

MESA WATER DISTRICT
 Comprehensive Annual Financial Report
 Year Ended June 30, 2016

Table of Contents

| | <u>Page Number</u> |
|---|------------------------|
| Table of Contents | i |
| Introductory Section | |
| Letter of Transmittal | 1-5 |
| Government Finance Officers Association - Certificate of Achievement for Excellence in Financial Reporting | 6 |
| Organization Chart | 7 |
| District Service Area Map | 8 |
| Financial Section | |
| Independent Auditors' Report | 9-11 |
| Management's Discussion and Analysis (Required Supplementary Information) | 12-19 |
| Basic Financial Statements: | |
| Statement of Net Position | 20 |
| Statement of Revenues, Expenses, and Changes in Net Position | 21 |
| Statement of Cash Flows | 22-23 |
| Notes to the Basic Financial Statements | 24-56 |
| Required Supplementary Information: | |
| Schedule of Proportionate Share of the Net Pension Liability | 57 |
| Schedule of Plan Contributions | 58 |
| Supplementary Information: | |
| Certificates of Participation - Revenue Coverage | 59 |
| Certificates of Participation - Reconciliation of Total Revenues and Total Expenses | 60 |
| Statistical Information Section | |
| Statistical Section - Table of Contents | 61 |
| Changes in Net Position by Component - Last Ten Fiscal Years | 62 |
| Historic Operating Results and Debt Service Coverage - Fiscal Years Ended June 30 | 63 |
| Operating Revenue by Source - Last Ten Fiscal Years | 64 |
| Historic Water Sales Revenues - Last Ten Fiscal Years | 65 |
| Operating Expenses by Activity - Last Ten Fiscal Years | 66 |
| Non-Operating Revenue and Expenses - Last Ten Fiscal Years | 67 |
| Operating Revenue Base - Last Ten Fiscal Years | 68 |
| Customer Connections - Last Ten Fiscal Years | 69 |
| Revenue Rates - Last Ten Fiscal Years | 70 |

MESA WATER DISTRICT
Comprehensive Annual Financial Report
Year Ended June 30, 2016

Table of Contents (Continued)

| | <u>Page Number</u> |
|--|------------------------|
| Statistical Information Section (Continued) | |
| Ten Largest Water Users - Current Fiscal Year and Five Years Ago | 71 |
| Ratio of Outstanding Debt by Type - Last Ten Fiscal Years | 72 |
| Demographics and Economic Statistics - Last Ten Fiscal Years | 73 |
| Principal Employers - Current Fiscal Year and Nine Years Ago | 74 |
| District Employees by Department - Last Ten Fiscal Years | 75 |
| Historic Water Supply in Acre Feet -Last Five Fiscal Years | 76 |
| Historic Water Deliveries in Acre Feet -Last Five Fiscal Years | 76 |

INTRODUCTORY SECTION

<Page Intentionally Left Blank>



*Dedicated to
Satisfying our Community's
Water Needs*

BOARD OF DIRECTORS

James R. Fisler
*President
Division II*

Shawn Dewane
*Vice President
Division V*

James F. Atkinson
*Director
Division IV*

Fred R. Bockmiller, Jr., P.E.
*Director
Division I*

Ethan Temianka
*Director
Division III*

Paul E. Shoenberger, P.E.
General Manager

Coleen L. Monteleone
District Secretary

Andrew N. Hamilton
District Treasurer

**Bowie, Arneson,
Wiles & Giannone**
Legal Counsel

1965 Placentia Avenue
Costa Mesa, CA 92627
tel 949.631.1200
fax 949.574.1036
info@MesaWater.org
MesaWater.org

March 27, 2017

Board of Directors
Mesa Water District

Introduction

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the Mesa Water District (Mesa Water®) for the fiscal year ended June 30, 2016 (with comparative data for 2015), following guidelines set forth by the Governmental Accounting Standards Board (GASB). Mesa Water® is ultimately responsible for both the accuracy of the data and the completeness and fairness of presentation, including all disclosures in this financial report. Mesa Water® staff prepared this financial report and believes that the data presented is accurate in all material respects. This report is designed in a manner that we believe beneficial to enhance the reader's understanding of Mesa Water's financial position and activities.

Generally Accepted Accounting Principles (GAAP) require 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 MD&A can be found immediately after the Independent Auditor's Report.

Mesa Water® Structure and Leadership

Mesa Water® is a county water district organized pursuant to Water Code Section 33200 and operates pursuant to Water Code Section 30000. Mesa Water® has been providing water service to its customers since 1960. Mesa Water® is governed by a five-member Board of Directors (Board), elected at-large by division within Mesa Water's service area. The General Manager administers the day-to-day operations of Mesa Water® in accordance with policies and procedures established by the Board. Mesa Water® employs approximately 55 employees, some of whom are part-time or temporary. Mesa Water's Board meets on the second Thursday of each month. Meetings are publicly noticed and citizens are encouraged to attend. Mesa Water® provides water service to approximately 110,000 residents in the City of Costa Mesa, parts of the City of Newport Beach, and some unincorporated areas of Orange County through approximately 24,500 service connections.

Mesa Water's Services

Residential customers comprise approximately 82% of Mesa Water's customer base and purchase approximately 58% of the water produced annually by Mesa Water®. In Fiscal Year 2016, Mesa Water's potable supply was comprised of 99% groundwater and related groundwater exchange programs.



*Dedicated to
Satisfying our Community's
Water Needs*

BOARD OF DIRECTORS

James R. Fisler
*President
Division II*

Shawn Dewane
*Vice President
Division V*

James F. Atkinson
*Director
Division IV*

Fred R. Bockmiller, Jr., P.E.
*Director
Division I*

Ethan Temianka
*Director
Division III*

Paul E. Shoenberger, P.E.
General Manager

Coleen L. Monteleone
District Secretary

Andrew N. Hamilton
District Treasurer

**Bowie, Arneson,
Wiles & Giannone**
Legal Counsel

1965 Placentia Avenue
Costa Mesa, CA 92627
tel 949.631.1200
fax 949.574.1036
info@MesaWater.org
MesaWater.org

Mesa Water Board of Directors
March 27, 2017
Page 2 of 5

Economic Condition, Outlook and Major Initiatives

Mesa Water® carries out its mission with a highly-motivated and competent staff empowered to conduct Mesa Water's business by placing customer needs and welfare first. Each day Mesa Water's employees strive to carry out their work mindful of Mesa Water's mission, "Dedicated to Satisfying our Community's Water Needs."

Mesa Water's service area includes various major regional facilities: John Wayne Airport, Orange Coast College, Whittier Law School, Vanguard University, Orange County Fairgrounds, Orange County Performing Arts Center, South Coast Repertory Theater and the shopping complex at South Coast Plaza. The local economy is primarily based upon retail, commercial business, and light manufacturing.

In April 2015, Governor Brown implemented mandatory water conservation throughout California and Mesa Water® was required to conserve 20% during the mandated conservation period from June 1, 2015 through February 29, 2016. The Board's extensive outreach efforts to the community greatly contributed to our ratepayer's conservation efforts resulting in the successful attainment of this goal.

In Mesa Water's service area, consumers are now experiencing the benefits of decades-long investments in water use efficiency and water infrastructure projects to help lower our regional dependence on imported water.

Two decades ago, Mesa Water's Board of Directors set a goal to reduce reliance on imported water from Northern California and the Colorado River by increasing the District's production capacity of groundwater and recycled water. Mesa Water® is fortunate to be able to pump safe, high-quality groundwater from Orange County's clear-water aquifer and from the deeper, amber-colored aquifer located directly under our service area.

The recently-completed Mesa Water Reliability Facility (MWRf) was the final step in eliminating the District's dependence on imported water as Mesa Water® is now able to meet 100% of its community's water needs with locally-sourced supplies. In fiscal year 2017 Mesa Water® plans to acquire an additional well site to further enhance its capability to rely solely upon locally-sourced groundwater. Furthermore, producing local water uses less electricity than is needed to import water from hundreds of miles away.

Mesa Water® has undertaken a major initiative to encourage water conservation and the wise use of water within its service area. In conjunction with Metropolitan Water District (MWD) and the Municipal Water District of Orange County (MWDOC), Mesa Water® distributes and provides financial incentives for high efficiency water use devices, and has developed education and technical assistance programs designed for residents, homeowners associations, businesses, and other public agencies. Mesa Water® also works with the City of Costa Mesa to promote the wise use of water through the City's development plan check



*Dedicated to
Satisfying our Community's
Water Needs*

BOARD OF DIRECTORS

James R. Fisler
*President
Division II*

Shawn Dewane
*Vice President
Division V*

James F. Atkinson
*Director
Division IV*

Fred R. Bockmiller, Jr., P.E.
*Director
Division I*

Ethan Temianka
*Director
Division III*

Paul E. Shoenberger, P.E.
General Manager

Coleen L. Monteleone
District Secretary

Andrew N. Hamilton
District Treasurer

**Bowie, Arneson,
Wiles & Giannone**
Legal Counsel

1965 Placentia Avenue
Costa Mesa, CA 92627
tel 949.631.1200
fax 949.574.1036
info@MesaWater.org
MesaWater.org

Mesa Water Board of Directors
March 27, 2017
Page 3 of 5

process. These active programmatic efforts have resulted in a cumulative water savings of approximately 14,854 acre feet of water to date.

As of July 1, 2016, Mesa Water® charges a uniform commodity rate of \$3.51 per unit and a bi-monthly fixed charge of \$22.50 for a 5/8 inch meter. One unit of water equals 748 gallons which means that the cost per gallon is 0.47 cents. At \$735 per year, the cost of water service for a typical single family home using 127,900 gallons of water annually remains a good value for Mesa Water's customers.

Water Supply

Mesa Water® has finished implementation of a long standing goal of reducing reliance on MWD imported water by increasing production of local groundwater and developing additional water sources. The completion of the MWRf in January 2013 has achieved Mesa Water's goal to provide 100% local and reliable water to its customers.

Mesa Water® has seven groundwater wells that produce high quality water at a lower cost than imported water, with two of the wells associated with the MWRf. The MWRf treats amber groundwater from a previously unusable aquifer, providing Mesa Water® with an additional potable water source. Amber groundwater from this lower aquifer is more expensive to produce than clear groundwater produced from the upper aquifer. However, the treatment cost of amber groundwater is substantially less expensive than purchasing imported water.

To encourage the use of water production through the MWRf, MWD has assisted Mesa Water® by reimbursing a portion of the costs of treating amber groundwater. The program used by MWD to reimburse Mesa Water® is the Local Resource Program (LRP) and expands the use of amber groundwater and thereby reduces the demand on MWD supplies.

Mesa Water® has been treating and delivering amber groundwater to customers since 1985 using a variety of treatment methods. The expansion and upgrade of the MWRf includes nano-filtration membrane technology which expanded capacity to treat amber groundwater by approximately 50% while reducing energy costs by nearly 67%.

In fiscal year 2016, Mesa Water® produced approximately 73% of its potable water supply from clear groundwater and related groundwater exchange programs, approximately 26% from amber groundwater and approximately 1% from imported water.

Mesa Water® also sells recycled water for irrigation purposes. The water is purchased from OCWD and replaces potable water that would otherwise have been used for irrigation. Approximately 8% of total water supplied to consumers is recycled.

Internal Control Structure

Mesa Water's management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of Mesa Water® are protected from loss, theft or misuse. The internal control structure ensures that adequate accounting data is compiled to



*Dedicated to
Satisfying our Community's
Water Needs*

BOARD OF DIRECTORS

James R. Fisler
*President
Division II*

Shawn Dewane
*Vice President
Division V*

James F. Atkinson
*Director
Division IV*

Fred R. Bockmiller, Jr., P.E.
*Director
Division I*

Ethan Temianka
*Director
Division III*

Paul E. Shoenberger, P.E.
General Manager

Coleen L. Monteleone
District Secretary

Andrew N. Hamilton
District Treasurer

**Bowie, Arneson,
Wiles & Giannone**
Legal Counsel

1965 Placentia Avenue
Costa Mesa, CA 92627
tel 949.631.1200
fax 949.574.1036
info@MesaWater.org
MesaWater.org

Mesa Water Board of Directors
March 27, 2017
Page 4 of 5

allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Mesa Water's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

Mesa Water's Board annually adopts a budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations, accountability for Mesa Water's enterprise operations, and capital projects. The budget is presented on the accrual basis of accounting and is consistent with the presentation of Mesa Water's Comprehensive Annual Financial Report.

