LEUCADIA WASTEWATER DISTRICT | LEADERS IN ENVIRONMENTAL PROTECTION

# Comprehensive Annual Financial Report

## For the Year Ended

## June 30, 2016


LEUCADIA WASTEWATER DISTRICT
1960 La Costa Avenue
Carlsbad, California 92009

Prepared by:
*Paul J. Bushee, General Manager*
*Richard Duffey, Administrative Services Manager*

**Comprehensive Annual Financial Report**
**For the Year Ended June 30, 2016**

# Introductory Section

LEUCADIA WASTEWATER DISTRICT | LEADERS IN ENVIRONMENTAL PROTECTION

December 7, 2016

To the Honorable President and Members of the Board of Directors and Customers of the Leucadia Wastewater District:

State law requires that all general-purpose local governments and special districts publish each fiscal year a complete set of financial statements presented in conformity with Generally Accepted Accounting Principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. The Comprehensive Annual Financial Report (CAFR) of the Leucadia Wastewater District (District) for fiscal year ended June 30, 2016 is hereby submitted as required. Davis Farr LLP, a firm of licensed certified public accountants, has audited the Leucadia Wastewater District's financial statements.

This report is organized into four sections: (1) Introductory, (2) Financial, (3) Statistical, and (4) Other Information. The Introductory section offers general information about the District's organization and current District activities and reports on a summary of significant financial results. The Financial section includes the Independent Auditors' Report, Management's Discussion and Analysis of the District's basic financial statements, the District's audited basic financial statements with accompanying notes, and Supplementary Information for the purposes of additional analysis. The Statistical section presents un-audited ten-year historical financial, demographic, and statistical information pertinent to the District's operations. The other information section presents additional information which has not been subjected to the auditing process.

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

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The goal of the independent audit was to provide reasonable assurance that the financial statements of the Leucadia Wastewater District for the fiscal year ended June 30, 2016 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the District's financial statements for the fiscal year ended June 30, 2016 are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

## PROFILE OF THE DISTRICT

The District was formed in April 1959 pursuant to the County Water District Law (Division 12, Section 30000 et seq. of the California Water Code). Established as an Independent Enterprise Special District, the District is authorized to provide wastewater collection and treatment services and to levy rates and fees to support those services. The District is located in coastal northern San Diego County and is approximately 30 miles north of the City of San Diego.

The District provides wastewater service to the Leucadia and Village Park areas of Encinitas, and the La Costa area of Carlsbad. The District encompasses 16 square miles and serves approximately 62,000 residents. Wastewater from the District's service area is transported to the Encina Water Pollution Control Facility, where it is treated to federally mandated standards to protect the public health. The Encina plant is a regional facility located in Carlsbad that is jointly owned by the District and five other public entities.

The District also owns and operates the Gafner Water Reclamation Facility, which has a treatment capacity of 1 million gallons per day. Recycled water produced at the Gafner Facility is used for irrigation on the Omni La Costa Resort & Spa Golf Course.

### *Governance*

The affairs of the District are directed by a five-member Board of Directors, who are elected at large by the registered voters residing in the District. The directors, who serve four-year staggered terms, are residents and have the same concerns as their constituents. They are responsible for establishing policies and ordinances, adopting the annual budget, and hiring the District's General Manager. The General Manager is responsible for carrying out the policies and ordinances of the District Board of Directors and for overseeing the day-to-day operations of the District.

### *Mission and Vision*

The mission of the Leucadia Wastewater District is:

*To serve the public by collecting, transporting, recycling and treating wastewater in a safe, reliable, efficient, cost effective, and environmentally responsive manner, while providing excellent service to our customers.*

The District's vision is:

*To be a recognized leader in wastewater services, water recycling, and environmental protection.*

## FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the District operates.

### *Local Economy*

The District's service area is primarily residential, serving as a bedroom community for the greater San Diego area. The local economy includes commercial activities, tourism, and some horticulture. There is virtually no heavy industry in the service area. The District is at approximately 95% build-out and it is anticipated that remaining growth will occur slowly over the next 10 to 20 years.

San Diego Association of Government's (SANDAG) 2050 Regional Growth Forecast, dated October 15, 2013, estimates that the region's population will grow by one million people by 2050. "The growth in population will drive job growth and housing demand within the region – adding nearly 500,000 jobs and more than 330,000 housing units by 2050." There is an increasing trend for more of the housing and job growth to be in the existing urbanized areas and along the transportation corridors.

In its September 30, 2016 report, the UCLA Anderson Forecast's outlook for California estimates total employment growth at 2.0% in 2016, 1.7% in 2017, and 1.1% in 2018. Real personal income growth is estimated to be 2.6% in 2016 and forecast to be 3.7% and 3.6% in 2017 and 2018, respectively. Homebuilding will continue in California, but not a pace to keep up with demand and home prices will remain at a premium.

The University of San Diego's Leading Economic Indicators for San Diego County was unchanged in September 2016 leaving the index roughly where it was in February. According to the report, the outlook for the local economy is expected to be positive through the first half of 2017, but the rate of growth is likely to be slower. Employment is up in every sector, but not enough to put much of a dent in the local unemployment rate.

As an independent enterprise special district having the ability to adjust service rates as required, the District's operating revenues are somewhat insulated from the local economy. Other than by service rate adjustment, the District's operating revenues tend to increase with growth periods and stabilize during non-growth periods. Conceivably, the greatest threat to operating revenues will be from a significant reduction in the service area population. As the District reaches build-out, it is anticipated that growth in District revenues will slow but remain stable.

Capacity fees are collected as new units are connected to the District. During the housing boom of the early 2000's the District experienced very strong revenues from capacity fees. Capacity fee revenue has slowed dramatically as the District approaches build-out.

Property taxes accounted for approximately 13% of the District's total revenue for FY 2016. Due to the current conditions in the housing market, property tax revenues are expected to increase slightly in the near future.

### *Long-Term Financial Planning*

The District's Board of Directors is aware of the need to ensure the District's financial stability. Through a coordinated strategic process, the Board has established a series of policies and plans to effectively meet the District's anticipated future needs. The corner-stone of these policies is the District's 2013 Comprehensive Financial Plan that forecasts the District's expenditures and revenue needs for the next 20 years. The District utilizes this information to anticipate future expense obligations and to ensure these expense obligations are fully funded. The District routinely updates the plan on a five-year cycle.

### *Public Employees' Pension Reform*

On September 12, 2012, Governor Brown signed Assembly Bill 340 creating the Public Employees' Pension Reform Act (PEPRA). The new law creates a new benefit tier for new employees/members entering public agency employment and public retirement system membership for the first time on or after January 1, 2013. For miscellaneous members, such as the District, the new tier has a single general member benefit formula that must be implemented unless the formula in existence at the District, on December 31, 2012, has both a lower normal cost and a lower benefit factor at normal retirement age. It is anticipated that PEPRA will have a positive financial benefit by lowering future retirement costs over the next 20 years.

## RELEVANT FINANCIAL POLICIES

### *Reserve Policy*

The District has established a Reserve Fund Policy to anticipate and prepare for future funding requirements as well as for unforeseen events. The Reserve Fund Policy establishes restricted and unrestricted reserves and describes the flow of funds to and from the various reserves. For information on District reserves, please refer to Footnotes 1 and 8 of the Basic Financial Statements.

### *Investment Policy*

The Investment Policy establishes guidelines for the investment of available funds. The Investment Policy incorporates the Prudent Investor Standards. The primary objectives, in priority order, of the District's investment activities are the following: 1) Safety, 2) Liquidity, and 3) Yield. The District's funds are invested in a variety of investments, in accordance with California government code, as described in footnote 2 of the Basic Financial Statements. The District minimizes interest rate risk by investing a greater portion of funds in short term investments. Credit risk is minimized by investing a majority of funds in the highest rated investments or in diversified investment pools.

## INTERNAL CONTROLS

The District is responsible for establishing and maintaining an internal control structure designed to ensure that the District's assets are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled for the preparation of financial statements in conformity with GAAP. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that; 1) the cost of control should not exceed the benefits likely to be derived; and 2) the valuation of costs and benefits requires estimates and judgments by management.

## MAJOR INITIATIVES

The District has initiated several major projects to upgrade infrastructure and ensure the adequacy of facilities.

1) As a result of flow monitoring of the collection system through the installed ADS Flow Monitoring System, the District conducted a closed-circuit television (CCTV) inspection of the Scott's Valley Line and discovered significant inflow and infiltration in two locations. To reduce the inflow and infiltration the District CIPP lined the pipeline for a total cost of $569,329. This project was completed in February 2016.

2) During February 2013, the B2 Force Main experienced a break during the Lanikai Line Rehabilitation project bypass operation, making the replacement of the force main a top priority. The B2 Force Main replacement project, along with a partial realignment of the Secondary Effluent B1 Force Main, was completed in the summer of 2015 for a total cost of $4,409,712.

3) As part of the 2013 update of the Asset Management Plan, the current gravity line Special Maintenance Actions or "hot spots" were CCTV inspected and evaluated. As a result of the inspection, structural defects were found in several lines. Several pipeline segment rehabilitations, spot repairs, and manhole rehabilitations were selected for action in FY 2016. These repairs will be completed in FY 2017 for an estimated cost of $666,000.

4) Also, as part of the Asset Management Plan, pump stations were assessed and it was determined to rehabilitate the Saxony Pump Station. The Saxony Pump Station Rehabilitation project includes replacing the submersible pumps and other major components of the pump station. The project began construction in September 2015 and was completed in fall of 2016 for a cost of $812,600.

5) Built in 1974, the Village Park 5 Pump Station was at the end of its useful life, and needed safety improvements. It will be replaced with a new submersible pump station to improve operation, safety, and access. Construction is planned to be completed in August 2017 for an estimated cost of $769,000.

6) Inspections by the District revealed corrosion in the west section of the Leucadia Force Main. This section of pipe is scheduled to be replaced for an estimated cost of $1,343,000. The project has been designed and construction is expected to start in winter 2017.

7) The Miscellaneous Pipeline Rehabilitation account is used to rehabilitate, reline or replace pipelines and manholes that require immediate attention. The necessary repairs are identified through the District's CCTV inspections. The District incurred $175,238 in pipeline rehabilitation costs under this account during FY 2016.

8) The District maintains a Lateral Grant Program to assist with repairs or replacing damaged private laterals. The program reimburses ratepayers, on a 50/50 basis, up to $3,000, for lateral replacement and backflow prevention installation. The goal of this program is to provide an incentive to District customers to maintain their private laterals. During FY 2016, the District contributed $46,832 for the replacement & repair of twenty damaged private laterals.

## INDEPENDENT AUDIT

The Government Code requires an annual audit of the District's financial records by a Certified Public Accountant. The District selected, through a competitive process, the firm of Davis Farr LLP to conduct the audit. The auditors' report on the financial statements and schedules are included in the financial section of this report.

## AWARDS

The California Society of Municipal Finance Officers (CSMFO) awarded a Certificate of Award for Outstanding Financial Reporting to the District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. This was the eighth year that the District has achieved this prestigious award. In order to receive a Certificate of Award, a governmental entity must publish an easily readable and efficiently organized Comprehensive Annual Financial Report that must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Award is valid for a period of one year. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Award Program's requirements. The attainment of a CSMFO Award for Outstanding Financial Reporting award represents a significant accomplishment for a government agency and its management team.

On August 20, 2015, the District received the California Association of Sanitation Agencies (CASA) Technological Innovation and Achievement Award. This award recognizes LWD's innovative solution to proactively repairing and replacing aging infrastructure by utilizing its Field Services team to detect and rate damaged or aged pipelines and manholes. The switch from hydro-cleaning operations to the video inspecting operations has resulted in improved prioritization of repairs warranting an effective use of capital improvement funds, reducing the chance of sewer spills and decreasing unanticipated emergency repairs.

In January 2016, the District received two awards from the California Water Environment Association (CWEA)- San Diego Section:

a. Community Engagement & Outreach Award-Small Budget
   This award recognizes the Districts "No Wipes Down the Pipes" campaign to educate the public about the damage that "Flushable Wipes" are causing to the system.

b. Collection System Person of the Year Award
   Field Service Technician III, Todd Amos, received this award in recognition of his technological skills with several Closed-Circuit Television (CCTV) inspection projects throughout the District.

**ACKNOWLEDGEMENTS**

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. A special note of appreciation goes to Richard Duffey, the District's Administrative Services Manager, Trisha Hill, the District's Administrative Supervisor, Maggie McEniry, the District's Accounting Technician, and Jennifer Gabelein, the District's Administrative Specialist, for their assistance with developing this report. We would also like to thank the members of the Board of Directors for their continued support in the planning and implementation of the Leucadia Wastewater District's fiscal policies.

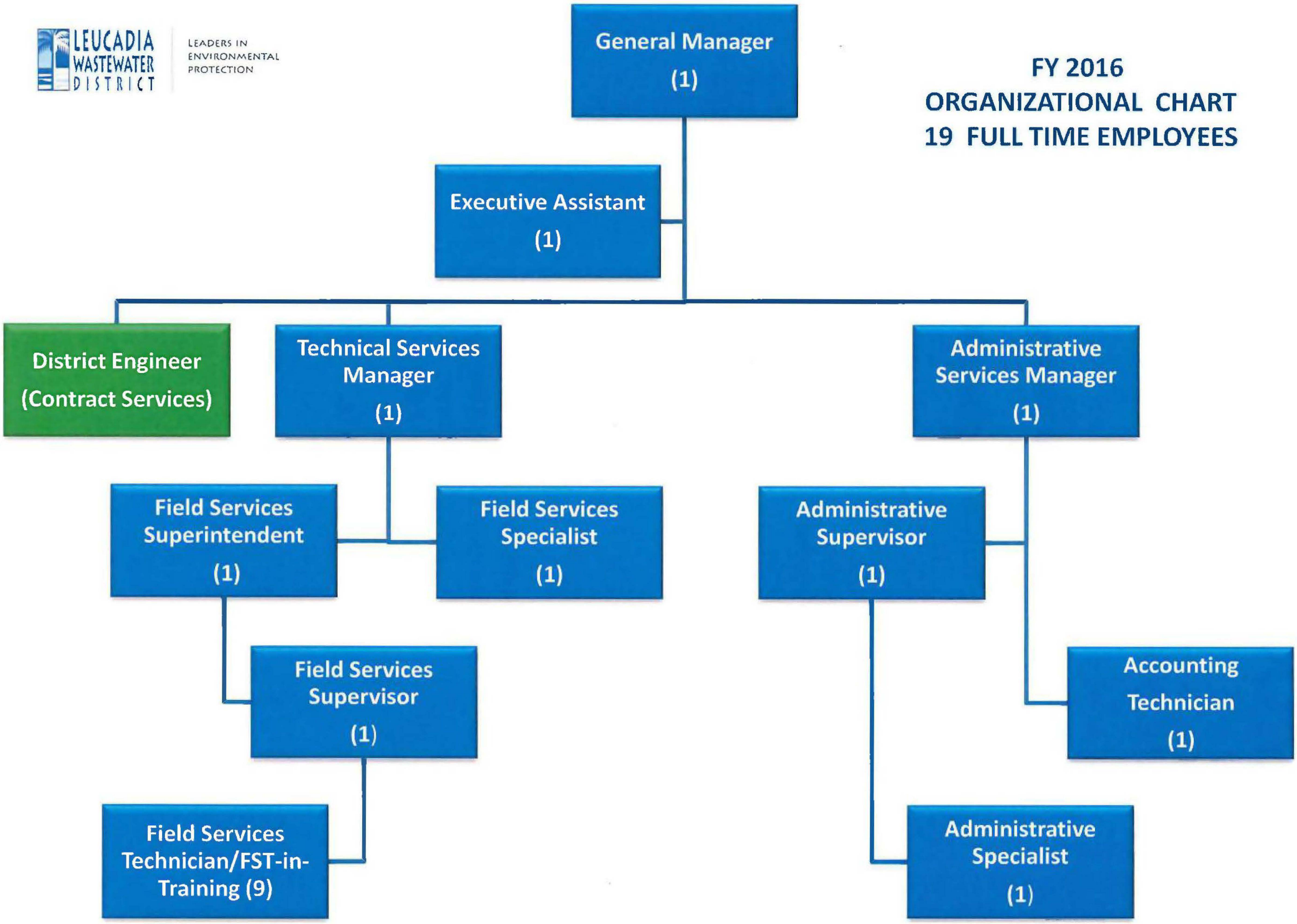
Best regards,

Paul J. Bushee
General Manager

LEUCADIA WASTEWATER DISTRICT

LEADERS IN ENVIRONMENTAL PROTECTION

**FY 2016**
**ORGANIZATIONAL CHART**
**19 FULL TIME EMPLOYEES**



LEUCADIA WASTEWATER DISTRICT | LEADERS IN ENVIRONMENTAL PROTECTION

## List of Principal Officials

## Board of Directors as of June 30, 2016

| Name | Title | Elected/Appointed | Current Term |
|---|---|---|---|
| Donald F. Omsted | President | Elected | 12/13 - 12/16 |
| Judy Hanson | Vice President | Elected | 12/13 - 12/16 |
| Alan Juliussen | Director | Elected | 12/13 - 12/16 |
| Elaine Sullivan | Director | Elected | 12/14 - 12/18 |
| David Kulchin | Director | Elected | 12/14 - 12/18 |

Leucadia Wastewater District
Paul J. Bushee, General Manager
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Carlsbad, California 92009
(760) 753-0155
www.lwwd.org

# California Society of Municipal Finance Officers

*Certificate of Award*

## ***Outstanding Financial Reporting Award***
## ***Fiscal Year Ending June 30, 2015***

*Presented to the*

## ***Leucadia Wastewater District***

For meeting the criteria established to achieve the Outstanding Financial Reporting Award.

