



Certified Public Accountants
and Financial Advisors

Ramona Municipal Water District
Financial Statements
June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Ramona Municipal Water District
Ramona, California

Report on the Financial Statements

We have audited the accompanying financial statements of Ramona Municipal Water District, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Ramona Municipal Water District's basic financial statements as listed in the index to financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ramona Municipal Water District, as of June 30, 2017, and the changes in financial position and cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

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 4 through 10, and the schedules of proportionate share of the net pension liability and plan contributions on pages 47 and 48, and other post employment benefits schedule of funding progress on page 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Ramona Municipal Water District's basic financial statements. The other supplementary information, as listed in the index to financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as listed in the index to financial statements, 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.

SQUAR MILNER LLP

San Diego, California
November 27, 2017

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

As management of the Ramona Municipal Water District (the "District"), we offer the readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements, which begin immediately following this analysis. This annual financial report consists of three main parts (1) Management's Discussion and Analysis, (2) Basic Financial Statements, and (3) Required Supplemental Information.

The financial statements consist of a series of financial statements prepared in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – Management Discussion and Analysis for State and Local Governments*.

BASIC FINANCIAL STATEMENTS

The District's Financial Statements include the Statements of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows. The purpose of the Statements of Net Position is to report the assets and liabilities of the District as of the date of the statements. The difference between the assets and liabilities is the net position, which represents the portion of total assets not encumbered by debt. Assets and liabilities are reported at historical cost, except for investments, which are reported at fair market. Long-term infrastructure assets such as reservoirs, pipes and pumps are reduced by estimated depreciation based upon the expected remaining life of the underlying asset. The District records assets on its books when it takes ownership and liabilities when it incurs the obligation to pay, whether or not it has actually been billed.

The District uses Enterprise Funds to account for the five (5) operating divisions. Those operating divisions are (1) Water, (2) Fire and Paramedic, (3) Parks and Recreation, (4) San Vicente Sewer and (5) Santa Maria Sewer.

Water

This operating division maintains and services both a treated water system and an untreated water system. The treated system distributes treated water upon demand to 9,636 customers. The untreated system provides irrigation water to 205 customers. Rates for both treated and untreated water are based upon the cost of treating, transporting, and delivering water to customers.

Fire and Paramedic

This operating division provides fire protection services and emergency medical services. The District contracts out this service to the California Department of Forestry and Fire Protection, and maintains three fire stations. Rates for fire service charges and ambulance calls are based on the cost to service and maintain these fire stations.

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

BASIC FINANCIAL STATEMENTS (continued)

Parks and Recreation

This operating division provides the land and facilities for a park, which is managed by the Ramona Parks and Recreation Association on a volunteer basis. The operating division receives funds from property taxes, and the funds are remitted to the Ramona Parks and Recreation Association.

San Vicente Sewer

This operating division provides sewer service to the San Diego Country Estates area of Ramona and services 3,799 equivalent dwelling units (EDUs). A service rate per EDU is set based on the cost of treatment and collection of sewage for this facility.

Santa Maria Sewer

This operating division provides sewer service to the downtown area of Ramona and services 4,379 EDUs. A service rate per EDU is set based on the cost of treatment and collection of sewage for this facility.

FINANCIAL HIGHLIGHTS

While the Statement of Net Position shows the changes in Net Position, the Statement of Revenues, Expenses, and Changes in Net Position provides information as to the nature and sources of those changes. For fiscal year 2016-2017, total operating revenues increased by approximately 8.5% to \$28,289,754 compared to the prior year. The revenue increase was primarily attributable to an increase in customer water billings, which increased by approximately 8.4% from 4,374.5 acre-feet in fiscal year 2015-2016 to 4,743 acre-feet in fiscal year 2016-2017. Total operating expenses declined by 1% to \$28,104,821 in fiscal year 2016-2017.

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

NET POSITION

A condensed summary of the District's Statement of Net Position at June 30, 2017 is presented below:

Condensed Statement of Net Position

Cash and investments	\$ 41,948,001
Capital assets, net	69,141,273
Other assets	5,842,727
	<hr/>
Total assets	116,932,001
	<hr/>
Deferred outflows of resources	3,249,822
	<hr/>
Current liabilities	4,817,489
Compensated absences, less current portion	602,927
Long-term debt, less current portion	3,805,000
Net pension liability	9,178,515
OPEB liability	1,144,659
	<hr/>
Total liabilities	19,548,590
	<hr/>
Deferred inflows of resources	418,632
	<hr/>
Capital assets, net of related debt	64,766,485
Unrestricted	35,448,116
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Total net position	\$ 100,214,601
	<hr/>

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

A summary of the District's Statement of Revenues, Expenses and Change in Net Position at June 30, 2017 is presented below:

Condensed Statement of Revenues, Expenses and Change in Net Position

Operating revenues:

Water sales and service fees	\$ 17,711,296
Fire and emergency medical service fees	3,996,650
Sewer service fees	<u>6,581,808</u>
Total operating revenues	<u>28,289,754</u>

Operating expenses:

Water and related expenses	18,169,155
Fire, emergency medical, and related expenses	5,259,897
Sewer and related expenses	4,543,911
Park expenses	<u>131,858</u>
Total operating expenses	<u>28,104,821</u>
Operating income	<u>184,933</u>

Non-operating revenues (expenses):

Property taxes	5,851,974
Investment income	156,418
Other revenue and expenses, net	<u>1,601</u>
Total non-operating revenues (expenses)	<u>6,009,993</u>

Income before contributions 6,194,926

Assessment revenue	63,704
Capital contributions	<u>201,465</u>

Increase in net position 6,460,095

Net position, beginning of year 93,754,506

Net position, end of year \$ 100,214,601

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

BUDGETARY HIGHLIGHTS

The District adopts an annual operating budget which includes proposed expenses and the means of financing them. A comparison between actual and budgeted amounts are not required nor shown in the financial statements section of this report.

A comparison of the operating results for fiscal year ended June 30, 2017 to the budget is presented below.

