**LAKESIDE WATER DISTRICT**

**FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

Leaf & Cole, LLP
*Certified Public Accountants*

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Leaf & Cole, LLP
*Certified Public Accountants*
*A Partnership of Professional Corporations*

**Independent Auditor's Report**

To the Board of Directors
Lakeside Water District
10375 Vine Street
Lakeside, California 92040

**Report on Financial Statements**

We have audited the accompanying financial statements of Lakeside Water District, which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

***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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits 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 opinion.



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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lakeside Water District, as of June 30, 2017 and 2016, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress for the retiree health plan, the schedules of proportionate share of the net pension liability and the schedules of plan contributions, as identified in the accompanying table of contents be presented to supplement the 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 the financial reporting for placing the 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 on inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the 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.

Leaf & Cole LLP

San Diego, California
December 5, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of the Lakeside Water District ("District") provides an overview of the District's financial activities for the years ended June 30, 2017 and 2016. Please read it in conjunction with the District's financial statements which begin on page 7.

**Financial Statements**

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

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

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

- Net Investment in Capital Assets
- Restricted Net Position
- Unrestricted Net Position

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

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

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

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

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

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

## Financial Highlights

- The District's net position increased by $443,161 to $36,214,903 for the year ended June 30, 2017.
- The District's operating revenues totaled $6,917,166 for the year ended June 30, 2017, an increase of $681,088. Water sales increased in response to the end of the drought which allowed for increased sales of well water which has a higher profit margin.
- The District's operating expenses totaled $7,371,487 for the year ended June 30, 2017, an increase of $521,160 from prior year. 85% of the increase in the District's operating costs is source of supply and would be anticipated based upon the increase in water sales.

## Financial Analysis of the District

### Net Position

The following is a summary of the District's statements of net position at June 30:

| | 2017 | 2016 | Change |
|---|---|---|---|
| Assets: | | | |
| Current and other noncurrent assets | $ 22,124,893 | $ 21,381,919 | $ 742,974 |
| Capital assets, net | 16,639,399 | 17,031,439 | (392,040) |
| Total Assets | 38,764,292 | 38,413,358 | 350,934 |
| Deferred Outflows of Resources | 431,359 | 149,593 | 281,766 |
| Liabilities: | | | |
| Current liabilities | 606,235 | 854,469 | (248,234) |
| Noncurrent liabilities | 2,210,179 | 1,678,571 | 531,608 |
| Total Liabilities | 2,816,414 | 2,533,040 | 283,374 |
| Deferred Inflows of Resources | 164,334 | 258,169 | (93,835) |
| Net Position: | | | |
| Investment in capital assets | 16,639,399 | 17,031,439 | (392,040) |
| Unrestricted | 19,575,504 | 18,740,303 | 835,201 |
| Total Net Position | $ 36,214,903 | $ 35,771,742 | $ 443,161 |

Net position increased by $443,161 from fiscal year 2016 to 2017. Investment in capital assets, decreased $392,040 in fiscal year 2017 as depreciation expense exceeded to additions to capital assets.

Unrestricted net position increased $835,201 as a result of the nonoperating revenues exceeding the loss from operations.

**Revenues, Expenses and Changes in Net Assets**

The following is a summary of the District's revenues, expenses and changes in net position for the years ended June 30:

| | 2017 | 2016 | Change |
|---|---|---|---|
| Revenues: | | | |
| Operating revenues | $ 6,917,166 | $ 6,236,078 | $ 681,088 |
| Nonoperating revenues | 741,994 | 1,181,197 | (439,203) |
| Capital contributions | 155,488 | 5,497,118 | (5,341,630) |
| Total Revenues | 7,814,648 | 12,914,393 | (5,099,745) |
| Expenses: | | | |
| Depreciation expense | 654,691 | 588,652 | 66,039 |
| Other operating expenses | 6,716,796 | 6,261,675 | 455,121 |
| Total Expenses | 7,371,487 | 6,850,327 | 521,160 |
| Change in Net Position | 443,161 | 6,064,066 | (5,620,905) |
| Net Position at Beginning of Year | 35,771,742 | 29,707,676 | 6,064,066 |
| Net Position at End of Year | $ 36,214,903 | $ 35,771,742 | $ 443,161 |

A closer examination of the source of changes in net position reveals that the District's operating revenues increased by $681,088 in fiscal year 2017 as a result of the end of state mandates for Californians to use less water. Nonoperating revenues decreased by $439,203 in fiscal year 2017 due to lower investment income and annexation fees. Operating expenses, exclusive of depreciation, increased $455,121 in fiscal year 2017 due to a increased water sales as well as rate increases received from the San Diego County Water Authority.

**Capital Assets**

Capital assets consist of the following at June 30:

| | 2017 | 2016 | Change |
|---|---|---|---|
| Capital Assets Not Being Depreciated: | | | |
| Land | $ 138,659 | $ 138,659 | $ - |
| Construction in progress | 143,237 | 565,252 | (422,015) |
| Total Capital Assets Not Being Depreciated | $ 281,896 | $ 703,911 | $ (422,015) |

| | 2017 | 2016 | Change |
|---|---|---|---|
| Capital Assets Being Depreciated: | | | |
| Pumping plant and distributions | $ 26,147,655 | $ 25,511,703 | $ 635,952 |
| Building and land improvements | 612,015 | 612,015 | - |
| Water development and treatment plant | 2,109,903 | 2,109,903 | - |
| Equipment | 413,253 | 406,111 | 7,142 |
| Autos and trucks | 331,497 | 323,623 | 7,874 |
| Office equipment | 157,962 | 159,056 | (1,094) |
| Total Capital Assets Being Depreciated | 29,772,285 | 29,122,411 | 649,874 |
| Less: Accumulated Depreciation | (13,414,782) | (12,794,883) | (619,899) |
| Net Capital Assets Being Depreciated | 16,357,503 | 16,327,528 | 29,975 |
| **Net Capital Assets** | $ 16,639,399 | $ 17,031,439 | $ (392,040) |

Capital assets, net of accumulated depreciation, decreased $392,040 for the year ended June 30, 2017. Capital asset additions including the Valle Vista Pipeline Replacement, the Vista Camino Pipeline Replacement, the Lakeside Avenue Tank Replacement, and the Telementry System Conversion were exceeded by depreciation during the year ended June 30, 2017.

