

FALLBROOK PUBLIC UTILITY DISTRICT

Annual Financial Report

**For the Years Ended
June 30, 2014 and 2013**

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Independent Auditor's Report

The Board of Directors of the
Fallbrook Public Utility District

Report on the Financial Statements

We have audited the accompanying financial statements of the Fallbrook Public Utility District (District) as of and for the years ended June 30, 2014 and 2013, 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 error or fraud.

Auditor's Responsibility

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

An audit involves performing procedures to obtain 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 risks 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 reasonable 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 the District, as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the 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 and the OPEB schedule of funding progress, as listed in the table of contents, 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 District's basic financial statements. The Schedules of Revenues and Expenses by Operating Department and miscellaneous statistical information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Revenues and Expenses by Operating Department 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 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 Schedules of Revenues and Expenses by Operating Department are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The miscellaneous statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014, 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.


San Diego, California
November 24, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

FALLBROOK PUBLIC UTILITY DISTRICT
Management's Discussion and Analysis
(Unaudited)

This Management's Discussion and Analysis (MD&A) of the Fallbrook Public Utility District's (District) financial performance offers readers of the District's financial statements the following narrative overview and analysis of the District's financial activities for the years ended June 30, 2014 and 2013. Please read it in conjunction with the District's basic financial statements, which begin immediately following this analysis.

Financial Highlights (FY 13-14)

- The assets of the District exceeded its liabilities at the close of the June 30, 2014 fiscal year by \$79.1 million (net position).
- Construction of the Wastewater Treatment Plant rehabilitation began in December 2013. As of June 30, 2014 costs totaling \$12.5 million were incurred with the remainder of the \$28 million project to be completed by December 31, 2015.
- During FY 12-13 the District began an aggressive program of water pipeline and valve replacement which continued into FY 13-14. During the fiscal year a large section of 8" water pipeline was replaced on Hillcrest Drive. Also during the fiscal year, the Red Mountain Reservoir was relined and the interior of the Sachse reservoir was recoated. The total capitalized expense for all water capital expenses was \$2.8 million.
- Also during FY 13-14 a sewer force main and several manholes were replaced as was a large valve along the District's ocean outfall line. Wastewater capital expenses excluding the Wastewater Treatment Plant rehabilitation were \$426,700 during the year.
- The District's operating loss of \$3.4 million when netted against nonoperating revenue of \$4.9 million results in a \$1.5 million increase in net position before accounting for capital contributions. The \$3.4 million loss is due to the Board's decision to pay off the CalPERS side fund in FY 13-14 in the amount of \$3.15 million. The three largest sources of nonoperating revenues were property taxes and water and wastewater capital improvement charges and the California Solar Initiative rebate. These combined account for \$4.5 million of the \$4.9 million in nonoperating revenue. During FY 13-14 the District sold 12 new water meters and 5 sewer permits collecting \$118,500 in connection fee revenue.
- During FY 13-14 the District's operating revenue increased by \$1.37 million. Operating revenues are comprised of potable and recycled water sales, monthly water and wastewater service charges and all San Diego County Water Authority fixed fees such as the Infrastructure Access Charge (IAC) and Readiness to Serve Charge (RTS) which are passed directly through to the customer. \$1.2 million of this increase was due to slightly higher water sales of 383 acre feet (AF) over FY 12-13. Sales in FY 13-14 remained relatively level to FY 12-13 sales, 12,571 AF and 12,188 AF, respectively. Recycled water sales in FY 13-14 remained level at 717 AF versus 735 in FY 12-13. A three tiered rate structure was put into place in FY 08-09 in response to water shortages. Should mandatory cutbacks take place, based on the level of the water shortage, the percentage increase between tiers will be increased according to the District's Water Shortage Response Plan.
- The North County Joint Powers Authority (JPA) was formed by the Fallbrook Public Utility District and Rainbow Municipal Water District Board of Directors in April 2013 to decrease expenses for both agencies as resources such as manpower and heavy equipment were shared. In March 2014, the Rainbow Municipal Water District's Board of Directors voted to dissolve the JPA. During FY 13-14, the District's portion of the JPA savings was \$223,483.

Financial Highlights (FY 12-13)

- The assets of the District exceeded its liabilities at the close of the June 30, 2013 fiscal year by \$76.8 million (net position).
- Design of the Wastewater Treatment Plant's rehabilitation was completed during the fiscal year. Costs for design and planning of the rehabilitation were \$1.6 million with construction scheduled to begin before December 31, 2013.
- The District began an aggressive program of water pipeline and valve replacements which will continue into the future. Also during the fiscal year, the Red Mountain Pressure Regulating Station was designed and constructed as a pressure control facility to replace the existing deteriorated valve structure. Total capitalized expenses for these projects were approximately \$1.64 million.
- Beginning in FY 12-13 a program of sewer pipelines and manhole replacement began and will continue. In FY 12-13 \$347,000 in sewer pipeline projects were completed.
- The District's operating income of \$13,987 when netted with the nonoperating revenue of \$4.05 million results in a \$4.07 million increase in net position before accounting for capital contributions. The largest sources of nonoperating revenues are property taxes, water and wastewater capital improvement charges and the California Solar Initiative rebate. These combined account for \$3.6 million of the \$4.05 million in nonoperating revenue. During FY 12-13 the District sold 10 new water meters and 30 sewer permits collecting \$247,600 in connection fee revenues. Depreciation expense of \$3.5 million is charged as an operating expense.
- For FY 12-13 the District's total operating revenue increased by \$3.9 million due largely to increased water and recycled water sales. Sales were budgeted to remain at FY 11-12 levels, or 10,600 acre feet (AF) of potable water and 600 AF of recycled water. Actual sales for FY 12-13 were 12,188 AF and 735 AF respectively. Actual sales in FY 11-12 were 11,258 AF and 545 AF, respectively. The District uses a 3-tiered rate structure for potable water sales so that as certain thresholds of water usage are exceeded, the rate charged increases to the next tier. When sales exceed budgeted acre feet, a larger proportion of this water is sold at the higher priced tiers. The 3-tier structure was established in FY 08-09 in response to water shortages and potential mandatory cutbacks. Should mandatory cutbacks take place, based on the level of the water shortage, the percent increase between tiers will be increased based on the District's Water Shortage Response Plan, which encourages conservation. The District passes through all San Diego County Water Authority increases in the wholesale cost of water. The District's wholesale cost of water increased 9.7%
- The Board of Directors formed a North County Joint Powers Authority (JPA) with the Rainbow Municipal Water District (Rainbow). The formation of the JPA is expected to result in the decrease of expenses for both districts as resources such as employees and heavy equipment are shared. Beginning in April 2013, a leasing agreement was finalized where the District's General Manager salary is split between the two districts and other services such as Engineering and Safety services are also shared based on actual hours worked on specific projects. The JPA Board voted to continue resource sharing through FY 13-14 when the JPA Board and both the Fallbrook Public Utility District Board and Rainbow Municipal Water District Board will consider a consolidation.

Overview of the Basic Financial Statements

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District operates as a utility enterprise. The District's basic financial statements include two components: (1) enterprise fund financial statements and (2) notes to the basic financial statements.

Basic Financial Statements

The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The basic financial statements can be found on pages 14-17 of this report.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The *Statement of Cash Flows* presents relevant information about the cash receipts and cash payments for the period categorized according to whether they stem from operating, noncapital financing, capital and related financing, or investing activities. This statement helps users assess the District's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its needs for financing. It also helps assess the effects on the District's financial position and changes in its cash and noncash investing, capital and financing transactions during the period.

The *Notes to the Basic Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements and are an integral part of the financial statements. The notes to the financial statements can be found on pages 18-40 of this report.

Financial Analysis of the District

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that will help answer questions as to whether the District, as a whole, is better or worse off as a result of this year's activities. These two statements report the net position of the District and changes in it. One can think of the District's net position as the difference between assets (what is owned) and liabilities (what is owed) and is one way to measure its financial health or position.

Condensed Statements of Net Position

	June 30, 2014	June 30, 2013*	Change
Assets:			
Current Assets	\$ 21,781,856	\$ 19,487,033	\$ 2,294,823
Restricted Assets	2,447,935	1,466,499	981,436
Capital Assets, net	85,998,192	73,421,598	12,576,594
Total Assets	110,227,983	94,375,130	15,852,853
Liabilities:			
Current Liabilities	8,053,217	4,009,552	4,043,665
Noncurrent Liabilities	23,059,886	13,687,225	9,372,661
Total Liabilities	31,113,103	17,696,777	13,416,326
Net Position:			
Net Investment in			
Capital Assets	64,203,257	60,195,379	4,007,878
Restricted	2,145,361	1,213,780	931,581
Unrestricted	12,766,262	15,269,194	(2,502,932)
Total Net Position	\$ 79,114,880	\$ 76,678,353	\$ 2,436,527

*Amounts have been restated from those previously reported due to the implementation of GASB Statement No. 65.

During FY 13-14, \$3.3 million in water and wastewater capital projects were completed. The largest water projects were the relining of the Red Mountain Reservoir, recoating the Sachse reservoir and an 8" water pipeline replacement. These three projects accounted for \$2.3 million of the total capitalized expenses. The largest

completed wastewater project was a sewer forcemain replacement and replacement of a large valve on the District's ocean outfall. These two projects accounted for \$321,600 of the \$426,600 of wastewater capital expenses. Current assets increased by \$2.3 million in FY 13-14 over FY 12-13. \$943,000 of this was cash and investments as required by a covenant of the Wastewater Treatment Plant State Revolving Fund (SRF) loan. This covenant requires the establishment of a reserve fund in the amount of one year's debt service, or \$1,767,875. This reserve must be established before commencement of principal and interest payments on the loan. Half of this amount was budgeted for FY 13-14 with the remainder budgeted in FY 14-15. \$1 million of the increase in current assets is SRF loan proceeds were received in June 2014 with contractor invoices totaling \$2.5 million which were paid after June 30, 2014. Another factor in the \$2.3 million increase in Current Assets is that at June 30, 2014 the District's Red Mountain Reservoir was only 25% of capacity. Under normal conditions it is kept at 70% to 90% full but was not at this level due to the recent completion of the liner replacement. Additional funds will be spent in future years to refill the reservoir and increase the water inventory. Water and Wastewater Accounts Receivable increased by nearly \$411,000 mostly due to the increase in water rates and monthly operations charges.