***February 23, 2016***

***Jesse Takahashi***
***CSMFO President***

***Michael Gomez, Chair***
***Professional Standards and***
***Recognition Committee***

***Dedicated Excellence in Municipal Financial Reporting***

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# Financial Section

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DavisFarr
CERTIFIED PUBLIC ACCOUNTANTS

**Davis Farr LLP**
2301 Dupont Drive | Suite 200 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

Board of Directors
Leucadia Wastewater District
Carlsbad, California

## INDEPENDENT AUDITORS' REPORT

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Leucadia Wastewater District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

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

Board of Directors
Leucadia Wastewater District
Carlsbad, California

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Leucadia Wastewater District as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ending in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described further in Note 14 to the basic financial statements, the District recorded a prior period adjustment to remove a portion of Encina Wastewater Authority's net pension liability. Our opinion is not modified with respect to this matter.

***Report on Summarized Comparative Information***

The financial statements of the Leucadia Wastewater District for the year ended June 30, 2015 were audited by other auditors whose report dated December 3, 2015 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Funding Progress for OPEB, the Schedule of Contributions-Defined Benefit Pension Plan, and the Schedule of Proportionate Share of Net Pension Liability 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.

Board of Directors
Carlsbad, California

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Leucadia Wastewater District's basic financial statements. The introductory section, the supplementary information in the financial section, the statistical section and other information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information in the financial section 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information in the financial section is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory section, the statistical section and other information have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with Government Auditing Standards, we have also issued our report dated December 7, 2016 on our consideration of the Leucadia Wastewater 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 Leucadia Wastewater District's internal control over financial reporting and compliance.

Davis Farr LLP

Irvine, California
December 7, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## For the Year Ended June 30, 2016

Management's Discussion and Analysis (MD&A) offers readers of the Leucadia Wastewater District's (District) financial statements a narrative overview of the District's financial activities for the fiscal year (FY) ended June 30, 2016. This MD&A presents financial highlights, an overview of the accompanying financial statements, an analysis of financial position and results of operations, a discussion on restrictions, commitments and limitations, a discussion of significant activity involving capital assets and long-term debt, and currently known facts, conditions, or decisions.

### FINANCIAL HIGHLIGHTS

- The District increased its wastewater service charge by 10% for FY 2016 to $312.44 per EDU per year.
- The District added 44 equivalent dwelling units (EDU's) during FY ending June 30, 2016, bringing the total connected EDU's to 28,560, a 0.2% increase over the prior year's total. Growth remains small as the District approaches build-out.
- Development activity in the District's service area created $1,483,942 worth of contributed capital assets (dedicated facilities including 1.3 miles of dedicated sewer lines) and $234,614 in capacity fees.
- The District completed the construction of over 3 miles of wastewater force mains along the coast, completed the lining of the Scott's Valley Pipeline, and rehabilitated or repaired numerous pipeline segments throughout the District. The District also completed the rehabilitation on the Saxony Pump Station and started the Village Park No. 5 Pump Station replacement project. Capital construction cost for the year ended June 30, 2016 amounted to $3.7 million.
- The District purchased a new sewer cleaning truck for $374,066 to replace two older sewer cleaning trucks.
- The District's net position for the FY ending June 30, 2016 increased by $2,293,947 or 1.7% over the prior year. This was primarily due to non-operating revenues and capital contributions exceeding an operating loss of $661,032.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's financial statements. The District's basic financial statements reflect the combined results of the Operating and Capital Programs and include four components: 1) Statement of Net Position; 2) Statement of Revenues, Expenses, and Changes in Net Position; 3) Statement of Cash Flows; and 4) Notes to the Financial Statements. In addition to the basic financial statements, supplemental information is also provided.

The financial statements accompanying this MD&A present the financial position, results of operations, and changes in cash flow during the FY's ending June 30, 2016. These financial statements have been prepared using the accrual basis of accounting, which is similar to the accounting basis used by for-profit entities. Each financial statement is identified and defined in this section, and analyzed in subsequent sections of this MD&A.

### *Statement of Net Position*

The Statement of Net Position presents information on the District's *assets, deferred outflow of resources, liabilities, deferred inflow of resources,* and *net position.* Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, other factors such as changes in economic conditions, population growth, zoning, and new or changed legislation or regulations also need to be considered when establishing financial position.

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

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the District's net position changed during the fiscal year. All of the year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the results of the District's operations for the year and can be used to determine if the District has successfully recovered all of its costs through user fees and other charges.

Operating revenues and expenses are related to the District's core activities (providing wastewater services, and processing and delivering recycled water). Nonoperating revenues and expenses are not directly related to the core activities of the District (e.g. interest income, property taxes, gain or loss on sale of assets). The sum of the prior year's net position balance and the current year's change in net position equals the ending net position balance.

### *Statement of Cash Flows*

The Statement of Cash Flows provides information about the District's cash receipts, cash payments and the changes in the District's cash and cash equivalents during the year resulting from the operating, non-capital financing, capital and related financing, and investing activities of the District. The Statements of Cash Flows provides information on the sources and uses of the District's cash. It shows how the District is able to meet its cash outlay obligations.

Cash equivalents managed directly by the District consist of investments in the California Local Agency Investment Fund (LAIF), the California Asset Management Program (CAMP), and the San Diego County Investment Pool.

## ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

One of the most important questions about District finances is whether as a whole the District is better off or worse off as a result of the year's activities? Based on the information from the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows; the District improved upon an already strong financial position during the fiscal year ended June 30, 2016.

### *Financial Position*

Net position serves as a useful indicator of an organization's financial strength. Table 1 provides a two-year summary of the District's net position.

### TABLE 1. CONDENSED STATEMENT OF NET POSITION

| | FY 2016 | FY 2015 | FY 2015-2016 Change Amount | % |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current Assets | $ 25,238,507 | $ 25,474,549 | $ (236,042) | -0.9% |
| Non-Current Assets | 11,728,738 | 10,920,384 | 808,354 | 7.4% |
| Capital Assets, Net | 103,352,670 | 102,080,041 | 1,272,629 | 1.2% |
| **Total Assets** | **140,319,915** | **138,474,974** | **1,844,941** | **1.3%** |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Deferred Amounts on Pensions | **325,900** | **257,809** | 68,091 | 26.4% |
| **LIABILITIES** | | | | |
| Current Liabilities | 1,455,447 | 1,898,502 | $ (443,055) | -23.3% |
| Non-Current Liabilities | 2,675,664 | 4,156,246 | $ (1,480,582) | -35.6% |
| **Total Liabilities** | **4,131,111** | **6,054,748** | **(1,923,637)** | **-31.8%** |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Deferred Amounts on Pensions | **540,461** | **814,039** | (273,578) | -33.6% |
| **NET POSITION** | | | | |
| Investment in Capital Assets | 103,352,670 | 102,080,041 | $ 1,272,629 | 1.2% |
| Restricted | 668,240 | 688,806 | $ (20,566) | -3.0% |
| Unrestricted | 31,953,333 | 29,095,149 | $ 2,858,184 | 9.8% |
| **Total Net Position** | **$ 135,974,243** | **$ 131,863,996** | **$ 4,110,247** | **3.1%** |

The District's financial position remains strong with a $136 million net position and only $4.1 million in total liabilities at June 30, 2016.

Total assets increased by $1.8 million or 1.3% during the FY ending June 30, 2016, primarily due to a net increase in net capital assets of $1.3 million plus an increase in deposits with the Encina Wastewater Authority of $579,951. The District incurred $4.1 million in expenditures for the acquisition and construction of capital assets, primarily for: Scott's Valley Pipeline Repair project, Saxony Pump Station Rehabilitation, Village Park No. 5 Pump Station Replacement, Encina Joint System projects, and various pipeline segment rehabilitations and repairs. The District received $234,614 in capacity fees to partially offset these expenditures. *(Capacity fees represent a system buy-in charge and are collected in the Capital Replacement Reserve for construction of facilities and improvements identified in the 2013 Asset Management Master Plan).* In addition, sewer lines worth $1.5 million were contributed to the District from developers. Net Capital Assets were reduced by depreciation expense of $3.8 million and net capital deletions of $593 thousand for the year.

Total liabilities decreased by $1.9 million or 32%, mainly due to the removal of the District's share of the Encina Wastewater Authority's pension liabilities as of June 30, 2015. *See Note No. 14 "Restatement of Beginning Net Position" for more formation.*

The District's Net Position as of June 30, 2016 totaled $135,974,243 compared with $131,863,996 as of June 30, 2015, an increase of 3.1%. Net position is accumulated from revenues, expenses, and capital contributions combined with the beginning balance of net position as presented in the Statement of Revenues, Expenses, and Changes in Net Position. The beginning net position for the fiscal year ending

June 30, 2016 was increased by a restatement of beginning net position of $1.8 million to reflect the removal of the District's share of the Encina Wastewater Authority's net pension liability recorded in the prior year with the implementation of GASB Statement No. 68. *See Note no. 14 "Restatement of Beginning Net Position" for more information.*

Deferred outflows, although similar to "assets," are set apart because these items do not meet the technical definition of being a District asset on the date of these financial statements. In other words, these amounts are not available to pay liabilities in the way assets are available. When all the recognition criteria are met, the deferred outflow of resources will become an expense. The deferred outflow of resources reported is related to the implementation of GASB Statement No. 68 and GASB Statement No. 71 for pension liability reporting. GASB Statement No. 71 requires that contributions made during the fiscal year to the retirement system be reported as deferred outflows of resources. Out of the total deferred outflows of resources of $325,900 as of June 30, 2016, the majority, $299,609, is comprised of current year contributions to the retirement system. However, there are additional deferred outflows of resources attributable to the various components that impact pension changes, including proportional differences and differences between expected or actual experience.

Deferred inflows of resources are the counterpart to deferred outflows of resources on the Statement of Net Position. Deferred inflows of resources are not technically liabilities of the District as of the date of the financial statements. When all the recognition criteria are met, the deferred inflow of resources will become revenue. All the District's deferred inflows of resources are also related to the implementation of GASB Statement No. 68 and GASB Statement No. 71 for pension liability reporting. The reported deferred inflows, as of June 30, 2016, includes the net difference in the projected and actual earnings on plan investments of $182,013. *This amount is amortized over 5 years to smooth out the recognition to pension expense systematically over time.* Deferred inflows also includes differences in actual and proportional share of contributions of $141,557 and changes due to actuarial assumptions, and proportional differences of $216,891.

*See Note 10 "Defined Benefit Pension Plan" for more information on deferred outflows of resources and deferred inflows of resources.*

***Results of Operations***

A comparative of the District's revenues, expenses, and changes in net position is presented in Table 2.

*TABLE 2.*

***CONDENSED STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION***

| | FY 2016 | FY 2015 | FY 2016-2015 Change Amount | % |
|---|---|---|---|---|
| OPERATIONS | | | | |
| Operating revenues | | | | |
| Wastewater service charges | $ 8,897,385 | $ 8,029,799 | $ 867,586 | 10.8% |
| Recycled water sales | 279,064 | 254,427 | 24,637 | 9.7% |
| Other charges & services | 189,469 | 213,215 | (23,746) | -11.1% |
| Total operating revenues | 9,365,918 | 8,497,441 | 868,477 | 10.2% |
| Operating expenses | 6,260,595 | 6,142,492 | 118,103 | 1.9% |
| Operating income before depreciation | 3,105,323 | 2,354,949 | 750,374 | 31.9% |
| Depreciation expense | 3,766,355 | 3,693,901 | 72,454 | 2.0% |
| Operating income (loss) | (661,032) | (1,338,952) | 677,920 | -50.6% |
| NON-OPERATIONS | | | | |
| Nonoperating revenues (expenses) | | | | |
| Property tax revenue | 1,482,357 | 1,382,197 | 100,160 | 7.2% |
| Investment income revenue | 243,702 | 255,144 | (11,442) | -4.5% |
| Gain/Loss on disposition of assets | (500,547) | (185,686) | (314,861) | 169.6% |
| Other non-operating income | 10,911 | 16,054 | (5,143) | -32.0% |
| Total non-operating revenues, net | 1,236,423 | 1,467,709 | (231,286) | -15.8% |
| Income (loss) before capital contributions | 575,391 | 128,757 | 446,634 | 346.9% |
| CAPITAL CONTRIBUTIONS | 1,718,556 | 1,419,831 | 298,725 | 21.0% |
| **Changes in Net Position** | **2,293,947** | **1,548,588** | **745,359** | 48.1% |
| Beginning net position | 131,863,996 | 131,863,996 | - | 0.0% |
| Prior period adjustment | 1,816,300 | - | 1,816,300 | |
| Beginning net position as restated | 133,680,296 | 131,863,996 | 1,816,300 | 1.4% |
| **ENDING NET POSITION** | **$ 135,974,243** | **$ 133,412,584** | **$ 2,561,659** | 1.9% |

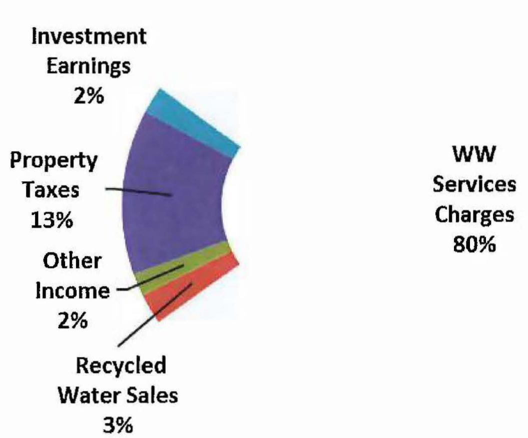
FY ending June 30, 2016 compared to June 30, 2015 highlights are discussed below:

- Net position increased $2,293,947 (1.7%), which is added to the beginning net position, as restated, of $133,680,296 to arrive at ending total net position of $135,974,243. The District incurred an operating loss of $661,032 (which includes non-cash depreciation expense of $3,766,355). This operating loss was offset by nonoperating revenues from property taxes, investment income, and capital contributions from capacity fees and contributed capital assets.

- The District's total operating revenue increased by $868,477 or 10.2%. Total wastewater service charges increased 10.8%, due to a 10% increase in the sewer service rate and a slight increase in the customer base in FY2016. There was a 9.7% increase in recycled water sales due to an increase in the average rate charged for recycled water and an increase in the volume of recycled water delivered in FY2016.

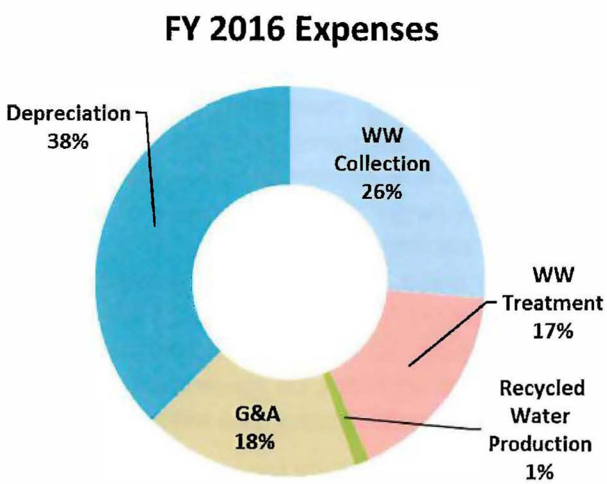
- The District's total operating expenses (before depreciation) increased $118,103 or 1.9%, which was due to increases in personnel costs and repair and maintenance costs. This was partially offset by decreases in professional service costs, electrical costs, and Encina wastewater treatment costs.
- Investment earnings were down 4.5% from the prior year. Investment earnings include not only interest income but also changes in the fair-value of investments. Although actual interest income increased, there was smaller addition for the fair-value adjustment ($8,621 increase in the fair-value of investments held at year end verses a larger $60,037 increase in the fair value of investments in the prior year). Actual interest earnings increased due to a 1.9% increase in investments and cash equivalents during the year and a 20% increase in the average rate of return on these investments and cash equivalents. The District participates in three different investment pools and in the CAMP Individual Portfolio program. As of June 30, 2016, the CAMP individual portfolio contained laddered investments in US treasury notes, US government sponsored agency bonds/notes, corporate notes, and certificates of deposits totaling $9.6 million.
- Capacity fees were down by 74% as private development activity tapered off from the prior year.
- Property taxes increased by 7% due to increases in assessed valuations as the housing market continues to recover.
- The majority of the loss on disposition of capital assets in FY2016 was the result of replacement of the coastal transmission lines and replacement of aging infrastructure at the Encina Joint System.
- The District continues to provide core services to its customers at one of the lowest unit costs in the region. The District's wastewater service charge was $26.04 and $23.67 per EDU per month for the fiscal year ended June 30, 2016 and 2015, respectively.

**FY 2016 Revenues**




***Revenues:***

Revenues for FY2016 totaled $11,102,888 and are presented here in graphical format. As the chart to the left shows, wastewater service charges continue to be a major funding source representing 80% of the District's revenues. Another significant source of revenue is property taxes at 13%.




*Expenses:*

Expenses for FY2016 totaled $10,527,497. Depreciation represents the largest component at 38% of the expenses. Wastewater Collection (26%), Wastewater Treatment (17%), and General and Administrative (18%) are the next largest expenses. The Wastewater Treatment component represents the costs for wastewater treatment at the Encina Joint System based on the District's ownership and usage of those facilities.

