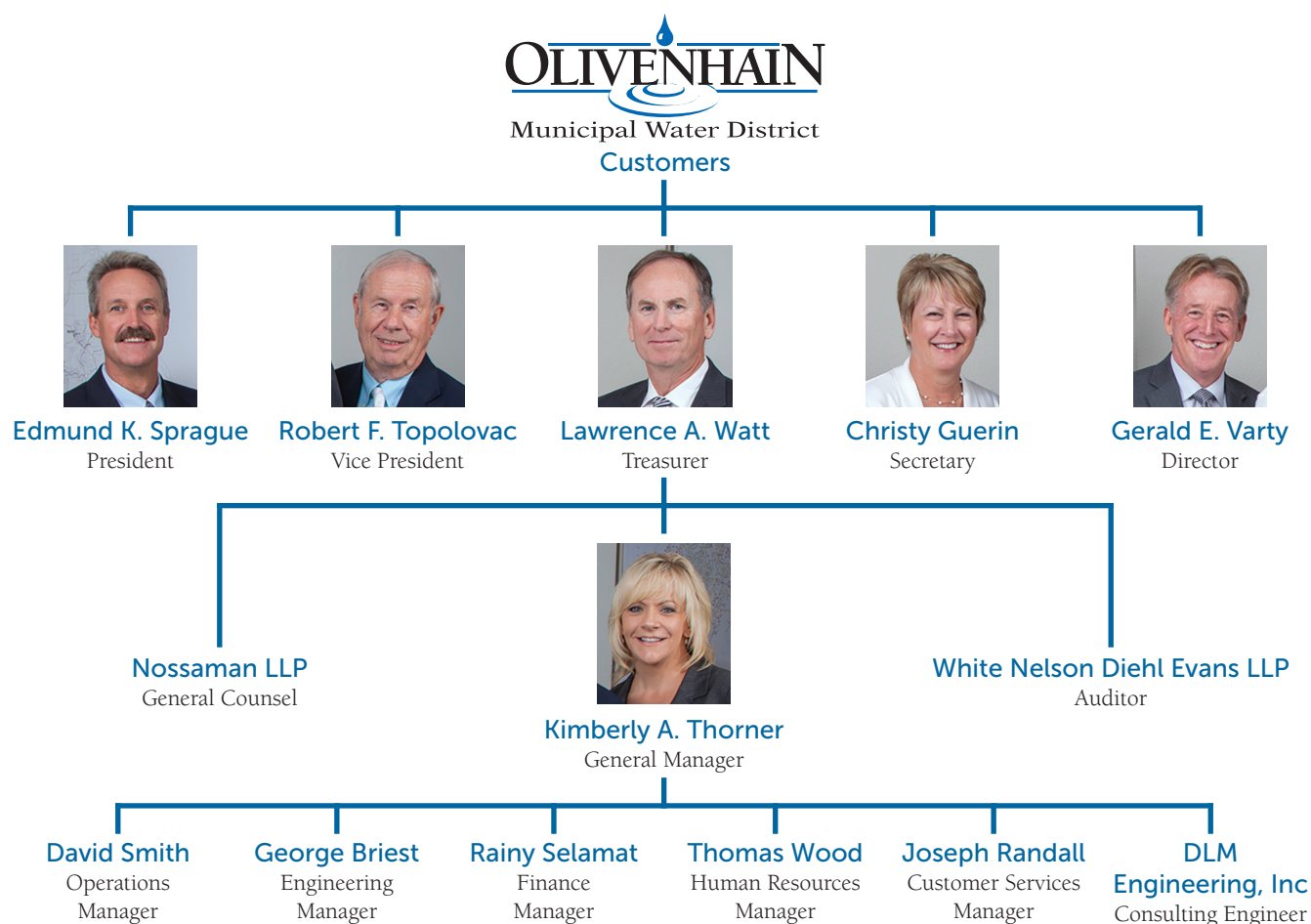
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Olivenhain Municipal Water District for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2015. This was the twenty-first consecutive year that the District has received this prestigious award.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

The Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

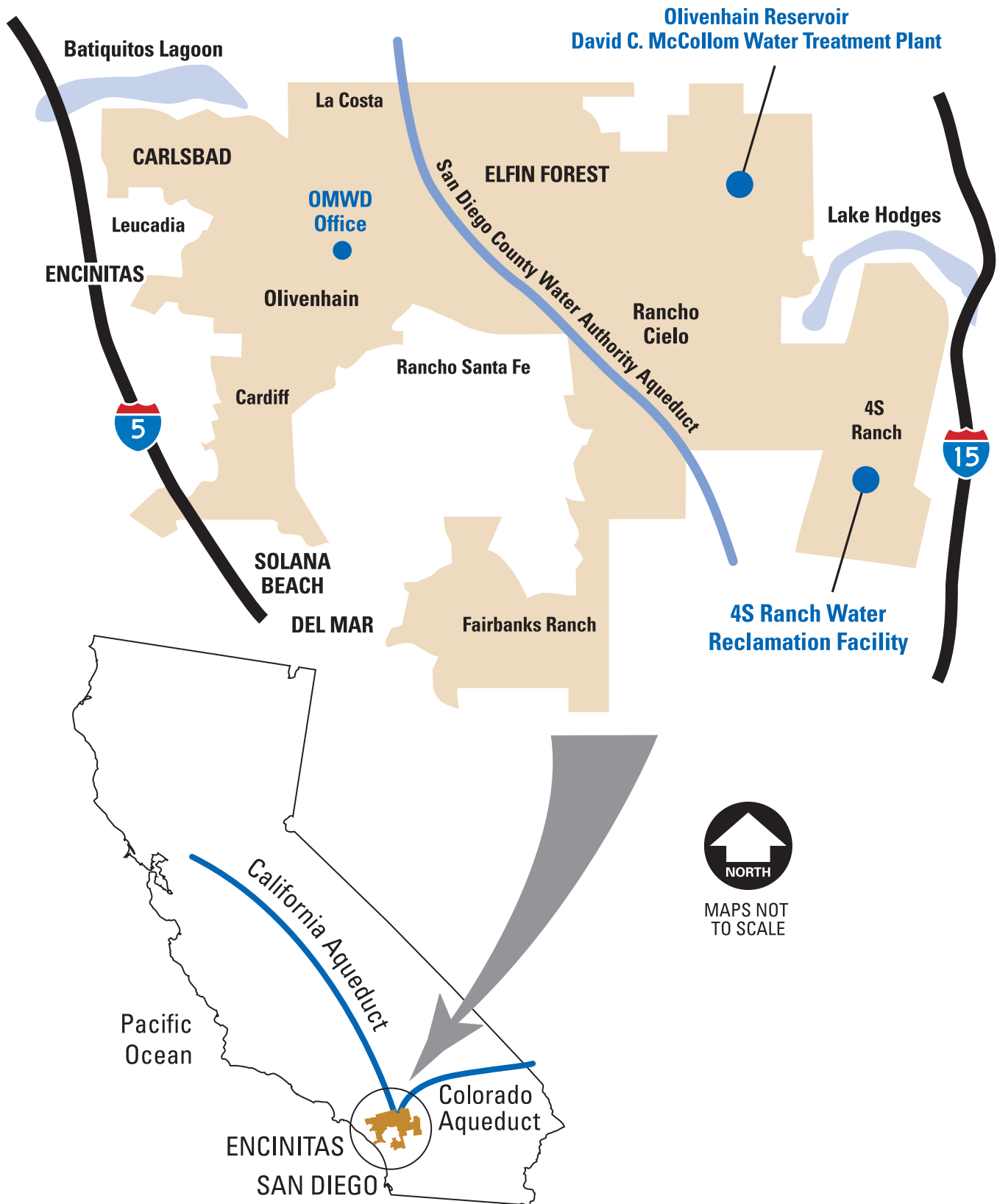


Organizational Chart



The elected five board members delegate management responsibility of the day-to-day operations of the District to an appointed General Manager. The District is an "at will employer." All the District's employees serve at the pleasure of the General Manager.

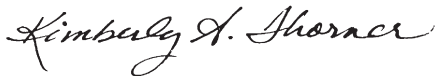
District Service Area



Acknowledgments

The preparation of this report could not have been accomplished without support and input from all departments and our independent auditor, White Nelson Diehl Evans, LLP. We would also like to particularly thank the Board of Directors for their continued dedication supporting the highest level of prudent fiscal management.

Respectfully Submitted:



Kimberly A. Thorner, Esq.
General Manager



Rainy K. Selamat
Finance Manager



Soaking Up the Trail by Tara O'Brien
2016 Elfin Forest Recreational Reserve Photo Contest
Employee Winner



Financial Section

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Golden Reflections by Lance Hanekamp
2016 Elfin Forest Recreational Reserve Photo Contest
Youth Winner



INDEPENDENT AUDITORS' REPORT

Board of Directors
Olivenhain Municipal Water District
Encinitas, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Olivenhain Municipal Water District as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Olivenhain Municipal Water District as of June 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the California State Controller's Office and California regulations governing Special Districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Modified Approach for Steel Water Storage Tanks Infrastructure Capital Assets, the Schedule of Contributions-Defined Benefit Pension Plans, and the Schedule of Proportionate share of Net Pension Liability, 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 introductory section and the statistical section as identified in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

White Nelson Dickl Evers LLP

Carlsbad, California
November 17, 2016

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2016

Our discussion and analysis of the Olivenhain Municipal Water District's (the District) basic financial statements provides general readers with an overview of the District's financial position and results of operations for the fiscal year ended June 30, 2016. Included in this section are:

- financial highlights;
- overview of the accompanying basic financial statements;
- financial analysis of the District as a whole;
- a discussion of financial restrictions, commitments and limitations.

The Management's Discussion and Analysis (MD&A) should be read in conjunction with the audited financial statements. These statements are located in the section following the MD&A.

Financial Highlights

During the fiscal year ended June 30, 2016 the following events impacted, or create the potential to impact, the finances of the District:

- The State of California adopted emergency temporary drought regulations in May 2015 that require a statewide 25% reduction in potable urban water use. Each local water supply agency was assigned a mandatory reduction rate ranging from 4% to 36% by the State Water Resources Control Board; the District's mandatory reduction rate was 32%. Permanent water regulations are expected to be implemented by the State in 2017.
- On July 1, 2015, the District moved to Level 2 drought rates in order to help achieve the 32% reduction assigned by the State.
- On July 22, 2015, the Board of Directors adopted a resolution authorizing the issuance of 2015 Water System Refunding Revenue Bonds. The series 2015A bonds are limited obligations of the District payable solely from Net System Revenues of the District's Water System. The 2015 Bonds were issued in August 2015 to refund all of the currently outstanding 2006A Water Revenue Refunding Bonds. The net present value of savings achieved by the refunding is approximately \$2.6 million.
- On March 1, 2016, the Board of Directors conducted a hearing to consider adopting an ordinance that authorized the District to pass through annual inflationary adjustments and other costs for providing sewer services to its sewer customers, for the next five years, not to exceed 3%. The District had not raised its sewer service rates and charges since 2009. The Board approved a 3% increase to sewer rates and charges starting in fiscal year 2017.
- In March 2016, the State considered the Claude "Bud" Lewis Carlsbad Desalination Plant as drought-resilient water supply for San Diego County and reduced the District's mandated conservation target from 32% to 24%.
- In April 2016, the Board of Directors approved a 6% increase to the District's potable and recycled water rates, and monthly fixed charges, to pass through increased purchased water wholesale cost and an annual inflationary adjustment on District's costs.
- In May 2016, the State adopted an emergency regulation that called for water agencies to self-certify their conservation target based on a supply and demand approach, accounting for three years of future drought conditions. San Diego County Water Authority, the region's wholesaler and source of 100% of OMWD's potable water supply, has determined that local supply will meet regional demand. The District self-certified as a regional group with SDCWA's member agencies for a conservation standard of zero percent.
- The District was at Level 2 Drought Rates during fiscal year 2016. The Board adopted a resolution rescinding the Level 2 Drought Rates and returning to Level 1 Voluntary Rates at its July 2016 board meeting.
- Total Operating Revenues were lower in fiscal year 2016 compared to previous years due to a significant reduction in water sales to meet the District's conservation target mandated by the State. The reduction in Operating Revenues from lower water sales was partially offset by an increase in revenue from selling excess treatment services to Vallecitos Water District.
- Total Operating Expenses were lower due to the cost of purchased water sold decreasing as a result of lower sales. This decrease was partially offset by an increase in customer service and general administrative expenses due to increased water conservation programs and public outreach efforts during the drought in order to achieve the District's conservation target of 24%.

Management's Discussion and Analysis (continued)

- Total Non-Operating Revenues decreased from the prior year due to a reduction in capacity fee revenues. Other Non-Operating Expenses increased primarily due to recorded losses on the disposal of fixed assets.
- Capital Contributions were lower due to fewer contributions of capital assets received from residential and commercial developers.
- Total Assets were lower due to a reduction in unrestricted cash as a result of lower water sales and a reduction in restricted cash to pay for construction of the Village Park Pump Station and Village Park Recycled Water System.
- Total Liabilities increased mainly due to an increase in the District's estimated Net Pension Liability as part of the GASB 68 implementation. The District implemented GASB Statement No. 68 in fiscal year 2014–2015. The adoption of these standards required a restatement of beginning net position of \$8,719,588 in fiscal year 2015. An increase in pension liability in fiscal year 2016 was offset by a reduction in Long-term Debt due to the scheduled repayment of debt.
- The District adopted Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application," GASB Statement No. 76, "Hierarchy of Generally Accepted Accounting Principles for State and Local Governments," GASB Statement No. 79, "Certain External Investment Pools and Pool Participants," and GASB Statement No. 92 "Pension Issues on Amendment of GASB Statement No. 67, No. 68, and No. 73."
- Standard & Poor's Rating Services affirmed the District's AA+ with stable outlook credit rating.
- Fitch Upgraded the District's credit rating to AAA from AA+ with stable outlook.
- In October 2016, the District refinanced its 2009 Water Revenue Refunding Bonds for a net present value savings of \$2.753 million over the next 22 years.

More information about the overall analysis of the District's financial position and results of operations is provided in the following sections.

Overview of the Financial Statements

For financial statement purposes, the District combines several internally maintained funds into one enterprise fund. The financial statements present the financial position, results of operation, and changes in cash balances using the accrual basis of accounting. This methodology is used to account for operations that are financed and operated in a manner similar to business enterprises, where services provided are paid through user charges.

Required Basic Financial Statements

The required financial statements 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 cash flows. These statements offer short-term and long-term financial information about the District. Each financial statement is identified, defined, and analyzed in the following sections.

The Statement of Net Position includes the District's assets, liabilities, and net position. This statement provides financial information about the nature of investments and ownership (assets) and the obligations of the District to its bond investors and creditors for all purchases made (liabilities). It also assesses the liquidity and financial position of the District.

The Statement of Revenue, Expenses, and Changes in Net Position accounts for all activities during the fiscal year. This statement measures the success of the District's operations during the reporting period and can be used to assess whether or not the District has successfully recovered all of its costs through its user fees and other charges. This statement also measures the District's profitability and ability to meet its financial commitments.

The Statement of Cash Flows accounts for the District's cash activities during the reporting period. The primary purpose of this report is to provide information to the general reader about cash inflows and outflows which occurred during the reporting fiscal year. This statement shows cash receipts, cash disbursements, and changes in cash balances based on operating, capital and related financing, noncapital and related financing and investing activities. The Statement of Cash Flows helps the reader answer the following questions: Where did cash come from? What was cash used for? And, what was the change in cash during the fiscal year?

Management's Discussion and Analysis (continued)

Financial Analysis of the District as a Whole

The following statements contain a summary of financial information that was extracted from the basic financial statements to assist general readers in evaluating the District's overall financial position and results of operations as described in this MD&A. Increases or decreases in these statements can be used as performance indicators to assess whether the District's overall financial position has improved or deteriorated. At the same time, other external factors such as changes in economic conditions, growth, and legislative mandates should also be considered as part of this assessment.

Net Position

Net Position is the difference between the District's assets and deferred outflows of resources, and its liabilities and deferred inflows of resources. In accordance with Generally Accepted Accounting Principles (GAAP), capital assets acquired through purchase or construction by the District are recorded at historical cost. Capital assets contributed by developers are recorded at developers' bonded cost. Net Position represents the District's net worth including, but not limited to, capital contributions received to date and all investments in capital assets since formation. Net Position helps answer the following question: "Is the District, as a whole, better or worse off as a result of the year's activities?"

Condensed Statements of Net Position

	Fiscal Year ended June 30		
	2016	2015	2014
Current Assets – unrestricted	\$ 64,715,112	\$ 66,362,359	\$ 62,514,560
Current Assets – restricted	18,746,728	22,332,256	24,493,131
Capital Assets, net	392,704,187	390,044,311	392,397,162
Other Noncurrent Assets	160,436	291,268	930,534
Total Assets	476,326,463	479,030,194	480,335,387
Deferred Amounts on Refunding	733,225	—	—
Deferred Amount from Pension	2,159,137	1,194,692	—
Total Deferred Outflows of Resources	2,892,362	1,194,692	—
Current Liabilities – unrestricted	11,651,878	11,964,415	13,353,558
Current Liabilities – restricted	3,391,308	1,280,740	938,895
Compensated Absences, long-term	393,970	461,062	473,735
Unearned Revenue	162,724	264,242	300,113
Net Pension Liability	8,653,737	6,517,867	—
Long-term Debt	67,456,067	70,860,115	75,369,865
Total Liabilities	91,709,684	91,348,441	90,436,166
Deferred Amount on Pensions	994,999	2,201,867	—
Total Deferred Inflows of Resources	994,999	2,201,867	—
Net Investment in Capital Assets	321,760,574	315,240,098	314,218,584
Restricted Net Position	15,355,420	20,852,200	22,359,148
Unrestricted Net Position	49,398,148	50,582,280	53,318,489
Total Net Position	\$ 386,514,142	\$ 386,674,578	\$ 389,896,221

For a detailed discussion regarding the increase in total net position, please see the section for the Statement of Revenues, Expenses and Changes in Net Position below.

Management's Discussion and Analysis (continued)

Current Assets – unrestricted: a decrease compared to fiscal year 2015 and an increase compared to fiscal year 2014. The fluctuations from fiscal year to fiscal year were due to the timing of cash receipts from Contributed Capital sources based on when the projects will be completed and paid for. Large construction projects such as the Village Park Recycled Water Project, which was funded solely by capacity charges, were under construction in fiscal year 2016 and will be completed in November 2016. Decreases in water sales that resulted from the State's mandatory water use restrictions also contributed to a decrease in Current Assets – unrestricted, while higher yields on the District's investment portfolio earnings have had a slightly offsetting effect on the decrease.

Current Assets – restricted: a continued decrease from fiscal year 2014 mainly due to the reduction in capacity fee cash to pay for the construction of the Village Park Recycled Water Project and a decrease in capacity fee revenues collected from developers.

Capital Assets, net: an increase compared to fiscal year 2015 and a slight increase compared to fiscal year 2014. Changes were mainly due to an increase in construction in progress and the completion of several large construction projects.

Other Noncurrent Assets: a decrease compared to fiscal years 2015 and 2014. The decrease in 2016 was due to the expensing of the PARS amortizable amount and the refunding of 2006A bonds which resulted in a decrease to unamortized debt issuance costs. The decrease from fiscal year 2014 was primarily due to a \$660 thousand write-off of the prepaid PERS sidefund as a result of the GASB 68 implementation.

Current Liabilities – unrestricted: a decrease compared to fiscal years 2015 and 2014. The decrease in 2016 was due to the reduction of the current liability portion of the 2012 Note Payable. The decrease from fiscal year 2014 is attributed to a decrease in payables to the San Diego County Water Authority for purchased water.

Current Liabilities – restricted: an increase compared to fiscal years 2015 and 2014 primarily due to the increase in payables for the Village Park Recycled Water System and Pump Station construction costs.

