

SOUTH COAST WATER DISTRICT

Basic Financial Statements

**For the Year Ended June 30, 2016
(with Independent Auditors' Report Thereon)**

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SOUTH COAST WATER DISTRICT

Basic Financial Statements

For the Year Ended June 30, 2016

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Board of Directors
South Coast Water District
Laguna Beach, California

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements each major fund, and the aggregate remaining fund information of the South Coast Water District (District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, and the aggregate remaining fund information of South Coast Water District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the District's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 4, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* and *required supplementary information related to the pension plan* 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.

Board of Directors
South Coast Water District
Page Three

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The *supplementary information* is presented for purposes of additional analysis and are 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Davis Fan LLP

Irvine, California
September 16, 2016

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SOUTH COAST WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS

June 30, 2016

The intent of the management's discussion and analysis is to provide highlights of the South Coast Water District's (the District) financial activities for the fiscal year ended June 30, 2016. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

The District's Operations - an Overview

The District operates under the authority of the California Water Code and engages in various activities classified as "proprietary". These activities are accounted for much like that of a private business and use the full accrual method of accounting for transactions. The major activities include; acquisition of water from the Metropolitan Water District through Municipal Water District of Orange County; sale and delivery of water; collection, treatment and disposal of wastewater; sales and delivery of recycled water. The District also owns and operates a fleet of vehicles and other rolling stock to support the various operating activities.

Basic Financial Statements

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, the District's basic financial statements include a statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, statement of fiduciary net position, and a statement of changes in fiduciary net position.

The statement of net position includes the District's assets, deferred outflows, liabilities and deferred inflows and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). This statement also provides the basis of evaluating the capital structure of the District and assessing the overall liquidity and financial flexibility. The difference between the assets, deferred outflows, liabilities and deferred inflows is shown as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net position accounts for the current year's revenues and expenses. This statement measures the success of the District's operations over the past year and determines whether the District has recovered its costs through user fees and other charges.

The statement of cash flows reports cash receipts, cash disbursements, and net changes in cash resulting from operations and investments during the reporting period.

SOUTH COAST WATER DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS
(CONTINUED)

June 30, 2016

Basic Financial Statements, (Continued)

The statement of fiduciary net position is used to account for resources held for the benefit of the Joint Regional Water Supply System (JRWSS). This statement is not reflected in the District's statement of net position because the resources of the JRWSS are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The statement of changes in fiduciary net position reports the current year's increases and decreases of JRWSS' net assets.

The notes to the basic 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 (GAAP) that are not otherwise present in the financial statements.

SOUTH COAST WATER DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS
(CONTINUED)

June 30, 2016

Changes in the Financial Condition of the District

**Statements of Net Position
June 30, 2016 and 2015**

	2015/16	2014/15	Increase/(Decrease) %	
			Amount	Change
Assets				
Current assets	\$ 63,046,515	\$ 67,720,317	\$ (4,673,802)	-6.9%
Capital assets, net	144,780,028	142,637,218	2,142,810	1.5%
Other assets	<u>8,822,497</u>	<u>8,489,128</u>	<u>333,369</u>	3.9%
Total assets	<u>216,649,040</u>	<u>218,846,663</u>	<u>(2,197,623)</u>	-1.0%
Deferred outflows of resources				
Contributions	934,063	937,929	(3,866)	-0.4%
Actuarial	<u>86,953</u>	<u>41,748</u>	<u>45,205</u>	108.3%
Total deferred outflows	<u>1,021,016</u>	<u>979,677</u>	<u>41,339</u>	4.2%
Liabilities				
Current liabilities	6,214,723	7,421,520	(1,206,797)	-16.3%
Other liabilities	371,682	591,458	(219,776)	-37.2%
Long-term debt outstanding	33,487,778	35,400,389	(1,912,611)	-5.4%
Net pension liability	<u>8,170,473</u>	<u>7,805,073</u>	<u>365,400</u>	4.7%
Total liabilities	<u>48,244,656</u>	<u>51,218,440</u>	<u>(2,973,784)</u>	-5.8%
Deferred inflows of resources				
Refunding	508,116	536,748	(28,632)	-5.3%
Actuarial	1,696,759	2,622,866	(926,107)	-35.3%
Additional deferral	<u>382,140</u>	<u>132,612</u>	<u>249,528</u>	188.2%
Total deferred inflows	<u>2,587,015</u>	<u>3,292,226</u>	<u>705,211</u>	-21.4%
Net Position				
Net investment in capital assets	109,822,913	105,933,735	3,889,178	3.7%
Unrestricted	<u>57,015,472</u>	<u>59,381,939</u>	<u>(2,366,467)</u>	-4.0%
Total Net Position	<u>\$166,838,385</u>	<u>\$ 165,315,674</u>	<u>\$ 1,522,711</u>	0.9%

SOUTH COAST WATER DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS
(CONTINUED)

June 30, 2016

Changes in the Financial Condition of the District (Continued)

Overall the financial position of the District increased slightly for the fiscal year ended June 30, 2016. Assets and deferred outflows exceeded liabilities and deferred inflows by \$166,838,385 at the close of the year, an increase of \$1,522,711.

The following denotes explanations for some of the major changes between fiscal years, as shown in the table above:

Current assets decreased by \$4.7 million overall primarily due to a decrease in the District's cash and investments of \$4.2 million and a decrease in other receivables of \$0.5 million.

Capital assets increased by \$2.1 million primarily due to a decrease in construction in progress of \$4.6 million; an increase in operating assets being added to the system totaling \$14.1 million; and an offset of depreciation expense net deleted assets totaling \$7.4 million.

Other assets increased by \$0.3 million primarily due to an increase in the District's investment in joint venture.

Current liabilities decreased by \$1.2 million primarily due to a decrease of \$1.5 million in accounts payable and an overall increase of \$0.3 million in the other current liability categories.

Long-term debt outstanding decreased by \$1.9 million primarily due to debt payments that are due in the 2016/2017 year. Also see Note 5 to the basic financial statements regarding debt issuances and outstanding balances.

By far, the largest portion of the District's net position (65.8%) represents its investment in capital assets. These capital assets are used to provide services to its customers and are not available for future spending.

The District's net position increased by \$1.5 million, or 0.9% over the prior year. This can be attributed to net non-operating revenue of \$3.9 million; a loss from operations of (\$3.3) million and contributed capital of \$0.9 million.

SOUTH COAST WATER DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS
(CONTINUED)

June 30, 2016

Changes in the Financial Condition of the District, (Continued)

**Statements of
Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2016 and 2015**

	2015/16		2014/15		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	% Change
Operating revenues:						
Water sales	\$14,105,212	50.8%	\$16,236,389	52.8%	\$(2,131,177)	-13.1%
Sewer service charges	12,070,688	43.5%	12,812,048	41.7%	(741,360)	-5.8%
Recycled water	1,358,360	4.9%	1,439,432	4.7%	(81,072)	-5.6%
Recreation facilities	208,811	0.8%	251,604	0.8%	(42,793)	-17.0%
Total operating revenues	27,743,071	100.0%	30,739,473	100.0%	(2,996,402)	-9.7%
Non-operating revenues:						
Property taxes - general and bond levy	6,128,107	76.1%	5,626,192	75.7%	501,915	8.9%
Standby charges	8,976	0.1%	8,904	0.1%	72	0.8%
Investment income	290,475	3.6%	194,283	2.6%	96,192	49.5%
Other revenues	624,843	7.8%	795,491	10.7%	(170,648)	-21.5%
Rental income	785,393	9.8%	759,253	10.2%	26,140	3.4%
Grant Revenue	-	0.0%	204,593	2.8%	(204,593)	-100.0%
Gain on disposal of capital assets	26,438	0.3%	77,542	1.0%	(51,104)	-65.9%
Share of joint venture income (expenses)	183,361	2.3%	(233,290)	-3.1%	416,651	178.6%
Total non-operating revenues	8,047,593	100.0%	7,432,968	100.0%	614,625	8.3%
Total Revenues	35,790,664		38,172,441		(2,381,777)	-6.2%
Operating expenses:						
Source of supply	5,579,348	18.0%	5,934,856	19.1%	(355,508)	-6.0%
Groundwater recovery facility	437,110	1.4%	531,460	1.7%	(94,350)	-17.8%
Recycled water	1,024,908	3.3%	1,101,808	3.5%	(76,900)	-7.0%
Pumping expense	956,397	3.1%	1,124,003	3.6%	(167,606)	-14.9%
Sewer treatment plant	2,592,137	8.3%	2,084,904	6.7%	507,233	24.3%
Transmission and distribution	4,249,310	13.7%	4,561,273	14.6%	(311,963)	-6.8%
Recreation facilities	316,364	1.0%	317,364	1.0%	(1,000)	-0.3%
General and administrative	8,523,132	27.5%	8,191,511	26.3%	331,621	4.0%
Depreciation	7,367,975	23.7%	7,315,469	23.5%	52,506	0.7%
Total operating expenses	31,046,681	100.0%	31,162,648	100.0%	(115,967)	-0.4%

SOUTH COAST WATER DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS
(CONTINUED)

June 30, 2016

	2015/16		2014/15		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	% Change
Non-operating expenses:						
Interest expense	\$ 900,665	22.0%	\$ 604,012	85.9%	\$ 296,653	49.1%
Other expenses	3,188,858	78.0%	98,819	14.1%	3,090,039	3127.0%
Total non-operating expenses	4,089,523	100.0%	702,831	100.0%	3,386,692	481.9%
Total Expenses	35,136,204		31,865,479		3,270,725	10.3%
Income before contributions	654,460		6,306,962		(5,652,502)	-89.6%
Capital contributions – contributed assets	557,253	64.2%	-	0.0%	557,253	0.0%
Capital contributions – connection fees	310,998	35.8%	340,665	100.0%	(29,667)	-8.7%
Total capital contributions	868,251	100.0%	340,665	100.0%	527,586	154.9%
Change in net position	1,522,711		6,647,627		(5,124,916)	-77.1%
Net position at beginning of year	165,315,674		158,668,047		6,647,627	4.2%
Net position at end of year	\$166,838,385		\$165,315,674		\$1,522,711	0.9%

The following denotes explanations for some of the major changes between fiscal years as shown in the table above.