Investment Policy

The Board has adopted an investment policy that conforms to state law, Mesa Water's ordinances and resolutions, prudent money management, and the "prudent person" standards. The objectives of the Statement of Investment Policy are safety, liquidity and then yield. Currently, funds are invested in various securities as authorized by Mesa Water's Investment Policy.

Water Rates and Revenues

Revenue from user charges generated from Mesa Water's customers support operations. Accordingly, water rates are reviewed every five (5) years when a Water Rate Schedule is prepared to achieve the Board's financial goals. Water rates are user charges imposed on customers for services and are the primary component of Mesa Water's revenue. Water rates are composed of a commodity (usage) charge and a fixed bi-monthly service charge. Mesa Water® raised rates by an average of 3.2% in fiscal year 2016.

Audit and Financial Reporting

State Law and bond covenants require Mesa Water® to obtain an annual audit of its financial statements by an independent Certified Public Accountant. The accounting firm of White Nelson Diehl Evans LLP conducted the audit of Mesa Water's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.

Risk Management

Mesa Water® participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA) for the purchase of workers' compensation, liability, property, automobile, and fidelity insurance. The typical liability limits are \$1 million per incident/occurrence.

Awards and Acknowledgements

This is the 23rd year that Mesa Water® is submitting its Comprehensive Annual Financial Report (CAFR) for the Government Finance Officers Association of the United States and Canada's (GFOA) Certificate of



*Dedicated to
Satisfying our Community's
Water Needs*

BOARD OF DIRECTORS

James R. Fisler
*President
Division II*

Shawn Dewane
*Vice President
Division V*

James F. Atkinson
*Director
Division IV*

Fred R. Bockmiller, Jr., P.E.
*Director
Division I*

Ethan Temianka
*Director
Division III*

Paul E. Shoenberger, P.E.
General Manager

Coleen L. Monteleone
District Secretary

Andrew N. Hamilton
District Treasurer

**Bowie, Arneson,
Wiles & Giannone**
Legal Counsel

1965 Placentia Avenue
Costa Mesa, CA 92627
tel 949.631.1200
fax 949.574.1036
info@MesaWater.org
MesaWater.org

Mesa Water Board of Directors
March 27, 2017
Page 5 of 5

Achievement for Excellence in Financial Reporting. To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that this CAFR meets the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for 2016.

Preparation of this report was accomplished through the combined efforts of Mesa Water's staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to Mesa Water®. We would also like to thank the members of the Board of Directors for their continued support in planning and implementing Mesa Water District's fiscal policies.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Paul E. Shoenberger", written over a horizontal line.

Paul E. Shoenberger, P.E.
Mesa Water General Manager

A handwritten signature in black ink, appearing to read "Andrew N. Hamilton", written over a horizontal line.

Andrew N. Hamilton, C.P.A.
Mesa Water Chief Financial Officer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Mesa Water District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

FINANCIAL SECTION

<Page Intentionally Left Blank>

INDEPENDENT AUDITORS' REPORT

Board of Directors
Mesa Water District
Costa Mesa, California

Report on the Financial Statements

We have audited the accompanying financial statements of Mesa Water District (the 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.

Auditors' 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 auditors' 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 auditors consider internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Emphasis of Matter

As discussed in Note 13 to the financial statements, the net position of the District was restated as of July 1, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Partial Prior Year Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2015 from which such partial information was derived.

June 30, 2015 Financial Information

The financial statements of the District as of June 30, 2015 were audited by other auditors whose report dated May 2, 2016, expressed an unmodified opinion on those statements. As part of our audit of the 2016 financial statements, we also audited adjustments described in Note 13 that were applied to restate the 2015 financial statements. In our opinion, such adjustments were appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2015 financial statements of the District other than with respect to the adjustments noted in Note 13 and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements as a whole.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the plan's proportionate share of the net pension liability, and the schedule of plan contributions, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the RSI 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 the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mesa Water District
Management's Discussion and Analysis
For the Year Ended June 30, 2016

The following discussion and analysis of the financial performance of the Mesa Water District (District/Mesa Water) provides an overview of the District's financial activities for the year ended June 30, 2016. This section should be read in conjunction with the basic financial statements and notes to the financial statements, which follows this analysis.

Financial Highlights

- Net position equaled \$117.4 million, an increase of \$4.1 million or 3.6% from the prior year. \$86.9 million of Net Position was for net investment in capital assets and the remaining \$30.5 million was unrestricted.
- Total revenues decreased \$3.7 million or 11.0%, primarily due to reduced water consumption mandated by the state, and the elimination of the Coastal Pumping Transfer Program (a governmental concessions program).
- Total expenses decreased by \$0.4 million or 1.4%. This decrease is primarily due to decreased costs of imported water of \$1.6 million and other net reductions of \$0.1 million, offset by \$1.3 million of costs related to the abandonment of a well.
- Total Capital Assets decreased by \$0.2 million due to \$4.9 million in net additions and deletions, offset by depreciation expense of \$4.7 million.
- Total debt decreased by \$2.3 million due to principal repayments.

This annual report consists of a series of financial statements: (1) The Statement of Net Position, (2) Statement of Revenues, Expenses and Changes in Net Position, and (3) Statement of Cash Flows, all of which together provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies. The report also contains notes to the financial statements and other supplementary information.

Statement of Net Position includes all of the District's investments in resources (assets) and the obligations to creditors (liabilities) and deferred outflows and inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure, and assessing the liquidity and financial flexibility of the District.

Statement of Revenues, Expenses and Changes in Net Position measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. The statement can be used to evaluate profitability and credit worthiness.

Statement of Cash Flows provides information about the District's cash receipts, cash payments and changes in cash resulting from operations, investments, and financing activities.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the financial statements.

Other Information includes required supplementary information.

Mesa Water District
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Financial Analysis of the District

The following condensed schedules contain summary financial information extracted from the basic financial statements to assist general readers in evaluating the District's overall financial position and results of operations as described in this Management's Discussion and Analysis (MD&A). Increases or decreases in these schedules can be used as performance indicators to assess whether the District's overall financial position has improved or deteriorated. Other external factors such as changes in economic conditions, customer growth, weather conditions and legislative mandates as well as changes in Federal and State water quality standards should also be considered as part of this assessment.

Mesa Water District
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Statement of Net Position

The Statement of Net Position reflects the District's financial position as of June 30. The statement includes assets, deferred outflow of resources, liabilities, and deferred inflows of resources. The Net Position represents the District's net worth including, but not limited to, capital contributions and investments in capital assets. A condensed summary of the District's total Net Position as of June 30 is set forth below:

| | <u>2016</u> | <u>2015</u> | <u>Change</u> | <u>% Change</u> |
|--|-----------------------|--------------------|--------------------|-----------------|
| Assets and Deferred Outflows: | | | | |
| Current assets | \$ 47,523,159 | 45,311,670 | 2,211,489 | 4.9% |
| Non-current assets | 629,853 | 714,142 | (84,289) | -11.8% |
| Capital and intangible assets, net | 110,720,281 | 110,492,190 | 228,091 | 0.2% |
| Total Assets | <u>158,873,293</u> | <u>156,518,002</u> | <u>2,355,291</u> | 1.5% |
| Deferred charges on debt refundings | 345,999 | 548,535 | (202,536) | -36.9% |
| Deferred amounts from pension plans | 727,208 | 516,570 | 210,638 | 40.8% |
| Total Deferred Outflows | <u>1,073,207</u> | <u>1,065,105</u> | <u>8,102</u> | 0.8% |
| Total Assets and Deferred Outflows | <u>\$ 159,946,500</u> | <u>157,583,107</u> | <u>2,363,393</u> | 1.5% |
| Liabilities: | | | | |
| Current liabilities | \$ 11,319,518 | 10,458,696 | 860,822 | 8.2% |
| Non-current liabilities | 29,293,782 | 31,461,182 | (2,167,400) | -6.9% |
| Total Liabilities | <u>40,613,300</u> | <u>41,919,878</u> | <u>(1,306,578)</u> | -3.1% |
| Deferred Inflow of Resources - Actuarial | 1,942,588 | 2,346,904 | (404,316) | -17.2% |
| Total Liabilities and Deferred Inflows | <u>42,555,888</u> | <u>44,266,782</u> | <u>(1,710,894)</u> | -3.9% |
| Net position: | | | | |
| Net Investment in capital assets | 86,881,551 | 84,181,875 | 2,699,676 | 3.2% |
| Unrestricted | 30,509,061 | 29,134,450 | 1,374,611 | 4.7% |
| Total Net Position | <u>117,390,612</u> | <u>113,316,325</u> | <u>4,074,287</u> | 3.6% |
| Total Liabilities, Deferred Inflows, and Net position | <u>\$ 159,946,500</u> | <u>157,583,107</u> | <u>2,363,393</u> | 1.5% |

The District's total Assets and Deferred Outflows exceeded total liabilities and Deferred Inflows by \$117.4 million and \$113.3 million as of June 30, 2016 and 2015, respectively.

The largest single component of the District's Net Position (74% and 74% as of June 30, 2016 and 2015, respectively) reflect the District's net investment in capital assets. The District uses these capital assets to provide services to customers within the District's service area. Consequently, these assets are not available for future spending.

As of June 30, 2016 and 2015, the District showed a positive balance in its Unrestricted Net position of \$30.5 million and \$29.1 million, respectively.

Mesa Water District
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Statement of Revenues, Expenses and Changes in Net Position

The statement of Revenues, Expenses, and Changes in Net Position summarizes the District's operations during the fiscal year. A summary of the District's changes in Net Position for the fiscal years ended June 30 is presented below:

| | <u>2016</u> | <u>2015</u> | <u>Change</u> | <u>% Change</u> |
|---|-----------------------|--------------------|--------------------|-----------------|
| Revenues | | | | |
| Operating revenues | \$ 29,294,525 | 33,249,888 | (3,955,363) | -11.9% |
| Non-operating revenues | 681,378 | 414,402 | 266,976 | 64.4% |
| Total Revenues | <u>29,975,903</u> | <u>33,664,290</u> | <u>(3,688,387)</u> | -11.0% |
| Expenses: | | | | |
| Operating expenses (not including deprec.) | 21,524,838 | 23,352,348 | (1,827,510) | -7.8% |
| Depreciation and amortization | 4,702,756 | 4,673,633 | 29,123 | 0.6% |
| Non-operating expenses | 2,690,378 | 1,304,338 | 1,386,040 | 106.3% |
| Total Expenses | <u>28,917,972</u> | <u>29,330,319</u> | <u>(412,347)</u> | -1.4% |
| Net income (loss) before contributions | 1,057,931 | 4,333,971 | (3,276,040) | -75.6% |
| Capital Contributions | <u>3,016,356</u> | <u>2,552,466</u> | <u>463,890</u> | 18.2% |
| Change in Net Position | 4,074,287 | 6,886,437 | (2,812,150) | -40.8% |
| Net Position, beginning of year, as restated | <u>113,316,325</u> | <u>106,429,888</u> | <u>6,886,437</u> | 6.5% |
| Net Position, end of year | <u>\$ 117,390,612</u> | <u>113,316,325</u> | <u>4,074,287</u> | 3.6% |

The District's Net Position increased by \$4.1 million for the year ended June 30, 2016, while for the year ended June 30, 2015, Net Position increased by \$6.9 million.

The beginning balance of \$113.3 million in Net Position for Fiscal Year 2016 reflects the prior period adjustment of \$1.4 million as required by recent interpretations of GASB 61 to expense certain types of intangibles which were previously capitalized by the District.

