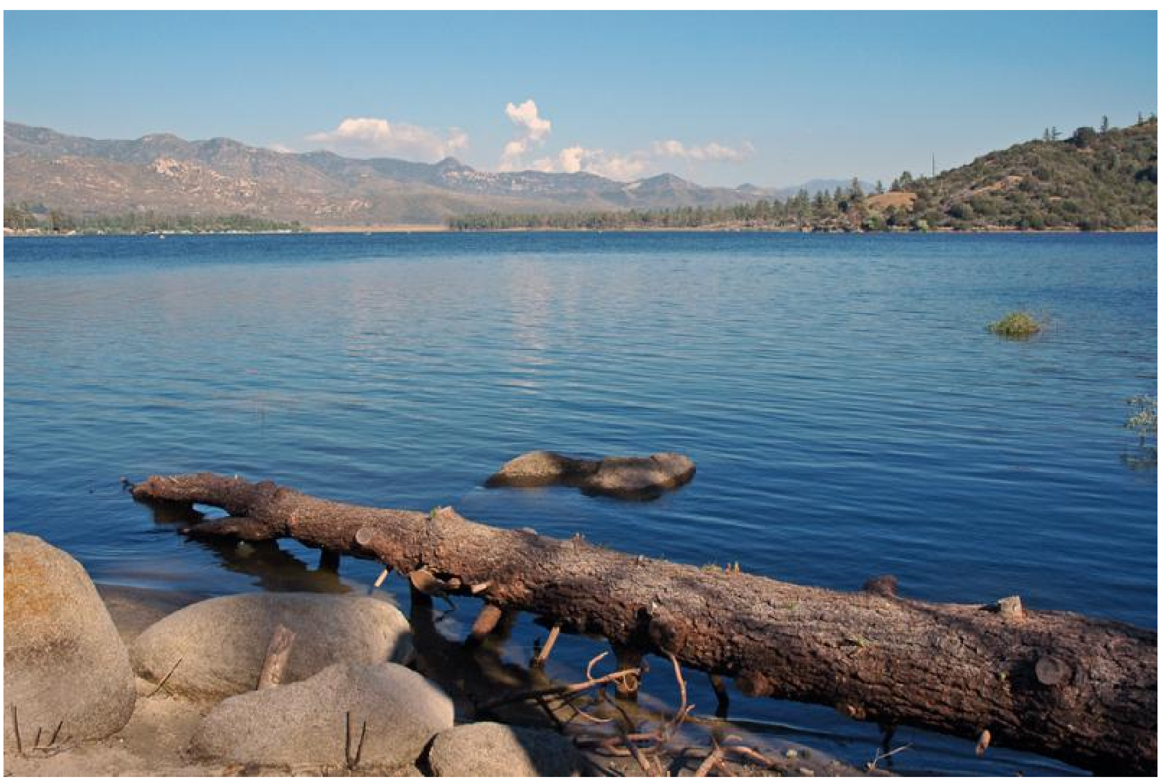
Lake Hemet Municipal Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2016 and 2015



Hemet, California

Mission Statement

The mission of the Lake Hemet Municipal Water District is to produce and deliver high-quality water to our customers for domestic and agricultural uses, to provide sewer collection services and to maintain Lake Hemet as a clean and safe water reservoir and recreational facility in an economical, efficient and responsible manner, now and into the future.

Board of Directors as of June 30, 2016

Name		Title	Elected/ Appointed	Current Term
Frank D. Gorman	Division II	President	Elected	01/2013 - 12/2016
Larry Minor	Division IV	Vice-President	Elected	01/2015 - 12/2018
Todd A Foutz	Division III	Secretary/Treasurer	Elected	01/2015 - 12/2018
Cornelius T. Schouten	Division I	Director	Elected	01/2015 - 12/2018
Rick Hoffman	Division V	Director	Elected	01/2013 - 12/2016

Thomas W. Wagoner, General Manager
Lake Hemet Municipal Water District
26385 Fairview Avenue
Hemet, California 92544
(951) 658-3241 – www.lhmwd.org

Lake Hemet Municipal Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2016 and 2015

Lake Hemet Municipal Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2016 and 2015

Table of Contents

Introductory Section

Mailing Address: P.O. Box 5039, Hemet, CA 92544-0039
26385 Fairview Avenue, Hemet, CA
Phone: 951/658-3241 Fax 951/766-7031
www.lhmwd.org

November 14, 2016

Board of Directors
Lake Hemet Municipal Water District

Introduction

It is our pleasure to submit the Annual Financial Report for the Lake Hemet Municipal Water District (District) for the fiscal years ended June 30, 2016 and 2015, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. The report is designed in a manner that we believe to be necessary to enhance the understanding of the District's financial position and activities.

This report is organized into two sections: (1) Introductory and (2) Financial. The Introductory section offers general information about the District's organization and current District activities and reports on a summary of significant financial results. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis of the District's basic financial statements, the District's audited basic financial statements with accompanying Notes, and Supplemental Information.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditor's Report.

District Structure and Leadership

The Lake Hemet Municipal Water District is an independent special district, which was organized under the provisions of the Municipal Water District Act of 1911, as amended, and was incorporated on August 4, 1955. The District was created for the purpose of importing and delivering water to retail customers within its service area. The District is governed by a five-member Board of Directors, elected at-large from within the District's service area. The District General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The Lake Hemet Municipal Water District employs a full-time staff of 53 employees.

District Structure and Leadership, continued

The District's Board of Directors meets on the 3rd Thursday of each of each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District is located in Riverside County, California and covers an area of approximately 26 square miles, providing water distribution and sewage collection within its boundaries to the communities of Hemet, San Jacinto, and adjacent unincorporated areas of Riverside County. The customer base is approximately 95% residential, 1% agricultural and 4% commercial. The District currently provides water to over 14,180 connections and receives its water supply from four sources 1) local ground water, 2) Lake Hemet, 3) stream flow when available, 4) Eastern Municipal Water District who in turn purchases from Metropolitan Water District, and 5) leased ground water wells.

Economic Condition and Outlook

The District's administrative office is located in the unincorporated area of Riverside County, Valle Vista. The inland area has witnessed a slow economic recovery after several years of severe recessionary pressures.

California's water supply continues to be a concern due to projected population increases and a decrease in water supply levels. This concern has increased interest in conservation and in irrigation methods and systems.

Major Initiatives

The activities of the Board and staff of the District are driven by its Mission Statement: "The mission of the Lake Hemet Municipal Water District is to produce and deliver high-quality water to our customers for domestic and agricultural uses, to provide sewer collection services and to maintain Lake Hemet as a clean and safe water reservoir and recreational facility in an economical, efficient, and responsible manner, now and into the future."

1. To supply clean, wholesome water to the community and provide water for the future.
2. To plan, construct, operate, maintain, and upgrade the water and wastewater systems facilities to adequately serve customer needs.
3. To utilize the District's financial resources in an effective, responsible, and prudent manner.
4. To provide quality customer service for District customers.
5. To inform, educate, and communicate with the community on District and water issues.
6. To review and maintain a plan to be proactive in preventative maintenance of the District's water and sewer systems.

All programs and operations of the District are developed and performed to provide the highest level of services to its customers.

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft, or misuse. The internal control structure also ensures that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The District Board of Directors adopts an operating and capital budget every year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity, and yield.

Water and Sewer Rates and District Revenues

District policy direction ensures that all revenues from user charges and surcharges generated from District customers must support all District operations including capital project funding. Accordingly, water and sewer rates are reviewed periodically. Water and wastewater rates are user charges imposed on customers for services and are the primary component of the District's revenue. Water rates are composed of a commodity (usage) charge and a fixed (readiness-to-serve) charge. Wastewater rates are a flat charge to all residential dwelling units.

Audit and Financial Reporting

State Law and Bond covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Fedak & Brown LLP has conducted the audit of the District's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.

Other References

More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

Acknowledgements

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board of Directors and especially the Finance Committee members for their continued support in planning and implementation of the Lake Hemet Municipal Water District's fiscal policies.