Capital assets, net increased by \$12.6 million due to the ongoing Construction in Progress at the Wastewater Treatment Plant.

Current Liabilities increased by \$4.0 million over FY 12-13, \$2.5 million of which is related to unpaid invoices to the Wastewater Treatment Plant rehabilitation contractor and \$0.9 million relates to increases in two invoices for FY 13-14 due to our water wholesaler, San Diego County Water Authority over those due for the same period in FY 12-13, due to increased rates. The remainder was due to the increase in the current portion of long term debt and current interest payable on that debt.

Noncurrent liabilities increased \$9.3 million, \$8.6 million of which is long term debt for the Wastewater Treatment Plant SRF loan and the remaining portion is the retention payable to the contractors performing the construction and rehabilitation of the Treatment Plant, which will be paid upon completion of the project.

Total Net Position increased by \$2.4 million primarily due to the increase in the District's net investment in capital assets of over \$4 million and a decrease of \$2.5 million in unrestricted net position. The decrease in unrestricted net position is partially due to the payoff of the CalPERS side fund during FY2013-14 which is described in the next section.

Condensed Statements of Net Position

	<u>June 30, 2013*</u>	<u>June 30, 2012</u>	<u>Change</u>
Assets:			
Current Assets	\$19,487,033	\$15,092,262	\$ 4,394,771
Restricted Assets	1,466,499	1,441,720	24,779
Capital Assets, net	73,421,598	73,409,418	12,180
Deferred Charges, net	-	154,385	(154,385)
Total Assets	<u>\$94,375,130</u>	<u>90,097,785</u>	<u>4,277,345</u>
Liabilities:			
Current Liabilities	4,009,552	4,698,119	(688,567)
Noncurrent Liabilities	<u>13,687,225</u>	<u>13,240,164</u>	447,061
Total Liabilities	<u>17,696,777</u>	<u>17,938,283</u>	<u>(241,506)</u>
Net Position:			
Net Investment in			
Capital Assets	60,195,379	60,609,683	(414,304)
Restricted	1,213,780	1,213,780	-
Unrestricted	<u>15,269,194</u>	<u>10,336,039</u>	4,933,155
Total Net Position	<u>76,678,353</u>	<u>\$72,159,502</u>	<u>\$ 4,518,851</u>

*Amounts have been restated from those previously reported due to the implementation of GASB Statement No. 65.

The largest and most significant portion of the District's net position are its investment in capital assets, which are used to provide services to its customers. Water assets include the pipeline distribution system, the dam at the Red Mountain reservoir and equipment and structures. Wastewater assets include the sewage collections system, wastewater treatment plant, solar generating plant, equipment and ownership of the Oceanside Ocean Outfall.

During FY 12-13, \$4.04 million in water, wastewater and recycling projects were completed. The largest water projects were the Red Mountain Pressure Regulating Station and the various pipeline replacement projects as well as the valve replacement project along Mission Road. These projects accounted for \$1.64 million in capital improvements. The largest wastewater project was the completion of the design and planning of the wastewater treatment plant rehabilitation. Construction began in September 2013 and take until approximately December 2015 to complete. The treatment plant will continue to operate while it is being rehabilitated, contributing to the total expected \$28 million cost of the project. Low cost State Revolving Fund (SRF) financing has been approved. Current assets increased by \$4.4 million in FY 12-13 over FY 11-12. All of the increase is from an increase in cash and investments as the water, wastewater and recycled operations all had revenues greater than expenses as the Board continues to attempt to reach equity goals as established in the District's Administrative Code. In FY 12-13 the Water and Recycled operations exceeded the Board's equity goals, and the full Board will determine where to allocate the overages. Accounts Receivable increased by \$317,763 mostly due to the increase in water sales along with an increase in water rates for FY 12-13. Inventory of water stored in the Red Mountain reservoir decreased by \$395,290 from the prior year, which was offset by an increase in the District's materials inventory of \$109,140. During FY 13-14 a capital improvement project to replace the Red Mountain liner will begin and as a result, the water level is being lowered so that minimal water will be drained and not sold.

Current Liabilities decreased by \$668,567, of which \$559,492 was due to the decrease in Accounts Payable. At June 30, 2012 the District was still paying two vendor contracts for design and planning for the wastewater treatment plant rehabilitation, a project that was completed prior to June 30, 2013. Another \$162,013 is due to a decrease in developer construction projects. There were four developer projects ongoing as of June 30, 2012 which were completed prior to June 30, 2013, with all developer deposits being used for completion of the projects. These projects costs were capitalized in FY 12-13, and reported as Capital Assets.

Noncurrent liabilities increased by \$447,061. During FY 12-13, \$1.3 million of design expenses incurred for the wastewater treatment plant were eligible for reimbursement from the new Wastewater Treatment Plant State Revolving Fund (SRF) loan, increasing the liability. As construction begins, contractor invoices will be sent to the State Water Resources Control Board for reimbursement pursuant to the SRF program.

Total net position increased by \$4.6 million. Contributing to the increase in the District's net position was the increase in operating revenues generated from the rate increase, which resulted in the District realizing operating income of \$13,987, in comparison to the operating loss in FY 11-12 in the amount of \$2,199,297. The increase of the California Solar Initiative (CSI) rebate in the amount of \$245,000 and the implementation of the Wastewater Capital Improvement charge, producing \$750,000 in additional revenue in comparison to FY 11-12, also contributed to the increase in net position.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	For the Year Ended June 30, 2014	For the Year Ended June 30, 2013	Change
Operating Revenues	\$ 28,955,183	\$ 27,582,160	\$ 1,373,023
Operating Expenses	32,380,888	27,568,173	4,812,715
Operating Income (Loss)	(3,425,705)	13,987	(3,439,692)
Nonoperating Revenue, Net	4,956,888	4,064,044	892,844
Change in Net Position before Capital Contributions	1,531,183	4,078,031	(2,546,848)
Capital Contributions	905,344	595,205	310,139
Change in Net Position	2,436,527	4,673,236	(2,236,709)
Net Position - beginning of year, as restated	76,678,353	72,005,117	4,673,236
Net Position - end of year	<u>\$ 79,114,880</u>	<u>\$ 76,678,353</u>	<u>\$ 2,436,527</u>

While the Statement of Net Position shows the change in financial position of the District's net position, the Statement of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of these changes. The District's net position increased by \$2.4 million for the year ended June 30, 2014.

Potable and recycled water sales remained level between FY 13-14 and FY 12-13. Water sales and monthly service charge revenues increased \$1.2 million for the year ended June 30, 2014. Revenues include sales and monthly charges and pass through charges including the Readiness to Serve (RTS) charge and Infrastructure Access Charge (IAC). The increase in revenue was due to the increase in the wholesale cost of water and the fixed fees such as RTS and IAC. Reclaimed rebates from the San Diego County Water Authority (SDCWA) and Metropolitan Water District of Southern California (MWD) are also included. For FY 13-14, Operating Revenue for the Water Division was 78% of total operating revenues, Wastewater revenues were 18% of total operating revenue and the remaining 4% were from the Recycled division.

Operating Expenses increased by \$4.8 million over FY 12-13. Increases to the District's wholesale cost of water accounted for \$1.2 million of this increase. Prior to June 30, 2014, the Board approved a payoff of the \$3.1 million CalPERS side fund. The side fund was established in FY 05-06 when all CalPERS agencies with less than 100 employees were pooled into one large group. The side fund was created to account for the differential between the funded status of the pool versus the funded status for each individual agency included in the pool. By paying off the side fund, the employer contribution rate for the District will decrease by nearly 11.8%. Payment of

the side fund resulted in an increase in expenses for the Water, Wastewater and Recycled divisions of \$3.1 million.

The District's operating loss of \$3.4 million when netted against nonoperating revenue of \$4.9 million results in a \$1.5 million increase in net position before capital contributions. The \$3.4 million loss is due to the Board's decision to pay off the CalPERS side fund in FY 13-14 in the amount of \$3.15 million. The District's \$4.9 million nonoperating revenues come from three primary sources, property taxes in the amount of \$1.7 million, water and wastewater capital improvement funds in the amount of nearly \$2 million, and the California Solar Initiative rebate in the amount of \$843,714. The remaining nonoperating revenues of \$437,000 come from connection fee revenue, water availability charges, lease revenue and investment income.

Supplemental information for each of the three divisions can be found on page 42 of this report.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	For the Year Ended June 30, 2013	For the Year Ended June 30, 2012	Change
Operating Revenues	\$ 27,582,160	\$ 23,661,715	\$ 3,920,445
Operating Expenses	27,568,173	25,861,012	1,707,161
Operating Loss	13,987	(2,199,297)	2,213,284
Nonoperating Revenue, Net	4,064,044	2,973,605	1,090,439
Change in Net Position before Capital Contributions	4,078,031	774,308	3,303,723
Capital Contributions	595,205	612,156	(16,951)
Change in Net Position	4,673,236	1,386,464	3,286,772
Net Position - beginning of year, as restated	72,005,117	70,773,038	1,232,079
Net Position - end of year	<u>\$ 76,678,353</u>	<u>\$ 72,159,502</u>	<u>\$ 4,518,851</u>

While the Statement of Net Position shows the change in financial position of the District's net position, the Statement of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of these changes. As previously mentioned the District's net position increased by \$4.6 million for the year ended June 30, 2013.