Net Pension Liability: an increase of \$2,135,870 compared to fiscal year 2015. Net Pension Liability is reported at \$8,653,737 for Fiscal Year 2016 and it is based on the District's proportionate share of the net pension liability for Miscellaneous Plan and PEPRA Miscellaneous Plan under the CalPERS retirement program. The District's Net Pension Liability was calculated by CalPERS based on CalPERS actuarial assumptions. There is no Net Pension Liability recorded in fiscal year 2014 because GASB 68 was first implemented in fiscal year 2015.

Long-term Debt: a decrease compared to fiscal years 2015 and 2014 due to payments made on outstanding loans. The long-term debt section doesn't contain the "current" amounts; thus, it will always decrease by the following years' payments on outstanding loans.

The decrease in **Total Net Position** in fiscal year 2016 was primarily due to a decrease in Current Assets – restricted and unrestricted because of a reduction in water sales during the drought, the District's conservation efforts in order to meet the State's mandated target of 24%, and a reduction in capacity fee revenues collected during the year. The decrease in fiscal year 2015 compared to fiscal year 2014 was primarily a result of the \$8.7 million prior period downward adjustment from implementing GASB 68.

Management's Discussion and Analysis (continued)

Statement of Revenues, Expenses and Changes in Net Position

While the Statement of Net Position focuses on the District's financial position at June 30 of each year, the Statement of Revenues, Expenses, and Changes in Net Position summarizes the District's operations during the year. Revenues are recognized (recorded) when water or services are provided, and expenses are recorded when incurred. Operating revenues and expenses are primarily related to the District's core activities (potable water, recycled water, and wastewater service). Non-operating revenues and expenses (investment income, property taxes, and capacity charges) are not directly related to the core activities of the District.

Water Operations

During fiscal year 2016, the District provided potable water and recycled water services to 28,752 accounts. Water services include reading and billing water meters on a monthly basis, a back-flow prevention program, meter maintenance, water quality services, and other on-site services as requested by District customers, including: testing meters for accuracy and checking for water leaks.

The District's five board members have independent rate-setting authority. The District's rate structure for monthly water service fees is comprised of three components: commodity charge, monthly system access charge, and SDCWA Infrastructure Access Charge. The District's rates and charges are set to cover the cost of providing water services, such as system administration costs, operations and maintenance expenses, and capital improvement and replacement needs.

In March 2015 the District's Board of Directors adopted an ordinance that authorized the District to pass through to its water service customers, for the next five years: (1) increased purchased water wholesale costs from the SDCWA; (2) an inflation-indexed rate increase for the next five years for increases to the District's cost of operations and maintenance and capital facilities; and any revenue lost by the District in the event the State exercises its rights under Proposition 1A to take property tax revenues. The District's total of annual pass-through increases shall not exceed 15% per year through December 31, 2019. The Board of Directors also adopted 4 levels of Water Supply Shortage (Drought) Rates ranging from "watch" level to "emergency" level depending on the severity of water supply shortage conditions. The District's drought rates were designed to promote conservation and to sustain operations when water consumption is expected to decline due to water use restrictions.

In April 2016 the Board of Directors approved an increase of 6% on the District's potable and recycled water (base) rates and monthly system access charge.

About 75% of the District's water revenues are collected from commodity charges. The District's commodity charge is a tiered rate structure with higher rates per unit of water as the level of consumption increases—a water conservation based pricing. Commodity revenues vary from month to month depending on water consumption. Commodity rates range from \$2.50 to \$6.26 per unit (748 gallons of water).

A fixed monthly system access charge is established on the basis of meter size of the property receiving water service. Average customers pay a typical bill of \$33.88 per month for their monthly system access charge. The SDCWA Infrastructure Access Charge (IAC) is imposed by SDCWA on the District for the purpose of recovering certain SDCWA infrastructure costs. Average customers pay a typical bill of \$2.75 per month for their monthly SDCWA IAC charge.

Management's Discussion and Analysis (continued)

Wastewater (Sewer) Operations

The District's 4S Ranch Water Reclamation Facility (WRF) collects and treats sewage effluent from two areas within its boundaries, 4S Ranch and Rancho Cielo. These service areas, comprised of a wide variety of commercial, industrial, and residential uses, encompass a total of approximately 4,000 acres.

In June 2016 the District's Board of Directors adopted an ordinance that authorized the District to pass through to its sewer customers, for the next five years, cost increases to collect, treat, and dispose of sewage and cost to maintain the 4S Ranch Wastewater and Reclamation Facilities within the 4S Ranch Sanitation District not to exceed 3% each year for the next five years. The rates for all components of the District's wastewater service fees are structured in such a way to proportionately allocate cost of collecting, treating, and disposing of sewage generated by each customer group in 4S Ranch and Rancho Cielo Sanitation Districts.

Sewer revenues consist of service and standby fees. The District's sewer fees and charges are in compliance with the California Urban Water Conservation Council's Best Management Practice No. 11 (BMP-11). BMP-11 provides conservation-based pricing guidelines for water agencies that provide retail sewer service. The District's sewer rate consists of two components: a system access charge, which is a fixed charge; and a commodity charge, which reflects each customer's wintertime water use. The wintertime water use (December through May) for each single family residential customer is capped at 10 hundred cubic feet (HCF). The cap of 10 HCF was based on the 90th percentile of minimum wintertime water usage over the last three years. Other sewer customer types (multi-family and commercial) are billed commodity charges based on their monthly water usage, as these customers have separate irrigation meters. Revenue derived from the rates and charges is used for the recovery of operations and maintenance costs of the District's sewer operations, as well as capital improvement expenditures.

Service and standby fees are billed via the property tax roll and collected by the County of San Diego Property Tax Services Division. Currently, the District bills approximately 7,207 equivalent dwelling units for wastewater discharged from residential and commercial customers. The District has not raised its sewer rates and charges since 2009.

In July 2016, the Board of Directors approved a 3% increase to the District's sewer fees.

Recycled Water Operations

The 4S WRF is capable of treating wastewater effluent to California Administrative Code Title 22 levels so that treated water from this plant can be used for irrigation purposes in the south east portion of the District's service area through the 4S on-site recycled water facilities.

Recycled water revenues are collected from commodity rates. The District adopted a uniform rate structure for collecting recycled water user fees based on monthly water consumption. The recycled commodity rate is set at \$3.37 per 748 gallons of water based on the 2014 comprehensive cost of service study on potable and recycled water rates.

Management's Discussion and Analysis (continued)

Statements of Revenues, Expenses and Changes in Net Position

Highlights of Statement of Revenues, Expenses, and Changes in Net Position

	Fiscal Year ended June 30		
	2016	2015	2014
REVENUES			
Operating revenues:			
Water sales	\$ 40,936,218	\$ 45,145,400	\$ 47,875,747
Sewer charges	4,474,853	4,656,781	4,246,033
Other operating revenues	1,560,779	1,077,003	2,098,535
Total operating revenues	46,971,850	50,879,184	54,220,315
Non-operating revenues:			
Property tax revenues	3,268,438	3,066,946	2,896,741
Capacity charges	1,482,945	1,792,125	4,944,025
Benefit assessment revenues	1,451,751	1,375,093	1,516,201
Investment income	463,805	433,250	330,901
Fair market value adjustment	51,106	23,932	143,750
Other non-operating revenues	53,458	137,836	347,610
Total non-operating revenues	6,771,503	6,829,182	10,179,228
Total revenues	53,743,353	57,708,366	64,399,543
EXPENSES			
Operating expenses:			
Cost of water sold	21,979,036	23,634,844	25,074,331
Depreciation	13,053,286	13,757,848	13,661,241
General and administrative	5,388,804	5,141,239	4,513,964
Pumping and water treatment	3,390,124	3,629,349	3,915,661
Transmission and distribution	3,482,086	3,348,083	3,666,030
Sewer collection and treatment	1,758,907	1,703,761	1,767,162
Customer services	1,757,388	1,205,838	1,057,472
Facilities maintenance	843,456	888,677	821,966
Elfin Forest recreational reserves	287,923	187,525	198,143
Total operating expenses	51,941,010	53,497,164	54,675,970
Non-operating expenses:			
Interest expense, net	2,629,591	2,879,588	3,037,510
Other non-operating, net	1,211,973	358,178	2,448,061
Total non-operating expenses	3,841,564	3,237,766	5,485,571
Total expenses	55,782,574	56,734,930	60,161,541
Income before capital contributions	(2,039,221)	973,436	4,238,002
Capital contributions	1,878,785	4,524,509	4,191,775
Changes in net position	(160,436)	5,497,945	8,429,777
Beginning net position, as originally stated	386,674,578	389,896,221	381,466,444
Prior period adjustment	—	(8,719,588)	—
Beginning net position, as restated	386,674,578	381,176,633	381,466,444
Ending net position	\$ 386,514,142	\$ 386,674,578	\$ 389,896,221

Management's Discussion and Analysis (continued)

Revenues

Total Revenues as reported on the Statement of Revenues, Expenses and Changes in Net Position for fiscal year ended June 30, 2016 was \$53.7 million, a 6.9% decrease compared to fiscal year 2015 and a 16.5% decrease compared to fiscal year 2014. The changes in Total Revenues from fiscal year to fiscal year were primarily due to a decrease in Water Sales, Capacity Charges, and Other Non-operating Revenues.

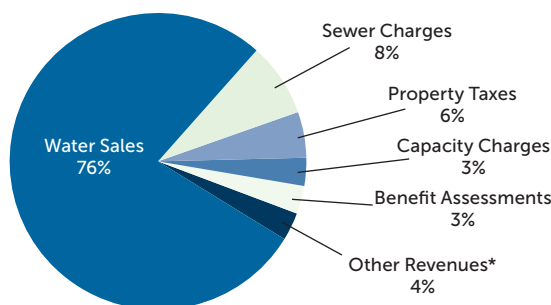
Operating Revenues were lower in fiscal year 2016 compared to fiscal years 2015 and 2014 due to a reduction in Water Sales, which resulted from the District's mandatory water cut of 24% that was imposed by the State.

Other Water Operating Revenues fluctuated from year to year depending on the volume of excess treated water services sold from the David C. McCollom Water Treatment Plant (DCMWTP) to other agencies. The District had an agreement to sell treatment services from the plant to San Diego County Water Authority in fiscal year 2014. The Agreement with SDCWA to sell excess treatment capacity from DCMWTP expired in March 2014. The District executed a new treated water services agreement with Vallecitos Water District in September 2014. In fiscal year 2016, the District began selling excess treated water services to Vallecitos Water District under the agreement, which then increased Other Operating Revenues in fiscal year 2016.

Non-operating Revenues decreased in fiscal year 2016 compared to fiscal years 2015 and 2014 mainly due to a reduction of capacity fee revenues collected from developers.

Other Non-operating Revenue was lower compared to fiscal years 2015 and 2014 due to fluctuations in Other Non-operating Revenues received. In fiscal year 2014, the District received a \$322 thousand grant from California Center for Sustained Energy under their Self Generation Incentive Program for energy savings at the David McCollom Water Treatment Plant.

Sources of Revenues Fiscal Year Ended June 30, 2016



*Include investment and fair market value adjustment.

Expenses

Total Expenses reported for fiscal year ended June 30, 2016 were \$55.8 million. Included in Total Expenses were \$52.0 million in Operating Expenses and \$3.8 million in Non-operating expenses. Total Expenses reported in fiscal years 2015 and 2014 were \$56.7 and \$60.1 million, respectively.

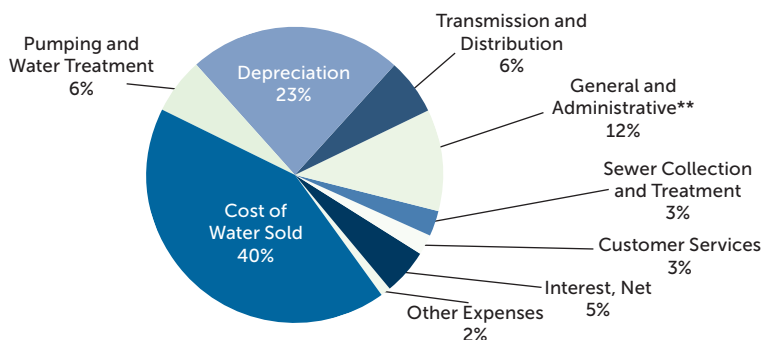
Operating Expenses decreased from fiscal years 2015 and 2014 mainly due to a decrease in the Cost of water sold. The District purchased less potable water from the SDCWA due to a reduction in water use as a result of conservation enforcements during the drought and the District's 24% mandatory water use reduction target imposed by the State.

A reduction in Cost of water sold was offset by an increase in Customer Service and General and Administrative expenses to enforce water conservation in order to stay compliant with Emergency Regulations adopted by the State Water Resources Control Board. Other increases in Operating Expenses were primarily due to higher legal expenses, increased salary, wages, and benefit expenses to comply with the 2013 Memorandum of Understanding between the District, its District Employee Association, and the Bargaining Unit Members Association.

Management's Discussion and Analysis (continued)

Other Non-operating Expenses, net increased compared to fiscal year 2015 and decreased compared to fiscal year 2014. The differences were mainly due to fluctuations in the recorded losses on the disposal of fixed assets for each fiscal year.

Sources of Expenses Fiscal Year Ended June 30, 2016



**Includes facilities and park maintenance

Income Before Capital Contributions & Capital Contributions

Income before Capital Contributions was lower in fiscal year 2016 compared to fiscal years 2015 and 2014 primarily due to a decrease in Net Operating Revenues from water operations and Non-operating Revenues from Capacity Charges collected during the year.

Capital Contributions were lower in fiscal year 2016 in comparison to fiscal years 2015 and 2014 due to a decrease in cash and facility contributions received for capital projects from grants and developers.

Changes in Net Position

Changes in Net Position for the fiscal year ended June 30, 2016 were \$160 thousand. The Changes in Net Position for the fiscal years ended June 30, 2015 and June 30, 2014 were \$5.5 million and \$8.4 million, respectively. The fluctuations over the last three fiscal years were primarily due to decreases in water sales, capacity fee charges collected, and capital contributions.

Restrictions, Commitments, and Limitations

Capital Assets and Improvement Program

Condensed Schedule of Capital Assets

Description	As of June 30, 2016	As of June 30, 2015	As of June 30, 2014
Capital Assets, net of depreciation	\$ 352,655,171	\$ 356,074,389	\$ 361,021,004
Land and Steel Tanks	27,832,144	27,832,144	27,832,144
Construction In Progress	12,216,872	6,137,778	3,544,014
Net Capital Assets	<u>\$ 392,704,187</u>	<u>\$ 390,044,311</u>	<u>\$ 392,397,162</u>

The District's capital assets were financed through a combination of current revenues, available reserves from the capital fund and capacity fee fund, and debt issuances. The Construction in Progress (CIP) is being funded mainly using the Pay-As-You-Go method from cash collected from unrestricted funds such as service revenues, reserves and restricted funds such as grants and developers' fees. The District's CIP is expected to fluctuate from year to year depending on the construction cost of infrastructure projects that are currently under construction or are in the planning stages. The District's Comprehensive Master Plan (CMP) was updated and approved by the Board in December 2015. The District's CMP is reviewed every five years. The District's CMP combines all facilities planning efforts within the District's enterprise areas: potable water, wastewater, and recycled water, into one document which addresses replacement and betterment of existing facilities as well as future facility needs.

Management's Discussion and Analysis (continued)

The District's net capital assets in service as of June 30, 2016 were \$392.7 million, net of \$154.1 million in accumulated depreciation and amortization. Included in the total net capital assets is \$12.2 million in construction in progress representing water, sewer, and recycled capital improvement projects in various stages of construction. The increase in net capital assets from fiscal year 2015 to fiscal year 2016 was primarily due to the increase in construction in progress for the Village Park Pump Station, the Village Park Recycled Water System, and other capital projects.

The District elected to use the Modified Approach as defined by GASB Statement No. 34 for infrastructure reporting for its Steel Water Storage Tanks System starting in September 2007. Under GASB Statement No. 34, eligible infrastructure capital is not required to be depreciated if all requirements are met.

The Tank Assessment Index (TAI) established by the District is 5.0. The current average TAI is well above the established index, increasing to 8.8 in 2016 from 8.67 in 2015 and 8.47 in 2014. The current lowest TAI is 7.7, and the highest is 10.0. There is no significant difference between the estimated and actual amounts to maintain and preserve infrastructure assets at target conditions during the current period.

Additional details regarding capital assets and the modified approach can be found in note 4 to the basic Financial Statements and in note 2 of the Required Supplementary Information.

Debt Administration

The District has two notes payable and three bond issues outstanding: the 2013 State Revolving Fund, the 2012 California Bank and Trust, the 2009 Water Revenue Bonds, the 2007 Reassessment 96-1 Limited Obligation Improvement Bonds, and the 2015 Water System Refunding Revenue Bonds Payable. The District's outstanding bonded indebtedness as of June 30, 2016 is as follows:

Schedule of Bond Indebtedness for Fiscal Year Ended 2016

Description	Year Issued	Total Bond Sold	Final Maturity Date	Interest Rate Range		Outstanding Debt As of June 30, 2016		
				From	To	Current	Long Term	Total
2013 State Revolving Fund	2013	\$ 17,069,309	7/1/2035	2.30%	2.30%	\$ 346,207	\$ 15,339,748	\$ 15,693,955
2012 California Bank & Trust	2012	5,000,000	12/1/2016	1.99% ⁽¹⁾	12.00%	518,339	—	518,339
2009 Water Revenue Bonds	2009	18,540,000	6/1/2039	2.50%	5.00%	430,000	16,180,000	16,610,000
2007 Reassessment 96-1 Limited Obligation Improvement Bonds	2007	16,150,000	9/2/2027	4.00%	5.00%	810,000	11,675,000	12,485,000
2015 Water System Refunding Revenue Bonds Payable	2015	23,455,000	6/1/2028	2.00%	5.00%	1,375,000	20,485,000	21,860,000

(1) See Notes to Basic Financial Statements 7 (b), loan rate at June 30, 2016 is set at 2.028%.

The District issued Water System Revenue Bonds series 2015A in the amount of \$23,455,000 in August 2015. The series 2015A bonds are limited obligations of the District payable solely from Net System Revenues of the District's Water System.

For the fiscal year ended June 30, 2016 the ratio of 2007 Reassessment 96-1 Limited Obligation Improvement Bonds to assessed value was 0.05% and the net bonded debt per capita was \$130.79.

In September 2016, Fitch Ratings and Standard & Poor's rerated the District's outstanding revenue bonds. Fitch Ratings upgraded the District's 2015A Water System Refunding Bonds Revenue and 2009 Water Revenue bonds to "AAA" rating from "AA+." Standard & Poor's reaffirmed its "AA+" rating for the same revenue bonds.

Management's Discussion and Analysis (continued)

In October 2016, the District issued 2016A Water System Refunding Bonds in the amount of \$15,990,000 to refund the District's series 2009 Water Revenue Refunding Bonds for a net present value of savings of \$2.753 million over the next 22 years. More information on the 2016A bonds can be found in note 15 to the Basic Financial Statements, under Subsequent Event.

Additional details regarding long-term debt are located in note 7 to the Basic Financial Statements.

Economic Factors and Next Year's Budgets and Rates

The State Water Resources Control Board adopted emergency drought regulations in May 2015 mandating a 25% statewide reduction in urban water use. The District was initially required to reduce its urban water use consumption by 32%. In order to meet the State's requirement for a 32% water cut back, the District's Board of Directors implemented Level 2 Water Supply Shortage (Drought) rates in July 2015 and called for up to a 20% mandatory reduction in water sales while remaining revenue neutral. The District was in Level 2 rates and met the required conservation target imposed by the State.