Revenues - Combined revenues for the fiscal year totaled \$35,790,664 compared to a prior year of \$38,172,441. This is a decrease of approximately 6.2%. The table at the top of page 9 presents a comparison of revenues by major source for the two fiscal years 2015/16 and 2014/15.

Expenses - Combined expenses for the fiscal year totaled \$35,136,204 compared to a prior year of \$31,865,479. This is an increase of approximately 10.3%. The table on page 9 and above presents a comparison of expenses by category for the two fiscal years 2015/16 and 2014/15.

Operating Revenues - Total operating revenues decreased this year by \$3.0 million (-9.7%) over the previous year's total to end at \$27.7 million. This is primarily attributed to the mandated 24% conservation by the State.

Total Non-Operating Revenues – Total non-operating revenues increased this year by \$0.6 million (8.3%) over the previous year total to end at \$8.0 million. This is primarily attributed to the increase in the amount of property taxes the District received.

SOUTH COAST WATER DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

June 30, 2016

Changes in the Financial Condition of the District, (Continued)

Operating Expenses – Total operating expenses decreased this year by \$0.1 million (-0.4%) over the previous year's total to end at \$31.0 million. This is primarily attributed to decreases in total expenses in six of the nine operating areas offset by increases in expenses in the categories of sewer treatment plant, general and administrative and depreciation expense.

Other Non-Operating Expenses – Total non-operating expenses increased by \$3.4 million (481.9%) over the previous year's total to end at \$4.1 million. This is primarily attributed to the write off of project costs related to the feasibility study for the ocean desalination project out of the construction in process account during the fiscal year.

Capital Contributions – Total capital contributions increased by \$0.5 million (154.9%) over the previous year's total to end at \$0.9 million. This is primarily attributed to \$0.5 million in contributed facilities. These are facilities either built by developers and/or funded by developers which are turned over to the District to operate and maintain.

Net Position

The financial condition of the District has improved from the previous year. The District's net position increased by \$1,522,711 to \$166,838,385. This is a 0.9% increase over the prior year and can be illustrated from the table on page 7 that compares the various categories of assets, deferred outflows, liabilities, deferred inflows and net position for the two fiscal years 2015/16 and 2014/15.

Capital Expenditures

During the year, expenditures in capital projects totaled \$9.3 million. Three major projects currently underway and where expenditures in the current fiscal year exceeded \$0.1 million include the Sewer Tunnel Permanent Repair project for \$1.3 million, PCH Bottleneck Upsizing project for \$0.3 million, and the Water/Sewer/Recycled Water Master Plan for \$0.1 million.

Long-Term Debt

At June 30, 2016, the District had a net outstanding balance of \$36.7 million, which includes current and noncurrent in long-term debt outstanding, a net decrease of \$1.7 million. The long-term debt consists of loans payable, revenue bonds, GO bonds, compensated absences and unamortized deferred amounts for premiums/discounts and refundings. The amount of debt due within the current year totaled \$2.8 million. More detailed information about the District's long-term debt is presented in Note 5 in the footnotes to the basic financial statements.

SOUTH COAST WATER DISTRICT

MANAGEMENT'S DISCUSSION & ANALYSIS
(CONTINUED)

June 30, 2016

Changes in the Financial Condition of the District, (Continued)

Capital Assets

Net of accumulated depreciation, the District reported capital assets of \$144,780,028 in fiscal year 2015/16 compared to \$142,637,218 in fiscal year 2014/15. A comparison of the change is provided below by major category. Also see Note 3 in the footnotes to the basic financial statements for further information regarding capital assets.

**Capital Assets
For the Fiscal Years Ended June 30, 2016 and 2015**

	2015/16	2014/15	Increase/Decrease %	
			Amount	Change
Land	\$ 2,053,609	\$ 2,053,609	\$ -	0.0%
Intangible plant	36,027,481	35,326,784	700,697	2.0%
Source of supply	21,700,775	21,700,775	-	0.0%
Pumping plant	16,406,152	16,238,178	167,974	1.0%
Treatment plants	35,419,859	27,429,057	7,990,802	29.1%
Transmission and distribution	74,657,353	70,682,245	3,975,108	5.6%
Sewer collection system	40,454,088	39,937,915	516,173	1.3%
General plant	18,815,154	18,249,108	566,046	3.1%
Recreation facilities	1,239,440	1,239,440	-	0.0%
Construction in progress	<u>16,065,532</u>	<u>20,660,586</u>	<u>(4,595,054)</u>	-22.2%
Total capital assets	262,839,443	253,517,697	9,321,746	3.7%
Less accumulated depreciation	<u>(118,059,415)</u>	<u>(110,880,479)</u>	<u>(7,178,936)</u>	6.5%
Net capital assets	<u>\$ 144,780,028</u>	<u>\$142,637,218</u>	<u>\$ 2,142,810</u>	1.5%

Significant additions to capital assets include the \$13.9 million of completed projects for 2015/2016 with the three largest categories being \$8.0 million in treatment plant projects, \$4.0 million in transmission and distribution projects, and \$0.7 million in intangible plant projects.

The three largest projects completed as of June 30, 2016 were the District's share of the capital projects for the JB Latham Treatment Plant through the South Orange County Wastewater Authority (\$4.2 million), the Extended Recycled Water to Dana Point Harbor (\$1.9 million), and the District's share of the capital projects for the Coastal Treatment Plant through the South Orange County Wastewater Authority (\$0.7 million).

SOUTH COAST WATER DISTRICT
MANAGEMENT'S DISCUSSION & ANALYSIS
(CONTINUED)

June 30, 2016

Contacting the District's Financial Management

This financial report is designed to provide the South Coast Water District's elected officials, citizens, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have any questions regarding this report or need additional financial information, please contact the District's Finance Department.

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BASIC FINANCIAL STATEMENTS

SOUTH COAST WATER DISTRICT

Statement of Net Position

June 30, 2016

(with prior year data for comparison purposes only)

	2016	2015
ASSETS		
Current assets:		
Cash and investments (Note 2)	\$ 59,481,532	\$ 63,695,453
Utility accounts receivable	1,914,549	1,852,879
Property taxes receivable	291,423	351,957
Accrued interest receivable	104,053	80,035
Other receivables	520,854	1,059,618
Prepaid expenses	229,881	219,326
Materials and supplies inventory	504,223	461,049
Total current assets	63,046,515	67,720,317
Noncurrent assets:		
Capital assets: (Note 3)		
Not being depreciated	18,119,141	22,714,195
Being depreciated (net of accumulated depreciation)	126,660,887	119,923,023
Net capital assets	144,780,028	142,637,218
Other assets:		
Investment in joint venture (Note 7)	8,689,271	8,369,962
Other assets	133,226	119,166
Total other assets	8,822,497	8,489,128
Total noncurrent assets	153,602,525	151,126,346
Total assets	216,649,040	218,846,663
DEFERRED OUTFLOWS		
Deferred Outflows of Resources - Contributions	934,063	937,929
Deferred Outflows of Resources - Actuarial	86,953	41,748
Total Deferred Outflows	1,021,016	979,677

See accompanying notes to the basic financial statements

SOUTH COAST WATER DISTRICT

Statement of Net Position

June 30, 2016

(with prior year data for comparison purposes only)

(Continued)

	2016	2015
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 2,212,336	\$ 3,761,559
Accrued salaries and benefits	317,966	201,374
Advances from developers	110,626	225,815
Customer deposits	160,930	153,096
Accrued interest payable	614,300	641,445
Current portion of loans payable, net (Note 5)	351,466	351,466
Current portion of bonds payable, net (Note 5)	1,561,143	1,491,726
Current portion of compensated absences (Note 5)	885,956	595,039
Total current liabilities	6,214,723	7,421,520
Noncurrent liabilities:		
Loans payable, net (Note 5)	1,071,953	1,423,419
Bonds payable, net (Note 5)	32,415,825	33,976,970
Compensated absences, net (Note 5)	371,682	591,458
Net pension liability (Note 4)	8,170,473	7,805,073
Total noncurrent liabilities	42,029,933	43,796,920
Total liabilities	48,244,656	51,218,440
DEFERRED INFLOWS		
Deferred Inflow of Resources - Refunding	508,116	536,748
Deferred Inflow of Resources - Actuarial	1,696,759	2,622,866
Deferred Inflow of Resources - Additional Deferral	382,140	132,612
Total deferred inflows	2,587,015	3,292,226
NET POSITION		
Net investment in capital assets	109,822,913	105,933,735
Unrestricted	57,015,472	59,381,939
Total net position	\$ 166,838,385	\$ 165,315,674

See accompanying notes to the basic financial statements

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SOUTH COAST WATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2016

(with prior year data for comparison purposes only)