Comparison of the Operating Results for 2017 to the Budget

	<u>Actual</u>	<u>Budget</u>	Favorable (Unfavorable)
Operating revenues	\$ 28,289,754	\$ 25,178,246	\$ 3,111,508
Operating expenses:			
Water expenses	18,169,155	18,849,241	680,086
Fire and emergency medical expenses	5,259,897	6,139,714	879,817
Sewer expenses	4,543,911	5,788,155	1,244,244
Park expenses	131,858	320,534	188,676
Total operating expenses	<u>28,104,821</u>	<u>31,097,644</u>	<u>2,992,823</u>
Operating income (loss)	<u>184,933</u>	<u>(5,919,398)</u>	<u>6,104,331</u>
Non-operating revenues (expenses):			
Property taxes	5,851,974	5,200,000	651,974
Investment income	156,418	30,310	126,108
Other revenue and expenses	1,601	-	1,601
Total non-operating revenues (expenses)	<u>6,009,993</u>	<u>5,230,310</u>	<u>779,683</u>
Income (loss) before contributions	<u>\$ 6,194,926</u>	<u>\$ (689,088)</u>	<u>\$ 6,884,014</u>

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

LONG-TERM DEBT

The long-term debt position of the District is presented below and more fully analyzed in Note 7 of the financial statements:

Installment purchase agreement	\$ 4,063,000
Note payable	110,812
Total	<u>4,173,812</u>
Less current portion	<u>(368,812)</u>
Total long term debt	<u><u>\$ 3,805,000</u></u>

CAPITAL ASSETS

Changes in capital assets for the fiscal year ended June 30, 2017, were as follows:

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Capital Assets Subject to Depreciation				
Water property, plant, lines, and equipment	\$ 105,753,023	\$ 782,018	\$ (50,033)	\$ 106,485,008
Fire protection property, building and equipment	5,720,856	272,701	-	5,993,557
Park buildings and equipment	1,874,283	-	-	1,874,283
San Vicente Sewer - property, plant, lines, and equipment	23,173,219	347,179	-	23,520,398
Santa Maria Sewer - property, plant, lines, and equipment	17,243,243	10,979	-	17,254,222
Less: accumulated depreciation	(100,730,211)	(4,178,186)	50,033	(104,858,364)
Total capital assets being depreciated, net	<u>53,034,413</u>	<u>(2,765,309)</u>	<u>-</u>	<u>50,269,104</u>
Capital Assets Not Subject to Depreciation				
Land	10,073,828	-	-	10,073,828
Construction in progress	4,807,623	5,383,766	(1,393,048)	8,798,341
Total capital assets not being depreciated	<u>14,881,451</u>	<u>5,383,766</u>	<u>(1,393,048)</u>	<u>18,872,169</u>
Net capital assets	<u><u>\$ 67,915,864</u></u>	<u><u>\$ 2,618,457</u></u>	<u><u>\$ (1,393,048)</u></u>	<u><u>\$ 69,141,273</u></u>

**RAMONA MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017**

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

Ramona Municipal Water District's financial report is designed to provide Ramona Municipal Water District's Board of Directors, legislative and oversight agencies, citizens, and customers with an overview of Ramona Municipal Water District's finances and to demonstrate its accountability for funds received. For additional information about this report, please contact Richard Hannasch, Chief Financial Officer, at 105 Earlham Street, Ramona, CA 92065.

RAMONA MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
June 30, 2017

Assets

Current assets:

Cash and investments	\$ 41,948,001
Accounts receivable:	
Water and sewer, net of allowance for doubtful accounts of \$21,554	1,626,424
Property taxes	27,783
Interest receivable	55,672
Other receivables	804,397
Inventory, net of reserve of \$25,000	<u>3,324,757</u>
Total current assets	<u>47,787,034</u>

Other assets:

Capital assets, net of accumulated depreciation	69,141,273
Other assets	<u>3,694</u>
Total non-current assets	<u>69,144,967</u>
Total assets	<u>116,932,001</u>

Deferred outflows of resources

Pension related costs	<u>3,249,822</u>
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RAMONA MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
June 30, 2017

Liabilities

Current liabilities:

Accounts payable	\$ 1,809,012
Deposits payable	2,340,586
Accrued interest payable	33,815
Unearned revenues	64,288
Current portion of compensated absences	200,976
Current portion of note and contract payable	368,812
	<hr/>
Total current liabilities	4,817,489

Non-current liabilities:

Compensated absences, less current portion	602,927
Note and contract payable, less current portion	3,805,000
Net pension liability	9,178,515
OPEB liability	1,144,659
	<hr/>
Total non-current liabilities	14,731,101
	<hr/>
Total liabilities	19,548,590

Deferred inflows of resources

Pension related costs	418,632
	<hr/>

Net position

Net investment in capital assets	64,766,485
Unrestricted	35,448,116
	<hr/>
Total net position	\$ 100,214,601

RAMONA MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
For the Fiscal Year Ended June 30, 2017

Operating revenues:	
Water sales and service fees	\$ 17,711,296
Fire and emergency medical service fees	3,996,650
Sewer service fees	<u>6,581,808</u>
Total operating revenues	<u>28,289,754</u>
Operating expenses:	
Source of supply	6,985,766
Treatment plants	1,044,264
Reservoirs and pumping	1,589,408
Transmission and distribution	1,787,868
Sewer services	2,756,043
Safety services	5,259,897
Park services	131,858
Vehicle maintenance	298,233
Depreciation	4,178,186
General and administrative	<u>4,073,298</u>
Total operating expenses	<u>28,104,821</u>
Operating income	<u>184,933</u>
Non-operating revenues:	
Property taxes	5,851,974
Interest revenue	156,418
Other revenues and expenses, net	<u>1,601</u>
Total non-operating revenues	<u>6,009,993</u>
Income before contributions	6,194,926
Assessment revenue	63,704
Capital contributions	<u>201,465</u>
Change in net position	6,460,095
Net position - beginning	<u>93,754,506</u>
Net position - ending	<u>\$ 100,214,601</u>