Respectfully submitted,

Thomas W. Wagoner	LeAnn Markham
General Manager	Administrative Services Manager

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Financial Section

Fedak & Brown LLP
Certified Public Accountants

Charles Z. Fedak, CPA, MBA
Christopher J. Brown, CPA, CGMA
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(951) 977-9888

Independent Auditor's Report

Board of Directors
Lake Hemet Municipal Water District
Hemet, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Lake Hemet Municipal Water District (District), which comprises the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position for the fiscal years then ended, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the of the Lake Hemet Municipal Water District, as of June 30, 2016 and 2015, and the respective changes in net position, and, where applicable, cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Emphasis of matter

As described in note 1 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72 – *Fair Value Measurement and Application*, GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*, for the year ended June 30, 2016, GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, for the year ended June 30, 2015. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 12 and the required supplementary information on pages 46 to 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section on pages 1 through 3, and the supplemental information schedules on pages 49 through 51, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information schedules are fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 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 the District's internal control over financial reporting and compliance. This report can be found on pages 52 and 53.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
November 14, 2016

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The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Lake Hemet Municipal Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2016 and 2015. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section that we have furnished in the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- In fiscal year 2016, the District's net position increased by 1.50% or $803,123 to $54,387,808, as a result of ongoing operations.
- In fiscal year 2015, the District's net position decreased 8.06% or $4,700,379 to $53,584,685, which is comprised of a decrease from operations of $64,176 and a decrease from prior period adjustment in the amount of $5,500,581, which was offset by an increase to record accounts receivable from water sales of $864,378. Please see note 12 to the basic financial statements for further discussion.
- In fiscal year 2016, the District's total revenues increased 14.55% or $2,344,304 to $18,457,791. Total operating revenue increased 14.86% or $2,130,274 to $16,466,372, primarily due to increase in water sales. Total non-operating revenue increased 12.04% or $214,030 to $1,991,419, primarily due to increase in property taxes, investment earnings and increase in earnings from Lake Hemet Campground operations.
- In fiscal year 2015, the District's total revenues decreased 0.03% or $4,501 to $16,113,487. Total operating revenue decreased 1.4% or $202,820 to $14,336,098 primarily due to decrease in water sales. Total non-operating revenue increased 12.56% or $198,319 to $1,777,389, primarily due to increase in property taxes and increase in earnings from Lake Hemet Campground operations.
- In fiscal year 2016, the District's total expenses increased 9.54% or $1,548,664 to $17,776,191, primarily due to a $1,673,996 increase in operating expense consisting of water purchases for resale. The increase in operating expense was offset by a decrease in interest expense of $33,170, decrease in loss on disposal of assets of $14,106 and decrease in revenue from electric capacity rebates of $46,605.
- In fiscal year 2015, the District's total expenses decreased 1.17% or $192,797 to $16,227,527, primarily due to a $447,870 decrease in non-operating expense consisting of asset disposal and interest expense, where loss on disposal of assets amounted to $14,106 and $419,855 in 2015 and 2014, respectively. The decrease in non-operating expense was offset by an increase in water supply costs of $138,074 and increase in depreciation expense of $116,999.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statement of Net Position includes all of the District's investments in resources (assets), deferred outflows of resources, and the obligations to creditors (liabilities), and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

Required Financial Statements, continued

All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows, liabilities, and deferred inflows using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. You can think of the District's net position – the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 18 through 45.

Statements of Net Position

Condensed Statements of Net Position

	2016	2015	Change
Assets:			
Current assets	$ 23,596,897	22,591,739	1,005,158
Non-current assets	270,000	275,000	(5,000)
Capital assets, net	56,746,602	57,294,857	(548,255)
Total assets	80,613,499	80,161,596	451,903
Deferred outflows of resources	717,150	703,350	13,800
Liabilities:			
Current liabilities	3,965,377	3,003,658	961,719
Non-current liabilities	22,583,264	22,786,546	(203,282)
Total liabilities	26,548,641	25,790,204	758,437
Deferred inflows of resources	394,200	1,490,057	(1,095,857)
Net position:			
Net investment in capital assets	39,469,817	39,102,350	367,467
Restricted	2,314,577	3,109,155	(794,578)
Unrestricted	12,603,414	11,373,180	1,230,234
Total net position	$ 54,387,808	53,584,685	803,123

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets plus deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by $54,387,808 and $53,584,685 as of June 30, 2016 and 2015. Compared to prior year, net position of the District increased 1.50% or $803,123. The District's total net position is made up of three components: (1) net investment of capital assets; (2) restricted net position; (3) unrestricted net position.

By far the largest portion of the District's net position (72.57% and 72.97% as of June 30, 2016 and 2015) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

At the end of fiscal year 2016 and 2015, the District showed a positive balance in its unrestricted net position of $12,603,414 and $11,373,180, respectively, which may be utilized in future years. See note 14 for further information.

Statements of Revenues, Expenses and Changes in Net Position

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

	2016	2015	Change
Revenue:			
Operating revenues	$ 16,466,372	14,336,098	2,130,274
Non-operating revenue	1,991,419	1,777,389	214,030
Total revenue	18,457,791	16,113,487	2,344,304
Expense:			
Operating expense	13,735,298	12,061,302	1,673,996
Depreciation and amortization	3,192,673	3,224,975	(32,302)
Non-operating expense	848,220	941,250	(93,030)
Total expense	17,776,191	16,227,527	1,548,664
Net loss before capital contributions	681,600	(114,040)	795,640
Capital contributions	121,523	49,864	71,659
Change in net position	803,123	(64,176)	867,299
Net position – beginning of period, as previously stated	53,584,685	58,285,064	(4,700,379)
Prior period adjustment (note 12)	-	(4,636,203)	4,636,203
Net position – beginning of period, as restated	53,584,685	53,648,861	(64,176)
Net position – end of period	$ 54,387,808	53,584,685	803,123

In fiscal year 2016, the District's net position increased by 1.50% or $803,123 to $54,387,808, as a result of ongoing operations.

In fiscal year 2015, the District's net position decreased 8.06% or $4,700,379 to $53,584,685, which is comprised of a decrease from operations of $64,176 and a decrease from prior period adjustment in the amount of $5,500,581, which was offset by an increase to record accounts receivable from water sales of $864,378. Please see note 12 to the basic financial statements for further discussion.

In fiscal year 2016, the District's total revenues increased 14.55% or $2,344,304 to $18,457,791. Total operating revenue increased 14.86% or $2,130,274 to $16,466,372, primarily due to increase in water sales. Total non-operating revenue increased 12.04% or $214,030 to $1,991,419, primarily due to increase in property taxes, investment earnings and increase in earnings from Lake Hemet Campground operations.

In fiscal year 2015, the District's total revenues decreased 0.03% or $4,501 to $16,113,487. Total operating revenue decreased 1.4% or $202,820 to $14,336,098 primarily due to decrease in water sales. Total non-operating revenue increased 12.56% or $198,319 to $1,777,389, primarily due to increase in property taxes and increase in earnings from Lake Hemet Campground operations.

In fiscal year 2016, the District's total expenses increased 9.54% or $1,548,664 to $17,776,191, primarily due to a $1,673,996 increase in operating expense consisting of water purchases for resale. The increase in operating expense was offset by a decrease in interest expense of $33,170, decrease in loss on disposal of assets of $14,106 and decrease in revenue from electric capacity rebates of $46,605.

Statements of Revenues, Expenses and Changes in Net Position, continued

In fiscal year 2015, the District's total expenses decreased 1.17% or $192,797 to $16,227,527, primarily due to a $447,870 decrease in non-operating expense consisting of asset disposal and interest expense, where loss on disposal of assets amounted to $14,106 and $419,855 in 2015 and 2014, respectively. The decrease in non-operating expense was offset by an increase in water supply costs of $138,074 and increase in depreciation expense of $116,999.

Capital Asset Administration

At the end of fiscal year 2016 and 2015, the District's investment in capital assets (net of accumulated depreciation) amounted to $56,746,602 and $57,294,857, respectively. This investment in capital assets includes land, transmission and distribution systems, collection systems, buildings and structures, equipment, and vehicles, etc. Major capital assets additions during the year included upgrades to the District's water operations production; fire hydrants, services and meters; distribution and transmission systems; pumping and purification and general equipment.

