

Board of Directors
Padre Dam Municipal Water District
Santee, California

We have audited the financial statements of the Padre Dam Municipal Water District (the District) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated May 2, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Padre Dam Municipal Water District are described in Note 1 to the financial statements. As discussed in Note 1e to the financial statements, the District adopted Governmental Accounting Standards Board's Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The adoption of these standards required retrospective application resulting in a \$13,847,146 reduction in previously stated net position. We noted no transactions entered into by Padre Dam Municipal Water District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Findings (Continued):

Qualitative Aspects of Accounting Practices (Continued)

The most sensitive estimates affecting the District's financial statements were:

- a. Management's estimate of the fair market value of investments which is based on market values by outside sources.
- b. Management's estimate of useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- c. Management's estimate of the allowance for doubtful accounts is based on historical water revenues, historical loss levels, and an analysis of the collectability of individual accounts.
- d. The actuarially determined contribution, Other Postemployment Benefit (OPEB) expense, net OEPB liability, and corresponding deferred outflows and inflows of resources for the District's OPEB plan are based on actuarial valuations by an independent third party actuary.
- e. The annual required contributions, pension expense, net pension liability and corresponding deferred outflows of resources and deferred inflows of resources for the District's public defined benefit plans with CalPERS are based on actuarial valuations provided by CalPERS.

We evaluated the key factors and assumptions used to develop these estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were reported in Note 1.k. regarding depreciation expense, Note 7 regarding the defined benefit pension plan and Note 8 regarding Other Post-Employment Benefits.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

The attached schedule summarizes uncorrected adjustments of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

The following misstatements detected as a result of audit procedures were corrected by management:

\$2,648,527 of construction in progress projects were reclassified as completed projects as a result of audit procedures.

Significant Audit Findings (continued)

Disagreements with Management

For the purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 26, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Padre Dam Municipal Water District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Padre Dam Municipal Water District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, the Schedule of Changes in the Net Pension Liability and Related Ratios, the Schedule of Contributions- Defined Benefit Pension Plan, Schedule of Changes in Net OPEB Liability and Related Ratios and the Schedule of Contributions - OPEB which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Other Matters (continued)

We were not engaged to report on the Supplementary Schedule of Income (Loss) Before Contributions by Fund Services, the Supplementary Schedule of Income (Loss) Before Contributions (Budget to Actual), and the Supplementary Schedule of Change in Cash, Cash Equivalents and Investments, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Upcoming Changes in Accounting Standards and Regulatory Updates

Procurement Rules under the Uniform Guidance

The Uniform Guidance has different procurement rules than those previously required by the Circular A-133. Due to the work required by nonfederal entities to implement these new rules, a two-year grace period was given. In May 2017, an additional one-year grace period was given. Beginning July 1, 2018, nonfederal entities will be required to comply with all of the Uniform Guidance procurement rules. Included in these new rules is the requirement for written policies and procedures.

Commencing with the fiscal year 2018-2019 audits, auditors will request the written policies of the nonfederal entity for all single audits and review the procurement policies and procedures for compliance with the Uniform Guidance procurement rules.

Restriction on Use

This information is intended solely for the use of the Board of Directors, and management of the Padre Dam Municipal Water District and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Dick Evans LLP

Carlsbad, California
November 26, 2018

**Padre Dam Municipal Water District
Schedule of Uncorrected Misstatements
June 30, 2018**

AJE	Account Description	Debit	Credit
#1	Receivables- All Others	98,003.69	
	Deferred Revenue		98,003.69

Through review of miscellaneous accounts receivable, the auditors noted \$98,003.69 worth of credit balance receivables. Per discussion with District personnel, these are receipts that the District has not earned. The auditors discussed with District personnel that this situation would result in deferred revenue liability as opposed to negative accounts receivable. District personnel asked that this not be reclassified on the Statement of Net Position. Since this would just be an adjustment between an asset and a liability, there would be no effect on revenue or expenses.

PADRE DAM MUNICIPAL WATER DISTRICT

FINANCIAL STATEMENTS

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

JUNE 30, 2018

JUNE 30, 2018

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Padre Dam Municipal Water District
Santee, California

We have audited the accompanying financial statements of Padre Dam Municipal Water District as of and for the year ended June 30, 2018, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe 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 Padre Dam Municipal Water District as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1e and 13 to the financial statements, the District adopted Governmental Accounting Standards Board's Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which required retrospective application resulting in a reduction of previously reported net position. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and the Schedule of Changes in the Net Pension Liability and Related Ratios, the Schedule of Contributions Defined Benefit Pension Plan, Schedule of Changes in Net OPEB Liability and Related Ratios, and the Schedule of Contributions OPEB, as identified in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the 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 supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

White Nelson Dick Evans LLP

Carlsbad, California
November 26, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Padre Dam Municipal Water District's (District) financial performance provides an overview of the District's financial activities for the year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Statements

This discussion and analysis provides an introduction and a brief description of the District's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. The District's financial statements include four components:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to Basic Financial Statements

The statement of net position includes all the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the four reported as net position. Net position may be displayed in the categories:

- Net Investment in Capital Assets
- Restricted
- Unrestricted

The statement of net position provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

The statement of revenues, expenses and changes in net position presents information which shows how the District's net position changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses and changes in net position measures the success of the District's operations over the past year and determines whether the District has recovered its costs through current services and other revenues.

The statement of cash flows provides information regarding the District's cash receipts and cash disbursements during the year. This statement may report cash activity in four categories:

- Operating
- Noncapital and related financing
- Capital and related financing
- Investing

This statement differs from the statement of revenues, expenses and changes in net position because it accounts only for transactions that result in cash receipts or cash disbursements.

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

PADRE DAM MUNICIPAL WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights

During the year ended June 30, 2018, the District's total net position increased by \$2,495,269. The District's operating revenues of \$72,914,697 increased by \$5,604,939 while operating expenses of \$64,533,589 increased by \$2,998,459. Nonoperating revenues increased by \$394,515 and non-operating expense decreased by \$1,953,770. The prior year's nonoperating expenses include costs related to the issuance of debt to refinance the 2009 COP and to fund future projects. There was an increase of \$3,194,591 in contributed capital from developers for capacity fees. The District implemented GASB 75 during the year ended June 30, 2018 which requires reporting the District's \$14,847,187 net OPEB liability on the financial statements; the implementation was applied retroactively and resulted in a reduction of net position.

Financial Analysis of the Financial Statements

Net Position

The District's net position at June 30, 2018 totaled \$251,775,020 compared with \$249,279,751 at June 30, 2017. The \$2,495,269 increase in net position is primarily attributed to operating income of \$8,381,108, net non-operating revenues of \$3,728,769 and capital contributions of \$6,034,207, offset by interest expense of \$1,801,669. There was a prior period adjustment of \$13,847,146 due to the implementation of GASB 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. The following is a summary of the District's statement of net position:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Change</u>
Assets			
Current Assets	\$ 92,972,416	\$ 85,611,070	\$ 7,361,346
Noncurrent Assets:			
Restricted Assets	18,531,294	21,599,429	(3,068,135)
Capital Assets, net of depreciation	<u>265,496,548</u>	<u>250,723,567</u>	<u>14,772,981</u>
Total Assets	<u>377,000,258</u>	<u>357,934,066</u>	<u>19,066,192</u>
Deferred Outflows of Resources			
Pension & OPEB Contribution	9,479,355	6,689,125	2,790,230
Deferred Amount on Refunding	<u>1,620,549</u>	<u>1,702,443</u>	<u>(81,894)</u>
Total Deferred Outflows of Resources	<u>11,099,904</u>	<u>8,391,568</u>	<u>2,708,336</u>
Liabilities			
Current Liabilities	14,249,472	13,186,503	1,062,969
Long-Term Debt	116,249,448	101,001,319	15,248,129
Other Noncurrent Liabilities	<u>3,995,443</u>	<u>1,540,176</u>	<u>2,455,267</u>
Total Liabilities	<u>134,494,363</u>	<u>115,727,998</u>	<u>18,766,365</u>
Deferred Inflows of Resources	<u>1,830,779</u>	<u>1,317,885</u>	<u>512,894</u>
Net Position			
Net investment in capital assets	214,444,205	200,246,322	14,197,883
Restricted for future capital projects	5,106,798	6,265,301	(1,158,503)
Restricted for future debt service	39,565	114,286	(74,721)
Unrestricted	<u>32,184,452</u>	<u>42,653,842</u>	<u>(10,469,390)</u>
Total Net Position	<u>\$ 251,775,020</u>	<u>\$ 249,279,751</u>	<u>\$ 2,495,269</u>

Financial Analysis of the Financial Statements (Continued)

Revenues, Expenses and Changes in Net Position

The District reported an increase in net position of \$2,495,269 for the year ended June 30, 2018. Operating revenues were higher than the prior year by \$5,604,939 mostly due to increased sales and rates for the water and wastewater operations; water sales revenue increased by 10.2%, systems charge revenue increased by 13% and wastewater revenues increased by 7.1%. There was also an increase in campground and other revenues. Operating expenses were \$2,998,459 higher than the prior year due to a \$1,092,507 increase in external direct costs, a \$1,251,399 increase in internal operating expenses and a \$654,553 increase in depreciation expense from capital asset additions. Nonoperating revenues increased by \$394,515 and nonoperating expenses decreased by \$1,953,770. Since current year water sales were higher than prior year, water purchased from San Diego County Water District (CWA) was higher; this, in addition to an increase in CWA's rates and charges resulted in an increase in water purchase cost. There was a prior period adjustment of \$13,847,146 due to the implementation of GASB 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions". The following is a summary of the District's statement of revenues, expenses and changes in net position:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Change</u>
Operating Revenues	\$ 72,914,697	\$ 67,309,758	\$ 5,604,939
Nonoperating Revenues	<u>3,681,850</u>	<u>3,287,335</u>	<u>394,515</u>
Total Revenues	<u>76,596,547</u>	<u>70,597,093</u>	<u>5,999,454</u>
Operating Expenses	64,533,589	61,535,130	2,998,459
Nonoperating Expenses	<u>1,754,750</u>	<u>3,708,520</u>	<u>(1,953,770)</u>
Total Expenses	<u>66,288,339</u>	<u>65,243,650</u>	<u>1,044,689</u>
Income Before Capital Contributions	10,308,208	5,353,443	4,954,765
Capital Contributions	6,034,207	2,839,616	3,194,591
Change in Net Position	<u>16,342,415</u>	<u>8,193,059</u>	<u>8,149,356</u>
Net Position at Beg. of Year (as originally stated)	<u>249,279,751</u>	<u>241,086,692</u>	<u>8,193,059</u>
Prior Period Adjustment	<u>(13,847,146)</u>	<u>-</u>	<u>(13,847,146)</u>
Net Position at End of Year	<u>\$ 251,775,020</u>	<u>\$ 249,279,751</u>	<u>\$ 2,495,269</u>

PADRE DAM MUNICIPAL WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

At June 30, 2018, the District had invested \$265,496,548 in capital assets, net of accumulated depreciation of \$126,552,219, including land, franchises and water rights, a water system, sewer system, water recycling system, buildings, equipment, park and campgrounds and construction-in-progress (CIP). This amount represents an increase of \$14,772,981, net of depreciation, over the prior year.