In May 2016, the State Water Resources Control Board adopted revised Emergency Regulations to replace the existing 25% statewide reduction in urban water use. The revised emergency regulations allow local water suppliers to self-certify their conservation standard based on a supply-based assessment process. The District self-certified in June 2016 as a regional aggregate with San Diego County Water Authority member agencies with a conservation standard of zero percent. The County's declaration for a zero conservation standard in aggregate is based on current local water supply, including the additional 48,000 to 56,000 acre feet a year of desalinated seawater produced by the Claude "Bud" Lewis Carlsbad Desalination Plant since November 2015.

With the revised regional conservation standard of zero percent, The District's Board of Directors at its July 20, 2016 board meeting approved moving out of a Level 2 Water Supply Shortage Rates and into a Level 1 rates. With Level 1 rates, a 10% voluntary cutback of water use is required while the District continues with its water conservation efforts and water education programs. Water waste is prohibited.

The District's Board of Directors believe that California's drought persists such that the Board adopted four levels of drought rates that correlate to the four levels of water supply shortage established in the District's Water Supply Shortage Ordinance. The drought rates are used as a tool to stabilize revenues and to cover District's fixed operating and maintenance costs in order to sustain operations.

The District's four levels of Water Supply Shortage (drought) pricing structure were first implemented in 2009. Customers were notified about the drought rates as part of the District's Proposition 218 requirements. Thereafter, moving between rate levels was allowed at the Board's discretion. The District renewed its drought rates for a five-year term at its most recent Proposition 218 notification in December 2014. In addition to the purchased water wholesale cost increases and other cost increases that are passed through, the District will continue to use its drought rates as a tool to respond to mandatory reductions in water use as well as to help offset lost revenue as California's drought progresses.

The District has been working aggressively to diversify its water supply by converting potable water irrigation customers to recycled water and by a possible future investment in a groundwater brackish water treatment facility. Conversion of approximately 300 acre feet of potable water use to recycled water will be completed in November 2016 when the Village Park Recycled Water Project comes online. Recycled water use is exempt from the State's mandatory water use reduction. Additional construction projects to convert potable water irrigation to recycled water are in progress.

The goal for water supply diversification is to provide more reliable water supplies in the long run. It is estimated that future purchased water wholesale costs from San Diego County Water Authority, including desalinated water costs, could increase as much as 30% over the next five years. The District's planned rate increase for the next ten years, including pass through of purchased water wholesale costs, is estimated at 5% each year for the next ten years.

The District's Long-Term Financial Plan assumes that a reduction in water demand is expected to continue through future years due to today's conservation efforts by the District's customers in response to the drought. The District is currently at 90% build-out. Growth is expected at less than 1% a year over the next ten years.

Management's Discussion and Analysis (continued)

The District's Board of Directors have consistently approved necessary rate increases to maintain the District's strong financial position and to provide Pay-As-You-Go funding to pay for the improvement and replacement of the District's facilities. The District addresses the budget challenge of rising costs each year through continuous improvements of its current business processes and management of its controllable costs.

Contacting the District's Financial Management

This financial report is designed to provide the District's rate payers, bond investors and other interested parties with a general overview of the District's finances, and to demonstrate the District's accountability for the money it receives and the stewardship of the facilities it maintains. If you have questions about this report or need additional information, contact the Olivenhain Municipal Water District's Finance Department at 1966 Olivenhain Road, Encinitas, California 92024, call the District (760) 753-6466, or send inquires to our website at www.omwd.com.

Statements of Net Position

June 30, 2016 and 2015

	2016	2015
ASSETS		
Current assets:		
Unrestricted assets:		
Cash and cash equivalents	\$ 29,270,000	\$ 32,005,732
Investments	25,339,780	25,187,235
Accounts receivable – water and sewer, net	7,539,847	6,666,250
Interest receivable	98,514	77,812
Taxes and assessments receivable	555	1,408
Other receivables	148,121	74,100
Inventories	1,527,547	1,593,080
Prepaid expenses and deposits	790,039	756,742
Total unrestricted assets	64,715,112	66,362,359
Restricted assets:		
Cash and cash equivalents	11,382,633	14,323,322
Investments	5,709,036	7,444,493
Interest receivable	712	—
Taxes and assessments receivable	185,181	177,387
Grants receivable	1,469,166	387,054
Total restricted assets	18,746,728	22,332,256
Total current assets	83,461,840	88,694,615
Noncurrent assets:		
Capital assets, nondepreciable	40,049,016	33,969,922
Capital assets, depreciable/amortizable, net	352,655,171	356,074,389
Capital assets, net	392,704,187	390,044,311
Prepaid pension contributions	31,372	69,558
Prepaid bond insurance	129,064	221,710
Total noncurrent assets	392,864,623	390,335,579
Total assets	476,326,463	479,030,194
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	733,225	—
Deferred amount from pension	2,159,137	1,194,692
Total deferred outflows of resources	2,892,362	1,194,692

(continued)

Statements of Net Position (continued)

June 30, 2016 and 2015

	2016	2015
LIABILITIES		
Current liabilities:		
Liabilities payable from unrestricted assets:		
Accounts payable	\$ 6,582,634	\$ 5,855,557
Accrued payroll	212,880	543,962
Customer deposits	379,174	441,903
Payable related to work in progress	236,644	281,579
Compensated absences, current portion	753,000	698,000
Current portion of long-term debt:		
Water Revenue Bonds	430,000	415,000
Water Revenue Refunding Bonds	1,375,000	1,570,000
Special Assessment Debit with Government Commitment	810,000	785,000
Notes Payable	872,546	1,373,414
Total liabilities payable from unrestricted assets	11,651,878	11,964,415
Liabilities payable from restricted assets:		
Accounts payable	2,880,760	839,340
Interest payable	347,555	367,542
Construction deposits	162,993	73,858
Total liabilities payable from restricted assets	3,391,308	1,280,740
Total current liabilities	15,043,186	13,245,155
Noncurrent liabilities:		
Compensated absences	393,970	461,062
Unearned revenue	162,724	264,242
Net pension liability	8,653,737	6,517,867
Long-term debt, excluding current portion:		
Water Revenue Bonds	16,495,215	16,938,724
Water Revenue Refunding Bonds	23,914,832	24,844,577
Special Assessment Debt with Government Commitment	11,706,272	12,519,072
Notes Payable	15,339,748	16,557,742
Total noncurrent liabilities	76,666,498	78,103,286
Total liabilities	91,709,684	91,348,441
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts on pension	994,999	2,201,867
Total deferred inflows of resources	994,999	2,201,867
NET POSITION		
Net investment in capital assets	321,760,574	315,240,098
Restricted for:		
Debt service	4,752,990	4,650,059
Construction	10,602,430	16,202,141
Total restricted	15,355,420	20,852,200
Unrestricted	49,398,148	50,582,280
Total net position	\$ 386,514,142	\$ 386,674,578

See accompanying Independent Auditors' Report and Notes to Basic Financial Statements.

Statement of Revenues, Expenses and Changes in Net Position

For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Water sales	\$ 40,936,218	\$ 45,145,400
Sewer charges	4,474,853	4,656,781
Other water operating revenues	<u>1,560,779</u>	<u>1,077,003</u>
Total operating revenues	<u>46,971,850</u>	<u>50,879,184</u>
OPERATING EXPENSES		
Cost of purchased water sold	21,979,036	23,634,844
Pumping and water treatment	3,390,124	3,629,349
Transmission and distribution	3,482,086	3,348,083
Sewer collection and treatment	1,758,907	1,703,761
Elfin Forest recreation operations	287,923	187,525
Facilities maintenance	843,456	888,677
Customer services	1,757,388	1,205,838
General and administrative	5,388,804	5,141,239
Depreciation and amortization	<u>13,053,286</u>	<u>13,757,848</u>
Total operating expenses	<u>51,941,010</u>	<u>53,497,164</u>
Operating income (loss)	<u>(4,969,160)</u>	<u>(2,617,980)</u>
NONOPERATING REVENUES (EXPENSES)		
Fair market value adjustment	51,106	23,932
Investment income	463,805	433,250
Property taxes	3,268,438	3,066,946
Capacity charges	1,482,945	1,792,125
Benefit assessments	1,451,751	1,375,093
Other nonoperating revenues	53,458	137,836
Interest expense, net	(2,629,591)	(2,879,588)
Other nonoperating expenses	<u>(1,211,973)</u>	<u>(358,178)</u>
Total nonoperating revenues (expenses)	<u>2,929,939</u>	<u>3,591,416</u>
Income before capital contributions	<u>(2,039,221)</u>	<u>973,436</u>
Capital Contributions	<u>1,878,785</u>	<u>4,524,509</u>
Changes in net position	<u>(160,436)</u>	<u>5,497,945</u>
Net Position, Beginning of year as restated	<u>386,674,578</u>	<u>381,176,633</u>
Net Position, End of year	<u><u>\$ 386,514,142</u></u>	<u><u>\$ 386,674,578</u></u>

See accompanying Independent Auditors' Report and Notes to Basic Financial Statements.

Statement of Cash Flows

For the years ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from water and sewer customers	\$ 45,961,503	\$ 53,910,371
Payments for water	(21,425,291)	(25,086,171)
Payments for services and supplies	(6,578,992)	(7,746,232)
Payments for employee wages, benefits, and related costs	(9,686,442)	(8,543,337)
Net cash provided by operating activities	8,270,778	12,534,631
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES		
Property taxes and benefit assessments received	4,713,248	4,491,696
Net cash provided by noncapital and related financing activities	4,713,248	4,491,696
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(14,800,924)	(6,998,044)
Proceeds from grants and capital contributions	378,727	506,395
Principal paid on long-term debt	(30,928,439)	(4,344,183)
Proceeds from debt refunding	26,391,456	—
Interest paid on long-term debt	(2,910,441)	(3,216,019)
Capacity charges received	1,407,797	1,545,603
Proceeds from sale of capital assets	18,040	49,527
Other capital financing receipts	35,418	88,310
Other capital financing expenses paid	(328,312)	(10,817)
Net cash provided (used) by capital and related financing activities	(20,736,678)	(12,379,228)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	23,175,000	13,250,000
Purchases of investments	(21,580,706)	(16,990,501)
Investment income received	482,637	432,708
Net cash provided (used) by investing activities	2,076,931	(3,316,793)
Net increase (decrease) in cash and cash equivalents	(5,675,721)	1,330,306
Cash and cash equivalents, beginning of year	46,329,054	44,998,748
Cash and cash equivalents, end of year	\$ 40,653,333	\$ 46,329,054
FINANCIAL STATEMENT PRESENTATION		
Cash and cash equivalents	\$ 29,270,700	\$ 32,005,732
Cash and cash equivalents – restricted assets	11,382,633	14,323,322
Total cash and cash equivalents	\$ 40,653,333	\$ 46,329,054

(continued)

Statement of Cash Flows (continued)

For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (4,969,160)	\$ (2,617,980)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	13,053,286	13,757,848
GASB 68 Adjustment to Pension Expense	(35,443)	(534,112)
Changes in operating assets and liabilities:		
(Increase) Decrease in assets:		
Receivables	(947,618)	3,042,608
Inventories	65,533	(96,157)
Prepaid expenses and deposits	97,535	(129,914)
Increase (Decrease) in liabilities:		
Accounts payable	1,424,931	(1,080,083)
Accrued payroll and compensated absences	(343,174)	165,855
Unearned revenue	(101,518)	(35,871)
Customer deposits	26,406	62,437
Net cash provided by operating activities	<u><u>\$ 8,270,778</u></u>	<u><u>\$ 12,534,631</u></u>
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Customer contributions of capital assets	\$ <u>1,508,273</u>	\$ <u>4,481,612</u>
Amortization of premiums	\$ <u>(25,955)</u>	\$ <u>(8,282)</u>
Unrealized gains (losses) on investments	<u><u>\$ (11,391)</u></u>	<u><u>\$ 7,116</u></u>

See accompanying Independent Auditors' Report and Notes to Basic Financial Statements.

Notes to the Basic Financial Statements

For the years ended June 30, 2016 and June 30, 2015

1. Summary of Significant Accounting Policies

a. Organization

The Olivenhain Municipal Water District (District) is a governmental corporation governed by an elected five member board of directors. The District was incorporated in 1959 under the provisions of the California Municipal Water District Act of 1911. The District's 48 square mile service area lies in northern San Diego County and the majority of its sales are domestic and business users. The District's offices are located in Encinitas, California.

The basic financial statements of the District include the blended financial activities of the District and the Olivenhain Municipal Water District Financing Corporation (Corporation).

The Corporation was formed in 1997 under the California Nonprofit Public Benefit Corporation Law. Its sole purpose is to assist the District in acquiring and financing various public facilities.

The criteria used in determining the inclusion of a component unit in the reporting entity for financial reporting purposes are: (1) appointment of voting majority of the component unit board, (2) ability to impose its will, (3) financial benefit or burden, and (4) fiscal dependency.

In keeping its books and records, the District has established various self-balancing groups of accounts in order to enhance internal control and to further the attainment of other management objectives. These groups of accounts, which are sub funds of the reporting entity, are identified in the District's books and records as the General Fund, Recycled Water Capacity Fee Fund, Treated Water Capacity Fee Fund, Reassessment District 96-1 Fund, 4S Sanitation District Fund, Rancho Cielo Sanitation District Fund, 2006 Water Revenue Refunding Bond Fund, 2009 Water Revenue Bond Fund, the 2015 Water System Revenue Refunding Bond Fund, 2012 California Bank & Trust Note Payable, and 2013 State Revolving Fund Note Payable. All significant inter sub-fund transactions and accounts are eliminated in the combination of the accounts of the sub funds for the basic financial statements of the District.

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

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

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

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

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

1. Summary of Significant Accounting Policies (continued)

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

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

Net Investment in Capital Assets

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

Restricted Net Position

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

Unrestricted Net Position

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

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering water in connection with the District’s principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses and Changes in Net Position.

When both restricted and unrestricted resources are available for use, it is the District’s practice to use restricted resources first, then unrestricted resources as they are needed.

c. New Accounting Pronouncements

Current Year Standards

In fiscal year 2015 2016, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “*Fair Value Measurement and Application*.” GASB Statement No. 72 requires the District to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach, or income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices 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. Level 3 inputs are unobservable inputs, and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that were used for the fair value measurements. There was no material impact on the District’s financial statements as a result of the implementation of GASB Statement No. 72.

GASB Statement No. 76 – “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*,” was required to be implemented in the current fiscal year and did not impact the District.

GASB Statement No. 79 – “*Certain External Investment Pools and Pool Participants*,” was required to be implemented in the current fiscal year, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for periods beginning after December 15, 2015, and did not impact the District.

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

1. Summary of Significant Accounting Policies (continued)

c. New Accounting Pronouncements (continued)

Current Year Standards (continued)

The District also early implemented GASB Statement No. 82 – “*Pension Issues an Amendment of GASB Statement No. 67, No. 68, AND No. 73.*”

Pending Accounting Standards

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

- GASB 73 – “*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,*” effective for periods beginning after June 15, 2015—except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 – “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,*” effective for periods beginning after June 15, 2016.
- GASB 75 – “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,*” effective for periods beginning after June 15, 2017.
- GASB 77 – “*Tax Abatement Disclosure,*” effective for periods beginning after December 15, 2015.
- GASB 78 – “*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,*” effective for periods beginning after December 15, 2015.
- GASB 79 – “*Certain External Investment Pools and Pool Participants,*” the certain provisions on portfolio quality, custodial credit risk, and shadow pricing, is effective for periods beginning after December 15, 2015.
- GASB 80 – “*Blending Requirements for Certain Component Units,*” effective for periods beginning after June 15, 2016.
- GASB 81 – “*Irrevocable Split-Interest Agreements,*” effective for periods beginning after December 15, 2016.

d. Deferred Outflows/Inflows of Resources:

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

- Deferred loss on refunding of \$733,225 related to the 2015 Water System Refunding Revenue Bonds, net of accumulated amortization of \$51,275, at June 30, 2016. It is amortized on a straight line basis over 156 months which represents the shortest period between the remaining outstanding debt and the new debt.
- Deferred outflow related to pensions for employer contributions made after the measurement date of the net pension liability.
- Deferred outflow related to pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans determined as of June 30, 2014 (the beginning of the measurement period ended June 30, 2015), which is 3.8 years.
- Deferred outflow related to pensions for changes in proportion. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans determined as of June 30, 2014 (the beginning of the measurement period ended June 30, 2015), which is 3.8 years.

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

1. Summary of Significant Accounting Policies (continued)

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

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

- Deferred inflow related to pensions resulting from the difference in projected and actual earnings on investments of the pension plan fiduciary net position. This amount is amortized over five years.
- Deferred inflows from pensions resulting from changes in assumptions and differences between employer contributions and proportionate share of contributions. These amount are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of June 30, 2014 (the beginning of the measurement period ended June 30, 2015), which is 3.8 years.

e. Cash, Cash Equivalents and Investments

Cash and cash equivalents

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

State Investment Pool

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

Investment Valuation

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

f. Water Sales

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

g. Allowance for Doubtful Accounts

The District recognizes bad debt expense relating to receivables when it is probable that the accounts will be uncollectible. Water accounts receivable at June 30, 2016 and 2015 have been reduced by an allowance for doubtful accounts of \$110,000 and \$110,000, respectively.

h. Inventories

Materials inventory is stated at the lower of current average cost or market. Water inventory is stated at its purchase cost using the first-in, first-out method.

i. Prepaid Expenses

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

See accompanying Independent Auditors' Report.

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

1. Summary of Significant Accounting Policies (continued)

j. Restricted Assets

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

k. Capital Assets, Depreciation and Amortization

Capital assets are valued at cost when constructed or purchased. Donated assets are valued at their estimated fair market value on the date accepted. The District capitalizes all assets with a historical cost of at least \$5,000 and a useful life of more than one year. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Depreciation or amortization on capital assets in service, excluding land, is computed using the straight-line method over the estimated useful lives of such assets and is reported as an operating expense. Capital projects are subject to depreciation or amortization when completed and placed in service. The ranges of estimated useful lives of capital assets are as follows:

Treatment and distribution system	10–75 years
Non-steel tanks	10–60 years
General plant	3–40 years
Capacity Rights	17 years

The District is amortizing Capacity Rights and is reviewing it annually for impairment, and any impairment losses are recognized in the period in which the impairment is determined.

In September 2007, the District elected to use the Modified Approach as defined by GASB Statement No. 34 for reporting the steel water storage tanks subsystem of infrastructure capital assets.

The detail of the subsystems is not presented in these basic financial statements. However, the operating departments maintain information regarding the subsystems.

Per GASB Statement No. 34 a condition assessment will be performed every three years on the steel tanks. The condition of the District's steel water storage tanks is determined using the USCI AMRS via their maintenance program. The tank condition rating, which is a weighted average of an assessment of the ability of individual steel water storage tanks to function structurally, such that water is stored safely and securely, uses a numerical condition scale ranging from 1.0 (unacceptable) to 10.0 (very good).

It is the District's policy to keep all the steel water storage tanks at a condition level of not less than 5.0 (satisfactory). All steel water storage tanks are inspected every two years and washed out every other year. Repairs are done on an as needed basis.

l. Capitalized Interest

Interest costs, less interest earned, on related borrowings are capitalized during the construction period of major capital asset additions. The capitalized interest is recorded as part of the asset to which it is related and is depreciated over the estimated useful life of the related asset. Capitalized interest amounted to \$4,705 and \$30,705 for the years ended June 30, 2016 and 2015, respectively.