Changes in capital asset amounts for 2016 were as follows:

		Balance 2015	Additions	Transfers/ Deletions	Balance 2016
Non-depreciable assets	$	1,013,514	1,393,433	(1,513,638)	893,309
Depreciable assets		102,549,225	2,741,523	(1,030,262)	104,260,486
Accumulated depreciation		(46,267,882)	(3,192,673)	1,053,362	(48,407,193)
Total capital assets, net	$	57,294,857			56,746,602

Changes in capital asset amounts for 2015 were as follows:

		Balance 2014	Additions	Transfers/ Deletions	Balance 2015
Non-depreciable assets	$	748,248	265,266	-	1,013,514
Depreciable assets		101,203,701	1,491,075	(145,551)	102,549,225
Accumulated depreciation		(43,174,866)	(3,224,975)	131,959	(46,267,882)
Total capital assets, net	$	58,777,083			57,294,857

(See note 5 for further discussion)

Debt Administration

Changes in long-term debt amounts for 2016 were as follows:

		Balance 2015	Additions	Principal Payments	Balance 2016
Notes payable	$	7,869,947	-	(497,084)	7,372,863
Loan payable		2,200,818	-	(208,787)	1,992,031
Bond payable		1,365,000	-	(60,000)	1,305,000
Certificates of Participation payable		7,265,000	-	(150,000)	7,115,000
Total long-term debt	$	18,700,765	-	(915,871)	17,784,894

Debt Administration

Changes in long-term debt amounts for 2015 were as follows:

	Balance 2014	Additions	Principal Payments	Balance 2015
Notes payable	$ 8,346,217	-	(476,270)	7,869,947
Loan payable	2,404,781	-	(203,963)	2,200,818
Bond payable	1,425,000	-	(60,000)	1,365,000
Certificates of Participation payable	7,410,000	-	(145,000)	7,265,000
Total long-term debt	$ 19,585,998	-	(885,233)	18,700,765

(See note 8 for further discussion)

Conditions Affecting Current Financial Position

Management is unaware of any conditions that would have a significant impact on the District's financial position, net position, or operating results in terms of past, present and future.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the General Manager, Thomas Wagoner at Lake Hemet Municipal Water District, 26385 Fairview Avenue Hemet, California 92544 or (951) 658-3241.

Basic Financial Statements

Lake Hemet Municipal Water District
Statements of Net Position
June 30, 2016 and 2015

		2016	As Restated 2015
Current assets:			
Cash and cash equivalents (note 2)	$	9,421,501	10,506,042
Cash and cash equivalents – restricted (note 2)		5,779,782	3,888,031
Investments (note 2)		5,337,351	5,257,074
Accrued interest receivable		11,500	7,187
Accounts receivable – water sales, net		2,497,048	2,133,233
Property taxes and assessments receivable		66,627	63,124
Property taxes and assessments receivable – restricted		8,948	5,250
Note receivable – restricted (note 3)		5,000	5,000
Materials and supplies inventory		335,098	366,379
Prepaid expenses and other assets		134,042	360,419
Total current assets		23,596,897	22,591,739
Non-current assets:			
Note receivable – restricted (note 3)		270,000	275,000
Capital assets – not being depreciated (note 5)		893,309	1,013,514
Depreciable capital assets, net (note 5)		55,853,293	56,281,343
Total non-current assets		57,016,602	57,569,857
Total assets		80,613,499	80,161,596
Deferred outflows of resources			
Deferred outflows - pensions (note 4 and 10)		717,150	703,350
Total deferred outflows of resources	$	717,150	703,350

Continued on next page

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Statements of Net Position, continued
June 30, 2016 and 2015

		2016	As Restated 2015
Current liabilities:			
Accounts payable and accrued expenses	$	2,029,390	1,151,121
Accrued salaries and related payables		177,444	174,363
Customer deposits		439,515	345,689
Accrued interest payable – restricted		177,815	186,277
Long-term liabilities – due within one year:			
Compensated absences (note 7)		188,377	230,337
Notes payable (note 8)		518,810	497,084
Loan payable (note 8)		214,026	208,787
Bonds payable (note 8)		65,000	60,000
Certificates of Participation (note 8)		155,000	150,000
Total current liabilities		3,965,377	3,003,658
Non-current liabilities:			
Unearned revenue – construction deposits		51,735	90,878
Long-term liabilities – due in more than one year:			
Compensated absences (note 7)		282,566	345,505
Other post-employment benefits payable (note 9)		97,919	100,838
Notes payable (note 8)		6,854,053	7,372,863
Loan payable (note 8)		1,778,005	1,992,031
Bonds payable (note 8)		1,240,000	1,305,000
Certificates of Participation (note 8)		6,960,000	7,115,000
Net pension liability (note 10)		5,318,986	4,464,431
Total non-current liabilities		22,583,264	22,786,546
Total liabilities		26,548,641	25,790,204
Deferred inflows of resources			
Deferred inflows - pensions (note 6 and 10)		394,200	1,490,057
Total deferred inflows of resources		394,200	1,490,057
Net position: (note 14)			
Net investment in capital assets		39,469,817	39,102,350
Restricted for capital projects		1,675,168	2,469,610
Restricted for debt service		639,409	639,545
Unrestricted		12,603,414	11,373,180
Total net position	$	54,387,808	53,584,685

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2016 and 2015

		2016	As Restated 2015
Operating revenues:			
Water consumption sales:			
Residential and commercial	$	11,015,905	9,679,069
Irrigation		2,935,912	2,250,627
Surcharges and assessments – water		1,322,341	1,210,016
Other charges		461,117	463,348
Sewer services		731,097	733,038
Total operating revenues		16,466,372	14,336,098
Operating expenses:			
Source of supply		5,709,837	3,351,488
Pumping		1,076,394	1,421,201
Treatment		322,747	400,422
Transmission and distribution		1,333,058	1,445,151
Customer accounts		163,933	166,809
Sewer		223,968	210,678
General and administrative		4,905,361	5,065,553
Total operating expenses		13,735,298	12,061,302
Operating income before depreciation expense		2,731,074	2,274,796
Depreciation expense		(3,192,673)	(3,224,975)
Operating loss		(461,599)	(950,179)
Non-operating revenue (expense):			
Property taxes		1,518,239	1,429,367
Net income from Lake Hemet Campground operations		238,071	212,560
Rental income, net		86,107	87,243
Investment earnings		117,518	48,219
Interest expense		(848,220)	(881,390)
Gain (loss) on disposal of assets		2,681	(14,106)
Other non-operating income (expense), net		28,803	(45,754)
Total non-operating revenues, net		1,143,199	836,139
Net income before capital contributions		681,600	(114,040)
Capital contibutions:			
Donations in aid of constructon		101,240	34,188
Connection fees		20,283	15,676
Total contributed capital		121,523	49,864
Change in net assets		803,123	(64,176)
Net position, beginning of period, as restated as previously stated		53,584,685	58,285,064
Prior period adjustment (note 12)		-	(4,636,203)
Net position, beginning of period, as restated		53,584,685	53,648,861
Net position, end of period	$	54,387,808	53,584,685

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2016 and 2015

		2016	As Restated 2015
Cash flows from operating activities:			
Cash receipts from customers	$	15,238,179	14,090,784
Cash paid to employees for salaries and wages		(4,602,474)	(4,058,258)
Cash paid to vendors and suppliers		(8,488,573)	(8,521,099)
Net cash provided by operating activities		2,147,132	1,511,427
Cash flows from non-capital financing activities:			
Property tax revenue		1,367,005	1,278,786
Net income from Lake Hemet Campground operations		238,071	212,560
Rental income, net		86,107	87,243
Net cash provided by non-capital financing activities		1,691,183	1,578,589
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(1,591,056)	(1,770,960)
Proceeds from capital contributions		121,523	49,864
Proceeds from Beaumont concrete settlement		5,000	5,000
Principal payments on notes payable		(497,084)	(476,270)
Principal payments on loans payable		(208,787)	(203,964)
Proceeds from bond tax levy		144,033	146,308
Principal payments on bonds payable		(60,000)	(60,000)
Principal payments on certificates of participation		(150,000)	(145,000)
Interest paid on long-term debt		(856,682)	(889,502)
Net cash used in capital and related financing activities		(3,093,053)	(3,344,524)
Cash flows from investing activities:			
Purchase of investments		(51,257)	(5,261,901)
Investment earnings		113,205	42,564
Net cash provided by investing activities		61,948	(5,219,337)
Net increase (decrease) in cash and cash equivalents		807,210	(5,473,845)
Cash and cash equivalents, beginning of year		14,394,073	19,867,918
Cash and cash equivalents, end of year	$	15,201,283	14,394,073

Reconciliation of cash and cash equivalents to statements of financial position:

		2016	2015
Cash and cash equivalents	$	9,421,501	10,506,042
Cash and cash equivalents – restricted		5,779,782	3,888,031
Total cash and cash equivalents	$	15,201,283	14,394,073

Continued on next page

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Statement of Cash Flows, continued
For the Fiscal Years Ended June 30, 2016 and 2015