The following is a summary of the capital assets at June 30, 2018 and 2017:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Land, Franchises and Water Rights	\$ 1,306,896	\$ 1,029,046
Water System	214,785,023	212,106,066
Sewer System	51,076,323	50,039,177
Water Recycling System	27,659,740	26,488,044
Parks and Campgrounds	20,976,695	20,780,716
Buildings	28,269,356	27,807,275
Equipment	11,173,410	10,660,360
Construction-in-Progress	<u>36,801,324</u>	<u>20,886,290</u>
Total	392,048,767	369,796,974
Less: Accumulated Depreciation	<u>(126,552,219)</u>	<u>(119,073,407)</u>
Net Capital Assets	<u><u>\$ 265,496,548</u></u>	<u><u>\$ 250,723,567</u></u>

Significant additions to CIP for the year ended June 30, 2018 include:

ESA Secondary Connection Alternate Site	\$ 13,273,902
IPS Wet Well & Force Main Improvements	1,349,425
Sewer Projects	1,192,956
Woodrose Ave. Techite Sewer Replacement	808,582
Santee Lakes West Side Parking	644,761
WSA Valve Replacement Program	509,721
Santee Lakes General Store & Admin Building	476,271
Valve Replacement Program (Contract)	376,598
Pump Station 3 & 4 Surge Tanks Replacement	357,069
WRF Fence Replacement	285,983
East County Regional Reuse Program	268,023
ESA Valve Replacement Program	266,320
Santee Lakes Standby Generator	242,875
Recycled Water Public Filling Station	237,493
Viejas Mountain Reservoir Refurbishing/Coating	236,468

Additional information on the District's capital assets can be found in notes 1 and 4 of the notes to financial statements.

PADRE DAM MUNICIPAL WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Long-Term Debt

At June 30, 2018, the District had \$62,062,380 in long-term debt, including certificates of participation, a note payable, a capital lease, revenue bonds, unamortized premiums/discounts and other debt. Long term debt decreased (net) \$3,796,992 due to principal payments made on debt during the year. The following is a summary of the long-term debt at June 30, 2018 and 2017:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Certificates of Participation	\$ 50,985,000	\$ 53,195,000
Note Payable	1,606,079	1,902,275
Revenue Bonds	2,435,000	2,730,000
Capital Lease	1,009,405	1,645,475
Park Cabin Loan	<u>891,761</u>	<u>972,247</u>
Total Long-Term Debt	56,927,245	60,444,997
Add: Unamortized Premiums/Discounts	<u>5,135,135</u>	<u>5,414,375</u>
	<u>\$ 62,062,380</u>	<u>\$ 65,859,372</u>

Additional information on the District's long-term debt can be found in note 5 of the notes to financial statements.

Conditions Affecting Current Financial Position

California's most recent drought emergency was declared by Governor Jerry Brown in January 2014. Restrictions and lifestyle changes have had a negative impact on potable water sales. Management cannot predict exactly how drought conditions will affect future water sales and operational costs but demand is closely monitored, expenses are controlled and healthy reserve levels are maintained. Although water sales decreased following the Governor's 2014 declaration, demand increased in 2017 and again in 2018; for the year ended June 30, 2018, potable water sales demand exceeded the prior year's demand by 8.6%.

In 2017, the District hired an independent consultant to perform a cost of service and rate study; the study determined the level of revenues required to accomplish the goals of the District Five Year Plan (Plan), which covered fiscal years 2018-2022. In June 2017, upon completion of the study, the Board approved the Plan and related Five Year Budget (Budget). The Budget includes five years of operating expenses (\$173.8M), capital equipment expenditures (\$5.5M) and non-Park CIP (\$66.7M). Although expenditures are budgeted in each of the Budget's five years, the Plan allows flexibility in the timing of expenditures so long as total expenditures do not exceed what the Board approved. As part of the Budget, the Board approved annual rate increases of 3% for the water and wastewater operations. The Board also approved a pass through ordinance authorizing the pass through of rate increases from external agencies; these increases directly impact water and sewer rates and offset direct cost increases.

Contacting the District's Financial Manager

This financial report is designed to provide Padre Dam Municipal Water District's customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Padre Dam Municipal Water District Chief Financial Officer.

Basic Financial Statements

PADRE DAM MUNICIPAL WATER DISTRICT

STATEMENT OF NET POSITION
June 30, 2018

ASSETS

Current Assets:

Cash and cash equivalents (Notes 1 and 2)	\$ 39,488,067
Restricted cash and cash equivalents (Notes 1 and 2)	610,300
Investments (Notes 1 and 2)	42,604,481
Accounts receivable, net (Note 1)	7,012,958
Property taxes receivable, net (Note 1)	102,708
Accounts receivable - other	1,713,369
Accrued interest receivable	275,314
Inventory	1,021,040
Prepaid expenses	144,179
Total Current Assets	<u>92,972,416</u>

Noncurrent Assets:

Restricted Assets (Notes 1, 2 and 3):

Cash and cash equivalents	13,580,657
Investments	4,902,051
Accrued interest receivable	48,586
Total Restricted Assets	<u>18,531,294</u>

Capital Assets (Note 4):

Land, franchise and water rights	1,306,896
Construction in progress	36,801,324
Capital assets, net of depreciation	<u>227,388,328</u>
Total Capital Assets, Net of Depreciation	<u>265,496,548</u>

Total Noncurrent Assets	<u>284,027,842</u>
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Total Assets	<u>377,000,258</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflow - related to pensions	9,212,884
Deferred outflow - related to OPEB	266,471
Deferred amount on refunding	<u>1,620,549</u>
Total Deferred Outflows of Resources	<u>11,099,904</u>

(Continued)

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

PADRE DAM MUNICIPAL WATER DISTRICTSTATEMENT OF NET POSITION (Continued)
June 30, 2018**LIABILITIES**

Current Liabilities:

Accounts payable	7,318,442
Accrued expenses and other liabilities	2,437,678
Accrued interest payable	574,702
Current portion of long-term debt	3,308,350
Liabilities payable from restricted assets:	
Deposits and advances on construction	<u>610,300</u>
 Total Current Liabilities	 <u>14,249,472</u>

Noncurrent Liabilities

Long-Term Debt (Note 5):

Capital Leases	344,065
Certificates of participation	53,917,272
Note payable	1,228,745
Revenue bonds	2,472,863
Other long-term debt	791,085
Net OPEB liability	14,847,187
Net pension liability	<u>42,648,231</u>
 Total Long-Term Debt	 <u>116,249,448</u>

Other Noncurrent Restricted Liabilities:

Prepaid capacity fees (Note 6)	3,981,614
Accrued pension benefits and other	<u>13,829</u>
 Total Other Noncurrent Restricted Liabilities	 <u>3,995,443</u>

Total Noncurrent Liabilities	<u>120,244,891</u>
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Total Liabilities	<u>134,494,363</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred amount relating to OPEB	287,386
Deferred amount relating to pension	<u>1,543,393</u>
 Total Deferred Inflows of Resources	 <u>1,830,779</u>

NET POSITION

Net investment in capital assets	214,444,205
Restricted for future capital projects	5,106,798
Restricted for debt service	39,565
Unrestricted	<u>32,184,452</u>
 Total Net Position	 <u>\$ 251,775,020</u>

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

PADRE DAM MUNICIPAL WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2018

OPERATING REVENUES	
Water operations	\$ 49,609,346
Wastewater operations	17,093,156
Park operations	<u>6,212,195</u>
Total Operating Revenues	<u>72,914,697</u>
OPERATING EXPENSES	
Water operations	44,002,368
Wastewater operations	15,596,869
Park operations	<u>4,934,352</u>
Total Operating Expenses	<u>64,533,589</u>
Operating Income	<u>8,381,108</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	441,576
Restricted investment income	138,081
Taxes and assessments	3,102,193
Gain / (Loss) on sale or disposition of assets	46,919
Interest expense	<u>(1,801,669)</u>
Total Nonoperating Revenues (Expenses)	<u>1,927,100</u>
Income Before Capital Contributions	10,308,208
Capital Contributions	<u>6,034,207</u>
Change in Net Position	<u>16,342,415</u>
Net Position, Beginning of Year, as Previously Stated	249,279,751
Prior Period Adjustment	<u>(13,847,146)</u>
Net Position, Beginning of Year, as Restated	<u>235,432,605</u>
Net Position, End of Year	<u>\$ 251,775,020</u>

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

PADRE DAM MUNICIPAL WATER DISTRICT

STATEMENT OF CASH FLOWS
For the year ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 70,883,079
Payments for operating goods and services	(37,572,972)
Payments to employees	<u>(12,905,369)</u>
Net Cash Provided (Used) by Operating Activities	<u>20,404,738</u>

CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES

Receipts from taxes and assessments	<u>3,106,661</u>
Net Cash Provided by Noncapital and Related Financing Activities	<u>3,106,661</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and construction of capital assets	(22,721,649)
Principal payments on long-term debt	(3,535,114)
Proceeds from capital contributions	5,965,932
Interest paid, net of amounts capitalized	<u>(1,559,886)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(21,850,717)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(36,061,267)
Proceeds from sale and maturities of investments	32,180,318
Interest received on investments	<u>973,563</u>
Net Cash Provided (Used) by Investing Activities	<u>(2,907,386)</u>