	2016	2015
Operating revenues:		
Water sales	\$ 14,105,212	\$ 16,236,389
Sewer service charges	12,070,688	12,812,048
Recycled water	1,358,360	1,439,432
Recreation facilities	208,811	251,604
Total operating revenues	27,743,071	30,739,473
Operating expenses:		
Source of supply	5,579,348	5,934,856
Groundwater recovery facility	437,110	531,460
Recycled water	1,024,908	1,101,808
Pumping expense	956,397	1,124,003
Sewer treatment plant	2,592,137	2,084,904
Transmission and distribution	4,249,310	4,561,273
Recreation facilities	316,364	317,364
General and administrative	8,523,132	8,191,511
Depreciation	7,367,975	7,315,469
Total operating expenses	31,046,681	31,162,648
Income (Loss) from operations	(3,303,610)	(423,175)
Non-operating revenues (expenses):		
Property taxes – general and bond levy	6,128,107	5,626,192
Standby charges	8,976	8,904
Investment income	290,475	194,283
Other revenues	624,843	795,491
Rental income (net of expenses)	785,393	759,253
Grant revenue	-	204,593
Interest expense	(900,665)	(604,012)
Gain on disposal of capital assets	26,438	77,542
Share of joint venture income (expenses)	183,361	(233,290)
Other expenses	(3,188,858)	(98,819)
Total non-operating revenues (loss)	3,958,070	6,730,137
Income before contributions	654,460	6,306,962
Capital contributions - capital grant	490,000	-
Capital contributions - contributed assets	67,253	-
Capital contributions - connection fees	310,998	340,665
Total capital contributions	868,251	340,665
Change in net position	1,522,711	6,647,627
Net position at beginning of the year	165,315,674	158,668,047
Net position at end of the year	\$ 166,838,385	\$ 165,315,674

See accompanying notes to the basic financial statements

SOUTH COAST WATER DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2016

(with prior year data for comparison purposes only)

	2016	2015
Cash flows from operating activities:		
Cash received from customers	\$ 28,229,714	\$ 31,851,817
Cash payments to employees for services	(4,207,097)	(3,882,763)
Cash payments to suppliers for goods and services	(21,255,122)	(19,454,727)
Standby charges received	8,976	8,904
Rental income received	785,393	759,253
Grant revenue received	-	204,594
Other expenses	(87,883)	(98,819)
Other operating revenues	624,843	795,491
Net cash provided by operating activities	4,098,824	10,183,750
 Cash flows from noncapital financing activities:		
Proceeds from property taxes, general levy	6,188,641	5,631,223
Net cash provided by noncapital financing activities	6,188,641	5,631,223
 Cash flows from capital and related financing activities:		
Acquisitions and construction of capital assets	(11,086,196)	(10,951,479)
Capital grant	490,000	-
Proceeds from sale of capital assets	44,154	78,001
Repayment of notes, bonds and certificates of participation	(1,870,358)	(1,814,718)
Interest paid	(1,561,252)	(1,618,377)
Water and sewer connection fees received	310,998	340,665
Receipts (return) of customer deposits and developer advances	(115,189)	196,840
Net cash used for capital and related financing activities	(13,787,843)	(13,769,068)
 Cash flows from investing activities:		
Investment redemptions and sales	4,065,003	15,375,512
Investment purchases	(5,156,480)	(24,301,309)
Interest income received	266,457	167,806
Net cash provided by investing activities	(825,020)	(8,757,991)
 Total decrease in cash and cash equivalents	(4,325,398)	(6,712,086)
Cash and cash equivalents at beginning of year	42,541,326	49,253,412
Cash and cash equivalents at end of year (Note 2)	\$ 38,215,928	\$ 42,541,326

See accompanying notes to the basic financial statements

SOUTH COAST WATER DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2016

(with prior year data for comparison purposes only)

(Continued)

	2016	2015
Reconciliation of loss from operations to net cash provided by operating activities:		
Income (loss) from operations	\$ (3,303,610)	\$ (423,175)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:		
Operating activities:		
Depreciation	7,367,975	7,315,469
Rental income received	785,393	759,253
Grant revenue received	-	204,594
Standby charges and other revenues	8,976	8,904
Other revenues (expenses)	536,960	696,672
Changes in deferred inflows and outflows	(717,918)	1,775,801
Changes in assets and liabilities:		
Decrease (increase) in utility accounts receivable	(61,670)	1,568,484
Decrease (increase) in other receivables	540,479	(458,432)
Decrease (increase) in prepaid PERS contribution	-	969,148
Decrease (increase) in pension liability	365,400	(2,782,174)
Decrease (increase) in prepaid expenses	(10,556)	(30,050)
Decrease (increase) in net OPEB asset	(1,714)	(12,646)
Decrease (increase) in other assets	(14,060)	(15,010)
Decrease (increase) in materials and supplies inventory	(43,174)	13,793
Increase (decrease) in accounts payable	(1,549,224)	528,975
Increase (decrease) in accrued expenses	116,592	67,941
Increase (decrease) in deposits payable	7,834	2,292
Increase (decrease) in compensated absences	71,141	(6,089)
Net cash provided by operating activities	\$ 4,098,824	\$ 10,183,750
Reconciliation of cash and cash equivalents to statement of net position:		
Total cash and investments	59,481,532	63,695,453
Less investments with maturities greater than 3 months	(21,265,604)	(21,154,127)
Cash and cash equivalents (Note 2)	\$ 38,215,928	\$ 42,541,326
Supplemental disclosure of noncash capital and related financing and investing activities:		
Share of joint venture revenues (expenses)	\$ 183,361	\$ (464,823)
Contributed assets from developers	\$ 67,253	\$ -

SOUTH COAST WATER DISTRICT
Statement of Fiduciary Net Position - Trust Fund
June 30, 2016
(with prior year data for comparison purposes only)

	JRWSS Trust	
	2016	2015
ASSETS		
Current assets:		
Cash and investments (Note 2)	\$ 3,510,398	\$ 4,178,371
Accounts receivable:		
Water	14,238	16,474
Other	262,453	99,524
Accrued interest receivable	3,646	5,334
Prepaid expenses and deposits	8,135	7,195
Current portion of notes receivable (Note 12)	430,000	405,000
Total current assets	4,228,870	4,711,898
Noncurrent assets:		
Notes receivable (Note 12)	445,000	875,000
Capital assets (Note 13)		
Not being depreciated	1,599,763	1,428,424
Being depreciated (net of accumulated depreciation)	27,467,569	27,589,798
Net capital assets	29,067,332	29,018,222
Total noncurrent assets	29,512,332	29,893,222
Total assets	33,741,202	34,605,120
LIABILITIES		
Current liabilities:		
Accounts payable	222,634	670,554
Interest payable	3,646	5,333
Retentions payable	-	118,779
Current portion of notes payable (Note 12)	430,000	405,000
Total current liabilities	656,280	1,199,666
Noncurrent liabilities:		
Notes payable (Note 12)	445,000	875,000
Capital deposits	925,676	565,271
Total noncurrent liabilities	1,370,676	1,440,271
Total liabilities	2,026,956	2,639,937
NET POSITION		
Investment in capital assets	29,067,332	29,018,222
Unrestricted	2,646,914	2,946,961
Total net position	\$ 31,714,246	\$ 31,965,183

See accompanying notes to the basic financial statements

SOUTH COAST WATER DISTRICT

Statement of Changes in Fiduciary Net Position - Trust Fund

For the Year Ended June 30, 2016

(with prior year data for comparison purposes only)

Additions	JRWSS Trust	
	2016	2015
Contributions:		
Water sales and charges	\$ 161,197	\$ 201,869
Maintenance and operation advances	1,700,714	1,708,001
Investment income	56,463	76,540
Participant contributions for projects	1,139,380	8,645,621
Property taxes	1,309,876	1,239,457
Total additions	4,367,630	11,871,488
 Deductions		
Water purchases	161,197	201,869
Direct operating expenses	1,171,519	1,051,904
Administrative and general expenses	380,278	404,742
Depreciation	1,261,609	1,040,018
Interest expense	54,551	74,488
Refunds to participants	1,589,413	1,806,295
Total deductions	4,618,567	4,579,316
Change in net position	(250,937)	7,292,172
Net position at beginning of year	31,965,183	24,673,011
Net position at end of year	\$ 31,714,246	\$ 31,965,183

See accompanying notes to the basic financial statements.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements

For the Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies

(a) Organization and Description of Reporting Entity

The South Coast Water District (the District) was formed in 1932 under the California Water Code. The District serves an area of approximately 10 square miles, encompassing portions of the Cities of Dana Point, Laguna Beach, San Clemente and San Juan Capistrano.

Effective July 1, 1976, in accordance with Orange County Reorganization No. 31, the District was designated as the successor to the South Laguna Sanitary District for the purpose of succeeding to all rights, duties and obligations of the South Laguna Sanitary District. These sewer functions are performed by the District under the title of the South Coast Water District Improvement District No. 1-S. The Improvement District serves an area of approximately 2,750 acres all located within the water operation boundaries.

In February 1997, the District entered into an agreement for the detachment of the Laguna Sur/Monarch Point Community of the District to be annexed to Moulton Niguel Water District (the Reorganization RO96-05). This reorganization was effective July 1, 1997.

In June 1998, the District was the primary filing applicant in a request for consolidation filed with the Local Agency Formation Commission of Orange County (LAFCO). In October 1998, LAFCO adopted a resolution (RO97-18) effective January 1, 1999 and provided for the consolidation of the South Coast Water District and the Capistrano Beach Water District, and the dissolution of the Dana Point Sanitary District. The District was established as the successor agency.

The consolidated District originally established four separate financial zones comprising the areas within: (1) The Original South Coast Water District; (2) Dana Point Sanitary District; (3) Capistrano Beach Water District; and (4) Capistrano Beach Water Sewer Improvement District No. 1. The financial zones separately accounted for assets, reserves, bond obligations and operations. Rates, charges and assessments for water and sewer services varied between financial zones. Based on a Financial Equalization Study, completed in 2002, the District implemented an Asset Equalization Charge and no longer maintained separate accounting by service area.

