



Lake Hemet Municipal Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2017 and 2016



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, 2017

Name		Title	Elected/ Appointed	Current Term
Frank D. Gorman	Division II	President	Elected	01/2017 - 12/2020
Larry Minor	Division IV	Vice-President	Elected	01/2015 - 12/2018
Todd A Foutz	Division III	Secretary/Treasurer	Elected	01/2015 - 12/2018
Frank Marshall III	Division I	Director	Elected	01/2017 - 12/2020
Rick Hoffman	Division V	Director	Elected	01/2017 - 12/2020

**Michael A. Gow, 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, 2017 and 2016

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Introductory Section

Board of Directors

Frank D. Gorman
President
Division 2

Larry Minor
Vice President
Division 4

Todd A. Foutz
Secretary / Treasurer
Division 3

Rick Hoffman
Division 5

Frank D. Marshall III
Division 1



Staff

Michael A. Gow
General Manager/
Chief Engineer

Kathleen Aguilar
Asst Secretary/Treasurer

LeAnn Markham
Admin Services Manager

Mitchell J. Freeman
Operations Manager

Richard Johnson
Construction Manager

Will Carter
Maintenance Manager

Mailing Address: P.O. Box 5039, Hemet, CA 92544-0039
26385 Fairview Avenue, Hemet, CA
Phone: 951/658-3241 Fax 951/766-7031
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December 21, 2017

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, 2017 and 2016, 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 charged to residential, commercial and institutional customers.

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,

Michael Gow
General Manager/Chief Engineer

LeAnn Markham
Administrative Services Manager

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Financial Section



Fedak & Brown LLP
Certified Public Accountants

Cypress Office:
6081 Orange Avenue
Cypress, California 90630
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Riverside, California 92505
(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, 2017 and 2016, 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.

Independent Auditor's Report, continued

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, 2017 and 2016, 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.

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 11 and the required supplementary information on pages 47 to 49 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 50 through 52, 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.

Independent Auditor's Report, continued

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2017 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 53 and 54.

A handwritten signature in dark ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

Fedak & Brown LLP

Cypress, California

December 21, 2017

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Lake Hemet Municipal Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017 and 2016

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, 2017 and 2016. 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 2017, the District's net position decreased by 3.41% or \$1,853,271 to \$52,534,537. In fiscal year 2016, the District's net position increased by 1.50% or \$803,123 to \$54,387,808.
- In fiscal year 2017, the District's total revenues increased 1.88% or \$346,092 to \$18,803,883. In fiscal year 2016, the District's total revenues increased 14.55% or \$2,344,304 to \$18,457,791.
- In fiscal year 2017, the District's total expenses increased 16.56% or \$2,944,511 to \$20,720,702. In fiscal year 2016, the District's total expenses increased 9.54% or \$1,548,664 to \$17,776,191.

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.

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.

Lake Hemet Municipal Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

Financial Analysis of the District, continued

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 17 through 46.

Statements of Net Position

Condensed Statements of Net Position					
	2017	2016	Change	2015	Change
Assets:					
Current assets	\$ 21,702,795	23,596,897	(1,894,102)	22,591,739	1,005,158
Non-current assets	260,000	270,000	(10,000)	275,000	(5,000)
Capital assets, net	56,366,122	56,746,602	(380,480)	57,294,857	(548,255)
Total assets	78,328,917	80,613,499	(2,284,582)	80,161,596	451,903
Deferred outflows of resources	1,805,282	717,150	1,088,132	703,350	13,800
Liabilities:					
Current liabilities	3,871,654	3,965,377	(93,724)	3,003,658	961,719
Non-current liabilities	23,394,643	22,583,264	811,380	22,786,546	(203,282)
Total liabilities	27,266,297	26,548,641	717,656	25,790,204	758,437
Deferred inflows of resources	333,365	394,200	(60,835)	1,490,057	(1,095,857)
Net position:					
Net investment in capital assets	40,057,765	39,469,817	587,948	39,102,350	367,467
Restricted	2,436,264	2,589,577	(153,313)	3,109,155	(519,578)
Unrestricted	10,040,508	12,328,414	(2,287,906)	11,373,180	955,234
Total net position	\$ 52,534,537	54,387,808	(1,853,271)	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 \$52,534,537 and \$54,387,808 as of June 30, 2017 and 2016, respectively. 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 (76.25% and 72.57% as of June 30, 2017 and 2016) 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 2017 and 2016, the District showed a positive balance in its unrestricted net position of \$10,040,508 and \$12,328,414, respectively, which may be utilized in future years. See note 14 for further information.

Lake Hemet Municipal Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

Statements of Revenues, Expenses and Changes in Net Position

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

	<u>2017</u>	<u>2016</u>	<u>Change</u>	<u>2015</u>	<u>Change</u>
Revenue:					
Operating revenues	\$ 16,730,271	16,466,372	263,899	14,336,098	2,130,274
Non-operating revenue	<u>2,073,612</u>	<u>1,991,419</u>	<u>82,193</u>	<u>1,777,389</u>	<u>214,030</u>
Total revenue	<u>18,803,883</u>	<u>18,457,791</u>	<u>346,092</u>	<u>16,113,487</u>	<u>2,344,304</u>
Expense:					
Operating expense	16,532,225	13,735,298	2,796,927	12,061,302	1,673,996
Depreciation and amortization	3,224,466	3,192,673	31,793	3,224,975	(32,302)
Non-operating expense	<u>964,011</u>	<u>848,220</u>	<u>115,791</u>	<u>941,250</u>	<u>(93,030)</u>
Total expense	<u>20,720,702</u>	<u>17,776,191</u>	<u>2,944,511</u>	<u>16,227,527</u>	<u>1,548,664</u>
Net loss before capital contributions	(1,916,819)	681,600	(2,598,419)	(114,040)	795,640
Capital contributions	<u>63,548</u>	<u>121,523</u>	<u>(57,975)</u>	<u>49,864</u>	<u>71,659</u>
Change in net position	<u>(1,853,271)</u>	<u>803,123</u>	<u>(2,656,394)</u>	<u>(64,176)</u>	<u>867,299</u>
Net position – beginning of period as previously stated	54,387,808	53,584,685	803,123	58,285,064	(4,700,379)
Prior period adjustment (note 5)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,636,203)</u>	<u>4,636,203</u>
Net position – beginning of period as restated	<u>54,387,808</u>	<u>53,584,685</u>	<u>803,123</u>	<u>53,648,861</u>	<u>(64,176)</u>
Net position – end of period	<u>\$ 52,534,537</u>	<u>54,387,808</u>	<u>(1,853,271)</u>	<u>53,584,685</u>	<u>803,123</u>