		2016	As Restated 2015
Reconciliation of operating income to net cash provided by operating activities:			
Operating loss	$	(461,599)	(950,179)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation and amortization		3,192,673	3,224,975
(Gain) loss on disposal of assets		(2,681)	14,106
Non-operating income, net		(183,839)	(40,927)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:			
(Increase) decrease in assets and deferred outflows of resources:			
Accounts receivable – water sales, net		(1,228,193)	(245,314)
Materials and supplies inventory		31,281	49,882
Prepaid expenses and other assets		226,377	(120,919)
Deferred outflows of resources		(13,800)	(116,738)
Increase (decrease) in liabilities and deferred inflows of resources:			
Accounts payable and accrued expenses		878,269	(138,994)
Accrued salaries and related payables		3,081	(8,850)
Customer deposits and deferred revenue		54,683	50,329
Compensated absences		(104,899)	(72,170)
Other post-employment benefits payable		(2,919)	(1,069)
Net pension liability		854,555	(1,622,762)
Deferred inflows of resources		(1,095,857)	1,490,057
Total adjustments		2,608,731	2,461,606
Net cash provided by operating activities	$	2,147,132	1,511,427
Non-cash investing, capital and financing transactions:			
Change in fair-market value of funds deposited with LAIF	$	1,310	1,161

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Lake Hemet Municipal Water District is an independent special district, which was organized under the provisions of the Municipal Water District Act of 1911, as amended, and was incorporated on August 4, 1955. The District was created for the purpose of importing and delivering water to retail customers within its service area. The District is governed by a five-member Board of Directors, elected at-large from within the District's service area.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water and sewer services to its customers on a continuing basis be financed or recovered primarily through user charges (water and sewer service fees). Revenues and expenses are recognized on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

The District recognizes revenue from water and sewer service charges based on cycle billings preformed monthly with the exception of the Garner Valley area which is billed on a bi-monthly basis. The District accrues revenues with respect to water and sewer service sold but not billed at the end of a fiscal period.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

The District has adopted the following GASB pronouncements in the current year:

Government Accounting Standards Board Statement No. 72

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*, effective for financial statements for periods beginning after June 15, 2015.

The objective of this Statement is to enhance comparability of financial statements among governments by measurement of certain assets and liabilities at their fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value.

Government Accounting Standards Board Statement No. 73

In June 2015, the GASB 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 Statement 67 and 68,* effective for fiscal years beginning after June 15, 2015.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

Government Accounting Standards Board Statement No. 73, continued

The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the Scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions.

Government Accounting Standards Board Statement No. 76

In June 2015, the GASB issued Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* effective for financial statements for periods beginning after June 15, 2015.

This Statement replaces the requirements of Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment is not specified within the source of authoritative GAAP.

Government Accounting Standards Board Statement No. 79

In December 2015, the GASB issued Statement No. 79 – *Certain External Investment Pools and Pool Participants,* effective for financial statements for periods beginning after June 15, 2015.

This Statement enhances comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

3. Investments and Investment Policy

The District has adopted an investment policy directing the General Manager to deposit funds in financial institutions. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

4. Accounts Receivable

The District extends credit to customers in the normal course of operations. When Management deems a customer account uncollectable, the District uses the direct method for the write-off of those accounts.

5. Prepaid Expenses

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

6. Inventory

Inventory consists primarily of materials used in construction and maintenance of the water and sewer system and is stated at cost using the average-cost method.

7. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $3,000. Contributed assets are recorded at estimated fair market value at the date of contribution. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

• Source of Supply	33.3 years
• Power Plant	33.3 years
• Pumping Equipment	20.0 years
• Water Treatment Equipment	33.3 years
• Transmission & Distribution Plant	33.3 years
• General Plant	5.0 to 33.3 years

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

8. Restricted Assets

Certain assets of the District are restricted in use by ordinance or debt covenant and, accordingly, are shown as restricted assets on the accompanying statement of net position. The District uses restricted resources prior to using unrestricted resources to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources that is applicable to future periods.

10. Compensated Absences

The District's policy is to permit employees to accumulate vacation at the rate of eighty (80) hours per anniversary year (6.66 hours per month) for the first five (5) years of continuous service for full-time employees. Vacation accrual increases eight (8) hours for each full year of continuous service after five (5) years until completion of ten (10) years of continuous service. After completion of eleven (11) full years of continuous service, vacation leave shall accrue at the rate of one hundred thirty six (136) hours per year. After completion of twelve (12) years of continuous service, vacation shall accrue at the rate of one hundred sixty (160) hours per year. Vacation accrual does not vest until completion of the year for which it was earned. Vacation leave accumulation carried over from previous year shall not exceed twenty (20) days. Vacation leave shall be scheduled at the District's discretion. If an employee is unable to take vacation due to the needs of the District, the employee shall be paid for any loss of vacation time.

Sick leave shall accrue year after year above the 96 hours accrued in that year. Sick leave shall accrue at the rate of eight hours per month for full time employees commencing on January 1 of each year. Sick leave shall accrue on a pro rata basis. The employee may use sick leave prior to its accrual; however in the event the employee is terminated or retires, employee authorizes District to deduct any paid, but unaccrued sick leave from the employee's final paycheck.

11. Pensions

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

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, 2014
- Measurement Date: June 30, 2015
- Measurement Period: July 1, 2014 to June 30, 2015

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

12. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources that is applicable to future periods.

13. Deposit Connection Fees

Connection fees are collected by the District to cover the cost of service connections within the District.

14. Water and Sewer Sales

The District recognizes water and sewer services charges based on cycle billings rendered to the customers on a monthly basis with the exception of the Garner Valley area which is billed on a bi-monthly basis.

15. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners or real estate developers desiring services that require capital expenditures or capacity commitment.

16. Budgetary Policies

The District adopts a one year non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

17. Net Position

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

- **Net Investment in Capital Assets** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net position** – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net position** – This component of net position consists of net position that does not meet the definition of *restricted* or *net investment in capital assets*.

(2) Cash and Investments

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

		2016	2015
Cash and cash equivalents	$	9,421,501	10,506,042
Cash and cash equivalents – restricted		5,779,782	3,888,031
Investments		5,337,351	5,257,074
Total cash and investments	$	20,538,634	19,651,147

Cash and cash equivalents as of June 30, consist of the following:

		2016	2015
Cash on hand	$	1,150	1,150
Deposits with financial institutions		7,862,464	7,081,323
Sub-total cash and cash equivalents		7,863,614	7,082,473
Investments as of June 30, consist of the following:			
Deposits held with California Local Agency Investment Fund (LAIF)		5,316,535	5,296,183
Deposits with CalTrust:			
Short Term Fund		509,815	503,659
Medium Term Fund		4,827,536	4,753,415
Total held with CalTrust		5,337,351	5,257,074
Deposits held with trustee:			
Money Market		1,889,833	1,884,130
Limited Obligation Improvement Bonds		131,301	131,287
Sub-total investments		12,675,020	12,568,674
Total cash and investments	$	20,538,634	19,651,147

As of June 30, the District's authorized deposits had the following average maturities:

	2016	2015
Deposits held with LAIF	167 days	239 days
Deposits held with CalTrust Short Term Fund	431 days	511 days
Deposits held with CalTrust Medium Term Fund	703 days	781 days

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

Investment of debt proceeds held by bond trustees are 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.

(2) Cash and Investments, continued

Investments Authorized by the California Government Code and the District's Investment Policy, continued

The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S Treasury Obligations	None	None	None
U.S. Agency and Sponsored Enterprise Securities	None	None	None
State Obligations			
or Political Subdivision of States	None	None	None
Bankers' Acceptances	None	None	None
Negotiable Certificates of Deposit	None	None	None
Commercial Paper	None	None	None
Guaranteed Investment Contracts	None	None	None
Repurchase Agreements	None	None	None
Money Market Mutual Funds	None	None	None
Local Agency Investment Fund - LAIF	None	None	None

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S Treasury Obligations	No	None	None
U.S. Agency and Sponsored Enterprise Securities	No	None	None
Bankers' Acceptances	No	40%	None
Negotiable Certificates of Deposit	No	30%	None
Commercial Paper	No	25%	None
Repurchase Agreements	No	None	None
Reverse Repurchase Agreements	No	20%	None
Medium-Term Notes	No	30%	None
Mortgage Pass-Though Securities	No	None	None
Local Agency Investment Fund - LAIF	Yes	None	$50,000,000
Local Agency Bonds	No	None	None
Mutual Funds	No	20%	None
Money Market Mutual Funds	Yes	15%	N/A
County Pooled Investment Funds	No	None	None
Joint Powers Authority (CalTRUST)	No	None	None

(2) Cash and Investments, continued

Investment in State Investment Pool

The District is a voluntary participant in the Local District Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 and is under the management of the Treasurer of the State of California with oversight provided by the Local Agency Investment Advisory Board. 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. Bank balances are secured by the pledging of a pool of eligible securities to collateralize the District's deposits with the bank in accordance with the Code.