### *Cash Flows*

District cash flows, for the FY ended June 30, 2016, have been categorized into one of the following four activities: operating, noncapital financing, capital and related financing, and investing. The total of these categories represents an increase in cash and cash equivalents of $31,654, which is added to beginning cash and cash equivalents of $25,582,083 arriving at ending cash and cash equivalents of $25,613,737. The main increases in cash and cash equivalents were from: operating activities of $2.8 million, proceeds from property taxes of $1.5 million. The decreases in cash and cash equivalents were primarily due to the acquisition and construction of capital assets in the amount of $4.5 million. The ending cash and cash equivalents are represented on the Statement of Net Position as the following: unrestricted cash and cash equivalents of $24,827,159, current restricted cash and cash equivalents of $103,036, and noncurrent restricted cash and cash equivalents of $683,542.

### *Financial Ratios*

*TABLE 3. SELECTED FINANCIAL RATIOS*

| Ratio | FY 2016 | FY 2015 |
|---|---|---|
| Current Ratio | 17.3 | 13.4 |
| Operating Margin Ratio (before depreciation expense) | 1.5/1 | 1.4/1 |
| Total Margin Ratio (total revenues to expenses) | 1.1/1 | 1.0/1 |
| Capital Asset Condition Ratio | 33% | 34% |
| Total Debt to Equity | 1 / 33 | 1 / 22 |

Table 3 lists several ratios to help measure the District's financial position and financial resources and uses for the year. The current ratio *(current assets divided by current liabilities)* indicates the District can pay 17.3 times its current liabilities from current assets. The District's current ratio of 17.3 indicates a strong ability to meet its short-term obligations. The operating margin ratio *(operating revenues divided by* *operating expenses, before depreciation expense)* measures the extent to which service charges cover operating expenses *(excluding depreciation expense).* An operating margin ratio of 1.5 indicates good coverage of the operating expenses, excluding depreciation. *(Depreciation expense is a non-cash systematic write down of existing capital assets).* However, when factoring in depreciation expense this ratio would drop below 1. This leads to the next ratio, the total margin ratio which measures the coverage of total revenues to total expense, including depreciation expense. A total margin ratio of 1.1, for FY2016, indicates the District is living within its financial means and is covering its expenses including depreciation expense. Another ratio, the capital asset condition ratio reflects the age and use of the capital assets. A capital condition ratio of 33% shows that about a third of the capital asset value has been depreciated, and will have to be replaced at some time. The District routinely updates its 20-year Comprehensive Financial Plan and its 20-year Asset Management Master Plan to address the replacement and financing of these depreciated capital assets. The District maximizes a pay-as-you-go method and minimizes the use of debt to finance capital projects. Another key indicator that the District's financial position is strong, is that the debt-to-equity ratio continues to be favorable even as the District's assets have increased and the District has reported its net pension liabilities, in accordance with GASB statement No. 68. For every $1 of debt at June 30, 2016 the District had $33 in net position (equity). This low ratio still indicates a high degree of solvency and the ability to obtain financing if needed.

**RESTRICTIONS, COMMITMENTS, AND LIMITATIONS**

***District Reserves:***

In February 2011, the District adopted its Revised Reserve Fund Policy. To reflect the District's compliance with GASB 34, the Policy categorizes the District reserves into two general types: 1) Restricted Reserves and 2) Unrestricted Reserves. The Policy also established target amounts for the reserves and described the flow of funding to and from the reserves. A brief overview of the various reserve designations is provided as follows:

***Restricted Reserves:***

Restricted reserves are those that have conditions or restrictions placed on their use by outside sources such as creditors, laws, regulations, etc. The District has one restricted reserve, which is the Capital Improvement Reserve.

During FY ended June 30, 2016, there was a net reduction in the Capital Improvement Reserve of $20,566, or 3%, due to the continued implementation of the District's growth related capital projects.

The restricted reserve balances as of year-end are as follows:

| Restricted Reserve Designation | June 30, 2016 | June 30, 2015 |
|---|---|---|
| Capital Improvement Reserve | $ 668,240 | $ 688,806 |

***Unrestricted Reserves:***

Unrestricted reserves have no outside restrictions or conditions, and the use of these funds is at the discretion of the Board of Directors. The District maintained four separate unrestricted reserve designations covering operations, capital replacement, water recycling, and emergencies.

During the FY ending June 30, 2016, the Replacement Reserve had an increase of $1 million or about 5.2%. This increase was due to $234,614 in capacity fees (100 % buy-in portion), $152,604 in allocated investment earnings, $1.5 million of property taxes, and $3 million of net transfers from other reserves. This was partially offset by $3.8 million in net capital replacement additions during the year.

The unrestricted reserve balances as of June 30, are as follows:

| Unrestricted Reserve Designation | June 30, 2016 | June 30, 2015, restated |
|---|---|---|
| Operations Reserve | $ 2,174,497 | $ 2,138,831 |
| Replacement Reserve | 20,527,458 | 19,494,574 |
| Water Recycling Reserve | 1,751,378 | 1,778,044 |
| Emergency Reserve | 7,500,000 | 7,500,000 |
| Total | $31,953,333 | $30,911,449 |

Overall, the District's restricted and unrestricted reserves totaled $32,621,573 as of June 30, 2016. This is an increase of $1 million from the prior year (after restatement). This increase is mostly the result of positive operating income before depreciation, property tax revenue, investment earnings, and capacity fees, which was partially offset by anticipated capital projects during the year. The remaining reserve balances show that the District remains in a strong financial position to fund the remaining balance of the estimated $109 million in capital projects over the next 20 years as identified in the District's 2013 Comprehensive Financial Plan.

## CAPITAL ASSETS AND LONG-TERM DEBT

### *Capital Assets:*

At June 30, 2016, the District's investment in capital assets amounted to $103,352,670, net of accumulated depreciation of $49,904,593. This investment in capital assets includes land, buildings, donated subsurface lines, collection and transmission facilities, equipment, vehicles, construction-in-progress, and the District's share of treatment and disposal facilities of the Encina Joint System. Development activity in the District's service area and implementation of the Capital Improvement Program projects identified in the Asset Management Master Plan resulted in contributions to the District's infrastructure. The following list provides a summary of significant additions to capital assets during the FY ending June 30, 2016:

| | |
|---|---|
| Scotts Valley Pipeline Repair Project | $ 515,983 |
| Gravity Pipeline Rehabilitation Projects | 729,053 |
| Saxony Pump Station Project | 722,247 |
| Village Park No. 5 Pump Station Replacement | 139,655 |
| Vehicles and Equipment | 486,547 |
| Encina Joint System, net of deletions | 1,057,587 |
| Total | $ 3,651,072 |

*Additional information on the District's capital assets can be found in note 4 "Capital Assets" of this report.*

### *Long-Term Debt:*

During FY ending June 30, 2016 and June 30, 2015 the District had no long-term financing debt.

## CURRENTLY KNOW FACTS, CONDITIONS, OR DECISIONS

The District considered the recommendations from the 2013 Comprehensive Financial Plan Update, the 2013 Asset Management Master Plan, and the following economic factors in establishing the FY 2017 budget amounts and fees:

- A declining level of growth within the District, estimating the addition of 60 equivalent dwelling units (EDU) in FY2017.
- The need to replace or rehabilitate existing, aging District infrastructure.
- Continuing economic uncertainties, and the volatility of revenues such as property tax and interest income.
- Rising costs.
- Emerging regulatory and environmental pressures.

As a result of these factors, the FY ended June 30, 2017 budget includes:

- A 10% increase in annual wastewater service charges from $312.44 to $343.68/EDU/Year.
- Capacity Fee charges were unchanged at $4,006 per EDU.
- $6,167,954 in appropriations for capital improvement and replacement projects.
- A 4% increase in personnel costs.
- A 2% increase in overall operating costs.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our Board of Directors, citizens, customers, ratepayers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives and the stewardship of the facilities it owns and operates. If you have questions about this report or need additional information, contact the District's General Manager at the Leucadia Wastewater District, 1960 La Costa Avenue, Carlsbad, California 92009, (760) 753-0155, or visit our website at www.lwwd.org.

## STATEMENT OF NET POSITION
### June 30, 2016
### (with comparative information for prior year)

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents (Note 2) | $ 24,827,159 | $ 24,750,282 |
| Restricted cash and cash equivalents (Note 2) | 103,036 | 142,995 |
| Accrued interest receivable | 73,978 | 57,375 |
| Accounts receivable - wastewater service charges | 9,686 | 2,414 |
| Accounts receivable - property taxes | 23,712 | 20,703 |
| Accounts receivable - due from other governments | 82,441 | 395,884 |
| Accounts receivable - other | 41,727 | 31,175 |
| Net OPEB Asset (Note 11) | 24,590 | 24,590 |
| Prepaid expenses and other deposits | 52,178 | 49,131 |
| Total Current Assets | 25,238,507 | 25,474,549 |
| Noncurrent Assets: | | |
| Restricted cash and cash equivalents (Note 2) | 683,542 | 688,806 |
| Investments (Note 2) | 9,558,396 | 9,324,729 |
| Deposits with Encina Wastewater Authority (Note 6) | 1,486,800 | 906,849 |
| Land (Note 3) | 12,878 | 12,878 |
| Construction in progress (Note 3) | 3,304,800 | 7,676,676 |
| Capital assets, net of depreciation (Note 3) | 100,034,992 | 94,390,487 |
| Total Noncurrent Assets | 115,081,408 | 113,000,425 |
| Total Assets | 140,319,915 | 138,474,974 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred Amounts on Pension (Note 10) | 325,900 | 257,809 |

(Continued)

## STATEMENT OF NET POSITION (Continued)
## June 30, 2016
## (with comparative information for prior year)

| | 2016 | 2015 |
|---|---|---|
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | $ 1,065,730 | $ 1,516,823 |
| Accrued salaries and wages | 97,438 | 50,089 |
| Restricted accounts payable | 15,302 | - |
| Restricted developer deposits | 103,036 | 142,995 |
| Long-term liabilities - due within one year: | | |
| Compensated absences (Note 7) | 173,941 | 188,595 |
| Total Current Liabilities | 1,455,447 | 1,898,502 |
| Noncurrent Liabilities: | | |
| Long-term liabilities - due in more than one year: | | |
| Net Pension Liability (Note 10) | 2,604,135 | 2,277,414 |
| EWA Pension Liability | - | 1,816,300 |
| Compensated absences (Note 7) | 71,529 | 62,532 |
| Total Noncurrent Liabilities | 2,675,664 | 4,156,246 |
| Total Liabilities | 4,131,111 | 6,054,748 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Deferred Amounts on Pension (Note 10) | 540,461 | 814,039 |
| **NET POSITION (Note 8)** | | |
| Investment in capital assets | 103,352,670 | 102,080,041 |
| Restricted for capital projects | 668,240 | 688,806 |
| Unrestricted | 31,953,333 | 29,095,149 |
| Total Net Position | $ 135,974,243 | $ 131,863,996 |

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
### For the year ended June 30, 2016
### (with comparative information for prior year)

| | 2016 | 2015 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Wastewater service charges | $ 8,897,385 | $ 8,029,799 |
| Recycled water sales | 279,064 | 254,427 |
| Other charges and services | 189,469 | 213,215 |
| Total Operating Revenues | 9,365,918 | 8,497,441 |
| **OPERATING EXPENSES** | | |
| Wastewater collection | 2,639,345 | 2,465,555 |
| Wastewater treatment – Encina Joint System | 1,701,954 | 1,795,007 |
| Recycled water production | 124,822 | 130,879 |
| General and administrative | 1,794,474 | 1,751,051 |
| Total Operating Expenses | 6,260,595 | 6,142,492 |
| Operating Income Before Depreciation Expense | 3,105,323 | 2,354,949 |
| Depreciation expense | (3,766,355) | (3,693,901) |
| Operating Income (Loss) | (661,032) | (1,338,952) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Property taxes | 1,482,357 | 1,382,197 |
| Interest and investment income (loss) | 243,702 | 255,144 |
| Gain/(Loss) on disposition of capital assets (Note 3) | (500,547) | (185,686) |
| Other nonoperating revenues | 10,911 | 16,054 |
| Total Nonoperating Revenues (Expenses), net | 1,236,423 | 1,467,709 |
| Income (Loss) Before Capital Contributions | 575,391 | 128,757 |
| **CAPITAL CONTRIBUTIONS** | | |
| Capacity charges | 234,614 | 901,791 |
| Developers | 1,483,942 | 518,040 |
| Total Capital Contributions | 1,718,556 | 1,419,831 |
| Changes in Net Position | 2,293,947 | 1,548,588 |
| Net Position, Beginning of Year, Restated (Note 14) | 133,680,296 | 130,315,408 |
| Net Position, End of Year | $ 135,974,243 | $ 131,863,996 |

## STATEMENT OF CASH FLOWS
**For the year ended June 30, 2016**
**(with comparative information for prior year)**

| | 2016 | 2015 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash receipts from customers for wastewater sales and service | $ 9,695,723 | $ 8,251,301 |
| Cash paid to vendors and suppliers for materials and services | (4,241,339) | (3,607,734) |
| Cash paid for employee wages, benefits and related costs | (2,656,842) | (2,579,165) |
| Net Cash Provided (Used) by Operating Activities | 2,797,542 | 2,064,402 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Proceeds from property taxes | 1,479,348 | 1,382,559 |
| Net Cash Provided (Used) by Noncapital Financing Activities | 1,479,348 | 1,382,559 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Acquisition and construction of capital assets | (4,542,766) | (7,422,119) |
| Proceeds from sale of capital assets | 69,484 | - |
| Proceeds from capacity fees | 234,614 | 901,791 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (4,238,668) | (6,520,328) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sale and maturities of investments | 501,794 | 682,955 |
| Purchases of investments | (748,510) | (750,000) |
| Interest and investment earnings | 240,148 | 244,446 |
| Net Cash Provided (Used) by Investing Activities | (6,568) | 177,401 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 31,654 | (2,895,966) |
| Cash and Cash Equivalents, Beginning of Year | 25,582,083 | 28,478,049 |
| Cash and Cash Equivalents, End of Year | $ 25,613,737 | $ 25,582,083 |

(Continued)

## STATEMENT OF CASH FLOWS (Continued)
### For the year ended June 30, 2016
### (with comparative information for prior year)

| | 2016 | 2015 |
|---|---|---|
| **Reconciliation of operating income (loss) to net cash flows provided (used) by operating activities:** | | |
| Operating income (loss) | $ (661,032) | $ (1,338,952) |
| Adjustments to reconcile operating loss to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 3,766,355 | 3,693,901 |
| Other nonoperating revenues (expense), net | 10,911 | (26,897) |
| Changes in operating assets, deferred outflows, operating liabilities and deferred inflows: | | |
| (Increase) Decrease in operating assets and deferred outflows: | | |
| Accounts receivable – wastewater sales | (7,272) | (1,510) |
| Accounts receivable – due from other governments | 313,443 | (240,066) |
| Accounts receivable – other | 12,723 | (20,618) |
| Prepaid expenses and other deposits | (582,998) | (9,592) |
| Deferred outflows | (68,091) | - |
| Increase (Decrease) in operating liabilities and deferred inflows: | | |
| Accounts payable and accrued expenses | (41,373) | 121,775 |
| Accrued salaries and wages | 47,349 | (1,405) |
| Compensated absences | (5,657) | (12,763) |
| Restricted developer deposits | (39,959) | (99,471) |
| Deferred inflows | (273,578) | - |
| Net pension liability | 326,721 | - |
| Total adjustments | 3,458,574 | 3,403,354 |
| Net Cash Provided (Used) by Operating Activities | $ 2,797,542 | $ 2,064,402 |
| **Financial Statement Classification** | | |
| **Cash and cash equivalents** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 24,827,159 | $ 24,750,282 |
| Restricted cash and cash equivalents | 103,036 | 142,995 |
| Non-current assets: | | |
| Restricted cash and cash equivalents | 683,542 | 688,806 |
| Total Cash and Cash Equivalents | $ 25,613,737 | $ 25,582,083 |
| **Supplemental Disclosures:** | | |
| Noncash Investing and Financing Activities: | | |
| Capital assets contributed by developers and others | $ 1,483,942 | $ 518,040 |
| Change in fair value of investments | 8,621 | 60,037 |

See accompanying notes to basic financial statements.

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Organization and Operations of the Reporting Entity:

Leucadia Wastewater District (formerly known as Leucadia County Water District) was formed in 1959. The District provides sewer collection and treatment services to portions of the incorporated cities of Encinitas and Carlsbad. The District provides recycled water for use as irrigation on the Omni La Costa Resort & Spa Golf Course. The District serves a land area of approximately sixteen square miles.

b. Measurement Focus, Basis of Accounting and Financial Statements Presentation:

"Measurement focus" is a term used to describe *which* transactions are recorded within the various financial statements. "Basis of accounting" refers to *when* transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the "economic resources measurement focus," and the "accrual basis of accounting." Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges for wastewater services. Operating expenses also include management, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing wastewater services to its customers on a continuing basis be financed or recovered primarily through user charges (wastewater service charges), capital grants and similar funding.

The basic financial statements of the Leucadia Wastewater District have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting financial reporting purposes.

Net position of the District is classified into three components: (1) investment in capital assets, (2) restricted net position, and (3) unrestricted net position. These classifications are defined as follows:

Investment in Capital Assets
This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes or borrowings that are attributable to the acquisition of the asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of investment in capital assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Measurement Focus, Basis of Accounting and Financial Statements Presentation (Continued):

Restricted Net Position
Net Position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Unrestricted Net Position
Unrestricted Net Position is the remaining portion of net position that is not restricted to use.