Effective July 1, 1999, the portion of the original South Coast Water District that lies within the City of Laguna Beach was annexed to the City of Laguna Beach. The agreement between the District and the City of Laguna Beach provides for the District to continue both water and sewer service to this area for several years. The agreement provides for annual extensions of the service provided unless terminated by either party.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies, (Continued)

(a) Organization and Description of Reporting Entity, (Continued)

Effective March 31, 2000, in accordance with LAFCO resolution (RO 99-07), the District was designated the contract operator for future operations and maintenance of the system and facilities of the former Tri-Cities Municipal Water District (TCMWD), which was legally consolidated with Coastal Municipal Water District, the successor agency. The net assets of TCMWD, other than TCMWD board and LAFCO directed operating and other cash reserves, transferred over to the participating agencies, equal to their respective ownership percentages, were assigned to the District to be held in trust and used for the benefit of the agreement participants (See Note 7).

The District's water supply is purchased from the Metropolitan Water District through the Municipal Water District of Orange County.

The financial statements present the District and its component units. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority on the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the District.

The District's reporting entity includes the South Coast Water District Financing Authority (the Financing Authority), a California nonprofit public benefit corporation, formed for the purpose of providing financial assistance to the District. Although the District and the Financing Authority are legally separate entities, the District's Board of Directors is financially responsible for the Financing Authority and, therefore, the accompanying financial statements include the accounts and records of the Financing Authority using the blending method as required by accounting principles generally accepted in the United States of America. There are no separate financial statements for the Financing Authority.

The South Coast Water District owns and operates the Dana Hills Tennis Center.

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

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

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies, (Continued)

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

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

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

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

(c) Joint Powers Agreements

The District is a participant in both the South Orange County Wastewater Authority (SOCWA) and in the San Juan Basin Authority (SJBA) for the purpose of operating and maintaining wastewater delivery, treatment and disposal facilities as well as management of regional groundwater and recycled water facilities.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies, (Continued)

(c) Joint Powers Agreements, (Continued)

South Orange County Wastewater Authority (a California Joint Powers Authority)

The District is a member of the South Orange County Wastewater Authority (SOCWA). SOCWA collects, treats, beneficially reuses and disposes of wastewater in South Orange County. SOCWA operates four wastewater treatment plants (WWTP) in the region. SOCWA has ten member agencies, including three cities and seven water districts. A Board of Directors consisting of representatives from member agencies governs SOCWA. The Board of Directors controls the operations of SOCWA, including selection of management and approval of the annual budget. SOCWA has Project Committees that member agencies participate in financially at various levels, depending on their capacity rights. Each WWTP is a project, as well as various other physical facilities such as outfall pipelines.

The District deposits money with SOCWA to cover its share of operation and capital in the project committees the District participates in. The District has no equity interest in SOCWA and does not receive a share of operating results. Construction deposits made to SOCWA for capital projects are recorded as capital assets.

To obtain complete financial information from SOCWA please contact SOCWA's Director of Finance at 34156 Del Obispo Street, Dana Point, CA 92629.

San Juan Basin Authority (a California Joint Powers Authority)

The District is also a member of the San Juan Basin Authority (SJBA) a joint powers authority formed to secure and develop water rights for its member agencies. It currently has permits for using the San Juan Groundwater Basin as an underground storage reservoir. A Board of Directors consisting of representatives from member agencies governs SJBA. The Board of Directors oversees contracts and approves the annual budget. SJBA has Project Committees that member agencies participate in financially at various levels based upon ownership or usage. The District deposits money with SJBA to cover its share of costs in the respective projects.

The District has no equity interest in SJBA and does not receive a share of operating results. Construction deposits made to SJBA for capital projects are recorded as capital assets.

To obtain complete financial information from SJBA contact South Coast Water District's Chief Financial Officer.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies, (Continued)

(d) Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

(e) Cash and Investments

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

(f) Materials and Supplies Inventory

Inventories of materials and supplies are valued at the lower of cost or market using the first-in, first-out basis.

(g) Prepaid Expenses

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

(h) Allowance for Doubtful Accounts

An allowance for doubtful accounts has not been established for utility accounts receivable. District management believes all amounts are collectible. Amounts over 60 days are not significant for the fiscal year ended June 30, 2016.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies, (Continued)

(i) Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed bi-monthly on 30-day cycles. Sewer customers are also billed and included with the water billing. In certain areas of the District, the sewer billing is handled by another water utility agency, but is accrued as revenues by the District each month. Collections are forwarded monthly, based on actual receipts. Unbilled water and wastewater charges are accrued for the period from the last meter reading through year-end and are included in accounts receivable. Unbilled accounts receivable amounted to \$669,990 at June 30, 2016.

(j) Compensated Absences

The District has a policy whereby an employee can accumulate sick leave and vacation. The sick leave is to be used for extended periods of sickness; however, upon termination or retirement, a portion will be paid as additional benefits. Upon completion of employment, employees with three years or more service will be paid for 50% of the then unused sick leave at regular payroll rates in effect at the date of the termination. The District has provided for these future costs by accruing unused sick leave and vacation of \$709,634 and \$548,004, respectively, and are included in compensated absences in the accompanying statement of net position.

(k) Bond Discount/Premium

Bond discounts and premiums are deferred and amortized over the term of the bonds. Net bond premium and discounts are presented as a reduction or addition of the face amount of bonds payable. The remaining unamortized amount of unamortized bond discount and bond premium amounted to \$517,032 and \$455,000 at June 30, 2016, respectively.

(l) Capital Assets

Capital assets are stated at cost with an initial cost of \$5,000 or more. Contributed capital assets are recorded at acquisition value at the time they are received and consist primarily of portable water, recycled water and sewer systems contributed by real estate developers. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies, (Continued)

(l) Capital Assets, Continued

Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the capital assets as follows:

Tract facilities, reservoirs, transmission connections, recreation facilities, collection lines and administrative building	50 years
Conservation facilities, reclamation terminals, intangible plant, source of supply, pumping plants and sewer connections	40 years
Groundwater recovery facility	30 years
Collection system	33 years
Meters	12 years
Power operated equipment, office furniture and automotive	10 years
Tools and computer hardware	5 years
Computer software	3 years

The District incurs interest charges on the Revenue Bonds. Interest expense of \$631,974 has been capitalized as an addition to the cost of construction for the year ended June 30, 2016.

(m) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenses/expenditure) until then. The District has deferred outflows of resources related to actuarial and contributions related to pensions.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has two types of these items. One is the deferred gain on refunding which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is shown as deferred and amortized over the life of the refunded or refunding debt. The second type is additional deferrals related to actuarial information related to pensions.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies, (Continued)

(n) Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

(o) Property Taxes

Property tax in California is levied in accordance with Article XIIIA of the State Constitution at 1% of countywide assessed valuations. The property taxes are placed in a pool, and then allocated to the local governmental units.

Property tax revenue is recognized in the fiscal year in which taxes are levied.

The property tax calendar is as follows:

Lien date:	January 1
Levy date:	July 1
Due date:	First installment - November 10 Second installment - February 10
Delinquent date:	First installment - December 11 Second installment - April 11

(p) Use of Estimates

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

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies, (Continued)

(q) Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2014
Measurement Date (MD)	June 30, 2015
Measurement Period (MP)	June 30, 2014 to June 30, 2015

(r) Fair Value Measurements

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of 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.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- 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.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies, (Continued)

(r) Fair Value Measurements, (Continued)

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

(s) Prior Year Data

Certain amounts presented in the prior year financial statements have been reclassified in order to be consistent with current year’s presentation. Selected information regarding the prior year has been included in the accompanying financial statements and notes to basic financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District’s prior year financial statements, from which this selected financial data was derived.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(2) Cash and Investments

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

Statement of Net Position:	
Cash and investments	\$59,481,532
Statement of Fiduciary Net Position:	
Cash and investments	<u>3,510,398</u>
Total cash and investments	<u>\$62,991,930</u>

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

Cash on hand	\$ 4,825
Deposits with financial institutions - District	961,652
Deposits with financial institutions - JRWSS	1,482,285
Investments	<u>60,543,168</u>
Total cash and investments	<u>\$ 62,991,930</u>

Cash and cash equivalents for the Statements of Cash Flows as of June 30, 2016 consist of the following:

Cash on hand	\$ 4,825
Deposits with financial institutions - District	961,652
Money market funds	2,827,736
Investments - LAIF	33,436,255
Investments - CAMP	<u>5,460</u>
Total cash and cash equivalents	<u>\$ 37,235,928</u>

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(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 Section 53601 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, if more restrictive) that address *interest rate risk*, *credit risk* and *concentration of credit risk*. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy. The District's investment policy also contains certain allocation goals or targets that are viewed to be general guidelines to promote diversification, rather than restrictions. The District determines conformity to any percentage limitations or guidelines contained in the District's investment policy or the California Government Code by comparing the specified investment balance as of a given date to the total par value of the District's cash and investment portfolio as of the beginning of the fiscal year containing that date.