The District's operating income of \$13,987 when netted against the net nonoperating revenues of \$4.05 million results in a \$4,067,384 increase in net position before accounting for capital contributions. The \$13,987 operating income is due an increase in operating revenues generated from the rate increase. Revenue from water sales increased by \$3.2 million for the year ended June 30, 2013. Revenue is comprised of potable water and reclaimed water sales and reclaimed rebates, monthly service charges as well as the Readiness to Serve (RTS) and Infrastructure Access Charge (IAC), which are pass-through charges. Potable water sales increased by \$2.68 million as sales rose by 930 AF, to 12,188 AF. Operating expenses increased by \$1.7 million due to the increase in the wholesale cost of potable water and the increased potable water purchases. Water purchases increased from 11,948 AF to 12,499 AF. While sales rose 903 acre feet, purchases increased by 551 AF, the differential being used from the Red Mountain Reservoir, reducing the water in storage which is accounted for as inventory. The revenue from monthly water operations charge increased \$177,720 due to an increase of 1% in monthly operations charge for agricultural customers and 1.5% for all other customer classifications. The District's monthly wastewater operations charges increased by \$619,735, primarily as a result of the additional costs to operate an older, less efficient treatment plant. The sewer methodology implemented in FY 09-10, charging most customers based on actual flow, is still in place.

The cost to purchase M&I water increased by 9.7% on January 1, 2013 over January 1, 2012 rates. Projections by both the San Diego County Water Authority (SDCWA) and Metropolitan Water District (MWD) indicate that rates will continue to increase for the foreseeable future. Operating costs for water, wastewater and recycled departments (excluding Cost of Water Sold) held steady between FY 12-13 and FY 11-12. General and Administration expenses decreased by \$231,162 due in part to cost savings from resource sharing with Rainbow pursuant to the North County JPA and a decrease in expenses such as legal fees, Watermaster support and building maintenance versus what was budgeted.

Recycled sales revenue increased \$312,197 due to increased sales of 735 AF as compared to 545 AF in FY 11-12. \$106,000 of this increase is due to Metropolitan Water District and San Diego County Water Authority reclaimed water rebates of \$250 and \$200 per AF, respectively. The Recycled operating department showed net revenue greater than expenses for the second straight year, mostly due to the contract with Orange Grove Energy to fill tanker trucks with recycled water for cooling of their power plant in Pala.

Nonoperating revenues are comprised of 1% property taxes, water and wastewater connection fees, water and wastewater capital improvement charges, CSI rebate, investment income and lease revenue. Nonoperating revenues increased \$1.1 million, primarily due to two reasons. First, the District implemented a Wastewater capital improvement charge which raised \$750,000, the proceeds of which are being used for the wastewater treatment plant rehabilitation, and an increase in the CSI rebate of \$245,000, as FY 12-13 was the first full year that the District was eligible to receive the rebates. Although connection fee revenue increased by \$56,700 these revenues were offset by the decrease in investment income of the approximately same amount due to the continued low interest rate environment.

Water sales and monthly water operations charges total 80% of District operating revenues, with water sales increasing to 12,188 AF. Wastewater revenues are 18% of the total operating revenues. The remaining 2% of operating revenues include billing to the Naval Weapons Station for water transmission and wastewater processing, fees for delinquent account processing and repairs paid by others for damage done to District property.

Supplemental information for each of the three divisions can be found on page 43 of this report.

Capital Asset and Debt Administration

Capital Assets

	<u>Balance at June 30, 2013</u>	<u>Additions and Transfers In</u>	<u>Retirements and Transfers Out</u>	<u>Balance at June 30, 2014</u>
Capital Assets				
Nondepreciable assets	\$ 10,144,414	\$ 16,154,128	\$ (3,054,454)	\$ 23,244,088
Depreciable assets	121,262,867	3,182,153	(884,666)	123,560,354
Accumulated depreciation	(57,985,683)	(3,705,233)	884,666	(60,806,250)
Total capital assets, net	<u>\$ 73,421,598</u>	<u>\$ 15,631,048</u>	<u>\$ (3,054,454)</u>	<u>\$ 85,998,192</u>

The District's investment in capital assets as of June 30, 2014 increased by \$12,576,594 to \$85,998,192 as seen in the table above.

Major capital asset events during the fiscal year included the following:

- Completion of the \$1.1 million Red Mountain Reservoir lining.
- Completion of the Sachse reservoir recoating and repainting project totaling \$988,000.
- Construction began at the Wastewater Treatment Plant rehabilitation. Total cost of the project is \$28 million. \$12.5 million has been spent for design and construction as of June 30, 2014, with project completion in December 2015.

- A continued program of aggressive water pipeline replacement including the completion of an 8” pipeline on Hillcrest Drive and began construction of another 8” pipeline project on Stagecoach & Devin Drive. The District capitalized \$2.8 million in water projects.
- Sewer forcemain and manhole replacement. The District capitalized \$426,700 in wastewater projects during the period ending June 30, 2014.
- Conjunctive Use-Camp Pendleton will be responsible for development of additional groundwater recharge facilities on Camp Pendleton, pumping facilities on Camp Pendleton, and conveyance facilities to deliver water from Camp Pendleton to Fallbrook. For FY 13-14 approximately \$272,500 was spent on this project, with a project-to-date of capitalized expenses in the amount of \$3 million. The District will be responsible for construction of the pipeline required to deliver the water from the Fallbrook gate on the Naval Weapons Station to Red Mountain Reservoir and any necessary treatment facilities. The final feasibility study was completed by the United States Bureau of Reclamation for the project. A draft agreement between Camp Pendleton and the District is being finalized and a draft Environment Impact Report/Environment Impact Statement (EIR/EIS) has been completed and released for public review. The District applied for and has been approved from Prop 50 state grants for water project expenses to receive a total of approximately \$2.4 million in reimbursements over the upcoming 2-3 years. During FY 13-14 the District received \$828,598 from Prop 50 funds.

	<u>Balance at June 30, 2012</u>	<u>Additions and Transfers In</u>	<u>Retirements and Transfers Out</u>	<u>Balance at June 30, 2013</u>
Capital Assets				
Nondepreciable assets	\$ 11,213,823	\$ 2,975,345	\$ (4,044,754)	\$ 10,144,414
Depreciable assets	117,121,702	4,640,532	(499,367)	121,262,867
Accumulated depreciation	(54,926,107)	(3,558,943)	499,367	(57,985,683)
Total capital assets, net	<u>\$ 73,409,418</u>	<u>\$ 4,056,934</u>	<u>\$ (4,044,754)</u>	<u>\$ 73,421,598</u>

The District’s investment in capital assets as of June 30, 2013 increased by \$12,179 to \$73,421,598 as seen in the table above.

Major capital asset events during the fiscal year included the following:

- Completion of the Red Mountain Pressure Regulating Station of \$798,000. This project was for design and construction of a pressure control facility to replace an existing deteriorated valve structure.
- Completion of the planning and design phase of the wastewater treatment plant rehabilitation of \$1.6 million. Construction of the facility began in September 2013.
- The District began an aggressive program of water pipeline and valve replacements which will continue into the future. Total capitalized expenses for these projects were approximately \$844,000.
- Beginning in FY 12-13 a program of sewer pipelines and manhole replacement began and will continue. In FY 12-13 \$347,000 in sewer pipeline projects were completed.
- Conjunctive Use – District staff have been developing a joint project with Camp Pendleton for development of water supplies on the Santa Margarita River. The project is anticipated to supply an average of 3,100 AF/year. Camp Pendleton will be responsible for development of additional groundwater recharge facilities on Camp Pendleton, pumping facilities on Camp Pendleton, and conveyance facilities to deliver water from Camp Pendleton to Fallbrook. For FY 12-13, approximately \$316,000 was spent on this project, with a project-to-date of capitalized expenses in the amount of \$2,768,000. The District will be responsible for construction of the pipeline required to deliver the water from the Fallbrook gate on the Naval Weapons Station to Red Mountain Reservoir and any necessary treatment facilities. The final feasibility study was completed by the United States Bureau of Reclamation for the project. A draft agreement between Camp Pendleton and the District is being finalized and a

draft Environment Impact Report/Environment Impact Statement (EIR/EIS) is being prepared. The District applied and has been approved for Prop 50 state grants for water projects and expects to receive a total of approximately \$2.4 million in reimbursements over the upcoming 2-3 years.

Additional information on the District's capital asset activity can be found at Note 7 of the Notes to the Basic Financial Statements.

Capital Commitments

At June 30, 2014, the District has the following commitments with respect to unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Completion Date
Water Reclamation Plant	\$ 13,540,048	2015
Wastewater Treatment Plant Construction Management	604,774	2014
Red Mountain Reservoir Liner Repair	87,519	2014
Wastewater Treatment Plant Rehabilitation Project Design	44,924	2014

At June 30, 2013, the District has the following commitments with respect to unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Completion Date
Water Reclamation Plant	\$ 25,507,000	2015
Wastewater Treatment Plant Construction Management	917,200	2014
Wastewater Treatment Plant Rehabilitation Project Design	470,578	2014
Sachse Reservoir Painting	914,000	2013
Office Transfer Switch Electrical Project	99,710	2013

Debt Administration

At June 30, 2014, the District had \$22.7 million of long-term debt outstanding. \$5.6 million of this debt is attributable to the wastewater QECB solar loan. The loan was originally for \$7.227 million. Beginning in FY 13-14, Federal Sequestration caused the District to lose 7.2%, or \$16,868 of the Federal Interest Rate Subsidy. An additional \$5.4 million of indebtedness is attributable to the Red Mountain Filtration Plant SRF loan, originally for \$6.16 million. The newest debt is for the Wastewater Treatment Plant SRF loan. Of the total \$28.0 million loan, \$10.8 has been reimbursed through this loan as of June 30, 2014. Payments on the loan will commence in March 2017. During the year ended June 30, 2014 \$922,148 of principal payments were made.

At June 30, 2013, the District had \$13.2 million of long-term debt outstanding. \$6.16 million of this debt is attributable to the wastewater QECB solar loan. An additional \$5.67 million of indebtedness is attributable to the Red Mountain Filtration Plant SRF loan. A new Wastewater Treatment Plant SRF loan in the amount of \$22.0 million was approved by the State. District design and planning costs of \$1.32 million have been reimbursed through this loan. The loan is for a term of 20 years at an interest rate of 2.2%. Payments on the loan will commence in May 2016. In September 2013, the \$22.0 million loan was increased to \$28.7 million. Other indebtedness includes a loan for the expansion of the recycled water production and distribution system which was paid off in FY 13-14. During the year ended June 30, 2013, \$895,875 of principal payments were made.

More detailed information about the District's debt structure is found in Note 8 to the Financial Statements.