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

c. New Accounting Pronouncements:

Current Year Standards

- GASB Statement No. 72- In fiscal year 2015-2016, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application". This Statement requires a government to use valuation technique that are appropriate under the circumstances and for which data are available to measure fair value.

- GASB Statement No. 73 - "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." This statement extends the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criterial specified in Statement 68 should not be considered pension plan assets.

GASB has issued the following statements which may impact the District's financial reporting requirements in the future:

Pending Accounting Standards

- GASB Statement No. 74 - *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,"* effective for periods beginning after June 15, 2016.

- GASB Statement No. 75 - *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,"* effective for periods beginning after June 15, 2017.

- GASB Statement No. 76 - *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,"* effective for periods beginning after June 15, 2015.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. New Accounting Pronouncements (Continued):

- GASB Statement No. 77 - *"Tax Abatement Disclosures,"* effective for periods beginning after December 15, 2015.
- GASB Statement No. 78 - *"Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,"* effective for periods beginning after December 15, 2015.
- GASB Statement No. 79 - *"Certain External Investment Pools and Pool Participants,"* effective for periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23-26 and 40, which are effective for reporting periods beginning after December 15, 2015.
- GASB Statement No. 80 - *"Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14,"* effective for periods beginning after June 15, 2016.
- GASB Statement No. 81 - *"Irrevocable Split-Interest Agreements,"* effective for periods beginning after December 15, 2016.
- GASB Statement No. 82 - *"Pension Issues-an amendment of GASB Statements No. 67, No. 68 and No. 73,"* effective for periods beginning after June 15, 2016.

d. Deferred Outflows / Inflows of Resources:

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows related to pensions in this category. See note 10 for further information.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District reports deferred inflows related to pensions in this category. See note 10 for further information.

e. Fair Value Measurements:

Certain assets and liabilities are required to be reported at fair value. The fair value framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described as follows:

<u>Level 1</u> - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

e. Fair Value Measurements (Continued):

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly and fair value is determined through the use of models or other valuation methodologies including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in markets that are inactive;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable input reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). These unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

f. Cash and Cash Equivalents:

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

g. Investments and Investment Policy:

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

h. Accounts Receivable:

The District has made no provision for uncollectible receivables as all accounts are considered to be collectible as of June 30, 2016.

i. Prepaid Expenses:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

j. Restricted Assets:

Certain assets of the District are restricted in use by ordinance or debt covenant and, accordingly are shown as restricted assets on the accompanying Statement of Net Position. Collected capacity charges are set aside for certain capital projects. The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

k. Capital Assets:

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000 if they have an expected useful life of more than one year. Donated assets are recorded at estimated acquisition value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Buildings | 10 - 50 years |
| Subsurface lines | 50 - 150 years |
| Sewage collection facilities | 2 - 150 years |
| Sewage treatment facilities | 10 - 40 years |
| Sewage transmission facilities | 5 - 100 years |
| Water reclamation facilities | 3 - 50 years |
| Equipment | 3 - 15 years |

l. Ownership in Encina Joint System:

The District records ownership in the Encina Joint System as a component of capital assets. Investment in the Encina Joint System is broken down into completed plant and equipment and construction in progress. Completed plant and equipment is capitalized at a percentage of ownership of accumulated expenditures made by the Encina Joint System.

Ownership percentages are determined by joint agreement at the time the assets are acquired. Construction in progress is recorded as the accumulation of actual payments made by the District. Depreciation is calculated on the same basis as Note 1.k. See notes 4 and 5 for further information.

m. Compensated Absences:

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and sick leave are recorded when benefits are fully vested. Cash payments of unused vacation hours and unused sick leave hours are available to those qualified employees when retired or terminated. Unused sick leave hours are paid at the rate of 75% of the employee's final rate of pay at the time of separation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

m. Compensated Absences (Continued):

Annually, during November, each employee who has accumulated more than 176 hours sick leave may elect to be paid for the time in excess of 176 hours at the rate of 75% of the employee's current rate of pay.

n. Developer Deposits:

Developer deposits are received from developers during construction of new sewer connections for inspection fees and plan checks. Any deposits held at the completion of the construction are refunded to the developer.

o. Wastewater Service:

Wastewater service revenues are collected by the County of San Diego through an assessment on customers' property tax bills.

p. Property Taxes:

Property tax in California is levied in accordance with Article XIIIA of the State Constitution at one percent of county-wide assessed valuations. This one percent is allocated pursuant to state law to the appropriate units of local government. The District's property tax calendar for the fiscal year ended June 30, 2016 was as follows:

| | |
|---|---|
| Lien date | January 1 |
| Levy date | July 1 |
| Due date: | |
| First installment | November 1 |
| Second installment | February 1 |
| Delinquent date: | |
| First installment | December 10 |
| Second installment | April 10 |

q. Capital Contributions:

Capital contributions represent cash and capital asset additions contributed to the District by granting agencies, or real estate developers desiring services that require capital expenditures or capacity commitment. Donated assets are capitalized at their approximate acquisition value on the date contributed.

r. Prior Year Data:

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statement, from which this selected financial data was derived.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

s. Use of Estimates:

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

t. Pensions:

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

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

| | |
|---|---|
| Valuation Date (VD) | June 30, 2014 |
| Measurement Date (MD) | June 30, 2015 |
| Measurement Period (MP) | June 30, 2014 to June 30, 2015 |

2. CASH AND INVESTMENTS:

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

| | |
|---|---|
| Cash and cash equivalents | $ 24,827,159 |
| Restricted cash and cash equivalents | 103,036 |
| Restricted cash and cash equivalents - noncurrent | 683,542 |
| Investments - noncurrent | 9,558,396 |
| Total cash and investments | $ 35,172,133 |

Cash and investments as of June 30, 2016, consist of the following:

| | |
|---|---|
| Cash on hand | $ 500 |
| Deposits with financial institutions | 187,993 |
| Investments | 34,983,640 |
| Total cash and investments | $ 35,172,133 |

2. CASH AND INVESTMENTS (Continued):

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

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

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|
| State and Local Agency Debit | 5 years | 10% | None |
| U. S. Treasury Obligations | 5 years** | 75% | None |
| U.S. Government Sponsored Entities | 5 years** | 75% | None |
| Banker's Acceptances | 180 days | 10% | 30% |
| Commercial Paper | 270 days | 10% | 10% |
| Bank Deposits | 5 years | 25% | None |
| Negotiable Certificates of Deposit | 5 years | 10% | None |
| Medium-Term Notes | 5 years | 10% | None |
| Repurchase Agreements | 30 days | 10% | None |
| Money Market Mutual funds | N/A | 10% | None |
| California Local Agency Investment Fund (LAIF) | N/A | 75% | None |
| California Asset Management Program (CAMP) | N/A | 75% | None |
| San Diego County Pooled Investment Fund | N/A | 75% | None |

** Except when authorized by the District's legislative body in accordance with Government Code Section 53601.

Custodial Credit Risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

2. CASH AND INVESTMENTS (Continued):

Custodial Credit Risk (Continued):

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2016, the District does not have any deposits with financial institutions in excess of the Federal insurance limits.

Investment in State Investment Pool:

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code 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).

Investment in California Asset Management Program:

The California Asset Management Program (CAMP) is a public joint powers authority which provides California Public Agencies with investment management services for surplus funds and comprehensive investment management, accounting and arbitrage rebate calculation services for proceeds of tax-exempt financings. The CAMP currently offers the Cash Reserve Portfolio, a short-term investment portfolio, as a means for Public Agencies to invest these funds. Public Agencies that invest in the Pool ("Participants") purchase shares of beneficial interest. Participants may also establish individual, professionally managed investment accounts ("Individual Portfolios") by separate agreement with the Investment Advisor. The District participates in the Cash Reserve Portfolio and has also established a professionally managed individual portfolio through CAMP. Investments in the pools and individual portfolios are made only in investments in which Public Agencies generally are permitted by California statute. The CAMP may reject any investment and may limit the size of a participant's account. The pool seeks to maintain, but does not guarantee, a constant net asset value of $1.00 per share. A participant may withdraw funds from its Pool accounts at any time by check or wire transfers. Requests for wire transfers must be made by 9:00 AM that day. The pool is valued at amortized cost, which approximates fair value.

Investment in San Diego County Investment Pool:

The District is a voluntary participant in the San Diego County Treasurer's Pooled Money Fund which is managed by San Diego County Treasurer-Tax Collector's office on behalf of the County of San Diego, school districts, colleges, special districts, and local agencies in San Diego. Permissible investments in the Pool are made in accordance with California State law.

2. CASH AND INVESTMENTS (Continued):

Investment in San Diego County Investment Pool (Continued):

The maximum effective duration for the portfolio is 1.5 years. Before a participant can withdraw funds from the Pool it must submit a withdrawal request 2 working days prior to its desired withdrawal date. Also, the County Treasurers' Office must insure that any withdrawals will not adversely affect the interest of all other depositors in the Pool.

Interest Rate Risk:

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

| | | Remaining Maturity (in Months) | | | |
|---|---|---|---|---|---|
| Investment Type | Total | 12 Months or Less | 13 to 24 Months | 25 to 60 Months | More than 60 Months |
| U.S. Treasury Notes | $ 4,008,550 | $ 3,007,730 | $ 1,000,820 | $ - | $ - |
| Government National Mortgage Association | 6,141 | - | - | - | 6,141 |
| Federal Home Loan Mortgage Corp. | 2,004,100 | 1,002,390 | 1,001,710 | - | - |
| Federal National Mortgage Association | 1,506,980 | 1,004,520 | - | 502,460 | - |
| Medium Term Notes | 1,532,430 | - | 1,532,430 | - | - |
| Local Agency Investment Fund (LAIF) | 13,873,352 | 13,873,352 | - | - | - |
| California Asset Management Program (CAMP) | 67,892 | 67,892 | - | - | - |
| San Diego County Investment Pool | 11,484,000 | 11,484,000 | - | - | - |
| Negotiable Certificates of Deposit | 250,059 | 250,059 | - | - | - |
| Certificates of Deposit | 250,136 | - | 250,136 | - | - |
| Total | $ 34,983,640 | $ 30,689,943 | $ 3,785,096 | $ 502,460 | $ 6,141 |

Credit Risk:

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

Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating by Moody's as of June 30, 2016 for each investment type (CAMP and the San Diego County Pool are rated by Standard and Poor's.)

## 2. CASH AND INVESTMENTS (CONTINUED):

### Credit Risk (Continued):

| Investment Type | Total | Minimum Legal Rating | Exempt From Disclosure | Ratings as of Year End AAA | AA | A | Not Rated |
|---|---|---|---|---|---|---|---|
| U.S. Treasury Notes | $ 4,008,550 | N/A | $ 4,008,550 | $ - | $ - | $ - | $ - |
| Government National Mortgage Association Pools | 6,141 | N/A | - | 6,141 | - | - | - |
| Federal Home Loan Mortgage Corp. Global Notes | 2,004,100 | AA+ | - | 2,004,100 | - | - | - |
| Federal National Mortgage Association Global Notes | 1,506,980 | AA+ | - | 1,506,980 | - | - | - |
| Medium Term Notes | 1,532,430 | A | - | 528,400 | 501,230 | 502,800 | - |
| Local Agency Investment Fund (LAIF) | 13,873,352 | N/A | - | - | - | - | 13,873,352 |
| California Asset Management Program (CAMP) | 67,892 | N/A | - | 67,892 | - | - | - |
| San Diego County Investment Pool | 11,484,000 | N/A | - | 11,484,000 | - | - | - |
| Negotiable Certificates of Deposit | 250,059 | N/A | - | - | - | 250,059 | - |
| Certificates of Deposit | 250,136 | N/A | - | - | - | 250,136 | - |
| Total | $ 34,983,640 | | $ 4,008,550 | $ 15,597,513 | $ 501,230 | $ 1,002,995 | $ 13,873,352 |

### Concentration of Credit Risk:

The investment policy of the District is in accordance with limitations on the amount that can be invested in any one issuer as stipulated by the California Government Code. Investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows:

| Investment Type | Total | Fair Value Hierarchy Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Investments measured at fair value | | | | |
| 3. Treasury Securities | $ 4,008,550 | $ 4,008,550 | $ - | $ - |
| Federal Agency Securities (GNMA) | 6,141 | - | 6,141 | - |
| Federal Agency Securities (FHLM) | 2,004,100 | - | 2,004,100 | - |
| Federal Agency Securities (FNMA) | 1,506,980 | - | 1,506,980 | - |
| Medium Term Notes | 1,532,430 | - | 1,532,430 | - |
| Local Agency Investment Fund (LAIF) | 13,873,352 | - | 13,873,352 | - |
| San Diego County Investment Pool | 11,484,000 | - | 11,484,000 | - |
| Negotiable Certificates of Deposit | 250,059 | - | 250,059 | - |
| Certificates of Deposit | 250,136 | - | 250,136 | - |
| Total investments measured at Fair Value | 34,915,748 | $ 4,008,550 | $ 30,907,198 | $ - |
| Investments not measured at fair value | | | | |
| California Asset Management Program (CAMP) | 67,892 | | | |
| Total Investments | $ 34,983,640 | | | |

4. CAPITAL ASSETS:

Capital assets consists of the following at June 30, 2016:

| | Balance July 1, 2015 | Additions/ Transfers | Deletions/ Transfers | Balance June 30, 2016 |
|---|---|---|---|---|
| Non-depreciable assets: | | | | |
| Land | $ 12,878 | $ - | $ - | $ 12,878 |
| Construction-in-progress - Encina | 1,996,508 | 1,031,266 | (1,992,931) | 1,034,843 |
| Construction-in-progress | 5,680,168 | 2,604,125 | (6,014,426) | 2,269,867 |
| Total non-depreciable assets | 7,689,554 | 3,635,391 | (8,007,357) | 3,317,588 |
| Depreciable assets: | | | | |
| Sewer collection facilities | 30,810,735 | 1,634,012 | (19,305) | 32,425,442 |
| Sewage treatment facilities | 138,290 | - | - | 138,290 |
| Sewage transmission facilities | 18,213,787 | 2,654,983 | (1,940,507) | 18,928,263 |
| Advanced water treatment facility | 5,666,602 | 1,769,765 | (795) | 7,435,572 |
| Subsurface lines | 31,468,986 | 1,483,942 | - | 32,952,928 |
| Vulcan sewer line | 210,889 | - | - | 210,889 |
| Site buildings and grounds | 13,933,885 | - | - | 13,933,885 |
| Equipment | 2,213,719 | 442,213 | (480,062) | 2,175,870 |
| Encina Joint System | 40,727,763 | 2,019,252 | (1,008,569) | 41,738,446 |
| Total depreciable assets | 143,384,656 | 10,004,167 | (3,449,238) | 149,939,585 |
| Accumulated depreciation: | | | | |
| Sewer collection facilities | (12,568,889) | (1,070,818) | 5,821 | (13,633,886) |
| Sewage treatment facilities | (94,109) | (4,610) | - | (98,719) |
| Sewage transmission facilities | (6,397,407) | (486,551) | 1,468,996 | (5,414,962) |
| Advanced water treatment facility | (2,925,178) | (200,652) | 794 | (3,125,036) |
| Subsurface lines | (9,640,750) | (472,354) | - | (10,113,104) |
| Vulcan sewer line | (108,005) | (4,218) | - | (112,223) |
| Site buildings and grounds | (1,869,352) | (319,573) | - | (2,188,925) |
| Equipment | (1,633,629) | (158,649) | 473,964 | (1,318,314) |
| Encina Joint System | (13,756,850) | (1,048,930) | 906,356 | (13,899,424) |
| Total accumulated depreciation | (48,994,169) | (3,766,355) | 2,855,931 | (49,904,593) |
| Total depreciable assets, net | 94,390,487 | 6,237,812 | (593,307) | 100,034,992 |
| Total capital assets, net | $102,080,041 | $ 9,873,203 | $ (8,600,664) | $103,352,580 |

During the fiscal year ending June 30, 2016, major capital assets additions included the Scott's Valley Pipeline Repair project, Saxony Pump Station Rehabilitation, Village Park No. 5 Pump Station Replacement, various Gravity Pipeline Rehabilitation projects and Encina Major Plant Rehabilitation Program.

Depreciation expense for the year ended June 30, 2016 was $3,766,355.

4. CAPITAL ASSETS (CONTINUED):

The District has been involved in various construction projects throughout the year. The balances of the various construction projects that comprise the construction-in-progress balances at June 30, 2016 are as follows:

| | |
|---|---|
| Batiquitos Pump Station Solar Panels | $ 9,735 |
| FY2015 Gravity Pipeline Rehabilitation | 734,487 |
| FY2016 Gravity Pipeline Rehabilitation | 90,984 |
| Gaftner Condition Assessment | 59,917 |
| Leucadia Force Main West Section Replacement | 141,979 |
| Miscellaneous Line Repairs | 4,830 |
| Poinsettia Station Gravity Pipeline Project | 25,177 |
| Recycled Water Pump Station Design | 1,692 |
| Saxony Pump Station Rehabilitation | 803,536 |
| Village Park No. 5 Pump Station Replacement | 139,655 |
| Water Recycling Group | 257,965 |
| Total Construction-in-Progress | $ 2,269,957 |

5. ENCINA JOINT SYSTEM

The Encina Joint System is a sewage treatment and ocean outfall disposal facility owned jointly by the Cities of Carlsbad, Encinitas, and Vista, the Buena Sanitation District, the Vallecitos Water District, and the Leucadia Wastewater District. The District's share of the Encina Joint System is recorded as a component of the District's capital assets (see note 4). Ownership percentages are determined by joint agreement at the time the assets are acquired. As of June 30, 2016, the Member Agencies have the following approximate ownership interest:

| | |
|---|---|
| City of Vista | 25.20% |
| City of Carlsbad | 24.24% |
| Vallecitos Water District | 22.42% |
| Leucadia Wastewater District | 16.80% |
| Buena Vista Sanitation District | 7.09% |
| City of Encinitas | 4.25% |

6. ENCINA WASTEWATER AUTHORITY:

The Encina Wastewater Authority (EWA) is a Joint Powers Authority formed by the Member Agencies to operate and administer the Encina Joint System and is responsible for the management, maintenance and operations of the joint system. EWA may be terminated as the operator/administrator at the discretion of the member agencies. As the operator/administrator EWA bills the member agencies for its share of the operating costs of the Encina Joint System based on its ownership and usage. The Encina Wastewater Authority does not recognize any operating income or loss (before depreciation).