Net (Decrease) in Cash and Cash Equivalents (1,246,704)

Cash and Cash Equivalents, Beginning of Year 54,925,728

Cash and Cash Equivalents, End of Year \$ 53,679,024

(Continued)

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

PADRE DAM MUNICIPAL WATER DISTRICT

STATEMENT OF CASH FLOWS (Continued)
For the year ended June 30, 2018

Reconciliation of operating income to net cash flows provided by operating activities:

Operating income	\$ 8,381,108
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	8,063,872
GASB 68 and GASB 75 adjustments to pension and OPEB expense	2,723,919
(Increase)/Decrease in accounts receivable	(1,090,698)
(Increase)/Decrease in accounts receivable - other	(940,920)
(Increase)/Decrease in inventories	(60,498)
(Increase)/Decrease in prepaid expenses	34,766
Increase/(Decrease) in accounts payable	1,224,790
Increase/(Decrease) in accrued expenses and other liabilities	(104,103)
Increase/(Decrease) in deposits and advances on construction	(282,765)
Increase/(Decrease) in prepaid capacity fees and accrued pension benefits	<u>2,455,267</u>
Net Cash Provided By Operating Activities	<u>\$ 20,404,738</u>

Financial Statement Classification

Cash and cash equivalents

Current assets:	
Cash and cash equivalents	\$ 39,488,067
Restricted cash and cash equivalents	610,300
Noncurrent assets:	
Restricted cash and cash equivalents	<u>13,580,657</u>
Total Cash and Cash Equivalents	<u>53,679,024</u>

Investments

Current assets:	
Investments	42,604,481
Noncurrent assets:	
Restricted investments	<u>4,902,051</u>
Total Investments	<u>47,506,532</u>
Total Cash, Cash Equivalents and Investments	<u>\$ 101,185,556</u>

Supplemental Disclosures:

Noncash Investing and Financing Activities	
Contributed Capital for Capital Assets	\$ 68,275
Amortization Related to Long-Term Debt	\$ 279,240
Unrealized Gain/(Loss) on Investments	\$ (534,978)

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

June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Reporting Entity:

The Padre Dam Municipal Water District (the “District”) was organized November 23, 1955, (as Rio San Diego Municipal Water District) pursuant to the Municipal Water District Law of 1911, Division 20 of the Water Code, as the result of an election held December 2, 1952. The name changed to Padre Dam Municipal Water District effective January 1, 1977.

Santee County Water District (formed in 1956 pursuant to the County Water District Law, Division 12 of the Water Code) operated within the territory of the District. As the result of an election held on November 2, 1976, Santee County Water District dissolved and its functions and operations were assumed by the District on December 31, 1976.

The communities of Alpine, Crest, and Harbison Canyon (Eastern Service Area) were annexed to the District in 1961. The area within Crest Public Utility District was annexed in 1985 when that agency dissolved.

The District purchases its water supply from the San Diego County Water Authority.

The District sends its wastewater to City of San Diego METRO for treatment.

The District produces recycled water for construction and irrigation.

The District owns and operates Santee Lakes Recreation Preserve.

The District is comprised of two geographically distinct Service Areas:

Western Service Area

Western Service Area provides retail potable water, recycled water and sewer services to the community of Santee. The Santee Lakes Recreation Preserve and the Santee Water Reclamation Facility are located within this service area.

Eastern Service Area

Eastern Service Area provides retail potable water service to the communities of Alpine, Crest and Harbison Canyon.

b. Basis of Presentation:

The basic financial statements of the 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.

The District is accounted for as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Measurement Focus and Basis of Accounting:

“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.” Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent) and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The District distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues are generated by water sales, wastewater services and park services while operating expenses are directly related to furnishing those services. Nonoperating revenues and expenses are not directly associated with the normal business of supplying water, wastewater treatment services and park services.

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

d. Net Position:

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, 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 is not included in the calculation of net investment in capital assets.

Restricted Net Position

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

Unrestricted Net Position

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

e. New Accounting Pronouncements:

Current Year Standards:

- GASB Statement No. 75 – “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*,” effective for periods beginning after June 15, 2017. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for postemployment benefits other than pensions. Accounting changes adopted to conform to the implementation of this statement should be applied retroactively. The result of the implementation of this statement decreased net position at July 1, 2017 by \$13,847,146.
- GASB Statement No. 81 - “*Irrevocable Split-Interest Agreements*,” effective for periods beginning after December 15, 2016, and did not impact the District.
- GASB Statement No. 82 – “*Pension Issues*,” effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, and did not impact the District.
- GASB Statement No. 85 – “*Omnibus 2017*,” effective for periods beginning after June 15, 2017, and did not impact the District.
- GASB Statement No. 86 – “*Certain Debt Extinguishment Issues*,” effective for periods beginning after June 15, 2017, and did not impact the District.

Pending Accounting Standards:

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

- GASB Statement No. 83 - “*Certain Asset Retirement Obligations*,” effective for periods beginning after June 15, 2018.
- GASB Statement No. 84 - “*Fiduciary Activities*,” effective for periods beginning after December 15, 2018.
- GASB Statement No. 87 - “*Leases*,” effective for periods beginning after December 15, 2019.
- GASB Statement No. 88 - “*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*,” effective for reporting periods beginning after June 15, 2018.
- GASB Statement No. 89 - “*Accounting for Interest Cost Incurred Before the End of a Construction Period*,” effective for reporting periods beginning after December 15, 2019.
- GASB Statement No. 90 - “*Majority Equity Interests-an amendment of GASB Statement No. 14 and 61*” effective for reporting periods beginning after December 15, 2018.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

f. 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 a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has the following items that qualify for reporting in this category.

- Deferred outflows related to pensions for employer contributions made after the measurement date of the net pension liability.
- Deferred outflows related to other post-employment benefits for employer contributions made after the measurement date of the net other post-employment benefit liability.
- Deferred outflows from pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of June 30, 2017.
- Deferred outflows related to pensions resulting from the difference in projected and actual earnings on plan investments of the pension plan fiduciary net position. This amount is amortized over five years.
- Deferred outflow from pensions resulting from changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of June 30, 2017.
- Deferred outflow on refunding of \$1,620,549 related to the 2013 Refunding Revenue Bonds and 2017 Capital Improvement and Refunding Bonds, net of accumulated amortization of \$81,893, at June 30, 2018. It is amortized on a straight line basis over 139 and 267 months, respectively, which represents the shortest period between the remaining outstanding debt and the new debt.

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 period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category.

- Deferred inflows from pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of June 30, 2017.
- Deferred inflow from pensions resulting from changes in assumptions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of June 30, 2017.
- Deferred inflows related to other post-employment benefits resulting from the difference in projected and actual earnings on plan investments of the other post-employment benefits plan fiduciary net position. This amount is amortized over five years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

g. Statement of Cash Flows:

For purposes of the Statement of Cash Flows the District considers all financial instruments purchased with a maturity of three months or less to be cash and cash equivalents.

h. Investments:

Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

i. Accounts Receivable and Allowance for Doubtful Accounts:

Accounts receivable are from billed and unbilled customer accounts and total \$7,012,958 at June 30, 2018. Management believes that all uncollectible accounts have been identified and written-off. Due to historically low write-offs of water and sewer revenue billed, no allowance has been established as of June 30, 2018.

j. Inventory:

Inventory consists primarily of materials and supplies used in the construction and maintenance of capital assets. Inventory is valued at cost using a weighted average cost method. Inventory items are charged to expense or construction in progress at the time that individual items are withdrawn from inventory or consumed.

k. Capital Assets:

The District records the acquisition of capital assets and additions, improvements and other capital outlays that significantly extend the life of an asset at historical cost. Donated capital assets, donated works of art and similar assets, and capital assets received in a service concession arrangement are reported at acquisition value. Self-constructed assets are recorded in the amount of direct labor, material, and allocated overhead. District policy has set the capitalization threshold for reporting capital assets at \$5,000 and an estimated useful life of greater than five years.

The District capitalizes interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful life of such assets.

Depreciation is calculated on the straight-line method over the estimated useful life of an asset, which ranges from five to one hundred years as follows:

Water system	10 - 75 years
Wastewater system	10 - 100 years
Water recycling system	5 - 50 years
Park and campgrounds	5 - 30 years
Buildings	20 - 30 years
Equipment	5 - 10 years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

k. Capital Assets (Continued):

Depreciation totaled \$8,063,872 for the year ended June 30, 2018. Depreciation expense has been allocated to Water Operations, Wastewater Operations and Park Operations on the Statement of Revenues, Expenses and Changes in Net Position. The allocation of depreciation expense for the years ended June 30, 2018 is as follows:

Water Operations	\$6,083,090
Wastewater Operations	1,177,556
Park Operations	803,226
	\$8,063,872

l. Compensated Absences:

Vested or accumulated vacation and sick leave are recorded as expenses and liabilities as benefits accrue to employees. At June 30, 2018 accumulated vacation and sick leave totaled \$1,876,112, and is included in accrued expenses and other liabilities on the Statement of Net Position.

m. Restricted Assets and Liabilities:

Certain current liabilities have been classified as current liabilities payable from restricted assets as they will be funded from restricted assets.

n. Use of Estimates:

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and, accordingly, include amounts that are based on management’s best estimates and judgments. Actual results could differ from those estimates.

o. Property Taxes:

Property taxes are billed by the County of San Diego to property owners. The District takes into account differences in the property taxes assessed in the two service areas when establishing its water rates for each area. The District’s property tax calendar for the fiscal year ended June 30, 2018 was as follows:

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

Property taxes receivable of \$102,708 as of June 30, 2018 have been reported net of an allowance for estimated uncollectible taxes in the amount of \$4,737.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

p. Amortization of Deferred Charges, Bond Discounts and Premiums Costs:

Deferred charges, bond discounts, and premiums are being amortized over the periods of debt maturities. Amortization of deferred charges, bond discounts, and premiums totaled \$81,893 for the year ended June 30, 2018, and is included in interest expense on the Statement of Revenues, Expenses and Changes in Net Position.

q. Interest Expense:

The District incurs interest charges on long-term debt. Interest expense for the year ended June 30, 2018, is as follows (does not include amortization of bond premium):

Amount Expensed	\$ 1,952,614
Amount Capitalized as a Cost of Construction Projects	<u>408,550</u>
Total Interest	<u>\$ 2,361,164</u>

r. 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.

s. Postemployment Benefits Other Than Pensions (OPEB):

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District’s OPEB Plan and additions to/deductions from the OPEB Plans’ fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the District’s OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

2. CASH AND INVESTMENTS:

Cash and investments at June 30, 2018 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Current Assets:	
Cash and cash equivalents	\$ 39,488,067
Restricted cash and cash equivalents	610,300
Investments	42,604,481
Noncurrent Assets:	
Restricted:	
Cash and cash equivalents	13,580,657
Investments	<u>4,902,051</u>
Total cash and investments	<u><u>\$101,185,556</u></u>

Cash and investments consist of the following:

Cash on hand	\$ 6,950
Deposits with financial institutions	19,920,279
Investments	<u>81,258,327</u>
Total cash and investments	<u><u>\$ 101,185,556</u></u>

GASB Statement No. 9 defines cash equivalents and investments for presentation in the financial statements (Statement of Net Position and Statement of Cash Flows), and GASB Statement No. 3 defines cash equivalents and investments for presentation in the notes to the financial statements. GASB Statement No. 9 classifies investments with an original maturity of three months or less when purchased and investment pools with no withdrawal penalty as cash equivalents. GASB Statement No. 3 classifies both of these items as investments for note disclosure.