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

1. Summary of Significant Accounting Policies (continued)

m. Compensated Absences

Vested or accumulated vacation and sick leave is recorded as an expense and liability as benefits accrue to employees. Changes in compensated absences for the year ended June 30, 2016, were as follows:

Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
\$ 1,159,062	\$ 733,505	\$ (745,597)	\$ 1,146,970

The current portion of compensated absences payable is \$753,000 and \$698,000 at June 30, 2016 and 2015, respectively.

n. Capital Contributions

Capital contributions are recorded when the District receives cash contributions or accepts contributions of capital assets in kind or when governmental construction grants are earned. Capital contributions are reported as a separate line item in the Statement of Revenues, Expenses, and Changes in Net Position.

o. Property Taxes

The County of San Diego (the "County") bills and collects property taxes on behalf of the District. The County's tax calendar year is July 1 to June 30. Property taxes attach as a lien on property on January 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

p. Pensions

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

q. Capacity Charges

Capacity charges are paid by new customers prior to connecting to the District's system. Such charges are periodically adjusted based upon changes in construction costs and other factors, and are intended to compensate the District for a new customer's equitable share of current and future system capacity. Capacity charges are, except in rare circumstances, nonrefundable and are recorded as nonoperating revenues when collected.

r. Use of Estimates

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

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

2. Cash, Cash Equivalents, and Investments

Cash and investments at June 30, 2016 and 2015 are classified in the accompanying financial statements as follows:

	2016	2015
Statement of Net Position:		
Current assets:		
Cash and cash equivalents	\$ 29,270,700	\$ 32,005,732
Restricted cash and cash equivalents	11,382,633	14,323,322
Investments	25,339,789	25,187,235
Restricted investments	5,709,036	7,444,493
Total cash and investments	<u>\$ 71,702,158</u>	<u>\$ 78,960,782</u>
Cash and investments consist of the following:		
Cash on hand	\$ 1,546	\$ 1,510
Deposits with financial institutions	8,882,299	9,830,631
Investments	62,818,313	69,128,641
Total cash and investments	<u>\$ 71,702,158</u>	<u>\$ 78,960,782</u>

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Government Sponsored Entities	5 years	50%	None
Banker's Acceptances	180 days	20%	3%
Commercial Paper	270 days	20%	\$1,000,000
Certificates of Deposit	3 years	30%	\$250,000
Repurchase Agreements	90 days	20%	None
Reverse Repurchase Agreements	90 days	10%	None
Medium-Term Notes	5 years	15%	None
Money Market Mutual Funds	N/A	20%	5%
Municipal Obligations	N/A	30%	None
Local Government Investment Pool	N/A	30%	None
Local Agency Investment Fund	N/A	30%	\$20,000,000

See accompanying Independent Auditors' Report.

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

2. Cash, Cash Equivalents, and Investments (continued)

Investments Authorized by Debt Agreements:

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

Disclosures Relating to Interest Rate Risk:

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

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity at June 30, 2016.

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Local Agency Investment Fund (LAIF)	\$ 17,082,396	\$ 17,082,396	\$ —	\$ —	\$ —
California Asset Management Program (CAMP)	7,712,698	7,712,698	—	—	—
Money Market Mutual Funds	2,997,940	2,997,940	—	—	—
U.S. Government Sponsored Entities	20,629,285	1,000,600	5,010,610	14,618,075	—
Medium-Term Notes	689,074	—	689,074	—	—
Municipal Obligations	704,114	704,114	—	—	—
U.S. Treasury Obligations	6,017,740	3,007,350	999,690	2,010,700	—
Total	<u>\$ 62,818,313</u>	<u>\$ 39,490,164</u>	<u>\$ 6,699,374</u>	<u>\$ 16,628,775</u>	<u>\$ —</u>

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity at June 30, 2015.

Investment Type	Total	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More than 60 Months
Local Agency Investment Fund (LAIF)	\$ 17,017,004	\$ 17,017,004	\$ —	\$ —	\$ —
California Asset Management Program (CAMP)	16,086,517	16,086,517	—	—	—
Money Market Mutual Funds	3,393,393	3,393,393	—	—	—
U.S. Government Sponsored Entities	26,475,560	—	4,499,200	21,976,360	—
Medium-Term Notes	246,791	—	—	246,791	—
Municipal Obligations	894,066	181,823	712,243	—	—
U.S. Treasury Obligations	5,015,310	1,000,470	3,018,360	996,480	—
Total	<u>\$ 69,128,641</u>	<u>\$ 37,679,207</u>	<u>\$ 8,229,803</u>	<u>\$ 23,219,631</u>	<u>\$ —</u>

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

2. Cash, Cash Equivalents, and Investments (continued)

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's Investment Policy, or debt agreements, and the Moody's rating for each investment type at June 30, 2016. (CAMP is rated by Standard and Poor's and has a rating of AAAm.)

Investment Type	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year End			
				AAA	AA	A	Not Rated
Local Agency Investment Fund (LAIF)	\$ 17,082,396	N/A	\$ —	\$ —	\$ —	\$ —	\$ 17,082,396
California Asset Management Program (CAMP)	7,712,698	AAA	—	7,712,698	—	—	—
Commercial Paper	2,997,940	N/A	—	—	—	—	2,997,940
Money Market Mutual Funds	6,985,066	N/A	—	4,027,221	—	—	2,957,845
U.S. Government Sponsored Entities	20,629,285	AAA	—	20,629,285	—	—	—
Medium-Term Notes	689,074	A2	—	237,688	451,386	—	—
Municipal Obligations	704,114	A1	—	500,060	204,054	—	—
U.S. Treasury Obligations	6,017,740	N/A	6,017,740	—	—	—	—
Total	<u>\$ 62,818,313</u>		<u>\$ 6,017,740</u>	<u>\$ 33,106,952</u>	<u>\$ 655,440</u>	<u>\$ —</u>	<u>\$ 23,038,181</u>

See accompanying Independent Auditors' Report.

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

2. Cash, Cash Equivalents, and Investments (continued)

Disclosures Relating to Credit Risk (continued):

Presented below is the minimum rating required by (where applicable) the California Government Code, the District's Investment Policy, or debt agreements, and the Moody's rating for each investment type at June 30, 2015.

Investment Type	Total	Rating as of Year End					
		Minimum Legal Rating	Exempt from Disclosure	AAA	AA	A	Not Rated
Local Agency Investment Fund (LAIF)	\$ 17,017,004	N/A	\$ —	\$ —	\$ —	\$ —	\$ 17,017,004
California Asset Management Program (CAMP)	16,086,517	AAA	—	16,086,517	—	—	—
Money Market Mutual Funds	3,393,393	AAA	—	3,393,393	—	—	—
U.S. Government Sponsored Entities	26,475,560	N/A	—	26,475,560	—	—	—
Medium-Term Notes	246,791	AA	—	246,791	—	—	—
Municipal Obligations	894,066	A1	—	499,915	—	394,151	—
U.S. Treasury Obligations	5,015,310	N/A	5,015,310	—	—	—	—
Total	<u>\$ 69,128,641</u>		<u>\$ 5,015,310</u>	<u>\$ 46,702,176</u>	<u>\$ —</u>	<u>\$ 394,151</u>	<u>\$ 17,017,004</u>

Concentration of Credit Risk:

The investment policy of the District is in accordance with limitations on the amount that can be invested in any one issuer as stipulated by the California Government Code. Investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments is as follows:

Issuer	Investment Types	2016	2015
Federal Home Loan Banks	U.S. Govt. Sponsored Entities	\$ 4,475,342	\$ 14,978,010
Federal National Mortgage Association	U.S. Govt. Sponsored Entities	\$ 4,001,540	\$ 4,004,120
Federal Home Loan Mortgage Corporation	U.S. Govt. Sponsored Entities	\$ 10,153,183	\$ 5,994,390
JP Morgan U.S. Government Money Market	U.S. Govt. Money Market	\$ 4,027,221	\$ —

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

2. Cash, Cash Equivalents, and Investments (continued)

Custodial Credit Risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2016 and 2015, \$9,291,933 and \$8,090,746 of the District's deposits with financial institutions in excess of the Federal insurance limits were held in collateralized accounts.

Local Agency Investment Fund (LAIF):

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

California Asset Management Program (CAMP):

The District is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act for the purpose of exercising the common power of its Participants to invest funds. The investments are limited to investments permitted by California Government Code. The District reports its investment in CAMP at the fair value amounts provided by CAMP, which is the same value of the pool share. At June 30, 2016 and 2015 the fair value approximated is the District's cost.

Fair Value Measurements:

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

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

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

Level 2: Inputs to the valuation methodology include:

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

See accompanying Independent Auditors' Report.

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

2. Cash, Cash Equivalents, and Investments (continued)

Fair Value Measurements (continued):

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

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

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

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

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

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

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

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

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

2. Cash, Cash Equivalents, and Investments (continued)

Fair Value Measurements (continued):

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	June 30, 2016
Investments by Fair Value Level				
U.S. Government Sponsored Entity Securities				
FNMA	\$ —	\$ 4,001,540	\$ —	\$ 4,001,540
FFCB	—	1,999,220	—	1,999,220
FHLB	—	4,475,342	—	4,475,342
FHLMC	—	10,153,183	—	10,153,183
U.S. Treasury Securities	—	6,017,740	—	6,017,740
Commercial Paper	—	2,997,940	—	2,997,940
Medium Term Notes	—	689,074	—	689,074
Municipal Bonds	—	704,114	—	704,114
Total Investments by Fair Value Level	<u>\$ —</u>	<u>\$ 31,038,153</u>	<u>\$ —</u>	<u>31,038,153</u>
Investments measured at Cost or Net Asset Value (NAV)				
Local Agency Investment Fund (LAIF)				17,082,396
California Asset Management Program (CAMP)				7,712,698
Money Market Mutual Funds				4,027,221
Held by Fiscal Agent				
Money Market Mutual Funds				<u>2,957,845</u>
Total Investments at Cost or Net Assets Value (NAV)				<u>31,780,160</u>
Total Investments				<u>\$ 62,818,313</u>

See accompanying Independent Auditors' Report.

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

3. Net Position

a. Restricted Net Position

Restricted Net Position at June 30 consisted of the following:

	<u>2016</u>	<u>2015</u>
Net position restricted for debt service		
<u>Restricted Assets</u>		
Cash	\$ 4,885,216	\$ 4,581,823
Investments	158,136	396,321
Interest receivable	712	—
Taxes/assessments receivable	59,586	55,216
Total restricted assets for debt service	5,103,650	5,033,360
Less liabilities payable from restricted assets	(350,660)	(383,301)
Net position restricted for debt service	4,752,990	4,650,059
Net position restricted for construction		
<u>Restricted Assets</u>		
Cash	6,497,417	9,741,499
Investments	5,550,900	7,048,172
Grants receivable	1,469,166	387,054
Taxes/assessments receivable	125,595	122,171
Total restricted assets for construction	13,643,078	17,298,896
Less liabilities from restricted assets	(3,040,648)	(897,439)
Less: long-term debt attributable to unspent proceeds of debt	—	(199,316)
Net position restricted for construction	10,602,430	16,202,141
Total restricted net position	<u>\$ 15,355,420</u>	<u>\$ 20,852,200</u>

b. Unrestricted Net Position

In addition to the restricted net position, a portion of the unrestricted net position has been reserved by management for the following purposes as of June 30:

	<u>2016</u>	<u>2015</u>
Capital replacement reserve	\$ 27,022,204	\$ 28,169,291
Rate stabilization reserve	9,997,677	9,932,445
Unreserved	12,378,267	12,480,544
	<u>\$ 49,398,148</u>	<u>\$ 50,582,280</u>

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

4. Capital Assets

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

	Balance June 30, 2015	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2016
Capital assets, not being depreciated:					
Land	\$ 11,139,165	\$ —	\$ —	\$ —	\$ 11,139,165
Steel water storage tanks	16,692,979	—	—	—	16,692,979
Construction in progress	6,137,778	16,021,601	(840,176)	(9,102,231)	12,216,872
Total capital assets, not being depreciated	33,969,922	16,021,601	(840,176)	(9,102,331)	40,049,016
Capital assets, being depreciated/amortized:					
Treatment and distribution system	263,017,341	2,967,747	(527,100)	—	265,457,988
Capacity Rights	27,739,008	—	—	—	27,739,008
Non-steel tanks	37,055,333	3,549,675	(464,872)	—	40,140,136
General plant	170,682,012	4,000,308	(1,255,371)	—	173,426,949
Total capital assets, being depreciated/ amortized	498,493,694	10,517,730	(2,247,343)	—	506,764,081
Accumulated depreciation/amortization:					
Treatment and distribution system	(72,793,095)	(5,665,529)	339,234	—	(78,119,390)
Capacity Rights	(8,585,314)	(1,607,482)	—	—	(10,192,796)
Non-steel tanks	(8,492,874)	(772,554)	147,210	—	(9,118,218)
General plant	(52,548,022)	(5,007,721)	877,237	—	(56,678,506)
Total accumulated depreciation/ amortization	(142,419,305)	(13,053,286)	1,363,681	—	(154,108,910)
Total capital assets, being depreciated/ amortized, net	356,074,389	(2,535,556)	(883,662)	—	352,655,171
Total capital assets, net	\$ 390,044,311	\$ 13,486,045	\$ (1,723,838)	\$ (9,102,331)	\$ 392,704,187

See accompanying Independent Auditors' Report.

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

4. Capital Assets (continued)

Changes in capital assets for the year ended June 30, 2015, were as follows:

	Balance June 30, 2014	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2015
Capital assets, not being depreciated:					
Land	\$ 11,139,165	\$ —	\$ —	\$ —	\$ 11,139,165
Steel water storage tanks	16,692,979	—	—	—	16,692,979
Construction in progress	3,544,014	8,431,363	—	(5,837,600)	6,137,778
Total capital assets, not being depreciated	31,376,158	8,431,363	—	(5,837,600)	33,969,922
Capital assets, being depreciated/amortized:					
Treatment and distribution system	257,430,043	6,290,753	(703,455)	—	263,017,341
Capacity Rights	27,739,008	—	—	—	27,739,008
Non-steel tanks	36,818,875	236,458	—	—	37,055,333
General plant	168,804,139	2,623,381	(745,508)	—	170,682,012
Total capital assets, being depreciated/ amortized	490,792,065	9,150,592	(1,448,963)	—	498,493,694
Accumulated depreciation/amortization:					
Treatment and distribution system	(67,356,364)	(5,848,172)	411,441	—	(72,793,095)
Capacity Rights	(6,953,608)	(1,631,706)	—	—	(8,585,314)
Non-steel tanks	(7,699,944)	(792,930)	—	—	(8,492,874)
General plant	(47,761,145)	(5,485,040)	698,163	—	(52,548,022)
Total accumulated depreciation/ amortization	(129,771,061)	(13,757,848)	1,109,604	—	(142,419,305)
Total capital assets, being depreciated/ amortized, net	361,021,004	(4,607,256)	(339,359)	—	356,074,389
Total capital assets, net	\$ 392,397,162	\$ 3,824,107	\$ (339,359)	\$ (5,837,600)	\$ 390,044,311

Depreciation expense for depreciable capital assets was \$11,445,804 and \$12,126,142 for the years ended June 30, 2016 and 2015, respectively. Amortization expense for amortizable capital assets was \$1,607,482 and \$1,631,706 for the years ending 2016 and 2015, respectively.

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

4. Capital Assets (continued)

Construction in progress consisted of the following at June 30:

	2016	2015
Finance Utility Billing	\$ —	\$ 488,080
Village Park Pump Station	1,997,574	563,867
Village Park Recycled Water System	7,162,324	2,962,394
San Elijo Valley Groundwater	1,122,784	1,063,512
Other capital projects	1,934,190	1,059,925
Total construction in progress	\$ 12,216,872	\$ 6,137,778

5. Prepaid Supplementary Retirement Plan

During fiscal year 2011/2012 the District offered a Board of Directors' approved early retirement plan to all employees. Five District employees accepted a supplementary retirement plan which was purchased through an annuity arranged by Public Agency Retirement Services (PARS). The \$319,340 prepayment is amortizable over 5 to 8 years based on the retirees' selection. The amount amortizable during fiscal year 2016/2017 is \$38,186 and will be reported as a current prepaid asset on the Statement of Net Position. The balance of \$31,372 which will be amortizable in years after fiscal year 2016/2017, is included in the non-current asset Prepaid Pension Contributions.

6. Accounts Payable

Accounts payable to be paid from unrestricted current assets was as follows at June 30:

	2016	2015
Water purchases	\$ 4,152,821	\$ 3,599,076
Capital asset additions	911,003	529,015
Other	1,518,810	1,727,466
Total	\$ 6,582,634	\$ 5,855,557

Accounts payable, to be paid from restricted current assets was as follows at June 30:

	2016	2015
Capital asset additions	\$ —	\$ 716,772
Other	2,880,760	122,568
Total	\$ 2,880,760	\$ 839,340

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

7. Long-Term Debt

Changes in long-term debt for the year ended June 30, 2016 were as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Due Within One Year
Notes Payable:					
2013 Note Payable	\$ 16,390,314	\$ —	\$ (696,359)	\$ 15,693,955	\$ 354,207
2012 Note Payable	1,540,842	—	(1,022,503)	518,339	518,339
Notes Payable	<u>17,931,156</u>	<u>—</u>	<u>(1,718,862)</u>	<u>16,212,294</u>	<u>872,546</u>
Revenue Bonds:					
2009 Water Revenue					
Bonds Payable	17,025,000	—	(415,000)	16,610,000	430,000
Plus unamortized					
bond premiums	328,724	—	(13,509)	315,215	—
2006 Water Revenue					
Refunding Bonds Payable	26,290,000	—	(26,290,000)	—	—
Plus unamortized					
bond premiums	124,577	—	(124,577)	—	—
2015 Water System					
Refunding Revenue Bonds	—	23,455,000	(1,595,000)	21,860,000	1,375,000
Plus unamortized					
bond premiums	—	3,669,681	(239,849)	3,429,832	—
Revenue Bonds, net	<u>43,768,301</u>	<u>27,124,681</u>	<u>(28,677,935)</u>	<u>42,215,047</u>	<u>1,805,000</u>
2007 Reassessment 96-1 Limited					
Obligation Improvement Bonds	13,270,000	—	(785,000)	12,485,000	810,000
Plus original issue premium	<u>34,072</u>	<u>—</u>	<u>(2,800)</u>	<u>31,272</u>	<u>—</u>
2007 Reassessment 96-1 Limited					
Obligation Improvement					
Bonds, net	<u>13,304,072</u>	<u>—</u>	<u>(787,800)</u>	<u>12,516,272</u>	<u>810,000</u>
Total	<u>\$ 75,003,529</u>	<u>\$ 27,124,681</u>	<u>\$ (31,184,597)</u>	<u>\$ 70,943,613</u>	<u>\$ 3,487,546</u>

See accompanying Independent Auditors' Report.

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

7. Long-Term Debt (continued)

Changes in long-term debt for the year ended June 30, 2015 were as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015	Due Within One Year
Notes Payable:					
2013 Note Payable	\$ 17,069,309	\$ —	\$ (678,995)	\$ 16,390,314	\$ 346,187
2012 Note Payable	2,546,030	—	(1,005,188)	1,540,842	1,027,227
Notes Payable	<u>19,615,339</u>	<u>—</u>	<u>(1,684,183)</u>	<u>17,931,156</u>	<u>1,373,414</u>
Revenue Bonds:					
2009 Water Revenue					
Bonds Payable	17,425,000	—	(400,000)	17,025,000	415,000
Plus unamortized					
bond premiums	342,233	—	(13,509)	328,724	—
2006 Water Revenue					
Refunding Bonds Payable	27,800,000	—	(1,510,000)	26,290,000	1,570,000
Plus unamortized					
bond premiums	<u>134,221</u>	<u>—</u>	<u>(9,644)</u>	<u>124,577</u>	<u>—</u>
Revenue Bonds, net	<u>45,701,454</u>	<u>—</u>	<u>(1,933,153)</u>	<u>43,768,301</u>	<u>1,985,000</u>
2007 Reassessment 96-1 Limited					
Obligation Improvement Bonds	14,020,000	—	(750,000)	13,270,000	785,000
Plus original issue premium	<u>36,873</u>	<u>—</u>	<u>(2,801)</u>	<u>34,072</u>	<u>—</u>
2007 Reassessment 96-1 Limited					
Obligation Improvement					
Bonds, net	<u>14,056,873</u>	<u>—</u>	<u>(752,801)</u>	<u>13,304,072</u>	<u>785,000</u>
Total	<u>\$ 79,373,666</u>	<u>\$ —</u>	<u>\$ (4,370,137)</u>	<u>\$ 75,003,529</u>	<u>\$ 4,143,414</u>

See accompanying Independent Auditors' Report.