Net operating expenditures in excess of users' assessments are treated as accounts receivable on the Authority's books and charged to users' accounts in the following year. In addition, EWA requires member agencies to maintain various reserves on deposit with EWA.

6. ENCINA WASTEWATER AUTHORITY (Continued):

At June 30, 2016, Leucadia Wastewater District was required to maintain an operating reserve of $168,000, an inventory reserve of $142,800, and a capital reserve of $1,176,000 for a total of $1,486,800.

The latest available financial statements of the Encina Wastewater Authority, dated June 30, 2015 and 2014 can be obtained at 6200 Avenida Encinas, Carlsbad, California 92013.

7. COMPENSATED ABSENCES:

Compensated absences are comprised of unpaid vacation leave, sick leave and compensating time off which are accrued when benefits are fully vested. The District's liability for compensated absences is determined annually.

| Balance July 1, 2015 | Additions | Deletions | Balance June 30, 2016 | Current Portion | Long-Term Portion |
|---|---|---|---|---|---|
| $ 251,127 | $ 172,293 | $ (177,950) | $ 245,470 | $ 173,941 | $ 71,529 |

8. NET POSITION:

Calculation of net position as of June 30, 2016 was as follows:

| | |
|---|---|
| Net investment in capital assets: | |
| Land | $ 12,878 |
| Construction in progress | 3,304,800 |
| Capital Assets, net of depreciation | 100,034,992 |
| Total net investment in capital assets | 103,352,670 |
| Restricted net position: | |
| Restricted for capital projects | 668,240 |
| Total restricted net position | 668,240 |
| Unrestricted net position | |
| Reserve for operations | 2,174,497 |
| Reserve of capital replacement | 20,527,458 |
| Reserve for water recycling | 1,751,378 |
| Reserve for emergencies | 7,500,000 |
| Total unrestricted net position | 31,953,333 |
| Total net position | $ 135,974,243 |

For internal purposes, the Board of Directors adopted a reserve policy to reserve Unrestricted Net Position. The reserves are meant to reflect the intentions of the Board and are not legally restricted.

9. DEFERRED COMPENSATION SAVINGS PLAN:

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (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. The District currently matches up to 2% of the employees' compensation up to a maximum of 2% of the Social Security wage base limit.

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. Market value of all plan assets held in trust by the District's two deferred compensation plans at June 30, 2016 amounted to $1,253,674.

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 Statement of Net Position.

10. DEFINED BENEFIT PENSION PLAN:

Plan Description:

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided:

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Benefits are based on years of credited service, equal to one year of full time employment. The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

| | Miscellaneous Plan | PEPRA Miscellaneous Plan |
|---|---|---|
| Hire date | Prior to January 1, 2013 | On or after January 1, 2013 |
| Benefit formula | 3.0% at 60 | 2.0% at 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 - 60 | 50 - 67 |
| Monthly benefits, as a % of eligible compensation | 2.0% to 3.0% | 1.0% to 2.5% |
| Required employee contribution rates | 8.00% | 6.25% |
| Required employer contribution rates | 19.928% | 6.237% |

10. DEFINED BENEFIT PENSION PLAN (Continued):

Contributions:

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers 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 the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, 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 employees. For the measurement period ended June 30, 2015 (the measurement date), the active employee contribution rate is 7.762 percent of annual pay, and the average employer's contribution rate is 19.928 percent of annual payroll. For PEPRA employees the active employee contribution rate is 6.25 percent annual pay and the employer's contribution rate is 6.237 percent of annual payroll. Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

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

| | Miscellaneous Plan |
|---|---|
| Contributions - employer | $ 299,609 |
| Contributions - employee (paid by employer) | $ 16,448 |

Actuarial Methods and Assumptions used to determine Total Pension Liability:

For the measurement period ending June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability determined in the June 30, 2014 actuarial valuation. The June 30, 2015 total pension liability was based on the following actuarial methods and assumptions:

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal in accordance with the requirements of GASB Statement No. 68 |
| Actuarial Assumptions | |
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Salary Increases | Varies by Entry Age and Service |
| Mortality Rate Table | Derived using CalPERS' Membership Data for all funds |
| Post Retirement Benefit Increase | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter |

10. DEFINED BENEFIT PENSION PLAN (CONTINUED):

Actuarial Methods and Assumptions used to determine Total Pension Liability Continued):

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the fiscal years 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.

Change of Assumption:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

Discount Rate:

The discount rate used to measure the total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the test revealed that the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund.

The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained on CalPERS' website under the GASB 68 section.

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

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

10. DEFINED BENEFIT PENSION PLAN (CONTINUED):

Discount Rate (Continued):

The table below reflects the long-term expected real rate of return by asset class.

| Asset Class | New Strategic Allocation | Real Return Years 1 - 10 (a) | Real Return Years 11 + (b) |
|---|---|---|---|
| Global Equity | 51.00% | 5.25% | 5.71% |
| Global Fixied Income | 19.00% | 0.99% | 2.43% |
| Inflation Sensitive | 6.00% | 0.45% | 3.36% |
| Private Equity | 10.00% | 6.83% | 6.95% |
| Real Estate | 10.00% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2.00% | 4.50% | 5.09% |
| Liquidity | 2.00% | -0.55% | -1.05% |

(a) - an expected inflation of 2.5% used for this period

(b) - an expected inflation of 3.0% used for this period

Allocation of Net Pension Liability and Pension Expense to Individual Employers:

The following table shows the District's proportionate share of the net pension liability over the measurement period:

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (c) = (a) - (b) |
| Balance at: 06/30/2014 | $ 13,419,239 | $ 11,141,825 | $2,277,414 |
| Balance at: 06/30/2015 | 13,926,751 | 11,322,616 | 2,604,135 |
| Net Changes during 2014-15 | 507,512 | 180,791 | 326,721 |

The net pension liability of the plan is measured as of June 30, 2015, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The proportion of the net pension liability was based on a projection of the District's long term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the plan as of June 30, 2014 and 2015 was as follows:

| | Miscellaneous Plan |
|---|---|
| Proportion - June 30, 2014 | 0.0921% |
| Proportion - June 30, 2015 | 0.0949% |
| Change - Increase (Decrease) | 0.0028% |

10. DEFINED BENEFIT PENSION PLAN (CONTINUED):

Sensitivity of the Net Pension Liability to Changes in the Discount Rate:

The following presents the net pension liability of the Plan as of the Measurement Date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

| | Discount Rate - 1% 6.65% | Current Discount Rate 7.65% | Discount Rate + 1% 8.65% |
|---|---|---|---|
| Net Pension Liability | $ 4,500,773 | $ 2,604,135 | $ 1,038,240 |

Deferred Outflows and Deferred Inflows of Resources:

Under GASB 68, actuarial 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 inflows and deferred outflows to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

| | |
|---|---|
| Net difference between projected and actual earnings on pension plan investments | 5 year straight-line amortization |
| All other amounts | Straight-line amortization over the expected average remaining service lifetime (EARSL of all members that are provided with pensions (active, inactive, and retired) as of the beginning of the measurement period |

The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments is amortized over a five-year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period, and the remaining Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments at the measurement date is to be amortized over the remaining four-year period. The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments in the Schedule of Collective Pension Amounts represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

Deferred outflows of resources and deferred inflows of resources relating to Differences Between Expected and Actual Experience, Changes of Assumptions and employer-specific amounts should be amortized over the EARSL of members provided with pensions through the Plan. The EARSL for the Plan for the June 30, 2015 measurement date is 3.8 years, which was obtained by dividing the total services years by the total number of participants (active, inactive, and retired) in the Plan.

10. DEFINED BENEFIT PENSION PLAN (CONTINUED):

Deferred Outflows and Deferred Inflows of Resources (Continued):

Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

For the year ended June 30, 2016, the District recognized a pension expense of $305,715 for the Plan. As of June 30, 2016, the District reports deferred outflows of resources and deferred inflows of resources related to pensions as follows:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Pension contributions subsequent to the measurement date | $ 299,609 | $ - |
| Differences between actual contributions made and proportionate share of contributions | - | 141,557 |
| Differences between expected and actual experience | 16,164 | - |
| Changes of assumptions | - | 152,924 |
| Net difference between projected and actual earnings on pension plan investments | - | 182,013 |
| Adjustment due to differences in proportions | 10,127 | 63,967 |
| Total | $ 325,900 | $ 540,461 |

$299,609 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Measurement Period Ended June 30: | Deferred Outflows/(Inflows) |
|---|---|
| 2016 | $ (216,165) |
| 2017 | (213,855) |
| 2018 | (182,192) |
| 2019 | 97,992 |
| 2020 | - |
| Thereafter | - |

11. OTHER POST-EMPLOYMENT BENEFITS:

Plan Description – Eligibility:

The District provides post-employment health benefits in accordance with a resolution approved by the Board of Directors, to all employees who retire from the District. The plan is part of the Public Agency portion of the California Employers' Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California.

11. OTHER POST-EMPLOYMENT BENEFITS (Continued):

Plan Description – Eligibility (Continued):

Currently, there are four retired employees who have met these eligibility requirements and are therefore receiving the benefits. The total payments made for these benefits for retired employees for the year ended June 30, 2016 was $6,660.

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

| | 2016 |
|---|---|
| Active plan members | 21 |
| Retirees and beneficiaries receiving benefits | 4 |
| Separated plan members entitled to, but not yet receiving benefits | - |
| Total plan membership | 25 |

Plan Description – Benefits:

The District offers post-employment medical benefits to retired employees who satisfy the eligibility rules. Retirees may enroll in any plan available through the District's CalPERS medical plan. The contribution requirement of Plan members and the District are established and may be amended by the Board of Directors.

As a member of the CalPERS medical plan the District is required to participate in its post-employment medical benefit plan. The District currently pays the CalPERS minimum required employer contribution ($125 per month in 2016 and indexed to medical CPI) for retirees electing coverage.

Funding Policy

The District is required to contribute the Annual Required Contribution of the Employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. The District chose to amortize the unfunded actuarial liability over one year by completely funding the unfunded actuarial liability in the fiscal year ending June 30, 2010.

CERBT holds irrevocable employer contributions in a trust restricted for benefits under this program. Separate financial statements are published by CERBT to conform to GASB Statement No. 43. Copies of CERBT annual financial report can be obtained from its executive office at 400 "Q" Street, Sacramento, California 95811.

Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the District's annual OPEB cost for the year ending June 30, 2016, the amount actually contributed to the plan, and changes in the District's net OPEB obligation based on the most recent actuarial valuation dated June 30, 2015:

11. OTHER POST-EMPLOYMENT BENEFITS (Continued):

Annual OPEB Cost and Net OPEB Obligation (Continued):

| | |
|---|---|
| Annual required contribution (ARC) | $ 10,174 |
| Interest on net OPEB obligation | 1,083 |
| Adjustment to annual required contribution (ARC) | (1,083) |
| Annual OPEB cost (expense) | 10,174 |
| Contributions made (including premiums paid) | (10,174) |
| Increase (decrease) in net OPEB obligation | - |
| Net OPEB obligation (asset) - beginning of year | (24,590) |
| Net OPEB obligation (asset) - end of year | $ (24,590) |

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years 2016, 2015 and 2014 were as follows:

Three-Year Trend Information for CERBT

| Fiscal Year | Annual OPEB Cost (AOC) | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation (Asset) |
|---|---|---|---|
| 06/30/16 | $ 10,174 | 100% | $ (24,590) |
| 06/30/15 | - | 100% | (24,590) |
| 06/30/14 | - | 100% | (18,312) |

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2015, based on the most recent actuarial valuation was as follows:

| | |
|---|---|
| Actuarial Accrued Liability | $ 358,786 |
| Actuarial Value of Plan Assets | 345,717 |
| Unfunded Actuarial Accrued Liability/(Surplus) (UAAL) | 13,069 |
| Funded Ratio (Actuarial Value of Plan Assets/AAL) | 96.36% |
| Covered Payroll (Active Plan Members) | 1,816,285 |
| UAAL as a Perecentage of Covered Payroll | 0.72% |

Actuarial Methods and Assumptions

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

11. OTHER POST-EMPLOYMENT BENEFITS (Continued):

Actuarial Methods and Assumptions (Continued)

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

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

| | |
|---|---|
| Valuation date | June 30, 2015 |
| Actuarial cost method | Projected unit credit with service prorate |
| Amortization method | Level-dollar method on a closed basis |
| Remaining amortization period | 30 years |
| Asset valuation method | Market value basis |
| Actuarial assumptions | |
| Investment Rate of Return | 7.28% |
| Projected Salary Increase | 3.0% per annum |
| Inflation - Discount Rate | 2.8% per annum |
| Healthcare Cost Trend Rate | 5.0%-7.0% |

12. 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 is a member of the California Sanitation Risk Management Authority (CSRMA), an intergovernmental risk sharing joint powers authority currently operating as a common risk management and loss prevention program for 60 California sanitation districts. The District pays an annual premium to CSRMA for its public liability and workers compensation risk coverage.

The agreement for formation of the CSRMA provides that CSRMA will be self-sustaining through member premiums and will provide specific excess insurance through commercial companies. The CSRMA is allowed to make additional assessments to its members based on a retrospective premium adjustment process. At June 30, 2016, the District participated in the self-insurance programs of the CSRMA as follows:

General and Automotive Liability - including errors and omission (E&O) and employment practices liability (EPL): The District is self-insured through CSRMA through a combination of a pool layer, reinsurance, and excess insurance. The self-insured pool layer is $500,000 with a $50,000 deductible ($25,000 for EPL and $2,500 for E&O). In addition, $15,000,000 of commercial reinsurance is purchased above the pool layer with an additional $10,000,000 in excess insurance above the reinsurance layer for a total maximum coverage of $25,500,000.

12. RISK MANAGEMENT (Continued):

Workers' Compensation and Employer's Liability - The District is self-insured through CSRMA through a combination of a pooled layer and excess insurance. The pooled layer is $750,000 with no deductible. The excess insurance is purchased above the pooled layer and is set at the statutory limit for Workers Compensation and at $1,000,000 for Employers Liability.

Special Form Property Coverage - up to $23,099,171 with a deductible of $10,000 per claim.

Public Entity Physical Damage - for the replacement cost up to $1,297,480, subject to a deductible of $2,000 per claim.

Public Officials Personal Liability - up to $100,000 each occurrence, with an annual aggregate of $100,000 per each elected/appointed official to which this coverage applies, subject to the terms.

Public Entity Pollution Liability – The District purchased a $25,000,000 policy, with $2,000,000 per pollution condition and a $75,000 per claim deductible.

Cyber Liability Coverage – up to $2,000,000 for third party coverage and $2,000,000 for first party coverage for computer security.

Master Crime Coverage – The District purchased a master crime policy, first with a $2,000,000 limit and a $2,500 deductible. The District also purchased an ID Fraud Master Identity Theft policy with a $25,000 limit and $0 deductible.

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.

13. COMMITMENTS AND CONTINGENCIES:

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of wastewater facilities and collection systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserve. The District has committed to approximately $319,742 in open construction contracts as of June 30, 2016. These include the following:

| Project Name | Total Approved Contract(s) | Construction Costs to Date | Remaining Obligation |
|---|---|---|---|
| Leucadia Force Main West Section Replacement | $ 105,250 | $ 104,412 | $ 838 |
| FY2015 Gravity Pipeline Rehabilitation | 116,726 | 101,270 | 15,456 |
| Saxony Pump Station Rehabilitation | 121,168 | 118,168 | 3,000 |
| FY2016 Gravity Pipeline Rehabilitation | 240,000 | - | 240,000 |
| Village Park No. 5 Pump Station Replacement | 159,805 | 113,616 | 46,189 |
| Batiquitos Pump Station Solar Panels | 16,665 | 12,504 | 4,161 |
| Poinsettia Station Gravity Pipeline Project | 23,905 | 13,807 | 10,098 |
| Total | $ 783,519 | $ 463,777 | $ 319,742 |

13. COMMITMENTS AND CONTINGENCIES (CONTINUED):

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.

14. RESTATEMENT OF BEGINNING NET POSITION

In the prior year, the District implemented GASB statement No. 68, and as a result recorded a portion of Encina Wastewater Authority's (EWA) net pension liability in the amount of $1,816,300. The District pays for certain operating costs of EWA based on ownership and usage. As the percentage billed over time will change and the District has not been billed for a portion of the net pension liability, the District does not believe there are any amounts payable to EWA for the pension liability. As such, net position has been restated to reflect the removal of the net pension liability recorded in the prior year.