RAMONA MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
June 30, 2017

Cash flows from operating activities:	
Receipts from customers	\$ 28,256,998
Payments to suppliers and vendors	(19,707,271)
Payments to employees	<u>(3,992,675)</u>
Net cash provided by operating activities	<u>4,557,052</u>
Cash flows from non-capital financing activities:	
Property taxes received	5,915,462
Miscellaneous	<u>1,600</u>
Net cash provided by non-capital financing activities	<u>5,917,062</u>
Cash flows from capital and related financing activities:	
Capital contributions	201,465
Acquisition and construction of capital assets	(5,403,595)
Repayment of notes and contracts	(355,505)
Interest payments	<u>(144,183)</u>
Net cash used in capital and related financing activities	<u>(5,701,818)</u>
Cash flows from investing activities:	
Interest on investments	<u>125,069</u>
Net cash provided by investing activities	<u>125,069</u>
Net change in cash and investments	4,897,365
Cash and investments - beginning	<u>37,050,636</u>
Cash and investments - ending	<u><u>\$ 41,948,001</u></u>

RAMONA MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
June 30, 2017

Reconciliation of operating income to net cash	
provided by operating activities:	
Operating income	\$ 184,933
Adjustments to reconcile operating income	
to net cash provided by operating activities	
Depreciation	4,178,186
(Increase) decrease in:	
Accounts receivable	(118,235)
Inventory	(679,224)
Deferred outflows of resources	(2,737,183)
Increase (decrease) in:	
Accounts payable	543,378
Deposit payable	809,031
Unearned revenues	(11,358)
Compensation benefits payable	(55,460)
OPEB liability	19,613
Net pension liability	2,886,099
Deferred inflows of resources	(462,728)
Net cash provided by operating activities	<u>\$ 4,557,052</u>
Reconciliation to balance sheet	
Unrestricted: cash and investments	<u>\$ 41,948,001</u>
Total cash and investments	<u><u>\$ 41,948,001</u></u>

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

1. ORGANIZATION AND OPERATIONS OF THE DISTRICT

The Ramona Municipal Water District (the “District”) was formed on August 15, 1956, pursuant to the Municipal Water Act of 1911 (California Statutes of 1991, Charter 671 as amended) for the primary purpose of supplying water to Ramona, California and surrounding areas. A five-member Board of Directors elected to staggered four-year terms of office from five (5) geographical divisions governs the District. In addition, the District provides fire protection, paramedic, sewer, and park recreation services.

In 1988, the District completed construction of Lake Ramona, a 12,500 acre-foot reservoir. Untreated water is purchased from the San Diego County Water Authority and pumped to the reservoir, and then sold to agricultural customers.

In 1981, the Ramona Fire Protection District was dissolved and merged with the District. The District managed the fire department until July 1993, when a contract was entered into between the District and the California Department of Forestry, to provide fire and paramedic staff.

In May 1975, the District was authorized to provide park and recreational services to the public. The District owns a 166-acre park in conjunction with its well fields. In 1994, the District entered into a contract with the Ramona Parks and Recreation Association (a non-profit public benefit organization), to operate and manage the park.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District accounts for its financial transactions in accordance with the policies and procedures of the Irrigation District Law, now Division 11, of the California State Water Code. The accounting policies of the District conform to accounting principles generally accepted in the United State of American (“GAAP”) as applicable to governments and to general practice within California Special Districts. The District accounts for its financial transactions in accordance with the policies and procedures of the State Controller’s Office Division of Local Government Fiscal Affairs Minimum Audit Requirement and Reporting Guidelines for California Special Districts.

Reporting Entity

The District’s financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District’s reporting entity, as set forth in GASB Statement No. 14, *The Financial Reporting Entity*, subsequently amended by GASB Statement No. 39 *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34*, include whether:

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reporting Entity (continued)

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District
- it would be misleading or cause the financial statements to be incomplete to exclude another organization

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB statement.

The District uses Enterprise Funds to account for the five (5) operating divisions. Those operating divisions are (1) Water, (2) Fire and Paramedic, (3) Parks and Recreation, (4) San Vicente Sewer and (5) Santa Maria Sewer.

Water

This operating division maintains and services both a treated water system and an untreated water system. The treated system distributes treated water upon demand to 9,636 customers. The untreated system provides irrigation water to 205 customers. Rates for both treated and untreated water are based upon the cost of treating, transporting, and delivering water to customers.

Fire and Paramedic

This operating division provides fire protection services and emergency medical services. The District contracts out this service to the California Department of Forestry and Fire Protection, and maintains three fire stations. Rates for fire service charges and ambulance calls are based on the cost to service and maintain these fire stations.

Parks and Recreation

This operating division provides the land and facilities for a park, which is managed by the Ramona Parks and Recreation Association on a volunteer basis. The operating division receives funds from property taxes, and the funds are remitted to the Ramona Parks and Recreation Association.

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reporting Entity (continued)

San Vicente Sewer

This operating division provides sewer service to the San Diego Country Estates area of Ramona and services 3,799 equivalent dwelling units (EDUs). A service rate per EDU is set based on the cost of treatment and collection of sewage for this facility.

Santa Maria Sewer

This operating division provides sewer service to the downtown area of Ramona and services 4,379 EDUs. A service rate per EDU is set based on the cost of treatment and collection of sewage for this facility.

Basis of Accounting

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 to its customers on a continuing basis be financed or recovered primarily through user charges (water sales and services) or similar funding. Revenues and expenses are recognized on the full 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 flow took place.

Operating revenues and expenses are generated and incurred through water sales, fire services, emergency medical services, and sewer fees to the District's customers. 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.

Financial Reporting

The District's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and subsequently amended by GASB Statement No. 61. This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reporting.

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Reporting (continued)

The District's basic financial statements are also presented in conformance with the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to provide guidance to include two classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are required to be reported in a Statement of Net Position in a separate section following assets. Similarly, amounts reported as deferred inflows of resources are required to be reported in a Statement of Net Position in a separate section following liabilities. In addition, the totals of these two new classifications should be added to the total for assets and liabilities, respectively.