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

7. Long-Term Debt (continued)

a. 2013 Note Payable

On February 24, 2012, the District entered into an agreement with the State of California Department of Public Health for a loan not to exceed \$17,812,998 (2013 Note Payable), under and pursuant to Part 12, Chapter 4 of Division 104 of the Health and Safety Code and California Code of Regulations Title 22 to assist in financing construction of a project which will enable the District to meet safe drinking water standards. The loan is to commence on the due date of the first principal and interest invoice and expire twenty years after the due date of the first principal and interest invoice. The rate of interest to be paid on the principal amount of the loan shall be 2.3035% annually. At June 30, 2016, the amount borrowed was \$15,693,955.

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

Year Ending June 30,	Principal	Interest	Total
2017	\$ 354,207	\$ 180,736	\$ 534,943
2018	720,738	349,186	1,069,924
2019	737,436	332,488	1,069,924
2020	754,520	315,403	1,069,923
2021	772,001	297,922	1,069,923
2022–2026	4,136,720	1,212,860	5,349,580
2027–2031	4,638,634	710,983	5,349,617
2032–2035	3,579,699	166,726	3,746,425
Total	<u>\$ 15,693,955</u>	<u>\$ 3,566,304</u>	<u>\$ 19,260,259</u>

b. 2012 Note Payable

On February 8, 2012, the District issued a negotiable promissory note for a term of not more than 60 months in the amount of \$5,000,000 (2012 Note Payable), under and pursuant to Section 71811 of the Water Code, for the purpose of providing funds for certain capital expenditures. The initial loan rate is either 156 basis points above the 30-day LIBOR Rate or (at the District's election) 66.67% of the California Bank and Trust (CB&T) Prime Rate. For either funding rate basis, the rate is to be adjusted every month thereafter to the same margin above the applicable index as of the start of the month, but in no event greater than 12% per year. The loan rate is set at 2.028% at June 30, 2016.

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

Year Ending June 30,	Principal	Interest	Total
2017	518,339	8,988	527,327
Total	<u>\$ 518,339</u>	<u>\$ 8,988</u>	<u>\$ 527,327</u>

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

7. Long-Term Debt (continued)

c. 2015 Water System Refunding Revenue Bonds Payable

On August 27, 2015, the District issued Water System Refunding Revenue Bonds, Series 2015A in the amount of \$23,455,000 for the purpose of refunding \$26,290,000 of the outstanding balance of the Water Revenue Refunding Bonds, Series 2006A. The 2015A bonds are limited obligation bonds maturing annually from December 1, 2015 to June 1, 2028 bearing various interest rates between 2.0% and 5.0%.

The District has pledged all of the Net System Revenues for the debt service payment of the bond. The total principal and interest remaining to be paid on the bonds is \$28,892,500. For the current year, principal and interest paid on the bonds were \$2,355,280. The bonds contain various covenants and restrictions, principally that the District fix, prescribe, collect rates and charges for the Water Service, which are reasonably expected to be at least sufficient to yield, during each fiscal year net service revenues equal to one hundred and twenty-five percent (125%) of the debt service on senior obligations for such fiscal year, and one hundred percent (100%) of debt service on all obligations for such fiscal year.

The district refunded the Water Revenue Refunding Bonds, Series 2006A to reduce its total debt service payments over 13 years by \$3,477,991 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,583,584.

A summary of the refunding bonds is as follows:

Interest Rates	Fiscal Year Maturities (varying amounts)	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
2%–5%	2016–2027	\$ —	\$ 21,110,000	\$ 1,595,000	\$ 19,515,000
2.5%	2028	—	2,345,000	—	2,345,000
		<u>\$ —</u>	<u>\$ 23,455,000</u>	<u>\$ 1,595,000</u>	<u>\$ 21,860,000</u>

Total certificates outstanding as of June 30, 2016, net of unamortized bond premiums were as follows:

Principal outstanding at June 30, 2016	\$ 21,860,000
Plus unamortized bond premium	3,429,832
Net bonds outstanding at June 30, 2016	<u>\$ 25,289,832</u>

Future debt service requirements for the above bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 1,375,000	\$ 1,034,375	\$ 2,409,375
2018	1,440,000	965,625	2,405,625
2019	1,515,000	893,625	2,408,625
2020	1,590,000	817,875	2,407,875
2021	1,665,000	738,375	2,403,375
2022–2026	9,695,000	2,353,625	12,048,625
2027–2031	4,580,000	229,000	4,809,000
Total	<u>\$ 21,860,000</u>	<u>\$ 7,032,500</u>	<u>\$ 28,892,500</u>

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

7. Long-Term Debt (continued)

d. 2009 Water Revenue Bonds Payable

On October 21, 2009, for the purpose of making necessary upgrades to its David C. McCollom Water Treatment Plant, the District issued \$19,175,000 of 2009 Water Revenue Bonds which consisted of serial bonds and term bonds. The serial bonds mature annually from June 1, 2010 to June 1, 2028 and bear varying interest rates between 2.5% and 5.0%. The term bonds mature on June 1, 2031 to June 1, 2039 and bear varying interest rates between 4.5% and 5.00%. The Bonds maturing on or before June 2019 are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after June 2020 are subject to optional redemption on any date on or after June 2019 in whole or in part from redemption of the Installment Payments made at the option of the District pursuant to the Installment Purchase Contract at redemption price equal to the principal amount thereof to be redeemed together with accrued interest to the redemption date without premium.

The District has pledged a portion of the future net service revenue for the debt service payment of the bonds. The total principal and interest remaining to be paid on the bonds is \$27,683,250. For the current year, principal and interest paid on the bonds were \$1,204,575 which represents approximately 8.6% of the District's \$13.9 million net water system revenues. The bonds contain various covenants and restrictions, principally that the District fix, prescribe, revise and collect rates, fees and charges for the Water Service which will be at least sufficient to yield, during each fiscal year net revenues equal to one hundred fifteen percent (115%) of the debt service on senior obligations for such fiscal year, and one hundred percent (100%) of debt service on all obligations for such fiscal year.

A summary of the refunding bonds is as follows:

Interest Rates	Fiscal Year Maturities (varying amounts)	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
3.00–4.00%	2016–2019	\$ 1,755,000	\$ —	\$ 415,000	\$ 1,340,000
4.00–5.00%	2020–2039	15,270,000	—	—	15,270,000
		<u>\$ 17,025,000</u>	<u>\$ —</u>	<u>\$ 415,000</u>	<u>\$ 16,610,000</u>

Total certificates outstanding as of June 30, 2016, net of unamortized bond premiums were as follows:

Principal outstanding at June 30, 2016	\$ 16,610,000
Plus unamortized bond premium	315,215
Net bonds outstanding at June 30, 2016	<u>\$ 16,925,215</u>

Future debt service requirements for the above bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 430,000	\$ 775,050	\$ 1,205,050
2018	445,000	757,850	1,202,850
2019	465,000	740,050	1,205,050
2020	480,000	721,450	1,201,450
2021	505,000	697,450	1,202,450
2022–2026	2,890,000	3,132,000	6,022,000
2027–2031	3,605,000	2,412,500	6,017,500
2032–2036	4,515,000	1,504,150	6,019,150
2037–2039	3,275,000	332,750	3,607,750
Total	<u>\$ 16,610,000</u>	<u>\$ 11,073,250</u>	<u>\$ 27,683,250</u>

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

7. Long-Term Debt (continued)

e. 2007 Reassessment District 96-1 Limited Obligation Improvement Bonds

In September 2007, the District issued Reassessment District 96-1 Limited Obligation Improvement Bonds, Series 2007 in the principal amount of \$17,965,000 pursuant to the provisions of the Refunding Act of 1984 for 1915 Improvement Act Bonds. The Bonds were issued upon and secured by unpaid reassessments levied against certain property within the District's Reassessment District 96-1. The proceeds were used to refund the outstanding principal amount of the District's Assessment District 96-1, Limited Obligation Improvement Bonds, to fund a reserve fund for the Bonds, and to pay the costs of issuance incurred in connection therewith.

Purchasers of the Bonds will not receive certificates representing their beneficial ownership in the Bonds but will receive credit balances on the books of their respective nominees. Principal of and interest on the Bonds are payable by the trustee, and such principal and interest payments, and premium, if any, are to be disbursed to the beneficial owners of the Bonds through their nominees. Installments of principal and interest sufficient to meet annual Bond debt service are included on the regular county tax bills sent to owners of property against which there are unpaid reassessments.

A summary of the refunding bonds is as follows:

Interest Rates	Fiscal Year Maturities (varying amounts)	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
4-4.5%	2016-2022	\$ 7,205,000	\$ —	\$ 785,000	\$ 6,420,000
5.000%	2023-2027	6,065,000	—	—	6,065,000
		<u>\$ 13,270,000</u>	<u>\$ —</u>	<u>\$ 785,000</u>	<u>\$ 12,485,000</u>

The Limited Obligation Improvement Bonds outstanding at June 30, 2016, consist of serial certificates which mature annually from September 2, 2008, to September 2, 2022, and term certificates which mature on September 2, 2027.

Total certificates outstanding as of June 30, 2016, plus original issuance premium were as follows:

Principal outstanding at June 30, 2016	\$ 12,485,000
Plus unamortized bond premium	<u>31,272</u>
Net bonds outstanding at June 30, 2016	<u>\$ 12,516,272</u>

Future debt service requirements for the above bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 810,000	\$ 565,801	\$ 1,375,801
2018	845,000	531,350	1,376,350
2019	880,000	494,685	1,374,685
2020	920,000	455,640	1,375,640
2021	960,000	414,395	1,374,395
2022-2026	5,485,000	1,346,538	6,831,538
2027-2028	2,585,000	130,875	2,715,875
Total	<u>\$ 12,485,000</u>	<u>\$ 3,939,284</u>	<u>\$ 16,424,284</u>

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

8. Capital Contributions

Capital contributions for the years ended June 30 were as follows:

	2016	2015
Contributions of capital assets	\$ 1,508,273	\$ 4,481,612
Federal grants	—	25,767
Other grants	370,512	17,130
Total	<u>\$ 1,878,785</u>	<u>\$ 4,524,509</u>

9. Inventories

Inventories at June 30 consisted of the following:

	2016	2015
Water inventory	\$ 148,595	\$ 181,307
Materials inventory	1,378,952	1,411,773
	<u>\$ 1,527,547</u>	<u>\$ 1,593,080</u>

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

10. Pension Plans

Summary of Significant Accounting Policies

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

A. General Information about the Pension Plans:

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the District's 2.5% at 55 (Miscellaneous Plan), and 2% at 62 (PEPRA Miscellaneous Plan) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 or 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 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 each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous Plan	PEPRA Miscellaneous Plan
Hire date	Prior to January 1, 2013	On or After January 1, 2013
Benefit formula	2.5% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50–55	52–67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8%	6.25%
Required employer contribution rates	15.649%	6.23%

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

10. Pension Plans (continued)

A. General Information about the Pension Plans (continued):

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 the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

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

As of June 30, 2016 and 2015 respectively, the District reported net pension liabilities for its proportionate shares of the net pension liability as follows:

	<u>2016</u>	<u>2015</u>
Miscellaneous Plan	\$ 8,654,359	\$ 6,517,774
PEPRA Miscellaneous Plan	(622)	93
Total Net Pension Liability	<u>\$ 8,653,737</u>	<u>\$ 6,517,867</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

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

	Miscellaneous Plan	PEPRA Miscellaneous Plan
Proportion – June 30, 2014	0.2637%	0.0000%
Proportion – June 30, 2015	0.3155%	0.0000%
Change – Increase (Decrease)	0.0518%	0.0000%

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

10. Pension Plans (continued)

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

For the year ended June 30, 2016 and 2015 respectively, the District recognized pension expense of \$903,386 and \$419,727. At June 30, 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 subsequent to measurement date	\$ 937,828	\$ —
Differences between actual and expected experience	56,960	—
Change in assumptions	—	(538,899)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	1,164,349	(185,943)
Net differences between projected and actual earnings on plain investments	—	(270,157)
Total	<u>\$ 2,159,137</u>	<u>\$ (994,999)</u>

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 898,330	\$ —
Differences between actual and expected experience	—	—
Change in assumptions	—	—
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	296,362	(11,562)
Net differences between projected and actual earnings on plain investments	—	(2,190,305)
Total	<u>\$ 1,194,692</u>	<u>\$ (2,201,867)</u>

\$937,828 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2017	\$ 146,096
2018	125,754
2019	21,998
2020	(67,538)
2021	—
Thereafter	—

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

10. Pension Plans (continued)

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

Actuarial Assumptions:

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous Plan	PEPRA Miscellaneous Plan
Valuation Date	June 30, 2014	June 30, 2014
Measurement Date	June 30, 2015	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actual Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Projected Salary Increase	(1)	(1)
Investment Rate of Return	7.5% ⁽²⁾	7.5% ⁽²⁾
Mortality	(3)	(3)

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation.

(3) The probabilities of mortality are derived using CalPERS' membership data for all funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

Change of Assumptions:

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

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

10. Pension Plans (continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (continued):

Discount Rate:

The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each 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 Plans, 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 deemed 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 detailed report called "GASB Crossover Testing 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 returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long term expected rate of return, CalPERS took into account both short term and long term market return expectations as well as the expected pension fund cash flows. 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 (geometric) returns were calculated over the short term (first 10 years) and the long-term (11–60 years) using a building block approach. Using the expected nominal returns for both short term and long term, the present value of benefits was calculated for each 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. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

Asset Class	New Strategic Allocation	Real Return Years 1–10 ^(a)	Real Return Years 11+ ^(b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	(0.55%)	(1.05%)
Total	<u>100.00%</u>		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

10. Pension Plans (continued)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (continued):

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

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

	PEPRA	
	Miscellaneous Plan	Miscellaneous Plan
1% Decrease	6.65%	6.50%
Net Pension Liability	\$ 14,513,964	\$ (1,043)
Current Discount Rate	7.65%	7.50%
Net Pension Liability	\$ 8,654,359	\$ (622)
1% Increase	8.65%	8.50%
Net Pension Liability	\$ 3,816,574	\$ (274)

Pension Plan Fiduciary Net Position:

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

C. Payable to the Pension Plan:

The District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

11. Health Savings Plan

The Voluntary Employees' Beneficiary Association (VEBA) is a Medical Savings Plan that establishes a funded health reimbursement plan for eligible employees, former employees, and their dependents and beneficiaries as defined in the Plan pursuant to Internal Revenue Code Section 501 (c) (9). The District's VEBA plan was implemented on July 1, 2014 following the District's Board of Directors adoption of a resolution approving the VEBA program at the June 18, 2014 board meeting.

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

12. 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; job-related illnesses or injuries to employees; and natural disasters. The District purchases commercial insurance for its exposure to risk other than those under the workers' compensation laws. Commercial insurance expense amounted to \$220,242 and \$192,630 for the years ended June 30, 2016 and 2015, respectively.

The District's workers' compensation risk exposure is handled by the District's participation in the Special District Risk Management Authority (SDRMA) established by the California Special Districts Association. SDRMA is a risk pooling joint powers authority formed under the California Government Code to provide workers' compensation coverage for SDRMA's member districts. SDRMA purchases excess insurance from commercial carriers to reduce its exposure to large losses. Workers' compensation expense amounted to \$200,350 and \$181,404 for the years ended June 30, 2016 and 2015, respectively.

There were no instances in the past three years where a settlement exceeded the District's coverage provided through SDRMA or through the District's commercial carriers.

Real and Personal Property and Mobile Equipment: For Real and Personal Property, maximum replacement is no more than 100% of value shown in Statement of Value. For Mobile Equipment, maximum replacement of 100% of value shown in Statement of Value, and \$10,000 per item for unscheduled mobile equipment. Limits of insurance vary from \$2,500 per occurrence to the Blanket Limit of Insurance, with deductibles ranging from \$1,000 to \$2,500 per occurrence. Limit of insurance for equipment breakdown is 100% of value shown in Statement of Value.

Employee Dishonesty Coverage: \$250,000 limit with \$1,000 deductible per occurrence.

Forgery or Alteration Coverage: \$250,000 limit with \$1,000 deductible per occurrence.

Theft, Disappearance and Destruction Coverage: \$250,000 limit with \$1,000 deductible per occurrence for both inside and outside.

Computer Fraud Coverage: \$100,000 limit with \$1,000 deductible per occurrence.

Bodily Injury and Property Damage, Personal Injury and Advertising Injury, Professional Liability, Wrongful Acts, Employee Benefits Liability, and Employee Practices Liability Coverage: \$1,000,000 limit per occurrence with a \$3,000,000 aggregate limit. Professional Liability and Wrongful Acts Liability are subject to a \$10,000 deductible per claim. Additionally, the District carries a \$10,000,000 Excess Liability Policy that is in full effect.

Damage to Premises Rented to the District: \$1,000,000 limit for any one premise.

Auto Coverage: \$1,000,000 liability limit, \$5,000 auto medical payment limit and \$1,000,000 uninsured motorist limit per accident with deductibles. Comprehensive and Collision limits are the actual cash value or cost of repair with deductibles of \$500 for comprehensive and collision.

Workers' Compensation Coverage and Employer's Liability: Statutory limits per occurrence for Workers' Compensation and \$5.0 Million for Employer's Liability Coverage, subject to the terms, conditions and exclusions as provided in the Certificate of Coverage, effective July 1, 2015.

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

13. Economic Dependency

All potable water sold by the District is purchased from the San Diego County Water Authority (SDCWA). The District continues to offset its potable water consumption used for irrigation with recycled water through expansion of its recycled water system. The imported water supply shortage drives the need to diversify water supplies by developing alternative water sources locally to reduce reliance on potable water from SDCWA. All recycled water sold by the District is purchased from Rancho Santa Fe Community Services District, City of San Diego and San Elijo.

The District's recycled water system is comprised of two non-contiguous recycled water service areas, Northwest and Southeast. Recycled water sold by the District in the Northwest Quadrant of the District's Recycled Water System area is purchased from Vallecitos Water District and San Elijo Joint Powers Authority. Recycled water sold by the District in the Southeast Quadrant of the District's Recycled Water System comes from the District's 4S Water Reclamation Facility and purchases from City of San Diego and Rancho Santa Fe Community Services District.

14. Commitments and Contingencies

a. Contracts

The District has entered into contracts for the engineering and construction of additions to capital assets. Unfulfilled commitments under open contracts as of June 30 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Total open contracts	\$ 10,711,266	\$ 14,889,756
Less costs incurred as of June 30,	(7,674,671)	(3,209,961)
Remaining contractual commitments	<u>\$ 3,036,595</u>	<u>\$ 11,679,795</u>

b. Litigation

Management is of the opinion that there are no legal litigations that would have a material effect on the basic financial statements.

c. Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

15. Subsequent Event

In September 2016 the District issued Water System Refunding Revenue Bonds in the amount of \$15,990,000. The series 2016A bonds are limited obligations of the District payable solely from Net System Revenues of the District's Water System. The District owns and operates a Wastewater System but the revenues of the District's Wastewater System are not pledged to the payment of principal and interest on the 2016A bonds, and principal and interest on the 2016A bonds are not payable from the revenues of the District's Wastewater System. The 2016A bonds were issued to provide funds to currently refund the outstanding principal amount of the District's 2009 OMWD Financing Authority Water Revenue Bonds (Water Treatment Project), and to pay for the costs of issuance incurred.