Mesa Water District
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Total District Revenues

| | <u>2016</u> | <u>2015</u> | <u>Change</u> | <u>% Change</u> |
|--|----------------------|-------------------|--------------------|-----------------|
| Water sales | \$ 21,357,269 | 24,371,000 | (3,013,731) | -12.4% |
| Meter service charges | 6,050,343 | 5,803,271 | 247,072 | 4.3% |
| Recycled water sales | 1,056,481 | 1,397,919 | (341,438) | -24.4% |
| Concessions from governmental agencies | - | 968,138 | (968,138) | -100.0% |
| Other charges and services | 830,432 | 709,560 | 120,872 | 17.0% |
| Total Operating Revenues | <u>29,294,525</u> | <u>33,249,888</u> | <u>(3,955,363)</u> | -11.9% |
| Investment earnings | 681,378 | 404,763 | 276,615 | 68.3% |
| Gain on sale/disposal of assets | - | 9,639 | (9,639) | -100.0% |
| Total Non-operating revenues | <u>681,378</u> | <u>414,402</u> | <u>266,976</u> | 64.4% |
| Total Revenues | <u>\$ 29,975,903</u> | <u>33,664,290</u> | <u>(3,688,387)</u> | -11.0% |

The District's operating revenues totaled \$29.3 million in fiscal year 2016. This represents a decrease of \$3.9 million or 11.9% from the prior year. \$3.0 million of this decrease is attributable to reduced potable water usage as a result of state mandated conservation related to the recent drought, \$0.3 million in reduced recycled water revenue due to the drought and adjusted recycled water rates, and a \$1.0 million decrease in concessions from governmental agencies due to the elimination of the Coastal Pumping Transfer Program. These reductions in operating revenue were offset by gains in meter services charges and other charges and services of \$0.3 million, and \$0.1 million, respectively.

The vast majority of the increase in non-operating revenues reflects higher investment earnings.

Mesa Water District
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Total District Expenses

| | <u>2016</u> | <u>2015</u> | <u>Change</u> | <u>% Change</u> |
|---|----------------------|-------------------|--------------------|-----------------|
| Import source of supply | \$ 1,031,539 | 2,645,852 | (1,614,313) | -61.0% |
| Clear well production | 4,682,120 | 4,273,537 | 408,583 | 9.6% |
| Amber well production | 2,453,295 | 2,864,506 | (411,211) | -14.4% |
| Recycled water | <u>496,582</u> | <u>436,560</u> | <u>60,022</u> | 13.7% |
| Total Water Supply | 8,663,536 | 10,220,455 | (1,556,919) | -15.2% |
| Transmission and distribution | 4,961,178 | 5,750,908 | (789,730) | -13.7% |
| General and administrative | 7,900,124 | 7,380,985 | 519,139 | 7.0% |
| Depreciation and amortization | <u>4,702,756</u> | <u>4,673,633</u> | <u>29,123</u> | 0.6% |
| Total Operating Expense | <u>26,227,594</u> | <u>28,025,981</u> | <u>(1,798,387)</u> | -6.4% |
| Interest expense - long-term debt | 1,196,589 | 1,293,727 | (97,138) | -7.5% |
| Loss on abandonment/impairment of assets | 1,303,752 | - | 1,303,752 | 100.0% |
| Loss on sale/disposition of capital assets, net | 69,130 | - | 69,130 | 100.0% |
| Other nonoperating expense, net | <u>120,907</u> | <u>10,611</u> | <u>110,296</u> | 1039.4% |
| Total Nonoperating Expenses | <u>2,690,378</u> | <u>1,304,338</u> | <u>1,386,040</u> | 106.3% |
| Total Expenses | \$ <u>28,917,972</u> | <u>29,330,319</u> | <u>(412,347)</u> | -1.4% |

The District's total expenses decreased by \$0.4 million or 1.4%. This decrease is primarily due to \$1.6 million of reduced costs in variable costs of imported sources of supply, (i.e., substantially less water was imported by the District in Fiscal Year 2016). The remainder of operating expenses decreased by \$0.2 million.

For non-operating expenses, a decrease in interest on long-term debt was offset by increases in other non-operating expenses.

During the year repairs were attempted at one well site, but it was subsequently determined that the well could not be repaired and needed to be abandoned. The total cost of attempted repairs and the write-off of the net book value of the well assets was \$1.3 million. An additional \$0.1 million of other fixed assets were also written-off for the year.

Mesa Water District
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Capital Assets

| | Balance 2015 as restated | Additions | Transfers/ Deletions | Balance 2016 |
|--------------------------|---|--------------------|---------------------------------|-------------------------|
| Capital assets: | | | | |
| Non-depreciable assets | 8,690,027 | 5,896,049 | (4,057,189) | 10,528,887 |
| Depreciable assets | 169,394,676 | 3,720,396 | (1,826,166) | 171,288,906 |
| Accumulated Depreciation | <u>(67,592,513)</u> | <u>(4,702,756)</u> | <u>1,197,757</u> | <u>(71,097,512)</u> |
| | <u>110,492,190</u> | <u>4,913,689</u> | <u>(4,685,598)</u> | <u>110,720,281</u> |

As of June 30, 2016 and 2015, the District's investment in capital assets amounted to \$110.7 million and \$110.5 million, respectively, net of accumulated depreciation, resulting in a net increase of \$0.2 million. Capital additions to depreciable assets were \$3.7 million in fiscal year 2016. Depreciation was flat in comparison to the prior year. Please refer to Note 3, Capital Assets, in the accompanying Notes to the Financial Statements.

Debt Administration

| | Balance 2015 | Additions | Payments/ Deletions | Balance 2016 |
|----------------------|-------------------------|------------------|--------------------------------|-------------------------|
| 2009 Series COPS | 5,677,421 | - | (1,816,663) | 3,860,758 |
| 2010 Series COPS | <u>21,336,110</u> | <u>-</u> | <u>(473,832)</u> | <u>20,862,278</u> |
| Total long-term debt | <u>\$ 27,013,531</u> | <u>-</u> | <u>(2,290,495)</u> | <u>24,723,036</u> |

As of June 30, 2016, the District had total outstanding debt of \$24.7 million, which was a decrease of \$2.3 million from the prior fiscal year. The decrease was due to the regularly scheduled principal repayments of outstanding debt. Please refer to Note 6, Long-Term Debt in the accompanying Notes to the Financial Statements.

Mesa Water District
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Requests for Information

This financial report is designed to provide the District's funding sources, ratepayers, stakeholders, and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District at 1965 Placentia Avenue, Costa Mesa, California 92627-3420 or call (949) 574-1022.

<Page Intentionally Left Blank>

BASIC FINANCIAL STATEMENTS

MESA WATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2016

(With Comparative Data for Year Ended June 30, 2015)

| | 2016 | 2015 |
|--|-----------------------|-----------------------|
| OPERATING REVENUES: | | |
| Water consumption sales | \$ 21,357,269 | \$ 24,371,000 |
| Monthly meter service charge | 6,050,343 | 5,803,271 |
| Recycled water sales | 1,056,481 | 1,397,919 |
| Concessions from governmental agencies | - | 968,138 |
| Other charges and services | 830,432 | 709,560 |
| TOTAL OPERATING REVENUES | 29,294,525 | 33,249,888 |
| OPERATING EXPENSES: | | |
| Imported sources of supply | 1,031,539 | 2,645,852 |
| Clear water | 4,682,120 | 4,273,537 |
| Amber water | 2,453,295 | 2,864,506 |
| Recycled water | 496,582 | 436,560 |
| Transmission and distribution | 4,961,178 | 5,750,908 |
| Depreciation and amortization | 4,702,756 | 4,673,633 |
| General and administrative | 7,900,124 | 7,380,985 |
| TOTAL OPERATING EXPENSES | 26,227,594 | 28,025,981 |
| OPERATING INCOME | 3,066,931 | 5,223,907 |
| NONOPERATING REVENUES (EXPENSES): | | |
| Investment earnings | 681,378 | 404,763 |
| Interest expense - long-term debt | (1,196,589) | (1,293,727) |
| Gain (loss) on sale/disposition of capital assets, net | (69,130) | 9,639 |
| Loss on abandonment/impairment of capital assets | (1,303,752) | - |
| Other nonoperating, net | (120,907) | (10,611) |
| TOTAL NONOPERATING REVENUES (EXPENSES) | (2,009,000) | (889,936) |
| INCOME BEFORE CAPITAL CONTRIBUTIONS | 1,057,931 | 4,333,971 |
| CAPITAL CONTRIBUTIONS: | | |
| Capacity and installation charges | 1,945,079 | 1,247,867 |
| Capital grant | 555,892 | 737,811 |
| Developers and others | 515,385 | 566,788 |
| TOTAL CAPITAL CONTRIBUTIONS | 3,016,356 | 2,552,466 |
| CHANGE IN NET POSITION | 4,074,287 | 6,886,437 |
| TOTAL NET POSITION - beginning of the year | 113,316,325 | 107,848,625 |
| PRIOR PERIOD ADJUSTMENT (note 13) | - | (1,418,737) |
| TOTAL NET POSITION - end of the year | \$ 117,390,612 | \$ 113,316,325 |

See accompanying notes to basic financial statements

MESA WATER DISTRICT

Statement of Cash Flows

Year Ended June 30, 2016

(With Comparative Data for Year Ended June 30, 2015)

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash receipts from customers for water sales and services | \$ 29,446,813 | \$ 33,732,408 |
| Cash paid to employees for salaries and wages | (7,652,053) | (9,465,963) |
| Cash paid to vendors and suppliers for materials and services | <u>(15,003,975)</u> | <u>(14,574,242)</u> |
| Net cash provided by operating activities | <u>6,790,785</u> | <u>9,692,203</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Acquisition and construction of capital assets | (5,160,692) | (3,166,442) |
| Proceeds from capacity and installation charges | 3,257,138 | 1,247,867 |
| Cash paid due to abandonment of capital asset | (744,473) | - |
| Proceeds from capital grant | 555,892 | 737,811 |
| Principal paid on long-term debt | (2,090,000) | (1,990,000) |
| Interest paid on long-term debt | <u>(1,227,984)</u> | <u>(1,318,629)</u> |
| Net cash (used for) capital and related financing activities | <u>(5,410,119)</u> | <u>(4,489,393)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment earnings | 455,593 | 386,873 |
| Proceeds from sale of investments | 23,123,020 | 16,749,475 |
| Purchase of investments | <u>(23,649,069)</u> | <u>(21,427,126)</u> |
| Net cash (used for) investing activities | <u>(70,456)</u> | <u>(4,290,778)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 1,310,210 | 912,032 |
| CASH AND CASH EQUIVALENTS - beginning of year | <u>11,983,183</u> | <u>11,071,151</u> |
| CASH AND CASH EQUIVALENTS - end of year | <u>\$ 13,293,393</u> | <u>\$ 11,983,183</u> |

(Continued)

See accompanying notes to basic financial statements

MESA WATER DISTRICT

Statement of Cash Flows

Year Ended June 30, 2016

(With Comparative Data for Year Ended June 30, 2015)

(Continued)

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| RECONCILIATION OF OPERATING INCOME TO NET | | |
| CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating income | \$ 3,066,931 | \$ 5,223,907 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,702,756 | 4,673,633 |
| Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources: | | |
| (Increase) decrease in accounts receivable | 81,735 | 517,582 |
| (Increase) decrease in materials and supplies inventory | (36,170) | 120,894 |
| (Increase) decrease in deposits and prepaid expenses | (30,105) | (78,940) |
| (Increase) decrease in other noncurrent assets | 522 | 520 |
| (Increase) decrease in deferred outflows for pension plans | (210,638) | 31,909 |
| Increase (decrease) in accounts payable and accrued expenses | (395,750) | (573,433) |
| Increase (decrease) in customer advances and deposits | 70,553 | (36,034) |
| Increase (decrease) in compensated absences | (5,914) | (7,176) |
| Increase (decrease) in accrued wages and related payables | (191,955) | 74,381 |
| Increase (decrease) in other post-employment benefits | (212,224) | (286,821) |
| Increase (decrease) in net pension liability | 355,360 | (2,314,123) |
| Increase (decrease) in deferred inflows for pension plans | (404,316) | 2,345,904 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 6,790,785</u> | <u>\$ 9,692,203</u> |
| | | |
| SUPPLEMENTAL DISCLOSURES OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES: | | |
| Amortization of deferred charges on debt refundings | <u>\$ 202,536</u> | <u>\$ 202,536</u> |
| Amortization of long-term debt premiums | <u>\$ 200,495</u> | <u>\$ 200,496</u> |
| Developer constructed facilities | <u>\$ 515,385</u> | <u>\$ 566,788</u> |
| Change in fair value of investments | <u>\$ 159,848</u> | <u>\$ 48,997</u> |
| | | |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION: | | |
| Cash and investments | \$ 41,673,787 | \$ 39,445,085 |
| Restricted cash and investments | 538,307 | 703,216 |
| Less: noncash equivalents | (28,918,701) | (28,165,118) |
| Cash and cash equivalents | <u>\$ 13,293,393</u> | <u>\$ 11,983,183</u> |

See accompanying notes to basic financial statements

MESA WATER DISTRICT
Notes to the Financial Statements
Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies

Organization and Description of the District

Mesa Water District (District) is an independent special district formed on January 1, 1960, pursuant to Section 33200 et. seq., of the California Water Code, which was designated the Costa Mesa District Merger Law. The general provisions of this law called for the consolidation of four predecessor agencies.