# Required Supplementary Information

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## Schedule of Funding Progress for OPEB

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (b) | Unfunded (Overfunded) Actuaruial Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 6/30/2011 | $ 262,191 | $151,822 | $ (110,369) | 172.70% | $1,600,684 | -6.90% |
| 6/30/2013 | 292,732 | 156,127 | (136,605) | 187.50% | 1,721,150 | -7.94% |
| 6/30/2015 | 345,717 | 358,786 | 13,069 | 96.36% | 1,816,285 | 0.72% |

## Schedule of Contributions-Defined Benefit Pension Plan

Schedule of Plan Contributions
Last Ten Years*

| | Fiscal Year 2015-16 | Fiscal Year 2014-15 |
|---|---|---|
| Actuarially Determined Contribution | $ 299,609 | $ 242,055 |
| Contributions in Relation to the Actuarially Determined Contribution | 299,609 | 242,055 |
| Contribution Deficiency (Excess) | $ - | $ - |
| Covered Payroll | 1,664,178 | 1,537,839 |
| Contributions as a Percentage of Covered Payroll | 18.00% | 15.74% |

Notes to Schedule

| | | |
|---|---|---|
| Fiscal Year End: | 06/30/16 | 06/30/15 |
| Valuation Date: | 06/30/13 | 06/30/12 |

Methods and assumptions used to determine contribution rates:

| | | |
|---|---|---|
| Actuarial Cost Method | Entry age | Entry age |
| Amortization Method | Level percent of payroll | Level percent of payroll |
| Asset Valuation Method | Market Value | Market Value |
| Discount Rate | 7.50% | 7.50% |
| Projected Salary Increase | 3.30% to 14.20% depending on age, service, and type of employment | 3.30% to 14.20% depending on age, service, and type of employment |
| Inflation | 2.75% | 2.75% |
| Payroll Growth | 3.00% | 3.00% |
| Individual Salary Growth | A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%. | A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual |

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

## Schedule of Proportionate Share of the Net Pension Liability

Leucadia Wastewater District
Schedule of the Plan's Proportionate Share of Net Pension Liability
Last Ten Years*

| | Measurement Date 6/30/2015 | Measurement Date 6/30/2014 |
|---|---|---|
| Proportion of the Collective Net Pension Liability | 0.0949% | 0.0921% |
| Proportionate Share of the Collective Net Pension Liability | $ 2,604,135 | $ 2,277,414 |
| Covered Payroll | $ 1,537,839 | $ 1,511,503 |
| Proportionate Share of the Collective Net Pension Liability as percentage of covered payroll | 169.34% | 150.67% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 81.30% | 83.03% |

Notes to Schedule:

**Benefit changes.** The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (aka Golden Handshakes).

**Changes in assumptions.** The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

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

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Supplementary Information

## COMBINING SCHEDULE OF CHANGES IN NET POSITION
For the year ended June 30, 2016

| | | Restricted | Unrestricted, Reserved For | | | | |
|---|---|---|---|---|---|---|---|
| | Investment in Capital Assets | Capital Improvements | Operations | Capital Replacement | Water Recycling | Emergencies | Total Net Position |
| Balance, June 30, 2015, Restated | $ 102,080,041 | $ 688,806 | $ 2,138,831 | $ 19,494,574 | $ 1,778,044 | $ 7,500,000 | $ 133,680,296 |
| Net operating income (loss) | - | - | (588,056) | - | (72,976) | - | (661,032) |
| Contributed capital, sewer lines | 1,483,942 | - | - | - | - | - | 1,483,942 |
| Capacity fees | - | - | - | 234,614 | - | - | 234,614 |
| Net additions to Utility plant and equipment | 3,555,042 | (25,066) | - | (3,854,383) | (176,142) | - | (500,549) |
| Depreciation charged to net income | (3,766,355) | - | 3,565,703 | - | 200,652 | - | - |
| Interest income allocated | - | 4,500 | 24,400 | 152,604 | 11,800 | 50,400 | 243,704 |
| Property taxes | - | - | - | 1,482,357 | - | - | 1,482,357 |
| Miscellaneous non-operating income | - | - | - | 911 | 10,000 | - | 10,911 |
| Transfers | - | - | (2,966,381) | 3,016,781 | - | (50,400) | - |
| Balance, June 30, 2016 | $ 103,352,670 | $ 668,240 | $ 2,174,497 | $ 20,527,458 | $ 1,751,378 | $ 7,500,000 | $ 135,974,243 |

# Statistical Section

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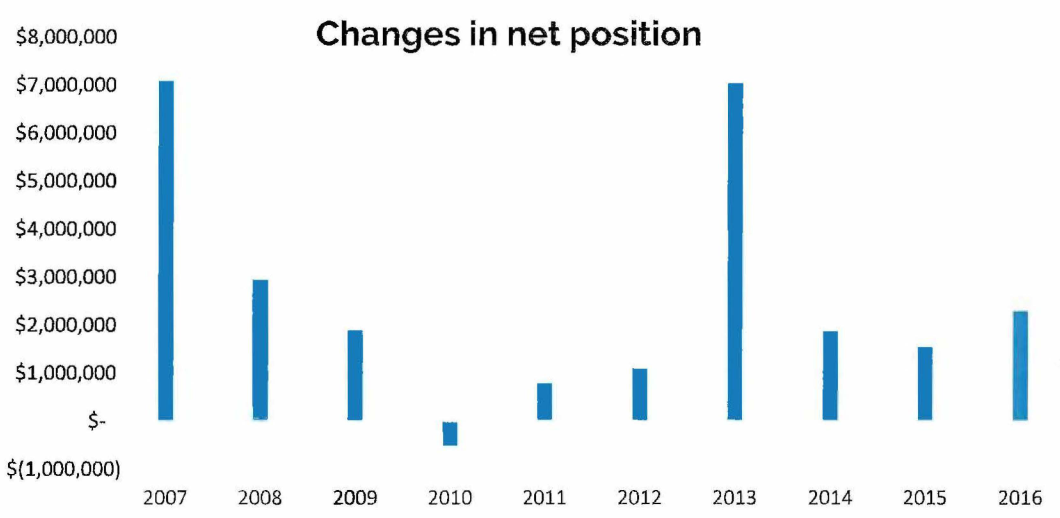
This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

## Table of Contents

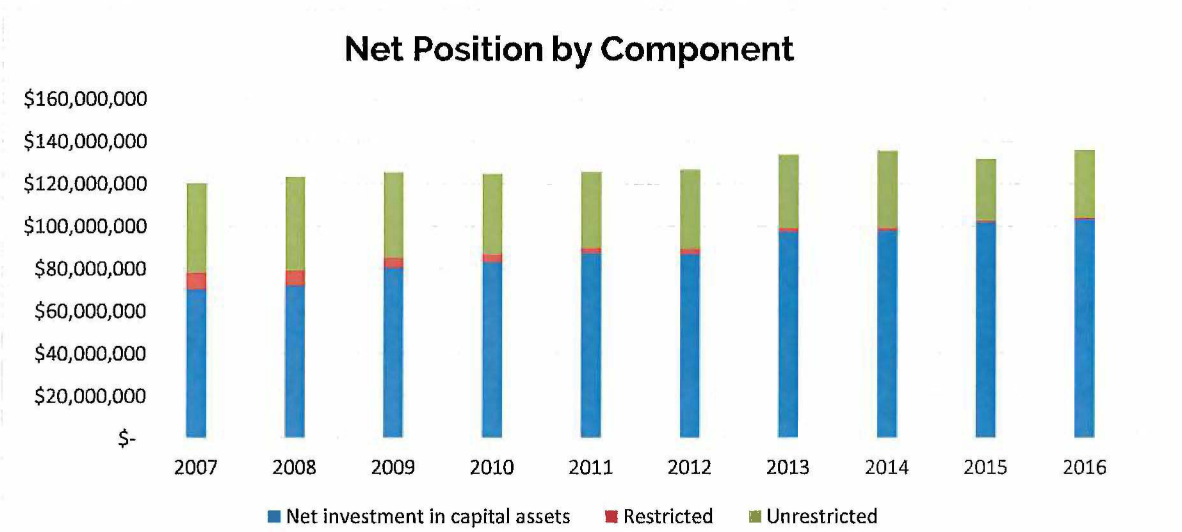
## LEUCADIA WASTEWATER DISTRICT
## Changes in Net Position by Component
## Last Ten Fiscal Years

| | Fiscal Year | | | |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| Changes in net position | | | | |
| Operating revenues (See Schedule 2) | $ 5,761,526 | $ 5,811,481 | $ 6,328,422 | $ 7,089,681 |
| Operating expenses ( see Schedule 3) | (4,732,399) | (5,026,098) | (5,750,372) | (5,812,872) |
| Depreciation & amortization | (2,529,790) | (2,597,179) | (2,713,390) | (2,966,857) |
| **Operating income(loss)** | (1,500,663) | (1,811,796) | (2,135,340) | (1,690,048) |
| Non-operating revenues(expenses) | | | | |
| Property taxes | 1,141,068 | 1,216,757 | 1,246,255 | 1,199,025 |
| Investment income (loss) | 2,625,446 | 2,748,087 | 1,468,487 | 656,587 |
| Gain/(Loss) on sale/disposition of assets | (168,020) | (91,265) | (289,588) | (1,095,299) |
| Interest expense | (267,416) | (242,917) | (218,861) | (193,479) |
| Other revenue/(expense), net | 11,834 | 10,872 | 1,905 | 2,521 |
| Total non-operating revenues/(expenses) net | 3,342,912 | 3,641,534 | 2,208,198 | 569,355 |
| **Net income before capital contributions** | 1,842,249 | 1,829,738 | 72,858 | (1,120,693) |
| Capital contributions | 5,240,312 | 1,119,957 | 1,816,817 | 602,844 |
| **Changes in net position** | $ 7,082,561 | $ 2,949,695 | $ 1,889,675 | $ (517,849) |
| Net positon by component | | | | |
| Net investment in capital assets | $ 70,364,874 | $ 72,109,791 | $ 80,465,519 | $ 83,253,950 |
| Restricted | 7,937,238 | 7,312,730 | 4,599,835 | 3,703,768 |
| Unrestricted | 42,166,972 | 43,996,258 | 40,243,100 | 37,832,887 |
| **Total net position** | $ 120,469,084 | $ 123,418,779 | $ 125,308,454 | $ 124,790,605 |




**Source:** Leucadia Wastewater District Accounting Department

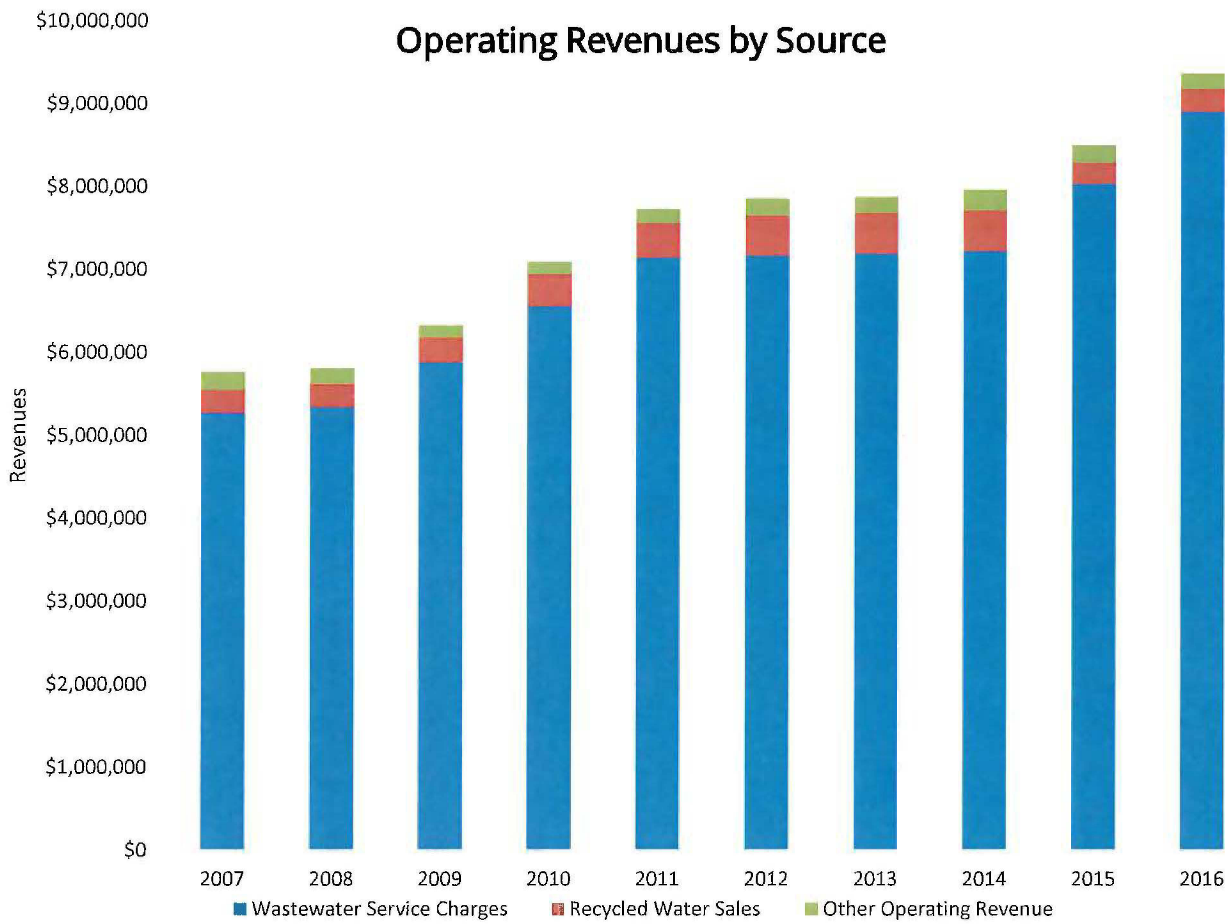
| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| $ 7,729,492 | $ 7,855,094 | $ 7,873,007 | $ 7,958,080 | $ 8,497,441 | $ 9,365,918 |
| (5,709,060) | (5,598,224) | (5,799,853) | (5,878,182) | (6,142,492) | (6,260,595) |
| (3,053,044) | (3,189,262) | (3,413,314) | (3,527,059) | (3,693,901) | (3,766,355) |
| (1,032,612) | (932,392) | (1,340,160) | (1,447,161) | (1,338,952) | (661,032) |
| 1,194,074 | 1,177,125 | 1,207,630 | 1,263,119 | 1,382,197 | 1,482,357 |
| 260,858 | 240,343 | (11,993) | 213,607 | 255,144 | 243,702 |
| (679,920) | (36,166) | 6,310,855 | (146,913) | (185,686) | (500,547) |
| (185,417) | - | - | - | - | - |
| (1,181) | 23,490 | 8,448 | 1,911 | 16,054 | 10,911 |
| 588,414 | 1,404,792 | 7,514,940 | 1,331,724 | 1,467,709 | 1,236,423 |
| (444,198) | 472,400 | 6,174,780 | (115,437) | 128,757 | 575,391 |
| 1,237,807 | 621,685 | 861,421 | 1,989,096 | 1,419,831 | 1,718,556 |
| $ 793,609 | $ 1,094,085 | $ 7,036,201 | $ 1,873,659 | $ 1,548,588 | $ 2,293,947 |
| $ 87,411,700 | $ 86,970,327 | $ 97,565,846 | $ 98,011,150 | $ 102,080,041 | $ 103,352,670 |
| 2,371,369 | 2,326,290 | 1,428,316 | 1,211,802 | 688,806 | 668,240 |
| 35,801,145 | 37,381,682 | 34,720,338 | 36,365,207 | 29,095,149 | 31,953,333 |
| $ 125,584,214 | $ 126,678,299 | $ 133,714,500 | $ 135,588,159 | $ 131,863,996 | $ 135,974,243 |



**LEUCADIA WASTEWATER DISTRICT**
**Operating Revenue By Source**
**Last Ten Fiscal Years**

**Schedule 2**

| Fiscal Year | Wastewater Service Charges | Recycled Water Sales | Other Operating Revenue | Total Operating Revenue |
|---|---|---|---|---|
| 2007 | 5,264,418 | 284,281 | 212,827 | 5,761,526 |
| 2008 | 5,341,554 | 280,731 | 189,196 | 5,811,481 |
| 2009 | 5,876,806 | 305,867 | 145,749 | 6,328,422 |
| 2010 | 6,557,352 | 384,698 | 147,631 | 7,089,681 |
| 2011 | 7,144,501 | 409,202 | 175,789 | 7,729,492 |
| 2012 | 7,164,554 | 481,807 | 208,733 | 7,855,094 |
| 2013 | 7,185,020 | 487,210 | 200,777 | 7,873,007 |
| 2014 | 7,218,040 | 492,421 | 247,619 | 7,958,080 |
| 2015 | 8,029,799 | 254,427 | 213,215 | 8,497,441 |
| 2016 | 8,897,385 | 279,064 | 189,469 | 9,365,918 |