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

16. Segment Information

During the June 30, 2016 fiscal year, the District issued Water System Refunding Bonds, Series 2015A to refund the outstanding balance of the Water Revenue Refunding Bonds, Series 2006A. While water and sewer services are accounted for jointly in these financial statements, the investors in the bonds rely solely on the revenues of the water services for repayment.

Summary financial information for the water services is presented for June 30, 2016.

Condensed Statement of Net Position June 30, 2016

	Water Services
ASSETS	
Current Assets	\$ 71,135,521
Capital Assets	333,849,810
Other Assets	160,437
Total Assets	<u>405,145,768</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount on refunding	733,225
Deferred amounts from pension	2,033,107
Total Deferred Outflows of Resources	<u>2,766,332</u>
LIABILITIES	
Current Liabilities	14,816,996
Long-Term Liabilities	74,676,140
Total Liabilities	<u>89,493,136</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred amount on pension	766,150
Total Deferred Inflows of Resources	<u>766,150</u>
Total Net Position	<u><u>\$ 317,652,814</u></u>

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

16. Segment Information (continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position For the Year Ended June 30, 2016

	<u>Water Services</u>
OPERATING REVENUES	
Water sales	\$ 40,936,218
Other water operating revenues	<u>1,560,779</u>
Total Operating Revenues	<u>42,496,997</u>
OPERATING EXPENSES	
Cost of purchased water sold	21,979,037
Pumping and water treatment	3,390,124
Transmission and distribution	3,482,086
Elfin Forest recreation operations	287,923
Facilities maintenance	814,142
Customer services	1,757,388
General and administrative	4,300,094
Depreciation and amortization	<u>11,519,473</u>
Total Operating Expenses	<u>47,530,267</u>
Operating Income (Loss)	(5,033,270)
NONOPERATING REVENUES (EXPENSES)	
Fair market value adjustment	41,828
Investment income	399,005
Property taxes	3,268,438
Capacity charges	1,482,945
Benefit assessments	1,451,642
Other nonoperating revenues	53,458
Interest expense, net	(2,629,591)
Other nonoperating expenses	<u>(1,111,999)</u>
Total Nonoperating Revenues (Expenses)	<u>2,955,726</u>
Income (Loss) Before Capital Contributions	(2,077,544)
Capital Contributions	<u>1,250,108</u>
Change in Net Position	(827,436)
Net Position, Beginning of Year	<u>318,480,250</u>
Net Position, End of Year	<u><u>\$ 317,652,814</u></u>

See accompanying Independent Auditors' Report.

Notes to the Basic Financial Statements (continued)

For the years ended June 30, 2016 and June 30, 2015

16. Segment Information (continued)

Condensed Statement of Cash Flows For the Year Ended June 30, 2016

	Water Services
Net cash provided by operating activities	\$ 6,794,014
Net cash provided by noncapital and related financing activities	4,712,287
Net cash provided (used) by capital and related financing activities	(17,625,683)
Net cash used by investing activities	<u>1,823,410</u>
Net increase (decrease) in cash and cash equivalents	(4,295,972)
Cash and cash equivalents, beginning	<u>38,490,132</u>
Cash and cash equivalents, ending	<u><u>\$ 34,194,160</u></u>

See accompanying Independent Auditors' Report.

Required Supplementary Information

For the years ended June 30, 2016 and June 30, 2015

1. Modified Approach for Steel Water Storage Tanks Infrastructure Capital Assets

In accordance with GASB Statement No. 34, the District is required to account for and report infrastructure capital assets. The District defines infrastructure as the basic physical assets including water storage tanks system, used by the District to conduct its business. Each major infrastructure system can be divided into subsystems.

The District has elected to use the Modified Approach as defined by GASB Statement No. 34 for infrastructure reporting for its Steel Water Storage Tanks System. Under GASB Statement No. 34, eligible infrastructure capital assets are not required to be depreciated under the following requirements:

- The District manages the eligible infrastructure capital assets using an assets management system with characteristics of: (1) an up-to-date inventory; (2) perform condition assessments and summarize the results using a measurement scale; and (3) estimate annual amount to maintain and preserve at the established condition assessment level.

The District documents that the eligible infrastructure capital assets are being preserved approximately at or above the established and disclosed condition assessment level.

In September 2007, the District commissioned a study of the physical condition assessment of the steel water storage tanks. Tank assessment components include tank structure, tank exterior coating, tank interior coating, tank dry interior, tank foundations, tank security and tank safety. The condition assessment will be performed at least every three years. Each tank was assigned a physical condition based on potential defects. A Tank Assessment Index (TAI), a nationally recognized index, was assigned to each tank and expressed in a continuous scale from 1.0 to 10.0, where 1.0 is assigned to the least acceptable physical condition and 10.0 is assigned the physical characteristics of a new tank. During fiscal year 2015–2016 inspections on the various tanks started in October 2015 and ended in March 2016.

The following conditions were defined:

Condition	TAI Range
Very Good	9.0 – 10.0
Good	7.0 – 8.9
Satisfactory	5.0 – 6.9
Sub Standard	3.0 – 4.9
Unacceptable	1.0 – 2.9

The District policy is to achieve a minimum average rating of 5.0 for all tanks which is a satisfactory rating. As of June 30, 2016, 2015, 2014, 2013, and 2012 the District's steel water storage tanks were rated as follows:

Tank #	Name	Size (Gallons)	Type	TAI				
				FY 15/16	FY 14/15	FY 13/14	FY 12/13	FY 11/12
1	4 S-2 Tank	4,000,000	Ground Storage	9.0	9.1	9.2	9.3	—
2	Zorro Tank	1,200,000	Ground Storage	7.7	7.8	8	8.1	8.3
3	Wiegand Tank	1,000,000	Ground Storage	10.0	10.0	6.9	7.2	8.5
4	Peay Tank	10,000,000	Ground Storage	9.4	9.6	9.7	9.8	7
5	Denk Tank	10,000,000	Ground Storage	8.6	9.0	9.2	9.5	9.7
6	4S Tank	10,000,000	Ground Storage	8.0	8.3	8.4	8.7	9.9
7	Cielo Tank	1,000,000	Ground Storage	9.2	9.3	9.4	9.5	9.8
8	Roger Miller Tank	8,000,000	Ground Storage	9.3	6.8	6.9	7.7	8.9
9	Thelma Miller Tank	1,000,000	Ground Storage	8.0	8.1	8.5	8.7	8.8

Required Supplementary Information (continued)

For the years ended June 30, 2016 and June 30, 2015

1. Modified Approach for Steel Water Storage Tanks Infrastructure Capital Assets (continued)

The District expensed \$673,666 and \$638,545 on the steel water storage tanks maintenance for the fiscal years ended June 30, 2016 and 2015, respectively. These expenses delayed deterioration; however, the overall condition of the steel water storage tanks was not improved through these maintenance expenses. The District has estimated that the amount of annual expenses required to maintain the District's steel water storage tanks at the average TAI rating of 5.0 through the year 2016 is a minimum of \$673,666. A schedule of actual expenses to maintain and preserve the steel water storage tanks at the current level is presented below:

Tank #	Name	Maintenance Expenses 2016		Maintenance Expenses 2015		Maintenance Expenses 2014		Maintenance Expenses 2013		Maintenance Expenses 2012	
		Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
1	Palms #2 Tank	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 69,896	\$ 69,896
2	4 S-2 Tank	47,309	47,309	44,843	44,843	44,843	44,843	44,483	22,422	—	—
3	Zorro Tank	27,000	27,600	26,161	26,161	26,161	26,161	24,865	24,865	23,569	23,569
4	Wiegand Tank	20,733	20,733	19,652	19,652	19,652	19,652	19,129	19,129	18,605	18,605
5	Peay Tank	134,721	134,721	127,697	127,697	208,146	208,146	224,746	144,298	321,796	321,796
6	Denk Tank	142,834	142,834	135,387	135,387	135,287	135,287	233,698	233,698	332,008	332,008
7	4S Tank	135,348	135,348	128,292	128,292	128,292	128,292	220,664	220,664	313,035	313,035
8	Cielo Tank	23,678	23,678	22,443	22,443	22,443	22,443	34,682	34,682	46,921	46,921
9	Roger Miller Tank	119,570	119,570	113,336	113,336	113,336	113,336	197,965	197,965	282,593	282,593
10	Thelma Miller Tank	21,873	21,873	20,733	20,733	20,733	20,733	20,005	20,005	19,276	19,276
Total		<u>\$ 673,666</u>	<u>\$ 673,666</u>	<u>\$ 638,545</u>	<u>\$ 638,545</u>	<u>\$ 718,894</u>	<u>\$ 718,994</u>	<u>\$1,020,236</u>	<u>\$ 917,725</u>	<u>\$1,427,699</u>	<u>\$1,427,699</u>

See accompanying Independent Auditors' Report.

Required Supplementary Information (continued)

For the years ended June 30, 2016 and June 30, 2015

2. Schedule of Contributions – Defined Benefit Pension Plans

Last Ten Fiscal Years*

	2016	2015
Contractually required contribution (actuarially determined)	\$ 898,330	\$ 825,748
Contributions in relation to the actuarially determined contributions	898,330	825,748
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>
Covered – employee payroll	\$ 6,083,865	\$ 5,906,665
Contributions as a percentage of covered – employee payroll	14.77%	13.98%

Notes to Schedule:

Valuation Date 6/30/2013

Methods and Assumptions Used to Determine Contribution Rates:

Cost-sharing employers	Entry age normal cost method
Amortization method	Level percentage of payroll, closed
Remaining amortization period	21 years (2.5%@55), 30 years (2%@62)
Asset valuation method	15-year smoothed market
Inflation	2.75%
Salary increases	3.30% to 14.20% depending on age, service, and type of employment; including inflation of 2.75%
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	50 years (2.5%@55), 52 years (2%@62)
Mortality	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those rates include 20 years of mortality improvements using Scale BB published by the Society of Actuaries. For more details on this table, refer to the 2014 experience study report.

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

Required Supplementary Information (continued)

For the years ended June 30, 2016 and June 30, 2015

3. Schedule of Proportionate Share of the Net Pension Liability

Last Ten Fiscal Years*

	<u>2016</u>	<u>2015</u>
Miscellaneous Plan		
Plan's Proportion of the Net Pension Liability	0.3155%	0.10475%
Plan's Proportionate Share of the Net Pension Liability	\$ 8,654,359	\$ 6,517,774
Plan's Covered-Employee Payroll	\$ 5,982,403	\$ 5,808,158
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	144.66%	112.22%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	78.83%	83.03%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 1,115,218	\$ 862,277
PEPRA Miscellaneous Plan		
Plan's Proportion of the Net Pension Liability	0.00000%	0.00000%
Plan's Proportionate Share of the Net Pension Liability	\$ (622)	\$ 93
Plan's Covered-Employee Payroll	\$ 101,462	\$ 98,507
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	-0.61%	0.09%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	1.03%	83.06%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 795	\$ 12

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

The discount rate was changed from 7.5% (net of administrative expense) to 7.65%.

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



Beautiful but Dangerous by Michael Cini
2016 Elfin Forest Recreational Reserve Photo Contest
Animals Winner





Statistical Section

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Elfin by Ivan Segovia-Jimenez
2016 Elfin Forest Recreational Reserve Photo Contest
Water Scenery Winner



Statistical Section

Government Accounting Standards Board (GASB) Statement No. 44 “Economic Condition Reporting: The Statistical Section (an amendment of NCGA Statement 1)” requires that statistical information be presented as part of the Comprehensive Annual Financial Report.

Contents	Table No.
Financial Trends	I – II
These tables show the current and historical financial trends regarding the nature of investments and ownership during the reporting period to assess the liquidity and financial strength of the District.	
Net Position is the accumulated value of the District’s assets minus its liabilities. Changes in Net Position (total revenue less total expenses) measures the success of the District’s operations during the reporting period and its ability to meet its financial commitments.	
Revenue Capacity	III – IX
These tables provide more detailed information about the District’s revenues and expenses. Tables presented in this section show the District’s activities during the reporting year broken down by sources to provide the reader with more information in assessing the District’s financial health over the reporting period. These tables can also be used to assess whether or not the District has successfully recovered all of its costs through its users fees and other charges.	
The District’s user rates and charges are established by the Board of Directors and are not subject to regulation by the California Public Utilities Commission or by any other local, state, or federal agency. The District is in compliance with Article XIID of the California State Constitution and Proposition 218 Omnibus Implementation Act.	
While the District does not assess a special tax rate, it receives a proportionate amount of ad-valorem tax as established by Proposition 13. The District levies and collects through the San Diego County Tax Assessor office for Assessment District 96-1 bonds that were originally issued in 2006 to finance the construction of the Olivenhain Dam and Reservoir project.	
Debt Capacity	X – XIV
These tables provide information on the District’s ability to issue additional debts in the future.	
Demographic and Economic Information	XV – XVI
Tables presented in this section will help the reader assess the District’s community profile. Since the District’s service area overlaps between several major cities and includes an unincorporated area, statistical information included in these tables represent the San Diego County economic data as a whole. Demographic and Economic data presented have been collected from reasonably accurate sources, however, they should not be relied on in connection with any issuance of bonds.	
Operating Information	XVII – XVIII
Tables presented contain internal information about the District’s water and sewer operations to measure operational efficiency.	

Table I – Net Position by Component

Last Ten Fiscal Years

	Fiscal Year ended June 30									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Primary government										
Net investment in capital assets	\$ 321,760,574	\$ 315,240,098	\$ 314,218,584	\$ 318,296,589	\$ 311,580,338	\$ 293,872,403	\$ 286,610,326	\$ 279,366,040	\$ 254,257,148	\$ 238,629,147
Restricted	15,355,420	20,852,200	22,359,148	18,114,492	19,467,012	18,866,541	17,810,524	19,240,762	20,789,011	16,762,040
Unrestricted	49,398,148	50,582,280	53,318,489	45,055,363	38,929,080	49,384,856	50,763,595	33,896,982	29,178,060	28,477,162
Total Net Position	\$ 386,514,142	\$ 386,674,578	\$ 389,896,221	\$ 381,466,444	\$ 369,976,430	\$ 362,123,800	\$ 355,184,445	\$ 332,503,784	\$ 304,224,219	\$ 283,868,349

Source: Olivenhain Municipal Water District

Table II – Changes in Net Position

Last Ten Fiscal Years

	Fiscal Year ended June 30									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Operating Revenues										
Water sales	\$ 40,936,218	\$ 45,145,400	\$ 47,875,747	\$ 43,098,120	\$ 37,384,046	\$ 33,184,036	\$ 32,982,238	\$ 31,225,792	\$ 29,998,376	\$ 28,917,367
Sewer charges	4,474,853	4,656,781	4,246,033	4,178,503	4,084,962	3,835,655	4,053,951	3,429,002	2,889,643	2,937,363
Other water operating revenues	1,560,779	1,077,003	2,098,535	1,215,714	2,173,176	1,698,694	1,402,552	1,084,088	711,067	1,524,153
Total operating revenues	46,971,850	50,879,184	54,220,315	48,492,337	43,642,184	38,718,385	38,438,741	35,738,882	33,599,086	33,378,883
Operating Expenses										
Cost of purchased water sold	\$ 21,979,036	\$ 23,634,844	\$ 25,074,331	\$ 24,157,374	\$ 19,512,651	\$ 16,628,256	\$ 16,174,616	\$ 15,323,095	\$ 15,867,843	\$ 13,099,000
Pumping and water treatment	3,390,124	3,629,349	3,915,661	2,761,823	3,390,052	3,075,157	3,168,594	3,009,607	2,469,936	2,865,126
Transmission and distribution	3,482,086	3,348,083	3,666,030	3,041,766	3,272,760	3,005,713	3,297,681	2,917,128	3,335,832	1,999,934
Sewer collection and treatment	1,758,907	1,703,761	1,767,162	1,555,363	1,606,913	1,561,798	1,652,561	1,504,800	1,481,740	1,234,635
Elfin Forest recreation operations	287,923	187,525	198,143	161,710	186,058	142,843	44,260	52,196	57,233	57,469
Facilities maintenance	843,456	888,677	821,966	738,018	756,320	835,008	660,740	761,114	796,041	611,202
Customer services	1,757,388	1,205,838	1,057,472	1,003,099	1,048,818	1,061,198	1,207,371	1,098,765	1,021,502	994,594
General and administrative	5,388,804	5,141,239	4,513,964	3,957,431	4,479,842	4,130,195	3,764,172	3,676,817	3,682,529	3,790,112
Depreciation and amortization	13,053,286	13,757,848	13,661,241	12,837,065	12,134,222	11,737,739	10,520,489	9,529,179	9,235,015	8,799,907
Total operating expenses	51,941,010	53,497,164	54,675,970	50,213,649	46,387,636	42,177,907	40,490,484	37,872,701	37,947,671	33,451,979
Operating income (loss)	(4,969,160)	(2,617,980)	(455,655)	(1,721,312)	(2,745,452)	(3,459,522)	(2,051,743)	(2,133,819)	(4,348,585)	(73,096)
Non-operating Revenues (expenses)										
Investment income, net										
of market value adjustment	\$ 514,911	\$ 457,182	\$ 474,651	\$ (22,367)	\$ 418,405	\$ 490,879	\$ 433,991	\$ 1,021,182	\$ 2,093,089	\$ 2,223,159
Property taxes	3,268,438	3,066,946	2,896,741	2,806,377	2,744,003	2,747,001	2,866,424	2,913,362	2,847,329	2,597,223
Capacity charges	1,482,945	1,792,125	4,944,025	1,960,514	1,813,326	1,536,719	811,782	1,978,289	4,520,998	5,399,591
Benefit assessments	1,451,751	1,375,093	1,516,201	1,507,511	1,516,694	1,598,284	1,593,028	1,608,792	1,650,563	1,854,294
Other non-operating revenues	53,458	137,836	347,610	16,508	24,412	38,401	428,793	284,972	3,902	79,988
Interest expense, net	(2,629,591)	(2,879,588)	(3,037,510)	(2,056,136)	(2,045,993)	(2,154,079)	(2,234,478)	(2,510,433)	(2,917,352)	(3,209,821)
Other non-operating expenses	(1,211,973)	(358,178)	(2,448,061)	(950,689)	(235,462)	(794,860)	(961,275)	(506,139)	(869,673)	(504,866)
Total non-operating revenues (expenses)	2,929,939	3,591,416	4,693,657	3,261,718	4,235,385	3,462,345	2,938,265	4,790,025	7,328,856	8,439,568
Income before capital contributions	(2,039,221)	973,436	4,238,002	1,540,406	1,489,933	2,823	886,522	2,656,206	2,980,271	8,366,472
Capital contributions	1,878,785	4,524,509	4,191,775	9,949,608	8,303,606	6,936,532	21,794,139	25,623,359	17,375,599	29,800,337
Change in net position	(160,436)	5,497,945	8,429,777	11,490,014	9,793,539	6,939,355	22,680,661	28,279,565	20,355,870	38,166,809
Net Position										
Beginning of year	\$ 386,674,578	\$ 389,896,221	\$ 381,466,444	\$ 369,976,430	\$ 362,123,800	\$ 355,184,445	\$ 332,503,784	\$ 304,224,219	\$ 283,868,349	\$ 245,701,540
Prior year adjustment	—	(8,719,588)	—	—	(1,940,909)	—	—	—	—	—
End of year	\$ 386,514,142	\$ 386,674,578	\$ 389,896,221	\$ 381,466,444	\$ 369,976,430	\$ 362,123,800	\$ 355,184,445	\$ 332,503,784	\$ 304,224,219	\$ 283,868,349

Source: Olivenhain Municipal Water District

Table III – Revenues by Source

Last Ten Fiscal Years

Fiscal Year Ended	OPERATING REVENUES						NONOPERATING REVENUES						
	Water Sales ⁽¹⁾	Service Charges ⁽¹⁾	Meter Installs	Sewer Charges	Other	Total Operating Revenues	Investment Income Net of Market Value Adjustments	Prop. Taxes and Benefit Assessment	Capacity Charges ⁽²⁾	Capital Contributions ⁽³⁾	Other ⁽⁴⁾	Total Non-operating Revenues	TOTAL REVENUES
2016	\$28,335,031	\$12,601,187	\$ (23,890)	\$ 4,474,853	\$ 1,584,669	\$46,971,850	\$ 514,911	\$ 4,720,189	\$ 1,482,945	\$ 1,878,785	\$ 53,458	\$ 8,650,288	\$55,622,138
2015	33,309,929	11,835,471	49,247	4,656,781	1,027,756	50,879,184	457,182	4,442,039	1,792,125	4,524,509	137,836	11,353,691	62,232,875
2014	36,602,714	11,273,033	20,946	4,246,033	2,077,589	54,220,315	474,651	4,412,942	4,944,025	4,191,775	347,610	14,371,003	68,591,318
2013	32,430,072	10,668,048	166,262	4,178,503	1,049,452	48,492,337	(22,367)	4,313,888	1,960,514	9,949,608	16,508	16,218,151	64,710,488
2012	27,485,339	9,898,707	143,902	4,084,962	2,029,274	43,642,184	418,405	4,260,697	1,813,326	8,303,606	24,412	14,820,446	58,462,630
2011	24,205,582	8,978,454	152,010	3,835,655	1,546,684	38,718,385	490,879	4,345,285	1,536,719	6,936,532	38,401	13,347,816	52,066,201
2010	24,703,143	8,279,095	139,750	4,053,951	1,262,802	38,438,741	433,991	4,459,452	811,782	21,794,139	428,793	27,928,157	66,366,898
2009	23,925,551	7,300,241	33,925	3,429,002	1,050,163	35,738,882	1,021,182	4,522,154	1,978,289	25,623,359	284,972	33,429,956	69,168,838
2008	23,258,813	6,739,563	249,545	2,889,643	461,522	33,599,086	2,093,089	4,497,892	4,520,998	17,375,599	3,902	28,491,480	62,090,566
2007	22,675,627	6,241,740	325,910	2,937,363	1,198,243	33,378,883	2,223,159	4,451,517	5,399,591	29,800,337	79,988	41,954,592	75,333,475

Source: Olivenhain Municipal Water District

Notes: (1) Include estimated amount for unbilled potable and recycled water sales and monthly fixed charges.
(2) Fees paid by developers and new customers for water services.
(3) Cash contributions or contributions of capital assets in kind or when governmental constructions are earned.
(4) Other revenues includes excess treated water capacity revenues, rental income, settlement, and demand offset fees.