The District is located in Orange County, California and provides water to the City of Costa Mesa, parts of the City of Newport Beach, and unincorporated parts of Orange County, including the John Wayne Airport. Mesa Water previously sold water at a “pass-through” cost to the City of Huntington Beach through a jointly owned pipeline.

The District’s potable water is produced from groundwater wells or purchased from the Municipal Water District of Orange County (MWDOC), a member agency of the Metropolitan Water District of Southern California (MWD). Non-potable (recycled) water is purchased from the Orange County Water District (OCWD).

The District’s revenue results solely from its activities as a water utility and it does not receive tax revenues of any kind.

The District is governed by a five-member Board of Directors (Board) who serve overlapping four-year terms. Each member of the Board represents one of five geographic divisions of approximately equal population. The Board periodically elects one of its members to serve as President and another as Vice-President. The Board appoints the General Manager who is responsible for the day-to-day operations and the administration of the District in accordance with its policies. The Board also appoints the District Secretary, Assistant District Secretary, District Treasurer, and Assistant District Treasurer.

The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable.

Mesa Water District Improvement Corporation (Corporation) was incorporated in March 1988. The Corporation is a California non-profit public benefit corporation formed to assist in the financing of certain improvements to the District’s water system and as such has no employees or other operations. The Corporation meets the definition of a component unit, and is presented on a blended basis, since it is part of the primary government. Although the Corporation is a legally separate entity, the governing board is comprised of the same membership as the District’s Board. The District may impose its will on the Corporation and there is a financial benefit/burden relationship between the District and the Corporation. The Corporation does not issue separate financial statements.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting

The District is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the net position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing business in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges.

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The accompanying financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the *economic measurement focus*, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) associated with these activities are included on the statement of net position. The statement of revenues, expenses and changes in net position present increases (revenues) and decreases (expenses) in total net position. Under the *accrual basis of accounting*, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with water operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include cost of sales and services, general and administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Capital contributions are reported as a separate line item in the statement of revenues, expenses and changes in net position and consist of contributed capital assets, grants, and other charges that are legally restricted for capital expenditures by state law or by Board action that established those charges.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

New Pronouncements

Current Year Standards

In fiscal year 2015-2016, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "*Fair Value Measurement and Application*". GASB Statement No. 72 requires the District to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that were used for the fair value measurements. There was no material impact on the District's financial statements as a result of the implementation of GASB Statement No. 72.

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*", was required to be implemented in the current fiscal year, except for those provisions that address employer and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, and is effective for periods beginning after June 15, 2016, and did not impact the District.

GASB Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", was required to be implemented in the current fiscal year, and did not impact the District.

GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*", was required to be implemented in the current fiscal year, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for periods beginning after December 15, 2015, and did not impact the District.

GASB Statement No. 82, "*Pension Issues an Amendment of GASB Statement No. 67, No. 68 and No. 73*", changed the measurement of covered payroll reported in required supplementary information and has been early implemented.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

New Pronouncements (Continued)

Pending Accounting Standards

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

- GASB 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”*, contains provisions that address employer and governmental nonemployer contributing entities for pensions that are not within the scope of GASB 68, effective for periods beginning after June 15, 2016.
- GASB 74 - *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”*, effective for periods beginning after June 15, 2016.
- GASB 75 - *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”*, effective for periods beginning after June 15, 2017.
- GASB 77 - *“Tax Abatement Disclosure”*, effective for periods beginning after December 15, 2015.
- GASB 78 - *“Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans”*, effective for periods beginning after December 15, 2015.
- GASB 79 - *“Certain External Investment Pools and Pool Participants”*, contains certain provisions on portfolio quality, custodial credit risk, and shadow pricing, effective for periods beginning after December 15, 2015.
- GASB 80 - *“Blending Requirements for Certain Component Units”*, effective for periods beginning after June 15, 2016.
- GASB 81 - *“Irrevocable Split-Interest Agreements”*, effective for periods beginning after December 15, 2016.
- GASB 82 - *“Pension Issues”*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.
- GASB 83 - *“Certain Asset Retirement Obligations”*, effective for periods beginning after June 15, 2018.
- GASB 84 - *“Fiduciary Activities”*, effective for periods beginning after December 15, 2018.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

Net Position

In the statement of net position, net position is classified into the following categories:

Net investment in capital assets - This amount consists of capital assets, net of accumulated depreciation, and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Unrestricted net position - This amount is all net assets that do not meet the definition of “net investment in capital assets”.

Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Budgetary Policies

The District adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparison of actual revenue and expense with planned revenue and expense for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

Cash and Cash Equivalents

The District considers all highly liquid investments that were purchased with a maturity of three months or less to be cash equivalents, except for the cash held with fiscal agent.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

Investments and Investment Policy

Investments are reported in the accompanying financial statements at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District has adopted an investment policy directing the District's Treasurer to deposit funds in financial institutions. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Accounts Receivable

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

Restricted Assets

Restricted assets are financial resources generated for a specific purpose such as capital projects or debt service. These assets are for the benefit of a specified purpose and, as such, are legally or contractually restricted by an external third-party agreement.

Prepaid Expenses

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

Material and Supplies Inventory

Materials and supplies inventory consists primarily of pipe fittings, meters, and hydrants used for construction and repairs to the water system, which are valued at cost. The first-in first-out (FIFO) perpetual cost flow assumption is used when inventory is expensed or capitalized the time of use.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

Capital and Intangible Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for capitalizing purchases at \$5,000 for both infrastructure and non-infrastructure assets. Donated assets are recorded at 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:

| | <u>Useful Life</u> |
|--------------------------------------|--------------------|
| Land improvements | 15 - 50 years |
| Buildings and improvements | 10 - 50 years |
| Machinery and equipment | 4 - 10 years |
| Transmission and distribution system | 10 - 99 years |
| Metering stations | 10 - 99 years |
| Wells and pumping plant | 5 - 50 years |
| Reservoirs | 50 -75 years |
| Control systems | 4 - 20 years |

Compensated Absences

The District's personnel policies provide for accumulation of vacation. Liabilities for vacation are recorded when benefits are earned. Cash payment of unused vacation is available to those qualified employees when retiring or separating from the District.

Customer Advances and Deposits

Customer advances include deposits received in aid of construction, which are partially refundable if the applicable construction does not take place. Construction advances are transferred to contributed capital when the applicable construction project is completed.

Customer advances also include fees received for installation and inspection services for which the District has yet to provide the service. Revenue is recognized when the service is provided and any deposit remaining at the conclusion of the service is refunded to the customer.

Customer deposits may be collected at the time water service is initiated. Deposits may be applied to customer accounts or refunded at the time an account is closed.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

Water Sales

The majority of water sales are billed on a bi-monthly cyclical basis. Large meter customers and high consumption users are billed on a monthly basis. Estimated unbilled water sales and service charges through June 30th have been accrued as of year-end.

Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

Capacity Charges

The District recognizes revenue from capacity charges at the time the deposits become non-refundable, which is when the relevant system actually connects to the District's potable water system.

Deferred Inflows/Outflows 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 future periods and will not be recognized as an outflow of resources (expense) until then. The District has the following items that qualify for reporting in this category:

- Deferred charges on debt refunding, net of accumulated amortization. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt, which is 8.5 years.
- Deferred outflow related to pensions equal to employer contributions made after the measurement date of the net pension liability.
- Deferred outflow related to pensions from differences between actual and expected experience. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plan, which is 3.8 years.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

Deferred Inflows/Outflows of Resources (Continued)

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 and will not be recognized as inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category:

- Deferred inflow related to pensions from changes of assumptions. This amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plan, which is 3.8 years.
- Deferred inflow related to pensions resulting from the difference between projected and actual earnings on investments of the pension plan's fiduciary net position. These amounts are amortized over five years.
- Deferred inflow related to pensions for the changes in proportion and differences between employer contributions and the employer's proportionate share of contributions. These amounts are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plan, which is 3.8 years.

Pensions

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

GASB 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 |

Reclassifications

Certain reclassifications have been made to prior year amounts in order to conform to the current year presentation.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies (Continued)

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 District's prior year financial statements, from which this selected financial data was derived.

Use of Estimates

The preparation of the basic financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

(2) Cash and Investments

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

| | |
|---------------------------------|----------------------|
| Cash and investments | \$ 41,673,787 |
| Restricted cash and investments | <u>538,307</u> |
| | <u>\$ 42,212,094</u> |

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

| | |
|--------------------------------------|----------------------|
| Petty cash | \$ 5,007 |
| Deposits with financial institutions | <u>5,239,073</u> |
| Total cash | <u>5,244,080</u> |
| Investments | 36,429,707 |
| Restricted: | |
| Investments held by bond trustee | <u>538,307</u> |
| Total investments | <u>36,968,014</u> |
| Total cash and investments | <u>\$ 42,212,094</u> |

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(2) Cash and Investments (Continued)

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

The following table 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.

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|--|-------------------------|--|---|
| Local Agency Bonds | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| State of California Obligations | 5 years | None | None |
| Other State Obligations | 5 years | None | None |
| California Local Agency Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Bankers' Acceptances | 180 days | 40% | 30% |
| Prime Commercial paper | 270 days | 25% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | * |
| Repurchase Agreements | 1 year | None | None |
| Reverse Repurchase Agreements | 92 days | 20% | ** |
| Medium-term notes | 5 years | 30% | None |
| Mutual Funds | N/A | 20% | 10% |
| Money market mutual funds | N/A | 20% | 10% |
| Trust Indenture or Other Contract | Per Contract | Per Contract | Per Contract |
| Collateralized Bank Deposits | 5 years | None | None |
| Mortgage Pass-Through Securities | 5 years | 10% | None |
| Shares of beneficial interest in JPA's | N/A | None | None |
| Certificates of Deposits | 5 years | 30% | None |
| Local Agency Investment Fund (LAIF) | N/A | None | \$50 million |
| County Pooled Investment Funds | N/A | None | None |
| Time Deposits | 5 years | None | * |
| * Subject to FDIC limits | | | |
| ** Of Base | | | |

The District's investment policy mirrors the California Government Code except for mortgage pass-through securities. The District's policy is more restrictive than the California Government Code as investments in mortgage pass-through securities shall not exceed 10% of the portfolio.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(2) Cash and Investments (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's Investment Policy.

Custodial Credit Risk

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

The California Government Code and the District's Investment Policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit), and, the District's investment policy that requires no more than two-thirds of the District's deposits in a depository shall be collateralized by mortgage-backed securities, with the remainder to be secured by non-mortgage-backed securities.