Governmental Accounting Standards Implementation in Current Year

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which addresses reporting by postemployment benefits other than pensions (OPEB) plans that administer benefits on behalf of governments. This statement basically parallels GASB Statement 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, and replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement was effective for the current fiscal year. Implementation of this statement had no significant effect on the District's financial statements.

Upcoming Governmental Accounting Standards Implementation

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement applies to government employers who provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement basically parallels GASB Statement 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* (GASB Statement No. 68), and replaces GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB Statement No. 45). Application of this statement is effective for the District's fiscal year ending June 30, 2018, and is expected to result in an increase of approximately \$300,000 in the District's OPEB liability.

Assets, Liabilities, and Equity

Cash and Investments

For purposes of the statements of cash flows, cash and cash equivalents consist of short-term highly liquid investments with maturities of ninety days or less from the date of purchase. These include cash on hand, in banks and the Local Agency Investment Fund.

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Equity (continued)

Cash and Investments (continued)

The District's investment policy and state statutes authorize the District to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, certificates of deposit with national and state-licensed or chartered banks or federal or state savings and loan associations, money market and mutual funds whose portfolios consist of one or more of the foregoing investments, and the Local Agency Investment Fund.

State statutes require all deposits be insured or collateralized. Depositories holding public funds on deposit are required to maintain collateral in the form of a pool of securities with the agent of the depository having a market value of at least 10 to 50 percent in excess of the total amount of all public funds on deposit.

Accounts Receivable

Accounts receivable arise from billings to customers for water sales, and other utility billings and include an estimate for unbilled water revenue, revenue earned from the dates the customer were last billed to the end of the fiscal year. The District also records an allowance for doubtful accounts based on collection history and other factors.

Inventories

Inventories are recorded on the average cost basis. Inventory consists primarily of water meters, water line maintenance materials, and sewer line maintenance materials. The District maintains an inventory reserve of \$25,000 at June 30, 2017.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. A capitalization threshold of \$10,000 is used.

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Equity (continued)

Capital Assets (continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	10-50
Water systems	10-50
Improvements of sites	7-25
Equipment	5-10

Unearned Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded to the extent cash received on specific projects and programs exceeds qualified expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferral of outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditures) until then. The District reports deferred employer pension contributions and other deferred outflows related to the District's pension.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources which represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Certain changes in the District's net pension liability are required to be deferred over a closed amortized period.

Pensions

The District follows GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB Statement No. 68), as of July 1, 2014. This statement requires accrual-based measurement and recognition of the cost of pension benefits during the periods when employees render their services.

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Equity (continued)

Pensions (continued)

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

GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Measurement Period	July 1, 2015 to June 30, 2016

Compensated Absences

Accumulated unpaid employee vacation benefits and sick leave are recognized as current and non-current liabilities in the Statement of Net Position. As of June 30, 2017, the District had \$803,903 of accrued vacation and sick leave.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

3. COMPLIANCE AND ACCOUNTABILITY

Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action taken</u>
None reported	Not applicable

4. CASH AND INVESTMENTS

Cash and investments at June 30, 2017, consisted of the following:

Cash	\$ 11,221,825
Investments	<u>30,726,176</u>
Total cash and investments	<u><u>\$ 41,948,001</u></u>

Deposits

The carrying amount of the District's cash deposit in the bank was \$11,582,657 at June 30, 2017, which is fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The remaining amount was collateralized with securities pledged by the pledging financial institution in the District's name.

The California Government Code (Code) requires California banks and savings and loan associations to secure the District's cash deposits by pledging securities as collateral. The Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the District's name.

The market value of the pledged securities must equal at least 110% of the District's cash deposits. California law also allows institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total cash deposits.

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

4. CASH AND INVESTMENTS (continued)

Investments

Investments are reported at fair value. California statutes authorize special districts to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 – Financial Affairs. The table below identifies the investment types that are authorized for the District by the California Government Code (or the District’s investment policy, where more restricted) that address interest rate risk, credit risk, and concentration of credit risk. The table does not address investments of debt proceeds held by a bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District’s investment policy.

The District’s permissible investments include the following instruments:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
California Local Agency Investment	5 years	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates and Time Deposits	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-through Securities	5 years	20%	None
Investment Pools, including LAIF	None	None	None

The District may invest in financial futures and option contracts of any of the above authorized categories, subject to the same overall portfolio limitations.

The District complied with the provisions of the California Government Code and its investment policy pertaining to the types of investments held, the institutions in which deposits were made and the security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

4. CASH AND INVESTMENTS (continued)

Investments (continued)

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District's investments with LAIF at June 30, 2017 include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

Structured Notes – are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities – the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2017, the District had \$30,726,176 invested in LAIF, which had invested 2.89% of the pool investments funds in Structured Notes and Asset-Backed Securities as compared to 2.81% in the previous year. The LAIF fair value factor of 0.998940671 was used to calculate the fair value of the investments in LAIF.

Interest Risk – Interest rate risk is the market value fluctuation due to overall changes in interest rates. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District's investment policy does not contain any provisions limiting interest rate risk that are more restrictive than what is specified in the California Government Code.

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 as of June 30, 2017:

Investment Type	Fair Value	Investment Maturities (in years)				
		1 year or Less	2 years	3 years	4 years	5 years or More
Local Agency Investment Fund	\$30,726,176	\$30,726,176	\$ -	\$ -	\$ -	\$ -
Total	\$30,726,176	\$30,726,176	-	-	-	\$ -

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

4. CASH AND INVESTMENTS (continued)

Investments (continued)

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At June 30, 2017 the District’s investments in the Local Agency Investment Funds were not rated.

Concentration of Credit Risk – The California Government Code limits the amount the District may invest in any one issuer, with the exception of U.S. Treasury obligations, U.S. Agency securities and LAIF. The District has no investments in any one issuer (other than LAIF) that represent 5% or more of total District investments.

