

# **Diablo Water District**

Oakley, California

## **Annual Financial Report**

*For the Years Ended June 30, 2016 and 2015*

# **Diablo Water District**

**For the Year Ended June 30, 2016**

## **BOARD OF DIRECTORS**

<b>Howard Hobbs</b>	<b>President</b>
<b>Kenneth L. Crockett</b>	<b>Vice President</b>
<b>Enrico Cinquini</b>	<b>Director</b>
<b>John H. de Fremery</b>	<b>Director</b>
<b>Edward Garcia</b>	<b>Director</b>
<b>Mike Yeraka</b>	<b>General Manager &amp; Secretary</b>
<b>Jeffrey D. Polisner</b>	<b>General Counsel</b>

**Diablo Water District  
Annual Financial Report  
For the Years Ended June 30, 2016 and 2015**

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**Diablo Water District**  
**Acronyms and Abbreviations Used in the Audit Report**  
**For the Year Ended June 30, 2016**

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In order to facilitate the understanding of the audit report, the following list of acronyms and abbreviations are listed below.

a.k.a	Also Known As
AB	Assembly Bill
ACWA/JPIA	Association of California Water Agencies/ Joint-Powers Insurance Authority
ARC	Annual Required Contribution
CalPERS	California Public Employee's Retirement System
CAMP	California Asset Management Program
CCCERA	Contra Costa County Employee's Retirement System
CCWA	Contra Costa Water Authority
CCWD	Contra Costa Water District
COLA	Cost of Living Adjustment
COPs	Certificates-of-Participation
EARSL	Employees Average Remaining Service Lifetime
FNP	Fiduciary Net Position
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GASB	Government Accounting Standards Board
IBNR	Incurred But Not Reported
LAIF	Local Agency Investment Fund
MD&A	Management's Discussion & Analysis
MERA	Main Extension Reimbursement Account
NPL	Net Pension Liability
OAD	Oakley Assessment District
OPEB	Other Post-Employment Benefits
PEPRA	Public Employee's Pension Reform Act
PERF C	Public Agency Cost-Sharing Multiple-Employer Plan
PERL	Public Employee's Retirement Law
TPL	Total Pension Liability
U.S.	United States
UAAL	Unfunded Actuarial Accrued Liability

**FINANCIAL SECTION**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
of Diablo Water District  
Oakley, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Diablo Water District (District), which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***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, 2016 and 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors  
of Diablo Water District  
Oakley, California

***Emphasis of Matter***

***Net Pension Liability***

As discussed in Note 1 to the basic financial statements, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans-an amendment of GASB Statement No. 27*, and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68* on July 1, 2014. The net pension liability is reported in the balance sheet in the amount of \$1,526,137 and \$1,173,398 as of the measurement dates of June 30, 2015 and 2014, respectively. The net pension liability is calculated by actuaries using estimates and actuarial techniques from an actuarial valuation as of June 30, 2014 and 2013, were then rolled-forward by the actuaries to June 30, 2015 and 2014, the measurement dates. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 10 and the Schedule of the District's Proportionate Share of the Plan's Net Pension Liability, the Schedule of the District's Contributions to the Pension Plan, and the Schedule of Funding Progress – Other Post-Employment Benefits Plan on pages 51 through 53, respectively, 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.

***Supplementary 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 as a whole. The Schedules of Cash and Investments Available for Operations and the Schedules of Debt Service Net Revenues Coverage on pages 57 and 58 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Directors  
of Diablo Water District  
Oakley, California

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California  
December 31, 2016



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**Independent Auditors' Report**

To the Board of Directors  
of Diablo Water District  
Oakley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the balance sheets of Diablo Water District (District) as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 31, 2016.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

To the Board of Directors  
of Diablo Water District  
Oakley, California

**Purpose of this Report**

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

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California  
December 31, 2016

**Diablo Water District**  
**Management's Discussion and Analysis (Continued)(Unaudited)**  
**For the Years Ended June 30, 2016 and 2015**

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

**Financial Highlights**

- In 2016, the District's net position decreased (1.95%) or \$(732,824) from the prior year's net position of \$37,474,147 to \$36,741,323 as a result of this year's operations.
- In 2015, the District's net position decreased (2.09%) or \$(798,333) from the prior year's restated net position of \$38,272,480 to \$37,474,147, as a result of this year's operations. Also, the District recorded a prior period adjustment of \$(1,430,891) to account for the implementation of GASB Nos. 68 and 71 to record the District's net pension liability on the balance sheet.
- In 2016, operating revenues decreased by (8.53%) or \$(675,983) from \$7,923,933 to \$7,247,950, from the prior year, primarily due to a decrease in residential and business water sales of \$(621,030) due to the California drought crisis that mandates water conservation measures.
- In 2015, operating revenues decreased by (4.36%) or \$(361,521) from \$8,285,454 to \$7,923,933, from the prior year, primarily due to a decrease in residential and business water sales of \$(555,806) due to the California drought crisis that mandates water conservation measures.
- In 2016, operating expenses before depreciation expense decreased by (7.13%) or \$(530,712) from \$7,437,121 to \$6,906,409 from the prior year, primarily due to decreases in source of supply – water purchases of \$(145,146), water treatment of \$(132,664) and transmission and distribution of \$(277,985) as a result of the decrease in water sales.
- In 2015, operating expenses before depreciation expense decreased by (3.79%) or \$(293,318) from \$7,730,439 to \$7,437,121 from the prior year, primarily due to a decrease in source of supply – water purchases of \$(318,282) as a result of the decrease in water sales.

**Required Financial Statements**

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

The Balance Sheet includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

**Diablo Water District**  
**Management's Discussion and Analysis (Continued)(Unaudited)**  
**For the Years Ended June 30, 2016 and 2015**

**Financial Analysis of the District**

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question.

These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

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

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**Condensed Balance Sheets**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Change</u>	<u>June 30, 2014</u>	<u>Change</u>
<b>Assets:</b>					
Current assets	\$ 5,719,021	\$ 6,769,682	\$ (1,050,661)	\$ 10,357,708	\$ (3,588,026)
Non-current assets	5,531,121	5,560,186	(29,065)	3,987,633	1,572,553
Capital assets, net	<u>46,554,500</u>	<u>48,464,116</u>	<u>(1,909,616)</u>	<u>48,013,066</u>	<u>451,050</u>
<b>Total assets</b>	<u>57,804,642</u>	<u>60,793,984</u>	<u>(2,989,342)</u>	<u>62,358,407</u>	<u>(1,564,423)</u>
<b>Deferred outflows of resources</b>	<u>558,845</u>	<u>340,572</u>	<u>218,273</u>	<u>145,166</u>	<u>195,406</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 58,363,487</u>	<u>\$ 61,134,556</u>	<u>\$ (2,771,069)</u>	<u>\$ 62,503,573</u>	<u>\$ (1,369,017)</u>
<b>Liabilities:</b>					
Current liabilities	\$ 3,264,838	\$ 3,381,264	\$ (116,426)	\$ 2,320,559	\$ 1,060,705
Non-current liabilities	<u>18,182,402</u>	<u>19,863,886</u>	<u>(1,681,484)</u>	<u>20,479,643</u>	<u>(615,757)</u>
<b>Total liabilities</b>	<u>21,447,240</u>	<u>23,245,150</u>	<u>(1,797,910)</u>	<u>22,800,202</u>	<u>444,948</u>
<b>Deferred inflows of resources</b>	<u>174,924</u>	<u>415,259</u>	<u>(240,335)</u>	<u>-</u>	<u>415,259</u>
<b>Net position:</b>					
Net investment in capital assets	28,967,633	29,791,928	(824,295)	31,189,112	(1,397,184)
Restricted	5,128,763	4,558,896	569,867	4,417,177	141,719
Unrestricted	<u>2,644,927</u>	<u>3,123,323</u>	<u>(478,396)</u>	<u>4,097,082</u>	<u>(973,759)</u>
<b>Total net position</b>	<u>36,741,323</u>	<u>37,474,147</u>	<u>(732,824)</u>	<u>39,703,371</u>	<u>(2,229,224)</u>
<b>Total liabilities, deferred outflows of resources and net position</b>	<u>\$ 58,363,487</u>	<u>\$ 61,134,556</u>	<u>\$ (2,771,069)</u>	<u>\$ 62,503,573</u>	<u>\$ (1,369,017)</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by \$36,741,323 and \$37,474,147 as of June 30, 2016 and 2015, respectively.

**Diablo Water District**  
**Management's Discussion and Analysis (Continued)(Unaudited)**  
**For the Years Ended June 30, 2016 and 2015**

By far the largest portion of the District's net position (79% as of June 30, 2016 and 79% as of June 30, 2015) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending.

The District implemented GASB Statements No. 68 and 71, which the District recognized a net pension liability of \$1,173,398 as of June 30, 2015. See Notes 8 and 11 for further information.

At the end of fiscal years 2016 and 2015, the District showed a positive balance in its unrestricted net position of \$2,644,927 and \$3,123,323, respectively, which may be utilized in future years.

**Condensed Statement of Revenues, Expenses and Changes in Net Position**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Change</u>	<u>June 30, 2014</u>	<u>Change</u>
Operating revenues	\$ 7,247,950	\$ 7,923,933	\$ (675,983)	\$ 8,285,454	\$ (361,521)
Operating expenses	(6,906,409)	(7,437,121)	530,712	(7,730,439)	293,318
<b>Operating income before depreciation</b>	<b>341,541</b>	<b>486,812</b>	<b>(145,271)</b>	<b>555,015</b>	<b>(68,203)</b>
Depreciation expense	(2,445,664)	(2,400,500)	(45,164)	(1,723,977)	(676,523)
<b>Operating income(loss)</b>	<b>(2,104,123)</b>	<b>(1,913,688)</b>	<b>(190,435)</b>	<b>(1,168,962)</b>	<b>(744,726)</b>
Non-operating revenues(expenses), net	(178,145)	(322,957)	144,812	(207,799)	(115,158)
<b>Net loss before capital contributions</b>	<b>(2,282,268)</b>	<b>(2,236,645)</b>	<b>(45,623)</b>	<b>(1,376,761)</b>	<b>(859,884)</b>
Capital contributions	1,549,444	1,438,312	111,132	1,349,036	89,276
<b>Change in net position</b>	<b>(732,824)</b>	<b>(798,333)</b>	<b>65,509</b>	<b>(27,725)</b>	<b>(770,608)</b>
Net position:					
<b>Beginning of year</b>	<b>37,474,147</b>	<b>39,703,371</b>	<b>(2,229,224)</b>	<b>39,731,096</b>	<b>(27,725)</b>
<b>Prior period adjustment</b>	<b>-</b>	<b>(1,430,891)</b>	<b>1,430,891</b>	<b>-</b>	<b>(1,430,891)</b>
<b>End of year</b>	<b>\$ 36,741,323</b>	<b>\$ 37,474,147</b>	<b>\$ (732,824)</b>	<b>\$ 39,703,371</b>	<b>\$ (2,229,224)</b>

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, the District's net position decreased by \$(732,824) and \$(798,333) (after the restatement of net position) for the fiscal years ended June 30, 2016 and 2015, respectively.