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. Bank balances, up to \$250,000 at June 30, 2016, are either federally insured or collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(2) Cash and Investments (Continued)

Investment in State Investment Pool and County 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 District is also a voluntary participant in the Orange County Investment Pool (OCIP) that is regulated by California Government Code and the Orange County Board of Supervisors under the oversight of the Orange County Treasurer-Tax Collector. The fair value of the District's investments in these pools is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF and OCIP for each respective portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF and OCIP, which are recorded on an amortized cost basis.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. In accordance with its Investment Policy, the District manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing over time as necessary to provide the cash flows and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations is provided in the following table that shows the distribution of the District's investments by maturity as of June 30, 2016.

| <u>Investment Type</u> | <u>Total</u> | <u>12 Months Or Less</u> | <u>13 to 24 Months</u> | <u>25-60 Months</u> |
|---|----------------------|------------------------------|----------------------------|-------------------------|
| Local agency investment pool | \$ 1,007 | \$ 1,007 | \$ - | \$ - |
| Orange County investment pool | 8,048,306 | 8,048,306 | - | - |
| Federal agency securities: | | | | |
| Federal Farm Credit Bank (FFCB) | 5,190,345 | - | 500,005 | 4,690,340 |
| Federal National Mortgage Association (FNMA) | 3,208,351 | - | 1,077,939 | 2,130,412 |
| Federal Home Loan Bank (FHLB) | 7,419,828 | - | 6,219,778 | 1,200,050 |
| Federal Home Loan Mortgage Corporation (FHLMC) | 3,176,855 | - | - | 3,176,855 |
| Negotiable certificates of deposit | 9,132,196 | 2,226,631 | 1,800,888 | 5,104,677 |
| Medium term notes | 252,819 | - | - | 252,819 |
| Held by fiscal agent: | | | | |
| Money market mutual funds | 538,307 | 538,307 | - | - |
| Total | <u>\$ 36,968,014</u> | <u>\$ 10,814,251</u> | <u>\$ 9,598,610</u> | <u>\$ 16,555,153</u> |

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(2) Cash and Investments (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's Investment Policy, or debt agreements, and the actual rating as of year-end for each investment type.

| <u>Investment Type</u> | <u>AAA</u> | <u>AA+</u> | <u>Not Rated</u> | <u>Total</u> |
|--|-------------------|----------------------|----------------------|----------------------|
| Local agency investment pool | \$ - | \$ - | \$ 1,007 | \$ 1,007 |
| Orange County investment pool | - | - | 8,048,306 | 8,048,306 |
| Federal agency securities: | | | | |
| Federal Farm Credit Bank (FFCB) | - | 5,190,345 | - | 5,190,345 |
| Federal National Mortgage Association (FNMA) | - | 3,208,351 | - | 3,208,351 |
| Federal Home Loan Bank (FHLB) | - | 7,419,828 | - | 7,419,828 |
| Federal Home Loan Mortgage Corporation (FHLMC) | - | 3,176,855 | - | 3,176,855 |
| Negotiable certificates of deposit | - | - | 9,132,196 | 9,132,196 |
| Medium term notes | - | - | 252,819 | 252,819 |
| Held by fiscal agent: | | | | |
| Money market mutual funds | <u>538,307</u> | <u>-</u> | <u>-</u> | <u>538,307</u> |
| | <u>\$ 538,307</u> | <u>\$ 18,995,379</u> | <u>\$ 17,434,328</u> | <u>\$ 36,968,014</u> |

Investments in any one issuer (other than external investment pools) that represent 5% or more of total District investments are as follows:

| <u>Issuer</u> | <u>Investment Type</u> | <u>Amount</u> |
|---------------|---------------------------|----------------------|
| FFCB | Federal Agency Securities | \$ 5,190,345 |
| FNMA | Federal Agency Securities | 3,208,351 |
| FHLB | Federal Agency Securities | 7,419,828 |
| FHLMC | Federal Agency Securities | <u>3,176,855</u> |
| | | <u>\$ 18,995,379</u> |

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(2) Cash and Investments (Continued)

Fair Value Measurements

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the District has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- 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. Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

The asset's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The determination of what constitutes observable requires judgment by the District's management. District management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market.

The categorization of an investment within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to District management's perceived risk of that investment.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(2) Cash and Investments (Continued)

Fair Value Measurements (Continued)

The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy. When quoted prices in active markets are not available, fair values are based on evaluated prices received by District's asset manager from third party service provider.

The following is a description of the recurring valuation methods and assumptions used by the District to estimate the fair value of its investments. The District's management has valued the federal agency securities, certificates of deposit, and medium term notes at Level 2 based on quoted prices for similar assets.

The District has no investments categorized in Level 3. When valuing Level 3 securities, the inputs or methodology are not necessarily an indication of the risks associated with investing in those securities. Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy.

| Investment Type | Quoted Prices Level 1 | Observable Inputs Level 2 | Unobservable Inputs Level 3 | Total |
|--|-----------------------------|---------------------------------|-----------------------------------|----------------------|
| Federal agency securities: | | | | |
| Federal Farm Credit Bank (FFCB) \$ | - | \$ 5,190,345 | \$ - | \$ 5,190,345 |
| Federal National Mortgage Association (FNMA) | - | 3,208,351 | - | 3,208,351 |
| Federal Home Loan Bank (FHLB) | - | 7,419,828 | - | 7,419,828 |
| Federal Home Loan Mortgage Corporation (FHLMC) | - | 3,176,855 | - | 3,176,855 |
| Negotiable certificates of deposit | - | 9,132,196 | - | 9,132,196 |
| Medium term notes | - | 252,819 | - | 252,819 |
| | <u>\$ -</u> | <u>\$ 28,380,394</u> | <u>\$ -</u> | <u>28,380,394</u> |
| Local agency investment pool* | | | | 1,007 |
| Orange County investment pool* | | | | 8,048,306 |
| Held by fiscal agent: | | | | |
| Money market mutual funds* | | | | 538,307 |
| Total investment portfolio | | | | <u>\$ 36,968,014</u> |

* Not subject to fair value measurement hierarchy.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(3) **Capital Assets**

Changes in capital assets during the fiscal year ended June 30, 2016, were as follows:

| | Balance June 30, 2015, <u>as restated</u> | Additions/ <u>Transfers</u> | Deletions/ <u>Transfers</u> | Balance June 30, 2016 |
|--------------------------------------|---|--------------------------------|--------------------------------|--------------------------|
| Non-depreciable assets: | | | | |
| Land | \$ 6,750,215 | \$ - | \$ - | \$ 6,750,215 |
| Construction-in-progress | <u>1,939,812</u> | <u>5,896,049</u> | <u>(4,057,189)</u> | <u>3,778,672</u> |
| Total non-depreciable assets | <u>8,690,027</u> | <u>5,896,049</u> | <u>(4,057,189)</u> | <u>10,528,887</u> |
| Depreciable assets: | | | | |
| Land improvements | 933,872 | - | (52,411) | 881,461 |
| Buildings and improvements | 4,320,415 | 293,702 | - | 4,614,117 |
| Machinery and equipment | 2,873,491 | 1,273,808 | (121,990) | 4,025,309 |
| Transmission and distribution system | 88,362,432 | 2,007,342 | - | 90,369,774 |
| Reservoirs | 28,454,927 | - | - | 28,454,927 |
| Wells and pumping plant | 6,980,594 | 18,297 | (1,318,939) | 5,679,952 |
| Metering stations | 645,905 | - | - | 645,905 |
| Intangible assets | 2,378,313 | 34,709 | (100,347) | 2,312,675 |
| Control systems | 5,306,721 | - | (232,479) | 5,074,242 |
| Mesa water reliability facility | <u>29,138,006</u> | <u>92,538</u> | <u>-</u> | <u>29,230,544</u> |
| Total depreciable assets | <u>169,394,676</u> | <u>3,720,396</u> | <u>(1,826,166)</u> | <u>171,288,906</u> |
| Accumulated depreciation: | | | | |
| Land improvements | (642,973) | (30,998) | 38,316 | (635,655) |
| Buildings and improvements | (1,906,236) | (97,233) | - | (2,003,469) |
| Machinery and equipment | (2,231,098) | (173,985) | 121,990 | (2,283,093) |
| Transmission and distribution system | (38,141,817) | (1,461,839) | - | (39,603,656) |
| Reservoirs | (9,807,707) | (455,060) | - | (10,262,767) |
| Wells and pumping plant | (3,722,247) | (162,574) | 778,881 | (3,105,940) |
| Metering stations | (291,734) | (12,918) | - | (304,652) |
| Intangible assets | (1,765,035) | (142,903) | 26,090 | (1,881,848) |
| Control systems | (1,564,255) | (371,810) | 232,480 | (1,703,585) |
| Mesa water reliability facility | <u>(7,519,411)</u> | <u>(1,793,436)</u> | <u>-</u> | <u>(9,312,847)</u> |
| Total accumulated depreciation | <u>(67,592,513)</u> | <u>(4,702,756)</u> | <u>1,197,757</u> | <u>(71,097,512)</u> |
| Total depreciable assets, net | <u>101,802,163</u> | <u>(982,360)</u> | <u>(628,409)</u> | <u>100,191,394</u> |
| Total capital assets, net | <u>\$ 110,492,190</u> | <u>\$ 4,913,689</u> | <u>\$ (4,685,598)</u> | <u>\$ 110,720,281</u> |

Depreciation and amortization expense during the fiscal year ended June 30, 2016 is as follows:

| | |
|--|---------------------|
| Capital assets - depreciation expense | \$ 4,559,853 |
| Intangible assets - amortization expense | <u>142,903</u> |
| | <u>\$ 4,702,756</u> |

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(4) Compensated Absences

Compensated absences comprise of unpaid vacation which is accrued as earned. The changes in compensated absences balances during the fiscal year ended June 30, 2016, were as follows:

| <u>Balance</u> <u>June 30, 2015</u> | <u>Earned</u> | <u>Taken</u> | <u>Balance</u> <u>June 30, 2016</u> | <u>Current</u> <u>Portion</u> | <u>Long-term</u> <u>Portion</u> |
|--|-------------------|---------------------|--|----------------------------------|------------------------------------|
| \$ <u>450,154</u> | \$ <u>307,635</u> | \$ <u>(313,549)</u> | \$ <u>444,240</u> | \$ <u>355,392</u> | \$ <u>88,848</u> |

(5) Other Post-Employment Benefits (OPEB) Plan

Plan Description

The District contracts with the California Public Employees Retirement System (CalPERS) to receive health benefits through the Public Employees' Medical and Hospital Care Act (PEMHCA) and is required to pay the PEMCHA minimum (\$122/month in 2015 and \$125/month in 2016) for each CalPERS retiree who is enrolled in CalPERS medical insurance for whom the District was their employer. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors. The plan provides post-employment medical, dental and vision benefits to retired employees who satisfy the eligibility rules.

The following requirements must be satisfied in order to be eligible for post-employment medical, dental, and vision benefits: (1) attainment of age 55, and (2) 11 years of full-time service, and (3) retirement from the District (the District must be the last employer prior to retirement). For qualifying participants enrolled in a CalPERS medical plan, their District benefit includes the PEMHCA minimum.

Members in the OPEB plan consisted of the following as of June 30, 2016:

| | |
|---|-----------|
| Active plan members | 52 |
| Retirees and beneficiaries receiving benefits | <u>32</u> |
| | <u>84</u> |

Spouses at the time of the employee's retirement and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the District's medical and dental programs. The ability to participate in the vision program is linked to participation in the medical program.

The District has also established an agent multiple-employer defined benefit OPEB plan trust with Public Agency Retirement Services (PARS) to provide additional funding for the Plan.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(5) Other Post-Employment Benefits (OPEB) Plan (Continued)

Funding Policy

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District will pay 100% of the cost of the post-employment benefit plan. The District made contributions greater than the amount calculated on a pay-as-you-go-basis and reduced the OPEB liability by the amount of contributions exceeding the OPEB annual cost.