District's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of $5,000, in increments of $1,000 dollars.
- Withdrawals of $10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF for verbal authorization.

Investment in Investment Trust of California

CalTrust is organized as a Joint Powers Attorney. CalTrust is a program established by public agencies in California for the purpose of pooling and investing local agency funds – operating reserves as well as bond proceeds. Any California local agency may participate in the Trust and invest its funds, and in the case of counties, the funds of other local agencies that have invested with the County Treasurer's office. Funds from all participants are pooled in each of the accounts. Participants receive units in the Trust and designated shares for the particular account in which they invest. CalTrust invests in fixed income securities eligible for investment pursuant to California Government Code Sections 53601, et seq. and 53635, et seq. Investment guidelines adopted by the Board of Trustees may further restrict the types of investments held by the Trust. Leveraging within the Trust's portfolio is prohibited.

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. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

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.

(2) Cash and Investments, continued

Custodial Credit Risk, continued

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. Of the bank balances, up to $250,000 at June 30, 2016 and 2015, is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

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 change 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 matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date:

Maturities of investments at June 30, 2016, were as follows:

		Remaining Maturity		
Investment Type	**Total**	**12 Months Or Less**	**13 to 24 Months**	**25-60 Months**
Local Agency Investment Fund (LAIF)	$ 5,316,535	5,316,535	-	-
CalTrust Investment Fund	5,337,351	5,337,351	-	-
Money Market Funds	1,889,833	1,889,833	-	-
Limited Obligation Improvement Bonds	131,301	131,301	-	-
Total	$ 12,675,020	12,675,020	-	-

Maturities of investments at June 30, 2015, were as follows:

		Remaining Maturity		
Investment Type	**Total**	**12 Months Or Less**	**13 to 24 Months**	**25-60 Months**
Local Agency Investment Fund (LAIF)	$ 5,296,183	5,296,183	-	-
CalTrust Investment Fund	5,257,074	5,257,074	-	-
Money Market Funds	1,884,130	1,884,130	-	-
Limited Obligation Improvement Bonds	131,287	131,287	-	-
Total	$ 12,568,674	12,568,674	-	-

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.

(2) Cash and Investments, continued

Credit Risk, continued

Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Credit ratings of investments as of June 30, 2016 were as follows:

Investment Types		Total	Minimum Legal Rating		Rating AAA	Rating AAf	Not Rated
Local Agency Investment Fund (LAIF)	$	5,316,535	N/A	$	-	-	5,316,535
CalTrust Investment Fund		5,337,351	AAf		-	5,337,351	-
Money Market Funds		1,889,833	AAA		1,889,833	-	-
Limited Obligation Improvement Bonds		131,301	AAA		131,301	-	-
Total	$	12,675,020		$	2,021,134	5,337,351	5,316,535

Credit ratings of investments as of June 30, 2015 were as follows:

Investment Types		Total	Minimum Legal Rating		Rating AAA	Rating AAf	Not Rated
Local Agency Investment Fund (LAIF)	$	5,296,183	N/A	$	-	-	5,296,183
CalTrust Investment Fund		5,257,074	AAf		-	5,257,074	-
Money Market Funds		1,884,130	AAA		1,884,130	-	-
Limited Obligation Improvement Bonds		131,287	AAA		131,287	-	-
Total	$	12,568,674		$	2,015,417	5,257,074	5,296,183

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.

(3) Note Receivable, Beaumont Concrete Settlement

In 2001, the District settled a claim against Beaumont Concrete in the amount of $365,000. Terms of the settlement agreement call for annual payments to the District with the final payment due in 2046.

Changes in note receivable amounts for the fiscal year ended June 30, 2016 were as follows:

		Balance 2015	Payments Received	Balance 2016	Current Portion	Non-Current Portion
Note receivable	$	280,000	(5,000)	275,000	5,000	270,000

Changes in note receivable amounts for the fiscal year ended June 30, 2015 were as follows:

		Balance 2014	Payments Received	Balance 2015	Current Portion	Non-Current Portion
Note receivable	$	285,000	(5,000)	280,000	5,000	275,000

(4) Deferred Outflows of Resources

Changes in deferred outflows of resources for 2016, were as follows:

		Balance 2015	Additions	Amortization	Balance 2016
Deferred outflows of resources:					
Deferred pension outflows	$	703,350	714,083	(700,283)	717,150
Total deferred outflows of resources	$	703,350	714,083	(700,283)	717,150

Changes in deferred outflows of resources for 2015, were as follows:

		Balance 2014	Additions	Amortization	Balance 2015
Deferred outflows of resources:					
Deferred pension outflows	$	586,612	759,748	(643,010)	703,350
Total deferred outflows of resources	$	586,612	759,748	(643,010)	703,350

(5) Capital Assets

Changes in capital assets for the year were as follows:

		Balance 2015	Additions/ Transfers	Deletions/ Transfers	Balance 2016
Non-depreciable assets:					
Land	$	597,925	-	-	597,925
Intangible assets		11,340	-	-	11,340
Construction-in process		404,249	1,393,433	(1,513,638)	284,044
Total non-depreciable assets		1,013,514	1,393,433	(1,513,638)	893,309
Depreciable assets:					
Capacity rights		6,705,252	-	-	6,705,252
Dams, wells & reservoirs		7,418,097	962,816	(530,774)	7,850,139
North Fork Power Plant		70,794	-	-	70,794
Pumping & purification		6,119,551	182,024	(380,664)	5,920,911
Distribution & transmission		35,259,133	598,582	(4,885)	35,852,830
Fire hydrants, services & meters		15,189,852	869,060	(77,294)	15,981,618
Buildings, Structures & Grounds		10,772,929	11,125	-	10,784,054
General Equipment		4,941,017	111,263	(15,360)	5,036,920
Sewers		12,924,100	-	-	12,924,100
Campground Installations Etc.		3,148,500	6,653	(21,285)	3,133,868
Total depreciable assets		102,549,225	2,741,523	(1,030,262)	104,260,486
Accumulated depreciation		(46,267,882)	(3,192,673)	1,053,362	(48,407,193)
Total depreciable assets, net		56,281,343	(451,150)	23,100	55,853,293
Total capital assets, net	$	57,294,857			56,746,602

Increases in 2016 to capital assets consisted primarily of additions to construction in progress of $1,393,433, dams, wells and reservoirs of $962,816, pumping and purification of $182,024, distribution and transmission of $598,582, fire hydrants, services and meters of $869,060, buildings, structures and grounds of $11,125, general equipment of $111,263 and campground installations of $6,653.

(5) Capital Assets, continued

Changes in capital assets for the year were as follows:

	Balance 2014	Additions/ Transfers	Deletions/ Transfers	Balance 2015
Non-depreciable assets:				
Land	$ 597,925	-	-	597,925
Intangible assets	11,340	-	-	11,340
Construction-in process	138,983	265,266	-	404,249
Total non-depreciable assets	748,248	265,266	-	1,013,514
Depreciable assets:				
Capacity rights	6,705,252	-	-	6,705,252
Dams, wells & reservoirs	7,285,216	132,881	-	7,418,097
North Fork Power Plant	70,794	-	-	70,794
Pumping & purification	5,868,852	250,699	-	6,119,551
Distribution & transmission	35,173,239	85,894	-	35,259,133
Fire hydrants, services & meters	14,341,662	957,698	(109,508)	15,189,852
Bldgs Structures & Grounds	10,765,526	7,403	-	10,772,929
General Equipment	4,920,560	56,500	(36,043)	4,941,017
Sewers	12,924,100	-	-	12,924,100
Campground Installations Etc.	3,148,500	-	-	3,148,500
Total depreciable assets	101,203,701	1,491,075	(145,551)	102,549,225
Accumulated depreciation	(43,174,866)	(3,224,975)	131,959	(46,267,882)
Total depreciable assets, net	58,028,835	(1,733,900)	(13,592)	56,281,343
Total capital assets, net	$ 58,777,083			57,294,857

Increases in 2015 to capital assets consisted primarily of additions to construction in progress of $265,266, dams, wells and reservoirs of $132,881, pumping and purification of $250,699, distribution and transmission of $85,894, fire hydrants, services and meters of $957,698, buildings, structures and grounds of $7,403 and general equipment of $56,500.