2. CASH AND INVESTMENTS (CONTINUED):

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.

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	None	None
Banker’s Acceptances	180 days	40%	None
Commercial Paper	270 days	25%	10%
Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	Multiple
Local Agency Investment Fund (LAIF)**	N/A	None	None
San Diego County Pooled Investment Fund	N/A	None	None
California Asset Management Program (CAMP)	N/A	None	None

**Maximum investment in LAIF is \$65 million per California Government Code.

Investments Authorized by Debt Agreements:

Investments of debt proceeds held by a bond trustee are governed by the general provisions of the California Government Code or the District’s investment policy (whichever is more restrictive).

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.

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk (Continued):

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 show the distribution of the District’s investments by maturity.

As of June 30, 2018 the District had the following investments:

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)	\$ 21,451,533	\$ 21,451,533	\$ -	\$ -	\$ -
Money Market Mutual Funds	9,521,996	9,521,996	-	-	-
Commercial Paper	2,778,824	2,778,824	-	-	-
U.S. Government Sponsored Entities	7,933,631	1,975,720	4,235,351	1,722,560	-
U.S. Treasury Obligations	11,499,234	-	4,176,222	7,323,012	-
Negotiable Certificates of Deposit	8,856,509	360,112	6,633,514	1,862,883	-
Municipal Obligations	578,620	-	-	578,620	-
Supranational Obligations	5,252,315	519,464	728,693	4,004,158	-
Corporate Obligations	13,385,665	1,083,654	6,877,553	5,424,458	-
Total	\$ 81,258,327	\$ 37,691,303	\$ 22,651,333	\$ 20,915,691	\$ -

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 the California Government Code, the District’s investment policy or debt agreements, and the Standard and Poor’s rating as of June 30, 2018 for each investment type.

The District’s investment policy and the actual rating as of June 30, 2018 for each investment type is as follows:

Investment Type	Total	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year End			
				AAA	AA	A/BBB	Not Rated
Local Agency Investment Fund (LAIF)	\$ 21,451,533	N/A	\$ -	\$ -	\$ -	\$ -	\$ 21,451,533
Money Market Mutual Funds	9,521,996	AAA	-	9,521,996	-	-	-
Commercial Paper	2,778,824	N/A	-	-	-	2,778,824	-
U.S. Government Sponsored Entities	7,933,631	N/A	-	-	7,933,631	-	-
U.S. Treasury Obligations	11,499,234	N/A	11,499,234	-	-	-	-
Negotiable Certificates of Deposit	8,856,509	N/A	-	-	1,789,219	1,142,285	5,925,005
Municipal Obligations	578,620	N/A	-	-	578,620	-	-
Supranational Obligations	5,252,315	N/A	-	4,327,589	-	-	924,726
Corporate Obligations	13,385,665	N/A	-	187,572	2,732,325	10,077,866	387,902
Total	\$ 81,258,327		\$ 11,499,234	\$ 14,037,157	\$ 13,033,795	\$ 13,998,975	\$ 28,689,166

2. CASH AND INVESTMENTS (CONTINUED):**Concentration of Credit Risk:**

The investment policy of the District contains various limitations on the amounts that can be invested in any one type or group of investments and in any issuer, beyond that stipulated by the California Government Code, Sections 53600 through 53692. There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments as of June 30, 2018.

Custodial Credit Risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, an entity 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, an entity 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, 2018, \$19,959,210 of the District's deposits with financial institutions in excess of federal depository insurance limits was 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.

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).

2. CASH AND INVESTMENTS (CONTINUED):

Fair Value Measurements (Continued):

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.
- Level 2: Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

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

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.

2. CASH AND INVESTMENTS (CONTINUED):

Fair Value Measurements (Continued):

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

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	June 30, 2018
Investments by Fair Value Level				
U.S. Government Sponsored				
Entity Securities				
FNMA	\$ -	\$ 3,168,617	\$ -	\$ 3,168,617
FHLMC	-	2,337,197	-	2,337,197
FHLB	-	2,427,817	-	2,427,817
U.S. Treasury Securities	-	11,499,234	-	11,499,234
Commercial Paper	-	2,778,824	-	2,778,824
Negotiable Certificates of Deposit	-	8,856,509	-	8,856,509
Municipal Obligations	-	578,620	-	578,620
Supernational Obligations	-	5,252,315	-	5,252,315
Corporate Obligations	-	13,385,665	-	13,385,665
Total Investments by Fair Value Level	<u>\$ -</u>	<u>\$ 50,284,798</u>	<u>\$ -</u>	<u>50,284,798</u>
Investments measured at Cost or Net Asset Value (NAV)				
Local Agency Investment Fund (LAIF)				21,451,533
Money Market Mutual Funds				9,521,996
Total Investments at Cost or Net Assets Value (NAV)				<u>30,973,529</u>
Total Investments				<u>\$ 81,258,327</u>

3. RESTRICTED ASSETS:

Restricted assets were provided by, and are to be used for, the following as of June 30, 2018:

Funding Source	Use	Total
Customer and construction deposits	Various	\$ 610,300
Capacity expansion funds and accrued interest receivable	Acquisition and construction	9,088,412
Debt proceeds, capital contributions and interest earned	Debt service and acquisition and construction	9,429,053
Pensions and other	Various	<u>13,829</u>
		<u>\$ 19,141,594</u>

4. CAPITAL ASSETS:

The following is a summary of changes in Capital Assets for the year ended June 30, 2018:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>
Capital Assets, Not Depreciated:				
Land, Franchise and Water Rights	\$ 1,029,046	\$ 277,850	\$ -	\$ 1,306,896
Construction in Progress	20,886,290	22,307,643	(6,392,609)	36,801,324
Total Capital Assets Not Depreciated	<u>21,915,336</u>	<u>22,585,493</u>	<u>(6,392,609)</u>	<u>38,108,220</u>
Capital Assets, Being Depreciated:				
Water System	212,106,066	2,678,957	-	214,785,023
Sewer System	50,039,177	1,054,655	(17,509)	51,076,323
Water Recycling System	26,488,044	1,171,696	-	27,659,740
Park and Campgrounds	20,780,716	287,159	(91,180)	20,976,695
Buildings	27,807,275	550,973	(88,892)	28,269,356
Equipment	10,660,360	900,529	(387,469)	11,173,420
Total Capital Assets Being Depreciated	<u>347,881,638</u>	<u>6,643,969</u>	<u>(585,050)</u>	<u>353,940,557</u>
Less Accumulated Depreciation:	<u>(119,073,407)</u>	<u>(8,063,872)</u>	<u>585,050</u>	<u>(126,552,229)</u>
Total Capital Assets Being Depreciated, Net	<u>228,808,231</u>	<u>(1,419,903)</u>	<u>-</u>	<u>227,388,328</u>
Total Capital Assets, Net	<u>\$ 250,723,567</u>	<u>\$ 21,165,590</u>	<u>\$ (6,392,609)</u>	<u>\$ 265,496,548</u>

5. LONG-TERM DEBT:

Long-term liabilities for the year ended June 30, 2018 are as follows:

	Balance at June 30, 2017	Additions	Deletions	Balance at June 30, 2018	Due within One Year
Certificates of Participation (COPs):					
2017 Refunding COPs	\$ 53,195,000	\$ -	\$ (2,210,000)	\$ 50,985,000	\$1,860,000
2017 Refunding COPs Unamortized Premium	5,018,078	-	(225,806)	4,792,272	-
Net COPs	<u>58,213,078</u>	<u>-</u>	<u>(2,435,806)</u>	<u>55,777,272</u>	<u>1,860,000</u>
Note Payable:					
California Bank and Trust	1,902,275	-	(296,196)	1,606,079	377,334
Capital Lease:					
Banc of America	1,645,475	-	(636,070)	1,009,405	665,340
Revenue Bonds:					
2013 Refunding Revenue Bonds	2,730,000	-	(295,000)	2,435,000	305,000
2013 Unamortized Premium	396,297	-	(53,434)	342,863	-
Net Revenue Bonds	<u>3,126,297</u>	<u>-</u>	<u>(348,434)</u>	<u>2,777,863</u>	<u>305,000</u>
Other Long-Term Debt:					
Capital One Park Cabins Loan	972,247	-	(80,486)	891,761	100,676
Total Other Long-Term Debt	<u>972,247</u>	<u>-</u>	<u>(80,486)</u>	<u>891,761</u>	<u>100,676</u>
Total Long-Term Debt	<u>\$ 65,859,372</u>	<u>\$ -</u>	<u>\$ (3,796,992)</u>	<u>\$ 62,062,380</u>	<u>\$3,308,350</u>

5. LONG-TERM DEBT (CONTINUED):

Certificates of Participation (COPs):

On September 1, 2009, the District issued \$53,695,000 of 2009 Capital Improvement and Refunding Project, Series A Certificates of Participation which consisted of serial bonds and term bonds. \$27,020,000 of serial bonds mature annually from October 1, 2010 to October 1, 2029 and bear varying interest rates between 2.00% and 5.25%. A \$11,600,000 term bond matures on October 1, 2034 and bears an interest rate of 5.25%, and a \$15,075,000 term bond matures on October 1, 2039 and bears an interest of 5.25%. The COPs were issued in part to refinance the Certificates of Participation issued in 1996 and in part to finance various improvements to the District’s Water System. In October 2017, the 2009 Certificates of Participation were defeased with issuance of the 2017 Capital Improvement and Refunding Project.