Table IV – Expenses by Function

Last Ten Fiscal Years

Fiscal Year Ended	OPERATING EXPENSES								NONOPERATING EXPENSES			
	Cost of Water Sold	Pumping and Water Treatment	Transmission and Distribution	Sewer Collection and Treatment	Customer Services	Depreciation and Amortization	Other ⁽¹⁾	Total Operating Expenses	Interest Expense	Other	Total Non-operating Expenses	TOTAL EXPENSES
2016	\$21,979,036	\$ 3,390,124	\$ 3,482,086	\$ 1,758,907	\$ 1,757,388	\$13,053,286	\$ 6,520,185	\$51,941,010	\$ 2,629,591	\$ 1,211,973	\$ 3,841,564	\$55,782,574
2015	23,634,844	3,629,349	3,348,083	1,703,761	1,205,838	13,757,848	6,217,441	53,497,164	2,879,588	358,178	3,237,766	56,734,930
2014	25,074,331	3,915,661	3,666,030	1,767,162	1,057,472	13,661,241	5,534,073	54,675,970	3,037,510	2,448,061	5,485,571	60,161,541
2013	24,157,374	2,761,823	3,041,766	1,555,363	1,003,099	12,837,065	4,857,159	50,213,649	2,056,136	950,689	3,006,825	53,220,474
2012	19,512,651	3,390,052	3,272,760	1,606,913	1,048,818	12,134,222	5,422,220	46,387,636	2,045,993	2 35,462	2,281,455	48,669,091
2011	16,628,256	3,075,157	3,005,713	1,561,798	1,061,198	11,737,739	5,108,046	42,177,907	2,154,079	794,860	2,948,939	45,126,846
2010	16,174,616	3,168,594	3,297,681	1,652,561	1,207,371	10,520,489	4,469,172	40,490,484	2,234,478	961,275	3,195,753	43,686,237
2009	15,323,095	3,009,607	2,917,128	1,504,800	1,098,765	9,529,179	4,490,127	37,872,701	2,510,433	506,139	3,016,572	40,889,273
2008	15,867,843	2,469,936	3,335,832	1,481,740	1,021,502	9,235,015	4,535,803	37,947,671	2,917,352	869,673	3,787,025	41,734,696
2007	13,099,000	2,865,126	1,999,934	1,234,635	994,594	8,799,907	4,458,783	33,451,979	3,209,821	504,866	3,714,687	37,166,666

Source: Olivenhain Municipal Water District

Note: (1) Included in other operating expenses: General and Administrative, facilities maintenance, and Elfin Forest operating costs.

Table V – Water Sales by Source⁽¹⁾

Last Ten Fiscal Years

Fiscal Year Ended	Domestic/Commercial		Agriculture		Untreated Water		Recycled Water		Total		Combined Direct Rate ⁽²⁾	
	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	Value	Acre Feet	\$/Acre Feet	\$ HCF
2016	\$ 25,085,001	14,310.2	\$ 787,221	497.0	\$ —	—	\$ 2,533,961	1,856.2	\$ 28,406,182	16,663.4	\$ 1,705	\$ 3.91
2015	29,914,133	17,992.9	1,092,527	706.8	—	—	3,112,981	2,323.3	34,119,641	21,023.0	1,623	3.73
2014	31,733,764	19,840.5	1,269,068	824.2	—	—	3,317,826	2,561.5	36,320,659	23,226.2	1,564	3.59
2013	27,830,418	18,552.9	1,119,726	757.3	—	—	3,016,610	2,467.2	31,966,754	21,777.4	1,468	3.37
2012	23,917,000	17,348.2	910,404	664.2	—	—	2,420,870	2,139.0	27,248,274	20,151.4	1,352	3.10
2011	21,068,730	16,592.8	836,623	657.3	—	—	2,101,128	2,006.1	24,006,481	19,256.2	1,247	2.86
2010	20,801,219	17,532.8	1,081,946	921.7	—	—	2,380,764	2,498.3	24,263,929	20,952.8	1,158	2.66
2009	21,088,732	20,685.6	1,346,013	1,278.2	—	—	1,736,962	2,122.9	24,171,707	24,086.7	1,004	2.30
2008	20,314,572	21,786.0	1,390,749	1,487.1	—	—	1,478,086	1,919.5	23,183,407	25,192.6	920	2.11
2007	19,626,782	22,116.1	1,515,199	1,728.5	273,012	345.5	971,035	1,289.1	22,386,029	25,479.2	879	2.02

Source: Olivenhain Municipal Water District

Notes: (1) Exclude estimates unbilled water sales, and water sales to other agencies and district project.

(2) Calculated based on total water sales divided by total volume. 1 acre-foot = 43,600 cubic feet = 325,900 gallons.

Table VI – Rate by Activity

Last Ten Fiscal Years

	Fiscal Year ended June 30									
	2016 ⁽⁸⁾	2015 ⁽⁷⁾	2014 ⁽⁷⁾	2013 ⁽⁷⁾	2012 ⁽⁷⁾	2011 ⁽⁷⁾	2010 ⁽⁷⁾	2009 ⁽⁷⁾	2008	2007
Potable Water⁽¹⁾										
Monthly System Access Charge	\$ 33.88	\$ 31.97	\$ 30.76	\$ 29.87	\$ 27.79	\$ 25.85	\$ 23.75	\$ 21.06	\$ 19.32	\$ 18.06
Monthly Commodity Charge										
Domestic Rate ⁽²⁾										
1st Tier	2.50	2.25	2.32	2.26	2.10	1.95	1.79	1.58	1.45	1.42
2nd Tier	4.35	3.93	3.71	3.61	3.36	3.13	2.88	2.55	2.23	2.11
3rd Tier	5.60	4.65	4.75	4.62	4.30	4.00	3.68	3.25	2.60	2.45
4th Tier	6.26	5.44	—	—	—	—	—	—	—	—
Commercial Rate										
1st Tier	3.64	3.36	3.90	3.79	3.53	3.28	3.03	2.67	2.33	2.19
2nd Tier	—	—	4.97	4.83	4.49	4.18	3.84	3.39	2.71	2.55
Irrigation ⁽³⁾										
1st Tier	3.99	3.60	—	—	—	—	—	—	—	—
2nd Tier	5.61	4.88	—	—	—	—	—	—	—	—
Agricultural Rate	4.26	3.93	3.70	3.60	3.35	3.12	2.87	2.54	2.22	2.09
Credit ⁽⁴⁾	(0.90)	(0.77)	(0.47)	(0.40)	(0.23)	(0.26)	(0.27)	(0.33)	(0.30)	(0.27)
Untreated Water⁽¹⁾										
Monthly System Access Charge	N/A	N/A	N/A	N/A	N/A	N/A	N/A	21.06	19.32	18.06
Untreated Water	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2.50	1.99	1.87
Recycled⁽¹⁾										
Monthly System Access Charge	\$ 33.88	31.97	30.76	29.87	27.79	25.85	23.75	21.06	19.32	18.06
Monthly Commodity Charge	3.37	3.18	3.03	2.95	2.74	2.55	2.34	1.97	1.84	1.73
Sewer⁽⁵⁾										
Annual System Access Charge per EDU ⁽⁶⁾										
4S Ranch	\$ 147.00	147.00	147.00	147.00	147.00	147.00	147.00	146.00	147.00	142.00
Rancho Cielo	147.00	147.00	147.00	147.00	147.00	147.00	147.00	146.00	183.00	177.00
Multi-Family and Commercial	147.00	147.00	147.00	147.00	147.00	147.00	147.00	146.00	146.00	142.00
Commodity Charge per unit										
Domestic Rate	6.00	6.00	6.00	6.00	6.00	6.00	6.00	—	—	—
Multi-Family Rate	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	4.58
Commercial Rate										
Group I	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	4.58
Group II	9.29	9.29	9.29	9.29	9.29	9.29	9.29	7.00	7.00	6.23
Group III	15.86	15.86	15.86	15.86	15.86	15.86	15.86	14.00	14.00	12.75
Annual Commodity Flat Charge per EDU										
Domestic Rate										
4S Ranch	—	—	—	—	—	—	—	389.00	364.00	352.00
Rancho Cielo	—	—	—	—	—	—	—	538.00	457.00	441.00

Source: Olivenhain Municipal Water District

Notes: (1) Commodity rates shown are monthly charges per unit (1 unit = 748 gallons.) Rates are based on 3/4" size meter (the most common meter size for Potable water), and 2" size meter (for Recycled water).

(2) In FY 2016, domestic tiered rate allocation for Water was: 1st Tier (0–6 units), 2nd Tier (7–25 units), 3rd Tier (26–80 units), 4th Tier (greater than 80 units).

(3) Commodity charges by rate tier are calculated using seasonal allotments based on meter size. Starting March 31, 2015 summer tier rate allocations for a 3/4" meter are: 1st Tier (0–30 units), 2nd Tier (greater than 30 units).

(4) Calendar year based (January 1 to December 31).

(5) Based on previous years water usage (1 unit = 748 gallons).

(6) An Equivalent Dwelling Unit (EDU) means the standard measurement of sewage discharged into the sewer system equal to the average discharge from a detached single family unit.

(7) Water Supply Shortage Watch Level 1 Rate.

(8) Water Supply Shortage Watch Level 2 Rate.

Table VII – Principal Water Consumers⁽¹⁾

Current and Nine Years Ago

FISCAL YEAR ENDED 2016			FISCAL YEAR ENDED 2007		
Customer Name	Usage (AF)	% of Water Sold	Customer Name	Usage (AF)	% of Water Sold
4S Ranch Master HOA	398.4	2.39%	Del Mar Country Club	356.3	1.44%
The Bridges Club at RSF Inc	309.0	1.85%	HCC Investors	351.5	1.42%
The Bridges Club at RSF Comm Assoc	288.1	1.73%	Crosby National Golf	311.4	1.26%
Fairbanks Ranch Country Club	260.9	1.57%	La Costa Oaks Association	271.2	1.10%
Rancho Santa Fe Farms Golf Inc	183.2	1.10%	Rancho Santa Fe Farms Golf	238.0	0.96%
Crosby National Golf Club	175.7	1.05%	Crosby Estates HOA	237.0	0.96%
La Costa Oaks Association	140.5	0.84%	Fairbanks Ranch Country Club	222.0	0.90%
Crosby Estates HOA	131.8	0.79%	County of San Diego DPW	203.9	0.83%
Del Mar Country Club	128.9	0.77%	Rancho Cielo Estates	188.7	0.76%
La Costa Glen Carlsbad	122.1	0.73%	La Costa Valley Master Association	179.5	0.73%
Total top ten consumers	2,138.6	12.83%	Total top ten consumers	2,559.5	10.37%
Other consumers	14,524.6	87.17%	Other consumers	22,126.8	89.63%
Total water billed	16,663.2	100.00%	Total water billed	24,686.3	100.00%

Source: Olivenhain Municipal Water District

Note: (1) Includes potable and recycled water; excludes district interconnects and meters.

Table VIII – Property Tax and Special Assessment

Last Ten Fiscal Years

Current Year Levy ⁽¹⁾						
Fiscal Year Ended	Property Taxes ⁽²⁾	Special Assessment ⁽³⁾	Total Levy	Total Collection Through June 30 ⁽⁴⁾	Net Uncollected at June 30	Percent Uncollected at June 30
2016	\$ 3,237,786	\$ 1,432,319	\$ 4,670,105	\$ 4,698,456	\$ (28,351)	– 0.61%
2015	3,065,704	1,336,411	4,402,115	4,457,893	(55,778)	– 1.27%
2014	2,979,746	1,441,062	4,420,808	4,362,648	58,160	1.32%
2013	2,885,797	1,443,461	4,329,258	4,270,208	59,050	1.36%
2012	2,850,062	1,442,319	4,292,381	4,203,687	88,694	2.07%
2011	2,872,014	1,460,434	4,332,448	4,277,198	55,251	1.28%
2010	2,945,076	1,460,946	4,406,022	4,280,645	125,377	2.85%
2009	2,983,573	1,457,804	4,441,378	4,266,085	175,293	3.95%
2008	2,906,895	1,454,458	4,361,353	4,228,100	133,253	3.06%
2007	2,671,513	1,569,210	4,240,723	4,103,965	136,757	3.22%

Source: County of San Diego Office of the Auditor Controller and NBS

Notes: (1) Excludes Sewer Service and Stand-by Charges.

(2) Includes only current secured and unsecured charges. Excludes delinquent charges, which were reported in previous year.

(3) Special Assessment includes special assessment debt with government commitment (RAD 96-1).

(4) Includes monies collected for all outstanding years, and includes late charges and interest on delinquent payments collected.

Table IX – Assessed Value of Taxable Property

Last Ten Fiscal Years

SECURED							
Fiscal Year Ended	Real Property	Personal Property	Exemptions	Net Assessed Secured Value	Assessed Unsecured Value	Total Assessed Value	Tax Rate ⁽¹⁾
2016	\$ 20,566,012,446	\$ 83,195,335	\$ (226,276,546)	\$ 20,422,931,235	\$ 211,765,389	\$ 20,634,696,624	—
2015	19,505,795,291	94,184,239	(219,022,211)	19,380,957,319	241,734,960	19,622,692,279	—
2014	18,192,814,739	126,126,709	(209,610,305)	18,109,331,143	227,878,909	18,337,210,052	—
2013	17,692,363,954	81,030,718	(203,823,254)	17,569,571,418	247,720,500	17,817,291,918	—
2012	17,797,369,049	67,436,434	(182,825,199)	17,681,980,284	240,761,457	17,922,741,741	—
2011	17,714,129,158	68,362,083	(151,920,800)	17,630,570,441	229,971,246	17,860,541,687	—
2010	18,054,329,367	76,019,011	(165,626,556)	17,964,721,822	238,432,869	18,203,154,691	—
2009	18,217,797,984	50,690,988	(141,552,505)	18,126,936,467	226,579,931	18,353,516,398	—
2008	17,269,455,060	46,139,854	(118,398,187)	17,197,196,727	198,808,714	17,396,005,441	—
2007	15,376,035,184	40,031,782	(104,998,296)	15,311,068,670	183,788,737	15,494,857,407	—

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

Notes: (1) The District neither sets its own tax rate nor assesses a tax rate. The District receives its proportionate share of property taxes levied by the County of San Diego in accordance with Proposition 13.

Table X – Ratios of Net Bonded Debt to Assessed Value and Net Bonded Debt Per Capita

Last Ten Fiscal Years

Fiscal Year Ended	Gross Bonded Debt ⁽¹⁾	Add: Premium	Less: Reserve Funds	Net Bonded Debt	Total Secured Real Property ⁽²⁾	Debt to Total Secured Real Property	Population Estimate ⁽³⁾	Net Bonded Debt Per Capita	Personal Income	As a Share of Personal Income
2016	\$ 12,485,000	\$ 31,272	\$ 1,397,568	\$ 11,118,704	\$ 20,566,012,446	0.05%	85,010	\$ 131	\$ 4,611,452,460	0.24%
2015	13,270,000	34,072	1,398,953	11,905,119	19,505,795,291	0.06%	84,352	141	4,460,955,520	0.27%
2014	14,020,000	36,873	1,398,954	12,657,919	18,192,814,739	0.07%	83,368	152	4,194,623,309	0.30%
2013	14,765,000	39,674	1,428,025	13,376,649	17,692,363,954	0.08%	82,355	162	4,110,090,985	0.33%
2012	15,460,000	42,474	1,297,771	14,204,703	17,797,369,049	0.08%	81,701	174	4,002,531,990	0.35%
2011	16,150,000	45,274	815,793	15,379,481	17,714,129,158	0.09%	80,964	190	3,812,999,580	0.40%
2010	16,795,000	48,074	1,260,508	15,582,566	18,054,329,367	0.09%	80,385 ⁽⁴⁾	194	3,582,196,755	0.44%
2009	17,450,000	50,875	1,202,382	16,298,493	18,217,797,984	0.09%	56,512	288	2,476,299,328	0.66%
2008	17,965,000	53,676	2,482,064	15,536,612	17,269,455,060	0.09%	55,809	278	2,560,851,774	0.61%
2007	18,300,000	—	3,398,077	14,901,923	15,376,035,184	0.10%	55,071	271	2,460,572,280	0.61%

Source: Olivenhain Municipal Water District, the Office of the Auditor Controller, County of San Diego, SANDAG, California DOF, Bureau of Economic Analysis

Notes: (1) Gross Bonded Debt is a special assessment debt with government commitment. It is the outstanding balance of Re-Assessment District 96-1 Bond at the end of the fiscal year. The District has no direct debt.

(2) Total Secured Real Property is the total secured value of land and Improvements as stated on County of San Diego Assessed Valuation report for each fiscal year, exclusive of personal property, exemptions and unsecured property.

(3) Values for FY 2011 and beyond based on California Department of Finance population growth estimates for San Diego County.

(4) Population estimate for FY 2010 revised using California Department of Finance's Special District Population Benchmark based on 2010 census data.