Investment Types <u>Authorized by State Law</u>	Authorized By Investment <u>Policy</u>	Maximum <u>Maturity</u>	Maximum Percentage <u>Of Portfolio</u>	Maximum Investment <u>In One Issuer</u>
Local Agency Bonds	Yes	5 years	30%	5%
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Government Sponsored Agency Securities	Yes	5 years	25%	None
Banker's Acceptances	Yes	180 days	40%	5%
Commercial Paper	Yes	270 days	25%	5%
Negotiable Certificates of Deposits	Yes	5 year	30%	5%
Repurchase Agreements	Yes	1 year	None	None
Corporate Medium-Term Notes	Yes	5 years	30%	5%
Money Market Mutual Funds	Yes	N/A	20%	10%
Supranationals	Yes	5 years	30%	10%
Orange County Pooled Investment Funds	Yes	N/A	None	None
California Asset Management Program	Yes	N/A	None	None
Local Agency Investment Funds (LAIF)	Yes	N/A	None	None
Federally Insured Time Deposits	Yes	5 years	20%	None
Collateralized Mortgage Obligations	Yes	5 years	20%	5%
CalTrust Investment Program	Yes	N/A	None	None

N/A - Not Applicable

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(2) Cash and Investments, (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Government Sponsored Agency Securities	None	None	None
Banker's Acceptances	30 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None
Certificate of Deposit	30 days	None	None
State Obligations	None	None	None
Repurchase Agreements	270 days	None	None

N/A - Not Applicable

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 as necessary to provide the cash flow and liquidity needed for operations.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(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, including investments held by bond trustee, to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity.

<u>Investment type</u>	<u>Total</u>	<u>6 Months Or Less</u>	<u>7 - 12 Months</u>	<u>13 - 24 Months</u>	<u>More than 25 Months</u>
Money market mutual funds	\$ 3,597,161	\$ 3,597,161	\$ -	\$ -	\$ -
U.S. Treasury	14,015,280	14,015,280	-	-	-
U.S. Corporate Bonds	3,751,386	-	1,555,110	1,582,320	613,956
Federal Agency Securities	3,857,294	1,000,230	375,173	1,707,167	774,724
Negotiable Certificates of Deposit	621,944	323,726	298,218	-	-
California Asset Management Plan (CAMP)	5,460	5,460	-	-	-
Local Agency Investment Fund (LAIF)	33,436,255	33,436,255	-	-	-
Held by bond trustee:					
Money market mutual funds	<u>1,258,388</u>	<u>1,258,388</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$60,543,168</u>	<u>\$53,636,500</u>	<u>\$ 2,228,501</u>	<u>\$ 3,289,487</u>	<u>\$ 1,388,680</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by, where applicable, the California Government Code, the District's investment policy, or debt agreements and Moody's and Standard and Poor's actual rating as of year-end for each investment type:

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(2) Cash and Investments, (Continued)

Disclosures Relating to Credit Risk, (Continued)

Investment Type	Total as of June 30, 2015	Minimum Legal Rating	Ratings as of Year End						
			AAA	AA+/-	Aaa	A-1	A	Not Rated	Exempt
Money market									
mutual funds	\$ 3,597,161	Aaa	\$ -	\$ -	\$ 3,597,161	\$ -	\$ -	\$ -	\$ -
U.S. Treasury	14,015,280		-	-	-	-	-	-	14,015,280
U.S. Corporate Bonds	3,751,386	A	-	1,405,490	-	-	2,345,896	-	-
Federal Agency									
Securities	3,857,294	N/A	-	3,857,294	-	-	-	-	-
Negotiable Certificates									
of Deposit	621,944	N/A	-	-	-	621,944	-	-	-
California Asset									
Management Plan									
(CAMP)	5,460	N/A	5,460	-	-	-	-	-	-
Local Agency									
Investment Fund									
(LAIF)	33,436,255	N/A	-	-	-	-	-	33,436,255	-
Held by bond trustee:									
Money market									
mutual funds	1,258,388	Aaa	-	-	1,258,388	-	-	-	-
Totals	<u>\$ 60,543,168</u>		<u>\$ 5,460</u>	<u>\$ 5,262,784</u>	<u>\$ 4,855,549</u>	<u>\$ 621,944</u>	<u>\$ 2,345,896</u>	<u>\$ 33,436,255</u>	<u>\$ 14,015,280</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% of more of total District investments.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2016

(2) Cash and Investments, (Continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2016, all of the District's deposits were insured and collateralized as required by California Law.

For investments identified herein as held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the District.

Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in 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. Currently, LAIF does not have an investment rating.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(2) Cash and Investments, (Continued)

Investment in California Asset Management Program (CAMP)

The District invests in this investment trust, which is similar to a money market mutual fund. The fund invests primarily in certificates of deposit, commercial paper, and U.S. Government and Agency obligations. The District is a voluntary participant in the investment pool.

The CAMP Cash Reserve Portfolio (the Pool) is exempt from registration with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940, but operates in a manner consistent with SEC Rule 2a-7, "Money Market Funds", of that Act. Accordingly, the Pool meets the definition of a "2a7-like pool" set forth in GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and External Investment Pools*". While the Pool itself is exempt from SEC registration, the Pool's investment advisor and administrator, PFM Asset Management, LLC, is registered with the SEC as an investment advisor under the Investment Advisors Act of 1940. PFM Asset Management, LLC has also filed a notice with the California Department of Corporations, as well as various other states, as an investment advisor under state securities laws. In addition, the Pool also meets the definition of "Municipal Fund Security" outlined by Municipal Securities Rulemaking Board (MSRB) Rule 0-12, therefore contracts with prospective investors relating to shares of the Pool are conducted through PFM Asset Management's wholly-owned subsidiary, PFMAM, Inc., a broker-dealer which is registered with the SEC and MSRB, and is a member of the National Association of Securities Dealers (NASD). The Pool also files an income tax return annually with the Internal Revenue Service, though the net income of the Pool is generally exempt from federal income tax.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(2) Cash and Investments, (Continued)

Fair Value Measurement

The District categorizes its fair value investments within the fair value hierarchy established by generally accepted accounting principles. The District has the following recurring fair value measurements as of June 30, 2016:

<u>Investment Type</u>	<u>Total</u>	<u>Fair Value Hierarchy</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. Treasury	\$ 14,015,280	\$ 14,015,280	\$ -	\$ -
U.S. Corporate Bonds	3,751,386	-	3,751,386	-
Federal Agency Securities	3,857,294	-	3,857,294	-
Negotiable Certificates of Deposit	621,944	-	621,944	-
Local Agency Investment Fund (LAIF)	<u>33,436,255</u>	<u>-</u>	<u>33,436,255</u>	<u>-</u>
Investments at fair value	55,682,159	14,015,280	41,666,879	-
Other investments	<u>4,861,009</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 60,543,168</u>	<u>\$ 14,015,280</u>	<u>\$ 41,666,879</u>	<u>\$ -</u>

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(3) Capital Assets

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

	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2016</u>
Capital assets, nondepreciable:				
Land and land rights	\$ 2,053,609	\$ -	\$ -	\$ 2,053,609
Construction in progress	<u>20,660,586</u>	<u>8,802,207</u>	<u>(13,397,261)</u>	<u>16,065,532</u>
Total capital assets, nondepreciable	<u>22,714,195</u>	<u>8,802,207</u>	<u>(13,397,261)</u>	<u>18,119,141</u>
Capital assets, depreciable:				
Intangible plant	35,326,784	700,697	-	36,027,481
Source of supply	21,700,775	-	-	21,700,775
Pumping plant	16,238,178	167,974	-	16,406,152
Treatment plants	27,429,057	7,990,802	-	35,419,859
Transmission and distribution	70,682,245	3,996,758	(21,650)	74,657,353
Sewer collection system	39,937,915	516,173	-	40,454,088
General plant	18,249,108	751,151	(185,105)	18,815,154
Recreation facilities	<u>1,239,440</u>	<u>-</u>	<u>-</u>	<u>1,239,440</u>
Total capital assets, depreciable	<u>230,803,502</u>	<u>14,123,555</u>	<u>(206,755)</u>	<u>244,720,302</u>
Less accumulated depreciation for:				
Intangible plant	26,083,594	1,474,245	-	27,557,839
Source of supply	13,138,125	519,294	-	13,657,419
Pumping plant	5,365,942	426,750	-	5,792,692
Treatment plants	10,211,977	687,938	-	10,899,915
Transmission and distribution	26,346,573	1,876,423	(6,042)	28,216,954
Sewer collection system	16,274,127	858,031	-	17,132,158
General plant	12,649,030	1,500,176	(182,997)	13,966,209
Recreation facilities	<u>811,111</u>	<u>25,118</u>	<u>-</u>	<u>836,229</u>
Total accumulated depreciation	<u>110,880,479</u>	<u>7,367,975</u>	<u>(189,039)</u>	<u>118,059,415</u>
Total capital assets depreciable, net	<u>119,923,023</u>	<u>6,755,580</u>	<u>(17,716)</u>	<u>126,660,887</u>
Capital assets, net	<u>\$ 142,637,218</u>	<u>\$15,557,787</u>	<u>\$(13,414,977)</u>	<u>\$144,780,028</u>

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(4) Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Local Government's Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefits 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. The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

Hire Date	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefits payments	Monthly for life	Monthly for life
Retirement age	50-55	52-67
Monthly benefits, as a % of eligible compensation	1.426% to 2.0%	1.0% to 2.5%
Required employee contribution rates	7%	6.250%
Required employer contribution rates	8.512%	6.237%

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(4) Pension Plan, (Continued)

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) 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. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by the Miscellaneous risk pool, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2015 (the measurement date), the active employee contribution rate for those employees hired prior to January 1, 2013 is 6.891 percent of annual pay, and the average employer's contribution rate is 8.512 percent of annual payroll. A lump sum payment of \$319,085 was paid toward the plan's unfunded accrued liability. The active employee contribution rate for those employees hired on or after January 1, 2013 is 6.250 percent of annual pay, and the average employer's contribution rate is 6.237 percent of annual payroll. No lump sum payment was paid toward the plan's unfunded accrued liability. Employer contribution rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

The District's contributions to each plan for the year ended June 30, 2016 were as follows:

Hire Date	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
	2% @ 55	2% @ 62
Contributions – Employer	853,991	80,072
Contributions - Employee	248,440	0
(Paid by Employer)		

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(4) Pension Plan, (Continued)

Actuarial Methods and Assumptions used to determine Total Pension Liability

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

Actuarial Cost Method	Entry Age Normal in accordance with the Requirements of GASB Statement No. 68
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increases, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of Assumption

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2016

(4) Pension Plan, (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. 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 test revealed that the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are present in a detailed report called "GASB Crossover Testing Report" that can be obtained at 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, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

SOUTH COAST WATER DISTRICT
Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(4) Pension Plan, (Continued)

Discount Rate, (Continued)

The table below reflects long-term expected real rate of return by asset class.