On June 15, 2017, the District issued \$53,195,000 of 2017 Capital Improvement and Refunding Project, Series A Certificates of Participation which consist of serial bonds. \$45,850,000 of the serial bonds maturing annually from October 1, 2017 to October 1, 2040 and bear varying interest rates between 3.00% and 5.00%. \$7,345,000 of the serial bonds mature annually from October 1, 2017 to October 1, 2039 and bear varying interest rates between 3.00% and 5.00%. The COPs were issued in part to defease the Certificates of Participation issued in 2009 and in part to fund future capital projects. The savings between the cash flow required to service the old debt and the cash flow required to service the new debt is \$15,856,177 and represents an economic gain on refunding of \$11,892,769.

The total amount outstanding at June 30, 2018 and aggregate maturities of the 2017 Certificates of Participation for the fiscal years subsequent to June 30, 2018, are as follows:

For the Year Ended June 30,	Principal	Interest	Total
2019	\$ 1,860,000	\$ 2,049,481	\$ 3,909,481
2020	1,955,000	1,954,106	3,909,106
2021	2,055,000	1,853,856	3,908,856
2022	2,160,000	1,748,481	3,908,481
2023	1,610,000	1,654,231	3,264,231
2024-2028	9,365,000	6,946,281	16,311,281
2029-2033	11,910,000	4,402,006	16,312,006
2034-2038	14,225,000	2,072,652	16,297,652
2039-2040	5,845,000	183,544	6,028,544
	<u>\$ 50,985,000</u>	<u>\$ 22,864,638</u>	<u>\$ 73,849,638</u>

5. LONG-TERM DEBT (CONTINUED):

Note Payable:

In April 1996, the District obtained an unsecured loan from California Bank and Trust, which was refinanced in 2002, 2007, 2012, and again in 2017, in the amount of \$5,000,000. The note bears interest at 61% of the prime rate (3.05% at June 30, 2018). The note requires monthly interest and principal payments of \$34,585 with the remaining unpaid principal balance due August, 2022. This note is payable from revenues levied by the District for purposes other than the payment of principal and interest of bonded debt.

Future debt service requirements for the California Bank and Trust Note are as follows:

<u>For the Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 377,334	\$ 37,686	\$ 415,020
2020	386,464	28,556	\$ 415,020
2021	396,819	18,201	\$ 415,020
2022	407,376	7,644	\$ 415,020
2023	38,086	226	\$ 38,312
	<u>\$ 1,606,079</u>	<u>\$ 92,313</u>	<u>\$ 1,698,392</u>

Capital Lease:

The District entered into a capital lease agreement on July 16, 2009 with Banc of America for \$5,604,125 to finance a portion of the \$8,706,363 cost of various new equipment. Accumulated depreciation on this equipment at June 30, 2018 was \$4,330,534. The capital lease is for a term of 10 years with semiannual lease payments of \$351,892 which include interest at 6.75%. Upon the expiration of the lease term the equipment can be purchased for \$1.00.

Future minimum lease payments under the capital lease are as follows:

<u>For the Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 665,340	\$ 38,445	\$ 703,785
2020	344,065	7,827	351,892
	<u>\$ 1,009,405</u>	<u>\$ 46,272</u>	<u>\$ 1,055,677</u>

5. LONG-TERM DEBT (CONTINUED):

Revenue Bonds:

In April 2013, the 2013 Refunding Revenue Bonds were issued to defease the 2004 Certificates of Participation and the 1995 and 1996 State of California Loans Payable. The bonds were issued with a face value of \$7,225,000 plus an \$831,257 original issue premium. The bonds bear interest at 1% to 5% and are due in annual installments of \$395,000 to \$1,120,000 from December 31, 2013 through December 31, 2024.

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

For the Year Ended June 30,	Principal	Interest	Total
2019	\$ 305,000	\$ 103,725	\$ 408,725
2020	320,000	89,700	409,700
2021	330,000	75,050	405,050
2022	345,000	59,900	404,900
2023	365,000	43,875	408,875
2024-2025	770,000	37,125	807,125
	<u>\$ 2,435,000</u>	<u>\$ 409,375</u>	<u>\$ 2,844,375</u>

Other Long-Term Debt:

On October 1, 2010, the District entered into an installment sale agreement with Capital One to finance the purchase and site work necessary to install 7 land based cabins and 3 floating cabins at Santee Lakes. The total amount financed, including legal and closing costs, is \$1,415,000. The term of the agreement is 15 years with an effective interest rate of 2.89%. Annual payments of \$126,448 are required and are made with Park Funds. The agreement is subordinate to the existing COPs and is secured by a pledge of Park and District net revenues.

Future debt service requirements for the Government Capital Corporation installment agreement is as follows:

For the Year Ended June 30,	Principal	Interest	Total
2019	\$ 100,676	\$ 25,772	\$ 126,448
2020	103,586	22,862	126,448
2021	106,579	19,869	126,448
2022	109,659	16,789	126,448
2023	112,829	13,619	126,448
2024-2026	358,432	20,912	379,344
	<u>\$ 891,761</u>	<u>\$ 119,823</u>	<u>\$ 1,011,584</u>

6. PREPAID CAPACITY FEES:

The District records capacity fees collected as a liability until its duty to perform has been completed and service has begun at which time these fees are recorded as capital contributions. Following is a summary of the prepaid capacity fee liability at June 30, 2018:

Balance, Beginning of Year	\$ 1,526,224
Add: Construction and Capacity Fees Received	8,028,364
Less: Water and Sewer Connections	(5,566,974)
Less: Refunds	(6,000)
	<hr/>
Balance, End of Year	<u>\$ 3,981,614</u>

7. PENSION PLANS

Defined Benefit Plans

A. General Information about the Pension Plans:

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the District’s Miscellaneous Plans, agent multiple-employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. 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 with statutorily reduced benefits. Members under Tier III PEPRAs are eligible to retire at age 52. 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.

7. PENSION PLANS (CONTINUED)

Defined Benefit Plans (Continued)

C. A General Information about the Pension Plans (Continued):

Benefits Provided (Continued)

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous Plan		
	Tier I	Tier II	Tier III - PEPRRA
Hire date	Prior to June 26, 2010	June 26, 2010 to December 31, 2012	On or After January 1, 2013
Benefit formula	3%@60	2.5%@55	2%@62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 60	50 - 55	52 - 67
Required employee contribution rates	8%	8%	6.25%
Required employer contribution rates	28.182%	28.182%	28.182%

Employees Covered

At June 30, 2018, the following employees were covered by the benefit terms for the Plans:

Inactive employees or beneficiaries	
currently receiving benefits	132
Inactive employees entitled to but	
not yet receiving benefits	52
Active employees	132
Total	316

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 the Plan is 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. Net Pension Liability:

The District's net pension liability for the Plans is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plans is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

7. PENSION PLANS (CONTINUED)

Defined Benefit Plans (Continued)

B. Net Pension Liability (Continued):

Actuarial Assumptions

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous Plan</u>
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

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

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

(3) Mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on the table please refer to the 2014 experience study report.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Change of Assumptions

In fiscal year 2017-2018, the financial reporting discount rate was reduced from 7.65% to 7.15%. Deferred outflows of resources and deferred inflows of resources for changes of assumptions represent the unamortized portion of this assumption change and the unamortized portion of the changes of assumptions related to prior measurement periods.

7. PENSION PLANS (CONTINUED)

Defined Benefit Plans (Continued)

B. Net Pension Liability (Continued):

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for each Plan and reflects the long-term expected rate of return for the each Plan net of investment expenses and without reduction for administrative expenses. 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 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. 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. Using historical returns of all the funds’ asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	0.90%
Total	100.00%		

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

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

7. PENSION PLANS (CONTINUED)

Defined Benefit Plans (Continued)

C. Changes in the Net Pension Liability:

The changes in the net pension liability for the Miscellaneous Plans are as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2016	<u>\$ 105,768,808</u>	<u>\$ 67,121,791</u>	<u>\$ 38,647,017</u>
Changes in the Year:			
Service cost	1,942,588	-	1,942,588
Interest on the total pension liability	7,846,202	-	7,846,202
Differences between actual and expected experience	-	-	-
	(1,099,394)	-	(1,099,394)
Changes in assumptions	6,574,735	-	6,574,735
Changes in benefit terms	-	-	-
Contribution - employer	-	2,998,803	(2,998,803)
Contribution - employee	-	888,519	(888,519)
Net investment income	-	7,474,696	(7,474,696)
Administrative expenses	-	(99,101)	99,101
Benefit payments, including refunds of employee contributions	-	-	-
	(4,956,734)	(4,956,734)	-
Net Changes	<u>10,307,397</u>	<u>6,306,183</u>	<u>4,001,214</u>
Balance at June 30, 2017	<u>\$ 116,076,205</u>	<u>\$ 73,427,974</u>	<u>\$ 42,648,231</u>

Due to the timing of the CalPERS actuarial valuations, the June 30, 2017 balance above is reported as the June 30, 2018 balance on the Statement of Net Position.