**Total Revenues**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Increase (Decrease)</u>	<u>June 30, 2014</u>	<u>Increase (Decrease)</u>
<b>Operating revenues:</b>					
Water sales – residential and business	\$ 6,862,573	\$ 7,483,603	\$ (621,030)	\$ 8,039,409	\$ (555,806)
Water sales – other	113,035	164,627	(51,592)	132,658	31,969
Other charges for services	272,342	275,703	(3,361)	113,387	162,316
<b>Total operating revenues</b>	<b>7,247,950</b>	<b>7,923,933</b>	<b>(675,983)</b>	<b>8,285,454</b>	<b>(361,521)</b>
<b>Non-operating:</b>					
Investment earnings	74,727	37,182	37,545	29,925	7,257
Rental revenue	92,342	75,132	17,210	63,503	11,629
Other non-operating revenues	46,268	93,949	(47,681)	202,828	(108,879)
<b>Total non-operating</b>	<b>213,337</b>	<b>206,263</b>	<b>7,074</b>	<b>296,256</b>	<b>(89,993)</b>
<b>Total revenues</b>	<b>\$ 7,461,287</b>	<b>\$ 8,130,196</b>	<b>\$ (668,909)</b>	<b>\$ 8,581,710</b>	<b>\$ (451,514)</b>

In 2016, operating revenues decreased by (8.53%) or \$(675,983) from \$7,923,933 to \$7,247,950, from the prior year, primarily due to a decrease in residential and business water sales of \$(621,030) due to the California drought crisis that mandates water conservation measures.

**Diablo Water District**  
**Management's Discussion and Analysis (Continued)(Unaudited)**  
**For the Years Ended June 30, 2016 and 2015**

In 2015, operating revenues decreased by (4.36%) or \$(361,521) from \$8,285,454 to \$7,923,933, from the prior year, primarily due to a decrease in residential and business water sales of \$(555,806) due to the California drought crisis that mandates water conservation measures.

**Total Expenses**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Increase (Decrease)</u>	<u>June 30, 2014</u>	<u>Increase (Decrease)</u>
<b>Operating expenses:</b>					
Source of supply – water purchases	\$ 2,609,542	\$ 2,754,688	\$ (145,146)	\$ 3,072,970	\$ (318,282)
Water treatment – Randall-Bold water treatment	1,139,024	1,271,688	(132,664)	1,362,601	(90,913)
Well expenses	88,395	53,960	34,435	85,697	(31,737)
Maintenance	290,000	313,659	(23,659)	263,499	50,160
Transmission and distribution	1,085,586	1,363,571	(277,985)	1,248,499	115,072
Customer service	644,270	669,814	(25,544)	691,720	(21,906)
Administrative and general	1,049,592	1,009,741	39,851	1,005,453	4,288
<b>Operating expenses before depreciation</b>	<u>6,906,409</u>	<u>7,437,121</u>	<u>(530,712)</u>	<u>7,730,439</u>	<u>(293,318)</u>
Depreciation expense	2,445,664	2,400,500	45,164	1,723,977	676,523
<b>Total operating expenses</b>	<u>9,352,073</u>	<u>9,837,621</u>	<u>(485,548)</u>	<u>9,454,416</u>	<u>383,205</u>
<b>Non-operating expenses:</b>					
Interest expense	391,482	529,220	(137,738)	504,055	25,165
<b>Total non-operating</b>	<u>391,482</u>	<u>529,220</u>	<u>(137,738)</u>	<u>504,055</u>	<u>25,165</u>
<b>Total expenses</b>	<u>\$ 9,743,555</u>	<u>\$ 10,366,841</u>	<u>\$ (623,286)</u>	<u>\$ 9,958,471</u>	<u>\$ 408,370</u>

In 2016, operating expenses before depreciation expense decreased by (7.13%) or \$(530,712) from \$7,437,121 to \$6,906,409 from the prior year, primarily due to decreases in source of supply – water purchases of \$(145,146), water treatment of \$(132,664) and transmission and distribution of \$(277,985) as a result of the decrease in water sales.

In 2015, operating expenses before depreciation expense decreased by (3.79%) or \$(293,318) from \$7,730,439 to \$7,437,121 from the prior year, primarily due to a decrease in source of supply – water purchases of \$(318,282) as a result of the decrease in water sales.

**Capital Asset Administration**

	<u>Balance June 30, 2016</u>	<u>Balance June 30, 2015</u>	<u>Balance June 30, 2014</u>
<b>Capital assets:</b>			
Non-depreciable assets	\$ 2,900,069	\$ 5,483,663	\$ 3,195,827
Depreciable assets	71,816,220	68,696,578	68,585,377
Accumulated depreciation	<u>(28,161,789)</u>	<u>(25,716,125)</u>	<u>(23,768,138)</u>
<b>Total capital assets, net</b>	<u>\$ 46,554,500</u>	<u>\$ 48,464,116</u>	<u>\$ 48,013,066</u>

At the end of fiscal year 2016 and 2015, the District's investment in capital assets amounted to \$46,554,500 and \$48,464,116 (net of accumulated depreciation), respectively. Major capital asset additions during the year amounted to \$536,048 and \$2,851,550 for various projects and equipment. See Note 4 for further information.

**Diablo Water District**  
**Management's Discussion and Analysis (Continued)(Unaudited)**  
**For the Years Ended June 30, 2016 and 2015**

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**Debt Administration**

The long-term debt position of the District is summarized below:

<b>Long-term debt:</b>	<b>Balance June 30, 2016</b>	<b>Balance June 30, 2015</b>	<b>Balance June 30, 2014</b>
Certificates-of-participation	\$ 9,755,000	\$ 10,135,000	\$ 10,335,000
Loans payable	2,538,571	2,637,376	2,733,000
Revenue bonds payable	5,419,710	6,611,380	7,287,010
<b>Total</b>	<b>\$ 17,713,281</b>	<b>\$ 19,383,756</b>	<b>\$ 20,355,010</b>

Structured long-term debt items decreased by \$1,670,475 and \$971,254 for the fiscal years ended June 30, 2016 and 2015, due to regular principal payments on the District's structured long-term debt items. See Note 6 for further information.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**Economic Conditions**

The economic condition of the District appears to be improving over 2014 and 2015 with the increase in new housing units proposed in the District's service area. However, the State's drought conditions continue to wane on the District's operating revenues as mandated water conservation conditions and efforts continue.

**Requests for Information**

This financial report is designed to provide the District's ratepayers and creditors with a general overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Diablo Water District, Finance Department, at P.O. Box 127, Oakley, CA 94561 or (925) 625-3798.

## **BASIC FINANCIAL STATEMENTS**

**Diablo Water District**  
**Balance Sheets**  
**June 30, 2016 and 2015**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2016</b>	<b>2015</b>
<b>Current assets:</b>		
Cash and cash equivalents (note 2)	\$ 2,834,125	\$ 2,085,988
Investments (note 2)	1,852,459	4,026,767
Accrued interest receivable	10,077	6,725
Accounts receivable – customers	379,349	407,809
Other receivables	492,399	158,474
Prepaid items	150,612	83,919
<b>Total current assets</b>	<b>5,719,021</b>	<b>6,769,682</b>
<b>Non-current assets:</b>		
Restricted – cash and cash equivalents (note 2)	235,591	575,790
Restricted – investments (note 2)	4,893,172	4,558,896
Net other post-employment benefits asset (note 3)	402,358	425,500
Capital assets – not being depreciated (note 4)	2,900,069	5,483,663
Capital assets – being depreciated, net (note 4)	43,654,431	42,980,453
<b>Total non-current assets</b>	<b>52,085,621</b>	<b>54,024,302</b>
<b>Total assets</b>	<b>57,804,642</b>	<b>60,793,984</b>
<b>Deferred outflows of resources:</b>		
Deferred loss on refunding of revenue bonds, net (note 6)	126,414	135,778
Pension contributions made after the measurement date (Note 8)	211,486	192,153
Difference between actual and proportionate share of employer contributions (Note 8)	7,857	12,641
Adjustment due to differences in proportions (Note 8)	200,773	-
Differences between expected and actual experience (Note 8)	12,315	-
<b>Total deferred outflows of resources</b>	<b>558,845</b>	<b>340,572</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 58,363,487</b>	<b>\$ 61,134,556</b>

**Diablo Water District**  
**Balance Sheets (Continued)**  
**June 30, 2016 and 2015**

<b><u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 101,003	\$ 62,372
Main extension reimbursement payable (note 14)	92,451	157,789
Deposits and unearned revenue	979,968	1,277,760
Accrued interest payable	34,950	37,932
Long-term liabilities – due within one year:		
Compensated absences (note 5)	20,087	19,745
Certificates-of-participation (note 6)	575,000	380,000
Loans payable (note 6)	102,093	98,805
Revenue bonds payable (note 6)	1,205,225	1,192,800
County pension plan termination liability (note 7)	154,061	154,061
<b>Total current liabilities</b>	<b>3,264,838</b>	<b>3,381,264</b>
<b>Non-current liabilities:</b>		
Long-term liabilities – due in more than one year:		
Compensated absences (note 5)	60,261	59,235
Certificates-of-participation (note 6)	9,180,000	9,755,000
Loans payable (note 6)	2,436,478	2,538,571
Revenue bonds payable (note 6)	4,214,485	5,418,580
County pension plan termination liability (note 7)	765,041	919,102
Net pension liability (note 8)	1,526,137	1,173,398
<b>Total non-current liabilities</b>	<b>18,182,402</b>	<b>19,863,886</b>
<b>Total liabilities</b>	<b>21,447,240</b>	<b>23,245,150</b>
<b>Deferred inflows of resources:</b>		
Differences between projected and actual earnings on pension plan investments (Note 8)	58,408	394,316
Adjustment due to differences in proportions (Note 8)	-	20,943
Changes in assumptions (Note 8)	116,516	-
<b>Total deferred inflows of resources</b>	<b>174,924</b>	<b>415,259</b>
<b>Net position:</b>		
Net investment in capital assets (note 9)	28,967,633	29,791,928
Restricted (note 10)	5,128,763	4,558,896
Unrestricted	2,644,927	3,123,323
<b>Total net position</b>	<b>36,741,323</b>	<b>37,474,147</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 58,363,487</b>	<b>\$ 61,134,556</b>