Economic Factors

The District's Board of Directors uses a budget philosophy of collecting 80% of fixed costs through the monthly water operations charge and 20% of fixed costs through the markup of the wholesale cost of water to our Municipal and Industrial (M&I) customers. Agricultural customers pay the District's wholesale cost of water, without markup. Because of this philosophy, fluctuating water sales have minimal impact on the District's ability to cover 80% of its operating expenses and the District remains in a very stable, financially sound condition, due to management and the Board's conservative budgeting and spending strategies. 100% of fixed costs are allocated from the wastewater monthly operations charges. The FY 13-14 budgeted operating revenues included Board objectives to reach or maintain equity goals in the three operating divisions, water, wastewater and recycled operations.

Since the District purchases all of its water supply from SDCWA, and since SDCWA projects annual water rate increases over the next decade, water costs will continue to rise. For FY 13-14 a 4% increase in the cost of water was implemented by SDCWA on January 1, 2014.

San Diego County Water Authority and its member agencies are currently challenging two components of Metropolitan Water District's rate structure. From San Diego County Water Authority's website, "On April 24, 2014 Superior Court Judge Curtis E.A. Karnow issued his final statement of decision in Phase 1 of the Water Authority's legal challenge to rates set by the Metropolitan Water District of Southern California. Judge Karnow upheld and strengthened his tentative ruling issued February 25. Judge Karnow ruled that MWD's rates for 2011, 2012, 2013 and 2014 violate cost of service requirements of California's Constitution, statutes and common law. Specifically, Judge Karnow's final statement of decision is that MWD's rates violate Proposition 26, the Wheeling Statute, Government Code Section 549997(a) and Common law rules that apply to ratemaking." The impact to the District will be determined by the San Diego County Water Authority Board of Directors when all of the legal challenges have been resolved. Three options will be considered, savings on future water rate increases, a refund of past water rates or as an offset to San Diego County Water Authority future capital construction projects.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the Fallbrook Public Utility District Finance Department at 990 East Mission Road, Fallbrook, California.

Brian J. Brady
General Manager
Fallbrook Public Utility District

Marcie Eilers
Administrative Services Manager/Treasurer
Fallbrook Public Utility District

BASIC FINANCIAL STATEMENTS

FALLBROOK PUBLIC UTILITY DISTRICT
Statements of Net Position
June 30, 2014 and 2013

	2014	2013
Assets:		
Current assets:		
Cash and investments (Note 5)	\$ 17,385,829	\$ 15,476,148
Receivables (Note 6)	3,197,806	2,787,059
Inventory	1,115,840	1,144,189
Other current assets	82,381	79,637
Total current assets	21,781,856	19,487,033
Noncurrent assets:		
Restricted cash and investments (Note 5):		
Debt service - Red Mountain State Revolving Fund	286,617	236,764
Debt service - Wastewater Treatment Plant State Revolving Fund	931,581	-
Held for 1958 Annex Projects	1,213,780	1,213,780
Capital improvements	15,957	15,955
Total restricted cash and investments	2,447,935	1,466,499
Capital assets (Note 7):		
Capital assets, not being depreciated	23,244,088	10,144,414
Capital assets being depreciated, net	62,754,104	63,277,184
Total capital assets, net	85,998,192	73,421,598
Total noncurrent assets	88,446,127	74,888,097
Total assets	110,227,983	94,375,130
Liabilities:		
Current liabilities:		
Accounts payable	6,328,203	2,880,720
Accrued wages	129,892	100,747
Construction and other deposits	14,485	5,467
Accrued interest payable	165,748	100,470
Current portion of other long-term liabilities (Note 8)	1,414,889	922,148
Total current liabilities	8,053,217	4,009,552
Noncurrent liabilities:		
HRA liability (Note 12)	103,033	107,447
OPEB liability (Note 12)	465,185	376,808
Retention payable	1,173,821	-
Other long-term liabilities - net of current portion (Note 8)	21,317,847	13,202,970
Total noncurrent liabilities	23,059,886	13,687,225
Total liabilities	31,113,103	17,696,777
Net position:		
Net investment in capital assets	64,203,257	60,195,379
Restricted for:		
1958 Annex projects	1,213,780	1,213,780
Debt service - Wastewater Treatment Plant State Revolving Fund	931,581	-
Unrestricted	12,766,262	15,269,194
Total net position	\$ 79,114,880	\$ 76,678,353

See accompanying Notes to the Basic Financial Statements.

FALLBROOK PUBLIC UTILITY DISTRICT
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Water sales	\$ 23,363,837	\$ 22,142,528
Wastewater services	5,205,516	4,950,757
Other	385,830	488,875
	<u>28,955,183</u>	<u>27,582,160</u>
Operating expenses:		
Cost of water sold	16,077,109	14,860,665
General and administration	3,779,278	3,735,693
Depreciation	3,705,231	3,558,943
Transmission and distribution	3,874,226	2,440,553
Wastewater operations and maintenance	3,765,046	2,272,161
Customer accounts	1,179,998	700,158
	<u>32,380,888</u>	<u>27,568,173</u>
Total operating expenses	32,380,888	27,568,173
Operating income (loss)	<u>(3,425,705)</u>	<u>13,987</u>
Nonoperating revenues (expenses):		
Property taxes	1,694,090	1,582,219
Capital improvement charges	1,981,822	1,252,501
California Solar Initiative rebate	843,714	779,786
Investment income	209,175	30,507
Water availability charges	200,779	201,037
Lease revenue	183,641	181,100
Connection fees	118,581	247,607
Other revenue	69,816	77,458
Gain on disposal of capital assets	-	3,550
Interest expense	(344,730)	(291,721)
	<u>4,956,888</u>	<u>4,064,044</u>
Total nonoperating revenues (expenses), net	4,956,888	4,064,044
Changes in net position before capital contributions	1,531,183	4,078,031
Capital contributions:		
State Proposition 50	828,598	-
Capital asset contributions - donated from developers	76,746	595,205
	<u>905,344</u>	<u>595,205</u>
Change in net position	2,436,527	4,673,236
Net position - beginning, as restated (Note 14)	<u>76,678,353</u>	<u>72,005,117</u>
Net position - ending	<u>\$ 79,114,880</u>	<u>\$ 76,678,353</u>

See accompanying Notes to the Basic Financial Statements.

FALLBROOK PUBLIC UTILITY DISTRICT
Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Receipts from customers	\$ 28,129,649	\$ 26,778,917
Receipts from others	680,447	752,716
Payments to suppliers and vendors	(16,747,636)	(16,136,736)
Payments to employees	(7,701,836)	(7,854,658)
Other payments (CalPERS side fund)	(3,154,895)	-
	1,205,729	3,540,239
Cash flows from noncapital financing activities:		
Property taxes	1,694,090	1,582,219
California Solar Initiative rebate	843,714	779,786
	2,537,804	2,362,005
Cash flows from capital and related financing activities:		
Acquisitions and construction of capital assets	(12,619,185)	(4,203,547)
Principal payments on long-term debt	(922,148)	(895,875)
Interest paid	(279,452)	(281,891)
Proceeds from contracts payable	9,490,867	1,322,354
Capital improvement charges and connection fees	2,100,403	1,500,108
Capital contributions - State Proposition 50	828,598	-
Water availability charges	200,779	201,037
Cash proceeds from sale of capital assets	-	3,550
	(1,200,138)	(2,354,264)
Cash flows from investing activities:		
Purchases of investments	(4,158,334)	(3,429,560)
Sales of investments	2,360,034	3,722,153
Interest received	194,228	27,112
	(1,604,072)	319,705
Net cash provided by investing activities	(1,604,072)	319,705
Net increase in cash and cash equivalents	939,323	3,867,685
Cash and cash equivalents - beginning	9,147,769	5,280,084
Cash and cash equivalents - ending	\$ 10,087,092	\$ 9,147,769

See accompanying Notes to the Basic Financial Statements.

FALLBROOK PUBLIC UTILITY DISTRICT
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of cash and cash equivalents to the Statement of Net Position:		
Cash and investments	\$ 17,385,829	\$ 15,476,148
Restricted cash and investments	2,447,935	1,466,499
Less investments not meeting the definition of cash and cash equivalents	(9,746,672)	(7,794,878)
Cash and cash equivalents	\$ 10,087,092	\$ 9,147,769
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	(3,425,705)	\$ 13,987
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	3,705,231	3,558,943
Lease revenue	183,641	181,100
Other revenue	69,816	77,458
(Increase) decrease in:		
Receivables	(395,800)	(314,368)
Inventory	28,349	286,150
Other assets	(2,744)	5,283
Increase (decrease) in:		
Accounts payable	881,916	(312,004)
Accrued wages	29,145	(3,165)
Construction and other deposits	9,018	-
HRA liability	(4,414)	(48,463)
OPEB liability	88,377	27,186
Compensated absences	38,899	68,132
Net cash provided by operating activities	\$ 1,205,729	\$ 3,540,239
Noncash capital and related financing activities:		
Capital assets contributed	\$ 76,746	\$ 595,205
Capital asset acquisitions included in accounts payable	2,700,877	135,310
Capital asset acquisitions included in retention payable	1,173,821	-
Capitalized construction deposits	-	162,013
Change in fair value of investments	7,676	(61,250)

See accompanying Notes to the Basic Financial Statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements
For the Years Ended June 30, 2014 and 2013

(1) ORGANIZATION AND OPERATIONS OF THE DISTRICT

Fallbrook Public Utility District (District) was incorporated as a political subdivision of the State of California in 1922 and operates under the provisions of the Public Utility District Code as adopted in 1953. The District constructs, operates and maintains facilities to supply water to the town of Fallbrook and the surrounding residential and agricultural areas comprising approximately 27,963 acres, which includes the former De Luz Heights Municipal Water District (annexed in 1990). The District is a member of the San Diego County Water Authority, and as that organization is a member of the Metropolitan Water District of Southern California, the District is entitled to prorata participation in all water supplies available to those agencies. The District is governed by a Board of Directors consisting of five board members, each of whom is elected to office for a term of four years by registered voters of the District.