A closer examination of the sources of changes in net position:

In fiscal year 2017, the District's net position decreased by 3.41% or \$1,853,271 to \$52,534,537, as a result of ongoing operations.

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 2017, the District's total revenues increased 1.88% or \$346,092 to \$18,803,883. Total operating revenue increased 1.60% or \$263,899 to \$16,730,271, primarily due to increases in water surcharges and assessments. Total non-operating revenue increased 4.13% or \$82,193 to \$2,073,612, primarily due to increases in property taxes, investment earnings and increases in earnings from Lake Hemet Campground operations.

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 increases in property taxes and investment earnings.

In fiscal year 2017, the District's total expenses increased 16.56% or \$2,944,511 to \$20,720,702, primarily due to a \$2,796,927 increase in operating expense consisting of a \$1,729,259 increase in water purchases for resale, a \$504,193 increase in general and administrative costs primarily related to pension expense and a \$305,222 increase in transmission and distribution.

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 depreciation expense of \$32,302 and decrease in revenue from electric capacity rebates of \$46,605.

Lake Hemet Municipal Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

Capital Asset Administration, noted

At the end of fiscal year 2017 and 2016, the District's investment in capital assets (net of accumulated depreciation) amounted to \$56,366,122 and \$56,746,602, 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 2017 were as follows:

	Balance 2016	Additions	Transfers/ Deletions	Balance 2017
Non-depreciable assets	\$ 893,309	1,824,008	(1,530,342)	1,186,975
Depreciable assets	104,260,486	2,517,523	(1,257,102)	105,520,907
Accumulated depreciation	(48,407,193)	(3,224,466)	1,289,899	(50,341,760)
Total capital assets, net	\$ 56,746,602			56,366,122

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

(See note 6 for further discussion)

Debt Administration

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

	Balance 2016	Additions	Principal Payments	Balance 2017
Notes payable	\$ 7,372,863	-	(518,809)	6,854,054
Loan payable	1,992,031	-	(214,025)	1,778,006
Bond payable	1,305,000	-	(80,000)	1,225,000
Certificates of Participation payable	7,115,000	-	(155,000)	6,960,000
Total long-term debt	\$ 17,784,894	-	(967,834)	16,817,060

	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

(See note 9 for further discussion)

Lake Hemet Municipal Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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, Michael Gow 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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents (note 2)	\$ 10,808,576	12,895,654
Cash and cash equivalents – restricted (note 2)	2,161,053	2,305,629
Investments (note 2)	5,351,723	5,337,351
Accrued interest receivable	16,514	11,500
Accounts receivable – water sales, net	2,645,701	2,497,048
Property taxes and assessments receivable	69,511	66,627
Property taxes and assessments receivable – restricted	7,711	8,948
Note receivable – restricted (note 3)	7,500	5,000
Materials and supplies inventory	317,362	335,098
Prepaid expenses and other assets	317,144	134,042
	<u>21,702,795</u>	<u>23,596,897</u>
Total current assets		
Non-current assets:		
Note receivable – restricted (note 3)	260,000	270,000
Capital assets – not being depreciated (note 6)	1,186,975	893,309
Depreciable capital assets, net (note 6)	55,179,147	55,853,293
	<u>56,626,122</u>	<u>57,016,602</u>
Total non-current assets		
Total assets	<u>78,328,917</u>	<u>80,613,499</u>
Deferred outflows of resources		
Deferred outflows - pensions (note 4 and 11)	1,805,282	717,150
	<u>1,805,282</u>	<u>717,150</u>
Total deferred outflows of resources	<u>\$ 1,805,282</u>	<u>717,150</u>

Continued on next page

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Statements of Net Position, continued
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,860,575	2,029,390
Accrued salaries and related payables	164,327	177,444
Customer deposits	530,425	439,515
Accrued interest payable – restricted	168,787	177,815
Long-term liabilities – due within one year:		
Compensated absences (note 8)	161,956	188,377
Notes payable (note 9)	541,488	518,810
Loan payable (note 9)	219,096	214,026
Bonds payable (note 9)	65,000	65,000
Certificates of Participation (note 9)	160,000	155,000
Total current liabilities	<u>3,871,654</u>	<u>3,965,377</u>
Non-current liabilities:		
Unearned revenue – construction deposits	64,178	51,735
Long-term liabilities – due in more than one year:		
Compensated absences (note 8)	242,933	282,566
Other post-employment benefits payable (note 10)	101,741	97,919
Notes payable (note 9)	6,312,566	6,854,053
Loan payable (note 9)	1,558,910	1,778,005
Bonds payable (note 9)	1,160,000	1,240,000
Certificates of Participation (note 9)	6,800,000	6,960,000
Net pension liability (note 11)	7,154,315	5,318,986
Total non-current liabilities	<u>23,394,643</u>	<u>22,583,264</u>
Total liabilities	<u>27,266,297</u>	<u>26,548,641</u>
Deferred inflows of resources		
Deferred inflows - pensions (note 7 and 11)	333,365	394,200
Total deferred inflows of resources	<u>333,365</u>	<u>394,200</u>
Net position: (note 14)		
Net investment in capital assets	40,057,765	39,469,817
Restricted for capital projects	1,796,137	1,950,168
Restricted for debt service	640,127	639,409
Unrestricted	10,040,508	12,328,414
Total net position	<u>\$ 52,534,537</u>	<u>54,387,808</u>