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 for its investment or collateral securities that are in the possession of another party.

Investment Valuation – Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments’ fair value measurements at June 30, 2017 are described as follows:

Investment Type	Fair Value	Fair Value Measurement Using				
		Level 1	Level 2	Level 3	4 years	5 years or More
Local Agency Investment Fund	\$30,726,176	\$ -	\$ 30,726,176	\$ -	\$ -	\$ -
Total	\$30,726,176	\$ -	\$ 30,726,176	\$ -	\$ -	\$ -

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

4. CASH AND INVESTMENTS (continued)

Investments (continued)

The District's fair value for its investment in the State of California LAIF is based on the fair market value factors provided by LAIF that are calculated based on the total fair market value of the pool. LAIF includes investments categorized as Level 1 such as United States Treasury securities, Federal Agency securities, and supranational debentures that are valued based on prices quoted in active markets and investments categorized as Level 2 such as negotiable certificates of deposit and bank notes that are based on market corroborated pricing utilizing inputs such as yield curves and indices that are derived principally from or corroborated by observable market data by correlation to other means. The District categorized its investments in LAIF based on the lowest significant input used to determine the fair market value of the total pool.

5. ACCOUNTS RECEIVABLE

Accounts receivable, net of allowance for doubtful accounts as of June 30, 2017, consists of the following:

Utility billings	\$ 1,647,978
Property taxes	27,783
Interest receivable	55,672
EMS receivables	573,596
Other receivables	230,801
Allowance for doubtful accounts	<u>(21,554)</u>
Total	<u><u>\$ 2,514,276</u></u>

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

6. CAPITAL ASSETS

Changes in capital assets for the fiscal year ended June 30, 2017, were as follows:

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Capital Assets Subject to Depreciation				
Water property, plant, lines, and equipment	\$ 105,753,023	\$ 782,018	\$ (50,033)	\$ 106,485,008
Fire protection property, building and equipment	5,720,856	272,701	-	5,993,557
Park buildings and equipment	1,874,283	-	-	1,874,283
San Vicente Sewer - property, plant, lines, and equipment	23,173,219	347,179	-	23,520,398
Santa Maria Sewer - property, plant, lines, and equipment	17,243,243	10,979	-	17,254,222
Less: accumulated depreciation	(100,730,211)	(4,178,186)	50,033	(104,858,364)
Total capital assets being depreciated, net	<u>53,034,413</u>	<u>(2,765,309)</u>	<u>-</u>	<u>50,269,104</u>
Capital Assets Not Subject to Depreciation				
Land	10,073,828	-	-	10,073,828
Construction in progress	4,807,623	5,383,766	(1,393,048)	8,798,341
Total capital assets not being depreciated	<u>14,881,451</u>	<u>5,383,766</u>	<u>(1,393,048)</u>	<u>18,872,169</u>
Net capital assets	<u>\$ 67,915,864</u>	<u>\$ 2,618,457</u>	<u>\$ (1,393,048)</u>	<u>\$ 69,141,273</u>

For the year ended June 30, 2017, depreciation expense was \$4,178,186.

7. NON-CURRENT LIABILITIES

Non-current liabilities include debt and other long-term liabilities. Changes in long-term obligations for the fiscal year ended June 30, 2017, are as follows:

	June 30, 2016	Increases	Decreases	June 30, 2017	Current Portion
Compensated absences	\$ 962,548	\$ 133,480	\$ (292,125)	\$ 803,903	\$ 200,976
Installment Purchase Agreement	4,314,000	-	(251,000)	4,063,000	258,000
Note Payable	215,317	-	(104,505)	110,812	110,812
	<u>\$ 5,491,865</u>	<u>\$ 133,480</u>	<u>\$ (647,630)</u>	<u>\$ 4,977,715</u>	<u>\$ 569,788</u>

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

7. NON-CURRENT LIABILITIES (continued)

Note Payable

On March 14, 1978, the District entered into a Note Payable to Farmers Home Administration with interest at 5.00%, used to finance the acquisition and construction of water distribution, storage and related works and facilities. Payments including interest are due annually through 2018. Future long-term maturities as of June 30, 2017, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 110,812	\$ 5,552	\$ 116,364
	<u>\$ 110,812</u>	<u>\$ 5,552</u>	<u>\$ 116,364</u>

Installment Purchase Agreement

On May 8, 2014, the District entered into an Installment Purchase Agreement in the amount of \$4,808,000 to J.P. Morgan Chase with interest at 3.06% used to finance 2014 San Vicente Road Pipeline Relocation Project. Annual principal payments plus interest are due through October 2029. Future long-term maturities as of June 30, 2017, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 258,000	\$ 120,380	\$ 378,380
2019	267,000	112,348	379,348
2020	275,000	104,055	379,055
2021	283,000	95,518	378,518
2022	292,000	86,720	378,720
2023-2030	2,688,000	342,200	3,030,200
	<u>\$4,063,000</u>	<u>\$ 861,221</u>	<u>\$4,924,221</u>

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

8. SEGMENT INFORMATION

The following is summarized condensed information for the major operating divisions of the District and the combined nonmajor operating divisions including Parks and Recreation, San Vicente Sewer and Santa Maria Sewer:

Water Fund

Condensed Statement of Net Position

Cash and investments	\$	20,445,653
Accounts receivable		1,940,680
Inventory		3,324,757
Capital assets, net		53,282,267
Other assets		3,694
Total assets		78,997,051
Deferred outflows of resources		3,249,822
Current liabilities		2,863,323
Non-current liabilities		14,731,101
Total liabilities		17,594,424
Deferred inflows of resources		418,632
Capital assets, net of related debt		38,551,166
Unrestricted		25,682,651
Total net position	\$	64,233,817