## Economic Factors and Future Rates and Budgets

Imported water expense has continued to increase and another large increase is anticipated during the year ended June 30, 2017. The average cost per acre foot of water has increased from $1,226 in 2013, to $1,614 in 2017. Imported water cost is estimated to be $1,674 per acre foot in 2018. To minimize the impact of the rising cost of imported water, the District has utilized local well production for about 20% to 25% of its water needs. Well water is produced at an estimated cost of $345 per acre foot on average. Well production is estimated to have saved the District $984,744 in 2017 and $1,029,918 in 2016.

Metropolitan Water District of Southern California and The San Diego County Water Authority (SDCWA) had mandated water use restrictions as of July 2009 resulting in water sales reductions and a potential revenue loss. These restrictions were lifted effective May 2011, leading to increased water sales during subsequent fiscal years. Future water restrictions are possible for 2017 as the region is currently experiencing its third consecutive year with below normal rainfall. If water use restrictions are placed on the District, sales revenue could be reduced.

## Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages. If you have any questions about this report or need additional financial information, contact the Lakeside Water District's office at 10375 Vine Street, Lakeside, California, 92040, (619) 443-3805.

**LAKESIDE WATER DISRICT**
**STATEMENTS OF NET POSITION**
**JUNE 30, 2017 AND 2016**

**ASSETS**

| | 2017 | 2016 |
|---|---|---|
| **Current Assets:** (Notes 1 and 2) | | |
| Cash and cash equivalents | $ 495,969 | $ 1,400,320 |
| Investments | 20,034,208 | 18,534,650 |
| Accounts receivable, net | 1,246,086 | 1,106,354 |
| Accrued interest receivable | 58,602 | 44,134 |
| Taxes receivable | 6,444 | 5,799 |
| Inventory | 115,232 | 108,504 |
| Prepaid expenses | 29,231 | 28,406 |
| Total Current Assets | 21,985,772 | 21,228,167 |
| **Noncurrent Assets:** | | |
| **Capital Assets:** (Notes 1 and 3) | | |
| Nondepreciable | 281,896 | 703,911 |
| Depreciable, net of accumulated depreciation | 16,357,503 | 16,327,528 |
| Total Capital Assets, Net | 16,639,399 | 17,031,439 |
| **Other Noncurrent Assets:** (Notes 1 and 5) | | |
| Net OPEB asset | 139,121 | 153,752 |
| Total Other Noncurrent Assets | 139,121 | 153,752 |
| Total Noncurrent Assets | 16,778,520 | 17,185,191 |
| **TOTAL ASSETS** | $ 38,764,292 | $ 38,413,358 |
| **DEFERRED OUTFLOWS OF RESOURCES:** (Notes 1 and 6) | | |
| Deferred outflows related contributions | 159,865 | 142,970 |
| Deferred outflows related to pensions | 271,494 | 6,623 |
| Total Deferred Outflows of Resources | 431,359 | 149,593 |

(Continued)

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

# LAKESIDE WATER DISRICT
# STATEMENTS OF NET POSITION (CONTINUED)
# JUNE 30, 2017 AND 2016

**LIABILITIES**

| | 2017 | 2016 |
|---|---|---|
| **Current Liabilities:** (Notes 1 and 4) | | |
| Accounts payable | $ 543,398 | $ 759,980 |
| Prepaid rent | 4,232 | - |
| Compensated absences | 58,605 | 94,489 |
| Total Current Liabilities | 606,235 | 854,469 |
| **Noncurrent Liabilities:** (Notes 1, 4 and 6) | | |
| Customer deposits | 310,471 | 269,640 |
| Compensated absences | 78,914 | 36,959 |
| Net pension liability | 1,820,794 | 1,371,972 |
| Total Noncurrent Liabilities | 2,210,179 | 1,678,571 |
| Total Liabilities | 2,816,414 | 2,533,040 |
| **DEFERRED INFLOWS OF RESOURCES:** (Notes 1 and 6) | | |
| Deferred inflows related to pensions | 164,334 | 258,169 |
| **Commitments and Contingencies** (Notes 5, 6 and 7) | | |
| **NET POSITION:** | | |
| Investment in capital assets | 16,639,399 | 17,031,439 |
| Unrestricted | 19,575,504 | 18,740,303 |
| Total Net Position | $ 36,214,903 | $ 35,771,742 |

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

# LAKESIDE WATER DISRICT
## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
## FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|---|---|---|
| **Operating Revenues:** | | |
| Water sales | $ 6,560,929 | $ 5,900,471 |
| Infrastructure access fee | 277,452 | 271,321 |
| Installation and service fees | 70,334 | 59,578 |
| Other operating revenues | 8,451 | 4,708 |
| Total Operating Revenues | 6,917,166 | 6,236,078 |
| **Operating Expenses:** | | |
| Source of supply | 4,468,950 | 4,024,172 |
| Transmission and distribution | 955,904 | 1,013,030 |
| General and administrative | 796,303 | 736,176 |
| Depreciation | 654,691 | 588,652 |
| Pumping | 297,381 | 287,796 |
| Customer accounts | 145,101 | 139,730 |
| Water treatment | 53,157 | 60,771 |
| Total Operating Expenses | 7,371,487 | 6,850,327 |
| Operating Loss | (454,321) | (614,249) |
| **Nonoperating Revenues (Expenses):** | | |
| Taxes and assessments | 477,731 | 451,719 |
| Rent income | 190,524 | 182,664 |
| Annexation fees | 47,038 | 74,286 |
| Investment income | 24,401 | 469,027 |
| Gain on disposal of capital assets | 2,300 | 3,501 |
| Total Nonoperating Revenues (Expenses) | 741,994 | 1,181,197 |
| Income Before Capital Contributions | 287,673 | 566,948 |
| Capital Contributions | 155,488 | 5,497,118 |
| Change in Net Position | 443,161 | 6,064,066 |
| Net Position at Beginning of Year | 35,771,742 | 29,707,676 |
| **NET POSITION AT END OF YEAR** | $ 36,214,903 | $ 35,771,742 |