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Water consumption sales:		
Residential and commercial	\$ 11,565,062	11,015,905
Irrigation	2,490,022	2,935,912
Surcharges and assessments – water	1,460,870	1,322,341
Other charges	484,591	461,117
Sewer services	<u>729,726</u>	<u>731,097</u>
Total operating revenues	<u>16,730,271</u>	<u>16,466,372</u>
Operating expenses:		
Source of supply	7,439,096	5,709,837
Pumping	1,248,170	1,076,394
Treatment	337,627	322,747
Transmission and distribution	1,638,280	1,333,058
Customer accounts	232,189	163,933
Sewer	227,309	223,968
General and administrative	<u>5,409,554</u>	<u>4,905,361</u>
Total operating expenses	<u>16,532,225</u>	<u>13,735,298</u>
Operating income before depreciation expense	198,046	2,731,074
Depreciation expense	<u>(3,224,466)</u>	<u>(3,192,673)</u>
Operating loss	<u>(3,026,420)</u>	<u>(461,599)</u>
Non-operating revenue (expense):		
Property taxes	1,604,497	1,518,239
Net income from Lake Hemet Campground operations	322,578	238,071
Rental income, net	86,522	86,107
Investment earnings	60,015	117,518
Interest expense	(813,172)	(848,220)
Gain (loss) on disposal of assets	(23,015)	2,681
Other non-operating income (expense), net	<u>(127,824)</u>	<u>28,803</u>
Total non-operating revenues, net	<u>1,109,601</u>	<u>1,143,199</u>
Net income before capital contributions	<u>(1,916,819)</u>	<u>681,600</u>
Capital contributions:		
Donations in aid of construction	16,147	101,240
Connection fees	<u>47,401</u>	<u>20,283</u>
Total contributed capital	<u>63,548</u>	<u>121,523</u>
Change in net position	<u>(1,853,271)</u>	<u>803,123</u>
Net position, beginning of period	<u>54,387,808</u>	<u>53,584,685</u>
Net position, end of period	<u><u>\$ 52,534,537</u></u>	<u><u>54,387,808</u></u>

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash receipts from customers	\$ 16,581,618	16,102,557
Cash paid to employees for salaries and wages	(4,706,531)	(4,602,474)
Cash paid to vendors and suppliers	(11,620,502)	(8,359,840)
Net cash provided by operating activities	<u>254,585</u>	<u>3,140,243</u>
Cash flows from non-capital financing activities:		
Property tax revenue	1,456,812	1,367,005
Net income from Lake Hemet Campground operations	322,578	238,071
Rental income, net	86,522	86,107
Net cash provided by non-capital financing activities	<u>1,865,912</u>	<u>1,691,183</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,834,204)	(2,635,424)
Proceeds from capital contributions	63,548	121,523
Proceeds from Beaumont concrete settlement	7,500	5,000
Proceeds from bond tax levy	146,038	144,033
Principal payments on notes payable	(518,809)	(497,084)
Principal payments on loans payable	(214,025)	(208,787)
Principal payments on bonds payable	(80,000)	(60,000)
Principal payments on certificates of participation	(155,000)	(150,000)
Interest paid on long-term debt	(822,200)	(856,682)
Net cash used in capital and related financing activities	<u>(4,407,152)</u>	<u>(4,137,421)</u>
Cash flows from investing activities:		
Investment earnings	<u>55,001</u>	<u>113,205</u>
Net cash provided by investing activities	<u>55,001</u>	<u>113,205</u>
Net increase (decrease) in cash and cash equivalents	<u>(2,231,654)</u>	<u>807,210</u>
Cash and cash equivalents, beginning of year	<u>15,201,283</u>	<u>14,394,073</u>
Cash and cash equivalents, end of year	<u>\$ 12,969,629</u>	<u>15,201,283</u>
Reconciliation of cash and cash equivalents to statements of financial position:		
Cash and cash equivalents	\$ 10,808,576	12,895,654
Cash and cash equivalents – restricted	<u>2,161,053</u>	<u>2,305,629</u>
Total cash and cash equivalents	<u>\$ 12,969,629</u>	<u>15,201,283</u>

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating loss	\$ <u>(3,026,420)</u>	<u>(461,599)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	3,224,466	3,192,673
(Gain) loss on disposal of assets	(23,015)	(2,681)
Non-operating income, net	(151,978)	(55,106)
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	(148,653)	(363,815)
Materials and supplies inventory	17,736	31,281
Prepaid expenses and other assets	(183,102)	226,377
Deferred outflows of resources	(1,088,132)	(13,800)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	(168,815)	878,269
Accrued salaries and related payables	(13,117)	3,081
Customer deposits and deferred revenue	103,353	54,683
Compensated absences	(66,054)	(104,899)
Other post-employment benefits payable	3,822	(2,919)
Net pension liability	1,835,329	854,555
Deferred inflows of resources	<u>(60,835)</u>	<u>(1,095,857)</u>
Total adjustments	<u>3,281,005</u>	<u>3,601,842</u>
Net cash provided by operating activities	\$ <u><u>254,585</u></u>	<u><u>3,140,243</u></u>
Non-cash investing, capital and financing transactions:		
Change in fair-market value of investments	\$ <u><u>(14,537)</u></u>	<u><u>29,019</u></u>

See accompanying notes to the basic financial statements

Lake Hemet Municipal Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2017 and 2016

(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. 74

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for financial statements for periods beginning after June 15, 2016.