(6) Deferred Inflows of Resources

Changes in deferred inflows of resources for 2016, were as follows:

	Balance 2015	Additions	Amortization	Balance 2016
Deferred inflows of resources:				
Deferred pension inflows	$ 1,490,057	-	(1,095,857)	394,200
Total deferred inflows of resources	$ 1,490,057	-	(1,095,857)	394,200

Changes in deferred inflows of resources for 2015, were as follows:

	Balance 2014	Additions	Amortization	Balance 2015
Deferred inflows of resources:				
Deferred pension inflows	$ -	1,862,571	(372,514)	1,490,057
Total deferred inflows of resources	$ -	1,862,571	(372,514)	1,490,057

(7) Compensated Absences

Compensated absences comprise unpaid vacation leave, sick leave and compensating time off which is accrued as earned. The District's liability for compensated absences is determined annually.

Changes to compensated absences for 2016, were as follows:

Balance 2015	Earned	Taken	Balance 2016	Due within One Year	Due in more than one year
$ 575,842	545,313	(650,212)	470,943	188,377	282,566

Changes to compensated absences for 2015, were as follows:

Balance 2014	Earned	Taken	Balance 2015	Due within One Year	Due in more than one year
$ 648,012	510,800	(582,970)	575,842	230,337	345,505

(8) Long-Term Debt

Changes in long-term debt amounts for 2016 were as follows:

	Balance 2015	Additions	Payments	Balance 2016
Long-term debt:				
Notes payable:				
Ground Water Management Plan	$ 5,704,745	-	(175,142)	5,529,603
Municipal Finance Corporation – Admin Bldg	2,165,202	-	(321,942)	1,843,260
Total notes payable	7,869,947	-	(497,084)	7,372,863
Loan payable:				
Department of Water Resources	2,200,818	-	(208,787)	1,992,031
Bonds payable:				
Assessment District No. 2003-1, Garner Valley	1,365,000	-	(60,000)	1,305,000
Certificates of Participation:				
CSDA – Series 2010	7,265,000	-	(150,000)	7,115,000
Total long-term debt	$ 18,700,765	-	(915,871)	17,784,894

Ground Water Management Plan Note Payable

In 2009, Eastern Municipal Water District (EMWD) issued $19,606,000 in bonds to fund construction of capital improvements related to a regional Ground Water Management Plan. Terms of the agreement with EMWD calls for the District to service a 34.2% proportional share ($6,705,252) of the outstanding obligation. Semi-annual principal and interest payments of $234,325 are due January 1, and July 1, at an interest rate of 4.0%, maturing in 2035.

(8) Long-Term Debt, continued

Ground Water Management Plan Note Payable, continued

Future annual debt service requirements are as follows:

Fiscal Year		Principal	Interest	Total
2017	$	182,218	286,432	468,650
2018		189,579	279,071	468,650
2019		197,238	271,412	468,650
2020		205,206	263,444	468,650
2021		213,497	255,154	468,651
2022-2026		1,209,193	1,134,058	2,343,251
2027-2031		1,537,189	806,063	2,343,252
2032-2036		1,795,483	311,893	2,107,376
Total		5,529,603	3,607,527	9,137,130
Less current portion		(182,218)		
Total non-current	$	5,347,385		

Municipal Finance Corporation Note Payable

In March 2006, the District entered into an agreement with the Municipal Finance Corporation in the amount of $4,500,000 at the rate of 4.5%, to finance the construction of the Districts main office building and operations facility. Debt service payments in the amount of $207,897 are due each March 10, and September 10, maturing March 2021.

Future annual debt service requirements are as follows:

Fiscal Year		Principal	Interest	Total
2017		336,592	79,202	415,794
2018		351,909	63,885	415,794
2019		367,923	47,871	415,794
2020		384,666	31,128	415,794
2021		402,170	13,624	415,794
Total		1,843,260	235,710	2,078,970
Less current portion		(336,592)		
Total non-current	$	1,506,668		

Department of Water Resources Loan Payable

In June 1999, the District entered into a low interest loan agreement with the California Department of Water Resources in the amount of $3,909,310 at the rate of 2.4%, to fund the replacement of 37,000 feet aged transmission pipelines and related infrastructure. Debt service payments of $130,233 are due each October 1 and April 1, maturing September 2024.

(8) Long-Term Debt, continued

Department of Water Resources Loan Payable, continued

Future annual debt service requirements are as follows:

Fiscal Year		Principal	Interest	Total
2017	$	214,026	46,440	260,466
2018		219,096	41,370	260,466
2019		224,386	36,080	260,466
2020		229,743	30,723	260,466
2021		235,404	25,062	260,466
2022-2025		869,376	42,253	911,630
Total		1,992,031	221,928	2,213,960
Less current portion		(214,026)		
Total non-current	$	1,778,005		

Assessment District No. 2003-1, Garner Valley Bond Payable

In August 2005, the District issued $1,842,479 in limited obligation bonds at various rates, to finance the acquisition and construction of improvements benefiting properties located within the boundaries of the District's Assessment District No. 2003-1, Garner Valley. The bonds are issued upon and secured by property assessments with the Assessment District. Interest on the bonds is payable semi-annually on September 2 and March 2 at variable rates from 3.0% to 5.0%, with principal payments scheduled each September 2, maturing in 2030.

Future annual debt service requirements are as follows:

Fiscal Year		Principal	Interest	Total
2017	$	65,000	62,808	127,808
2018		65,000	59,834	124,834
2019		70,000	56,660	126,660
2020		70,000	53,318	123,318
2021		75,000	49,819	124,819
2022-2026		430,000	187,500	617,500
2027-2031		530,000	69,250	599,250
Total		1,305,000	539,189	1,844,189
Less current portion		(65,000)		
Total non-current	$	1,240,000		

CSDA Finance Corporation – Certificates of Participation Series 2010

In September 2010, the Lake Hemet Municipal Water District issued $7,802,976 of 2010 Series Certificates of Participation at rates from 3.0% to 5.25% (averaging 5.05%), to fund a portion of the cost of the design and construction of the Pipeline Replacement Project. The project primarily consists of 120,000 feet of pipeline replacement, modification to pumping facilities, and increased water storage for fire protection within the Valley Public Water System section of the enterprise.

(8) Long-Term Debt, continued

CSDA Finance Corporation – Certificates of Participation Series 2010, continued

The Series 2010 Certificates of Participation include principal payments due in varying amounts from $135,000 to $495,000 annually from September 1, 2011 to September 1, 2040, with interest payable semi-annually beginning March 2011, and maturing in fiscal year 2040.

Future annual debt service requirements are as follows:

Fiscal Year		Principal	Interest	Total
2017	$	155,000	350,963	505,963
2018		160,000	346,038	506,038
2019		165,000	340,550	505,550
2020		170,000	334,475	504,475
2021		180,000	327,688	507,688
2022-2026		1,025,000	1,497,315	2,522,315
2027-2031		1,325,000	1,205,065	2,530,065
2032-2036		1,710,000	818,212	2,528,212
2037-2041		2,225,000	304,368	2,529,368
Total		7,115,000	5,524,674	12,639,674
Less current portion		(155,000)		
Total non-current	$	6,960,000		

(9) Other Post-Employment Benefits Payable

Other Post-Employment Benefits – Eligibility

The District provides other post-employment benefits (OPEB) to qualified employees who retire from the District and meet the District's vesting requirements.

A retired employee and dependent spouse, or spouse of a deceased employee or retiree must satisfy the following requirements in order to be eligible for post-employment medical and dental benefits:

- Employee who retires with at least 10 years of continuous service.

If the spouse of a deceased employee or retiree remarries and becomes eligible for health benefits under his/her new spouse's health plan, all District benefits shall be terminated.

Membership in the OPEB plan consisted of the following members as of June 30:

	2016	**2015**
Active plan members	44	44
Retirees and beneficiaries receiving benefits	11	11
Separated plan members entitled to but not yet receiving benefits	-	-
Total plan membership	55	55

(9) Other Post-Employment Benefits Payable, continued

Other Post-Employment Benefits – Benefits Offered

The District offers post-employment medical benefits to retired employees who satisfy the eligibility rules. The District contributes up to $125 plus up to sixty-six ($66) per month towards District retirees' health insurance premiums for those District employees who retire with ten years of service and are taking District medical insurance at the time of retirement. These payments will continue until the earlier of the death of the retiree or the retiree ceasing to be covered under the District's medical plan.