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

**LAKESIDE WATER DISRICT**
**STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

| | 2017 | 2016 |
|---|---|---|
| **Cash Flow From Operating Activities:** | | |
| Cash received from customers | $ 6,809,814 | $ 6,146,588 |
| Cash payments to suppliers for goods and services | (5,646,168) | (4,839,459) |
| Cash payments to employees for services | (1,200,840) | (1,240,813) |
| Other operating cash receipts | 8,451 | 4,708 |
| Net Cash (Used in) Provided by Operating Activities | (28,743) | 71,024 |
| **Cash Flow From Noncapital Financing Activities:** | | |
| Cash received from rent income | 194,756 | 178,675 |
| Receipts from taxes, assessments, and annexation fees | 524,124 | 525,864 |
| Due from Padre Dam Water District | - | 44,800 |
| Net Cash Provided by Noncapital Financing Activities | 718,880 | 749,339 |
| **Cash Flows From Capital and Related Financing Activities:** | | |
| Acquisition and construction of capital assets | (262,651) | (874,889) |
| Proceeds from disposal of capital assets | 2,300 | 3,501 |
| Capital contributions | 155,488 | 189,877 |
| Net Cash Used in Capital and Related Financing Activities | (104,863) | (681,511) |
| **Cash Flows From Investing Activities:** | | |
| Proceeds from sale and maturities of investments | 8,080,231 | 12,859,529 |
| Purchase of investments | (9,904,278) | (12,976,340) |
| Investment income | 334,422 | 308,779 |
| Net Cash (Used in) Provided by Investing Activities | (1,489,625) | 191,968 |
| Net (Decrease) Increase in Cash and Cash Equivalents | (904,351) | 330,820 |
| Cash and Cash Equivalents at Beginning of Year | 1,400,320 | 1,069,500 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | $ 495,969 | $ 1,400,320 |

(Continued)

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

**LAKESIDE WATER DISRICT**
**STATEMENTS OF CASH FLOWS (CONTINUED)**
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

| | 2017 | 2016 |
|---|---|---|
| **Reconciliation of Operating Loss to Net Cash (Used in) Provided by Operating Activities:** | | |
| Operating loss | $ (454,321) | $ (614,249) |
| **Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:** | | |
| Depreciation | 654,691 | 588,652 |
| **(Increase) Decrease in:** | | |
| Accounts receivable, net | (139,732) | (124,781) |
| Inventory | (6,728) | 11,778 |
| Prepaid expenses | (825) | (791) |
| Deferred outflows related to contributions | (16,895) | (37,927) |
| Deferred outflows related to pensions | (264,871) | 20,514 |
| Net OPEB asset | 14,631 | 14,631 |
| **(Decrease) Increase in:** | | |
| Accounts payable | (216,582) | 174,089 |
| Compensated absences | 6,071 | 4,034 |
| Customer deposits | 40,831 | 39,999 |
| Net pension liability | 448,822 | 186,091 |
| Deferred inflows related to pensions | (93,835) | (191,016) |
| Net Cash (Used in) Provided by Operating Activities | $ (28,743) | $ 71,024 |
| **Supplemental Disclosures of Cash Flow Information:** | | |
| Net unrealized (gain) loss on investments | $ 324,489 | $ (162,027) |
| Capital assets included in contributed capital | $ - | $ 5,307,241 |

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

## Note 1 - Organization and Significant Accounting Policies:

### Organization

Lakeside Water District (the "District") was established in 1924 pursuant to the irrigation section of the California Water Code for the purpose of supplying water services to properties in the District. Effective November 16, 2006, the Riverview Water District was merged with the District.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Cod. Sec. 2100 "Defining the Financial Reporting Entity". 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 of 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 has no component units.

### Significant Accounting Policies

A summary of the District's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

### Method of Accounting

The District utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, the statements of net position and the statements of revenues, expenses and changes in net position have been prepared using the economic resources measurement focus and the accrual basis of accounting.

The District has not elected to apply the option allowed in GASB Cod. Sec. P80.103, "Proprietary Fund Accounting and Financial Reporting" and as a consequence will continue to apply GASB statements and interpretations.

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Revenue Recognition

The District recognizes revenues from water sales, infrastructure access fees, installation and service fees, and other operating revenues when they are earned. Operating activities generally result from providing services and producing and delivering goods. As such, the District considers fees received from water sales, infrastructure access fees, and installation and service fees to be operating revenues. Taxes and assessments are recognized as revenues based upon amounts reported to the District by the County of San Diego.

## Note 1 - Organization and Significant Accounting Policies: (Continued)

### Significant Accounting Policies (Continued)

### Investments

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

### Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. The allowance for doubtful accounts receivable totaled $46,300 and $50,200 at June 30, 2017 and 2016, respectively.

### Taxes and Assessments

Property taxes and assessments are billed by the County of San Diego to property owners. The District's property tax calendar for the fiscal year ended June 30, 2017, was as follows:

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

The County collects the taxes from the property owners and remits the funds to the District periodically during the year. The District has an arrangement with the County whereby the County remits taxes which are delinquent as of each June 30 to the District in exchange for the right to retain the delinquent taxes, penalties, and interest when these amounts are subsequently collected.