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*.

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

C. Financial Reporting, continued

Government Accounting Standards Board Statement No. 77

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*, effective for fiscal years beginning after December 15, 2015.

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.

Government Accounting Standards Board Statement No. 78

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for financial statements for periods beginning after December 15, 2015.

In December 2015, the GASB issued Statement No. 78 – *Pensions*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria.

Government 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*, effective for financial statements for periods beginning after June 15, 2016.

The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. 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.

Government 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*, effective for financial statements for periods beginning after June 15, 2016.

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.

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

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.

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.

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

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

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

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.

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

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

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, 2015 and 2014
- Measurement Date: June 30, 2016 and 2015
- Measurement Period: July 1, 2015 to June 30, 2016 and July 1, 2014 to June 30, 2015

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.

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

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

17. Net Position, continued

- **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:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 10,808,576	12,895,654
Cash and cash equivalents – restricted	2,161,053	2,305,629
Investments	<u>5,351,723</u>	<u>5,337,351</u>
Total cash and investments	<u><u>\$ 18,321,352</u></u>	<u><u>20,538,634</u></u>

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

	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 1,150	1,150
Deposits with financial institutions	<u>6,195,465</u>	<u>7,862,464</u>
Sub-total cash and cash equivalents	<u>6,196,615</u>	<u>7,863,614</u>

Investments as of June 30, consist of the following:

Deposits held with California Local Agency Investment Fund (LAIF)	<u>4,740,129</u>	<u>5,316,535</u>
Deposits with CalTrust:		
Short Term Fund	510,173	509,815
Medium Term Fund	<u>4,841,550</u>	<u>4,827,536</u>
Total held with CalTrust	<u>5,351,723</u>	<u>5,337,351</u>
Deposits held with trustee:		
Money Market	1,901,461	1,889,833
Limited Obligation Improvement Bonds	<u>131,424</u>	<u>131,301</u>
Sub-total investments	<u>12,124,737</u>	<u>12,675,020</u>
Total cash and investments	<u><u>\$ 18,321,352</u></u>	<u><u>20,538,634</u></u>

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(2) Cash and Investments, continued

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

	<u>2017</u>	<u>2016</u>
Deposits held with LAIF	194 days	167 days
Deposits held with CalTrust Short Term Fund	343 days	431 days
Deposits held with CalTrust Medium Term Fund	748 days	703 days

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.

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.

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.

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(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-Through 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

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(2) Cash and Investments, continued

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. 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.

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, 2017 and 2016, are 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, 2017, were as follows:

Investment Type	Remaining Maturity	
	Total	12 Months Or Less
Local Agency Investment Fund (LAIF)	\$ 4,740,129	4,740,129
CalTrust Investment Fund	5,351,723	5,351,723
Money Market Funds	1,901,461	1,901,461
Limited Obligation Improvement Bonds	131,424	131,424
Total	\$ 12,124,737	12,124,737

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(2) Cash and Investments, continued

Interest Rate Risk, continued

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

Investment Type	Remaining Maturity	
	Total	12 Months Or Less
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	<u>\$ 12,675,020</u>	<u>12,675,020</u>

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

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

Credit ratings of investments as of June 30, 2017, were as follows:

Investment Types	Total	Minimum Legal Rating	Rating		Not Rated
			AAA	AAf	
Local Agency Investment Fund (LAIF)	\$ 4,740,129	N/A	\$ -	-	4,740,129
CalTrust Investment Fund	5,351,723	AAf	-	5,351,723	-
Money Market Funds	1,901,461	AAA	1,901,461	-	-
Limited Obligation Improvement Bonds	131,424	AAA	131,424	-	-
Total	<u>\$ 12,124,737</u>		<u>\$ 2,032,885</u>	<u>5,351,723</u>	<u>4,740,129</u>

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

Investment Types	Total	Minimum Legal Rating	Rating		Not Rated
			AAA	AAf	
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	<u>\$ 12,675,020</u>		<u>\$ 2,021,134</u>	<u>5,337,351</u>	<u>5,316,535</u>

Concentration of Credit Risk

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

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(2) Cash and Investments, continued

Fair Value Measurements

Investments measured at fair value on a recurring and non-recurring basis, are as follows:

Investments at June 30, 2017:

Investment Type	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 1,901,461	1,901,461	-	-
CalTrust Investment Fund	5,351,723	-	5,351,723	-
Held by bond trustee:				
Money market funds	131,424	131,424	-	-
Total investments measured at fair value	7,384,608	2,032,885	5,351,723	-
Investments measured at amortized cost:				
Local Agency Investment Fund (LAIF)	4,740,129			
Total	\$ 12,124,737			

Investments at June 30, 2016

Investment Type	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 1,889,833	-	1,889,833	-
CalTrust Investment Fund	5,337,351	-	5,337,351	-
Held by bond trustee:				
Money market funds	131,301	131,301	-	-
Total investments measured at fair value	7,358,485	131,301	7,227,184	-
Investments measured at amortized cost:				
Local Agency Investment Fund (LAIF)	5,316,535			
Total	\$ 12,675,020			

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(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, 2017, were as follows:

	<u>Balance</u> <u>2016</u>	<u>Payments</u> <u>Received</u>	<u>Balance</u> <u>2017</u>	<u>Current</u> <u>Portion</u>	<u>Non-Current</u> <u>Portion</u>
Note receivable	\$ 275,000	(7,500)	267,500	7,500	260,000

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

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

(4) Deferred Outflows of Resources

Changes in deferred outflows of resources for 2017 were as follows:

	<u>Balance</u> <u>2016</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance</u> <u>2017</u>
Deferred outflows of resources:				
Deferred pension outflows	\$ 717,150	2,125,153	(1,037,021)	1,805,282
Total deferred outflows of resources	\$ 717,150	2,125,153	(1,037,021)	1,805,282

Changes in deferred outflows of resources for 2017 were as follows:

	<u>Balance</u> <u>2015</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance</u> <u>2016</u>
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

(5) 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.