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

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

	<u>Miscellaneous</u>
1% Decrease	6.15%
Net Pension Liability	\$ 58,496,005
Current Discount Rate	7.15%
Net Pension Liability	\$ 42,648,231
1% Increase	8.15%
Net Pension Liability	\$ 29,534,923

7. PENSION PLANS (CONTINUED)

Defined Benefit Plans (Continued)

C. Changes in the Net Pension Liability (Continued):

Pension Plan Fiduciary Net Position

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

D. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:

For the year ended June 30, 2018, the District recognized pension expense of \$5,025,255. At June 30, 2018, 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
	<u> </u>	<u> </u>
Pension contributions subsequent to measurement date	\$ 3,322,291	\$ -
Change in assumptions	4,931,051	(517,329)
Differences between actual and expected experience	14,734	(1,026,064)
Net differences between projected and actual earnings on plan investments	944,808	-
Total	<u>\$ 9,212,884</u>	<u>\$ (1,543,393)</u>

\$3,322,291 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 ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	<u>Amount</u>
2019	\$ 743,580
2020	2,377,637
2021	1,774,480
2022	(548,497)
2023	-
Thereafter	-

E. Payable to the Pension Plans:

At June 30, 2018, the District had no outstanding amount of contributions to the pension plans required for the year ended June 30, 2018.

8. OTHER POST EMPLOYMENT BENEFITS (OPEB):

Plan Description

The District administers an Agent Multiple-Employer defined-benefit post-employment healthcare plan. Dependents are eligible to enroll, and benefits continue to surviving spouses.

Benefits Provided

Retirees and spouses are eligible for medical benefits if they retire at age 50+ with 5+ years of CalPERS service. The District pays for a percentage of medical premiums based on hire date and years of service. New hires benefit levels are subject to annual caps.

Employees Covered

At June 30, 2017 (census date), the benefit terms covered the following employees:

<u>Category</u>	<u>Count</u>
Active employees	126
Inactive employees, spouses, or beneficiaries currently receiving benefit payments	177
Inactive employees entitled to but not yet receiving benefit payments	-
Total	<u>303</u>

Contributions

The District makes contributions based on an actuarially determined rate.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

- Inflation: 2.75%
- Salary increases: 2.875%. Additional merit-based increases based on CalPERS merit salary increase tables.
- Investment rate of return: 7.28%
- Healthcare cost trend rates: 7.00% in the first year, trending down to 3.84% over 58 years.
- Mortality rates were based on CalPERS tables.
- *Discount Rate*

The discount rate used to measure the total OPEB liability is 7.28%. This is the expected long-term rate of return on District assets using investment strategy 1 within the California Employers' Retiree Benefit Trust (CERBT). The projection of cash flows used to determine the discount rate assumed that the District contribution will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position is projected to cover all future OPEB payments. Therefore, the discount rate was set equal to the long-term expected rate of return.

8. OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

Changes in the Net OPEB Liability

The changes in the net OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2016	\$ 26,470,082	\$ 11,137,423	\$ 15,332,659
Changes in the Year:			
Service cost	300,713	-	300,713
Interest on the total OPEB liability	1,907,223	-	1,907,223
Differences between actual and expected experience	-	-	-
Changes in assumptions	-	-	-
Changes in benefit terms	-	-	-
Contribution	-	-	-
Employer- District's Contribution	-	1,237,125	(1,237,125)
Employer- Implicit Subsidy	-	248,388	(248,388)
Net investment income	-	1,214,057	(1,214,057)
Administrative expenses	-	(6,162)	6,162
Implicit Rate Subsidy Fulfilled	(248,388)	(248,388)	-
Benefit payments	(917,448)	(917,448)	-
Net Changes	<u>1,042,100</u>	<u>1,527,572</u>	<u>(485,472)</u>
Balance at June 30, 2017	<u>\$ 27,512,182</u>	<u>\$ 12,664,995</u>	<u>\$ 14,847,187</u>

Due to the timing of the OPEB actuarial valuations, the June 30, 2017 balance above is reported as the June 30, 2018 balance on the Statement of Net Position.

8. OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

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

Sensitivity of the net OPEB liability to changes in the discount rate. The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.28%) or one percentage point higher (8.28%) follows:

	1% Decrease 6.28%	Discount Rate 7.28%	1% Increase 8.28%
Net OPEB Liability (Asset)	\$ 18,366,817	\$ 14,847,187	\$ 11,919,815

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

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.00%) or one percentage point higher (8.00%) than current healthcare cost trend rates follows:

The following presents the total OPEB liability of the District, as well as what the District's total OPEB

	1% Decrease 6.00% decreasing to 2.84%	Current Healthcare Cost Trend Rates 7.00% decreasing to 3.84%	1% Increase 8.00% decreasing to 4.84%
Net OPEB Liability (Asset)	\$ 12,037,383	\$ 14,847,187	\$ 18,256,431

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$1,287,427. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 266,471	\$ -
Net difference between projected and actual earnings on OPEB plan investments	-	(287,386)
Total	\$ 266,471	\$ (287,386)

8. OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

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

\$266,471 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Amount
2019	\$ (71,847)
2020	(71,847)
2021	(71,847)
2022	(71,845)
2023	-
Thereafter	-

Payable to the OPEB Plan

At June 30, 2018, the District had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2018.

9. REIMBURSEMENT CONTRACTS:

The District has entered into a number of reimbursement contracts with developers who have made contributions to the District to aid in the construction of water and sewer facilities. These contracts are to be repaid as new connections are made to the related water and sewer facilities. The District’s liability is limited to collecting the applicable connection fees and payment of the fees to the developers. The District currently has three active reimbursement contracts. The active contracts consist of two agreements that expire in March of 2019 and have an option for a 5 year extension and the third agreement has no expiration date but has a limited amount of money to be reimbursed per the agreement.

10. COMMITMENTS AND CONTINGENCIES:

Leases

The District entered into a twenty-five year agreement in 1976 with the City of San Diego for the use of a portion of a major water transmission line. The lease was extended for an additional ten years in December 2002 and another ten years in November 2011. The minimum annual payments under the terms of the agreement are \$33,339 through December 2021.

10. COMMITMENTS AND CONTINGENCIES (CONTINUED):

Rent expense under these non-cancellable leases was \$33,339 for the year ended June 30, 2018.

Future minimum lease payments as of June 30, 2018 are as follows:

2019	\$ 33,339
2020	33,339
2021	<u>33,339</u>
	<u>\$ 100,017</u>

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, would not materially affect the operations or financial condition of the District.

Construction Contracts

The District has entered into various contracts for the purchase of material and construction of facilities. The amounts contracted for are based on the contractors’ estimated cost of construction. At June 30, 2018 the total unpaid amount on these contracts was \$6,060,675.

11. CERTIFICATION OF RATE COVENANT REQUIREMENTS:

In connection with the execution and delivery of the outstanding Certificates of Participation and Revenue Bonds, the District agreed to meet certain covenants to maintain and collect gross revenues sufficient in each fiscal year to provide District net revenues which meet or exceed required ratios, as defined in the Rate Covenant section of the Official Statements. The District has complied with the Rate Covenants as outlined in the 2017 Certificates of Participation agreement and the 2013 Refunding Revenue Bonds for the year ending June 30, 2018. In connection with the execution and delivery of the California Bank and Trust Note, the District agreed to meet certain covenants to meet or exceed required ratios, as defined in the Rate Covenant section of the Note Agreement. The District has complied with the Rate Covenants as outlined in the Note Agreement for the year ended June 30, 2018.

12. RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. The District participates in an insurance pool through the Special District Risk Management Authority (SDRMA). SDRMA is a not-for-profit public agency formed under California Government Code Sections 6500 et. Seq. SDRMA is governed by a board composed of members from participating agencies. The mission of SDRMA is to provide renewable, efficiently priced risk financing and risk management services through a financially sound pool. The District pays an annual premium for commercial insurance covering general liability, excess liability, property, automobile, public employee dishonesty, and various other risks. Accordingly, the District retains no risk of loss. Separate financial statements of SDRMA may be obtained at Special District Risk Management Authority, 1112 “I” Street, Suite 300, Sacramento, CA 95814. During its membership, the following policies are in effect:

12. RISK MANAGEMENT (CONTINUED):

General and Auto Liability - Public Officials’ and Employees’ Errors and Omissions and Employment Practices Liability: Total risk financing limits of \$10 million, combined single limit at \$10 million per occurrence, subject to the following deductibles:

- \$25,000 per occurrence for third party general liability property damage.
- \$10,000 per occurrence for third party auto liability property damage.
- 50% co-insurance of cost expended by SDRMA in excess of \$10,000 up to \$50,000 per occurrence for employment related claims. However 100% of the obligation may be waived if certain criteria are met.

Employee Dishonesty Coverage - Total of \$1 million per loss includes Public Employee Dishonesty, Forgery or Alteration and Theft, and Disappearance and Destruction.

Property Loss - Replacement cost, for property on file, if replaced and if not replaced within two years after the loss, paid on an actual cash value basis, to a combined total of \$1 billion per occurrence, subject to \$1,000 deductible per occurrence.

Boiler and Machinery - Replacement cost up to \$100 million per occurrence, subject to a \$1,000 deductible.

Comprehensive and Collision - On selected vehicles, with deductibles of \$250/\$500 or \$500/\$1,000, as elected; ACV limits, fully self-funded by SDRMA.

Public Officials’ Personal Liability - \$500,000 each occurrence, with an annual aggregate of \$500,000 per each elected/appointed official to which this coverage applies, subject to the terms, conditions and exclusions as provided in the Memorandum of Coverages, deductible of \$1,000 per claim.

Workers’ Compensation & Employer’s Liability – Statutory limits per occurrence for Workers’ Compensation and \$5 million for Employer’s Liability Coverage.

Members are subject to dividends and/or assessments, in accordance with the Sixth Amended Joint Powers Agreement and amendments thereto. No such dividends have been declared, nor have any assessments been levied. Presently, there are no known refunds or credits due to the District.