**Diablo Water District**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating revenues:</b>		
Water sales – residential and business	\$ 6,862,573	\$ 7,483,603
Water sales – other	113,035	164,627
Other charges for services	272,342	275,703
<b>Total operating revenues</b>	<u>7,247,950</u>	<u>7,923,933</u>
<b>Operating expenses:</b>		
Source of supply – water purchases	2,609,542	2,754,688
Water treatment – Randall-Bold water treatment plant	1,139,024	1,271,688
Well expenses	88,395	53,960
Maintenance	290,000	313,659
Transmission and distribution	1,085,586	1,363,571
Customer service	644,270	669,814
Administrative and general	1,049,592	1,009,741
<b>Total operating expenses</b>	<u>6,906,409</u>	<u>7,437,121</u>
<b>Operating income(loss) before depreciation expense</b>	341,541	486,812
Depreciation expense	<u>(2,445,664)</u>	<u>(2,400,500)</u>
<b>Operating (loss)</b>	<u>(2,104,123)</u>	<u>(1,913,688)</u>
<b>Non-operating revenues(expenses):</b>		
Investment earnings	74,727	37,182
Rental income	92,342	75,132
Interest expense – long-term debt	(391,482)	(529,220)
Other non-operating revenues	46,268	93,949
<b>Total non-operating revenue(expense), net</b>	<u>(178,145)</u>	<u>(322,957)</u>
<b>Net (loss) before capital contributions</b>	<u>(2,282,268)</u>	<u>(2,236,645)</u>
<b>Capital contributions:</b>		
Developer and connection fees	1,515,344	1,013,312
Developer capital contributions – non-cash	34,100	425,000
<b>Total capital contributions</b>	<u>1,549,444</u>	<u>1,438,312</u>
<b>Change in net position</b>	(732,824)	(798,333)
<b>Net position:</b>		
Beginning of year, as previously reported	37,474,147	39,703,371
Prior period adjustment (note 11)	-	(1,430,891)
End of year	<u>\$ 36,741,323</u>	<u>\$ 37,474,147</u>

**Diablo Water District**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Cash receipts from customers and others	\$ 6,783,303	\$ 8,562,249
Cash paid to employees for salaries and wages	(1,384,147)	(1,355,946)
Cash paid to vendors and suppliers for materials and services	(5,851,082)	(6,271,811)
<b>Net cash provided by (used in) operating activities</b>	<b>(451,926)</b>	<b>934,492</b>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(501,948)	(2,426,550)
Proceeds from developer and connection fees	1,515,344	1,013,312
Principal paid on long-term debt	(1,670,475)	(971,254)
Interest paid on long-term debt	(394,464)	(491,288)
<b>Net cash (used in) capital and related financing activities</b>	<b>(1,051,543)</b>	<b>(2,875,780)</b>
<b>Cash flows from investing activities:</b>		
Proceeds from the maturity of investments	1,840,032	937,777
Investment earnings	71,375	30,457
<b>Net cash provided by investing activities</b>	<b>1,911,407</b>	<b>968,234</b>
<b>Net increase(decrease) in cash and cash equivalents</b>	<b>407,938</b>	<b>(973,054)</b>
<b>Cash and cash equivalents:</b>		
Beginning of year	2,661,778	3,634,832
End of year	<b>\$ 3,069,716</b>	<b>\$ 2,661,778</b>
<b>Reconciliation of cash and cash equivalents to the balance sheet:</b>		
Cash and cash equivalents	\$ 2,834,125	\$ 2,085,988
Restricted assets – cash and cash equivalents	235,591	575,790
<b>Total cash and cash equivalents</b>	<b>\$ 3,069,716</b>	<b>\$ 2,661,778</b>

**Diablo Water District**  
**Statements of Cash Flows (Continued)**  
**For the Years Ended June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Reconciliation of operating (loss) to net cash provided by operating activities:</b>		
Operating income(loss)	\$ (2,104,123)	\$ (1,913,688)
<b>Adjustments to reconcile operating income(loss) to net cash provided by operating activities:</b>		
Depreciation	2,445,664	2,400,500
Rental income	92,342	75,132
Other non-operating revenues	46,268	93,949
<b>Change in assets – (increase)decrease:</b>		
Accounts receivable – customers	28,460	55,143
Other receivables	(333,925)	(5,311)
Prepaid items	(66,693)	39,846
Net other post-employment benefits asset	23,142	31,077
<b>Change in deferred outflows of resources – (increase)decrease</b>	(218,273)	(32,402)
<b>Change in liabilities – increase(decrease):</b>		
Accounts payable and accrued expenses	38,631	11,350
Main extension reimbursement payable	(65,338)	(123,807)
Deposits and unearned revenue	(297,792)	419,403
Compensated absences	1,368	51,987
County pension plan termination liability	(154,061)	(154,061)
Net pension liability	352,739	(429,885)
<b>Change in deferred inflows of resources – increase(decrease)</b>	(240,335)	415,259
<b>Total adjustments</b>	1,652,197	2,848,180
<b>Net cash provided by operating activities</b>	\$ (451,926)	\$ 934,492
 <b>Non-cash investing, capital and financing transactions:</b>		
Change in fair-value of investments	\$ (49)	\$ 3,081
Amortization of deferred loss on refunding of revenue bonds	\$ (9,364)	\$ (9,388)
Developer capital contributions – non-cash	\$ 34,100	\$ 425,000

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 1 – Reporting Entity and Summary of Significant Accounting Policies**

Diablo Water District (District) was formed and exists under, and by virtue of, the County Water District Law of the State of California, Division 12 of the Water Code (§§30000-33901). The District is governed by a Board of Directors consisting of five members, one of whom is annually elected President. The General Manager – Secretary is appointed by the Board pursuant to §30540 of the Water Code. Diablo Water District changed its name from Oakley Water District on May 1, 1993. The District's revenue is generated by direct collection of water usage charges from approximately 11,000 households and businesses located within the District's service area.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity* (GASB Statement No. 61) The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The District had no component units as of year-end.

***Basis of Presentation***

Financial statement presentation follows the recommendations promulgated by the Governmental Accounting Standards Board (GASB) commonly referred to as accounting principles generally accepted in the United States of America (U.S. GAAP). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The Financial Statements (i.e., the balance sheet, the statement of revenues, expenses and changes in net position, and statement of cash flows) report information on all of the activities of the primary government. The District accounts for its operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Financial Statements are reported using the “*economic resources*” measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as all eligibility requirements have been met. Interest associated with the current fiscal period is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period.

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)***

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, the Balance Sheet reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

*Deferred Outflows of Resources* represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as expense until that time.

*Deferred Inflows of Resources* represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as revenue until that time.

Operating revenues are those revenues that are generated from the primary operations of the District. The District reports a measure of operations by presenting the change in net position from operations as *operating income* in the statement of revenues, expenses, and changes in net position. Operating activities are defined by the District as all activities other than financing and investing activities (interest expense and investment income), grants and subsidies, and other infrequently occurring transactions of a non-operating nature. Operating expenses are those expenses that are essential to the primary operations of the District. All other expenses are reported as non-operating expenses.

***Cash and Cash Equivalents***

Cash and cash equivalents include all highly liquid investments with original maturities of 90 days or less and are carried at cost, which approximates fair value.

***Investments***

Investments are reported at fair value. Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income comprises interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the balance sheet, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1 that are observable for the assets or liabilities through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the assets or liabilities at the measurement date.

***Restricted Assets***

Restricted assets are cash and cash equivalents and investments whose use is limited by legal and debt covenant requirements such as debt payment, reserve balance maintenance and developer impact fees.

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

***Receivables***

Customer accounts receivable consist of amounts owed by private individuals and organizations for services rendered in the regular course of business operations.

***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond the fiscal year ended are recorded as prepaid items.

***Capital Assets***

Capital assets are valued at historical cost, or estimated historical cost, if actual historical cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated. The District policy has set the capitalization threshold for reporting capital assets at \$5,000, all of which must have an estimated useful life in excess of three years. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Randall-Bold water treatment plant	25 to 75 years
Infrastructure	25 to 75 years
Transmission and distribution system	5 to 50 years
General plant	5 to 50 years
Office equipment	3 to 5 years

Major outlays for capital assets are capitalized as construction in progress, once constructed, and repairs and maintenance costs are expensed.

***Compensated Absences***

The District's personnel policies provide for accumulation of vacation leave and compensatory time off. Liabilities for vacation leave and compensatory time off are recorded when benefits are earned. Full cash payment for all unused vacation leave is available to employees upon retirement or termination. Although accrued and unused sick leave may be carried over to, and used during, subsequent years, as discussed above, sick pay does not vest which means no payment shall be made for unused sick leave on termination of employment. However, upon retirement, employees may convert unused sick leave to credited service time in accordance with the provisions of the District's retirement plan with the California Public Employee Retirement System (CalPERS).

***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans (Note 11). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. The following timeframes are used for pension reporting:

<b><u>CalPERS</u></b>	<b><u>June 30, 2016</u></b>	<b><u>June 30, 2015</u></b>
Valuation date	June 30, 2014	June 30, 2013
Measurement date	June 30, 2015	June 30, 2014
Measurement period	July 1, 2014 to June 30, 2015	July 1, 2013 to June 30, 2014

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

***Pensions (Continued)***

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

***Net Position***

Net position represents the difference between all other elements in the balance sheet and should be displayed in the following three components:

***Net Investment in Capital Assets*** – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

***Restricted*** – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

***Unrestricted*** – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

***Capital Contributions***

Capital contributions represent cash and capital asset additions contributed to the District by outside parties.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)**

*Accounting Changes*

Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*). This Statement establishes standards for measuring and recognizing liabilities, deferred outflow of resources, deferred inflows of resources, and expense/expenditures for pension plans. 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. This statement became effective for periods beginning after June 15, 2014. See Note 11 for prior period adjustment as a result of implementation.

Statement No. 69, *Government Combinations and Disposals of Government Operation*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This statement became effective for periods beginning after December 15, 2013 and did not have a significant impact on the District's financial statements for year ended June 30, 2015.

Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. This statement establishes standards relating to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement became effective for periods beginning after June 15, 2014. See Note 11 for prior period adjustment as a result of implementation.

Statement No. 72, *Fair Value Measurement and Application*, which provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosure related to all fair value measurements. Application of this statement is effective for fiscal year ending June 30, 2016.

Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (those not covered by GASB Statements 67 and 68). Application of this statement is effective for the District's fiscal year ending June 30, 2016, except those provisions that address employers and governmental nonemployer contributing entities that are not within the scope of GASB Statement 68, which are effective for financial statements for fiscal year ending June 30, 2017.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the generally accepted accounting principles (GAAP) hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. Application of this statement is effective for fiscal year ending June 30, 2016.

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 2 – Cash and Investments**

Cash and cash equivalents as of June 30 were classified in the accompanying financial statements as follows:

<u>Description</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Cash and cash equivalents	\$ 2,834,125	\$ 2,085,988
Investments	1,852,459	4,026,767
Restricted – cash and cash equivalents	235,591	575,790
Restricted – investments	4,893,172	4,558,896
Total	<u>\$ 9,815,347</u>	<u>\$ 11,247,441</u>

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

<u>Description</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Petty cash	\$ 2,675	\$ 2,675
Deposits held with financial institutions	3,067,041	2,659,103
Investments	6,745,631	8,585,663
Total	<u>\$ 9,815,347</u>	<u>\$ 11,247,441</u>

***Authorized Deposits and Investments***

The District’s investment policy identifies investment types that are authorized for the District to invest in under the California Government Code as follows:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
State on local agency bonds	5-years	None	None
U.S. treasury obligations	5-years	None	None
Government sponsored agency securities	5-years	None	None
Banker's acceptances	270 days	40%	30%
Prime commercial paper	180 days	30%	10%
Nn-negotiable certificates of deposit	5-years	30%	None
Medium-term notes	5-years	30%	None
Mortgage pass-through securities	5-years	20%	None
Mutual funds	5-years	20%	10%
Money market mutual funds	5-years	20%	20%
Collateralized bank deposits	None	None	None
County pooled investment funds	None	None	None
California Local Agency Investment Fund (LAIF)	None	None	None
California Asset Management Program (CAMP)	None	None	None

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 2 – Cash and Investments (Continued)**

***Custodial Credit Risk***

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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. Of the bank balance, up to \$250,000 is federally insured.

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 Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

***Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

***Credit Risk***

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

***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 California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits.

The District's investments as of June 30, 2016 were as follows:

<u>Type of Investments</u>	<u>Measurement Focus</u>	<u>June 30, 2016 Fair Value</u>	<u>Maturity</u>		
			<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Non-negotiable certificates-of-deposit	Level 2	1,618,496	240,295	200,340	1,177,861
Government sponsored agency securities	Level 2	400,352	-	-	400,352
Local Agency Investment Fund (LAIF)	Level 2	3,758,826	3,758,826	-	-
Money market mutual funds	N/A	1,559	1,559	-	-
Held by bank or bond trustee:					
Non-negotiable certificates-of-deposit	Level 2	795,105	286,075	-	509,030
Money market mutual funds	N/A	171,293	171,293	-	-
<b>Total investments</b>		<u>\$ 6,745,631</u>	<u>\$ 4,458,048</u>	<u>\$ 200,340</u>	<u>\$ 2,087,243</u>

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 2 – Cash and Investments (Continued)**

The District's investments as of June 30, 2015 were as follows:

<u>Type of Investments</u>	<u>Measurement Focus</u>	<u>June 30, 2015 Fair Value</u>	<u>Maturity</u>		
			<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>
Non-negotiable certificates-of-deposit	Level 2	\$ 1,438,701	\$ 230,317	\$ 487,800	\$ 720,584
Local Agency Investment Fund (LAIF)	Level 2	6,339,556	6,339,556	-	-
Money market mutual funds	N/A	7,248	7,248	-	-
Held by bank or bond trustee:					
Non-negotiable certificates-of-deposit	Level 2	791,117	-	289,760	501,357
Money market mutual funds	N/A	9,041	9,041	-	-
<b>Total investments</b>		<u>\$ 8,585,663</u>	<u>\$ 6,586,162</u>	<u>\$ 777,560</u>	<u>\$ 1,221,941</u>

***Investments Authorized by Debt Agreements***

The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended debt proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District resolutions, bond indentures or State statute. These investments have been made in accordance with the District's investment policy. As of June 30, 2016 and 2015 the District had \$966,398 and \$800,158, respectively, invested with its bond trustee.

***Investment in State Investment Pool***

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

The District's investments with LAIF at June 30, 2016 and 2015, included a portion of the pool funds invested in structured notes and asset-backed securities:

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

***Asset-Backed Securities:*** generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2016 and 2015, the District had \$3,758,826 and \$6,339,556, respectively, invested in LAIF, which had invested 2.81% and 2.08% of the pooled investment funds as of June 30, 2016 and June 30, 2015, respectively, in structured notes and medium-term asset-backed securities. The LAIF fair value factor of 1.000621222 and 1.000375979 was used to calculate the fair value of the investments in LAIF as of June 30, 2016 and 2015, respectively.

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 3 – Net Other Post-Employment Benefits Asset**

***Plan Description***

Full-time employees who retire from the District after at least 10 years of service are eligible to receive health care benefits covering themselves and any qualified family members. The District pays 100% of the premiums for both retiree and eligible family members for all retirees until the retiree reaches age 65. Once the retiree reaches age 65, a percentage of the health care benefits for said retirees is covered based on years of service for either the Anthem Blue Cross Classic PPO with Medicare, Anthem Blue Cross HMO with Medicare, or the Kaiser Senior Advantage Plan, and eligible family members are offered health benefits at the retired employee's expense. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

Membership in the OPEB plan consisted of the following members as of July 1, 2015:

<u>Description</u>	<u>Members</u>
Active plan members	12
Retirees and beneficiaries receiving benefits	6
Separated plan members entitled to but not yet receiving benefits	-
Total plan membership	<u>18</u>

***Funding Policy***

As required by GASB Statement No. 45, an actuary will determine the District's Annual Required Contributions (ARC) at least once every three fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost for one year, and (2) a component for amortization of the total Unfunded Actuarial Accrued Liability (UAAL) over a period not to exceed 30 years.

***Annual OPEB Cost and Net OPEB Obligation (Asset)***

Summary changes in net other post-employment benefits balances for the years ended June 30 were as follows:

<u>Description</u>	<u>2016</u>	<u>2015</u>
<b>Annual OPEB cost:</b>		
Annual required contribution (ARC)	\$ 23,142	\$ 9,335
Interest on net OPEB obligation	-	(34,745)
Adjustment to annual required contribution	-	59,130
<b>Total annual OPEB cost</b>	<u>23,142</u>	<u>33,720</u>
<b>Contributions made:</b>		
Contributions	-	(2,643)
<b>Total contributions made</b>	<u>-</u>	<u>(2,643)</u>
<b>Total change in net OPEB obligation</b>	23,142	31,077
<b>Net OPEB obligation(asset):</b>		
Beginning of year	<u>(425,500)</u>	<u>(456,577)</u>
End of year	<u>\$ (402,358)</u>	<u>\$ (425,500)</u>

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 3 – Net Other Post-Employment Benefits Obligation (Continued)**

The District's annual OPEB cost, the amounts contributed to the irrevocable trust, retiree benefit payments, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation payable/asset for the fiscal year ended June 30, 2016 and the two preceding years are shown in the following table.

*Three-Year History of Net OPEB Obligation(Asset)*

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Contributions Made</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation Payable(Asset)</u>
June 30, 2016	\$ 23,142	\$ -	0.00%	\$ (402,358)
June 30, 2015	33,720	2,643	7.84%	(425,500)
June 30, 2014	34,157	2,583	7.56%	(456,577)

The most recent valuation (dated July 1, 2015) includes an Actuarial Accrued Liability of \$693,719. Plan assets amounted to \$866,215. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2015 was \$1,192,170. The ratio of the funded actuarial accrued liability to annual covered payroll was (14.47%).

***Actuarial Methods and Assumptions***

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

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

Valuation date	July 1, 2015
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent, closed 30 years
Remaining amortization period	25 Years as of the valuation date
Asset valuation method	30 Year smoothed market
Actuarial assumptions:	
Investment rate of return	7.28%
Projected salary increase	3.50%
Inflation - discount rate	7.28%
Health care trend rate	7.00% to 5.50%

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 4 – Capital Assets**

Summary changes in capital asset balances for the year ended June 30, 2016 were as follows:

Description	Balance July 1, 2015	Additions	Deletions/ Transfers	Balance June 30, 2016
<b>Non-depreciable assets:</b>				
Land	\$ 2,734,489	\$ -	\$ 165,580	\$ 2,900,069
Construction-in-process	2,749,174	326,505	(3,075,679)	-
<b>Total non-depreciable assets</b>	<b>5,483,663</b>	<b>326,505</b>	<b>(2,910,099)</b>	<b>2,900,069</b>
<b>Depreciable assets:</b>				
Randall-Bold water treatment plant	23,520,201	37,972	-	23,558,173
Infrastructure	38,079,887	34,100	-	38,113,987
Buildings and structures	-	2,394,420	-	2,394,420
Transmission and distribution system	4,903,398	577,225	-	5,480,623
General plant	2,193,092	75,925	-	2,269,017
<b>Total depreciable assets</b>	<b>68,696,578</b>	<b>3,119,642</b>	<b>-</b>	<b>71,816,220</b>
<b>Accumulated depreciation:</b>				
Randall-Bold water treatment plant	(13,846,251)	(550,250)	-	(14,396,501)
Infrastructure	(7,504,398)	(1,421,531)	-	(8,925,929)
Buildings and structures	-	(29,930)	-	(29,930)
Transmission and distribution system	(2,816,346)	(188,953)	-	(3,005,299)
General plant	(1,549,130)	(255,000)	-	(1,804,130)
<b>Total accumulated depreciation</b>	<b>(25,716,125)</b>	<b>(2,445,664)</b>	<b>-</b>	<b>(28,161,789)</b>
<b>Total depreciable assets, net</b>	<b>42,980,453</b>	<b>673,978</b>	<b>-</b>	<b>43,654,431</b>
<b>Total capital assets, net</b>	<b>\$ 48,464,116</b>	<b>\$ 1,000,483</b>	<b>\$ (2,910,099)</b>	<b>\$ 46,554,500</b>

Summary changes in capital asset balances for the year ended June 30, 2015 were as follows:

Description	Balance July 1, 2014	Additions	Deletions/ Transfers	Balance June 30, 2015
<b>Non-depreciable assets:</b>				
Land	\$ 2,734,489	\$ -	\$ -	\$ 2,734,489
Construction-in-process	461,338	2,287,836	-	2,749,174
<b>Total non-depreciable assets</b>	<b>3,195,827</b>	<b>2,287,836</b>	<b>-</b>	<b>5,483,663</b>
<b>Depreciable assets:</b>				
Randall-Bold water treatment plant	23,517,956	2,245	-	23,520,201
Infrastructure	37,654,887	425,000	-	38,079,887
Transmission and distribution system	4,893,909	59,012	(49,523)	4,903,398
General plant	2,115,635	77,457	-	2,193,092
Office equipment	402,990	-	(402,990)	-
<b>Total depreciable assets</b>	<b>68,585,377</b>	<b>563,714</b>	<b>(452,513)</b>	<b>68,696,578</b>
<b>Accumulated depreciation:</b>				
Randall-Bold water treatment plant	(13,296,001)	(550,250)	-	(13,846,251)
Infrastructure	(6,084,140)	(1,420,258)	-	(7,504,398)
Transmission and distribution system	(2,691,346)	(174,523)	49,523	(2,816,346)
General plant	(1,318,130)	(231,000)	-	(1,549,130)
Office equipment	(378,521)	(24,469)	402,990	-
<b>Total accumulated depreciation</b>	<b>(23,768,138)</b>	<b>(2,400,500)</b>	<b>452,513</b>	<b>(25,716,125)</b>
<b>Total depreciable assets, net</b>	<b>44,817,239</b>	<b>(1,836,786)</b>	<b>-</b>	<b>42,980,453</b>
<b>Total capital assets, net</b>	<b>\$ 48,013,066</b>	<b>\$ 451,050</b>	<b>\$ -</b>	<b>\$ 48,464,116</b>

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 5 – Compensated Absences**

Summary changes to compensated absences balances for the year ended June 30, 2016, were as follows:

<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
\$ 78,980	\$ 79,458	\$ (78,090)	\$ 80,348	\$ 20,087	\$ 60,261

Summary changes to compensated absences balances for the year ended June 30, 2015, were as follows:

<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>	<u>Due Within One Year</u>	<u>Due in More Than One Year</u>
\$ 26,993	\$ 82,563	\$ (30,576)	\$ 78,980	\$ 19,745	\$ 59,235

**Note 6 – Long-Term Debt**

The District has incurred long-term debt to finance projects or purchase assets, which have useful lives equal to or greater than the related debt.

Summary changes to long-term debt balances for the year ended June 30, 2016, were as follows:

<u>Long-Term Debt</u>	<u>Balance July 1, 2015</u>	<u>Additions/ Adjustments</u>	<u>Payments/ Amortization</u>	<u>Balance June 30, 2016</u>
Certificates-of-participation – 2010	\$ 3,625,000	\$ -	\$ (125,000)	\$ 3,500,000
Certificates-of-participation – 2013	6,510,000	-	(255,000)	6,255,000
Loans payable – 2014	2,637,376	-	(98,805)	2,538,571
Revenue bonds payable – 2012 Series A	6,611,380	1,130	(1,192,800)	5,419,710
Total long-term debt	19,383,756	<u>\$ 1,130</u>	<u>\$ (1,671,605)</u>	17,713,281
Less current portion	(1,671,605)			(1,882,318)
Non-current portion	<u>\$ 17,712,151</u>			<u>\$ 15,830,963</u>

Summary changes to long-term debt balances for the year ended June 30, 2015, were as follows:

<u>Long-Term Debt</u>	<u>Balance July 1, 2014</u>	<u>Additions/ Adjustments</u>	<u>Payments/ Amortization</u>	<u>Balance June 30, 2015</u>
Certificates-of-participation – 2010	\$ 3,745,000	\$ -	\$ (120,000)	\$ 3,625,000
Certificates-of-participation – 2013	6,590,000	-	(80,000)	6,510,000
Loans payable – 2014	2,733,000	-	(95,624)	2,637,376
Revenue bonds payable – 2012 Series A	7,287,010	(1,130)	(674,500)	6,611,380
Total long-term debt	20,355,010	<u>\$ (1,130)</u>	<u>\$ (970,124)</u>	19,383,756
Less current portion	(970,124)			(1,671,605)
Non-current portion	<u>\$ 19,384,886</u>			<u>\$ 17,712,151</u>

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 6 – Long-Term Debt (Continued)**

***Certificates-of-Participation – 2010***

During fiscal year 2010, the District issued \$4,200,000 of 2010 Water Revenue Certificates-of-Participation (2010 COPs). The 2010 COPs were used to finance a new well system (Stonecreek). Interest is payable semiannually on January 1 and July 1 and principal payments are due annually on January 1 through 2035. Annual remaining debt service repayments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 125,000	\$ 156,919	\$ 281,919
2018	130,000	151,919	281,919
2019	135,000	146,719	281,719
2020	140,000	141,319	281,319
2021	145,000	135,719	280,719
2022-2026	815,000	586,158	1,401,158
2027-2031	1,010,000	393,745	1,403,745
2032-2035	1,000,000	128,250	1,128,250
Total	<u>\$ 3,500,000</u>	<u>\$ 1,840,748</u>	<u>\$ 5,340,748</u>

***Certificates-of-Participation – 2013***

During fiscal year 2005, the District issued \$7,500,000 of Series 2005 Water Revenue Certificates-of-Participation (2005 COPs) to finance improvements to the District's water system, including the Glen Park well system and blending facility. In April 2013, the 2005 COPs were refunded from proceeds of the issuance of the 2013 Water Revenue Certificates-of-Participation (2013 COPs), which included costs associated with the relocation of a 24-inch water line as a result of BNSF Railway installing a second track that would be located over the water line. Interest is payable semiannually on January 1 and July 1 and principal payments are due annually on January 1 through 2030. Annual remaining debt service repayments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 450,000	\$ 173,203	\$ 623,203
2018	455,000	164,203	619,203
2019	460,000	155,103	615,103
2020	465,000	145,903	610,903
2021	480,000	136,603	616,603
2022-2026	2,055,000	519,815	2,574,815
2027-2030	1,890,000	170,835	2,060,835
Total	<u>\$ 6,255,000</u>	<u>\$ 1,465,665</u>	<u>\$ 7,720,665</u>

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 6 – Long-Term Debt (Continued)**

***Loans Payable – 2014***

During fiscal year 2014, the District entered into a loan agreement with Holman Capital Corporation to finance the construction of a new administration building and the interior recoating of reservoir No. 1. The loan bears an interest rate of 3.3 % per annum. Principal and interest payments on the loan are due semiannually on each June 30 and December 31 commencing on December 31, 2014 through 2021. Annual remaining debt service repayments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 102,093	\$ 82,937	\$ 185,030
2018	105,489	79,541	185,030
2019	108,999	76,031	185,030
2020	112,626	72,404	185,030
2021	116,373	68,657	185,030
2022	<u>1,992,991</u>	<u>32,884</u>	<u>2,025,875</u>
Total	<u>\$ 2,538,571</u>	<u>\$ 412,454</u>	<u>\$ 2,951,025</u>

***Revenue Bonds Payable – 2012 Series A***

On May 24, 1989, the District signed a Joint Exercise of Power Agreement with the Contra Costa Water District (CCWD) to form the Contra Costa Water Authority (CCWA) for the purpose of financing, constructing, owning and operating a joint water treatment plant. The CCWA is governed by a five-member Board of Directors that is comprised of Directors of the CCWD. The District's share of the capital costs of the plant, which was completed on July 7, 1992, was \$ 16,454,516, plus construction period interest of \$2,106,570. The District's 35.5% share of the construction cost will be paid in semiannual payments over a period of 30 years to the CCWD, which will pay the principal and interest on revenue bonds issued by the CCWA to finance the project. The original bond issue was called and reissued in 1993. The revenue bonds financing the cost of the treatment plant were sold at competitive bid on July 18, 2012 and refinanced with the issuance of the Water Treatment Revenue Refunding Bonds, 2012 Series A.

The District's original total debt service liability of \$8,143,700 is partially offset by the application of a reserve account held by the CCWA which will be applied to the last payment due in fiscal year 2021. The balance in the reserve account increased \$1,130 during fiscal year 2015 which resulted in a decrease in the District's outstanding liability, and the ending balance of the reserve account at June 30, 2016 was \$856,690.

Interest is payable semiannually on April 1 and October 1 and principal payments are due annually on October 1 through 2020. A portion of the repayment of the liability will come from the District's developer impact fees revenues/reserves and the remaining balance will come from operating funds.

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 6 – Long-Term Debt (Continued)**

***Revenue Bonds Payable – 2012 Series A***

Annual remaining debt service repayments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,205,225	\$ 62,764	\$ 1,267,989
2018	1,219,425	50,712	1,270,137
2019	1,244,275	115,553	1,359,828
2020	1,285,100	78,224	1,363,324
2021	<u>1,322,375</u>	<u>39,671</u>	<u>1,362,046</u>
Reserve	<u>(856,690)</u>	<u>-</u>	<u>(856,690)</u>
Total	<u>\$ 5,419,710</u>	<u>\$ 346,924</u>	<u>\$ 5,766,634</u>

***Deferred Loss on Refunding of Revenue Bonds***

Changes in deferred loss on refunding of revenue bonds, net for the year ended June 30, 2016 was as follows:

<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance</u> <u>June 30, 2016</u>
<u>\$ 135,778</u>	<u>\$ -</u>	<u>\$ (9,364)</u>	<u>\$ 126,414</u>

Changes in deferred loss on refunding of revenue bonds, net for the year ended June 30, 2015 was as follows:

<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance</u> <u>June 30, 2015</u>
<u>\$ 145,166</u>	<u>\$ -</u>	<u>\$ (9,388)</u>	<u>\$ 135,778</u>

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 7 – County Pension Plan Termination Liability**