Condensed Statement of Activities

Operating revenues:		
Sales and service fees	\$	16,943,564
Total operating revenues		16,943,564
Operating expenses:		
Water and related expenses		11,685,924
Depreciation and general & administrative		5,603,500
Total operating expenses		17,289,424
Operating loss		(345,860)
Non-operating revenues (expenses):		
Property taxes		587,273
Interest income		37,414
Other revenue and expenses, net		286,587
Total non-operating revenues		911,274
Income before contributions		565,414
Capital contributions		201,465
Increase in net position		766,879
Net position, beginning of year		63,466,938
Net position, end of year	\$	64,233,817

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

8. SEGMENT INFORMATION (continued)

Fire and Paramedic Fund

Condensed Statement of Net Position

Cash and investments	\$	4,479,623
Accounts receivable		573,596
Capital assets, net		<u>2,324,180</u>
Total assets		<u>7,377,399</u>
Current liabilities		<u>168,778</u>
Total liabilities		<u>168,778</u>
Capital assets, net of related debt		2,324,180
Unrestricted		<u>4,884,441</u>
Total net position	\$	<u><u>7,208,621</u></u>

Condensed Statement of Activities

Operating revenues:		
Fire and emergency medical service fees	\$	<u>3,990,085</u>
Total operating revenues		<u>3,990,085</u>
Operating expenses:		
Safety services		5,259,896
Depreciation and general & administrative		<u>399,926</u>
Total operating expenses		<u>5,659,822</u>
Operating loss		<u>(1,669,737)</u>
Non-operating revenues (expenses):		
Property taxes		2,426,694
Interest income		19,103
Other revenue and expenses		<u>74,368</u>
Total non-operating revenues		<u>2,520,165</u>
Increase in net position		850,428
Net position, beginning of year		<u>6,358,193</u>
Net position, end of year	\$	<u><u>7,208,621</u></u>

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

8. SEGMENT INFORMATION (continued)

Nonmajor Funds

Condensed Statement of Net Position

Cash and investments		\$	17,022,725
Capital assets, net			13,534,826
	Total assets		30,557,551
Current liabilities			1,785,388
	Total liabilities		1,785,388
Capital assets, net of related debt			13,534,826
Unrestricted			15,237,337
	Total net position	\$	28,772,163

Condensed Statement of Activities

Operating revenues:			
Sales and service fees		\$	874,178
	Total operating revenues		874,178
Operating expenses:			
Sewer services			2,756,043
Park services			131,858
Depreciation and general & administrative			1,416,619
	Total operating expenses		4,304,520
	Operating loss		(3,430,342)
Non-operating revenues (expenses):			
Property taxes			6,782,983
Interest income			68,640
Other revenue and expenses, net			(7,695)
	Total non-operating revenues		6,843,928
Increase in net position			3,413,586
Net position, beginning of year			25,358,577
Net position, end of year		\$	28,772,163

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

9. EMPLOYEE RETIREMENT PLAN

Plan Description, Benefits Provided and Employees Covered

All qualified permanent and probationary employees are eligible to participate in the District's Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The District sponsors four rate plans (three miscellaneous and one safety). Benefit provisions under the Plan are established by State statute and District 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 at 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 55 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.

The District's labor contract with miscellaneous employees require the District to make no contribution for the employee's share of member contributions, employees in the miscellaneous plan pay the full 8.00% (6.75% if hired after January 1, 2013), and the employer's rate is 13.843% (7.022% if hired after January 1, 2013) after payment of the Annual Lump Sum Payment Option. The District no longer provides public safety service so there are no employee contributions being made to the plan.

Contribution Description

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 will be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are 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.

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

9. EMPLOYEE RETIREMENT PLAN (continued)

Contribution Description (continued)

The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The District's contributions to the Plan for the year ended June 30, 2017 were \$937,629.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

At June 30, 2017, the District reported a net pension liability of \$9,178,515 for its proportionate share of the net pension liability of the Plan. 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 Plans is measured as of June 30, 2016, 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 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the Local Government's long-term share of contributions to the Plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability as of June 30, 2016 was 0.363540%.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 937,629	\$ -
Change in assumptions		416,719
Differences between expected and actual experiences	33,954	-
Difference in actual versus projected contributions	3,848	-
Changes in proportions	105,507	1,913
Net differences between projected and actual earnings on pension plan investments	<u>2,168,884</u>	<u>-</u>
	<u>\$ 3,249,822</u>	<u>\$ 418,632</u>

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

9. EMPLOYEE RETIREMENT PLAN (continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

The \$937,629 reported as deferred outflows of resources related to the pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Periods Ending June 30:	Deferred Outflows/ (Inflows) of Resources
2018	\$ 1,118,181
2019	164,837
2020	986,437
2021	561,735
	<u>\$ 2,831,190</u>

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

The June 30, 2015 valuation was rolled forward to determine the June 30, 2016 total pension liability, based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

9. EMPLOYEE RETIREMENT PLAN (continued)

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

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

Change of Assumptions

There were no changes of assumptions.

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

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

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

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

9. EMPLOYEE RETIREMENT PLAN (continued)

Discount Rate (continued)

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

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10 (a)</u>	<u>Real Return Years 11+ (b)</u>
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	<u>100.00%</u>		

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

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

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.65%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65%) or one percentage point higher (8.65%) than the current rate:

	<u>Discount Rate -1.00%</u> <u>6.65%</u>	<u>Current Discount Rate</u> <u>7.65%</u>	<u>Discount Rate +1.00%</u> <u>8.65%</u>
Miscellaneous Plan's Net Pension Liability	<u>\$ 16,506,165</u>	<u>\$ 9,178,515</u>	<u>\$ 3,128,897</u>

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

9. EMPLOYEE RETIREMENT PLAN (continued)

Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net positions is available in the separately issued CalPERS financial report.

The District did not report a payable outstanding for contributions to the pension plan required for the year ended June 30, 2017.

10. JOINT VENTURES (JOINT POWERS AGREEMENT)

The District is a participating member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), which arranges for and provides general liability, property damage, and dam failure liability insurance to its member agencies. The District pays a premium commensurate with the level of coverage requested. The District has elected to self-insure for a portion of property damage coverage in the amount of \$10,000 per occurrence.