Annual Cost

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB liability (asset) to the plan:

| | | |
|---|----|---------------------------|
| Annual OPEB cost (expense): | | |
| Annual required contribution (ARC) | \$ | 132,714 |
| Interest on net OPEB obligation | | 5,243 |
| Adjustment to ARC | | <u>(7,580)</u> |
| Total annual OPEB cost (expense) | | <u>130,377</u> |
| Contributions made: | | |
| Contributions made - PARS Investment | | (250,000) |
| Contributions made - "Pay go" | | <u>(92,601)</u> |
| Total contributions made | | <u>(342,601)</u> |
| Total change in net OPEB payable obligation (asset) | | (212,224) |
| OPEB payable - beginning of year | | <u>131,082</u> |
| OPEB asset - end of year | | <u><u>\$ (81,142)</u></u> |

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation (asset) for fiscal year 2016 and the two preceding years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Contributions | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation (Asset) |
|-------------------------|------------------------|---------------|--|-----------------------------------|
| 2016 | \$ 130,377 | \$ 342,601 | 262.78% | \$ (81,142) |
| 2015 | 126,424 | 413,245 | 326.87% | 131,082 |
| 2014 | 124,043 | 192,462 | 155.16% | 417,903 |

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(5) Other Post-Employment Benefits (OPEB) Plan (Continued)

Funding Progress of the Plan

| Required Supplementary Information - Schedule of Funding Progress | | | | | | |
|---|---|---|--|----------------------------|---------------------------|---|
| Actuarial Valuation Date | Actuarial Value of Assets (AVA) (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b) - (a) | Funded Ratio (a)/(b) | Covered Payroll (c) | UAAL as a % of Payroll [(b)-(a)]/(c) |
| 7/1/2013 | \$ - | \$ 1,264,467 | \$ 1,264,467 | 0% | \$ 8,086,963 | 15.64% |
| 7/1/2010 | - | 859,267 | 859,267 | 0% | 8,094,286 | 10.62% |
| 6/30/2009 | - | 2,377,499 | 2,377,499 | 0% | 7,584,511 | 31.35% |

Actuarial Methods and Assumptions

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

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

| | |
|-------------------------------|--|
| Valuation date | July, 1, 2013 |
| Actuarial cost method | Projected unit credit |
| Amortization method | 30-year level dollar, open period |
| Remaining amortization period | 30 years as of the valuation date |
| Asset valuation method | 15 year smoothed market |
| Actuarial Assumptions: | |
| Investment rate of return | 4.00% |
| Projected salary increases | 3.25% |
| Inflation - discount rate | 4.00% |
| Individual salary growth | District annual COLA |
| Healthcare trend rate | 8% in 2013 reduced by decrements of 1% through 2016 at which point the rate is 5% thereafter |

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(6) Long-Term Debt

The following amounts of debt were outstanding June 30, 2016:

| | Balance at June 30, 2015 | Additions | Repayments | Balance at June 30, 2016 | Amount Due in One Year |
|---------------------------|-----------------------------|-----------|----------------|-----------------------------|---------------------------|
| 2009 Series COPs | \$ 5,375,000 | \$ - | \$ (1,705,000) | \$ 3,670,000 | \$ 1,790,000 |
| Plus: Unamortized premium | 302,421 | - | (111,663) | 190,758 | - |
| Total 2009 Series COPs | 5,677,421 | - | (1,816,663) | 3,860,758 | 1,790,000 |
| 2010 Series COPs | 20,470,000 | | (385,000) | 20,085,000 | 400,000 |
| Plus: Unamortized premium | 866,110 | | (88,832) | 777,278 | - |
| Total 2010 Series COPs | 21,336,110 | - | (473,832) | 20,862,278 | 400,000 |
| Total COPs | \$ 27,013,531 | \$ - | \$ (2,290,495) | \$ 24,723,036 | \$ 2,190,000 |

2009 Certificates of Participation

On August 11, 2009 the Mesa Water District Improvement Corporation (Corporation) issued \$14,700,000 of 2009 Certificates of Participation. The proceeds of the sale of the Certificates of Participation were used to refinance the District's 1998 Refunding Certificates of Participation. As a result, the 1998 Refunding Certificates of Participation are considered defeased and the liability for those obligations has been removed from the financial statements.

The above Certificates are secured by a pledge of net revenues from the operation of the enterprise. The District has covenanted that it will set charges which will be sufficient to provide net revenues equal to at least 115% of the aggregate amount of annual debt service of the District. For the year ended June 30, 2016, the District reported net revenues of \$8,757,103 and debt service of \$3,313,787, which is 264%.

The 2009 Certificates of Participation were issued at an original issue premium of \$953,791, which will be amortized by \$9,305 per month over the life of the debt service. The certificates are scheduled to mature on March 15, 2018. Principal and interest are payable semi-annually on March 15th and September 15th of each year with interest rates ranging from 2.0% to 5.0%.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(6) Long-Term Debt (Continued)

2009 Certificates of Participation (Continued)

Future annual debt service requirements on the 2009 COPs are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|---------------------|-------------------|---------------------|
| 2017 | \$ 1,790,000 | \$ 183,500 | \$ 1,973,500 |
| 2018 | <u>1,880,000</u> | <u>94,000</u> | <u>1,974,000</u> |
| Total Payments | <u>\$ 3,670,000</u> | <u>\$ 277,500</u> | <u>\$ 3,947,500</u> |

2010 Revenue Certificates of Participation

On December 8, 2010, the Mesa Water District Improvement Corporation (Corporation) issued \$21,535,000 of 2010 Revenue Certificates of Participation (COPs). The proceeds from the sale of the COPs were used to finance the expansion and technology upgrade of the Mesa Water Reliability Facility. The COPs were issued at a premium of \$1,273,262 which will be amortized by \$7,403 per month over the life of the debt service, which is 12.54 years. Principal is payable on March 15th of each year and interest payments are payable on March 15th and September 15th each year, commencing March 15, 2014 with interest rates ranging from 3.0% to 5.0%. The COPs are scheduled to mature on March 15, 2025.

The above Certificates are secured by a pledge of net revenues from the operation of the enterprise. The District has covenanted that it will set charges which will be sufficient to provide net revenues equal to at least 115% of the aggregate amount of annual debt service of the District. For the year ended June 30, 2016, the District reported net revenues of \$8,757,103 and debt service of \$3,313,787, which is 264%.

Future annual debt service requirements on the 2010 COPs are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|----------------------|---------------------|----------------------|
| 2017 | \$ 400,000 | \$ 939,637 | \$ 1,339,637 |
| 2018 | 415,000 | 923,637 | 1,338,637 |
| 2019 | 2,405,000 | 907,037 | 3,312,037 |
| 2020 | 2,485,000 | 828,875 | 3,313,875 |
| 2021 | 2,605,000 | 704,626 | 3,309,626 |
| 2022-2025 | <u>11,775,000</u> | <u>1,477,502</u> | <u>13,252,502</u> |
| Total Payments | <u>\$ 20,085,000</u> | <u>\$ 5,781,314</u> | <u>\$ 25,866,314</u> |

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(7) Net Position

Calculation of net investment in capital assets as of June 30, 2016, is as follows:

| | |
|--|----------------|
| Capital assets, net | \$ 110,720,281 |
| Certificates of participation payable, current | (2,190,000) |
| Certificates of participation payable, non-current | (22,533,036) |
| Deferred amount on refunding | 345,999 |
| Bond reserves | 538,307 |
| Net investment in capital assets | \$ 86,881,551 |

(8) Deferred Compensation Program

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.

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 the Program assets held in trust at June 30, 2016, was \$6,019,457.

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 statements of net position.

(9) Retiree Health Savings Program

For the benefit of its employees the District participates in a Retiree Health Savings Plan (RHSP). The purpose of the RHSP is to provide supplementary health care benefits to the District's executive management. The District contributes \$15,000 per year for each member of the RHSP, which is automatically vested. No contributions are required of the participants. Members can withdraw funds at the normal retirement age of 55. Benefit terms, including contribution requirements, are established and may be amended by the District's Board of Directors. These assets are held in trust for the exclusive benefit of the participants. 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 the RHSP assets held in trust at June 30, 2016, was \$489,570.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(9) Retiree Health Savings Program (Continued)

For the year ended June 30, 2016, the District contributed \$22,373 to the RHSP.

Since the District has little administrative involvement and does not perform the investing function for the RHSP, the assets and related liabilities are not shown on the statement of net position.

The RHSP was replaced with a 401a plan after year-end. See the subsequent events note 14 regarding the new plan.

(10) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Miscellaneous (all other) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the plans are established by State statute and Local Government resolution. A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2014 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2014 actuarial valuation report. This report is a publically available valuation report that can be obtained at CalPERS' website under Forms and Publications.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after five (5) years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(10) Defined Benefit Pension Plan (Continued)

Benefits Provided (Continued)

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

| | <u>Miscellaneous</u> | |
|--|-------------------------------------|--|
| | <u>Prior to January 1, 2013</u> | <u>On or After January 1, 2013</u> |
| Hire date | | |
| Benefit formula | 2% @ 55 | 2% @ 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | monthly for life | monthly for life |
| Retirement age | 50 - 63 | 52 - 67 |
| Monthly benefits, as a % of eligible compensation | 1.426% to 2.418% | 1.0% to 2.5% |
| Required employee contribution rates | 6.891% | 6.308% |
| Required employer contribution rates | \$262,702 + 9.353% | 6.730% |

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. Funding contributions for plans are determined annually on an actuarial basis as of June 30 by CalPERS. 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. Employer contributions rates may change if plan contracts are amended.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(10) Defined Benefit Pension Plan (Continued)

Actuarial Methods and Assumptions used to determine Total Pension Liability

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

| | |
|---------------------------|---------------------------------|
| | <u>Miscellaneous</u> |
| Valuation Date | June 30, 2014 |
| Measurement Date | June 30, 2015 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Payroll Growth | 3.00% |
| Projected Salary Increase | (1) |
| Investment Rate of Return | 7.5% (2) |
| Mortality | (3) |

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) The probabilities of mortality are derived using CalPERS' membership data for all funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

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

Change of Assumptions

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 of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(10) Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for each plan. 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 tests revealed the assets would not run out. Therefore, the current 7.65% 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% is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

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

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

The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(10) Defined Benefit Pension Plan (Continued)

Discount Rate (Continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

| 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 Fixed 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% |
| Total | <u>100.00%</u> | | |

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

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

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

At June 30, 2016, the District reported a net pension liability for its proportionate share of the net pension liability as follows:

| | |
|---------------|---|
| | Proportionate Share of Net Pension Liability |
| Miscellaneous | <u>\$ 6,671,898</u> |

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(10) Defined Benefit Pension Plan (Continued)

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

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

The District's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

| | <u>Miscellaneous</u> |
|------------------------------|----------------------|
| Proportion - June 30, 2014 | 0.25558% |
| Proportion - June 30, 2015 | 0.24319% |
| Change - Increase (Decrease) | -0.01239% |

For the year ended June 30, 2016, the District recognized a pension expense of \$433,560 for the Plan.

As of June 30, 2016, the District reports other amounts for the Plan as deferred outflow and deferred inflow of resources related to pensions as follows:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Pension contributions subsequent to measurement date | \$ 693,154 | \$ - |
| Differences between actual and expected experience | 34,054 | - |
| Change in assumptions | - | (322,180) |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | - | (1,458,896) |
| Net differences between projected and actual earnings on plan investments | - | (161,512) |
| Total | <u>\$ 727,208</u> | <u>\$ (1,942,588)</u> |

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(10) Defined Benefit Pension Plan (Continued)

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

\$693,154 is 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 outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ending June 30, | Amount |
|----------------------------|--------------|
| 2017 | \$ (774,416) |
| 2018 | (758,833) |
| 2019 | (581,737) |
| 2020 | 206,452 |
| 2021 | - |
| Thereafter | - |

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

The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| | Discount Rate - 1% (6.65%) | Current Discount Rate (7.65%) | Discount Rate + 1% (8.65%) |
|------------------------------|---|--|---|
| Plan's Net Pension Liability | \$ 11,930,886 | \$ 6,671,898 | \$ 2,329,992 |

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(10) Defined Benefit Pension Plan (Continued)

Payable to the Pension Plan

At June 30, 2016, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

(11) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. On June 30, 2016 the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$2 million. ACWA/JPIA purchases additional excess coverage layers: \$58 million for general, auto, and public official's liability which increases the limits on the insurance coverage noted above.
- Public employee dishonesty coverage up to \$100,000 per loss with excess coverage layers of \$1.5 million and includes public employee dishonesty, forgery or alteration, and computer fraud.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis. ACWA/JPIA is self-insured for the first \$100,000, and purchases excess coverage up to \$150 million limited to insurable value.
- Boiler and machinery coverage for the replacement cost up to \$150 million per occurrence limited to insurable value, subject to various deductibles depending on the type of equipment.
- Workers' Compensation Insurance up to California statutory limits for all work related injuries/illnesses covered by California law. ACWA/JPIA is self-insured to \$2 million has purchased excess insurance to the statutory limit.

MESA WATER DISTRICT
Notes to the Financial Statements (Continued)
Year Ended June 30, 2016

(11) Risk Management (Continued)

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 year ending June 30, 2016. 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 claims payable as of June 30, 2016, 2015 and 2014.

(12) Commitments and Contingencies

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.