The District terminated its participation in the Contra Costa County Employees Retirement Association (CCCERA) effective September 30, 2005. Pursuant to its funding obligation upon termination, the District entered into a termination agreement with CCCERA under which the District agreed to pay the costs associated with its share of any unfunded actuarial liability that is attributable to the officers and employees of the District that either were retired or will retire under the CCCERA. The District's initial termination funding obligation was \$3,985,036 as of September 30, 2005, but it is subject to periodic re-computation and adjustment no less than every three years. The most recent computation as of December 31, 2012 indicated a remaining net termination liability of \$ 1,381,285 as of that date. The obligation is being amortized over approximately 15 years with annual installment payments. The final settlement date for the obligation will occur when the CCCERA's actuary determines that the remaining termination liability is below 20% of the value of the initial termination funding obligation. The estimated annual remaining liability payments are as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2017	\$ 154,061
2018	154,061
2019	154,061
2020	154,061
2021	154,061
2022	<u>148,797</u>
Total	919,102
Less current	<u>(154,061)</u>
Non-current	<u>\$ 765,041</u>

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 8 – Net Pension Liability and Defined Benefit Pension Plan**

Changes in the net pension liability and the related deferred outflows and inflows of resources for the year ended June 30, 2016 were as follows:

<u>Type of Account</u>	<u>Balance as of July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance as of June 30, 2016</u>
<b>Deferred Outflows of Resources:</b>				
Pension contributions made after the measurement date:				
CalPERS – Miscellaneous Plan	\$ 192,153	\$ 211,486	\$ (192,153)	\$ 211,486
Difference between actual and proportionate share of employer contributions:				
CalPERS – Miscellaneous Plan	12,641	(365)	(4,419)	7,857
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	-	290,749	(89,976)	200,773
Differences between expected and actual experience:				
CalPERS – Miscellaneous Plan	-	16,714	(4,399)	12,315
<b>Total deferred outflows of resources</b>	<u>\$ 204,794</u>	<u>\$ 518,584</u>	<u>\$ (290,947)</u>	<u>\$ 432,431</u>
<b>Net Pension Liability:</b>				
CalPERS – Miscellaneous Plan	<u>\$ 1,173,398</u>	<u>\$ 544,892</u>	<u>\$ (192,153)</u>	<u>\$ 1,526,137</u>
<b>Deferred Inflows of Resources:</b>				
Differences between projected and actual earnings on pension plan investments:				
CalPERS – Miscellaneous Plan	\$ 394,316	\$ 25,296	\$ (361,204)	\$ 58,408
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	20,943	-	(20,943)	-
Changes in assumptions:				
CalPERS – Miscellaneous Plan	-	158,130	(41,614)	116,516
<b>Total deferred inflows of resources</b>	<u>\$ 415,259</u>	<u>\$ 183,426</u>	<u>\$ (423,761)</u>	<u>\$ 174,924</u>

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

Changes in the net pension liability and the related deferred outflows and inflows of resources for the year ended June 30, 2015 were as follows:

Type of Account	Balance as of July 1, 2014 (As Restated)	Additions	Deletions	Balance as of June 30, 2015
<b>Deferred Outflows of Resources:</b>				
Pension contributions made after the measurement date:				
CalPERS – Miscellaneous Plan	\$ 155,236	\$ 192,153	\$ (155,236)	\$ 192,153
Difference between actual and proportionate share of employer contributions:				
CalPERS – Miscellaneous Plan	17,156	-	(4,515)	12,641
<b>Total deferred outflows of resources</b>	<u>\$ 172,392</u>	<u>\$ 192,153</u>	<u>\$ (159,751)</u>	<u>\$ 204,794</u>
<b>Net Pension Liability:</b>				
CalPERS – Miscellaneous Plan	<u>\$ 1,603,283</u>	<u>\$ -</u>	<u>\$ (429,885)</u>	<u>\$ 1,173,398</u>
<b>Deferred Inflows of Resources:</b>				
Differences between projected and actual earnings on pension plan investments:				
CalPERS – Miscellaneous Plan	\$ -	\$ 492,895	\$ (98,579)	\$ 394,316
Adjustment due to differences in proportions:				
CalPERS – Miscellaneous Plan	-	28,423	(7,480)	20,943
<b>Total deferred inflows of resources</b>	<u>\$ -</u>	<u>\$ 521,318</u>	<u>\$ (106,059)</u>	<u>\$ 415,259</u>

***General Information about the Pension Plans***

***The Plans Description Schedule***

The District has engaged with CalPERS to administer the following pension plans for its employees (members):

	<b>Miscellaneous Plans</b>	
	<b>Classic Tier 1</b>	<b>PEPRA Tier 2</b>
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2.0% @ 62
Benefit vesting schedule	5-years of service monthly for life	5-years of service monthly for life
Benefits payments	50 - 67 & up	52 - 67 & up
Retirement age	2.0% to 2.7%	1.0% to 2.5%
Monthly benefits, as a % of eligible compensation	8.000%	6.500%
Required member contribution rates	17.857%	6.500%
Required employer contribution rates – FY 2015	16.148%	6.500%
Required employer contribution rates – FY 2014		

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*General Information about the Pension Plans (Continued)*

Plan Description

The District contributes to the California Public Employees’ Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A full description of the pension plan, benefit provisions, assumptions (for funding, but not accounting purposes), and membership information are listed in the June 30, 2014 Annual Actuarial Valuation Report. This report and CalPERS’ audited financial statements are publicly available reports that can be obtained at CalPERS’ website under Forms and Publications.

Members Covered by Benefit Terms

At June 30, 2015 (Valuation Date), the following members were covered by the benefit terms:

<u>Plan Members</u>	<u>Miscellaneous Plans</u>		<u>Total</u>
	<u>Classic Tier 1</u>	<u>PEPRA Tier 2</u>	
Active members	10	3	13
Transferred and terminated members	7	-	7
Retired members and beneficiaries	5	-	5
<b>Total plan members</b>	<b>22</b>	<b>3</b>	<b>25</b>

At June 30, 2014 (Valuation Date), the following members were covered by the benefit terms:

<u>Plan Members</u>	<u>Miscellaneous Plans</u>		<u>Total</u>
	<u>Classic Tier 1</u>	<u>PEPRA Tier 2</u>	
Active members	10	1	11
Transferred and terminated members	7	-	7
Retired members and beneficiaries	5	-	5
<b>Total plan members</b>	<b>22</b>	<b>1</b>	<b>23</b>

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A Classic CalPERS Miscellaneous member becomes eligible for service retirement upon attainment of age 55 with at least 5 years of credited service. Public Employees’ Pension Reform Act (PEPRA) Miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the monthly average of the member’s highest 12 months for Classic and 36 months for PEPRA of full-time equivalent monthly pay. Retirement benefits for Classic Miscellaneous members are calculated as 2.0% to 2.7% of the average final 12 months compensation. Retirement benefits for PEPRA Miscellaneous members are calculated as 1% to 2.5% of the average final 36 months compensation.

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

***General Information about the Pension Plans (Continued)***

***Benefits Provided (Continued)***

Participant members are eligible for non-industrial disability retirement if they become disabled and have at least 5 years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8% of final compensation, multiplied by service. Industrial disability benefits are not offered to miscellaneous employees.

A member's beneficiary may receive the basic death benefit if the member dies while actively employed. The member must be actively employed with the District to be eligible for this benefit. A member's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the members' accumulated contributions, where interest is currently credited at 7.5 percent per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 3%.

***Contributions***

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers will be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The public agency cost-sharing plans covered by the Miscellaneous risk pool, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of members. For the measurement period ending June 30, 2015 and 2014 (Measurement Dates), the active member contribution rate for the Classic Miscellaneous Plan and the PEPRA Miscellaneous Plan are based above in the Plans Description schedule.

Contributions for the year ended June 30, 2016 were as follows:

<u>Contribution Type</u>	<u>Miscellaneous Plans</u>		<u>Total</u>
	<u>Classic Tier 1</u>	<u>PEPRA Tier 2</u>	
Contributions – employer	\$ 196,405	\$ 15,081	\$ 211,486
Contributions – members	82,201	14,579	96,780
<b>Total contributions</b>	<b>\$ 278,606</b>	<b>\$ 29,660</b>	<b>\$ 308,266</b>

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

***General Information about the Pension Plans (Continued)***

*Contributions (Continued)*

Contributions for the year ended June 30, 2015 were as follows:

<u>Contribution Type</u>	<u>Miscellaneous Plans</u>		<u>Total</u>
	<u>Classic</u>	<u>PEPRA</u>	
	<u>Tier 1</u>	<u>Tier 2</u>	
Contributions – employer	\$ 178,540	\$ 13,613	\$ 192,153
Contributions – members	79,987	13,206	93,193
<b>Total contributions</b>	<b>\$ 258,527</b>	<b>\$ 26,819</b>	<b>\$ 285,346</b>

***Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans***

*Actuarial Methods and Assumptions Used to Determine the Total Pension Liability*

For the measurement periods ending June 30, 2015 and 2014 (Measurement Dates), the total pension liability was determined by rolling forward the June 30, 2014 and 2013 total pension liabilities. The June 30, 2015, 2014 and 2013 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2015 and 2014 Valuations were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

*Discount Rate*

The discount rate used to measure the total pension liability was 7.65 percent. The long-term expected rate of return on the pension plan investments was determined in which best-estimate ranges of expected future real rates are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were considered. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years.

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

Discount Rate (Continued)

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

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

<u>Investment Type</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10<sup>1</sup></u>	<u>Real Return Years 11+<sup>2</sup></u>
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
	<u>100.00%</u>		

<sup>1</sup> An expected inflation rate-of-return of 2.5% is used for years 1 – 10.

<sup>2</sup> An expected inflation rate-of-return of 3.0% is used for years 11+.