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(5) Prior Period Adjustment, continued

Net Pension Liability – GASB 68 Implementation, continued

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		\$ <u>58,285,064</u>
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	<u>586,612</u>	<u>(5,500,581)</u>
Total adjustment to net position		<u>(4,636,203)</u>
Net position at July 1, 2015, as restated		\$ <u><u>53,648,861</u></u>

(6) Capital Assets

Changes in capital assets for the year were as follows

	<u>Balance 2016</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2017</u>
Non-depreciable assets:				
Land	\$ 597,925	-	-	597,925
Intangible assets	11,340	-	-	11,340
Construction-in process	284,044	1,824,008	(1,530,342)	577,710
Total non-depreciable assets	<u>893,309</u>	<u>1,824,008</u>	<u>(1,530,342)</u>	<u>1,186,975</u>
Depreciable assets:				
Capacity rights	6,705,252	-	-	6,705,252
Dams, wells & reservoirs	7,850,139	252,935	-	8,103,074
North Fork Power Plant	70,794	-	-	70,794
Pumping & purification	5,920,911	235,976	(36,797)	6,120,090
Distribution & transmission	35,852,830	1,247,497	(15,294)	37,085,033
Fire hydrants, services & meters	15,981,618	668,671	(42,049)	16,608,240
Buildings, Structures & Grounds	10,784,054	-	-	10,784,054
General Equipment	5,036,920	105,591	(1,162,962)	3,979,549
Sewers	12,924,100	-	-	12,924,100
Campground Installations Etc.	3,133,868	6,853	-	3,140,721
Total depreciable assets	<u>104,260,486</u>	<u>2,517,523</u>	<u>(1,257,102)</u>	<u>105,520,907</u>
Accumulated depreciation	<u>(48,407,193)</u>	<u>(3,224,466)</u>	<u>1,289,899</u>	<u>(50,341,760)</u>
Total depreciable assets, net	<u>55,853,293</u>	<u>(706,943)</u>	<u>32,797</u>	<u>55,179,147</u>
Total capital assets, net	\$ <u><u>56,746,602</u></u>	<u><u>1,117,065</u></u>	<u><u>(1,497,545)</u></u>	<u><u>56,366,122</u></u>

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(6) Capital Assets

Increases in 2017 to capital assets consisted primarily of additions to construction in progress of \$1,824,008, distribution and transmission of \$1,247,497, fire hydrants, services and meters of \$668,671, dams, wells and reservoirs of \$252,935, pumping and purification of \$235,976, general equipment of \$105,591 and campground installations of \$6,853.

	<u>Balance 2015</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2016</u>
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	<u>1,013,514</u>	<u>1,393,433</u>	<u>(1,513,638)</u>	<u>893,309</u>
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
Bldgs 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	<u>102,549,225</u>	<u>2,741,523</u>	<u>(1,030,262)</u>	<u>104,260,486</u>
Accumulated depreciation	<u>(46,267,882)</u>	<u>(3,192,673)</u>	<u>1,053,362</u>	<u>(48,407,193)</u>
Total depreciable assets, net	<u>56,281,343</u>	<u>(451,150)</u>	<u>23,100</u>	<u>55,853,293</u>
Total capital assets, net	<u>\$ 57,294,857</u>	<u>942,283</u>	<u>(1,490,538)</u>	<u>56,746,602</u>

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.

(7) Deferred Inflows of Resources

Changes in deferred inflows of resources for 2017, were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2017</u>
Deferred inflows of resources:				
Deferred pension inflows	\$ 394,200	520,449	(581,284)	333,365
Total deferred inflows of resources	<u>\$ 394,200</u>	<u>520,449</u>	<u>(581,284)</u>	<u>333,365</u>

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(7) Deferred Inflows of Resources

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

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

(8) 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 2017, were as follows:

	<u>Balance 2016</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2017</u>	<u>Due within One Year</u>	<u>Due in more than one year</u>
\$	<u>470,943</u>	<u>535,569</u>	<u>(601,623)</u>	<u>404,889</u>	<u>161,956</u>	<u>242,933</u>

Changes to compensated absences for 2016, were as follows:

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

(9) Long-Term Debt

Changes in long-term debt amounts for 2017, were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2017</u>
Long-term debt:				
Notes payable:				
Ground Water Management Plan	\$ 5,529,603	-	(182,217)	5,347,386
Municipal Finance Corporation – Admin Bldg	<u>1,843,260</u>	<u>-</u>	<u>(336,592)</u>	<u>1,506,668</u>
Total notes payable	<u>7,372,863</u>	<u>-</u>	<u>(518,809)</u>	<u>6,854,054</u>
Loan payable:				
Department of Water Resources	<u>1,992,031</u>	<u>-</u>	<u>(214,025)</u>	<u>1,778,006</u>
Bonds payable:				
Assessment District No. 2003-1, Garner Valley	<u>1,305,000</u>	<u>-</u>	<u>(80,000)</u>	<u>1,225,000</u>
Certificates of Participation:				
CSDA – Series 2010	<u>7,115,000</u>	<u>-</u>	<u>(155,000)</u>	<u>6,960,000</u>
Total long-term debt	<u>\$ 17,784,894</u>	<u>-</u>	<u>(967,834)</u>	<u>16,817,060</u>

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(9) Long-Term Debt, continued

Changes in long-term debt amounts for 2017, were as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2016</u>
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	<u>7,869,947</u>	<u>-</u>	<u>(497,084)</u>	<u>7,372,863</u>
Loan payable:				
Department of Water Resources	<u>2,200,818</u>	<u>-</u>	<u>(208,787)</u>	<u>1,992,031</u>
Bonds payable:				
Assessment District No. 2003-1, Garner Valley	<u>1,365,000</u>	<u>-</u>	<u>(60,000)</u>	<u>1,305,000</u>
Certificates of Participation:				
CSDA – Series 2010	<u>7,265,000</u>	<u>-</u>	<u>(150,000)</u>	<u>7,115,000</u>
Total long-term debt	<u>\$ 18,700,765</u>	<u>-</u>	<u>(915,871)</u>	<u>17,784,894</u>

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.