### Inventory

Inventory consists primarily of materials used in the construction and maintenance of capital assets and is valued at the lower of cost or market using the first-in, first-out (FIFO) method.

### Capital Assets

Capital assets purchased or acquired with a cost exceeding $1,000 and an estimated useful life more than one year are reported at historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Donated capital assets, donated works of art, and similar items, and capital assets received in service concession agreements are reported at acquisition value. Depreciation is calculated on the straight-line method over the following estimated useful lives:

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Capital Assets (Continued)**

| | |
|---|---|
| Pumping plant and distribution | 10 - 60 years |
| Building and land improvements | 10 - 50 years |
| Water development and treatment plant | 25 - 40 years |
| Equipment | 5 - 10 years |
| Autos and trucks | 5 - 10 years |
| Office equipment | 3 - 10 years |

Depreciation aggregated $654,691 and $588,652 for the years ended June 30, 2017 and 2016, respectively.

**Compensated Absences**

Accumulated and unpaid vacation and sick leave totaling $137,519 and $131,448 is accrued when incurred and included in current and noncurrent liabilities at June 30, 2017 and 2016, respectively.

**Deferred Outflows of Resources and Deferred Inflows of Resources**

Deferred outflows of resources and deferred inflows of resources are defined as a consumption of net assets by the District that is applicable to a future period and an acquisition of net assets by the District that is applicable to a future reporting period respectively. Deferred outflows of resources and deferred inflows of resources are more fully described in Note 6.

**Risk Management**

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Authority). The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 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, 2017, the District participated in the self-insurance programs of the Authority as follows:

Property Loss - Insured up to $150,000,000 per occurrence (total insurable value $1,272,148 with $1,000 deductible for buildings, personal property, fixed equipment and mobile equipment and $500 for licensed vehicles. The Authority is self-insured up to $100,000 per occurrence and excess insurance coverage has been purchased.

General and Auto Liability - Insured up to $60,000,000 per occurrence; the Authority is self-insured up to $2,000 and excess insurance coverage has been purchased. The general and auto liability program has no deductible.

Public Officials' Liability - Insured up to $60,000,000 per occurrence; the Authority is self-insured up to $2,000 and excess insurance coverage has been purchased.

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Risk Management (Continued)**

Fidelity Bond - Insured up to $100,000 per occurrence with a $1,000 deductible.

Workers' Compensation - Insured up to the statutory limits; the Authority is self-insured up to $2 million and excess insurance coverage has been purchased. Employer's liability is insured up to $4,000,000; the Authority is self-insured up to $2 million and excess insurance coverage has been purchased.

The District pays annual premiums for this coverage. They are subject to retrospective adjustments based on claims experienced. The nature and amounts of the adjustments cannot be estimated and are charged to expense as invoiced. The District's insurance expense was $17,393 and $18,282 for the years ended June 30, 2017 and 2016, respectively, net of a refund from the District in the amount of $22,428 and $8,048. There were no instances in the past three years where a settlement exceeded the District's coverage.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the CalPERS financial office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at 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 | June 30, 2015 |
| Measurement Date | June 30, 2016 |
| Measurement Period | June 30, 2015 to June 30, 2016 |

**Fair Value Measurements**

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.

**Note 1 - Organization and Significant Accounting Policies: (Continued)**

**Significant Accounting Policies (Continued)**

**Fair Value Measurements (Continued)**

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.

- Level 3 inputs are unobservable inputs for the investment.

The District's statement of financial position includes the following financial instruments that are required to be measured at fair value on a recurring basis:

- U.S. Agency securities and certificates of deposit are considered Level 2 assets and are reported at the fair value reported by the counter-party.

- Investments in the California Local Agency Investment Fund (LAIF) are considered Level 2 assets and are reported at the fair value of the underlying assets as provided LAIF.

**Economic Dependency**

The District purchases approximately 77% of its water from the San Diego County Water Authority. Interruption of this source would impact the District negatively.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the District considers all investment instruments purchased with a maturity of three months or less to be cash.

**Subsequent Events**

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 5, 2017, the date the financial statements were available to be issued.

## Note 2 - Cash and Investments:

### Investment 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. The table also identifies certain provisions of the California Government Code that address interest rate risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District rather than the general provision of the California Government Code or the District's investment policy:

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Quality Requirements |
|---|---|---|---|
| Local Agency Bonds | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| State Obligations | 5 years | None | None |
| California Local Agency Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Bankers Acceptances * | 180 days | 40% | None |
| Commercial Paper * | 270 days | 25% | A1 |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Repurchase Agreements * | 1 year | None | None |
| Reverse Repurchase Agreements * | 92 days | 20% | None |
| Medium-Term Notes * | 5 years | 30% | A Rating |
| Mutual Funds | N/A | 20% | Multiple |
| Money Market Mutual Funds | N/A | 20% | Multiple |
| Collateralized Bank Deposits | 5 years | None | None |
| Mortgage Pass-Through Securities * | 5 years | 20% | AA Rating |
| Time Deposits | 5 years | None | None |
| California Local Agency Investment Fund (LAIF) | N/A | None | None |
| County Pooled Investment Funds | N/A | None | None |

* Requires consent of the Board of Directors before investing District funds.

The District's investment policy is more restrictive than the California Government Code. The District limits the percentage of its portfolio that can be invested in bankers acceptances, commercial paper, mutual funds, and money market mutual funds.