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

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

The following presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate for the June 30, 2015 Valuation Date as follows:

<u>Plan Type</u>	<u>Plan's Net Pension Liability/(Asset)</u>		
	<u>Discount Rate - 1% 6.65%</u>	<u>Current Discount Rate 7.65%</u>	<u>Discount Rate + 1% 8.65%</u>
CalPERS – Miscellaneous Plan	<u>2,491,935</u>	<u>\$ 1,526,137</u>	<u>\$ 728,759</u>

The following presents the District's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.50%) than the current rate for the June 30, 2014 Valuation Date as follows:

<u>Plan Type</u>	<u>Plan's Net Pension Liability/(Asset)</u>		
	<u>Discount Rate - 1% 6.50%</u>	<u>Current Discount Rate 7.50%</u>	<u>Discount Rate + 1% 8.50%</u>
CalPERS – Miscellaneous Plan	<u>\$ 2,090,632</u>	<u>\$ 1,173,398</u>	<u>\$ 412,180</u>

*Pension Plan Fiduciary Net Position*

Detail information about the plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the plan's proportionate share of the risk pool collective net pension liability over the measurement period for the Miscellaneous Plan for the fiscal year ended June 30, 2016:

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
<b>CalPERS – Miscellaneous Plan:</b>			
Balance as of June 30, 2014 (Measurement Date)	\$ 6,914,032	\$ 5,740,634	\$ 1,173,398
Balance as of June 30, 2015 (Measurement Date)	\$ 7,091,723	\$ 5,565,586	\$ 1,526,137
<b>Change in Plan Net Pension Liability</b>	<u>\$ 177,691</u>	<u>\$ (175,048)</u>	<u>\$ 352,739</u>

The following table shows the plan's proportionate share of the risk pool collective net pension liability over the measurement period for the Miscellaneous Plan for the fiscal year ended June 30, 2015:

<u>Plan Type and Balance Descriptions</u>	<u>Plan Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Change in Plan Net Pension Liability</u>
<b>CalPERS – Miscellaneous Plan:</b>			
Balance as of June 30, 2013 (Valuation Date)	\$ 6,525,690	\$ 4,922,407	\$ 1,603,283
Balance as of June 30, 2014 (Measurement Date)	\$ 6,914,032	\$ 5,740,634	\$ 1,173,398
<b>Change in Plan Net Pension Liability</b>	<u>\$ 388,342</u>	<u>\$ 818,227</u>	<u>\$ (429,885)</u>

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

***Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)***

***Proportionate Share of Net Pension Liability and Pension Expense (Continued)***

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2014 and 2013). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2015 and 2014). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2015 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2014-15 fiscal year and the 2013-14 fiscal year).
- (3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date.
- (4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.
- (5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

The District's proportionate share of the net pension liability for the June 30, 2015 measurement date was as follows:

	<u>Percentage Share of Risk Pool</u>		<u>Change Increase/ (Decrease)</u>
	<u>Fiscal Year</u>	<u>Fiscal Year</u>	
	<u>Ending June 30, 2016</u>	<u>Ending June 30, 2015</u>	
Measurement Date	June 30, 2015	June 30, 2014	
Percentage of Risk Pool Net Pension Liability	0.055628%	0.047477%	0.008151%
Percentage of Plan (PERF C) Net Pension Liability	0.022234%	0.018857%	0.003377%

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

	<u>Percentage Share of Risk Pool</u>		<u>Change Increase/ (Decrease)</u>
	<u>Fiscal Year</u>	<u>Fiscal Year</u>	
	<u>Ending June 30, 2015</u>	<u>Ending June 30, 2014</u>	
Measurement Date	June 30, 2014	June 30, 2013	
Percentage of Risk Pool Net Pension Liability	0.047477%	0.025766%	0.021711%
Percentage of Plan (PERF C) Net Pension Liability	0.018857%	0.019889%	-0.001032%

For the years ended June 30, 2016 and 2015, the District recognized pension expense in the amounts of \$96,255 and \$145,125, respectively, for the CalPERS Miscellaneous Plan.

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

**Diablo Water District**  
**Notes to the Financial Statements**  
**For the Years Ended June 30, 2016 and 2015**

**Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the risk pool. The EARSL for risk pool for the 2014-15 and 2013-14 measurement periods is 3.8 years, which was obtained by dividing the total service years of 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired).

Deferred Outflows of Resources and Deferred Inflows of Resources

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

<u>Account Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions made after the measurement date	\$ 211,486	\$ -
Difference between actual and proportionate share of employer contributions	7,857	-
Adjustment due to differences in proportions	200,773	-
Differences between expected and actual experience	12,315	-
Differences between projected and actual earnings on pension plan investments	-	58,408
Changes in assumptions	-	116,516
<b>Total Deferred Outflows/(Inflows) of Resources</b>	<b>\$ 432,431</b>	<b>\$ 174,924</b>

The District will recognize \$211,486 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date as a reduction of the net pension liability in the fiscal year ended June 30, 2017, as noted above.

Amortization of Deferred Outflows of Resources and Deferred Inflows of Resources

Other remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized to pension expense in future periods as follows:

<u>Amortization Period Fiscal Year Ended June 30</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 77,851	\$ 85,972
2018	78,444	85,972
2019	64,650	77,646
2020	-	(74,666)
<b>Total</b>	<b>\$ 220,945</b>	<b>\$ 174,924</b>

**Diablo Water District**  
**Notes to the Financial Statements (Continued)**  
**For the Year Ended June 30, 2015**

**Note 8 – Net Pension Liability and Defined Benefit Pension Plan (Continued)**

*Net Pension Liability, Pension Expenses, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plans (Continued)*

*Deferred Outflows of Resources and Deferred Inflows of Resources*

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

<u>Account Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions made after the measurement date	\$ 192,153	\$ -
Differences between projected and actual earnings on pension plan investments	-	394,316
Difference between actual and proportionate share of employer contributions	12,641	-
Adjustment due to differences in proportions	-	20,943
<b>Total Deferred Outflows/(Inflows) of Resources</b>	<u><u>\$ 204,794</u></u>	<u><u>\$ 415,259</u></u>

The District will recognize \$192,153 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date as a reduction of the net pension liability in the fiscal year ended June 30, 2016, as noted above.

<u>Amortization Period Fiscal Year Ended June 30</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2016	\$ 4,515	\$ 106,059
2017	4,515	106,059
2018	3,611	104,562
2019	-	98,579
<b>Total</b>	<u><u>\$ 12,641</u></u>	<u><u>\$ 415,259</u></u>

**Diablo Water District**  
**Notes to the Financial Statements (Continued)**  
**For the Year Ended June 30, 2015**

**Note 9 – Net Investment in Capital Assets**

Net investment in capital assets consisted of the following as of June 30:

<u>Description</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>Net investment in capital assets:</b>		
Restricted – cash and cash equivalents – loan proceeds	\$ -	\$ 575,790
Capital assets – not being depreciated	2,900,069	5,483,663
Capital assets, net – being depreciated	43,654,431	42,980,453
Deferred loss on refunding of revenue bonds, net	126,414	135,778
Certificates-of-participation – current	(575,000)	(380,000)
Loans payable – current	(102,093)	(98,805)
Revenue bonds payable – current	(1,205,225)	(1,192,800)
Certificates-of-participation – non-current	(9,180,000)	(9,755,000)
Loans payable – non-current	(2,436,478)	(2,538,571)
Revenue bonds payable – non-current	(4,214,485)	(5,418,580)
<b>Total net investment in capital assets</b>	<b><u>\$ 28,967,633</u></b>	<b><u>\$ 29,791,928</u></b>

**Note 10 – Restricted Net Position**

Restricted net position consisted of the following as of June 30:

<u>Description</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>Restricted net position:</b>		
Restricted for debt service	\$ 1,201,988	\$ 800,158
Restricted for AB-1600 requirements – impact fees	3,926,775	3,758,738
<b>Total restricted net position</b>	<b><u>\$ 5,128,763</u></b>	<b><u>\$ 4,558,896</u></b>

**Note 11 – Prior Period Adjustment**

<u>Description</u>	<u>Balance</u>
<b>Net position as of July 1, 2014 – as previously reported</b>	<b><u>\$ 39,703,371</u></b>
Net pension liability – GASB No. 68/71 implementation	(1,603,283)
Employer contributions to pension plan made after the measurement date	155,236
Changes in employer contributions and differences between proportionate share of pension expense	17,156
<b>Total prior period adjustments</b>	<b><u>(1,430,891)</u></b>
<b>Net position as of July 1, 2014 – as restated</b>	<b><u>\$ 38,272,480</u></b>

With the implementation of GASB Statements No. 68 and 71 in fiscal year 2015, the District was required to record a prior period adjustment of \$(1,430,891) to establish the net pension liability as of June 30, 2014 of \$(1,603,283) net of the employer contributions to pension plan made after the measurement date of \$155,236 and the changes in employer contributions and differences between proportionate share of pension expense of \$17,156 as prescribed by GASB Statements No. 68 and 71 accounting standards. (See Note 8 for further information on the net pension liability.)

**Diablo Water District**  
**Notes to the Financial Statements (Continued)**  
**For the Year Ended June 30, 2015**

**Note 12 – Deferred Compensation Savings Plan**

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District’s general creditors.

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

**Note 13 – Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has purchased the commercial insurance coverage for risks of loss except worker’s compensation through East County Insurance Agency, the Districts’ selected insurance broker/consultant.

The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), a public entity risk pool, for workers’ compensation coverage. The purpose of ACWA/JPIA is to provide a cost-effective form of risk management to public entities, allowing them to bypass the high cost of workers’ compensation insurance.

The following types of loss risks are covered by commercial insurance policies and ACWA/JPIA as follows:

<u>Type of Coverage (Deductible)</u>	<u>Coverage Limit</u>
Liability (\$0)	\$ 1,000,000
Excess liability (\$0)	\$ 10,000,000
Property (\$1,000) –	Replacement cost up to an aggregate of \$ 17,352,764
Inland marine tools and equipment (\$500) (Total Limit \$48,625) –	Per item \$ 10,000
Auto liability (\$500) –	Each accident \$ 1,000,000
Public officials & management liability (\$0) (Limit to \$3.0 million) –	Each occurrence \$ 1,000,000
Crime coverage (\$250) –	With various sublimits to \$ 250,000
Cyber liability (\$0)	\$ 1,000,000
Workers' compensation (\$2,500)	Statutory Limit
Workers' compensation – employer's liability	\$ 2,000,000

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District’s insurance coverage during the years ending June 30, 2016, 2015 and 2014. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2016, 2015 and 2014.

**Diablo Water District**  
**Notes to the Financial Statements (Continued)**  
**For the Year Ended June 30, 2015**

**Note 14 – Commitments**

***Main Extension Reimbursement Payable***

Regulation No. 3 of the District sets forth the connection charges and reimbursements for certain main extensions. In general terms, this Regulation requires the applicant to pay to the District a developer impact charge and a main extension reimbursement assessment, and to advance to the District its costs of materials, labor, engineering and administration.

The District reimburses eligible applicants over a 10-year period without interest for extensions and enlargements of the District's pipeline facilities. The reimbursement is paid in July of each year following acceptance of the facilities by the District. The maximum amount of reimbursement cannot exceed 10% of the originally established potential reimbursement amount. If the 10% liability is under \$5,000, then \$5,000 will be paid annually until the liability is paid-off. This policy is subject to the availability of sufficient funds in the District's Main Extension Reimbursement Assessment (MERA) account.