(13) Prior Period Adjustment

Net position for the District as of July 1, 2015 was restated as follows:

| | |
|--|-----------------------|
| Net position at beginning of year | \$ 114,735,062 |
| To expense amounts capitalized in the prior year | <u>(1,418,737)</u> |
| Net position at beginning of year, as restated | <u>\$ 113,316,325</u> |

(14) Subsequent Events

On January 1, 2017, the District terminated the RHSP plan included in note 9 and replaced this plan with a 401(a) single employer defined contribution pension plan for employees within the Management Group. The District contributes 2.5% of each participant's base salary each year subject to limitations by the federal code, which is automatically vested. No contributions are required of the plan participants. Members can withdraw funds at the normal retirement age of 55. Benefit terms, including contribution requirements, are established and may be amended by the District's Board of Directors.

These assets are held in trust for the exclusive benefit of the participants. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors.

In preparing these financial statements, the District has evaluated other events and transactions for potential recognition or disclosure through March 27, 2017, the date the financial statements were available to be issued.

<Page Intentionally Left Blank>

REQUIRED SUPPLEMENTARY INFORMATION

<Page Intentionally Left Blank>

MESA WATER DISTRICT

Schedule of Proportionate Share of the Net Pension Liability

Last Ten Fiscal Years*

| Fiscal year ended | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--|----------------------|----------------------|
| Measurement period | June 30, 2015 | June 30, 2014 |
| Plan's proportion of the net pension liability | 0.09720% | 0.10151% |
| Plan's proportionate share of the net pension liability | \$ 6,671,898 | \$ 6,316,538 |
| Plan's covered - employee payroll | \$ 4,124,923 | \$ 5,360,103 |
| Plan's proportionate share of the net pension liability as a percentage of its covered - employee payroll | 161.75% | 117.84% |
| Plan's proportionate share of fiduciary net position as a percentage of the Plan's total pension liability | 82.72% | 83.03% |
| Plan's proportionate share of aggregate employer contributions | \$ 1,104,974 | \$ 835,655 |

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

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 of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

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

MESA WATER DISTRICT
Schedule of Plan Contributions
Last Ten Fiscal Years*

| Fiscal year ended | June 30, 2016 | June 30, 2015 |
|---|---------------|---------------|
| Contractually required contribution (actuarially determined) | \$ 693,154 | \$ 510,456 |
| Contributions in relation to the actuarially determined contributions | (693,154) | (510,456) |
| Contribution deficiency (excess) | \$ - | \$ - |
| Covered - employee payroll | \$ 4,641,846 | \$ 4,124,923 |
| Contributions as a percentage of covered - employee payroll | 14.93% | 12.37% |

Notes to Schedule:

Valuation Date 6/30/2013

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|----------------------------|---|
| Single and agent employers | Entry age** |
| Amortization method | Level percentage of payroll, closed** |
| Asset valuation method | Market Value*** |
| Inflation | 2.75%** |
| Salary increases | Depending on age, service, and type of employment; including inflation of 2.75%** |
| Investment rate of return | 7.75%, net of pension plan investment expense, including inflation** |
| Retirement age | 50 years (2% @55) and 52 years (2% @62)** |
| Mortality | Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board, first used in the June 30, 2009 valuation. For purposes of the post-retirement mortality rates, those revised rates include 5 years of projected on-going mortality improvement using Scale AA published by the Society of Actuaries until June 30, 2010. There is no margin for future mortality improvement beyond the valuation date.** |

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

** - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) included the same actuarial assumptions

*** - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using a 15 Year Smoothed Market method.

SUPPLEMENTARY INFORMATION

<Page Intentionally Left Blank>

MESA WATER DISTRICT

Certificates of Participation
Revenue Coverage

Year Ended June 30, 2016

| | |
|---|---------------------|
| Total operating and nonoperating revenues and capacity installation charges | \$ 31,920,982 |
| Total maintenance and operating expense | <u>23,163,879</u> |
| Net Revenues | <u>\$ 8,757,103</u> |
| Certificates of participation annual debt service and all other parity debt constituting obligations payable from net revenues | <u>\$ 3,313,787</u> |
| Ratio of net revenues to annual debt service and all other parity debt payable from net revenues | 2.64 |

MESA WATER DISTRICT

Certificates of Participation
Reconciliation of Total Revenues and Total Expenses

Year Ended June 30, 2016

| | |
|---|----------------------|
| Revenues: | |
| Operating revenues | \$ 29,294,525 |
| Nonoperating revenues | 681,378 |
| Capacity and installation charges | <u>1,945,079</u> |
| Total revenues | <u>\$ 31,920,982</u> |
| Maintenance and operating expenses: | |
| Operating expenses before depreciation and amortization | \$ 21,524,838 |
| Plus: Other post-employment benefits noncash activity | <u>212,224</u> |
| Total maintenance and operating expenses | <u>21,737,062</u> |
| Nonoperating expenses: | |
| Interest expense - long-term debt | 1,196,589 |
| Less: Certificates of participation interest expense | (1,194,431) |
| Loss on abandonment | 923,020 |
| Loss on impairment of capital asset | 380,732 |
| Other nonoperating, net | <u>120,907</u> |
| Total nonoperating expenses | <u>1,426,817</u> |
| Total expenses | <u>\$ 23,163,879</u> |

STATISTICAL INFORMATION SECTION

<Page Intentionally Left Blank>

MESA WATER DISTRICT

Statistical Section

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 say about the government’s overall financial health.

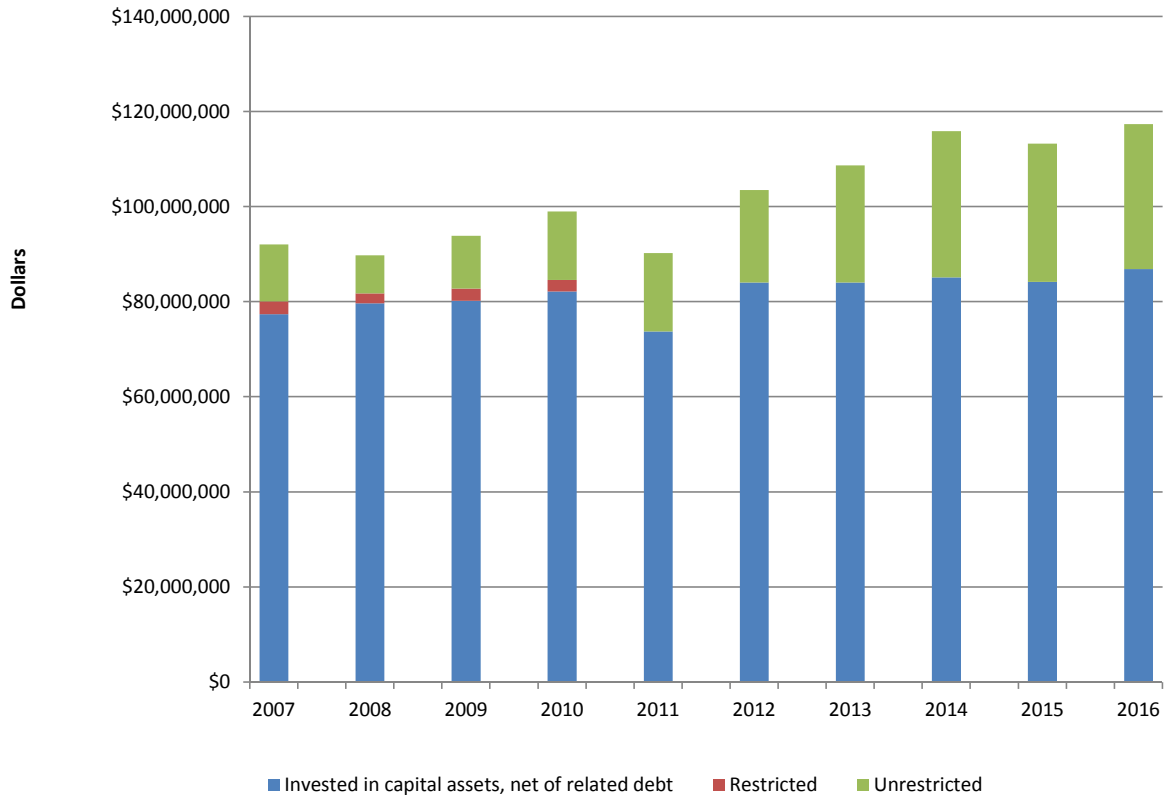
Table of Contents

| | <u>Page No.</u> |
|--|-----------------|
| <u>Financial Trends</u> | 62a-63 |
| <p>These schedules contain trend information to help the reader understand how the District’s financial performance and well-being have changed over time.</p> | |
| <u>Revenue Capacity</u> | 64-70 |
| <p>These schedules contain information to help the reader assess the District’s most significant own-source revenue, water sales, and related expenses.</p> | |
| <u>Debt Capacity</u> | 71-72 |
| <p>These schedules present information to help the reader assess the affordability of the District’s current levels of outstanding debt and the District’s ability to issue additional debt in the future.</p> | |
| <u>Demographic and Economic Information</u> | 73 |
| <p>This schedule offers demographic indicators to help the reader understand the environment within which the District’s financial activities take place.</p> | |
| <u>Operating Information</u> | 74-76 |
| <p>These schedules contain service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the service the District provides.</p> | |

Mesa Water District
Changes in Net Position and Net Position by Component
Last Ten Fiscal Years
Schedule 1, Continued

| Fiscal Year | | | | | |
|--------------|--------------|--------------|--------------|--------------|--------------|
| 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| 29,495,485 | 29,296,353 | 34,080,443 | 37,675,090 | 33,249,888 | 29,294,525 |
| (25,848,828) | (23,953,040) | (29,095,185) | (31,103,589) | (28,025,981) | (26,227,594) |
| 3,646,657 | 5,343,313 | 4,985,258 | 6,571,501 | 5,223,907 | 3,066,931 |
| (790,937) | (321,690) | (1,196,646) | (1,142,788) | (889,936) | (2,009,000) |
| 2,855,720 | 5,021,623 | 3,788,612 | 5,428,713 | 4,333,971 | 1,057,931 |
| 1,779,584 | 228,413 | 1,409,655 | 1,771,171 | 2,552,466 | 3,016,356 |
| (13,357,434) | - | - | - | - | - |
| - | - | - | - | (1,418,737) | - |
| (8,722,130) | 5,250,036 | 5,198,267 | 7,199,884 | 5,467,700 | 4,074,287 |
| 73,793,234 | 84,080,083 | 84,054,617 | 85,117,787 | 84,181,875 * | 86,881,551 |
| - | - | - | - | - | - |
| 16,474,621 | 19,452,573 | 24,676,306 | 30,813,020 | 29,134,450 | 30,509,061 |
| 90,267,855 | 103,532,656 | 108,730,923 | 115,930,807 | 113,316,325 | 117,390,612 |

Net Position by Component

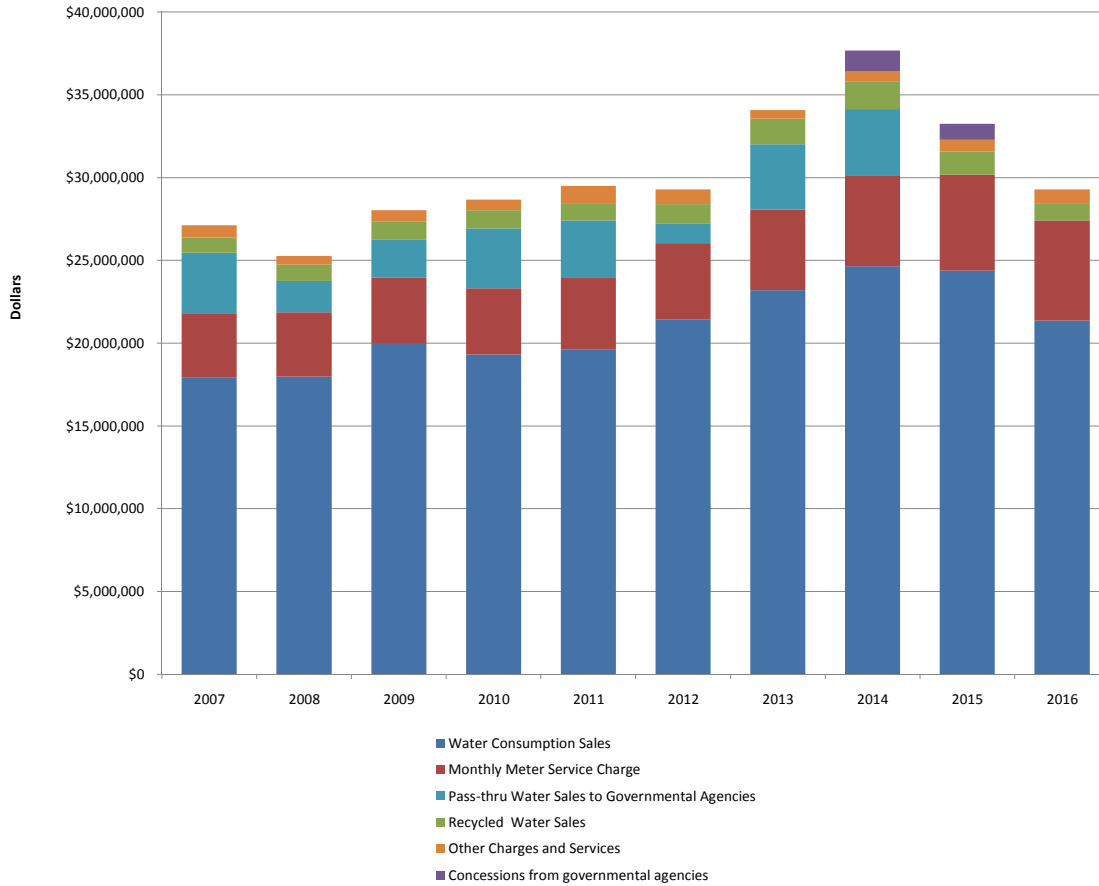


Mesa Water District
Historic Operating Results and Debt Service Coverage
Fiscal Years Ended June 30
Schedule 1a