Future annual debt service requirements are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	222,122	246,528	468,650
2023-2027	1,264,689	1,078,562	2,343,251
2028-2032	1,617,610	725,642	2,343,252
2033-2036	<u>1,437,445</u>	<u>201,282</u>	<u>1,638,727</u>
Total	5,347,386	<u>3,321,095</u>	<u>8,668,481</u>
Less current portion	<u>(189,579)</u>		
Total non-current	<u>\$ 5,157,806</u>		

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 District's 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.

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(9) Long-Term Debt, continued

Municipal Finance Corporation Note Payable, continued

Future annual debt service requirements are as follows:

Fiscal Year	Principal	Interest	Total
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	1,506,668	156,508	1,663,176
Less current portion	(351,909)		
Total non-current	\$ 1,154,759		

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.

Future annual debt service requirements are as follows:

Fiscal Year	Principal	Interest	Total
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	241,034	19,432	260,466
2023-2025	628,343	22,821	651,164
Total	1,778,006	175,488	1,953,494
Less current portion	(219,096)		
Total non-current	\$ 1,558,910		

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.

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(9) Long-Term Debt, continued

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

Future annual debt service requirements are as follows:

Fiscal Year	Principal	Interest	Total
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	80,000	46,000	126,000
2023-2027	430,000	165,625	595,625
2028-2031	435,000	45,125	480,125
Total	1,225,000	476,381	1,701,381
Less current portion	(65,000)		
Total non-current \$	1,160,000		

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.

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
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	185,000	319,463	504,463
2023-2027	1,080,000	1,444,690	2,524,690
2028-2032	1,390,000	1,136,809	2,526,809
2033-2037	1,805,000	725,942	2,530,942
2038-2041	1,825,000	198,056	2,023,056
Total	6,960,000	5,173,711	12,133,711
Less current portion	(160,000)		
Total non-current \$	6,800,000		

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(10) 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:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Active plan members	44	44	44
Retirees and beneficiaries receiving benefits	11	11	11
Separated plan members entitled to but not yet receiving benefits	-	-	-
Total plan membership	<u>55</u>	<u>55</u>	<u>55</u>

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 0.76% 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 2017 and the two preceding years were as follows:

<i>Three-Year History of Net OPEB Obligation</i>				
Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2016	\$ 30,288	26,466	87.38%	\$ 101,741
2015	18,983	21,902	115.38%	97,919
2014	21,371	22,440	105.00%	100,838

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(10) Other Post-Employment Benefits Payable, continued

Annual Cost

For each of the fiscal years ended June 30, 2017 and 2016, the District's ARC cost is \$33,588 and \$23,430, respectively. The District's net OPEB payable obligation amounted to \$101,741 and \$97,919 for the fiscal years ended June 30, 2017 and 2016, respectively. The District contributed \$26,466 and \$21,902 in age adjusted contributions for current retiree OPEB premiums for the fiscal years ended June 30, 2017 and 2016, respectively.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 33,588	23,430	23,430
Interest on net OPEB obligation	1,958	2,017	2,038
Adjustment to annual required contribution	<u>(5,258)</u>	<u>(6,464)</u>	<u>(4,097)</u>
Total annual OPEB expense	30,288	18,983	21,371
Change in net OPEB payable obligation:			
Age adjusted contributions made	<u>(26,466)</u>	<u>(21,902)</u>	<u>(22,440)</u>
Total change in net OPEB payable obligation	3,822	(2,919)	(1,069)
OPEB payable – beginning of year	<u>97,919</u>	<u>100,838</u>	<u>101,907</u>
OPEB payable – end of year	<u><u>\$ 101,741</u></u>	<u><u>97,919</u></u>	<u><u>100,838</u></u>

Funded Status and Funding Progress of the Plan

The most recent valuation (dated June 30, 2017) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$492,758. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2017, was \$4,406,943. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 11.18%.

See the Schedule of Funding Status of the District's Other Post-Employment Benefits Obligation in the Required Supplementary Information Section on Page 47.

(11) 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.

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(11) Defined Benefit Pension Plan, continued

Benefits provided, continued

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, 2017, 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 service years	5 service years	5 service years
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%

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, 2017 and 2016, the contributions recognized as part of pension expense for the Plan were as follows:

	2017	2016
Contributions – employer	\$ 339,967	545,434

Net Pension Liability

As of June 30, 2017 and 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	2017	2016
Miscellaneous Plan	\$ 7,154,315	5,318,986

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(11) Defined Benefit Pension Plan, continued

Net Pension Liability

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, 2016 and 2015 (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, 2015 and 2014 (the valuation dates), rolled forward to June 30, 2016 and 2015, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the pension liability for the Plan as of the measurement date June 30, 2016 and 2015, were as follows:

	<u>Miscellaneous Plan</u>
Proportion – June 30, 2014	0.07175%
Increase in proportion	<u>0.00575%</u>
Proportion – June 30, 2015	0.07749%
Increase in proportion	<u>0.00519%</u>
Proportion – June 30, 2016	<u><u>0.08268%</u></u>

Deferred Pension Outflows (Inflows) of Resources

For the fiscal years ended June 30, 2017 and 2016, the District recognized pension expense (credit) of \$686,362 and \$(255,102), respectively.