Funding Policy

The District is required to accrue the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with 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 the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 0.62% of the annual covered payroll.

Annual Cost

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

Three-Year History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2016	$ 18,983	21,902	115.38%	$ 97,919
2015	21,371	22,440	105.00%	100,838
2014	23,430	20,592	87.89%	101,907

For each of the fiscal years ended June 30, 2016 and 2015, the District's ARC cost is $23,430. The District's net OPEB payable obligation amounted to $97,919 and $100,838 for the fiscal years ended June 30, 2016 and 2015, respectively. The District contributed $21,902 and $22,440 in age adjusted contributions for current retiree OPEB premiums for the fiscal years ended June 30, 2016 and 2015, respectively.

The balance at June 30, consists of the following:

	2016	2015
Annual OPEB expense:		
Annual required contribution (ARC)	$ 23,430	23,430
Interest on net OPEB obligation	2,017	2,038
Adjustment to annual required contribution	(6,464)	(4,097)
Total annual OPEB expense	18,983	21,371
Change in net OPEB payable obligation:		
Age adjusted contributions made	(21,902)	(22,440)
Total change in net OPEB payable obligation	(2,919)	(1,069)
OPEB payable – beginning of year	100,838	101,907
OPEB payable – end of year	$ 97,919	100,838

(9) Other Post-Employment Benefits Payable, continued

Funded Status and Funding Progress of the Plan

The most recent valuation (dated June 30, 2014) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $341,492. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2014 was $3,800,000. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 8.99%.

See the Schedule of Funding Status of the District's Other Post-Employment Benefits Obligation in the Required Supplementary Information Section on Page 46.

(10) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and the District's 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. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 55 and 2.0% at 60 Risk Pool Retirement Plan to new employee entrants effective December 31, 2013. All employees hired after January 1, 2013 are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

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

	Miscellaneous Plan		
	Classic	**New Classic**	**PEPRA**
Hire date	Prior to January 1, 2011	On or after January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	7.00%	7.00%	6.25%
Required employer contribution rates	8.377%	7.159%	6.555%

(10) Defined Benefit Pension Plan, continued

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates, for all public employers, be determined on an annual basis by the actuary and shall be effective on July 1 following notice of the change in rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the fiscal years ended June 30, 2016 and 2015, the contributions recognized as part of pension expense for the Plan were as follows:

		Miscellaneous Plan	
		2016	**2015**
Contributions – employer	$	339,967	545,434
Contributions – employee (paid by employer)		57,918	286,778
Total employer paid contributions	$	397,885	832,212

Net Pension Liability

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

		Proportionate Share of Net Pension Liability	
		2016	**2015**
Miscellaneous Plan	$	5,318,986	4,464,431

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015 and 2014 (the measurement dates), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 and 2013 (the valuation dates), rolled forward to June 30, 2015 and 2014, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan 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 the measurement date June 30, 2015, was as follows:

	Miscellaneous
Proportion – June 30, 2014	0.07174%
Proportion – June 30, 2015	0.07749%
Change – Increase (Decrease)	0.00575%

(10) Defined Benefit Pension Plan, continued

Net Pension Liability, continued

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

	Miscellaneous
Proportion – June 30, 2013	0.07551%
Proportion – June 30, 2014	0.07174%
Change – Increase (Decrease)	-0.00377%

Deferred Pension Outflows (Inflows) of Resources

For the fiscal years ended June 30, 2016 and 2015, the District recognized pension expense of $84,865 and $222,251, respectively.

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$ 339,967	-
Differences between actual and expected experience	27,753	-
Changes in assumptions	-	262,570
Net differences between projected and actual earnings on plan investments	-	131,630
Differences between actual contribution and proportionate share of contribution	334,781	-
Net adjustment due to differences in proportions of net pension liability	14,649	-
Total	$ 717,150	394,200

(10) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

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

Description		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$	545,434	-
Net differences between projected and actual earnings on plan investments		-	1,490,057
Net adjustment due to differences in proportions of net pension liability		157,916	-
Total	$	703,350	1,490,057

As of June 30, 2016 and 2015, $339,967 and $545,434, respectively, were reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017 and 2016, respectively.

At June 30, 2016, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30,		Deferred Net Outflows/(Inflows) of Resources
2017	$	(64,962)
2018		(76,240)
2019		(122,294)
2020		246,479
2021		-
Remaining		-

At June 30, 2015, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30,		Deferred Net Outflows/(Inflows) of Resources
2016	$	(316,116)
2017		(316,116)
2018		(327,394)
2019		(372,515)

(10) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liabilities in the June 30, 2015 and 2014 actuarial valuation reports were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014 and 2013
Measurement Date	June 30, 2015 and 2014
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.50% Net of Administrative Expenses for 2015 and 2014
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

* The mortality table used on the previous page was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study report. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate

For the June 30, 2015 and 2014 valuation reports, the discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate used is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees’ Retirement Fund (PERF). The stress test results are presented in a detailed report which can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS confirmed the materiality threshold for the difference in the calculation and did not find it to be a material difference.

(10) Defined Benefit Pension Plan, continued

Discount Rate, continued

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the Discount rate will require CalPERS Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the fiscal year ended 2017-2018. CalPERS will continue to check the materiality of the difference in the calculation until such time as it has changed its methodology.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculates 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 return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

Asset Class	New Strategic Allocation	Real Return Years 1–10*	Real Return Year 11+**
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)
Total	100.0%		

* An expected inflation of 2.5% used for this period

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

(10) Defined Benefit Pension Plan, continued

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

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

At June 30, 2016, the discount rate comparison was the following:

	Discount Rate - 1% 6.65%	Current Discount Rate 7.65%	Discount Rate + 1% 8.65%
District's Net Pension Liability	$ 8,830,442	5,318,986	2,322,042

At June 30, 2015, the discount rate comparison was the following:

	Discount Rate - 1% 6.50%	Current Discount Rate 7.50%	Discount Rate + 1% 8.50%
District's Net Pension Liability	$ 7,934,536	4,464,431	1,584,572

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 47 through 48 for the Required Supplementary Schedules.

(11) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program) administered by ING and Nationwide through administrative service agreements. The purpose of this program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseen emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. In fiscal year 2015, market value of all plan assets held in trust by the District plan amounted to $2,882,578 and $3,002,561, respectively.

The District has implemented GASB Statement No. 32, Accounting for Financial Reporting for Internal Revenue code Section 457 Deferred Compensation Plans. Since the District has little administrative involvement and does not perform the investing function of this plan, the assets and related liabilities are not shown on the Statements of Net Position.

(12) Prior Period Adjustment

Accounts Receivable – Unbilled Receivable

In fiscal year 2016, the District determined that accounts receivable related to the 2015 fiscal year were under accrued in the amount of $864,378. As a result, the District has recorded a prior period adjustment to net position.

Net Pension Liability – GASB 68 Implementation

In fiscal year 2015, the District implemented GASB pronouncements 68 and 71 to recognize its proportionate share of the net pension liability.

As a result of the implementation, the District recognized the net pension liability and recorded a net prior period adjustment of $5,500,581 to decrease the proprietary activities' beginning net position. The adjustment was made to reflect the prior period costs related to the implementation of GASB 68 and 71.

The adjustment to net position is as follows:

Net position at June 30, 2014, as restated		$ 58,285,064
Accounts Receivable - Unbilled Receivable:		
Effect of adjustment to record accounts receivable		864,378
Net Pension Liability - GASB 68 Implementation:		
Effect of adjustment to record net pension liability	$ (6,087,193)	
Effect of adjustment to record deferred pension outflows	586,612	(5,500,581)
Total adjustment to net position		(4,636,203)
Net position at July 1, 2015, as restated		$ 53,648,861

(13) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Insurance coverage is provided by various carriers in amounts to meet statutory requirements.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 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 or claims payable as of June 30, 2016, 2015, and 2014.