**Note 2 - Cash and Investments: (Continued)**

Cash and investments held by the District were comprised of the following at June 30:

| | Maturity in Years | | | |
|---|---|---|---|---|
| | One Year or Less | 1 - 5 Years | 2017 Total | 2016 Total |
| Cash on hand | $ 800 | $ - | $ 800 | $ 7,173 |
| California Local Agency Investment Fund (LAIF) | 201,727 | - | 201,727 | 200,233 |
| Deposits with financial institutions | 293,442 | - | 293,442 | 1,192,914 |
| U.S. Agency Securities | - | 6,131,206 | 6,131,206 | 4,841,219 |
| Certificates of Deposits | 627,461 | 13,275,541 | 13,903,002 | 13,693,431 |
| Total Cash and Investments | $ 1,123,430 | $ 19,406,747 | $ 20,530,177 | $ 19,934,970 |

| | 2017 | 2016 |
|---|---|---|
| Financial Statement Classification: | | |
| Cash and cash equivalents | $ 495,969 | $ 1,400,320 |
| Investments | 20,034,208 | 18,534,650 |
| Total Cash and Investments | $ 20,530,177 | $ 19,934,970 |

**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. The district manages its exposure to interest rate risk 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 over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided in the previous table that shows the distribution of the District's investments by maturity at June 30, 2017.

**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 actual rating as of the year for each investment type.

| | Rating as of Year End Standard & Poor's |
|---|---|
| California Local Agency Investment Fund (LAIF) | Not Rated |
| Certificates of Deposits | Not Rated |
| U.S. Agency Securities | AA+ and AAA |

## Note 2 - Cash and Investments: (Continued)

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude to the District's investment in a single issue.

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. At June 30, 2017, reportable investments representing more than 5% of the District's investment portfolio are as follows:

| | | |
|---|---|---|
| U.S. Agency Securities: | | |
| Fannie Mae | $ 2,821,925 | 14% |
| Federal Home Loan Bank | $ 1,665,000 | 9% |
| Federal Home Loan Mortgage Corporation | $ 1,230,638 | 7% |

### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District 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 counter-party (e.g., broker-dealer) the District 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 be 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, 2017, none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. The District's U.S. Agency Securities were held by the same broker dealer (counter party) that was used by the District to purchase the securities.

### Investment in State Investment Pool

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

## Note 2 - Cash and Investments: (Continued)

### Investment in State Investment Pool (Continued)

The statements of cash flows have been prepared by considering all investment instruments purchased with a maturity of three months or less to be cash equivalents. Following is a detail at June 30:

| | 2017 | 2016 |
|---|---|---|
| Deposits with financial institutions | $ 293,442 | $ 1,192,914 |
| California Local Agency Investment Fund (LAIF) | 201,727 | 200,233 |
| Cash on hand | 800 | 7,173 |
| | $ 495,969 | $ 1,400,320 |

## Note 3 - Capital Assets:

Capital assets consist of the following at June 30:

| | 2017 | | | |
|---|---|---|---|---|
| | Balance at June 30, 2016 | Additions | Deletions | Balance at June 30, 2017 |
| **Capital Assets Not Being Depreciated:** | | | | |
| Land | $ 138,659 | $ - | $ - | $ 138,659 |
| Construction in progress | 565,252 | 169,947 | (591,962) | 143,237 |
| Total Capital Assets not Being Depreciated | $ 703,911 | $ 169,947 | $ (591,962) | $ 281,896 |
| **Capital Assets Being Depreciated:** | | | | |
| Pumping plant and distribution | $ 25,511,703 | $ 641,981 | $ (6,029) | $ 26,147,655 |
| Building and land improvements | 612,015 | - | - | 612,015 |
| Water development and treatment plant | 2,109,903 | - | - | 2,109,903 |
| Equipment | 406,111 | 7,142 | - | 413,253 |
| Autos and trucks | 323,623 | 34,473 | (26,599) | 331,497 |
| Office equipment | 159,056 | 1,070 | (2,164) | 157,962 |
| Total Capital Assets Being Depreciated | 29,122,411 | 684,666 | (34,792) | 29,772,285 |
| Less: Accumulated depreciation | (12,794,883) | (654,691) | 34,792 | (13,414,782) |
| Net Capital Assets being Depreciated | 16,327,528 | 29,975 | - | 16,357,503 |
| **Net Capital Assets** | $ 17,031,439 | $ 199,922 | $ (591,962) | $ 16,639,399 |

## Note 3 - Capital Assets: (Continued)

| | 2016 | | | |
|---|---|---|---|---|
| | Balance at June 30, 2015 | Additions | Deletions | Balance at June 30, 2016 |
| **Capital Assets Not Being Depreciated:** | | | | |
| Land | $ 138,659 | $ - | $ - | $ 138,659 |
| Construction in progress | 857,345 | 745,150 | (1,037,243) | 565,252 |
| Total Capital Assets not Being Depreciated | $ 996,004 | $ 745,150 | $ (1,037,243) | $ 703,911 |
| **Capital Assets Being Depreciated:** | | | | |
| Pumping plant and distribution | $ 19,101,296 | $ 6,413,492 | $ (3,085) | $ 25,511,703 |
| Building and land improvements | 612,015 | - | - | 612,015 |
| Water development and treatment plant | 2,109,903 | - | - | 2,109,903 |
| Equipment | 406,111 | - | - | 406,111 |
| Autos and trucks | 304,504 | 50,615 | (31,496) | 323,623 |
| Office equipment | 148,940 | 10,116 | - | 159,056 |
| Total Capital Assets Being Depreciated | 22,682,769 | 6,474,223 | (34,581) | 29,122,411 |
| Less: Accumulated depreciation | (12,240,812) | (588,652) | 34,581 | (12,794,883) |
| Net Capital Assets being Depreciated | 10,441,957 | 5,885,571 | - | 16,327,528 |
| **Net Capital Assets** | $ 11,437,961 | $ 6,630,721 | $ (1,037,243) | $ 17,031,439 |

## Note 4 - Noncurrent Liabilities:

Noncurrent liabilities consist of the following at June 30:

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Balance at June 30, 2016 | Additions | Deletions | Balance at June 30, 2017 | Due Within One Year |
| Customer deposits | $ 269,640 | $ 102,456 | $ (61,625) | $ 310,471 | $ - |
| Compensated absences | 131,448 | 58,605 | (52,534) | 137,519 | 58,605 |
| Net pension liability | 1,371,972 | 666,247 | (217,425) | 1,820,794 | - |
| | $ 1,773,060 | $ 827,308 | $ (331,584) | $ 2,268,784 | $ 58,605 |

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Balance at June 30, 2015 | Additions | Deletions | Balance at June 30, 2016 | Due Within One Year |
| Customer deposits | $ 229,641 | $ 97,300 | $ (57,301) | $ 269,640 | $ - |
| Compensated absences | 127,414 | 123,877 | (119,843) | 131,448 | 94,489 |
| Net pension liability | 1,185,881 | 392,864 | (206,773) | 1,371,972 | - |
| | $ 1,542,936 | $ 614,041 | $ (383,917) | $ 1,773,060 | $ 94,489 |

## Note 5 - Postemployment Benefits:

### Plan Description

The Lakeside Water District administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides limited full coverage until age 65, and then provides lifetime annual limited payments to supplement government Medicare coverage for eligible retirees and their spouses through the District's group health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiations between the District and the bargaining units representing the employees. The Retiree Health Plan does not issue a publicly available financial report.

### Funding Policy and Annual OPEB Costs

Contribution requirements also are negotiated between the District and the bargaining units. The District contributes 100% of the employees and 50% of spouse's current-year premiums for eligible retired plan members and their spouses. District funded its annual required contribution through its net OPEB asset.

The District's annual other postemployment benefit (OPEB) cost (expense) for the Plan is calculated based on the annual required contribution of the District (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Cod. Sec. P50.132 "Postemployment Benefits Other Than Pension Benefits - Employer Reporting". 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 Board of Directors established a net OPEB asset in the amount of $287,436 during fiscal year 2010 and has been funding the ARC from that asset. The following table shows the components of the District's annual OPEB cost, the amount actually contributed to the plan, including benefits paid to retirees, and changes in the District's net OPEB obligation (asset) for the years ended June 30:

| | 2017 | 2016 |
|---|---|---|
| Annual required contribution | $ 14,631 | $ 14,631 |
| Interest on net OPEB obligation | - | - |
| Annual OPEB cost | 14,631 | 14,631 |
| Contributions made | - | - |
| Increase in net OPEB obligation (asset) | 14,631 | 14,631 |
| Net OPEB obligation (asset) at beginning of year | (153,752) | (168,383) |
| Net OPEB obligation (asset) at end of year | $ (139,121) | $ (153,752) |

## Note 5 - Postemployment Benefits: (Continued)

### Funding Policy and Annual OPEB Costs (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2017 and the five preceding fiscal years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation (Asset) |
|---|---|---|---|
| June 30, 2012 | $ 19,582 | 100% | $ (219,835) |
| June 30, 2013 | 18,394 | 100% | (201,441) |
| June 30, 2014 | 16,529 | 100% | (184,912) |
| June 30, 2015 | 16,529 | 100% | (168,383) |
| June 30, 2016 | 14,631 | 100% | (153,752) |
| June 30, 2017 | 14,631 | 100% | (139,121) |

### Funded Status and Funding Progress

The actuarial accrued liability for benefits was $150,270 and $150,270 at June 30, 2017 and 2016, respectively, all of which was funded. The covered payroll (annual payroll of active employees covered by the plan) was $688,888 and $609,854 for the years ended June 30, 2017 and 2016, respectively.

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

### Methods and Assumptions

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

## Note 5 - Postretirement Benefits: (Continued)

### Methods and Assumptions (Continued)

#### Retirement Age for Active Employees

Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 60, or at the first subsequent year in which the member would qualify for benefits.

#### Marital Status

Marital status of members at the calculation date was assumed to continue throughout retirement.

#### Mortality

Life expectancies were based on mortality tables from the National Center for Health Statistics. The United States Life Tables for Males and for Females were used.

#### Turnover

Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

#### Healthcare Cost Trend Rate

The expected rate of increase in healthcare insurance premiums was based on internal projections. A rate of 3.5% was used.

#### Health Insurance Premiums

For the year ended June 30, 2017, health insurance premiums were limited to $3,000 as a basis for calculating the present value of total benefits to be paid after employees reach the age of 65.

#### Inflation Rate

The expected long-term inflation assumption of 3.3% was based on recent experience.

## Note 5 - Postretirement Benefits: (Continued)

### Methods and Assumptions (Continued)

#### Payroll Growth Rate

The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the District's investment portfolio, a discount rate of 6.73% was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2010, was thirty years.

## Note 6 - Defined Benefit Pension Plan:

### General Information About the Pension Plan

**Plan Description -** All qualified permanent and probationary employees are eligible to participate in the Miscellaneous Plan of the Lakeside Water District, (All Plans) a cost-sharing multiple employer defined benefit pension plan 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 plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**Benefits Provided -** CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The Plan's provisions and benefits in effect at June 30, 2017, are summarized as follows:

| | Miscellaneous | |
|---|---|---|
| | Prior to January 1, 2013 | On or After January 1, 2013 |
| Benefit formula | 3.0% @ 60 | 1.5% @ 65 |
| Benefit vesting schedule | 5 years service | 5 years service |
| Benefit payments | Monthly for life | Monthly for life |
| Retirement age | 50 | 52 - 67 |
| Monthly benefits, as a % of eligible compensation | 2.0% to 2.5% | 1.0% to 2.5% |
| Required employee contribution rates | 8.00% | 4.0% |
| Required employer contribution rates | 11.995% | 4.134% |