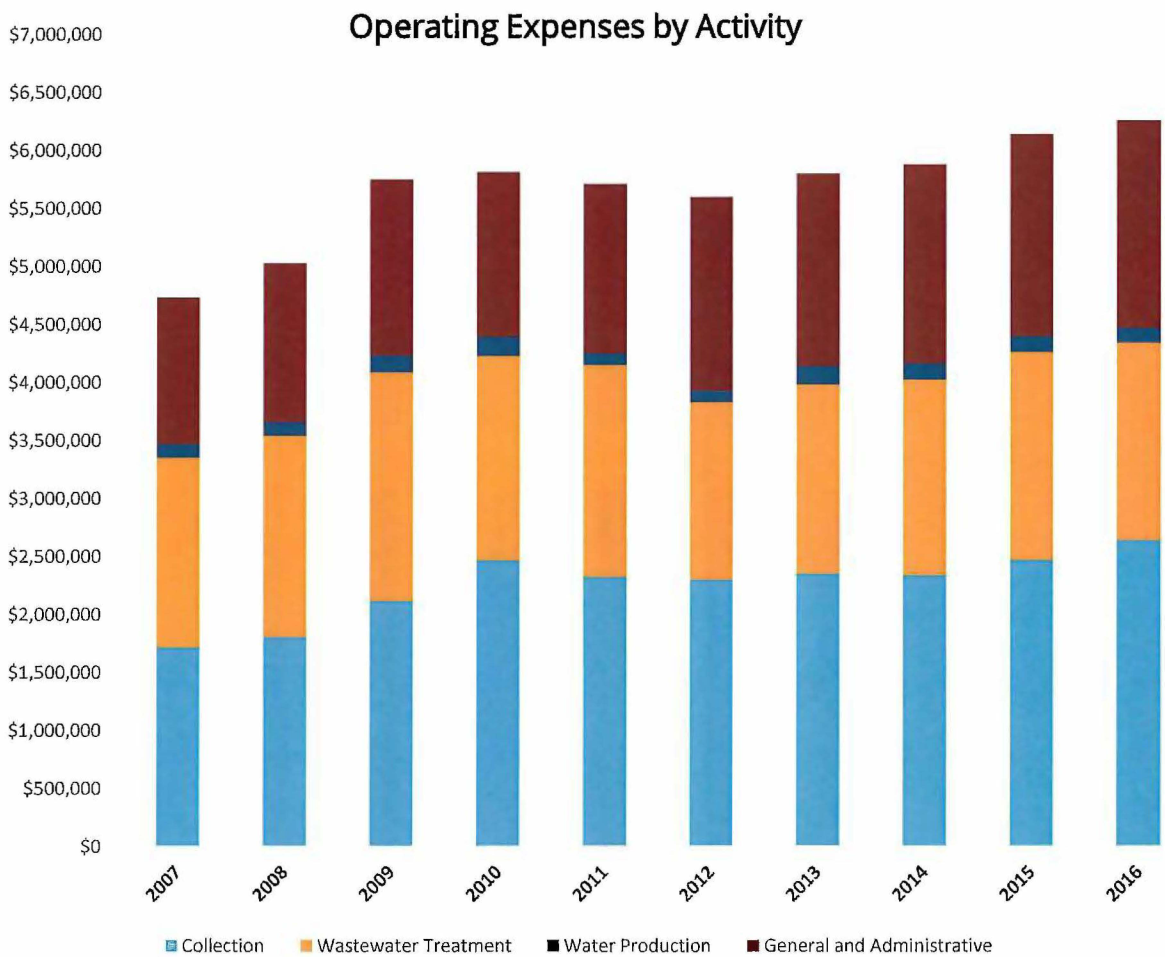



**Source:** Leucadia Wastewater District Accounting Department

## LEUCADIA WASTEWATER DISTRICT
### Operating Expenses by Activity
### Last Ten Fiscal Years

Schedule 3

| Fiscal Year | Wastewater Collection | Wastewater Treatment | Recycled Water Production | General and Administrative | Total Operating Expenses |
|---|---|---|---|---|---|
| 2007 | 1,714,617 | 1,637,552 | 115,977 | 1,264,253 | 4,732,399 |
| 2008 | 1,802,934 | 1,736,671 | 117,048 | 1,369,445 | 5,026,098 |
| 2009 | 2,112,688 | 1,972,144 | 145,465 | 1,520,075 | 5,750,372 |
| 2010 | 2,463,484 | 1,761,697 | 167,920 | 1,419,771 | 5,812,872 |
| 2011 | 2,319,617 | 1,828,330 | 103,048 | 1,458,065 | 5,709,060 |
| 2012 | 2,295,989 | 1,535,620 | 95,149 | 1,671,466 | 5,598,224 |
| 2013 | 2,349,076 | 1,632,246 | 156,604 | 1,661,927 | 5,799,853 |
| 2014 | 2,337,530 | 1,683,406 | 140,209 | 1,717,037 | 5,878,182 |
| 2015 | 2,465,884 | 1,795,007 | 130,879 | 1,750,722 | 6,142,492 |
| 2016 | 2,639,345 | 1,701,954 | 124,822 | 1,794,474 | 6,260,595 |

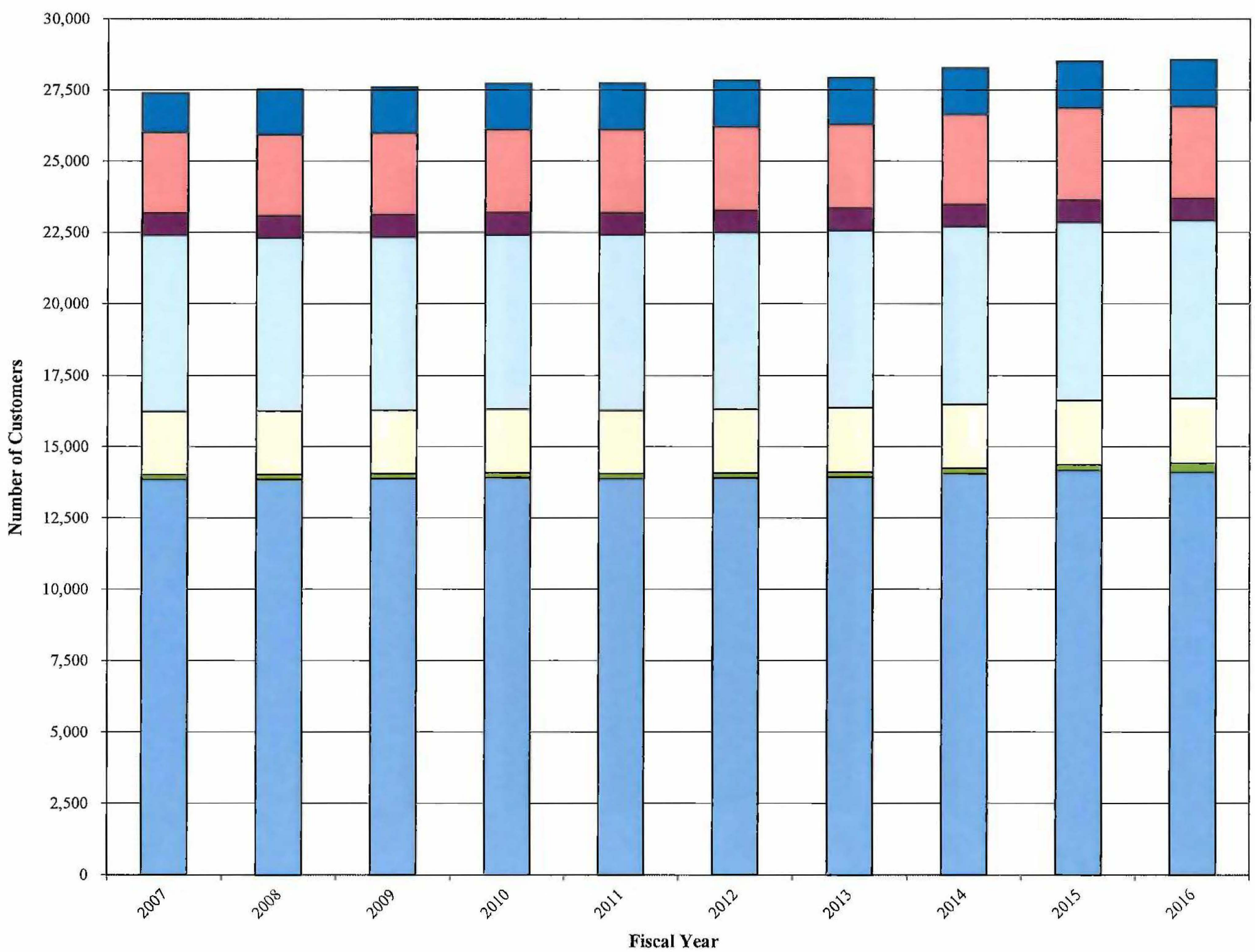



**Source:** Leucadia Wastewater District Accounting Department

## LEUCADIA WASTEWATER DISTRICT
## Equivalent Dwelling Units by Type at Fiscal Year-End[1]
## Last Ten Fiscal Years[2]

Schedule 4

| Fiscal Year | Single Family Residential | Single Family with Accessory Unit | Apartments | Condominiums and Duplexes | Rest Homes | Commercial | Other | Total |
|---|---|---|---|---|---|---|---|---|
| | Customer Type | | | | | | | |
| 2007 | 13,852.53 | 167.69 | 2,215.62 | 6,164.20 | 782.00 | 2,838.00 | 1,375.59 | 27,395.63 |
| 2008 | 13,858.13 | 170.69 | 2,219.62 | 6,059.64 | 782.73 | 2,838.75 | 1,598.77 | 27,528.33 |
| 2009 | 13,894.13 | 172.69 | 2,219.62 | 6,058.20 | 783.73 | 2,870.75 | 1,607.81 | 27,606.93 |
| 2010 | 13,922.53 | 177.02 | 2,221.62 | 6,095.20 | 780.73 | 2,910.59 | 1,617.21 | 27,724.90 |
| 2011 | 13,886.53 | 180.02 | 2,210.62 | 6,133.20 | 780.73 | 2,920.29 | 1,626.41 | 27,737.80 |
| 2012 | 13,904.53 | 180.02 | 2,227.62 | 6,183.20 | 780.73 | 2,941.80 | 1,636.41 | 27,854.31 |
| 2013 | 13,937.53 | 184.02 | 2,246.62 | 6,203.20 | 780.73 | 2,943.80 | 1,640.41 | 27,936.31 |
| 2014 | 14,055.53 | 188.02 | 2,246.62 | 6,213.20 | 780.73 | 3,153.30 | 1,640.41 | 28,277.81 |
| 2015 | 14,171.53 | 204.52 | 2,250.62 | 6,231.20 | 780.73 | 3,234.93 | 1,642.41 | 28,515.94 |
| 2016 | 14,107.00 | 328.72 | 2,250.62 | 6,232.20 | 780.73 | 3,218.13 | 1,642.81 | 28,560.21 |




**Notes:**

(1) The District charges its customers a flat rate per equivalent dwelling unit (EDU) and the fee appears on the customers' annual property tax bills.

(2) Number of customers as of June 30 of fiscal year.

**Source:** Leucadia Wastewater District Operations Department

## LEUCADIA WASTEWATER DISTRICT
## Wastewater Service Charges(1)
## Last Ten Fiscal Years

Schedule 5

Price Per EDU Per Month/Per Fiscal Year

| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| 16.17 | 16.17 | 17.78 | 19.56 | 21.52 | 21.52 | 21.52 | 21.52 | 23.67 | 26.04 |

| EDU's: | EDU Factors |
|---|---|
| Single Family | 1.0 |
| Apartments, Condominiums, Duplexes and Townhouses | 1.0 per living unit |
| Mobile Home or Trailer Park | 1.0 per space |
| Motel or Hotel without Kitchen | 0.33 per living unit |
| Hotel or Motel with Kitchen | 0.55 per living unit |
| Second Dwelling (Detached) with Kitchen and Bathroom | 1.0 per living unit |
| Accessory Dwelling Unit (Attached) | |
| With Kitchen and Bathroom less than or equal to 750 sq./ft. | 0.5 per living unit |
| With Kitchen and Bathroom greater than 750 sq./ft. | 1.0 per living unit |
| Medical Care or Elder Care Facilities: | |
| Multiple dwelling without kitchen but with community eating facilities | 0.40 per individual bed |
| Multiple dwelling with kitchen and with community eating facilities | 0.80 per living unit |
| Multiple dwelling with kitchen but with no community eating facilities | 1.0 per living unit |
| Single dwelling with kitchen regardless of community eating facilities | 1.0 per living unit |
| Churches and Theaters, per 115 seating capacity | 1.0 |
| Elementary Schools, per 60 pupils or fraction thereof | 1.0 |
| Junior High Schools, per 50 pupils or fraction thereof | 1.0 |
| High Schools, per 30 pupils or fraction thereof | 1.0 |
| Self-service laundries, per wash machine | 0.75 |
| Food Establishments, Restaurants or Taverns with seating | 1.0 per each 7 seats |
| Food Establishments or Restaurants without seating | 2.6 |
| Bars with seating - no food service | 1.0 per 16 seats |
| Auto service stations - 4 or less gas pumps | 2.0 |
| Auto service stations - more than 4 gas pumps | 3.0 |
| Auto service stations - per washing rack/pit/floor drain (additional) | 2.0 |
| Car washes | Per Review |
| Banks, per 3,000 sf or fraction thereof | 1.0 |
| Other commercial and industrial users - first 1,000 square feet | 1.0 |
| Other commercial and industrial users - each additional 1,000 up to 5,000 sf | 0.40 |
| Other commercial and industrial users - plus each additional 1,000 over 5,000 sf | 0.60 |

EDU's = Equivalent Dwelling Units

Notes:
(1) Rates as of June 30 of each fiscal year.

**Source:** Leucadia Wastewater District Board of Directors approved rate ordinances and resolutions

## LEUCADIA WASTEWATER DISTRICT
## Principal Customers
## Current Fiscal Year and Ten Years Ago

Schedule 6

| | 2016 | | 2007 | |
|---|---|---|---|---|
| **Customer** | **EDU's** | **Percentage of Total** | **EDU's** | **Percentage of Total** |
| La Costa Glen | 723 | 2.53% | 651 | 2.38% |
| La Costa Resort & Spa | 474 | 1.66% | 474 | 1.73% |
| La Costa Racquet Club | 320 | 1.12% | 424 | 1.55% |
| Encinitas Town Center | 305 | 1.07% | 276 | 1.01% |
| La Costa Town Square Commercial | 247 | 0.86% | - | 0.00% |
| The Forum @ Carlsbad | 234 | 0.82% | 233 | 0.85% |
| Camino Village Plaza | 197 | 0.69% | 174 | 0.64% |
| Weigand Plaza III | 197 | 0.69% | 131 | 0.48% |
| Mission Ridge Apartments | 196 | 0.69% | 196 | 0.72% |
| La Costa Affordable Housing | 185 | 0.65% | - | 0.00% |
| Encinitas Village | 184 | 0.64% | 151 | 0.55% |
| Riviera Mobile Home Park | 158 | 0.55% | 158 | 0.58% |
| Colonial Apartments | 145 | 0.51% | 145 | 0.53% |
| Weigand Plaza II | 135 | 0.47% | 131 | 0.48% |
| Plaza de la Costa Real | 131 | 0.46% | 128 | 0.47% |
| Total EDU's: Principal customers | 3,831 | 13.41% | 3,272 | 11.94% |
| Total Equivalent Dwelling Units | 28,560 | 100.00% | 27,396 | 100.00% |

EDU's = Equivalent Dwelling Units

**Source:** Leucadia Wastewater District Operations Department

## LEUCADIA WASTEWATER DISTRICT
## Assessed Value of Taxable Property
## Last Ten Years

Schedule 7

| Fiscal Year | Secured | Unsecured | Total Assessed Value |
|---|---|---|---|
| 2007 | 9,600,695,316 | 135,634,012 | 9,736,329,328 |
| 2008 | 10,402,670,851 | 144,821,834 | 10,547,492,685 |
| 2009 | 11,042,803,662 | 115,846,754 | 11,158,650,416 |
| 2010 | 10,869,334,361 | 146,872,240 | 11,016,206,601 |
| 2011 | 10,795,937,860 | 136,282,531 | 10,932,220,391 |
| 2012 | 10,765,754,190 | 126,669,729 | 10,892,423,919 |
| 2013 | 10,892,129,285 | 107,678,843 | 10,999,808,128 |
| 2014 | 11,283,103,814 | 110,452,174 | 11,393,555,988 |
| 2015 | 12,266,748,094 | 137,361,541 | 12,404,109,635 |
| 2016 | 13,067,537,215 | 115,068,809 | 13,182,606,024 |

**Note:** In 1978 the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of properties may be increased by an "inflation factor" (limited to a maximum increase of 2%). With few exceptions, property is only re-assessed at the time that it is sold to a new owner. At that point, the property value is re-assessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above.