Contributions to ACWA/JPIA were approximately \$590,355 for the year ended June 30, 2017. Condensed financial information available for the ACWA/JPIA as of September 30, 2016 are as follows. The complete financial statements can be obtained by contacting ACWA/JPIA at P.O. Box 619082, Roseville, CA 95661-9082.

Total revenues	\$ 149,371,770
Total expenses	<u>161,601,971</u>
Net decrease in net position	(12,230,201)
Beginning net position	<u>80,933,818</u>
Ending net position	<u><u>\$ 68,703,617</u></u>

11. OTHER POST EMPLOYMENT BENEFITS

Plan Description

To be eligible for retiree health benefits, an employee must retire from the District on or after age 50 according to the following tiers:

- Tier 1 (Hire prior to January 1, 2005) – five (5) years of full time District employment/50 years of age;
- Tier 2 (Hire on/after January 1, 2005) – ten (10) years of full time employment/50 years of age;

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

11. OTHER POST EMPLOYMENT BENEFITS (continued)

Plan Description (continued)

- Tier 3 (Hired after January 1, 2008) – 10 years of full time service/50 years of age/sum of age and service with the District equals to 65.

Employees hired after January 1, 2014 are no longer eligible for the retiree health benefit.

The District's contribution is based on a percentage of the least expensive District-sponsored medical plan for eligible employees at the date of retirement. For employees with less than 25 years of eligible service at retirement, the District's contribution percentage is 86.76% for retiree only coverage and 68.17% for any additional spouse coverage. For employees with greater than 25 years of eligible service at retirement, the District's contribution percentage is 100% for retiree coverage and 75% for retiree plus spouse coverage. The retiree must pay any additional costs above the District's contribution including future increases in the cost of coverage. The District's contribution is also provided to retirees as a cash reimbursement under accountable plan benefit if opting out of the District-sponsored plan.

Funding Policy. The District policy is to fund the Plan on a pay as you go basis, which covers only current cost of health insurance premiums for employees and retirees.

Annual OPEB Cost and Net OPEB Obligation. The District's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over the remaining period of 30 years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution service cost	\$	63,959
24 year amortization of UAL		70,936
Annual OPEB cost (expense)		134,895
Contributions made		(115,282)
Increase in net OPEB obligation		19,613
Net OPEB obligation, beginning of year		1,125,046
Net OPEB obligation, end of year	\$	1,144,659

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

11. OTHER POST EMPLOYMENT BENEFITS (continued)

Plan Description (continued)

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

Year Ended	Annual Required Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	\$ 129,505	54.24%	\$ 1,087,525
6/30/2016	\$ 132,141	71.60%	\$ 1,125,046
6/30/2017	\$ 134,895	85.46%	\$ 1,144,659

Funded Status and Funding Progress. As of June 30, 2017, the actuarial accrued liability for benefits was \$1,144,659, all of which was unfunded.

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

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

11. OTHER POST EMPLOYMENT BENEFITS (continued)

The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following simplifying assumptions were made:

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

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

Mortality: Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics website (www.cdc.gov). The calculation of OPEB liability for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.

Health Insurance Premiums: January 1, 2017 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid based upon the weighted average of the full uncapped monthly tiered rate premiums.

Medicare Coordination: Medicare was assumed as the primary payer for current and future retirees at age 65.

Discount Rate: Based on the historical and expected returns of the District's investments, the discount rate of 4.5 percent was used.

Actuarial Cost Method: The entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2014, was twenty-four years.

The calculation of the District's other postemployment benefit cost is calculated as follows:

Plan for Funding: On an ongoing basis, the District will be reviewing its assumptions, comparing them against actual experience and recalculating the needed funding with the goal of paying for postemployment benefits out of interest earned on designated funds.

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

12. CAPITAL CONTRIBUTIONS

Contributions of Water and Sewer Systems

Contributions of Water and Sewer Systems by developers and property owners are valued based upon the District engineers' estimates of cost and are recorded as capital contributions. Water and Sewer Systems acquired by merging are also recorded as capital contributions.

The District adopted GASB Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*, to record capacity charges. Under Statement No. 33, the District recognizes capacity charges as revenue.

13. VACATION, SICK LEAVE AND COMPENSATORY TIME

Vacation and Sick Leave

Based on the Memorandum of Understanding between the District and the District's Employees Association for the period of January 1, 2014 through December 31, 2017, all eligible employees are entitled to vacation and sick leave referred to as Comprehensive Annual Leave (CAL Time). Accrual of CAL Time begins on the employee's hire as follows:

<u>Commencement of CAL Time Accrual</u>	<u>CAL Time Accrual Per Period (Hours)</u>	<u>CAL Time Accrual Annually (Days)</u>
0 years	6.8	22.10
6 years	8.3	26.98
11 years	9.9	32.18
16 years	11.4	37.05

Accrual of CAL Time shall cease when an employee reaches the maximum cap of 1,040 hours and does not accrue until the balance of the unused time again falls below 1,040 hours. Unless CAL Time is used for an absence due to the employee's illness or injury, it will only be scheduled and taken with the approval of the employee's immediate supervisor. No employee may take more than twenty-five (25) consecutive days of CAL Time without the written approval of the General Manger.

Probationary employees may use accrued CAL Time from their hire date for approved absence away from work related to the employee's inability to work due to the employee's illness or injury, and are eligible to use their CAL Time for vacation purposes after six (6) months of employment with the District.

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

13. VACATION, SICK LEAVE AND COMPENSATORY TIME (continued)

Vacation and Sick Leave (continued)

Employees who are laid off, resign, retire, or are otherwise separated from the service of the District, shall be paid for all accrued CAL Time upon separation from employment with the District. The amount of payment is calculated based upon the employee's regular straight time hourly rate of pay in effect for the employee's regular job, on the last work day of the employee's employment.