In November 1994, the citizens of the Fallbrook Sanitary District (which is wholly included within the Fallbrook Public Utility District) voted to dissolve that district and have the Fallbrook Public Utility District become the provider of wastewater services in Fallbrook. The provisions of the dissolution and assumption of services established a separate improvement district to identify the tax base and debt obligations of the former Fallbrook Sanitary District.

Under the terms and conditions of the Local Agency Formation Commission (LAFCO), a San Diego County agency that oversees special districts, the debt of the former Fallbrook Sanitary District, now identified as Improvement District S, existing at the time of the merger was paid from taxes and other revenues raised within the Improvement District "S". The debt of the former De Luz Heights Municipal Water District was also paid from revenues and taxes paid in the De Luz area.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The accounting methods and procedures adopted by the District conform to generally accepted accounting principles as applied to governmental enterprise funds as prescribed by the Governmental Accounting Standards Board (GASB).

The District, as an enterprise fund, accounts for its operations in a manner similar to private business enterprises. The intent of the governing body is that the costs (including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The District's operating revenues and expenses are those that result from providing services and producing and delivering goods. The focus of enterprise fund measurement is upon determination of operating income, changes in net position, and cash flows.

(b) 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.

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

(c) Revenue Recognition

The District recognizes water and wastewater revenue on the accrual basis and includes an accrual for services provided in June but not yet billed. Property taxes are collected by the County of San Diego through property tax billings. Real property taxes are levied on October 15 against owners of record at January 1, the lien date. The taxes are due in two installments on November 1 and February 1 and become delinquent after December 10 and April 10, respectively. Property tax revenues are recognized when levied to the extent that they are available to the District's current operations. Other revenues such as grants and similar items are recognized in the fiscal year in which all eligibility requirements have been satisfied. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then use unrestricted resources as needed.

(d) Investments

Investments are recorded at fair value based on published market quotations as provided by the District's third party broker-dealers. Changes in the fair value of investments, both realized and unrealized, are recognized in the statements of revenues, expenses and changes in net position as a component of investment income.

(e) Inventory

Inventory consists of water stored at Red Mountain Reservoir and various warehouse materials, supplies and equipment necessary for the District's operations. Inventory is stated at the lower of cost or market, and is determined on a first-in, first-out basis.

(f) Capital Assets, Depreciation and Amortization

Capital assets are stated at cost. Contributed pipelines are valued at estimated fair value on the date of contribution and recorded as capital contributions. Generally, capital asset purchases in excess of \$2,000 are capitalized, if the assets have an expected useful life of one year or more.

Interest costs incurred while constructing capital assets are capitalized as part of the specific capital assets. The District did not capitalize any interest costs during the years ended June 30, 2014 and 2013.

Depreciation is charged to expense for all capital assets, including assets contributed to the District, and is computed using the straight-line method over the estimated useful asset lives as follows:

Water transmission and distribution system:	
Impounding dams and reservoirs	50 Years
Pipelines	50 Years
Other	20-25 Years
Wastewater collection system, and treatment and disposal facilities	20-50 Years
Buildings and structures	45 Years
Equipment	3-10 Years

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

(g) Net Position

In the *statement of net position*, the District's net position is classified into three components, which are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** - This component of net position consists of restricted assets which are reduced by liabilities related to those assets.
- **Unrestricted** - This component of net position does not meet the definition of "net investment in capital assets" or "restricted".

(h) Connection Fees and Water Availability Charges (Capacity Fees)

Connection and water availability charges (capacity fees) for water and sewer represent purchases of water meters and fees to connect to the water distribution system or connection to the wastewater collections system by developers or landowners. Connection fees are to be used strictly for capital improvements.

(i) Capital Contributions

Capital contributions for water and wastewater represent contributions of capital assets from developers and State Proposition 50 contributions received for Conjunctive Use. Capital assets contributed from developers are recorded in the statements of revenues, expenses and changes in net position at fair value at the date ownership is transferred to the District.

(j) Cash and Cash Equivalents

For purposes of the statements of cash flows, the District considers highly liquid debt instruments (including cash and investments whose use is limited and reported as restricted cash and investments) purchased with a maturity of three months or less to be cash equivalents. Funds invested with the Local Agency Investment Fund and the County Treasurer's investment pool are considered to be cash equivalents because amounts can be withdrawn on demand.

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

(3) IMPLEMENTATION OF A NEW GOVERNMENTAL ACCOUNTING STANDARD

Effective July 1, 2013, the District implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The impact on the District's financial statements as a result of the implementation of Statement No. 65 are further described in Note 14.

(4) UPCOMING GOVERNMENTAL ACCOUNTING STANDARDS

The requirements of the following accounting standards below are required to be implemented for the District's year ended June 30, 2015. District management are in the process of evaluating the potential impacts to the District's basic financial statements.

GASB Statement No. 68

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* as well as the requirements of Statement No. 50, *Pension Disclosures* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

This Statement requires the liability of employers to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan.

Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent year-end). Unless otherwise specified by this Statement, all assumptions underlying the determination of the total pension liability and related measures set forth by this Statement are required to be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Projections of benefit payments are required to be based on the benefit terms and legal agreements existing at the measurement date and to incorporate the effects of projected salary changes (if the pension formula incorporates future compensation levels) and service credits (if the pension formula incorporates periods of service), as well as projected automatic postemployment benefit changes, including automatic cost-of-living-adjustments (COLAs). Projections also are required to include the effects of ad hoc postemployment benefit changes (including ad hoc COLAs), if they are considered to be substantively automatic.

Projected benefit payments are required to be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.

The actuarial present value of projected benefit payments is required to be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the period when the employee first accrues pensions through the period when the employee retires.

GASB Statement No. 71

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*.

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

employer contributing to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement 68 requires a state or local government employer to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer that arise from other types of events. At transition to Statement 68, if it is not practical for an employer to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, Statement No. 68 requires that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer's beginning net position and expense in the initial period of implementation.

Statement No. 71 requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine *all* such amounts.

(5) CASH AND INVESTMENTS

The District accounts for various activities in separate funds in its accounting records and consolidates all of its funds into a single enterprise fund for financial reporting purposes. The District follows the practice of pooling cash and investments of all funds except funds for those required to be held separately by debt restrictions. Pooling is for the purpose of increasing interest earnings and administrative efficiency.

Restricted cash and investments represents amounts held with third party fiscal agents that are restricted for the payment of debt service and capital improvements.

Cash and investments as of June 30, 2014 and 2013 are classified in the accompanying statements of net position as follows:

	2014	2013
Statement of net position:		
Cash and investments	\$ 18,317,409	\$ 15,476,148
Restricted cash and investments	1,516,354	1,466,499
Total cash and investments	\$ 19,833,763	\$ 16,942,647

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Cash and investments as of June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Cash on hand	\$ 850	\$ 850
Deposits with financial institutions	4,929,549	2,858,689
Investments	<u>14,903,364</u>	<u>14,083,108</u>
Total cash and investments	<u>\$ 19,833,763</u>	<u>\$ 16,942,647</u>

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

The table below identifies the investment types that are authorized by the District's investment policy. The table also identifies certain provisions of the District's investment policy that address interest rate risk and concentration of credit risk, which is more restrictive than California Government Code. 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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>	<u>Minimum Credit Rating (S&P / Moody's)</u>
U.S. Treasury Securities	5 Years	No Limitation	No Limitation	No Limitation
U.S. Agency Securities	5 Years	No Limitation	75%	No Limitation
State Obligations	5 Years	25%	5%	BBB/Baa2
Bankers' Acceptances	180 Days	25%	25%	A1/P1
Commercial Paper	270 Days	15%	10%	A1/P1
Negotiable Certificates of Deposit	5 Years	30%	No Limitation	No Limitation
Repurchase Agreements	1 year	10%	10%	No Limitation
Medium-Term Notes	5 Years	30%	10%	A/A
Passbook and Money Market Savings Account	N/A	No Limitation	No Limitation	No Limitation
Local Agency Investment Fund (LAIF)	N/A	No Limitation	No Limitation	No Limitation
County Pooled Investment Funds	N/A	No Limitation	No Limitation	No Limitation
California Local Agency Obligations and Local Agency Obligations of Other States	5 years	25%	5%	BBB/Baa2
Joint Powers Authority Pool	5 years	No Limitation	No Limitation	No Limitation
Money Market Mutual Funds	5 years	20%	10%	AAA/Aaa
Mutual Funds	5 years	20%	10%	AAA/Aaa
Mortgage Pass-Through Securities	5 years	20%	No Limitation	AA

* Excluding amounts held by bond trustees that are not subject to California Government Code restrictions.

In addition to the allowable investments noted in the preceding table pursuant to the District's investment policy, the California Government Code also permits the following investments: reverse repurchase agreements; securities lending agreements; and California Voluntary Investment Program Fund. However, the District does not permit investments in these additional types of investments. Also, California Government Code and the District's investment policy prohibits investments in inverse floaters, range notes, interest-only strips derived from a pool of mortgages, and any security that might result in zero interest accrual.

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

The table below compares the maximum percentage of the District's investments and maximum investment by any one issuer allowable per the California Government Code to the District's investment policy, which is more restrictive. There are no differences between the minimum credit ratings for allowable investments pursuant to the District's investment policy and California Government Code.

Authorized Investment Type	Maximum Percentage of the Portfolio		Maximum Investment in One Issuer	
	California Government Code	District's Investment Policy	California Government Code	District's Investment Policy
U.S. Agency securities	None	None	None	75%
State obligations	None	25%	None	5%
Bankers' acceptances	40%	25%	30%	25%
Commercial paper	25%	15%	10%	10%
Repurchase agreements	None	10%	None	10%
California local agency obligations	None	25%	None	5%

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for the District's operations.

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following tables that shows the distribution of the District's investments by maturity.