Asset Class	Current Target Allocation	Real Return Years 1-10*	Real Return Years 11+**
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

*An expected inflation of 2.5% used for this period

**An expected inflation of 3.0% used for this period

Allocation of Net Pension Liability and Pension Expense to Individual Employers

The following table shows the District's proportionate share of the net pension liability over the measurement period:

	Plan Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Plan Net Pension Liability (c) = (a) - (b)
Balance at: 6/30/2014 (VD)	\$45,989,963	\$38,184,890	\$7,805,073
Balance at: 6/30/2015 (MD)	\$46,933,667	\$38,763,193	\$8,170,473
Net Changes during 2014-15	\$943,704	\$578,303	\$365,401

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

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(4) Pension Plan, (Continued)

Allocation of Net Pension Liability and Pension to Individual Employers, (Continued)

	Miscellaneous	Pepra
Proportion – June 30, 2014	.31580%	.00001%
Proportion – June 30, 2015	.34347%	.00064%
Change – Increase (Decrease)	.02767%	.00063%

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate – 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Plan’s net Pension Liability	\$14,562,213	\$8,170,473	\$2,893,350

Amortization of Deferred Outflows and Deferred Inflows of Resources

Under GASB 68, actuarial gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on pension plan investments	5 year straight-line amortization
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SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(4) Pension Plan, (Continued)

Amortization of Deferred Outflows and Deferred Inflows of Resources, (Continued)

All other amounts

Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments is amortized over a five-year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period, and the remaining Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments at the measurement date is to be amortized over the remaining four-year period. The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments in the Schedule of Collective Pension Amounts represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

Deferred outflows of resources and deferred inflows of resources relating to Differences Between Expected and Actual Experience, Changes of Assumptions and employer-specific amounts should be amortized over the EARSL of members provided with pensions through the Plan. The EARSL for the Plan for the June 30, 2015 measurement date is 3.8 years, which was obtained by dividing the total services years by the total number of participants (active, inactive, and retired) in the Plan. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the District recognized a pension expense of \$581,547 for the Plan. As of June 30, 2016, the District reports deferred outflows of resources and deferred inflows of resources related to pensions as follows:

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(4) Pension Plan, (Continued)

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions, (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions	\$934,063	\$0
Additional Deferral	\$0	(\$382,140)
Differences between Expected and Actual Experience	\$60,114	\$0
Change in Assumptions	\$0	(\$568,735)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	\$0	(\$509,374)
Adjustment due to Differences in Proportions	\$26,839	(\$618,650)
Total	\$1,021,016	(\$2,078,899)

\$934,063 reported as deferred outflows or 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, 2017. Amounts reported as deferred outflows and deferred inflows of resources will be recognized in future pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2016	\$ 101,709
2017	(825,861)
2018	(698,174)
2019	364,443
2020	0
Thereafter	0

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(5) Long-Term Debt

The following is a summary of long-term debt at June 30, 2016:

	<u>Balance at</u> <u>6/30/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>6/30/2016</u>	<u>Current</u>	<u>Non- Current</u>
Compensated Absences	\$ 1,186,497	\$815,413	\$ (744,272)	\$ 1,257,638	\$ 885,956	\$ 371,682
2000 State revolving loan	2,115,383	-	(423,078)	1,692,305	423,078	1,269,227
Less unamortized loan discount	(340,499)	-	71,613	(268,886)	(71,612)	(197,274)
Bonds payable	35,486,280	-	(1,447,280)	34,039,000	1,516,680	32,522,320
Less unamortized discount	(538,575)	-	21,543	(517,032)	(21,543)	(495,489)
Add unamortized premiums	<u>520,991</u>	<u>-</u>	<u>(65,991)</u>	<u>455,000</u>	<u>66,006</u>	<u>388,994</u>
	<u>\$38,430,077</u>	<u>\$815,413</u>	<u>\$(2,587,465)</u>	<u>\$36,658,025</u>	<u>\$2,798,565</u>	<u>\$33,859,460</u>

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(5) Long-Term Debt, (Continued)

2000 State Revolving Loan

On December 2, 1998, the District entered into a loan agreement with the State of California, acting by and through the State Water Resources Control Board for the District purchase and improvements at the Victoria Wastewater Treatment Plant. On December 21, 2000, the District received the first phase of funding in the amount of \$3,650,192. On November 18, 2004, the District received its final payment of \$2,720,860. The loan bears no interest with annual principal payment of \$423,078 maturing on June 30, 2020. The amount payable as of June 30, 2016 is \$1,692,305 which includes \$268,887 in imputed interest.

Total 2000 State Revolving Loan outstanding as of June 30, 2016, net of unamortized loan premium, was as follows:

Principal outstanding at June 30, 2016	\$1,692,305
Less unamortized loan discount (imputed interest)	<u>(268,886)</u>
Net loan outstanding at June 30, 2016	<u>\$1,423,419</u>

The annual requirements to service the outstanding balance at June 30, 2016 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Unamortized Loan Discount</u>	<u>Total</u>
2017	\$ 423,078	\$ (71,612)	\$ 351,466
2018	423,078	(71,612)	351,466
2019	423,078	(71,612)	351,466
2020	<u>423,071</u>	<u>(54,050)</u>	<u>369,021</u>
Total	<u>\$1,692,305</u>	<u>\$(268,886)</u>	<u>\$1,423,419</u>

Amortization expense was \$71,612 for the year ended June 30, 2016.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(5) Long-Term Debt, (Continued)

2011A Refunding General Obligation Bonds

In June 2011, the South Coast Water District issued \$2,965,000 of Refunding General Obligation Bonds, Series 2011A. The 2011A Bonds were issued to provide funds (1) to currently refund the District's outstanding General Obligation Bonds, Issue of 2000, in the aggregate principal amount of \$3,585,000; and (2) to pay costs incurred in connection with the issuance of the Bonds.

The 2011A Bonds include principal installments due in varying amounts from \$220,000 to \$590,000 annually from July 1, 2012 to July 1, 2017 with interest ranging from 2.0% to 4.0%.

Principal outstanding at June 30, 2016	\$810,000
Plus unamortized premium	<u>33,590</u>
Net Bonds outstanding at June 30, 2016	<u>\$843,590</u>

The annual requirements to service the outstanding Bonds at June 30, 2016 are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 590,000	\$ 20,600	\$ 610,600
2018	<u>220,000</u>	<u>4,400</u>	<u>224,400</u>
Total	<u>\$810,000</u>	<u>\$25,000</u>	<u>\$835,000</u>

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(5) Long-Term Debt, (Continued)

2010A Refunding Revenue Bonds

In June 2010, the South Coast Water District Financing Authority issued \$17,485,000 of Refunding Revenue Bonds, Series 2010A. The 2010A Bonds were issued to provide funds (1) to currently refund certain outstanding obligations of the District including the 2003 Bonds, the 1998 Water Enterprise Certificates, the 1998 Wastewater Enterprise Certificates and the 1995 Bonds; (2) to acquire certain improvements for the 2010 Projects; and (3) to pay costs incurred in connection with the issuance of the 2010A Bonds. The 2010 Projects include: (1) the acquisition and construction of portions of the improvements to enlarge and stabilize the Beach Interceptor Sewer Tunnel, including the installation of a new pipeline, and the acquisition of entitlements in connection therewith; (2) the acquisition and construction of improvements to the District's Water System and Recycled Water System, including the District's share of improvements to Joint Regional Water Supply System facilities serving the District; (3) acquisition and construction of improvements for the expansion and upgrade of the Groundwater Recovery Facility; and (4) the acquisition and construction of improvements to the Wastewater System.

The 2010A Bonds include principal installments due in varying amounts from \$560,000 to \$1,375,000 annually through February 1, 2029 with interest ranging from 2.0% to 5%.

Principal outstanding at June 30, 2016	\$13,550,000
Plus unamortized premium	<u>421,410</u>
Net Bonds outstanding at June 30, 2016	<u>\$13,971,410</u>

The annual requirements to service the outstanding Bonds at June 30, 2016 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 765,000	\$ 677,500	\$ 1,442,500
2018	805,000	639,250	1,444,250
2019	845,000	599,000	1,444,000
2020	885,000	556,750	1,441,750
2021	930,000	512,500	1,442,500
2022-2026	4,205,000	1,817,250	6,022,250
2027-2030	<u>5,115,000</u>	<u>767,250</u>	<u>5,882,250</u>
Total	<u>\$13,550,000</u>	<u>\$5,569,500</u>	<u>\$19,119,500</u>

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2016

(5) Long-Term Debt, (Continued)

2010B Revenue Bonds (Build America Bonds)

In June 2010, the South Coast Water District Financing Authority issued \$19,350,000 of Revenue Bonds, Series 2010B. The 2010B Bonds were issued to provide funds (1) to acquire certain improvements for the 2010 Projects; and (2) to pay costs incurred in connection with the issuance of the 2010B Bonds. The 2010 Projects include: (1) the acquisition and construction of portions of the improvements to enlarge and stabilize the Beach Interceptor Sewer Tunnel, including the installation of a new pipeline, and the acquisition of entitlements in connection therewith; (2) the acquisition and construction of improvements to the District's Water System and Recycled Water System, including the District's share of improvements to Joint Regional Water Supply System facilities serving the District; (3) acquisition and construction of improvements for the expansion and upgrade of the Groundwater Recovery Facility; and (4) the acquisition and construction of improvements to the Wastewater System.