***Delta Mutual Agreement***

Effective October 15, 1999, the District entered into a service agreement with Delta Mutual Water Company (Company). The agreement provides for the performance of services by the District required to continue the operation and maintenance of the Company's water treatment and distribution system. The District bills approximately 120 customers of the Company semiannually. Upon receipt of payment, the District transmits the proceeds to the Company. In addition to handling collection, the District bills the Company monthly for repairs, maintenance, testing, inspection and actual costs, including materials, contractor payments, personnel and vehicle costs and overhead in accordance with the Hour Rates Schedule contained in the agreement.

***Sandhill Project***

The State of California Department of Health declared water wells in the Sandhill area (approximately 56) contaminated and hazardous to health for human consumption. As a Safe Drinking Water emergency project, the District annexed the area. A twelve inch water main from Laurel Road south to Bolton Road, including Ray Avenue, Malicoat Avenue, Douglas Road and Hill Avenue, was constructed to provide domestic water supply and eliminate the use of the existing nitrate impacted private wells.

The District entered into a contract between the State of California Department of Water Resources for a loan of \$275,500, payable over 35 years, to finance the construction of the pipeline. An assessment on each parcel for construction costs and connection fees was assessed through the Contra Costa County property tax roll via the Sandhill Oakley Assessment District (OAD).

On June 1, 2005, the District paid the remaining loan balance of \$199,772. This enabled the District to get a better Bond Rating which gave the District a lower interest rate for the financing of the Glen Park Well System. The remaining balance due from the property owners as of June 30, 2016 was \$48,405.

***Substandard Street Deposit Liability***

Developers are required to deposit with the District the estimated cost of relocating pipelines in substandard streets. If the costs exceed the amount on deposit, the developer will be required to reimburse the District. If the costs are less than the amount on deposit, the District will refund the excess to the developer. The amount on deposit, together with accrued interest, was \$216,000 as of June 30, 2016.

**Diablo Water District**  
**Notes to the Financial Statements (Continued)**  
**For the Year Ended June 30, 2015**

**Note 14 – Commitments (Continued)**

***Brentwood Pump Station***

The District entered into an agreement with the City of Brentwood (City) on September 18, 1996 for the construction of a water main on Empire Avenue connecting the City's distribution system to the District's. The purpose of the agreement was to enable the District to wheel water treated for potability at the Randall-Bold Water Treatment Plant to the City of Brentwood.

Construction costs were borne by the City and the project was completed in October of 1997. The District reads the meter on the last working day of each month and delivers a copy of the reading to the City.

Under the terms of the original agreement, the District is not obligated to transport water after December 31, 2003. Commencing the same date, the District was obligated to pay 90% of Brentwood's constructions costs up to a maximum of \$585,000 in ten equal annual installments without interest. The agreement was amended on October 25, 2000. The service areas located south of Neroly Road and Delta Road (overlap areas) will be serviced by the City. The ten annual installments were reduced to six with payments starting in 2008 through 2013, and the District made the final payment in fiscal year 2013. For connections in the overlap areas, the City pays a connection fee subject to annual increases per the Construction Cost Index.

**Note 15 – Contingencies**

***Grant Awards***

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

***Litigation***

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

***Water Shortage Emergency Declaration***

The District declared a Water Shortage Emergency in May 2015, amending sections 5.9.2.2 and 5.9.2.3 of the District's Water Shortage Contingency Plan contained within its 2010 Urban Water Management Plan and amending the District's Drought Emergency Regulation No. 9. The Plan requires a mandatory reduction of water use by its customers to achieve an overall 28 percent reduction of 2013 water use in the entire District as mandated by the California Department of Water Resources.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**Diablo Water District**  
**Required Supplementary Information (Unaudited)**  
**Schedule of the District's Proportionate Share of the Plan's Net Pension Liability**  
**For the Year Ended June 30, 2016**

**Last Ten Fiscal Years**

**California Public Employees' Retirement System (CalPERS) Miscellaneous Plan**

<b>Measurement Date:</b>	<u><b>June 30, 2015<sup>1</sup></b></u>	<u><b>June 30, 2014<sup>1</sup></b></u>
District's Proportion of the Net Pension Liability	0.022234%	0.018857%
District's Proportionate Share of the Net Pension Liability	<u>\$ 1,526,137</u>	<u>\$ 1,173,398</u>
District's Covered-Employee Payroll	<u>\$ 1,044,488</u>	<u>\$ 1,014,066</u>
District's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	<u>146.11%</u>	<u>115.71%</u>
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	<u>78.40%</u>	<u>79.82%</u>

<sup>1</sup> Historical information is required only for measurement periods for which GASB No. 68 is applicable.

**Diablo Water District**  
**Required Supplementary Information (Unaudited)**  
**Schedule of the District's Contributions to the Pension Plan**  
**For the Year Ended June 30, 2016**

**Last Ten Fiscal Years**

**California Public Employees' Retirement System (CalPERS) Miscellaneous Plan**

<b>Fiscal Year:</b>	<b>2015-16<sup>1</sup></b>	<b>2014-15<sup>1</sup></b>	<b>2013-14<sup>1</sup></b>
Actuarially Determined Contribution <sup>2</sup>	\$ 211,486	\$ 192,153	\$ 172,392
Contribution in Relation to the Actuarially Determined Contribution <sup>2</sup>	(211,486)	(192,153)	(172,392)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered-Employee Payroll	\$ 1,251,800	\$ 1,044,488	\$ 1,014,066
Contributions as a Percentage of Covered-Employee Payroll	16.89%	18.40%	17.00%

<sup>1</sup> Historical information is required only for measurement periods for which GASB No. 68 is applicable.

<sup>2</sup> Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employers may choose to make additional contributions towards their side-fund or their unfunded liability. Employer contributions for such plan exceed the actuarial determined contributions. CalPERS has determined that employer obligations referred to as *side-funds* are not considered separately financed specific liabilities.

<sup>3</sup> Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB No. 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

**Notes to the Schedule:**

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

**Diablo Water District**  
**Required Supplementary Information (Unaudited)**  
**Schedule of Funding Progress – Other Post-Employment Benefit Plan**  
**For the Year Ended June 30, 2016**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
July 1, 2015	\$ 866,215	\$ 693,719	\$ (172,496)	124.87%	\$ 1,192,170	-14.47%
July 1, 2013	\$ 839,334	\$ 542,504	\$ (296,830)	154.71%	\$ 1,053,982	-28.16%
June 30, 2011	\$ 812,993	\$ 617,481	\$ (195,512)	131.66%	\$ 1,041,628	-18.77%
June 30, 2010	\$ 651,497	\$ 495,527	\$ (155,970)	131.48%	\$ 1,070,823	-14.57%

**Notes to the Schedule:**

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every two years or annually, if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2018, based on the year ending June 30, 2017.

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**SUPPLEMENTARY INFORMATION**

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**Diablo Water District**  
**Schedules of Cash and Investments Available for Operations**  
**June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash accounts:</b>		
General checking	\$ 2,413,950	\$ 1,551,395
Loans payable – 2014 loan proceeds remaining	235,591	575,790
Maintenance bonds	417,500	417,500
Money market accounts	-	114,418
Cash on hand	2,575	2,575
Payroll tax deposit	100	100
<b>Total cash accounts</b>	<u>3,069,716</u>	<u>2,661,778</u>
<b>Investment accounts:</b>		
Local Agency Investment Fund	3,758,826	6,339,556
Government sponsored agency securities	400,352	-
Money market accounts – held with bond trustee	171,293	9,041
Money market accounts – investment accounts	1,559	7,248
Non-negotiable certificates-of-deposit	1,618,496	1,438,701
Non-negotiable certificates-of-deposit – held with bond trustee	795,105	791,117
<b>Total investment accounts</b>	<u>6,745,631</u>	<u>8,585,663</u>
<b>Total cash and investments</b>	<u>\$ 9,815,347</u>	<u>\$ 11,247,441</u>
<b>Net investment in capital assets:</b>		
Loans payable – 2014 loan proceeds remaining	\$ -	\$ 575,790
<b>Restricted net position:</b>		
Certificates-of-participation – 2013 – reserve account	601,044	506,738
Certificates-of-participation – 2010 – reserve account	365,353	293,420
Loans payable – 2014 loan proceeds remaining for debt service – project complete	235,591	-
Restricted for debt service	<u>1,201,988</u>	<u>800,158</u>
Facilities reserve	<u>3,926,775</u>	<u>3,758,738</u>
Restricted for AB-1600 requirements – developer impact fees	<u>3,926,775</u>	<u>3,758,738</u>
<b>Total restricted net position</b>	<u>5,128,763</u>	<u>4,558,896</u>
<b>Designated funds:</b>		
Rate stabilization fund	1,000,000	1,000,000
Customer deposits/Developer-admin deposits	(19,060)	686,394
Maintenance bonds	417,500	417,500
Main extension reimbursement payable	92,451	157,789
Substandard street deposits	216,000	157,542
South Park well system	199,127	202,441
Willow Park Marina well system	181,134	155,859
Rock Island well system	122,402	121,640
Beacon well system	73,927	62,650
Payroll tax deposit	100	100
Knightsen well system	(18,494)	(26,953)
<b>Total designated funds</b>	<u>2,265,087</u>	<u>2,934,962</u>
<b>Total assigned cash and investments</b>	<u>7,393,850</u>	<u>8,069,648</u>
<b>Cash and investments available for operations</b>	<u>2,421,497</u>	<u>3,177,793</u>
<b>Total cash and investments</b>	<u>\$ 9,815,347</u>	<u>\$ 11,247,441</u>

**Diablo Water District**  
**Schedules of Debt Service Net Revenues Coverage**  
**For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Total revenues:</b>		
Operating revenues	\$ 7,247,950	\$ 7,923,933
Non-operating revenues	213,337	206,263
Capital contributions – developer and connection fees	<u>1,515,344</u>	<u>1,013,312</u>
<b>Total revenues</b>	<u>8,976,631</u>	<u>9,143,508</u>
<b>Total expenses:</b>		
Operating expenses before depreciation expense	<u>6,906,409</u>	<u>7,437,121</u>
Non-operating expenses	391,482	529,220
Less debt service items:		
Interest expense – long-term debt	<u>(391,482)</u>	<u>(529,220)</u>
Total non-operating expenses adjusted for debt service items	<u>-</u>	<u>-</u>
<b>Total expenses</b>	<u>6,906,409</u>	<u>7,437,121</u>
<b>Net revenues available for debt service</b>	<u>\$ 2,070,222</u>	<u>\$ 1,706,387</u>
<b>Debt service for the fiscal year</b>	<u>\$ 2,064,939</u>	<u>\$ 1,462,542</u>
<b>Debt service net revenues coverage ratio</b>	<u>100%</u>	<u>117%</u>