As of June 30, 2014, the District had the following investments and maturities:

Investment Type	Fair Value	Remaining Maturity (in Months)		
		12 Months or Less	13 - 24 Months	25-60 Months
Local Agency Investment Fund	\$ 5,428,932	\$ 5,428,932	\$ -	\$ -
San Diego County Treasurer Pool	14,378	14,378	-	-
Medium-Term Notes	5,803,271	827,736	149,302	4,826,232
Negotiable Certificates of Deposit	2,848,504	456,634	564,155	1,827,716
Federal Home Loan Bank	496,725	-	-	496,725
Money Market Mutual Funds	311,554	311,554	-	-
Total investments	<u>\$ 14,903,364</u>	<u>\$ 7,039,234</u>	<u>\$ 713,457</u>	<u>\$ 7,150,673</u>

As of June 30, 2013, the District had the following investments and maturities:

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

<u>Investment Type</u>	<u>Fair Value</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>13 - 24 Months</u>	<u>25-60 Months</u>
Local Agency Investment Fund	\$ 6,510,660	\$ 6,510,660	\$ -	\$ -
San Diego County Treasurer Pool	14,333	14,333	-	-
Medium-Term Notes	2,876,538	744,736	837,464	1,294,338
Negotiable Certificates of Deposit	1,825,666	454,682	460,158	910,826
Federal National Mortgage Association	298,449	-	-	298,449
Federal Home Loan Bank	495,990	-	-	495,990
Federal Home Loan Mortgage Corporation	1,003,345	501,795	-	501,550
State of California Obligations	142,110	142,110	-	-
Money Market Mutual Funds	916,017	916,017	-	-
Total investments	<u>\$ 14,083,108</u>	<u>\$ 9,284,333</u>	<u>\$ 1,297,622</u>	<u>\$ 3,501,153</u>

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Disclosure Relating to 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. The following presentation is the minimum rating required by (where applicable) the California Government Code, or the District's investment policy, and the actual rating as of year-end for each investment type:

A summary of disclosures relating to credit risk at June 30, 2014:

Investment Type	Fair Value	Minimum Legal Rating	Not Rated	Credit Rating (Moody's/Standard & Poors)									
				AAA/ AA+	Aa3/AA-	A3/A and A3/A-	A2/A and A2/A-	A2/AA-	AA1/AA+	A1/AA+	A1/A	Baa1/A-	
Local Agency													
Investment Fund	\$ 5,428,932	N/A	\$ 5,428,932	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
San Diego County													
Treasurer Pool	14,378	N/A	14,378	-	-	-	-	-	-	-	-	-	-
Medium-Term Notes	5,803,271	A	-	-	936,444	951,465	1,527,231	509,655	326,638	1,079,725	149,302	322,811	
Negotiable Certificates of													
Deposit	2,848,504	N/A	2,848,504	-	-	-	-	-	-	-	-	-	-
Federal Home Loan Bank	496,725	N/A	-	496,725	-	-	-	-	-	-	-	-	-
Money Market Mutual Funds	311,554	AAA	311,554	-	-	-	-	-	-	-	-	-	-
	<u>\$ 14,903,364</u>		<u>\$ 8,603,368</u>	<u>\$ 496,725</u>	<u>\$ 936,444</u>	<u>\$ 951,465</u>	<u>\$ 1,527,231</u>	<u>\$ 509,655</u>	<u>\$ 326,638</u>	<u>\$ 1,079,725</u>	<u>\$ 149,302</u>	<u>\$ 322,811</u>	

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

A summary of disclosures relating to credit risk at June 30, 2013:

Investment Type	Fair Value	Minimum Legal Rating	Not Rated	Credit Rating (Moody's/Standard & Poors)					
				AAA/ AA+	A3/A-	A1/AA+	A2/A	A1/A+	A1/A
Local Agency									
Investment Fund	\$ 6,510,660	N/A	\$ 6,510,660	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
San Diego County									
Treasurer Pool	14,333	N/A	-	14,333	-	-	-	-	-
Medium-Term Notes	2,876,538	A	-	-	327,629	1,082,685	1,313,786	152,438	-
Negotiable Certificates of									
Deposit	1,825,666	N/A	1,825,666	-	-	-	-	-	-
Federal National									
Mortgage Association	298,449	N/A	-	298,449	-	-	-	-	-
Federal Home Loan Bank	495,990	N/A	-	495,990	-	-	-	-	-
Federal Home Loan									
Mortgage Corporation	1,003,345	N/A	-	1,003,345	-	-	-	-	-
State of California Obligations	142,110	BBB	-	-	-	-	-	-	142,110
Money Market Mutual Funds	916,017	AAA	916,017	-	-	-	-	-	-
	<u>\$ 14,083,108</u>		<u>\$ 9,252,343</u>	<u>\$ 1,812,117</u>	<u>\$ 327,629</u>	<u>\$ 1,082,685</u>	<u>\$ 1,313,786</u>	<u>\$ 152,438</u>	<u>\$ 142,110</u>

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represents 5% or more of the District's total investments as of June 30, 2014 and 2013 are as follows:

A summary of disclosures related to concentration of credit risk as of June 30, 2014:

Issuer	Investment Type	Fair Value
General Electric Capital Corporation	Medium-Term Notes	\$ 1,079,725

A summary of disclosures related to concentration of credit risk at June 30, 2013:

Issuer	Investment Type	Fair Value
JP Morgan Chase & Company	Medium-Term Notes	\$ 1,313,786
General Electric Capital Corporation	Medium-Term Notes	1,082,685
Federal Home Loan Mortgage Corporation	U.S. Agency Securities	1,003,345

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Local Agency Investment Fund (LAIF)

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 fair value of the District's investment in the 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. The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on an amortized cost basis.

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

The total amount invested by all public agencies in LAIF as of June 30, 2014 and 2013 was \$21.1 billion and \$21.2 billion, respectively. LAIF is part of the California Pooled Money Investment Account (PMIA), which at June 30, 2014 and 2013 had a balance of \$64.8 and \$58.8 billion, respectively, and of those amounts, 1.86% and 1.96% were invested in medium-term and short-term structured notes and asset-backed securities as of June 30, 2014 and 2013, respectively. The average maturity of PMIA investments as of June 30, 2014 and 2013 was 232 and 278 days, respectively.

(6) RECEIVABLES

Receivables of the District as of June 30, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Water and wastewater billings	\$ 2,367,643	\$ 1,953,609
Unbilled water sales	742,798	717,128
Accrued interest receivable	58,670	43,723
Other	<u>28,695</u>	<u>72,599</u>
Total Receivables	<u>\$ 3,197,806</u>	<u>\$ 2,787,059</u>

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

(7) CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2014 were as follows:

	Balance July 1, 2013	Additions and Transfers In	Retirements and Transfers Out	Balance June 30, 2014
Capital assets, not being depreciated:				
Land and property rights-water	\$ 4,256,183	\$ 97,219	\$ -	\$ 4,353,402
Land and property rights-wastewater	2,422,706	-	-	2,422,706
Construction in progress	3,465,525	16,056,909	(3,054,454)	16,467,980
Total capital assets, not being depreciated	<u>10,144,414</u>	<u>16,154,128</u>	<u>(3,054,454)</u>	<u>23,244,088</u>
Capital assets, being depreciated:				
Water operations:				
Impounding dam	12,006,272	-	-	12,006,272
Distribution system	49,101,428	361,279	(531,148)	48,931,559
Buildings and structures	13,697,957	2,155,466	-	15,853,423
Equipment	3,362,231	238,723	(88,756)	3,512,198
Total water operations	<u>78,167,888</u>	<u>2,755,468</u>	<u>(619,904)</u>	<u>80,303,452</u>
Wastewater operations:				
Collection system	7,315,706	308,918	-	7,624,624
Treatment facilities	23,233,792	23,955	(52,565)	23,205,182
Disposal facilities	12,475,182	-	(212,197)	12,262,985
Equipment	70,299	93,812	-	164,111
Total wastewater operations	<u>43,094,979</u>	<u>426,685</u>	<u>(264,762)</u>	<u>43,256,902</u>
Total capital assets being depreciated	121,262,867	3,182,153	(884,666)	123,560,354
Less accumulated depreciation	<u>(57,985,683)</u>	<u>(3,705,233)</u>	<u>884,666</u>	<u>(60,806,250)</u>
Total capital assets being depreciated, net	<u>63,277,184</u>	<u>(523,080)</u>	<u>-</u>	<u>62,754,104</u>
Total capital assets, net	<u>\$ 73,421,598</u>	<u>\$ 15,631,048</u>	<u>\$ (3,054,454)</u>	<u>\$ 85,998,192</u>

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Changes in capital assets for the year ended June 30, 2013 were as follows:

	<u>Balance July 1, 2012</u>	<u>Additions and Transfers In</u>	<u>Retirements and Transfers Out</u>	<u>Balance June 30, 2013</u>
Capital assets, not being depreciated:				
Land and property rights-water	\$ 4,155,170	\$ 101,013	\$ -	\$ 4,256,183
Land and property rights-wastewater	2,422,706	-	-	2,422,706
Construction in progress	<u>4,635,947</u>	<u>2,874,332</u>	<u>(4,044,754)</u>	<u>3,465,525</u>
Total capital assets, not being depreciated	<u>11,213,823</u>	<u>2,975,345</u>	<u>(4,044,754)</u>	<u>10,144,414</u>
Capital assets, being depreciated:				
Water operations:				
Impounding dam	12,006,272	-	-	12,006,272
Distribution system	48,219,710	1,152,502	(270,784)	49,101,428
Buildings and structures	12,778,234	919,723	-	13,697,957
Equipment	<u>3,323,223</u>	<u>164,373</u>	<u>(125,365)</u>	<u>3,362,231</u>
Total water operations	<u>76,327,439</u>	<u>2,236,598</u>	<u>(396,149)</u>	<u>78,167,888</u>
Wastewater operations:				
Collection system	6,637,464	697,730	(19,488)	7,315,706
Treatment facilities	21,629,997	1,679,792	(75,997)	23,233,792
Disposal facilities	12,482,915	-	(7,733)	12,475,182
Equipment	<u>43,887</u>	<u>26,412</u>	<u>-</u>	<u>70,299</u>
Total wastewater operations	<u>40,794,263</u>	<u>2,403,934</u>	<u>(103,218)</u>	<u>43,094,979</u>
Total capital assets being depreciated	117,121,702	4,640,532	(499,367)	121,262,867
Less accumulated depreciation	<u>(54,926,107)</u>	<u>(3,558,943)</u>	<u>499,367</u>	<u>(57,985,683)</u>
Total capital assets being depreciated, net	<u>62,195,595</u>	<u>1,081,589</u>	<u>-</u>	<u>63,277,184</u>
Total capital assets, net	<u>\$ 73,409,418</u>	<u>\$ 4,056,934</u>	<u>\$ (4,044,754)</u>	<u>\$ 73,421,598</u>

(8) LONG-TERM LIABILITIES

District long-term liabilities consist of notes payable, contracts payable, and compensated absences. All debt was issued to finance the District's capital improvements.