The 2010B Bonds include principal installments due in varying amounts from \$1,440,000 to \$2,115,000 annually from February 1, 2030 to February 1, 2040 with interest payable annually beginning February 1, 2011 at 6%.

These bonds are designated as "Build America Bonds" under the provision of Section 6431(f) and 54AA of the Internal Revenue Code of 1986. The District expects to receive on or before each interest payment date a direct cash subsidy payment from the United States Department of Treasury equal to 32% of the interest payable on the bonds so long as the bonds are outstanding. The net interest rate after consideration for the subsidy is 3.72%.

Total 2010B Bonds outstanding as of June 30, 2016, net of unamortized discount and deferred charges were as follows:

Principal outstanding at June 30, 2016	\$19,350,000
Less unamortized discount	<u>(517,032)</u>
Net Bonds outstanding at June 30, 2016	<u>\$18,832,968</u>

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(5) Long-Term Debt, (Continued)

2010B Revenue Bonds (Build America Bonds), (Continued)

The annual requirements to service the outstanding Bonds at June 30, 2016 are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 1,161,000	\$ 1,161,000
2018	-	1,161,000	1,161,000
2019	-	1,161,000	1,161,000
2020	-	1,161,000	1,161,000
2021	-	1,161,000	1,161,000
2022-2026	-	5,805,000	5,805,000
2027-2031	2,940,000	5,718,600	8,658,600
2032-2036	8,415,000	3,951,900	12,366,900
2037-2040	<u>7,995,000</u>	<u>1,222,200</u>	<u>9,217,200</u>
Total	<u>\$19,350,000</u>	<u>\$22,502,700</u>	<u>\$41,852,700</u>

1998 Water Revenue Refunding Bonds

As a result of LAFCO resolution (RO 99-97), the District, for the Capistrano Beach Water Service Area, became responsible for its proportional share, 37.60%, of the Water Revenue Refunding Bonds Series 1998 in conjunction with the financing of construction and acquisition of a transmission pipeline from a new water supply source. The serial bonds bear interest at 4.10% to 5.00% and mature in various amounts through 2018. There are other water districts responsible for their proportional share of the 62.4% of the bonds. Payment of the principal and interest on the bonds is guaranteed by a municipal bond guaranty insurance policy. The required rate covenant is 115%. The required reserve for debt service was \$473,750. As of June 30, 2016, the reserve was \$473,997.

The annual requirements to service the outstanding bonds at June 30, 2016 are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 430,000	\$ 33,000	\$ 463,000
2018	<u>445,000</u>	<u>11,125</u>	<u>456,125</u>
Total	<u>\$875,000</u>	<u>\$ 44,125</u>	<u>\$919,125</u>
District's share (37.6%)	<u>\$329,000</u>	<u>\$16,591</u>	<u>\$345,591</u>

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2016

(6) Pledged Revenues

The District has pledged its revenues, net of specified operating expenses, to repay \$1.0 million in water revenue refunding bonds issued in 1998 and \$36.3 million in water revenue bonds issued in 2010. Proceeds from the bonds provided financing for the construction of various capital facilities of the District. The bonds are payable from District net revenues and are payable through 2040. Coverage of net revenues for annual principal and interest payments in future years are expected to approximate that of the current year (see below). Total future principal and interest remaining to be paid on the bonds is \$61,317,791.

Debt service paid for the current year and net revenues for the current year are as follows:

Gross Revenues	\$36,101,662
Less excluded revenues	<u>(661,490)</u>
Includable revenues	<u>35,440,172</u>
All expenses	35,136,204
Less excludable expenses	<u>(8,268,640)</u>
Includable expenses	<u>26,867,564</u>
Net revenues	8,572,608
Debt service	2,657,525
Coverage percentage	323%
Maximum required coverage percentage	125%

(7) Investment in Joint Venture

Pursuant to Orange County Local Agency Formation Commission Reorganization No. RO99-07, Tri-Cities Municipal Water District (TCMWD) was consolidated with Coastal Municipal Water District (CMWD) wherein CMWD became the legal successor-in-interest to TCMWD, and TCMWD ceased to exist effective March 31, 2000. In addition, CMWD transferred ownership of all miscellaneous assets and liabilities, not otherwise provided for by separate agreements, to be held by the District as trustee and transferred all other powers, rights and duties of TCMWD to be held by the District as trustee. The succeeding agency became Joint Regional Water Supply System (JRWSS).

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2016

(7) Investment in Joint Venture, (Continued)

The agreement also provided for the District to act as a trustee for the remaining assets and liabilities not transferred under the direct ownership. There are nine members who participate in JRWSS, including the District.

The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position reflect the activities of the Joint Regional Water Supply System (JRWSS) that are held in trust (with the South Coast Water District as trustee). The District's interest in joint venture assets is reflected on the statement of net position of the District as "investment in joint venture" in the amount of \$8,689,271 at June 30, 2016 as required under the equity method of accounting for investments.

(8) Other Post-Employment Benefits

Plan Description

The District provides post-employment health care benefits with requirements depending on the employees initial employment date as follows: for employees of record as of May 18, 1988, five years of full-time continuous employment with the District is required. In addition, the employee must be at least 50 years of age and have participated in the PERS plan for at least 5 years as well as receiving service retirement benefits pursuant to the terms and conditions of the District PERS plan. The District provides medical insurance for the retired employee and employee's eligible spouse from the date of retirement until both become eligible to receive Medicare benefits. The obligation of the District is to provide the plan of insurance, and the specific terms and conditions may vary from time to time. The District pays the full premium cost of Medicare supplemental coverage.

For employees commencing employment subsequent to May 18, 1988, 20 years of full-time continuous employment is required. In addition, the employee must be at least 50 years of age and have participated in PERS as well as receiving service retirement benefits pursuant to PERS plan requirements. The District provides medical insurance for the retired employee from the date of retirement until the retired employee is eligible to receive Medicare benefits. The obligation of the District is to provide the plan of insurance, and the specific terms and conditions may vary from time to time. The Medicare supplement insurance is provided at the District's expense.

Funding Policy and Annual OPEB Cost

The contribution requirements of the District are established and may be amended annually by the Board of Directors. The District's annual other post employment benefit (OPEB) cost (expense) for the plan is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(8) Other Post-Employment Benefits, (Continued)

Funding Policy and Annual OPEB Cost, (Continued)

the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/14	\$736,000	100.0%	\$0
06/30/15	\$643,000	100.0%	\$0
06/30/16	\$664,000	100.0%	\$0

Funding Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability for benefits at June 30, 2013 was \$4.8 million and the covered payroll (annual payroll of active employees covered by plan) was \$6.9 million, with a ratio of the UAAL to the covered payroll of 69.0%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(9) Other Post-Employment Benefits, (Continued)

Funding Status and Funding Progress, (Continued)

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	[(B-A)/C]
6/30/10	\$ 684,000	\$ 5,860,000	\$ 5,176,000	11.67%	\$ 6,622,000	78.2 %
6/30/11	1,148,000	6,820,000	5,672,000	16.83%	6,679,000	84.9 %
6/30/13	2,304,000	7,068,000	4,764,000	32.60%	6,896,000	69.1 %

Actuarial Methods and Assumptions

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

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost Method. The actuarial assumptions included a 7.25% investment rate of return, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8% initially, reduced by decrements of .5% per year to an ultimate rate of 5% after the seventh year. Both rates included a 3.0% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll over 20 years. It is assumed the District's payroll will increase 3.25% per year.

(9) Risk Management

The District is exposed to various risks of loss related to torts, theft, damage to and destructions of assets, errors and omissions, injuries to employees and natural disasters. In an effort to manage its risk exposure, the District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Authority).

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2016

(9) Risk Management, (Continued)

The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Section 6500 et seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

At June 30, 2016 as a member of the Authority, the District participated in the insurance programs as follows:

Property Loss - The District retains risk of loss of \$1,000 to \$50,000 depending on the property type (deductible amount); the Authority is self-insured up to \$100,000 and insurance coverage has been purchased to cover losses ranging from \$100,000 to \$100,000,000 limited to insurable loss.

General and Auto Liability - The District is insured up to \$60,000,000 per occurrence with no deductible; the Authority is self-insured up to \$2,000,000 and excess insurance coverage has been purchased to cover losses ranging from \$2,000,001 to \$60,000,000.

Public Official's Errors and Omissions - The District is insured up to \$60,000,000 per occurrence with no deductible; the Authority is self-insured up to \$2,000,000 and excess insurance coverage has been purchased to cover losses ranging from \$2,000,001 to \$60,000,000.

Underground Storage Tank Pollution Liability - The District is insured up to \$3,500,000 annual aggregate per incident with \$10,000 deductible per incident; the Authority is self-insured up to \$500,000 and excess insurance coverage has been purchased to cover losses ranging from \$500,000 to \$3,500,000.

Fidelity Coverage - The District is insured up to \$100,000 per occurrence with \$1,000 deductible for employee dishonesty, forgery or alteration, and computer fraud.

Workers' Compensation - The District is insured for statutory limits. The District is insured up to \$4,000,000 per accident and \$4,000,000 per disease; the Authority is self-insured up to \$2,000,000 and excess insurance coverage had been purchased.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements (Continued)

For the Year Ended June 30, 2016

(9) Risk Management, (Continued)

Roy Bradt Dam Failure Liability - The District is insured up to \$5,000,000 per occurrence with \$50,000 deductible.