## Note 6 - Defined Benefit Pension Plan: (Continued)

### General Information About the 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 process. The Plans 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, 2016 (measurement date), the active employee contribution rate for employees hired prior to January 1, 2013 is 8.0% of annual payroll and the employer's contribution rate is 11.995% of annual payroll. The active employee contribution rate for those employees hired on or after January 1, 2013 is 4.0% of annual pay, and the average employer contribution rate is 4.134% of annual payroll. 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 contribution to the Plan for the year ended June 30, 2017 were as follows:

| | |
|---|---|
| Contributions - Employer | $ 159,865 |
| Contributions - Employee (Paid by Employer) | $ - |

### Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability determined in the June 30, 2015 actuarial valuation. The June 30, 2016 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 |
| 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 |

**Note 6 - Defined Benefit Pension Plan: (Continued)**

**Actuarial Methods and Assumptions Used to Determine Total Pension Liability (Continued)**

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

**Change of Assumptions**

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% (net of administrative expense in 2014) to 7.65% as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.65%. 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% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained on 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 on 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 the set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

**Note 6 - Defined Benefit Pension Plan: (Continued)**

**Discount Rate (Continued)**

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

| Asset Class | Current Strategic Allocation | Real Return Years 1 - 10 | Real Return Years 11 + |
|---|---|---|---|
| Growth | 61.0% | 5.4% | 7.2% |
| Income | 20.0 | 7.1 | 7.2 |
| Real assets | 12.0 | (0.1) | 7.3 |
| Liquidity | 1.0 | 1.7 | 3.0 |
| Inflation | 6.0 | N/A | N/A |
| | 100.0% | | |

**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.

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Pension (b) | Net Pension Liability (c) = (a) - (b) |
| Balance at June 30, 2015 | $ 7,349,646 | $ 5,977,674 | $ 1,371,972 |
| Balance at June 20, 2016 | 7,659,392 | 5,838,598 | 1,820,794 |
| Net Changes During 2015 - 2016 | $ 309,746 | $ (139,076) | $ 448,822 |

The net pension liability of the plan is measured as of June 30, 2016, and the total pension liability for the plan used to calculate the net pension liabilities was determined by an actuarial valuation of June 30, 2015 rolled forward to June 30, 2016 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 plan as of June 30, 2015 and 2016 was as follows:

| | Miscellaneous |
|---|---|
| Proportion - June 30, 2015 | 0.053885% |
| Proportion - June 30, 2016 | 0.053200% |
| Change - Increase (Decrease) | (0.00685%) |

**Note 6 - Defined Benefit Pension Plan: (Continued)**

**Sensitivity of the 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%, 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%) or 1 percentage-point higher (8.65%) than the current rate:

| | Discount Rate -1% (6.65%) | Current Discount Rate (7.65%) | Discount Rate +1% (8.65%) |
|---|---|---|---|
| Plan's Net Pension Liability | $ 2,851,987 | $ 1,820,794 | $ 968,564 |

**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 investment | 5 year straight-line amortization |
| All other amounts | Straight-line amortization over the expected remaining service lifetime (EARSL) of all members that are provided with pensions (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.

**Note 6 - Defined Benefit Pension Plan: (Continued)**

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

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, 2016 measurement date is 3.7 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 years ended June 30, 2017 and 2016, the District recognized a pension expense of $233,086 and $120,632 for the Plan respectively. As of June 30, 2017 and 2016, the District reports deferred outflows of resources and deferred inflows of resources related to pensions as follows:

| | 2017 | |
|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Pension contributions subsequent to the measurement date | $ 159,865 | $ - |
| Differences between actual contributions made and proportionate share of contributions | - | 115,992 |
| Differences between expected and actual experience | 3,939 | - |
| Changes of assumptions | - | 48,342 |
| Net difference between projected and actual earnings on pension plan investments | 251,603 | - |
| Adjustment due to difference in proportions | 15,952 | - |
| Total | $ 431,359 | $ 164,334 |

| | 2016 | |
|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Pension contributions subsequent to the measurement date | $ 142,970 | $ - |
| Differences between actual contributions made and proportionate share of contributions | - | 105,270 |
| Differences between expected and actual experience | 6,623 | - |
| Changes of assumptions | - | 62,663 |
| Net difference between projected and actual earnings on pension plan investments | - | 31,414 |
| Adjustment due to difference in proportions | - | 58,822 |
| Total | $ 149,593 | $ 258,169 |

## Note 6 - Defined Benefit Pension Plan: (Continued)

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

The $159,865 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources in the previous chart will be recognized in future pension expense as follows:

| Measurement Period Ended June 30 | Deferred Outflows/(Inflows) of Resources |
|---|---|
| 2018 | $ 23,862 |
| 2019 | 23,862 |
| 2020 | 23,862 |
| 2021 | 35,574 |
| Total | $ 107,160 |

## Note 7 - Commitments and Contingencies:

### Contracts

The Lakeside Water District has entered into various contracts for the purchase of material and construction of capital assets. The amounts contracted are based on the contractor's estimated cost of construction. At June 30, 2017, the total unpaid amount on these contracts is approximately $71,136.

### Litigation

Legal claims and lawsuits arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Lakeside Water District's financial position.

## Note 8 - New Governmental Accounting Standards:

### GASB No. 73

In June 2015, The Governmental Accounting Standards Board issued Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." The requirements of this statement addressing accounting and financial reporting for employers that are not within the scope of GASB 68 are effective for financial statements for fiscal years beginning after June 15, 2016. All other provisions are effective for periods beginning after June 15, 2015. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

### GASB No. 74

In June 2015, the Governmental Accounting Standards Board issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans." This pronouncement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

### GASB No. 75

In June 2015, the Government Accounting Standards Board issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension". This Statement is effective for financial statements for fiscal years beginning after June 15, 2017. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

### GASB No. 77

In August 2015, the Governmental Accounting Standards Board issued Statement No. 77, "Tax Abatement Disclosures". The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

### GASB No. 78

In December 2015, the Governmental Accounting Standards Board issued Statement No. 78, "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plan". The requirements of this Pronouncement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

**Note 8 - New Governmental Accounting Standards: (Continued)**

**GASB No. 80**

In January 2016, the Government Accounting Standards Board issued Statement No. 80, “Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14”. The requirements of this pronouncement are effective for reporting period beginning after June 15, 2016. Earlier application is encouraged. This pronouncement did not have a material effect on the financial statements of the District in the year of implementation.