(14) Net Position

Calculation of net position as of June 30, were as follows:

	2016	2015
Net investment in capital assets::		
Capital assets, net	$ 56,746,602	57,294,857
Notes payable, current	(518,810)	(497,084)
Notes payable, non-current	(6,854,053)	(7,372,863)
Loan payable, current	(214,026)	(208,784)
Loan payable, non-current	(1,778,005)	(1,992,034)
Bonds payable, current	(65,000)	(60,000)
Bonds payable, non-current	(1,240,000)	(1,305,000)
Certificate of Participation, current	(155,000)	(150,000)
Certificate of Participation, non-current	(6,960,000)	(7,115,000)
Loan proceeds held by District	508,109	508,258
Total net investment in capital assets	39,469,817	39,102,350
Restricted for capital projects:		
Restricted – cash and cash equivalents	1,666,220	2,464,360
Restricted – property taxes and assessments receivable	8,948	5,250
Total restricted for capital projects	1,675,168	2,469,610
Restricted for debt service:		
Restricted – cash and cash equivalents	639,409	639,545
Unrestricted net position:		
Non-spendable net position:		
Materials and supplies receivable	335,098	366,379
Prepaid expenses and other assets	134,042	360,419
Total non-spendable net position	469,140	726,798
Spendable net position is designated as follows:		
Unrestricted	12,134,274	10,646,382
Total spendable net position	12,134,274	10,646,382
Total unrestricted net position	12,603,414	11,373,180
Total net position	$ 54,387,808	53,584,685

(15) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2016, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 74

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 77

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. This Statement is effective for financial statements for periods beginning after December 15, 2015. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

(15) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 80

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

Governmental Accounting Standards Board Statement No. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement is effective for financial statements for periods beginning after December 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

Governmental Accounting Standards Board Statement No. 82

In March 2016, the GASB issued Statement No. 82 – *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No.73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

(15) Commitments and Contingencies

Litigation

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

(16) Subsequent Event

Events occurring after June 30, 2016 have been evaluated for possible adjustment to the financial statements or disclosure as of November 14, 2016, which is the date the financial statements were available to be issued.

Required Supplementary Information

Lake Hemet Municipal Water District
Schedule of Funding Progress – Other Post-Employment Benefits (OPEB) Plan
For the Year Ended June 30, 2016

Other Post Employment Benefits Payable

Funded Status and Funding Progress of the Plan

Required Supplemental Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2014	$ -	341,492	341,492	0.00%	$ 3,800,000	8.99%
6/30/2013	-	119,836	119,836	0.00%	$ 3,000,000	3.99%
6/30/2012	-	107,232	107,232	0.00%	$ 3,000,000	3.57%

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2017 based on the fiscal year ending June 30, 2016.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point.

Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2014
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level dollar amortization period
Remaining amortization	30 Years as of the valuation date
Actuarial assumptions:	
Discount rate	2.00%
Projected salary increase	2.50%
Inflation - discount rate	2.00%

Lake Hemet Municipal Water District
Schedule of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2016
Last Ten Years*

	Measurement Date 6/30/2015	Measurement Date 6/30/2014
District's Proportion of the Net Pension Liability	0.07749%	0.07175%
District's Proportionate Share of the Net Pension Liability	$ 5,318,986	$ 4,464,431
District's Covered-Employee Payroll	$ 4,081,595	$ 3,883,465
District's proportionate share of the net pension liability as a as a Percentage of its Covered-Employee Payroll	130.32%	114.96%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	81.19%	82.93%
Plan's Proportionate Share of Aggregate Employer Contributions	$ 794,312	$ 586,612

Notes:

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

Lake Hemet Municipal Water District
Schedule of Pension Plan Contributions
As of June 30, 2016
Last Ten Years*

Schedule of Pension Plan Contributions (a):		**Measurement Date 2014-2015**		**Measurement Date 2013-2014**
Actuarially Determined Contribution	$	794,312	$	557,682
Contributions in Relation to the Actuarially Determined Contribution		(339,967)		(557,682)
Contribution Deficiency (Excess)	$	454,345	$	-
Covered Payroll	$	4,081,595	$	3,883,465
Contribution's as a percentage of Covered-employee Payroll		8.33%		14.36%

Notes:

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

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Supplemental Information

Lake Hemet Municipal Water District
Individual Non-Major Fund – Statements of Net Position – Garner Valley
June 30, 2016 and 2015

		2016	2015
Current assets:			
Cash and cash equivalents	$	-	-
Cash and cash equivalents – restricted		131,301	131,287
Accounts receivable – water sales, net		-	1,685
Property taxes and assessments receivable		10,523	6,300
Prepaid expenses and other assets		451	848
Total current assets		142,275	140,120
Non-current assets:			
Capital assets – not being depreciated		6,588	6,588
Depreciable capital assets, net		2,858,435	2,992,195
Total non-current assets		2,865,023	2,998,783
Total assets		3,007,298	3,138,903
Current liabilities:			
Accounts payable and accrued expenses		10,059	6,695
Accrued interest payable		21,307	22,192
Unearned revenue		3,611	-
Long-term liabilities – due within one year:			
Compensated absences		7,228	8,736
Bonds payable		65,000	60,000
Total current liabilities		107,205	97,623
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Bonds payable		1,240,000	1,305,000
Total non-current liabilities		1,240,000	1,305,000
Total liabilities		1,347,205	1,402,623
Net position:			
Net investment in capital assets		1,560,023	1,633,783
Restricted for debt service		131,301	131,287
Unrestricted		(31,231)	(28,790)
Total net position	$	1,660,093	1,736,280

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Individual Non-Major Fund – Statements of Revenues, Expenses and Changes in Net Position – Garner Valley
For the Fiscal Years Ended June 30, 2016 and 2015

	2016	2015
Operating revenues:		
Water consumption sales:		
Domestic water sales	$ 252,611	249,247
Total operating revenues	252,611	249,247
Operating expenses:		
Source of supply	5,707	5,065
Pumping	59,246	59,271
Treatment	13,181	17,641
Transmission and distribution	9,621	23,491
Customer accounts	830	938
General and administrative	3,327	3,766
Total operating expenses	91,912	110,172
Operating income before depreciation expense	160,699	139,075
Depreciation expense	(143,984)	(144,128)
Operating income (loss)	16,715	(5,053)
Non-operating revenue (expense):		
Property taxes and assessments	216,077	216,302
Investment earnings	136	87
Interest expense	(64,720)	(67,375)
Other non-operating expenses, net	(10,386)	10,347
Total non-operating revenues, net	141,107	159,361
Inter-fund transfers:		
Total inter-fund transfers	(234,009)	(232,251)
Change in net position	(76,187)	(77,943)
Net position, beginning of period	1,736,280	1,814,223
Net position, end of period	$ 1,660,093	1,736,280

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Individual Non-Major Fund – Schedule of Capital Assets – Garner Valley
June 30, 2016 and 2015

Changes in capital assets for the year were as follows:

		Balance 2015	Additions/ Transfers	Deletions/ Transfers	Balance 2016
Non-depreciable assets:					
Land	$	6,588	-	-	6,588
Total non-depreciable assets		6,588	-	-	6,588
Depreciable assets:					
Dams, wells & reservoirs		412,185	-	(74,271)	337,914
Pumping & purification		417,760	-	(14,353)	403,407
Distribution & transmission		3,331,799	-	-	3,331,799
Fire hydrants, services & meters		291,630	9,832	-	301,462
Buildings, structures and grounds		99,084	-	-	99,084
Total depreciable assets		4,552,458	9,832	(88,624)	4,473,666
Accumulated depreciation		(1,560,263)	(54,968)	-	(1,615,231)
Total depreciable assets, net		2,992,195	(45,136)	(88,624)	2,858,435
Total capital assets, net	$	2,998,783			2,865,023

Changes in capital assets for the year were as follows:

		Balance 2014	Additions/ Transfers	Deletions/ Transfers	Balance 2015
Non-depreciable assets:					
Land	$	6,588	-	-	6,588
Total non-depreciable assets		6,588	-	-	6,588
Depreciable assets:					
Dams, wells & reservoirs		412,185	-	-	412,185
Pumping & purification		417,760	-	-	417,760
Distribution & transmission		3,331,799	-	-	3,331,799
Fire hydrants, services & meters		289,418	2,212	-	291,630
Buildings, structures and grounds		99,084	-	-	99,084
Total depreciable assets		4,550,246	2,212	-	4,552,458
Accumulated depreciation:		(1,416,315)	(143,948)	-	(1,560,263)
Total depreciable assets, net		3,133,931	(141,736)	-	2,992,195
Total capital assets, net	$	3,140,519			2,998,783

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Report on Internal Controls and Compliance

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Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Lake Hemet Municipal Water District
Hemet, California

We have audited, in accordance with the 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, the financial statements of the Lake Hemet Municipal Water District (District), as of and for the fiscal years June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated November 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards, (continued)*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the district's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
November 14, 2016