Changes in long-term liabilities for the year ended June 30, 2014 consist of the following:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2014</u>	<u>Current Portion</u>
Note payable	\$ 77,090	\$ -	\$ (77,090)	\$ -	\$ -
Contracts payable	13,165,083	9,490,867	(845,058)	21,810,892	870,056
Compensated absences	<u>882,945</u>	<u>623,698</u>	<u>(584,799)</u>	<u>921,844</u>	<u>544,833</u>
Total long-term liabilities	<u>\$ 14,125,118</u>	<u>\$ 10,114,565</u>	<u>\$ (1,506,947)</u>	<u>\$ 22,732,736</u>	<u>\$ 1,414,889</u>

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Changes in long-term liabilities for the year ended June 30, 2013 consist of the following:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2013</u>	<u>Current Portion</u>
Note payable	\$ 152,008	\$ -	\$ (74,918)	\$ 77,090	\$ 77,090
Contracts payable	12,663,686	1,322,354	(820,957)	13,165,083	845,058
Compensated absences	814,813	607,066	(538,934)	882,945	-
Total long-term liabilities	<u>\$ 13,630,507</u>	<u>\$ 1,929,420</u>	<u>\$ (1,434,809)</u>	<u>\$ 14,125,118</u>	<u>\$ 922,148</u>

Notes and contracts payables consist of the following:

	<u>2014</u>	<u>2013</u>
<i>Note Payable:</i>		
Note payable with interest at 2.9% to the State of California Revolving Fund used to finance the construction of a recycled water system; annual payments of \$79,326 including interest, through 2014.	\$ -	\$ 77,090
<i>Contracts Payable:</i>		
On June 21, 2010, the District entered into a Loan Agreement with the State of California Department of Public Health with interest at 2.57% payable semi-annually, and principal payments ranging from \$119,623 to \$194,251 due semi-annually beginning July 1, 2011 through January 1, 2031. The proceeds of the loan assisted the District in financing construction of the Red Mountain UV Filtration Plant, which enabled the District to meet the Federal safe drinking water standards. This standard is incorporated into the Long-Term Two Enhanced Surface Water Treatment Rule (LT2).	<u>5,423,978</u>	<u>5,675,533</u>
On November 18, 2010, the District borrowed \$7,227,000, from the California Alternative Energy and Advanced Transportation Financing Authority, the proceeds of which were used to finance the construction of a solar project. Financing was secured at an interest rate of 5.74%. The Federal government will pay 70% of the Tax Credit Rate, which is 5.56%, or 3.89%. The District's applicable interest rate is the difference between the taxable rate and the Federal Direct Pay rate, equivalent to 1.85% interest with principal payments ranging from \$134,593 to \$317,071 until November 18, 2027.	<u>5,573,693</u>	<u>6,167,196</u>

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

	2014	2013
<p>On November 2, 2012, the District entered into a Loan Agreement with the California State Water Resources Control Board in the principal amount of \$22,154,148, with interest at 2.20%. In September 2013, the District entered into an amended Loan Agreement increasing the principal amount to \$28,723,000. Annual payments in the estimated amount of \$1,745,410, including principal and interest, is due beginning March 2017 through March 2036. The proceeds of the loan will assist the District fund costs associated with the Fallbrook Wastewater Treatment Plan I Rehabilitation project. As of June 30, 2014 and 2013, the District has drawn down \$10,813,221 and \$1,322,354, respectively, of the total loan balance available.</p>	10,813,221	1,322,354
Subtotal note payable and contracts payable	21,810,892	13,242,173
Less: Current portion of notes and contracts payable	(870,056)	(922,148)
Total long-term portion of notes and contracts payable	\$ 20,940,836	\$ 12,320,025

Future long-term debt maturities as of June 30, 2014 are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 870,056	\$ 234,657	\$ 1,104,713
2016	895,981	216,496	1,112,477
2017	542,020	199,553	741,573
2018	566,590	187,357	753,947
2019	592,107	174,650	766,757
2020-2024	3,378,930	663,360	4,042,290
2025-2029	3,385,087	264,336	3,649,423
2030-2031	766,900	14,943	781,843
Total	\$ 10,997,671	\$ 1,955,352	\$ 12,953,023

The long-term debt maturity schedule above does not include the future principal and interest payments associated with the California State Water Resources Control Board (CSWRCB) loan. At the completion of the project, which is anticipated in March 2016, the CSWRCB will complete the District's payment schedule after all loan disbursements have been paid to the District.

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

(9) CONSTRUCTION COMMITMENTS

At June 30, 2014, the District has the following commitments with respect to unfinished capital projects:

<u>Capital Projects</u>	<u>Construction Commitment</u>	<u>Completion Date</u>
Water Reclamation Plant	\$ 13,540,048	2015
Wastewater Treatment Plant Construction Management	604,774	2014
Red Mountain Reservoir Liner Repair	87,519	2014
Wastewater Treatment Plant Rehabilitation Project Design	44,924	2014

At June 30, 2013, the District has the following commitments with respect to unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>	<u>Expected Completion Date</u>
Water Reclamation Plant	\$ 25,507,000	2015
Wastewater Treatment Plant Construction Management	917,200	2014
Wastewater Treatment Plant Rehabilitation Project Design	470,578	2014
Sachse Reservoir Painting	914,000	2013
Office Transfer Switch Electrical Project	99,710	2013

(10) PENSION BENEFITS

Plan Description

The District contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and District ordinance. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through action by the District's board of directors. CalPERS issues a separate comprehensive annual financial report. Copies of CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members in CalPERS are required to contribute 8% of their covered salary. For the fiscal years ended June 30, 2014 and 2013, District employees contributed 6% and 4%, respectively, with the District contributing the remaining 2% and 4% of the required 8% employee contribution. The District makes the contributions required of District employees on their behalf for their account. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2013/2014 and 2012/2013 was 27.468% and 26.499%, respectively. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For the fiscal year 2013/2014, the District's annual pension cost was \$1,265,577. The District contributed its share of \$1,265,577 and a portion of the employee's share of \$89,730. For the fiscal year 2012/2013, the District's annual pension cost was \$1,244,521 and the District contributed its share of \$1,244,521 and the employee's share of \$180,927.

Three-Year Trend Information for CalPERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2012	\$ 1,199,838	100%	\$ -
6/30/2013	1,244,521	100%	-
6/30/2014	1,265,577	100%	-

(11) 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 disaster.

The District is a participating member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA) (Authority), which arranges for and provides general liability, property damage, worker's compensation, 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. During the past three years, there have been no instances where the amount of claims settlements exceeded insurance coverage, nor have there been any significant reductions of insurance coverage.

Noted below are condensed audited financial statements of the Authority as of and for the year ended September 30, 2013, the most recent information available:

Assets	<u>\$ 194,823,604</u>
Liabilities:	
Current liabilities	52,189,011
Noncurrent liabilities	<u>48,118,825</u>
Total liabilities	<u>100,307,836</u>
Net position:	
Net investment in capital assets	6,560,350
Unrestricted	<u>87,955,418</u>
Total net position	<u><u>\$ 94,515,768</u></u>

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Revenues (Operating and Nonoperating)	\$ 140,452,408
Operating expenses	133,299,974
Change in net position	7,152,434
Net position, beginning	87,363,334
Net position, ending	\$ 94,515,768

(12) OTHER POSTEMPLOYMENT BENEFITS

The District provides postemployment benefits to certain retired employees. The postemployment benefits consist of medical, dental, and vision coverage. During the years ended June 30, 2014 and June 30, 2013, there were six (6) and five (5) retirees whose postemployment benefits of \$29,605 and \$15,757, respectively, were paid by the District.

Other Postemployment Benefits Obligation

Plan Description

The District administers the Other Postemployment Benefits (OPEB) Plan, a single-employer defined benefit plan. The District's OPEB plan provides continued medical coverage for an eligible retired employee, spouse or legal dependent. Coverage will continue for the retiree and spouse or legal dependent until they become entitled to Medicare Benefits at age 65. The District's OPEB plan does not issue a separate standalone report.

Eligibility

Employees retiring after age 50, with 10 or more years of continuous employment, will have the mandatory amount estimated by the District at the date of retirement to be necessary to pay for 50% of the employee's monthly health insurance premium, and any additional costs for spouse and dependent(s) covered at the time of retirement. The difference between the total value of sick leave at retirement and the estimated cost benefit (medical, dental and vision) minus the estimated costs of 50% retiree's medical premium is deposited into a health reimbursement account at the District to pay for retiree benefits until Medicare entitlement or the account is depleted. The District's health reimbursement account (HRA) balance as of June 30, 2014 is \$103,033 and \$107,447 as of June 30, 2013. The District will pay for half (50%) of the retired employee's monthly premium. As of June 30, 2014, there are six (6) retirees receiving benefits.

Funding Policy

The District funds the plan on a pay-as-you-go basis and records a liability for the difference between the pay-as-you-go and the actuarially determined annual OPEB cost. The District's OPEB cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) not to exceed thirty years.