Compensatory Time (Comp Time)

When an employee works beyond their regularly scheduled workday or duty shift, the employee shall be paid either by use of comp time at a rate of one and one-half (1½) hours from each overtime hour worked over eight (8) hours in a workday or at the rate of time and one-half of their regular hourly rate of pay for all time worked over eight (8) hours in a workday. Hours worked which are eligible for overtime and double time pay may be compensated either by use of comp time or pay. No employee shall be allowed to accumulate over sixty (60) hours of unused comp time without the written permission of the department head.

14. DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full time employees, permits deferment of a portion of current salary to future years. Benefits from the plan are not available to employees until termination, retirement, disability, death or unforeseeable emergencies.

All assets and income of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries. The District does not meet the criteria for fiduciary fund reporting since it does not have either significant administrative involvement (e.g. custody) or performs the investment function. The plan assets are being administered by both the California Public Employees' Retirement System (CalPERS) and Lincoln Financial Group. New employees may only elect a deferred compensation plan with CalPERS. Current employees who have participated with Lincoln Financial Group cannot make additional contributions to their account but must commence a plan with CalPERS.

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

15. ASSESSMENT DISTRICT NO. 99-1

On March 14, 2000, the Board of Directors formed Assessment District No. 99-1. Assessment District No. 99-1 and issued bonds in the aggregate principal amount of \$3,355,000 in August 2000. The bonds were issued pursuant to the Improvement Bond Act of 1915 and the bonds are designated as Limited Obligation Improvement Bonds, Ramona Municipal Water District, Assessment District No. 99-1 2000 Series A. The Bonds were issued to finance the construction and acquisition of certain public improvements specifically benefiting property owners within the Assessment District.

The bonds mature in various amounts ranging from \$85,000 to \$265,000 on September 2 of each year from 2001 until 2020. Interest rates range from 4.75% to 6.60%. The bonds are secured by a pledge of all assessment revenues of the Assessment District No. 99-1. The outstanding principal on the bonds as of June 30, 2017 is \$795,000.

Future long-term maturities of the Bonds are as follows:

Year Ending			
June 30,	Principal	Interest	Total
2018	\$ 195,000	\$ 46,035	\$ 241,035
2019	205,000	32,835	237,835
2020	225,000	18,645	243,645
2021	170,000	5,610	175,610
	<u>\$ 795,000</u>	<u>\$ 103,125</u>	<u>\$ 898,125</u>

RAMONA MUNICIPAL WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

15. ASSESSMENT DISTRICT NO. 99-1 (continued)

The Assessment District No. 99-1 is accounted for in an agency fund of the District and is therefore not included in the basic financial statements of the District.

Assets	
Cash	\$ 477,963
Cash, Restricted for payment of the debt	261,354
Other Assets	9,597
Total Assets	<u>\$ 748,914</u>
Liabilities and Net Position	
Bonds Payable	\$ 795,000
Interest Payable	4,460
Total Liabilities	<u>799,460</u>
Net Position	<u>\$ (50,546)</u>
Revenue	
Assessments	\$ 251,475
Interest	1,962
Total Revenues	<u>253,437</u>
Expenses	
Interest Expense	57,400
Other Expenses	7,550
Total Expenses	<u>64,950</u>
Net Revenue over Expenses	<u>\$ 188,487</u>

REQUIRED SUPPLEMENTARY INFORMATION

RAMONA MUNICIPAL WATER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST 10 YEARS
June 30, 2017

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Proportion of the net pension liability	0.363540%	0.262704%	0.083035%
Proportionate share of the net pension liability	\$ 9,178,515	\$ 6,292,416	\$ 5,166,833
Covered - employee payroll	\$ 3,653,926	\$ 3,377,753	\$ 3,548,685
Proportionate Share of the net pension liability as percentage of covered-employee payroll	251.20%	186.29%	145.60%
Plan's fiduciary net position	\$ 45,179,789	\$ 45,890,612	\$ 34,712,429
Plan fiduciary net position as a percentage of the total pension liability	83.11%	87.94%	81.02%

Notes to Schedule:

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

Change in Assumptions: None

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

RAMONA MUNICIPAL WATER DISTRICT
SCHEDULE OF PLAN CONTRIBUTIONS
June 30, 2017

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution (actuarially determined)	\$ 937,629	\$ 1,255,719	\$ 950,317
Contributions in relation to the actuarially determined contributions	(937,629)	(1,255,719)	(950,317)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 3,653,926	\$ 3,377,753	\$ 3,548,685
Contributions as a percentage of covered employee payroll	25.66%	37.18%	26.78%

Notes to Schedule:

Valuation date: June 30, 2016 June 30, 2015 June 30, 2014

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

RAMONA MUNICIPAL WATER DISTRICT
OTHER POSTEMPLOYMENT BENEFITS PLAN SCHEDULE OF FUNDING PROGRESS
For the Fiscal Year Ended June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability		Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
		(AAL) - Simplified Entry Age (b)	Unfunded AAL (UAAL) (b - a)			
July 1, 2008	\$ -	\$ 583,938	\$ 583,938	0.0%	N/A	N/A
July 1, 2011	\$ -	\$ 1,831,258	\$ 1,831,258	0.0%	N/A	N/A
July 1, 2014	\$ -	\$ 1,028,257	\$ 1,028,257	0.0%	N/A	N/A

OTHER SUPPLEMENTARY INFORMATION

**RAMONA MUNICIPAL WATER DISTRICT
ORGANIZATION
June 30, 2017**

<u>Name</u>	<u>Office</u>	<u>Term Expiration</u>
Thomas Ace	President	December 4, 2020
Vacant	Vice President	December 7, 2018
Jim Hickle	Secretary	December 7, 2018
Jeff Lawler	Treasurer	December 4, 2020
Bryan Wadlington	Director	December 4, 2020

General Manager

David P. Barnum

Chief Financial Officer

Richard Hannasch

RAMONA MUNICIPAL WATER DISTRICT
ASSESSED VALUATION
June 30, 2017

Assessed Valuation

Secured Property	\$ 3,896,120,516
Unsecured Property	<u>40,261,235</u>
Total Assessed Valuation	<u><u>\$ 3,936,381,751</u></u>