**Source:** County of San Diego Tax Assessor

LEUCADIA WASTEWATER DISTRICT

## Property Tax Levies and Collections

### Last Ten Fiscal Years

Schedule 8

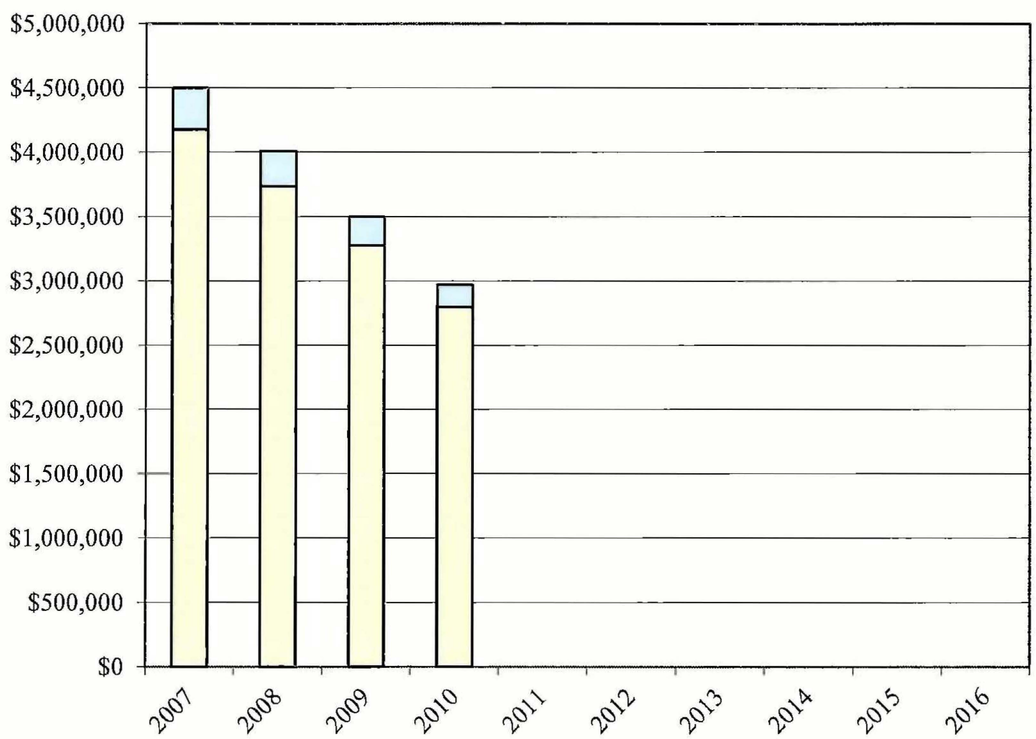
| Fiscal Year | Current Tax Levy | Current Tax Collections | Percent of Current Taxes | Prior Year Tax Collections | Percent of Current Taxes | Net Collections | Prop 1A Receivable from State |
|---|---|---|---|---|---|---|---|
| 2007 | 1,160,031 | 1,143,701 | 98.6% | 16,814 | 1.4% | 1,160,515 | - |
| 2008 | 1,236,432 | 1,214,199 | 98.2% | 18,113 | 1.5% | 1,232,313 | - |
| 2009 | 1,270,177 | 1,256,629 | 98.9% | 10,185 | 0.8% | 1,266,814 | - |
| 2010 | 1,236,268 | 1,221,045 | 98.8% | 10,049 | 0.8% | 1,231,094 | 99,574 |
| 2011 | 1,231,120 | 1,216,713 | 98.8% | 7,968 | 0.7% | 1,224,681 | - |
| 2012 | 1,226,891 | 1,209,731 | 98.6% | 9,155 | 0.8% | 1,218,886 | - |
| 2013 | 1,243,268 | 1,226,432 | 98.6% | 10,500 | 0.9% | 1,236,932 | (99,574) |
| 2014 | 1,296,442 | 1,277,325 | 98.5% | 14,771 | 1.2% | 1,292,096 | - |
| 2015 | 1,417,195 | 1,396,032 | 98.5% | 17,411 | 1.2% | 1,413,443 | - |
| 2016 | 1,513,344 | 1,491,352 | 98.5% | 18,398 | 1.2% | 1,509,750 | |

**Source:** County of San Diego, California "Tax/Revenue Accountability Report"

## LEUCADIA WASTEWATER DISTRICT
### Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Schedule 9

| Fiscal Year | Bonds Payable | Loans Payable | Total Debt | Total Per Capita | Total As a Share of Personal Income |
|---|---|---|---|---|---|
| 2007 | 4,175,000 | 322,326 | 4,497,326 | 75.68 | 0.18% |
| 2008 | 3,735,000 | 274,056 | 4,009,056 | 65.95 | 0.14% |
| 2009 | 3,275,000 | 224,339 | 3,499,339 | 57.20 | 0.13% |
| 2010 | 2,795,000 | 173,130 | 2,968,130 | 48.80 | 0.11% |
| 2011 | - | - | - | - | 0.00% |
| 2012 | - | - | - | - | 0.00% |
| 2013 | - | - | - | - | 0.00% |
| 2014 | - | - | - | - | 0.00% |
| 2015 | - | - | - | - | 0.00% |
| 2016 | - | - | - | - | 0.00% |




**Source:** Leucadia Wastewater District Accounting Department

# LEUCADIA WASTEWATER DISTRICT
## Debt Coverage
## Last Ten Fiscal Years

**Schedule 10**

| Fiscal Year | Net Revenues[1] | Operating Expenses[2] | Net Available Revenues | Debt Service[3] Principal | Debt Service[3] Interest | Debt Service[3] Total | Coverage Ratio |
|---|---|---|---|---|---|---|---|
| 2007 | 9,371,854 | (4,732,399) | 4,639,455 | 461,863 | 267,416 | 729,279 | 6.36 |
| 2008 | 9,695,932 | (5,026,098) | 4,669,834 | 488,269 | 242,917 | 731,186 | 6.39 |
| 2009 | 8,755,481 | (5,750,372) | 3,005,109 | 509,717 | 218,861 | 728,578 | 4.12 |
| 2010 | 7,852,515 | (5,812,872) | 2,039,643 | 531,209 | 193,479 | 724,688 | 2.81 |
| 2011 | 8,503,323 | (5,709,060) | 2,794,263 | 2,968,130 | 185,417 | 3,153,547 | 0.89 |
| 2012 | - | - | - | - | - | - | N/A |
| 2013 | - | - | - | - | - | - | N/A |
| 2014 | - | - | - | - | - | - | N/A |
| 2015 | - | - | - | - | - | - | N/A |
| 2016 | - | - | - | - | - | - | N/A |

**Notes:**

(1) Net revenues include all operating revenues of the District as well as non-operating revenues, net of non-operating expenses.

(2) Operating expenses exclude depreciation expense.

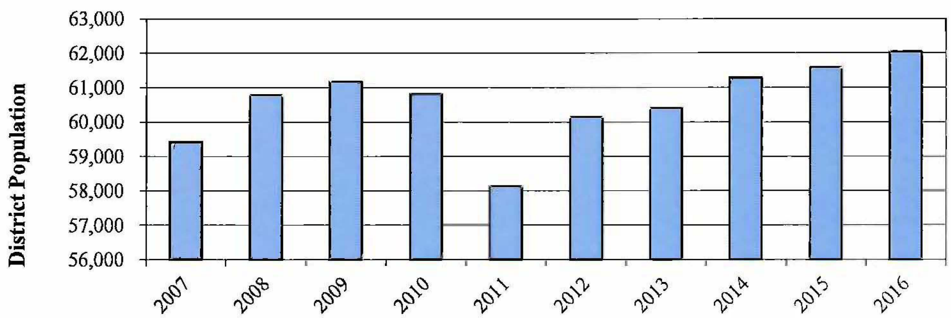
(3) Debt includes 1993 State Water Reclamation Loan and 1997 Series A Wastewater Revenue Refunding Bonds. Both debts were paid off during fiscal year 2011. As a result there is no Debt Coverage for fiscal years 2012 through 2016.

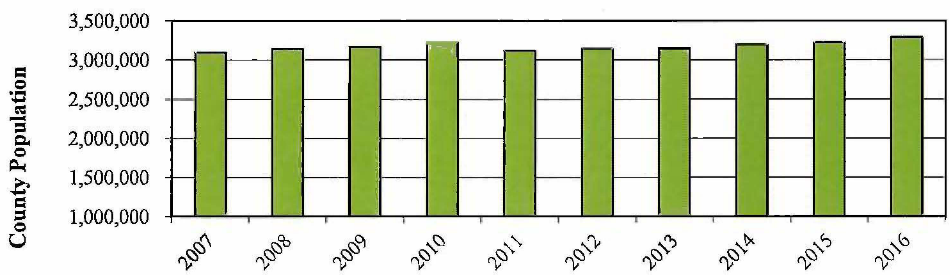
**Source:** Leucadia Wastewater District Accounting Department

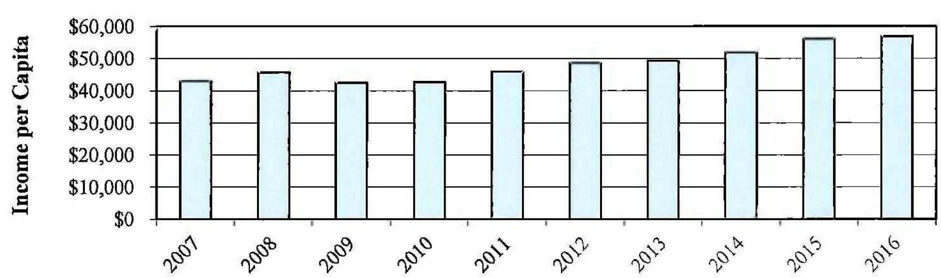
## LEUCADIA WASTEWATER DISTRICT
## Demographics and Economic Statistics
## Last Ten Calendar Years

Schedule 11

| Fiscal Year | District (1) Service Population | County of San Diego[2] (3) Unemployment Rate | (4) Population | Personal Income (thousands of dollars) | Personal Income per Capita |
|---|---|---|---|---|---|
| 2007 | 59,425 | 4.6% | 3,098,269 | 133,369,000 | 43,046 |
| 2008 | 60,792 | 6.0% | 3,146,274 | 143,873,000 | 45,728 |
| 2009 | 61,173 | 9.7% | 3,173,407 | 134,696,000 | 42,445 |
| 2010 | 60,821 | 10.7% | 3,224,432 | 137,525,000 | 42,651 |
| 2011 | 58,133 | 10.7% | 3,118,876 | 143,387,200 | 45,974 |
| 2012 | 60,150 | 9.5% | 3,143,429 | 153,003,263 | 48,674 |
| 2013 | 60,404 | 8.1% | 3,150,178 | 155,146,267 | 49,250 |
| 2014 | 61,294 | 6.4% | 3,194,362 | 165,535,033 | 51,821 |
| 2015 | 61,585 | 5.2% | 3,227,496 | 181,062,526 | 56,100 |
| 2016 | 62,042 | 5.1% | 3,288,612 | 186,900,000 | 56,832 |




**Notes:**

(1) Estimated population of Leucadia Wastewater District. Source: SANDAG

(2) County of San Diego data is updated annually. Therefore, the District uses County data because it most accurately represents the conditions and experiences of the District.

(3) Source: US Bureau of Labor Statistics

(4) Source: California Department of Finance

**Sources:** California Department of Finance and California Labor Market Info, US Bureau of Labor Statistics, and Los Angeles County Economic Development Corporation

**LEUCADIA WASTEWATER DISTRICT**
**Principal Employers - County of San Diego**
**Current and Ten Years Ago**

**Schedule 12**

| | 2016 | | | 2007 | | |
|---|---|---|---|---|---|---|
| Employer | Rank | Number of Employees | % of Total Employment | Rank | Number of Employees | % of Total Employment |
| Federal Government | 1 | 45,600 | 3.0% | 2 | 39,900 | 2.8% |
| State of California | 2 | 40,100 | 2.7% | 1 | 40,600 | 2.8% |
| U.C. San Diego | 3 | 30,671 | 2.0% | 3 | 26,924 | 1.9% |
| Sharp Healthcare | 4 | 17,809 | 1.2% | 6 | 13,872 | 1.0% |
| County of San Diego | 5 | 16,706 | 1.1% | 4 | 16,147 | 1.1% |
| Scripps Health | 6 | 14,863 | 1.0% | 7 | 12,196 | 0.9% |
| San Diego Unified School District | 7 | 13,599 | 0.9% | 5 | 14,555 | 1.0% |
| Qualcomm Inc. | 8 | 13,500 | 0.9% | 9 | 9,900 | 0.7% |
| City of San Diego | 9 | 11,347 | 0.8% | 8 | 11,195 | 0.8% |
| Kaiser Permanente | 10 | 8,406 | 0.6% | 10 | 8,008 | 0.6% |

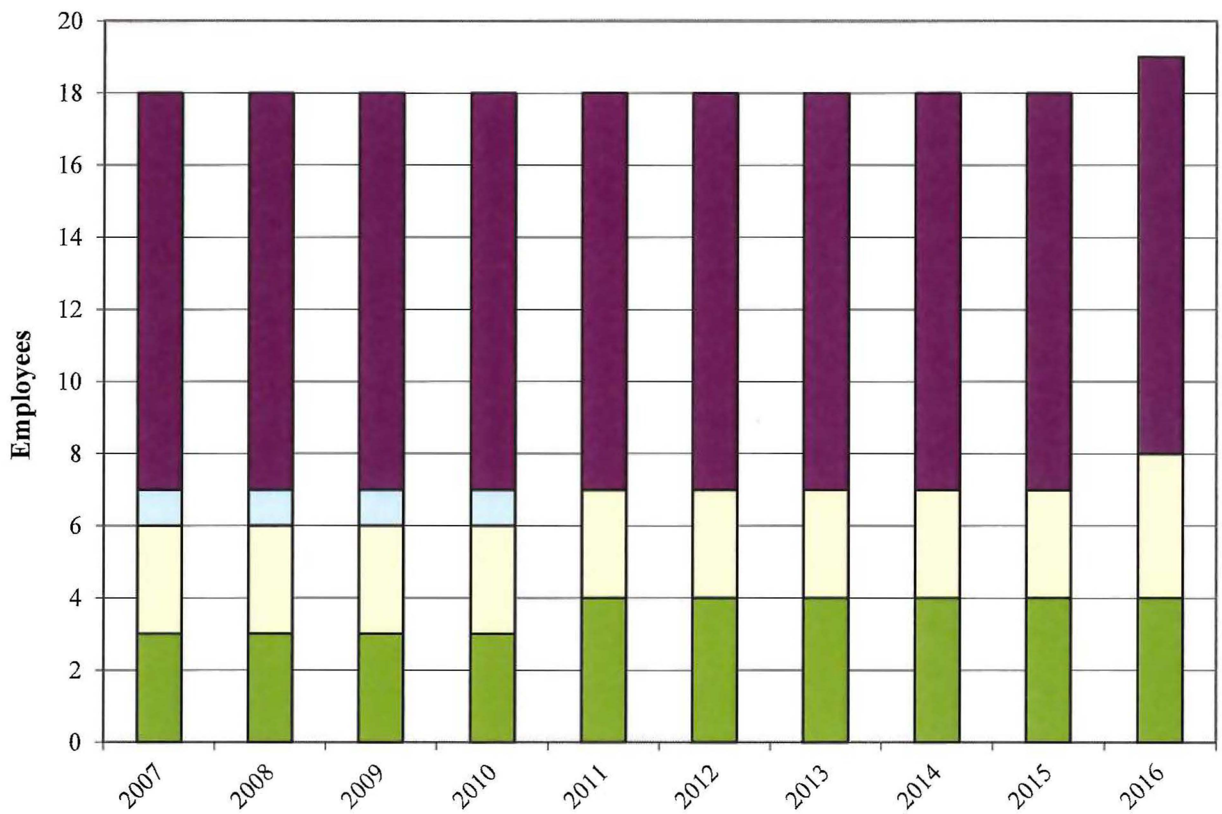
**Sources:**
San Diego Business Journal, Book of Lists
Bureau of Labor Statistices
State of Califorina Employment Development Department

## LEUCADIA WASTEWATER DISTRICT
## Operating and Capacity Indicators
## Last Ten Fiscal Years

Schedule 13

### Employees

| | Fiscal Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Department | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Management | 3 | 3 | 3 | 3 | 4 | 4 | 4 | 4 | 4 | 4 |
| Administration | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 4 |
| Project Coordination | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Field Services | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |
| Total | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 19 |




**Source:** Leucadia Wastewater District Operations and Accounting Departments

## LEUCADIA WASTEWATER DISTRICT
## Operating and Capacity Indicators (Continued)
### Last Ten Fiscal Years

Schedule 14

### Other Operating and Capacity Indicators

| Fiscal Year | Miles of Sewer Lines | Number of of Pump Stations | Average Dry Weather Flow (MGD) | Treatment Capacity (MGD) | | Total Annual Treatment (MG) |
|---|---|---|---|---|---|---|
| | | | | Liquids | Solids & Outfall | |
| 2007 | 209 | 11 | 4.75 | 7.11 | 7.86 | 1,734 |
| 2008 | 211 | 11 | 4.31 | 7.11 | 7.86 | 1,573 |
| 2009 | 213 | 11 | 4.18 | 7.11 | 7.86 | 1,526 |
| 2010 | 214 | 11 | 4.14 | 7.11 | 7.86 | 1,513 |
| 2011 | 214 | 10 | 4.07 | 7.11 | 7.86 | 1,486 |
| 2012 | 214 | 10 | 4.09 | 7.11 | 7.86 | 1,493 |
| 2013 | 215 | 10 | 4.10 | 7.11 | 7.86 | 1,497 |
| 2014 | 215 | 10 | 4.17 | 7.11 | 7.11 | 1,522 |
| 2015 | 216 | 10 | 3.99 | 7.11 | 7.11 | 1,456 |
| 2016 | 217 | 10 | 3.80 | 7.11 | 7.11 | 1,387 |

MG - Millions of Gallons
MGD - Millions of Gallons per Day

**Sources:** Leucadia Wastewater District Operations and Accounting Departments

# Other Information

## SCHEDULE OF USE OF CAPACITY CHARGES
### For the year ended June 30, 2016

| | Status | % Funded by Capacity Charges | Amount | Capital Improvement Fund |
|---|---|---|---|---|
| Balance at June 30, 2016 | | | | $ 688,806 |
| Capacity charges collected | | | | 234,614 |
| Less: buy-in portion | | | | (234,614) |
| Capital improvements expended: | | | | |
| Leucadia Pump Station Generator Replacement | In progress | 33% | $ (1,423) | |
| Poinsettia Station Gravity Pipeline Project | In progress | 86% | (21,652) | |
| Encina Joint System: Biofuel Receiving & Drying Safety | In progress | 100% | (1,991) | (25,066) |
| Interest income earned | | | | 4,500 |
| Balance at June 30, 2016 | | | | $ 668,240 |

Capital improvement projects anticipated for the fiscal year 2016/2017 to be funded from capacity charges:

Poinsettia Station Gravity Pipeline Project