During the past three fiscal years none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

13. RESTATEMENT OF NET POSITION

Beginning balances of net position as of July 1, 2017, have been restated as follows:

Net position at July 1, 2016 as original reported	\$ 249,279,751
Implementation of GASB 75 to record the net OPEB liability at the beginning of the year	<u>(13,847,146)</u>
Net position at July 1, 2017, as restated	<u>\$ 235,432,605</u>

Required Supplementary Information

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
Last Ten Fiscal Years*

	2018	2017	2016	2015
Total Pension Liability:				
Service cost	\$ 1,942,588	\$ 1,667,007	\$ 1,708,536	\$ 1,792,911
Interest on total pension liability	7,846,202	7,620,341	7,268,299	6,967,691
Differences between expected and actual experience	(1,099,394)	29,468	(705,311)	-
Changes in assumptions	6,574,735	-	(1,810,650)	-
Benefit payments, including refunds of employee contributions	(4,956,734)	(4,594,669)	(4,172,721)	(4,016,332)
Net Change in Total Pension Liability	10,307,397	4,722,147	2,288,153	4,744,270
Total Pension Liability - Beginning of Year	105,768,808	101,046,661	98,758,508	94,014,238
Total Pension Liability - End of Year (a)	<u>\$ 116,076,205</u>	<u>\$ 105,768,808</u>	<u>\$ 101,046,661</u>	<u>\$ 98,758,508</u>
Plan Fiduciary Net Position:				
Contributions - employer	\$ 2,998,803	\$ 2,509,483	\$ 2,277,997	\$ 2,023,175
Contributions - employee	888,519	819,151	819,055	877,391
Net investment income	7,474,696	353,874	1,516,313	10,094,956
Benefit payments, including refunds of employee contributions	(4,956,734)	(4,594,669)	(4,172,721)	(4,016,332)
Administrative Expense	(99,101)	(41,488)	(76,726)	-
Net Change in Plan Fiduciary Net Position	6,306,183	(953,649)	363,918	8,979,190
Plan Fiduciary Net Position - Beginning of Year	67,121,791	68,075,440	67,711,522	58,732,332
Plan Fiduciary Net Position - End of Year (b)	<u>\$ 73,427,974</u>	<u>\$ 67,121,791</u>	<u>\$ 68,075,440</u>	<u>\$ 67,711,522</u>
Net Pension Liability - Ending (a)-(b)	<u>\$ 42,648,231</u>	<u>\$ 38,647,017</u>	<u>\$ 32,971,221</u>	<u>\$ 31,046,986</u>
Plan fiduciary net position as a percentage of the total pension liability	63.26%	63.46%	67.37%	68.56%
Covered - employee payroll	\$ 10,314,259	\$ 10,100,905	\$ 9,921,986	\$ 9,812,967
Net pension liability as percentage of covered- employee payroll	413.49%	382.61%	332.30%	316.39%

Notes to Schedule:

Benefit Changes:

The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2016. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in Assumptions:

The discount rate was changed from 7.65% (net of administrative expense) to 7.15%.

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

PADRE DAM MUNICIPAL WATER DISTRICT REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS - DEFINED BENEFIT PENSION PLAN

Last Ten Fiscal Years*

	2018	2017	2016	2015
Actuarially determined contribution	\$ 3,222,291	\$ 2,998,803	\$ 2,509,483	\$ 2,277,997
Contributions in relation to the actuarially determined contributions	<u>(3,222,291)</u>	<u>(2,998,803)</u>	<u>(2,509,483)</u>	<u>(2,277,997)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 10,444,059	\$ 10,314,259	\$ 10,100,905	\$ 9,921,986
Contributions as a percentage of covered - employee payroll	30.85%	29.07%	24.84%	22.96%

Notes to Schedule:

Valuation Date June 30, 2014

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level percent of payroll
Remaining amortization period	27 years as of the valuation date
Asset valuation method	15 Year Smoothed Market
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment rate of return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Retirement age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period 1997 -
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997-2007. Pre-retirement and Post-Retirement mortality rates include 5 years of projected mortality improvement using Scale AA published in the Society of Actuaries.

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

PADRE DAM MUNICIPAL WATER DISTRICT REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

Last Ten Fiscal Years*

Fiscal year end	<u>6/30/2018</u>
Measurement date	<u>6/30/2017</u>
Total OPEB Liability:	
Service cost	\$ 300,713
Interest on total OPEB liability	1,907,223
Benefit payments, including refunds of Employee Contributions	(917,448)
Implicit Rate Subsidy Fulfilled	<u>(248,388)</u>
Net Change in Total OPEB Liability	1,042,100
Total OPEB Liability - Beginning of Year	<u>26,470,082</u>
Total OPEB Liability - End of Year (a)	<u>27,512,182</u>
Plan Fiduciary Net Position:	
Contributions	
Employer - District's Contribution	1,237,125
Employer - Implicit Subsidy	248,388
Net investment income	1,214,057
Administrative expenses	(6,162)
Benefit payments, including refunds of Employee Contributions	(917,448)
Implicit Rate Subsidy Fulfilled	<u>(248,388)</u>
Net Change in Plan Fiduciary Net Position	1,527,572
Plan Fiduciary Net Position - Beginning of Year	<u>11,137,423</u>
Plan Fiduciary Net Position - End of Year (b)	<u>12,664,995</u>
Net OPEB Liability - Ending (a)-(b)	<u>\$ 14,847,187</u>
Plan fiduciary net position as a percentage of the total OPEB liability	46.03%
Covered - employee payroll	\$ 10,776,917
Net OPEB liability as percentage of covered - employee payroll	137.77%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

There were no changes in assumptions.

* Fiscal year 2018 was the first year of implementation; therefore, only one year is shown.

PADRE DAM MUNICIPAL WATER DISTRICT REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS - OPEB

Last Ten Fiscal Years*

Measurement Period	2016-2017
Reporting Period	2017-2018
Report Date	<u>June 30, 2018</u>
Actuarially determined contribution	\$ 1,512,400
Contributions in relation to the actuarially determined contributions	<u>(1,485,513)</u>
Contribution deficiency (excess)	<u>\$ 26,887</u>
Covered - employee payroll	\$ 10,776,917
Contributions as a percentage of covered - employee payroll	13.78%

Notes to Schedule:

Valuation Date 6/30/2017

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry age normal, level percent of pay
Amortization method	Closed period, level percent of pay
Amortization period	20 years
Inflation	2.75%
Assumed Payroll Growth	2.88%
Healthcare Trend Rates	7.00%, trending down to 3.84%
Rate of Return on Assets	7.28%
Mortality Rates	Derived from CalPERS pension plan updated to reflect most recent experience study

* Fiscal year 2018 was the first year of implementation; therefore, one year is shown.

Supplementary Information

PADRE DAM MUNICIPAL WATER DISTRICT

SCHEDULE OF INCOME (LOSS) BEFORE CONTRIBUTIONS BY FUND SERVICES
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Water</u>	<u>Sewer</u>	<u>Park</u>	<u>Other</u>	<u>Restricted</u>	<u>Total</u>
Operating Revenues:						
Water Sales	\$ 31,633,123	\$ -	\$ -	\$ -	\$ -	\$ 31,633,123
Sewer Revenues	-	17,086,046	-	-	-	17,086,046
System Charges	10,836,207	-	-	-	-	10,836,207
Park Fees	-	-	6,200,095	-	-	6,200,095
Other Operating Income	7,140,016	7,110	12,100	-	-	7,159,226
Total Operating Revenues	<u>49,609,346</u>	<u>17,093,156</u>	<u>6,212,195</u>	<u>-</u>	<u>-</u>	<u>72,914,697</u>
Operating Expenses:						
Direct Expenses						
Water Purchases	16,500,179	-	-	-	-	16,500,179
Sewer METRO Costs	-	4,831,929	-	-	-	4,831,929
Other Operating Expenses	2,350,607	1,066,885	317,655	-	-	3,735,147
Internal Expenses						
Salary and Wages	7,741,533	3,079,736	1,211,546	-	-	12,032,815
Employee Benefits	5,904,042	2,484,411	767,228	-	-	9,155,681
Professional Services	3,286,549	1,280,818	317,270	-	-	4,884,637
Materials, Supplies, Vehicle, & Bldg. Rent	3,091,197	1,789,127	611,172	-	-	5,491,496
Administrative Expenses	938,782	370,303	139,004	-	-	1,448,089
Utilities	315,773	514,770	767,251	-	-	1,597,794
Depreciation	6,083,090	1,177,556	803,226	-	-	8,063,872
Billing Credits	(2,209,384)	(998,666)	-	-	-	(3,208,050)
Total Operating Expenses	<u>44,002,368</u>	<u>15,596,869</u>	<u>4,934,352</u>	<u>-</u>	<u>-</u>	<u>64,533,589</u>
Operating Income (Loss)	<u>5,606,978</u>	<u>1,496,287</u>	<u>1,277,843</u>	<u>-</u>	<u>-</u>	<u>8,381,108</u>
Nonoperating Revenues and (Expenses):						
Investment Income (Loss)	473,620	386,987	35,700	(454,731)	-	441,576
Restricted Investment Income (Loss)	-	-	-	-	138,081	138,081
Taxes and Assessments	3,102,193	-	-	-	-	3,102,193
Gain on Sale of Assets	-	-	-	46,919	-	46,919
Interest Expense	(575,488)	-	(373,767)	-	(852,414)	(1,801,669)
Total Nonoperating Revenues and (Expenses)	<u>3,000,325</u>	<u>386,987</u>	<u>(338,067)</u>	<u>(407,812)</u>	<u>(714,333)</u>	<u>1,927,100</u>
Income (Loss) Before Capital Contributions	<u>\$ 8,607,303</u>	<u>\$ 1,883,274</u>	<u>\$ 939,776</u>	<u>\$ (407,812)</u>	<u>\$ (714,333)</u>	<u>\$ 10,308,208</u>