Table XI – Direct and Overlapping Debt

June 30, 2015

2015–16 Assessed Valuation: \$20,634,696,624

	Total Debt as of 6/30/2016	% Applicable ⁽¹⁾	District's Share of Debt as of 6/30/2016
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:			
Metropolitan Water District	\$ 92,865,000	0.842%	\$ 781,923
Palomar Community College District	515,523,901	4.624	23,565,185
Poway Unified School District School Facilities Improvement District No. 2002-1	152,238,567	4.660	7,094,317
Poway Unified School District School Facilities Improvement District No. 2007-1	178,999,086	3.293	5,894,440
San Marcos Unified School District	277,306,103	0.071	196,887
San Marcos Unified School District School Facilities I.D. No. 1	3,568,552	0.077	2,748
Escondido Union High School District	92,592,907	1.123	1,039,818
San Dieguito Union High School District	261,260,000	28.474	74,391,172
Cardiff School District	4,415,198	4.525	199,788
Encinitas Union School District	44,024,619	60.569	26,665,271
Escondido Union School District	98,129,622	1.163	1,141,248
Rancho Santa Fe School District	35,800,865	28.550	10,221,147
Palomar Pomerado Hospital District	467,510,127	6.662	31,145,525
Poway Unified School District Community Facilities Districts	177,949,000	100.000	177,949,000
San Dieguito Union High School District Community Facilities Districts	63,454,677	16.148–100.000	29,059,748
Solana Beach School District Community Facilities District No. 2000-1	3,150,000	100.000	3,150,000
City of Encinitas Community Facilities District No. 1	28,350,000	25.980	7,365,330
Rancho Santa Fe Community Services District Community Facilities District No. 1	41,360,000	100.000	41,360,000
Olivenhain Municipal Water District	—	100.000	—
Olivenhain Municipal Water District Assessment District No. 96-1	12,485,000	100.000	12,485,000
Whispering Palms Community Services District Assessment District	310,000	100.000	310,000
Total Direct and Overlapping Tax and Assessment Debt			\$ 454,018,547
OVERLAPPING GENERAL FUND DEBT:			
San Diego County General Fund Obligations	\$ 307,830,000	4.663%	\$ 14,354,113
San Diego County Pension Obligation Bonds	649,860,000	4.663	30,302,972
San Diego County Superintendent of Schools General Fund Obligations	13,295,000	4.663	619,946
Mira Costa Community College District Certificates of Participation	1,335,000	17.543	234,199
Palomar Community College District General Fund Obligations	3,825,000	4.607	176,218
Poway Unified School District Certificates of Participation	62,248,869	11.717	7,293,700
Other School District General Fund Obligations	151,758,327	Various	4,625,422
City of Encinitas Certificates of Participation	52,180,000	39.016	20,358,549
City of San Diego General Fund Obligations	594,045,000	0.159	944,532
Other Cities' General Fund Obligations	5,380,600	Various	30,269
Total Overlapping General Fund Debt			\$ 78,939,920
OVERLAPPING TAX INCREMENT DEBT (Successor Agency):	\$ 271,655,000	0.085%	\$ 230,907
Total Direct Debt			—
Total Overlapping Debt			\$ 533,189,374
Combined Total Debt			\$ 533,189,374⁽²⁾

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

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

Ratios to 2015–16 Assessed Valuation:

Direct Debt	0.00%
Total Direct and Overlapping Tax and Assessment Debt	2.20%
Combined Total Debt	2.58%

Ratios to Redevelopment Successor Agency Incremental Valuation (\$6,289,941):

Total Overlapping Tax Increment Debt	3.67%
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Table XII – Water System Revenue to Debt Service Ratio

Last Seven Fiscal Years

Fiscal Year Ended	Water Sales ⁽¹⁾	Property Taxes	Capacity Charges	Other Nonoperating Revenues ⁽²⁾	Water System Revenues	Less: Cost of Water Sold ⁽³⁾	Less: Operations and Maintenance Costs ⁽⁴⁾	Net Water System Revenues ⁽⁵⁾	Debt Service Payment ⁽⁶⁾	Revenue to Debt Service Ratio	Pledged Revenue Debt Limit
2016	\$42,496,997	\$ 3,268,438	\$ 1,482,945	\$ 452,463	\$47,700,843	\$21,979,036	\$ 14,031,757	\$ 11,690,050	\$ 4,681,052	2.50	115%
2015	46,222,403	3,066,946	1,792,125	509,070	51,590,544	23,634,844	13,143,432	14,812,268	4,945,400 ⁽⁷⁾	3.00	115%
2014	49,974,282	2,896,741	4,944,025	600,298	58,415,346	25,074,331	13,189,545	20,151,470	4,207,351	4.79	115%
2013	44,313,834	2,806,377	1,960,514	355,319	49,436,044	24,157,374	10,750,950	14,527,720	3,874,676	3.75	115%
2012	39,557,222	2,744,003	1,813,326	456,835	44,571,386	19,512,651	12,206,136	12,852,599	3,879,276	3.31	115%
2011	34,882,730	2,747,001	1,536,719	479,142	39,645,592	16,783,529	11,447,717	11,414,346	3,874,676	2.95	115%
2010	34,384,790	2,866,424	811,782	783,332	38,846,328	16,319,018	12,098,558	10,428,752	3,461,859	3.01	115%

Source: Olivenhain Municipal Water District

Notes: (1) Includes potable and recycled water sales and other water operating revenues. Excludes wastewater operations.
(2) Includes Other Nonoperating Revenues, Investment Income relating to water and recycled water. Excludes unrealized gain and losses on investments.
(3) Includes cost of water and recycled water sold. Exclude cost of recycled water sold in fiscal year 2011 and prior.
(4) Includes Elfin Forest recreation operations in Operations and Maintenance Costs. Excludes wastewater operations.
(5) Net Water System Revenues exclude Transfers from(to) Rate Stabilization Fund.
(6) Debt Service Payments include Water Revenue Refunding Bonds Series 2006A, Water Revenue Bonds Series 2009, and 2013 State Revolving Fund Loan
(7) Includes 2013 principal and interest paid for the 2013 State Revolving Fund Loan during fiscal year 2015 not due until July 1, 2015.

Table XIII – Reassessment District 96-1 Billings and Collections

Last Ten Fiscal Years

Fiscal Year Ended ⁽¹⁾	AMOUNT LEVIED				Amount Collected ⁽³⁾	Percent Collected
	Principal	Interest	Other ⁽²⁾	Total		
2016	\$ 804,478	\$ 581,889	\$ 45,952	\$ 1,432,319	\$ 1,434,925	100.2%
2015	779,900	613,211	(56,700)	1,336,411	1,379,474	103.2%
2014	746,576	647,046	47,440	1,441,062	1,454,689	100.9%
2013	722,203	676,413	44,845	1,443,461	1,453,620	100.7%
2012	692,449	704,210	45,660	1,442,319	1,434,886	99.5%
2011	673,615	732,367	54,452	1,460,434	1,502,744	102.9%
2010	643,837	758,340	58,769	1,460,946	1,467,452	100.4%
2009	619,971	784,377	53,456	1,457,804	1,441,409	98.9%
2008	514,985	887,738	51,735	1,454,458	1,454,189	100.0%
2007	509,950	997,589	61,671	1,569,210	1,551,142	98.8%

Source: Olivenhain Municipal Water District

Notes: (1) Prior to fiscal year 2008, the levied amounts applied to Assessment District 96-1.
(2) Includes administration and delinquency management fees as well as fund credits.
(3) As of June 30 of the fiscal year listed.

Table XIV – Net Outstanding Long-Term Debt by Type⁽¹⁾

Last Ten Fiscal Years

Fiscal Year Ended	Water Revenue Bonds			Certificate of Participation		Special Assessment Bonds		Note Payable		Total Net Outstanding Debt	Percentage of Personal Income	Per Capita
	2015 Water Revenue Bonds	2009 Water Revenue Bonds	2006 Water Revenue Refunding Bonds	2002 Variable Rate Subordinate Certificate of Participation	1997 Certificate of Participation	2007 Limited Obligation Reassessment District 96-1	1997 Limited Obligation Assessment District 96-1	2013 State Revolving Fund	2012 California Bank & Trust			
2016	\$ 25,289,832	\$ 16,925,215	\$ —	\$ —	\$ —	\$ 12,516,272	\$ —	\$ 15,693,954	\$ 518,339	\$ 70,943,613	1.54%	835
2015	—	17,353,724	26,414,577	—	—	13,304,072	—	16,390,314	1,540,841	75,003,529	1.68%	889
2014	—	17,767,233	27,934,221	—	—	14,056,873	—	17,069,309	2,546,030	79,373,666	1.89%	952
2013	—	18,165,742	29,398,866	—	—	14,804,674	—	15,343,566	3,533,098	81,245,946	1.98%	987
2012	—	18,549,251	30,803,510	—	—	15,502,473	—	—	4,501,865	69,357,099	1.73%	849
2011	—	18,922,760	31,765,496	—	—	16,195,274	—	—	—	66,883,530	1.75%	826
2010	—	19,281,269	33,041,930	8,400,000	—	16,843,074	—	—	—	77,566,273	2.17%	965
2009	—	—	34,273,363	8,900,000	—	17,500,875	—	—	—	60,674,238	2.45%	1,074
2008	—	—	36,144,796	11,200,000	—	18,018,676	—	—	—	65,363,472	2.55%	1,171
2007	—	—	37,941,229	11,700,000	—	—	18,300,000	—	—	67,941,229	2.76%	1,234

Source: Olivenhain Municipal Water District

Note: Fiscal year 2012 and forward, include unamortized bond premiums. Unamortized deferred amount on refunding was written off in Fiscal Year 2012. Fiscal year 2011 and prior, include unamortized deferred amount on refunding and unamortized bond premiums.

Table XV – Demographic Statistics⁽¹⁾

Last Ten Fiscal Years

Fiscal Year Ended	Population Estimate	Personal Income	Per Capita Personal Income ⁽²⁾	Unemployment Rate
2016	85,010	\$ 4,611,452,460	\$ 54,246	5.1% ⁽³⁾
2015	84,352	4,460,955,520	52,885	5.2%
2014	83,368	4,194,623,309	51,459	6.4%
2013	82,355	4,110,090,985	49,907	8.1%
2012	81,701	4,002,531,990	48,990	9.5%
2011	80,964	3,812,999,580	47,095	10.7%
2010	80,385	3,582,196,755	44,563	10.7%
2009	56,512	2,476,299,328	43,819	9.7%
2008	55,809	2,560,851,774	45,886	6.0%
2007	55,071	2,460,572,280	44,680	4.6%

Source: California Department of Finance, California Department of Transportation, Bureau of Economic Analysis, and Employment Development Department (EDD).

Notes: (1) 2009 and prior years are estimates based on population and per capita personal income factors supplied by SANDAG and the County of San Diego.

(2) Per capita personal is for the San Diego County Region. Source: BEA & DOT (BEA: Updated November 19, 2015 with revised estimates for 2007–2014; DOT forecast for 2015 and 2016).

(3) Estimate for the San Diego County Region as of 6/2016. Source: EDD.

Table XVI – San Diego County Principal Employers

FISCAL YEAR 2015

Employer Name	Number of Employees	Percentage of Total County Employment
University of California San Diego	30,671	2.05%
Sharp HealthCare	17,809	1.19%
Scripps Health	14,863	0.99%
City of San Diego	11,347	0.76%
Kaiser Permanente	8,406	0.56%
UC San Diego Health	7,438	0.50%
San Diego Community College District	5,902	0.39%
General Atomics Aeronautical Systems	5,480	0.37%
Rady Children's Hospital	5,129	0.34%
YMCA of San Diego County	5,102	0.34%
Total Top Ten County Employers	112,147	7.48%
All Other County Employers	1,387,636	92.52%
Total County Employment ⁽¹⁾	1,499,783	100.00%

FISCAL YEAR 2007

Employer Name	Number of Employees	Percentage of Total County Employment
State of California	40,600	2.81%
Federal Government	39,900	2.76%
University of California San Diego	26,924	1.86%
County of San Diego	16,147	1.12%
San Diego Unified School District	14,555	1.01%
Sharp HealthCare	13,872	0.96%
Scripps Health	12,196	0.84%
San Diego State University	11,247	0.78%
City of San Diego	11,195	0.77%
Kaiser Permanente	8,008	0.55%
Total Top Ten County Employers	194,644	13.45%
All Other County Employers	1,252,009	86.55%
Total County Employment ⁽¹⁾	1,446,653	100.00%

Source: *San Diego Business Journal*, County of San Diego, BLS

Note: (1) Bureau of Labor Statistics (not seasonally adjusted).

Table XVII – Full-time Equivalent Employees by Activity

Last Ten Fiscal Years

	Full-time Equivalent Employees as of June 30									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Potable Water	31.00	36.00	38.00	39.00	37.00	38.00	38.00	37.00	40.45	39.90
Wastewater and Recycled Water ⁽¹⁾	6.00	6.00	8.00	8.00	8.00	8.00	8.00	7.00	8.55	7.60
Elfin Forest Recreation Operations	3.00	3.00	3.00	2.00	3.00	3.00	3.00	4.00	4.00	3.60
General and Administration										
General Manager	2.00	2.00	5.00	5.00	5.00	5.50	5.50	4.50	6.50	7.00
Engineering	11.00	9.00	7.00	6.00	7.00	6.50	6.50	7.50	7.50	7.50
Finance	8.00	8.00	13.00	14.00	14.00	14.00	14.00	15.00	15.00	15.00
Human Resources	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.00	3.00
Customer Services and Public Relations ⁽²⁾	14.00	14.00	—	—	—	—	—	—	—	—
Total	79.00	82.00	78.00	78.00	78.00	79.00	79.00	79.00	85.00	83.60

Source: Olivenhain Municipal Water District

Notes: (1) Includes 4S Wastewater, 4S Water Reclamation Facilities, and non 4S Recycled system personnel.

(2) New Department created in Fiscal Year 2015.

Table XVIII – Capital and Operating Indicators by Activity

Last Ten Fiscal Years

	Full-time Equivalent Employees as of June 30									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Potable										
Service area (acres)	31,123	31,123	31,123	31,123	31,123	31,123	31,123	31,123	31,123	31,123
Miles of water main	419	419	419	419	406	406	406	413	412	392
Number of treated reservoirs in service	12	12	13	16	16	16	17	17	17	17
Total treated reservoirs capacity (million gallons)	65.9	65.9	68.1	81.5	84.8	83.8	80.0	80.0	80.0	80.0
Number of service connections	28,827	28,604	28,514	27,892	27,514	27,226	26,885	26,836	26,419	25,946
Number of meters in service	28,472	28,328	28,082	27,714	27,331	27,058	26,706	26,646	26,228	25,749
Potable water peak demand (million gallons)	23.9	29.9	32.7	29.7	27.8	28.1	27.6	33.6	36.1	35.4
Average treated water demand (MGD)	14.4	17.5	19.7	18.6	16.5	15.9	17.2	20.5	21.9	22.3
David McCollom treatment plant maximum capacity (MGD)	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0
Average treatment plant production (MGD)	13.9	17.1	22.3	12.8	20.7	19.8	19.2	15.9	8.8	21.8
Sewer										
Service area (acres)	5,338	5,338	5,338	5,338	5,338	5,338	5,338	5,338	5,338	5,338
Maximum system capacity (MGD)	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Number of in-service equivalent dwelling units ⁽¹⁾	7,207	7,115	6,883	6,861	6,823	6,778	6,602	6,279	6,145	6,092
Recycled										
Service area (acres)	10,567	10,567	10,567	10,567	10,567	10,567	10,567	10,567	3,547	3,547
Miles of recycled water main	48	48	48	48	47	47	47	46	11	11
Total recycled storage capacity (million gallons) ⁽²⁾	136	4	4	4	4	4	4	4	4	4
4S WRF maximum capacity (MGD)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Average treatment daily plant flow (MGD)	1.0	1.0	1.0	1.0	1.1	1.0	1.1	1.1	1.1	1.1
Number of meters in service	280	276	260	252	251	249	250	236	86	77
General Information										
Average years of service of employees	9.5	10.1	10.2	10.5	9.5	9.5	8.9	8.6	8.0	8.3

Source: Olivenhain Municipal Water District

Notes: (1) An equivalent dwelling unit means the standard measurement of water discharged into the sewer collection and treatment system equal to the average discharge from a detached single-family unit.

(2) FY 16 includes Wet Weather Storage Pond storage capacity.

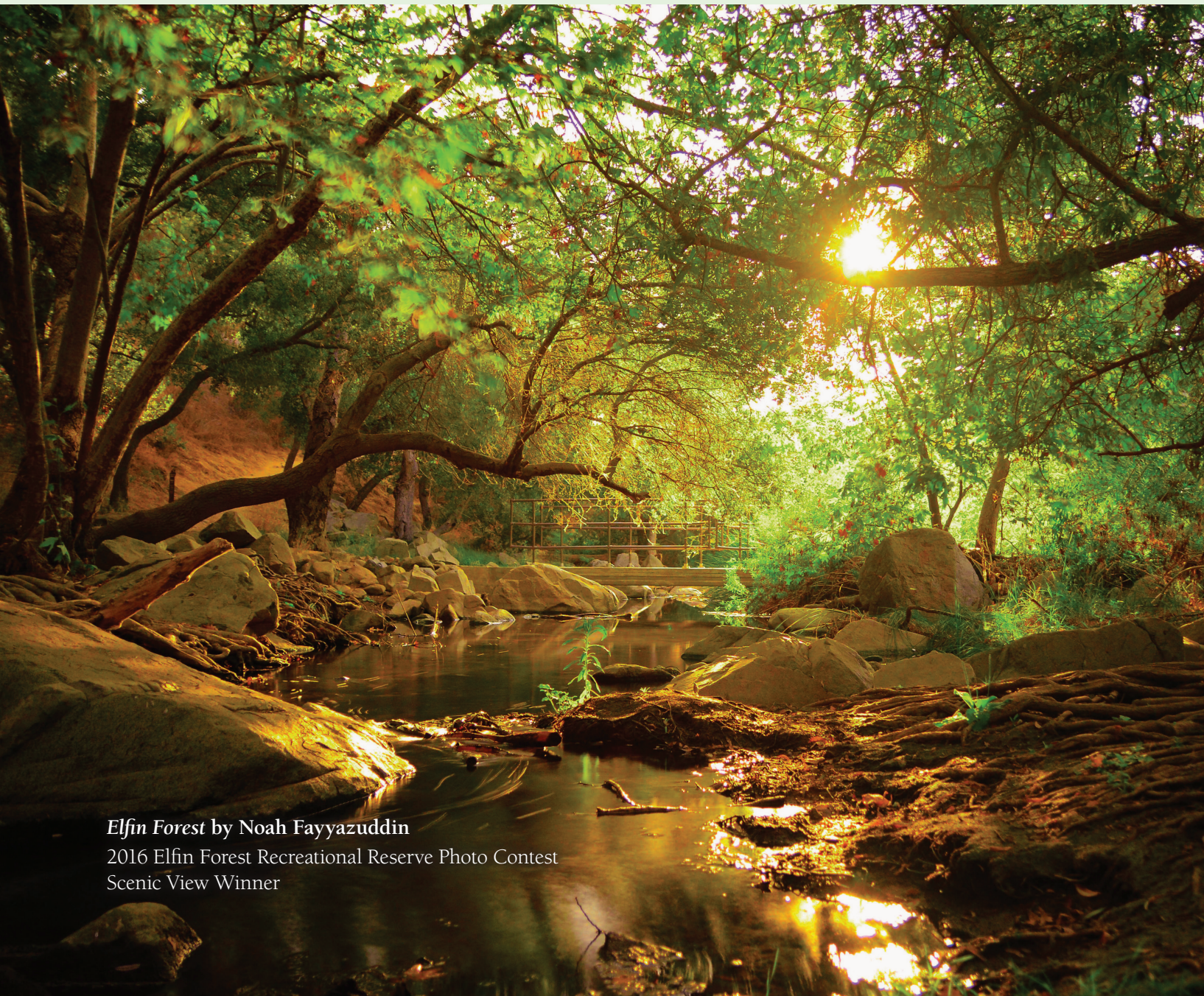




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