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Annual OPEB Cost

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation for the year ended June 30th as follows:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Annual required contribution	\$ 124,701	\$ 104,894
Interest on net OPEB obligation	15,072	17,481
Adjustment to annual required contribution	<u>(21,791)</u>	<u>(23,876)</u>
Annual OPEB cost (expense)	117,982	98,499
Contributions made	<u>(29,605)</u>	<u>(71,313)</u>
Increase in net OPEB obligation	88,377	27,186
Net OPEB obligation-beginning of year	376,808	349,622
Net OPEB obligation-end of year	<u>\$ 465,185</u>	<u>\$ 376,808</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for FY 13-14 and two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	\$ 100,326	17.45%	\$ 349,622
June 30, 2013	98,499	72.40%	376,808
June 30, 2014	117,982	25.09%	465,185

Funded Status of the Plan

The most recent valuation (dated July 1, 2013) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability (UAAL) of \$1,042,705. There are no plan assets because the District funds on a pay as you go basis and has begun to designate net position in the amount of \$27,185 per year. The covered payroll (active payroll of active employees) was \$5,063,842 and the ratio of the UAAL to the covered payroll was 20.6 percent. The District is evaluating its options in developing a funding policy for its OPEB obligation.

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

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

Actuarial Methods and Assumptions

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

The actuarial cost method used for determining the benefit obligation is the Projected Unit Credit method. The actuarial assumptions included a 4% discount rate and an annual healthcare cost trend rate of 8% initially; reduced by decrements of 1% per year to an ultimate rate of 5% after the fourth year. The UAAL is being amortized as a level percentage of projected payroll over an open 30-year period.

(13) JOINTLY GOVERNED ORGANIZATION

On February 26, 2013, the Board of Directors of the Fallbrook Public Utility District and the Rainbow Municipal Water District (Rainbow), as the member agencies, entered into a joint powers agreement, creating the North County Joint Powers Authority (JPA). The JPA was created to provide for the administration of the member agencies by managing their combined resources, including staffing and physical plant/infrastructure, to obtain cost-effective means of providing services to the ratepayers. However, in March 2014, the JPA was dissolved by Rainbow's board of directors.

Pursuant to GASB Statement No. 14, *The Financial Reporting Entity*, the JPA was considered to be a joint venture. A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Since each member agency did not have unilateral control over the financial or operating policies of the JPA, the member agencies were considered to have joint control.

In April 2013, the District and Rainbow entered into an Employee Leasing Agreement (Leasing Agreement). Pursuant to the terms of the Leasing Agreement, any leased employees from and to one another will perform functions comparable to those services performed for the lessor. The lessor organization remains financially and operationally responsible for providing the leased employees their salaries and benefits throughout the leased period. During the year ended June 30, 2014 and 2013, the General Manager of the District was leased to Rainbow, for which Rainbow paid the District \$14,735 per month, for a total of \$44,205 during FY 12-13. During FY 13-14, the District realized savings of \$223,483 from the sharing of human resources and heavy equipment pursuant to the JPA.

FALLBROOK PUBLIC UTILITY DISTRICT
Notes to the Basic Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013

(14) RESTATEMENT OF BEGINNING NET POSITION

Effective July 1, 2013, the District implemented GASB Statement No 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 required that debt issuance costs, previously capitalized in the Statement of Net Position and amortized over the life of the associated debt, be recognized and immediately expensed in the period incurred. As a result, the District is required to restate its beginning net position for the earliest year presented to account for the effects of debt issuance costs previously reported in the District's Statement of Net Position as an asset (Deferred Charges). The effect on the District's beginning net position and changes in net position for the year ended June 30, 2013 have been restated as follows:

Restatement of beginning net position:

Beginning net position - June 30, 2012, as previously reported	\$ 72,159,502
Restatement to recognize debt issuance costs as an expense	<u>(154,385)</u>
Beginning net position - July 1, 2012, as restated	<u><u>\$ 72,005,117</u></u>

Restatement of changes in net position:

Change in net position - for the year ended June 30, 2013, as previously reported	\$ 4,662,589
Increase in change in net position for previous amortization of debt issuance costs	<u>10,647</u>
Change in net position - for the year ended June 30, 2013, as restated	<u><u>\$ 4,673,236</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

FALLBROOK PUBLIC UTILITY DISTRICT
Required Supplementary Information
OPEB Schedule of Funding Progress
June 30, 2014
(Unaudited)

Actuarial Valuation Date	(a) Actuarial Accrued Liability (AAL)	(b) Actuarial Value of Assets	(c) Unfunded Actuarial Accrued Liability (UAAL)	(b)/(a) Funded Ratio	(d) Annual Covered Payroll	(c)/(d) UAAL as a % of Covered Payroll
July 1, 2010	\$ 750,706	\$ -	\$ 750,706	0%	\$ 4,810,694	15.6%
July 1, 2013	1,042,705	-	1,042,705	0%	5,063,842	20.6%

OTHER INFORMATION

FALLBROOK PUBLIC UTILITY DISTRICT
Schedule of Revenues and Expenses - by Operating Department
For the Year Ended June 30, 2014

	<u>Water</u>	<u>Wastewater</u>	<u>Recycled</u>	<u>Total</u>
Operating revenues:				
Water sales	\$ 16,587,771	\$ -	\$ 802,509	\$ 17,390,280
Service charges	4,772,242	5,205,516	50,972	10,028,730
Other revenues	1,188,741	3,009	344,423	1,536,173
Total operating revenues	<u>22,548,754</u>	<u>5,208,525</u>	<u>1,197,904</u>	<u>28,955,183</u>
Operating expenses:				
Cost of water sold	15,649,781	-	427,328	16,077,109
Operations and maintenance	3,810,606	3,765,046	63,620	7,639,272
Customer accounts	1,179,998	-	-	1,179,998
General and administration (Note 1)	2,006,124	1,584,190	188,964	3,779,278
Other (Note 2)	<u>-</u>	<u>509,916</u>	<u>171,960</u>	<u>681,876</u>
Operating expenses before depreciation	22,646,509	5,859,152	851,872	29,357,533
Depreciation expense	<u>2,377,829</u>	<u>1,327,402</u>	<u>-</u>	<u>3,705,231</u>
Total operating expenses	<u>25,024,338</u>	<u>7,186,554</u>	<u>851,872</u>	<u>33,062,764</u>
Net operating revenues (expenses)	<u>\$ (2,475,584)</u>	<u>(1,978,029)</u>	<u>\$ 346,032</u>	<u>\$ (4,107,581)</u>

Note 1:

General and administration costs are allocated to Water, Wastewater, and Recycled operations based on a budgeted annual percentage. For FY 13-14, general and administration costs were allocated as follows: 53% to Water operations, 42% to Wastewater operations and 5% to Recycled operations. Allocation is analyzed and updated annually as part of the budget process.

Note 2:

Wastewater operations contributed \$509,916 towards payment of the annual debt service obligations. The \$509,916 is not reported as an Other expense in the Statement of Revenues, Expenses and Changes in Net Position, as the payment reduces the principal of the outstanding long-term obligations.

Recycled operations contributed a total of \$171,960 toward payment of the annual debt service obligation for the State Revolving Fund loan, which allowed expansion of the recycled pumping and distribution system. The \$171,960 is not reported as an Other expense in the Statement of Revenues, Expenses and Changes in Net Position, as the payment reduces the principal of the State Revolving Fund loan obligation.

FALLBROOK PUBLIC UTILITY DISTRICT
Schedule of Revenues and Expenses - by Operating Department
For the Year Ended June 30, 2013

	<u>Water</u>	<u>Wastewater</u>	<u>Recycled</u>	<u>Total</u>
Operating revenues:				
Water sales	\$ 15,458,783	\$ -	\$ 777,329	\$ 16,236,112
Service charges	4,702,564	4,950,757	50,316	9,703,637
Other revenues	1,190,568	5,984	445,859	1,642,411
Total operating revenues	<u>21,351,915</u>	<u>4,956,741</u>	<u>1,273,504</u>	<u>27,582,160</u>
Operating expenses:				
Cost of water sold	14,457,083	-	403,582	14,860,665
Operations and maintenance	2,350,655	2,309,384	52,675	4,712,714
Customer accounts	700,158	-	-	700,158
General and administration (Note 1)	2,056,605	1,529,836	149,252	3,735,693
Other (Note 2)	<u>-</u>	<u>360,000</u>	<u>79,560</u>	<u>439,560</u>
Operating expenses before depreciation	19,564,501	4,199,220	685,069	24,448,790
Depreciation expense	<u>2,328,969</u>	<u>1,229,974</u>	<u>-</u>	<u>3,558,943</u>
Total operating expenses	<u>21,893,470</u>	<u>5,429,194</u>	<u>685,069</u>	<u>28,007,733</u>
Net operating revenues (expenses)	<u>\$ (541,555)</u>	<u>(472,453)</u>	<u>\$ 588,435</u>	<u>\$ (425,573)</u>

Note 1:

General and administration costs are allocated to Water, Wastewater, and Recycled operations based on a budgeted annual percentage. For FY 13-14, general and administration costs were allocated as follows: 55% to Water operations, 41% to Wastewater operations and 4% to Recycled operations. Allocation is analyzed and updated annually as part of the budget process.

Note 2:

Wastewater operations contributed \$360,000 towards payment of the annual debt service obligations. The \$360,000 is not reported as an Other expense in the Statement of Revenues, Expenses and Changes in Net Position, as the payment reduces the principal of the outstanding long-term obligations.

Recycled operations contributed a total of \$79,560 toward payment of the annual debt service obligation for the State Revolving Fund loan, which allowed expansion of the recycled pumping and distribution system. The \$79,560 is not reported as an Other expense in the Statement of Revenues, Expenses and Changes in Net Position, as the payment reduces the principal of the State Revolving Fund loan obligation.

MISCELLANEOUS INFORMATION

FALLBROOK PUBLIC UTILITY DISTRICT
Board of Directors
For the Year Ended June 30, 2014

At June 30, 2014, the Board of Directors consisted of the following:

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Bert Hayden	President	December 2016
Al Gebhart	Vice President	December 2016
Don McDougal	Director	December 2016
Archie McPhee	Director	December 2014
Milt Davies	Director	December 2014

FALLBROOK PUBLIC UTILITY DISTRICT
Assessed Valuation
For the Year Ended June 30, 2014

The District's, including the Sanitary District, assessed valuation for the year ended June 30, 2014 is as follows:

Assessed valuation:	
Secured property	\$ 3,019,814,836
Unsecured property	<u>39,761,073</u>
 Total assessed valuation	 <u><u>\$ 3,059,575,909</u></u>

Source: County of San Diego Property Tax Services.