There have been no settlements that have exceeded its insurance coverage for the past three years and there were no reductions in the District's insurance coverage during the years ended 2016, 2015 and 2014. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2016, 2015 and 2014.

(10) Contingencies and Commitments

Lawsuits - The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the District's management that resolution of these matters will not have a material adverse effect on the financial condition of the District.

Contract Commitments - The District had \$8,967,056 outstanding contract commitments at June 30, 2016. The three largest contracts outstanding include:

<u>Project Description</u>	<u>Contract Amount</u>	<u>Balance to Complete</u>
Ocean Desal. Project Dev. Manager	\$8,000,000	\$6,920,784
As needed – Corrosion Engineering Contract	300,000	300,000
As needed – Civil Engineering Contract	300,000	295,700

(11) Operating Leases

As of June 30, 2016, the District has operating leases with various companies to rent space on District occupied property. The operating leases are on a month-to-month basis with the District receiving monthly lease payments totaling \$78,570.

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(12) JRWSS Note Receivable/Note Payable

1998 Water Revenue Refunding Bonds

In March, 1998, the \$6,005,000 principal amount of the 1998 Water Revenue Refunding Bonds for the former Tri-Cities Municipal Water District, now called the Joint Regional Water Supply System (JRWSS), were issued to refund the 1992 Certificates of Participation which were issued to finance the construction and acquisition of a transmission pipeline from a new water supply source. The serial bonds bear interest at 4.10% to 5.00% and mature in various amounts through 2018. Payment of the principal and interest on the bonds is guaranteed by a municipal bond guaranty insurance policy. The required rate covenant is 115%. Three participating agencies in JRWSS are responsible for the yearly principal and interest payments. The City of San Clemente participates with 54.4%, South Coast Water District, for the former Capistrano Beach Water District, participates with 37.6% and SONGS (SCE) participates with 8.0%. JRWSS carries both a note receivable and note payable in the financial records for the total principal amount due on the bonds. The City of San Clemente, South Coast Water District and SONGS are billed annually for their portion of the annual principal and interest payments. JRWSS makes the appropriate payments for the bonds after funds are received. JRWSS reduces the note receivable and note payable when the annual principal payment is made.

The annual requirements to service the outstanding bonds at June 30, 2016 are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 430,000	\$33,000	\$ 463,000
2018	<u>445,000</u>	<u>11,125</u>	<u>456,125</u>
Total	<u>\$ 875,000</u>	<u>\$ 44,125</u>	<u>\$919,125</u>

SOUTH COAST WATER DISTRICT

Notes to the Basic Financial Statements
(Continued)

For the Year Ended June 30, 2016

(13) JRWSS Capital Assets

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

	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2016</u>
Capital assets, nondepreciable:				
Land and land rights	\$ 861,355	\$ -	\$ -	\$ 861,355
Construction in progress	<u>567,069</u>	<u>1,329,243</u>	<u>(1,157,904)</u>	<u>738,408</u>
Total capital assets, nondepreciable	<u>1,428,424</u>	<u>1,329,243</u>	<u>(1,157,904)</u>	<u>1,599,763</u>
Capital assets, depreciable:				
Intangible plant	2,481,746	-	-	2,481,746
Source of supply	10,368,733	267,230	-	10,635,963
Transmission and distribution	34,346,859	656,748	-	35,003,607
General plant	<u>716,196</u>	<u>215,403</u>	<u>(29,311)</u>	<u>902,288</u>
Total capital assets, depreciable	<u>47,913,534</u>	<u>1,139,381</u>	<u>(29,311)</u>	<u>49,023,604</u>
Less accumulated depreciation for:				
Intangible plant	1,240,873	62,044	-	1,302,917
Source of supply	6,384,027	200,825	-	6,584,852
Transmission and distribution	12,161,114	937,011	-	13,098,125
General plant	<u>537,722</u>	<u>61,730</u>	<u>(29,311)</u>	<u>570,141</u>
Total accumulated depreciation	<u>20,323,736</u>	<u>1,261,610</u>	<u>(29,311)</u>	<u>21,556,035</u>
Total capital assets, depreciable, net	<u>27,589,798</u>	<u>(122,229)</u>	<u>-</u>	<u>27,467,569</u>
Capital assets, net	<u>\$ 29,018,222</u>	<u>\$ 1,207,014</u>	<u>\$ (1,157,904)</u>	<u>\$ 29,067,332</u>

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH COAST WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2016

SCHEDULE OF PLAN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Ten Years*

	Measurement Date <u>6/30/2015</u>	Measurement Date <u>6/30/2014</u>
Proportion of the Collective Net Pension Liability	0.34410%	0.12543%
Proportionate Share of the Collective Net Pension Liability	\$ 8,170,473	\$ 7,805,073
Covered-Employee Payroll	\$ 6,941,886	\$ 7,086,467
Proportionate Share of the Collective net Pension Liability as Percentage of Covered-Employee Payroll	117.70%	110.14%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.59%	83.03%

Notes to Schedule:

Benefit changes. The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (aka Golden Handshakes).

Changes in assumptions. The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

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

SOUTH COAST WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2016

SCHEDULE OF PLAN CONTRIBUTIONS

LAST TEN YEARS*

(FOR EMPLOYEES HIRED PRIOR TO JANUARY 1, 2013)

	<u>Fiscal Year 2015-16</u>	<u>Fiscal Year 2014-15</u>
Actuarially Determined Contribution	\$ 853,991	\$ 868,974
Contributions in Relation to the Actuarially Determined Contribution	(853,991)	(868,974)
Contribution Deficiency (Excess)	\$ -	\$ -
Covered-Employee Payroll	\$ 5,565,196	\$ 5,795,226
Contributions as a Percentage of Covered-Employee Payroll	15.35%	15.00%

Notes to Schedule:

Fiscal Year End:	6/30/2016	6/30/2015
Valuation End Date:	6/30/2013	6/30/2012

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent of Payroll	Level Percent of Payroll
Asset Valuation Method	Market Value	Market Value
Discount Rate	7.5%	7.5%
Projected Salary Increase	3.30% to 14.20% depending on Age, Service, and type of employment	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Individual Salary Growth	A merit scale varying in duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.	A merit scale varying in duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

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

SOUTH COAST WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

SOUTH COAST WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2016

SCHEDULE OF PLAN CONTRIBUTIONS

LAST TEN YEARS*

(FOR EMPLOYEES HIRED ON OR AFTER JANUARY 1, 2013)

	<u>Fiscal Year 2015-16</u>	<u>Fiscal Year 2014-15</u>
Actuarially Determined Contribution	\$ 80,072	\$ 68,955
Contributions in Relation to the Actuarially Determined Contribution	(80,072)	(68,955)
Contribution Deficiency (Excess)	\$ -	\$ -
Covered-Employee Payroll	\$ 1,457,195	\$ 1,146,660
Contributions as a Percentage of Covered-Employee Payroll	5.49%	6.01%

Notes to Schedule:

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent of Payroll	Level Percent of Payroll
Asset Valuation Method	Market Value	Market Value
Discount Rate	7.5%	7.5%
Projected Salary Increase	3.30% to 14.20% depending on Age, Service, and type of employment	3.30% to 14.20% depending on Age, Service, and type of employment
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Individual Salary Growth	A merit scale varying in duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.	A merit scale varying in duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

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

SUPPLEMENTARY INFORMATION
(UNAUDITED)

SOUTH COAST WATER DISTRICT
 Joint Regional Water Supply System
 General Expenses Allocation by Facilities - JRWSS
 For the Year Ended June 30, 2016

	General Allocation <u>Factor #1</u>	JTM Allocation <u>Factor #1</u>	Bradt Reservoir Allocation <u>Factor #11</u>	WIP Line Allocation <u>Factor #10</u>
Operating expenses:				
Labor, benefits and related costs	\$ 291,258	\$ 89,468	\$ 146,693	\$ 30,882
Materials, repairs and contractors	71,525	16,793	187,046	21,056
Utilities	9,290	5,636	38,910	2,819
Water testing	1,238	15,194	11,769	13,828
Engineering	-	-	24,732	-
Licenses & Permits	-	-	-	-
Total operating expenses	<u>373,311</u>	<u>127,091</u>	<u>409,150</u>	<u>68,585</u>
General and administrative expenses:				
Labor, benefits and related costs	227,644	-	-	-
Office supplies and maintenance	35,804	-	1,149	-
Utilities	19,995	-	-	-
Insurance	25,311	-	-	-
Professional fees	31,725	-	-	-
Regulatory fees	9,730	-	23,840	-
Dues and subscriptions	4,864	-	-	-
Total general and administrative expenses	<u>355,073</u>	<u>-</u>	<u>24,989</u>	<u>-</u>
Total general expenses	<u>\$ 728,384</u>	<u>\$ 127,091</u>	<u>\$ 434,139</u>	<u>\$ 68,585</u>

<u>LTM Line Allocation Factor #9</u>	<u>Schlegel Allocation Factor #12</u>	<u>San Onofre Feeder Allocation Factor #13</u>	<u>Total</u>
\$ 32,678	\$ 45,711	\$ 29,518	\$ 666,208
4,719	23,886	7	325,032
18,446	4,393	-	79,494
8,058	11,583	14,383	76,053
-	-	-	24,732
-	-	-	-
<u>63,901</u>	<u>85,573</u>	<u>43,908</u>	<u>1,171,519</u>
-	-	-	227,644
-	216	-	37,169
-	-	-	19,995
-	-	-	25,311
-	-	-	31,725
-	-	-	33,570
-	-	-	4,864
<u>-</u>	<u>216</u>	<u>-</u>	<u>380,278</u>
<u>\$ 63,901</u>	<u>\$ 85,789</u>	<u>\$ 43,908</u>	<u>\$ 1,551,797</u>