SCHEDULE OF INCOME (LOSS) BEFORE CONTRIBUTIONS (BUDGET TO ACTUAL)
FOR THE YEAR ENDED JUNE 30, 2018

	PRIOR YEAR		CURRENT YEAR				CURRENT YEAR ACTUAL TO - FAV/(UNFAV)			
	ACTUAL		A C T U A L	B U D G E T		BUDGET		PRIOR YEAR		
	\$		\$	\$	%	\$	%	\$	%	
Operating Revenues:										
Revenues:										
Water Sales	\$ 28,702,157	\$ 31,633,123	43.4	\$ 28,397,326	44.1	\$ 3,235,797	11.4	\$ 2,930,966	10.2	
Infrastructure Access Charge	941,688	946,235	1.3	930,624	1.4	15,611	1.7	4,547	0.5	
Energy Billings	1,298,353	1,439,730	2.0	1,175,799	1.8	263,931	22.4	141,377	10.9	
CWA/MWD Credits	158,550	146,360	0.2	364,500	0.6	(218,140)	(59.8)	(12,190)	(7.7)	
Padre Dam Sewer Processing Fee	2,381,222	1,066,885	1.5	1,066,885	1.7	-	-	(1,314,337)	(55.2)	
Sewer Revenues	15,953,752	17,086,046	23.4	16,196,129	25.1	889,917	5.5	1,132,294	7.1	
System Charges	9,585,794	10,836,207	14.9	9,412,000	14.6	1,424,207	15.1	1,250,413	13.0	
Park Fees	5,797,217	6,200,095	8.5	5,894,511	9.1	305,584	5.2	402,878	6.9	
Other Revenues	2,491,025	3,560,016	4.9	994,064	1.5	2,565,952	258.1	1,068,991	42.9	
Total Operating Revenues	67,309,758	72,914,697	100.0	64,431,838	100.0	8,482,859	13.2	5,604,939	8.3	
Operating Expenses:										
Direct Expenses:										
Water Purchases	14,775,516	16,500,179	22.6	14,891,825	23.1	(1,608,354)	(10.8)	(1,724,663)	(11.7)	
Infrastructure Access Charge	891,180	930,624	1.3	930,624	1.4	-	-	(39,444)	(4.4)	
Energy Purchases	1,250,201	1,419,983	1.9	1,175,799	1.8	(244,184)	(20.8)	(169,782)	(13.6)	
Sewer METRO Costs	4,340,385	4,831,929	6.6	4,605,091	7.1	(226,838)	(4.9)	(491,544)	(11.3)	
Padre Dam Sewer Treatment	2,381,222	1,066,885	1.5	1,066,885	1.7	-	-	1,314,337	55.2	
Fish Stock, Propane, & Retail	336,244	317,655	0.4	346,967	0.5	29,312	8.4	18,589	5.5	
Total Direct Expenses	23,974,748	25,067,255	34.4	23,017,191	35.7	(2,050,064)	(8.9)	(1,092,507)	(4.6)	
Internal Expenses:										
Salary & Wages	11,910,137	12,032,815	16.5	12,676,136	19.7	643,321	5.1	(122,678)	(1.0)	
Employee Benefits	7,662,528	9,155,681	12.6	8,118,601	12.6	(1,037,080)	(12.8)	(1,493,153)	(19.5)	
Professional Services	5,659,108	4,884,637	6.7	5,146,876	8.0	262,239	5.1	774,471	13.7	
Materials, Supplies, Vehicle, & Bldg. Rent	4,417,111	5,491,496	7.5	4,912,519	7.6	(578,977)	(11.8)	(1,074,385)	(24.3)	
Administrative Expenses	1,527,424	1,448,089	2.0	1,656,641	2.6	208,552	12.6	79,335	5.2	
Utilities	1,480,749	1,597,794	2.2	1,688,532	2.6	90,738	5.4	(117,045)	(7.9)	
Billing Credits	(2,505,994)	(3,208,050)	(4.4)	(1,442,320)	(2.2)	1,765,730	122.4	702,056	28.0	
Subtotal	30,151,063	31,402,462	43.1	32,756,985	50.8	1,354,523	4.1	(1,251,399)	(4.2)	
Depreciation	7,409,319	8,063,872	11.1	7,510,216	11.7	(553,656)	(7.4)	(654,553)	(8.8)	
Total Internal Expenses	37,560,382	39,466,334	54.1	40,267,201	62.5	800,867	2.0	(1,905,952)	(5.1)	
Total Operating Expenses	61,535,130	64,533,589	88.5	63,284,392	98.2	(1,249,197)	(2.0)	(2,998,459)	(4.9)	
Operating Income (Loss)	5,774,628	8,381,108	11.5	1,147,446	1.8	7,233,662	630.4	2,606,480	45.1	
Nonoperating Revenues and (Expenses):										
Interest Income (Designated)	512,128	896,307	1.2	150,000	0.2	746,307	497.5	384,179	75.0	
Interest Income (Restricted)	166,274	218,328	0.3	50,000	0.1	168,328	336.7	52,054	31.3	
Gain (Loss) on Investments	(346,557)	(534,978)	(0.7)	-	-	(534,978)	N/A	(188,421)	54.4	
Taxes and Assessments	2,955,490	3,102,193	4.2	2,821,059	4.4	281,134	10.0	146,703	5.0	
Gain (Loss) on Sale of Other Capital Assets	(698,041)	46,919	-	-	-	46,919	N/A	744,960	(106.7)	
Bond Issuance Costs	(571,231)	0	-	-	-	0	N/A	571,231	N/A	
Interest Expense	(2,439,248)	(1,801,669)	(2.5)	(1,886,940)	(2.9)	85,271	452.9%	637,579	26.1	
Other Expense	-	-	-	-	-	-	N/A	-	N/A	
Total Nonoperating Revenues and (Expenses)	(421,185)	1,927,100	2.5	1,134,119	1.8	792,981	69.9	2,348,285	557.5	
Income (Loss) Before Capital Contributions	\$ 5,353,443	\$ 10,308,208	14.1	\$ 2,281,565	3.5	\$ 8,026,643	351.8	\$ 4,954,765	92.6	

SCHEDULE OF CHANGE IN CASH, CASH EQUIVALENTS AND INVESTMENTS
FOR THE YEAR ENDED JUNE 30, 2018

	Retail	Water Recycling	Sewer	Park	Total Designated	Restricted CEF/ Other	Restricted COP	Non-Operating Woodside & LWD	Non-Operating METRO	Grand Total
Cash Flows From Operating Activities:										
Operating Income (Loss)	\$ 4,912,078	\$ 694,900	\$ 1,496,287	\$ 1,277,843	\$ 8,381,108	\$ -	\$ -	\$ -	\$ -	\$ 8,381,108
Depreciation	5,230,530	852,560	1,177,556	803,226	8,063,872	-	-	-	-	8,063,872
GASB 68 Adjustment to Pension Expense	1,765,617	258,834	699,468	-	2,723,919	-	-	-	-	2,723,919
Accounts Receivable	(706,980) *	(103,641) *	(280,077) *	- *	(1,090,698)	-	-	-	-	(1,090,698)
Accounts Receivable - Other	(609,895) *	(89,409) *	(241,616) *	- *	(940,920)	-	-	-	-	(940,920)
Inventory	(39,214) *	(5,749) *	(15,535) *	- *	(60,498)	-	-	-	-	(60,498)
Prepaid Expenses	22,535 *	3,304 *	8,927 *	- *	34,766	-	-	-	-	34,766
Accounts Payable	793,896 *	116,383 *	314,511 *	- *	1,224,790	-	-	-	-	1,224,790
Accrued Expense and Other Liabilities	(67,478) *	(9,892) *	(26,732) *	- *	(104,102)	-	-	-	-	(104,102)
Deposits & Advances on Construction	(183,286) *	(26,869) *	(72,610) *	- *	(282,765)	-	-	-	-	(282,765)
Other Noncurrent Liabilities	1,591,479 *	233,306 *	630,481 *	- *	2,455,266	-	-	-	-	2,455,266
Net Cash Provided by Operating Activities	12,709,282	1,923,727	3,690,660	2,081,069	20,404,738	-	-	-	-	20,404,738
Cash & Cash Equivalents and Investments From Noncapital and Related Financing Activities:										
Property Tax Receipts	3,106,661	-	-	-	3,106,661	-	-	-	-	3,106,661
Net Cash Provided (Used) by Noncapital and Related Financing Activities	3,106,661	-	-	-	3,106,661	-	-	-	-	3,106,661
Cash Flows From Capital and Related Financing Activities:										
Acquisition and Construction of Capital Assets	(11,268,972)	(561,244)	(3,765,944)	(1,520,133)	(17,116,293)	(5,605,356)	-	-	-	(22,721,649)
Principal Payments on Long-Term Debt	(2,701,381)	(202,632)	16,847	(647,948)	(3,535,114)	-	-	-	-	(3,535,114)
Bond Issuance Costs Paid	-	-	-	-	-	-	-	-	-	-
Proceeds from Capital Contributions	-	-	-	-	-	5,965,932	-	-	-	5,965,932
Interest Paid, Net of Amount Capitalized	(423,494)	89,325	464	(373,767)	(707,472)	(852,414)	-	-	-	(1,559,886)
Net Cash Provided (Used) by Capital and Related Financing Activities	(14,393,847)	(674,551)	(3,748,633)	(2,541,848)	(21,358,879)	(491,838)	-	-	-	(21,850,717)
Cash Flows From Investing Activities:										
Interest Received on Investments	229,107	154,660	355,942	35,700	775,409	137,998	60,156	-	-	973,563
Net Cash Provided by Investing Activities	229,107	154,660	355,942	35,700	775,409	137,998	60,156	-	-	973,563
Transfers:										
Transfers	(264,340)	(38,751)	(104,721)	-	(407,812)	-	-	407,812	-	-
Transfers 2009 COP & Energy	31,990	-	-	61,997	93,987	4,656,013	(4,750,000)	-	-	-
Transfers 2010 Park Loan	-	-	-	462,094	462,094	-	(462,094)	-	-	-
Transfers (METRO)	303,606	21,026	126,514	-	451,146	-	-	-	(451,146)	-
Transfers Other	1,804,968	20,090	558,685	13,840	2,397,583	(2,438,819)	(76,359)	(407,812)	-	(525,407)
Net Transfers	1,876,224	2,365	580,478	537,931	2,996,998	2,217,194	(5,288,453)	-	(451,146)	(525,407)
Net Increase (Decrease) in Cash and Cash Equivalents and Investments	3,527,427	1,406,201	878,447	112,852	5,924,927	1,863,354	(5,228,297)	-	(451,146)	2,108,838
Cash and Cash Equivalents and Investments at Beginning of Year	31,091,633	11,808,384	18,672,799	4,132,192	65,705,008	8,262,699	14,195,252	-	10,913,759	99,076,718
Cash and Cash Equivalents and Investments at End of Year	\$34,619,060	\$13,214,585	\$19,551,246	\$ 4,245,044	\$71,629,935	\$10,126,053	\$ 8,966,955	\$ -	\$10,462,613	\$ 101,185,556

* Note: Allocation (of changes in receivables/payables/other assets) are based upon a constant percentage (overhead allocation percentage) applied throughout the fiscal year.