As of June 30, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>2017</u>		<u>2016</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to the measurement date	\$ 634,208	-	339,967	-
Differences between actual and expected experience	14,449	-	27,753	-
Changes in assumptions	-	(177,338)	-	(262,570)
Net differences between projected and actual earnings on plan investments	922,983	-	-	(131,630)
Differences between actual contribution and proportionate share of contribution	-	(156,027)	334,781	-
Net adjustment due to differences in proportions of net pension liability	<u>233,642</u>	<u>-</u>	<u>14,649</u>	<u>-</u>
Total	<u><u>\$ 1,805,282</u></u>	<u><u>(333,365)</u></u>	<u><u>717,150</u></u>	<u><u>(394,200)</u></u>

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(11) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As of June 30, 2017 and 2016, \$634,208 and \$339,967, 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, 2018 and 2017, 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:

	<u>Miscellaneous Plan</u>
Proportion – June 30, 2014	0.07175%
Increase in proportion	<u>0.00575%</u>
Proportion – June 30, 2015	0.07749%
Increase in proportion	<u>0.00519%</u>
Proportion – June 30, 2016	<u><u>0.08268%</u></u>

Actuarial Assumptions

The total pension liabilities were determined as of June 30, 2015, which were rolled forward to June 30, 2016, 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	7.65%
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

The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(11) Defined Benefit Pension Plan, continued

Discount Rate, continued

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

As of June 30, 2017, the target allocation and the long-term expected real rate of return by asset class were as follows:

Asset Class	New Strategic Allocation	Real Return Years 1-10*	Real Return Year 11+**
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100.0%		

* An expected inflation of 2.5% used for this period

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

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(11) Defined Benefit Pension Plan, continued

Discount Rate, continued

As of June 30, 2016, the target allocation and the long-term expected real rate of return by asset class were as follows:

Asset Class	New Strategic Allocation	Real Return Years 1-10*	Real Return Year 11+**
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100.0%		

* An expected inflation of 2.5% used for this period

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

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:

	Discount Rate - 1% 6.65%	Current Discount Rate 7.65%	Discount Rate + 1% 8.65%
District's Net Pension Liability	\$ 11,122,883	7,154,315	3,847,114

	Discount Rate - 1% 6.65%	Current Discount Rate 7.65%	Discount Rate + 1% 8.65%
District's Net Pension Liability	\$ 8,830,462	5,318,986	2,322,048

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 48 through 49 for the Required Supplementary Schedules.

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(12) 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 2017 and 2016, the market value of all plan assets held in trust by the District plan amounted to \$3,342,708 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.

(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, 2017, 2016, and 2015. 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, 2017, 2016, and 2015.

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(14) Net Position

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

	<u>2017</u>	<u>2016</u>
Net investment in capital assets::		
Capital assets, net	\$ 56,366,122	56,746,602
Notes payable, current	(541,488)	(518,810)
Notes payable, non-current	(6,312,566)	(6,854,053)
Loan payable, current	(219,096)	(214,026)
Loan payable, non-current	(1,558,910)	(1,778,005)
Bonds payable, current	(65,000)	(65,000)
Bonds payable, non-current	(1,160,000)	(1,240,000)
Certificate of Participation, current	(160,000)	(155,000)
Certificate of Participation, non-current	(6,800,000)	(6,960,000)
Loan proceeds held by District	508,703	508,109
Total net investment in capital assets	<u>40,057,765</u>	<u>39,469,817</u>
Restricted for capital projects:		
Restricted – cash and cash equivalents	1,520,926	1,666,220
Restricted – note receivable, current	7,500	5,000
Restricted – note receivable, non-current	260,000	270,000
Restricted – property taxes and assessments receivable	7,711	8,948
Total restricted for capital projects	<u>1,796,137</u>	<u>1,950,168</u>
Restricted for debt service:		
Restricted – cash and cash equivalents	<u>640,127</u>	<u>639,409</u>
Unrestricted net position:		
Non-spendable net position:		
Materials and supplies receivable	317,362	335,098
Prepaid expenses and other assets	317,144	134,042
Total non-spendable net position	<u>634,506</u>	<u>469,140</u>
Spendable net position is designated as follows:		
Unrestricted	<u>9,406,002</u>	<u>11,859,274</u>
Total spendable net position	<u>9,406,002</u>	<u>11,859,274</u>
Total unrestricted net position	<u>10,040,508</u>	<u>12,328,414</u>
Total net position	<u><u>\$ 52,534,537</u></u>	<u><u>54,387,808</u></u>

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

(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. 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 December 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. 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.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) and requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2018. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. 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. 85

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

The provisions of this Statement are effective for reporting 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. 86

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

Lake Hemet Municipal Water District
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2017 and 2016

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

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

(16) 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.

(17) Subsequent Event

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of December 21, 2017, which is the date the financial statements were available to be issued.

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Required Supplementary Information

Lake Hemet Municipal Water District
Schedule of Funding Progress – Other Post-Employment Benefits (OPEB) Plan
For the Year Ended June 30, 2017

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)
6/30/2017	\$ -	492,758	492,758	0.00%	\$ 4,406,943	11.18%
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%

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.