**GASB No. 81**

In March 2016, the Governmental Accounting Standards Board issued Statement No. 81, “Irrevocable Split-Interest Agreements”. The requirements of this Pronouncement are effective for financial statements for period beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

**GASB No. 82**

In March 2016, the Governmental Accounting Standards Board issued Statement No. 82, “Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73”. The requirements of this Pronouncement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged. The District has not yet determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

**GASB No. 83**

In November 2016, the Governmental Accounting Standards Board issued Statement No. 83 “ Certain Asset Retirement Obligations”. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier Application is encouraged. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

**GASB No. 84**

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84 “Fiduciary Activities”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier Application is encouraged. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

**Note 8 - New Governmental Accounting Standards: (Continued)**

**GASB No. 85**

In March 2017, the Governmental Accounting Standards Board issued Statement No. 85 “Omnibus 2017”. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

**GASB No. 86**

In May 2017, the Governmental Accounting Standards Board issued Statement No. 86 “Certain Debt Extinguishment Issues”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2017. Earlier Application is encouraged. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

**GASB No. 87**

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87 “Leases”. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The District has not determined the effects of this pronouncement on the financial statements of the District in the year of implementation.

# LAKESIDE WATER DISRICT
# REQUIRED SUPPLEMENTARY INFORMATION
# SCHEDULE OF FUNDING PROGRESS
# FOR THE RETIREE HEALTH PLAN
# JUNE 30, 2017

| Actuarial Valuation Date | Actuarial Value of Assets | Total OPEB Liability (TOL) Simplified Entry Age | Net OPEB Liability (NOL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| June 30, 2010 | $ 287,436 | $ 287,436 | $ - | 100% | $ 653,279 | - |
| June 30, 2011 | 356,382 | 194,443 | - | 100% | 716,375 | - |
| June 30, 2012 | 353,824 | 194,443 | - | 100% | 734,732 | - |
| June 30, 2013 | 384,634 | 181,034 | - | 100% | 587,309 | - |
| June 30, 2014 | 377,643 | 171,033 | - | 100% | 675,886 | - |
| June 30, 2015 | 428,320 | 171,033 | - | 100% | 568,988 | - |
| June 30, 2016 | 421,894 | 150,270 | - | 100% | 609,854 | - |
| June 30, 2017 | 460,016 | 150,270 | - | 100% | 688,888 | - |

**LAKESIDE WATER DISRICT**
**REQUIRED SUPPLEMENTARY INFORMATION**
**FOR THE YEAR ENDED JUNE 30, 2017**

**SCHEDULES OF PLAN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**
**LAST TEN YEARS ***

| | Measurement Date June 30, 2016 | Measurement Date June 30, 2015 | Measurement Date June 30, 2014 |
|---|---|---|---|
| Proportion of the Collective Net Pension Liability | 0.053200% | 0.0500009% | 0.047982% |
| Proportionate Share of the Collective Net Pension Liability | $ 1,820,794 | $ 1,371,972 | $ 1,185,881 |
| Covered-Employee Payroll | $ 753,349 | $ 702,446 | $ 650,738 |
| Proportionate Share of the Collective Net Pension Liability as Percentage of Covered-Employee Payroll | 241.69% | 195.31% | 182.24% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 76.23% | 81.33% | 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 changes 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 three years are shown.

**LAKESIDE WATER DISRICT**
**REQUIRED SUPPLEMENTARY INFORMATION**
**FOR THE YEAR ENDED JUNE 30, 2017**

**SCHEDULES OF PLAN CONTRIBUTIONS**
**LAST TEN YEARS ***

| | Fiscal Year 2016 - 2017 | Fiscal Year 2015 - 2016 | Fiscal Year 2014 - 2015 |
|---|---|---|---|
| Actuarial Determined Contribution | $ 159,865 | $ 142,970 | $ 105,043 |
| Contributions in Relation to the Actuarially Determined Contribution | 159,865 | 142,970 | 105,043 |
| Contribution Deficiency (Excess) | $ - | $ - | $ - |
| Covered Payroll | $ 781,134 | $ 753,349 | $ 702,466 |
| Contributions as a Percentage of Covered-Employee Payroll | 20.47% | 18.98% | 14.95% |

**Notes to Schedule:**

| | | | |
|---|---|---|---|
| Fiscal Year End | June 30, 2017 | June 30, 2016 | June 30, 2015 |
| Valuation Date | June 30, 2014 | June 30, 2013 | June 30, 2012 |

Methods and assumptions used to determine contribution rates:

| | | | |
|---|---|---|---|
| Actuarial Cost Method | Entry Age | Entry Age | Entry Age |
| Amortization Method | Level Percent of Payroll | Level Percent of Payroll | Level Percent of Payroll |
| Asset Valuation Method | Market Value | Market Value | Market Value |
| Discount Rate | 7.65% | 7.65% | 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 | 3.30% to 14.20% depending on Age, Service, and type of employment |
| Inflation | 2.75% | 2.75% | 2.75% |
| Payroll Growth | 3.00% | 3.00% | 3.00% |
| Individual Salary Growth | A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25% | A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25% | A merit scale varying by duration of employment coupled with an assumed annual production inflation growth of 0.25% |

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