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, 2017
Actuarial cost method	Entry age actuarial cost method
Amortization method	Level dollar amortization period
Amortization period	30 years
Actuarial assumptions:	
Discount rate	2.00%
Projected average salary increase	2.50%
Inflation - discount rate	2.00%
Healthcare cost trend rate:	
Year 1	2.00%
Year 2	2.00%
Year 3	2.00%
Year 4	2.00%
Year 5	2.00%
Year 6	2.00%
Years 7-10	2.00%
Years 11-21	2.00%
Years 21 on	2.00%

Lake Hemet Municipal Water District
Schedule of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2017
Last Ten Years*

	Measurement Dates		
	6/30/2016	6/30/2015	6/30/2014
District's Proportion of the Net Pension Liability	0.08268%	0.07749%	0.07175%
District's Proportionate Share of the Net Pension Liability	\$ 7,154,315	5,318,986	4,464,431
District's Covered-Employee Payroll	\$ 4,240,964	4,081,595	3,883,466
District's proportionate share of the net pension liability as a as a Percentage of its Covered-Employee Payroll	168.70%	130.32%	114.96%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	76.11%	81.19%	82.93%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 848,709	794,312	586,612

Notes:

Changes in Benefit Terms – There were no changes in benefit terms for the measurement date June 30, 2017.

Changes of Assumptions – There were no changes of assumption for the measurement date June 30, 2017.

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

Lake Hemet Municipal Water District
Schedule of Pension Plan Contributions
As of June 30, 2017
Last Ten Years*

Description	Measurement Dates		
	6/30/2016	6/30/2015	6/30/2014
Actuarially Determined Contribution	\$ 649,721	520,468	557,682
Contributions in Relation to the Actuarially Determined Contribution	(339,967)	(545,434)	(557,682)
Contribution Deficiency (Excess)	\$ 309,754	(24,966)	-
Covered Payroll	\$ 4,240,964	4,081,595	3,883,466
Contribution's as a percentage of Covered-employee Payroll	8.02%	13.36%	14.36%

Note:

* The District has presented information for those years for which information is available until a full 10-year trend is compiled.

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Supplemental Information

Lake Hemet Municipal Water District
Individual Non-Major Fund – Statements of Net Position – Garner Valley
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents – restricted	\$ 131,424	131,301
Accounts receivable – water sales, net	35,265	-
Property taxes and assessments receivable	8,761	10,523
Prepaid expenses and other assets	4,214	451
Total current assets	<u>179,664</u>	<u>142,275</u>
Non-current assets:		
Capital assets – not being depreciated	6,588	6,588
Depreciable capital assets, net	2,737,841	2,858,435
Total non-current assets	<u>2,744,429</u>	<u>2,865,023</u>
Total assets	<u>2,924,093</u>	<u>3,007,298</u>
Current liabilities:		
Accounts payable and accrued expenses	20,196	10,059
Accrued interest payable	20,090	21,307
Unearned revenue	8,310	3,611
Long-term liabilities – due within one year:		
Compensated absences	6,827	7,228
Bonds payable	65,000	65,000
Total current liabilities	<u>120,423</u>	<u>107,205</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Bonds payable	1,160,000	1,240,000
Total non-current liabilities	<u>1,160,000</u>	<u>1,240,000</u>
Total liabilities	<u>1,280,423</u>	<u>1,347,205</u>
Net position:		
Net investment in capital assets	1,519,429	1,560,023
Restricted for debt service	131,424	131,301
Unrestricted	(7,183)	(31,231)
Total net position	<u>\$ 1,643,670</u>	<u>1,660,093</u>

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Water consumption sales:		
Domestic water sales	\$ 266,939	252,611
Total operating revenues	<u>266,939</u>	<u>252,611</u>
Operating expenses:		
Source of supply	34,893	5,707
Pumping	69,620	59,246
Treatment	17,343	13,181
Transmission and distribution	17,857	9,621
Customer accounts	1,286	830
General and administrative	<u>8,277</u>	<u>3,327</u>
Total operating expenses	<u>149,276</u>	<u>91,912</u>
Operating income before depreciation expense	117,663	160,699
Depreciation expense	<u>(144,090)</u>	<u>(143,984)</u>
Operating income (loss)	<u>(26,427)</u>	<u>16,715</u>
Non-operating revenue (expense):		
Property taxes and assessments	219,463	216,077
Investment earnings	456	136
Interest expense	(61,591)	(64,720)
Other non-operating expenses, net	<u>(10,553)</u>	<u>(10,386)</u>
Total non-operating revenues, net	<u>147,775</u>	<u>141,107</u>
Inter-fund transfers:		
Total inter-fund transfers	<u>(138,251)</u>	<u>(234,009)</u>
Net loss before capital contributions	(16,903)	(76,187)
Capital contributions:		
Connection fees	<u>480</u>	<u>-</u>
Total contributed capital	<u>480</u>	<u>-</u>
Change in net position	(16,423)	(76,187)
Net position, beginning of period	<u>1,660,093</u>	<u>1,736,280</u>
Net position, end of period	<u><u>\$ 1,643,670</u></u>	<u><u>1,660,093</u></u>

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, 2017 and 2016

Changes in capital assets for the year were as follows:

	Balance 2016	Additions/ Transfers	Deletions/ Transfers	Balance 2017
Non-depreciable assets:				
Land	\$ 6,588	-	-	6,588
Total non-depreciable assets	6,588	-	-	6,588
Depreciable assets:				
Dams, wells & reservoirs	337,914	16,855	-	354,769
Pumping & purification	403,407	6,039	-	409,446
Distribution & transmission	3,331,799	-	-	3,331,799
Fire hydrants, services & meters	301,462	602	-	302,064
Buildings, structures and grounds	99,084	-	-	99,084
Total depreciable assets	4,473,666	23,496	-	4,497,162
Accumulated depreciation	(1,615,231)	(144,090)	-	(1,759,321)
Total depreciable assets, net	2,858,435	(120,594)	-	2,737,841
Total capital assets, net	\$ 2,865,023			2,744,429

	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

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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, 2017 and 2016, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 21, 2017.

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
December 21, 2017