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Revenues | | | | | |
| Water Sales | \$21,357,269 | \$24,371,000 | \$24,639,988 | \$23,205,333 | \$21,446,306 |
| Meter Service Charges | 6,050,343 | 5,803,271 | 5,454,610 | 4,865,284 | 4,597,512 |
| Pass-through Water Sales | | | | | |
| Governmental Agencies | - | - | \$4,035,580 | \$3,948,733 | \$1,200,178 |
| Concessions from Governmental Agencies | - | 968,138 | 1,238,000 | - | - |
| Recycled Water Sales | 1,056,481 | 1,397,919 | 1,698,506 | 1,549,378 | 1,158,856 |
| Other Charges and Services | 830,432 | 709,560 | 608,406 | 511,715 | 893,501 |
| Capacity and Installation Charges | 1,945,079 | 1,247,867 | 452,679 | 434,763 | 134,616 |
| Investment Earnings | 681,378 | 404,763 | 238,672 | 43,234 | 313,494 |
| Total Revenues | <u>\$31,920,982</u> | <u>\$34,902,518</u> | <u>\$38,366,441</u> | <u>\$34,558,440</u> | <u>\$29,744,463</u> |
| Operation and Maintenance Costs | | | | | |
| Imported Source of Supply | \$1,031,539 | \$2,645,852 | \$2,695,858 | \$3,073,519 | \$5,449,257 |
| Transmission and Distribution | 4,961,178 | 5,750,908 | 5,251,819 | 5,005,698 | 4,838,681 |
| General and Administrative | 7,900,124 | 7,380,985 | 6,320,500 | 6,217,746 | 5,577,027 |
| Pass-through Water Purchases to | | | | | |
| Governmental Agencies | - | - | 4,035,580 | 3,948,733 | 1,200,178 |
| Total Clear Water Pumping | 4,682,120 | 4,273,537 | 4,287,888 | 4,134,259 | 3,767,638 |
| Total Amber Water Pumping | 2,453,295 | 2,864,506 | 3,353,823 | 2,472,987 | 38,178 |
| Recycled Water | 496,582 | 436,560 | 470,767 | 443,319 | 325,349 |
| In-lieu Source of Supply | - | - | - | - | 249,703 |
| Total Operating Expenses | <u>\$21,524,838</u> | <u>\$23,352,348</u> | <u>\$26,416,235</u> | <u>\$25,296,261</u> | <u>\$21,446,011</u> |
| Net Revenues | \$10,396,144 | \$11,550,170 | \$11,950,206 | \$9,262,179 | \$8,298,452 |
| Senior Obligations | 1,973,750 | 1,969,750 | 1,972,150 | 1,977,750 | 1,971,850 |
| Senior Obligations Coverage | 5.27 | 5.86 | 6.06 | 4.68 | 4.21 |
| Revenues Available for Parity Obligations | \$8,422,394 | \$9,580,420 | \$9,978,056 | \$7,284,429 | \$6,326,602 |
| Parity Obligations | | | | | |
| 2010 Installment Payments | 1,340,038 | 1,339,838 | 1,339,038 | 837,119 | - |
| 1991 OCWD Well Loan | - | - | 97,324 | 46,207 | 44,645 |
| 1998 OCWD Well I I Loan | - | - | 352,239 | 37,598 | 88,832 |
| 1998 Wells IB and 10 Loan | - | - | 147,207 | 52,149 | 24,759 |
| Total Parity Obligations | <u>1,340,038</u> | <u>1,339,838</u> | <u>1,935,808</u> | <u>973,073</u> | <u>158,236</u> |
| Parity Obligations Coverage | 6.29 | 7.15 | 5.15 | 7.49 | 39.98 |
| Revenues Available for Capital Projects and Other Coverage | 7,082,357 | 8,240,583 | 8,042,249 | 6,311,356 | 6,168,366 |

**Mesa Water District
Operating Revenues By Source
Last Ten Fiscal Years
Schedule 2**

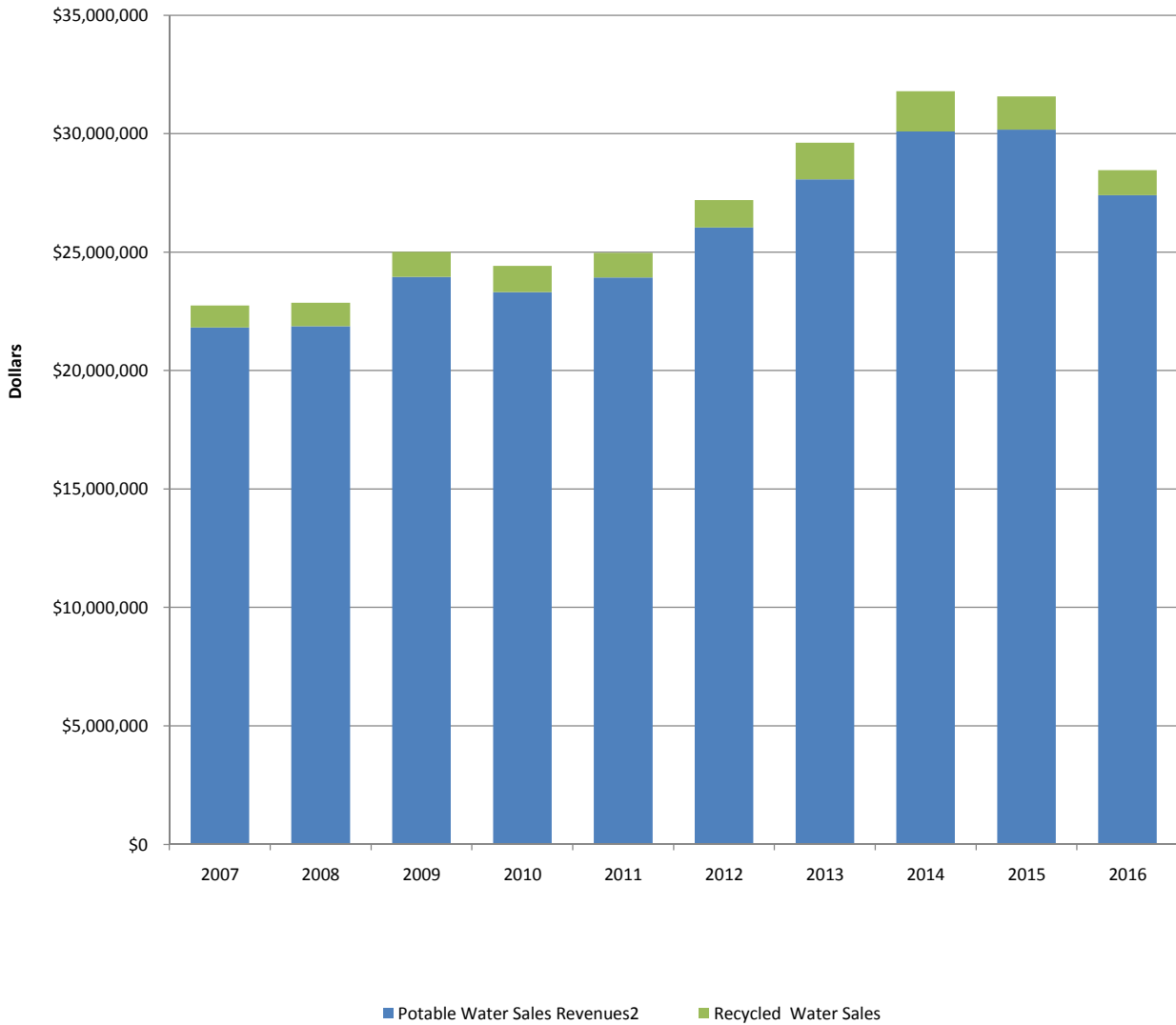
| Fiscal Year | Water Consumption Sales | Monthly Meter Service Charge | Pass-thru Water Sales to Governmental Agencies | Recycled Water Sales | Other Charges and Services | Concessions from governmental agencies | Total Operating Revenues |
|--------------------|--------------------------------|-------------------------------------|---|-----------------------------|-----------------------------------|---|---------------------------------|
| 2007 | 17,945,830 | 3,868,656 | 3,646,283 | 927,781 | 742,138 | - | 27,130,688 |
| 2008 | 17,973,986 | 3,899,409 | 1,883,331 | 983,502 | 534,904 | - | 25,275,132 |
| 2009 | 20,016,831 | 3,932,115 | 2,328,144 | 1,061,400 | 702,002 | - | 28,040,492 |
| 2010 | 19,315,363 | 3,998,580 | 3,623,321 | 1,100,038 | 622,496 | - | 28,659,798 |
| 2011 | 19,598,777 | 4,329,199 | 3,494,841 | 1,042,340 | 1,030,328 | - | 29,495,485 |
| 2012 | 21,446,306 | 4,597,512 | 1,200,178 | 1,158,856 | 893,501 | - | 29,296,353 |
| 2013 | 23,205,333 | 4,865,284 | 3,948,733 | 1,549,378 | 511,715 | - | 34,080,443 |
| 2014 | 24,639,988 | 5,454,610 | 4,035,580 | 1,698,506 | 608,406 | 1,238,000 | 37,675,090 |
| 2015 | 24,371,000 | 5,803,271 | - | 1,397,919 | 709,560 | 968,138 | 33,249,888 |
| 2016 | 21,357,269 | 6,050,343 | - | 1,056,481 | 830,432 | - | 29,294,525 |



Source: Mesa Water District Audited Financial Statements.

**Mesa Water District
Historic Water Sales Revenues¹
Last Ten Fiscal Years
Schedule 2a**

| Fiscal Year | Potable Water Sales Revenues² | Recycled Water Sales | Total | Increase (Decrease) |
|--------------------|---|-----------------------------|--------------|----------------------------|
| 2007 | 21,814,486 | 927,781 | 22,742,267 | 13.6% |
| 2008 | 21,873,395 | 983,502 | 22,856,897 | 0.5% |
| 2009 | 23,948,946 | 1,061,400 | 25,010,346 | 9.4% |
| 2010 | 23,313,943 | 1,100,038 | 24,413,981 | -2.4% |
| 2011 | 23,927,976 | 1,042,340 | 24,970,316 | 2.3% |
| 2012 | 26,043,818 | 1,158,856 | 27,202,674 | 8.9% |
| 2013 | 28,070,617 | 1,549,378 | 29,619,995 | 8.9% |
| 2014 | 30,094,598 | 1,698,506 | 31,793,104 | 7.3% |
| 2015 | 30,174,271 | 1,397,919 | 31,572,190 | -0.7% |
| 2016 | 27,407,612 | 1,056,481 | 28,464,093 | -9.8% |



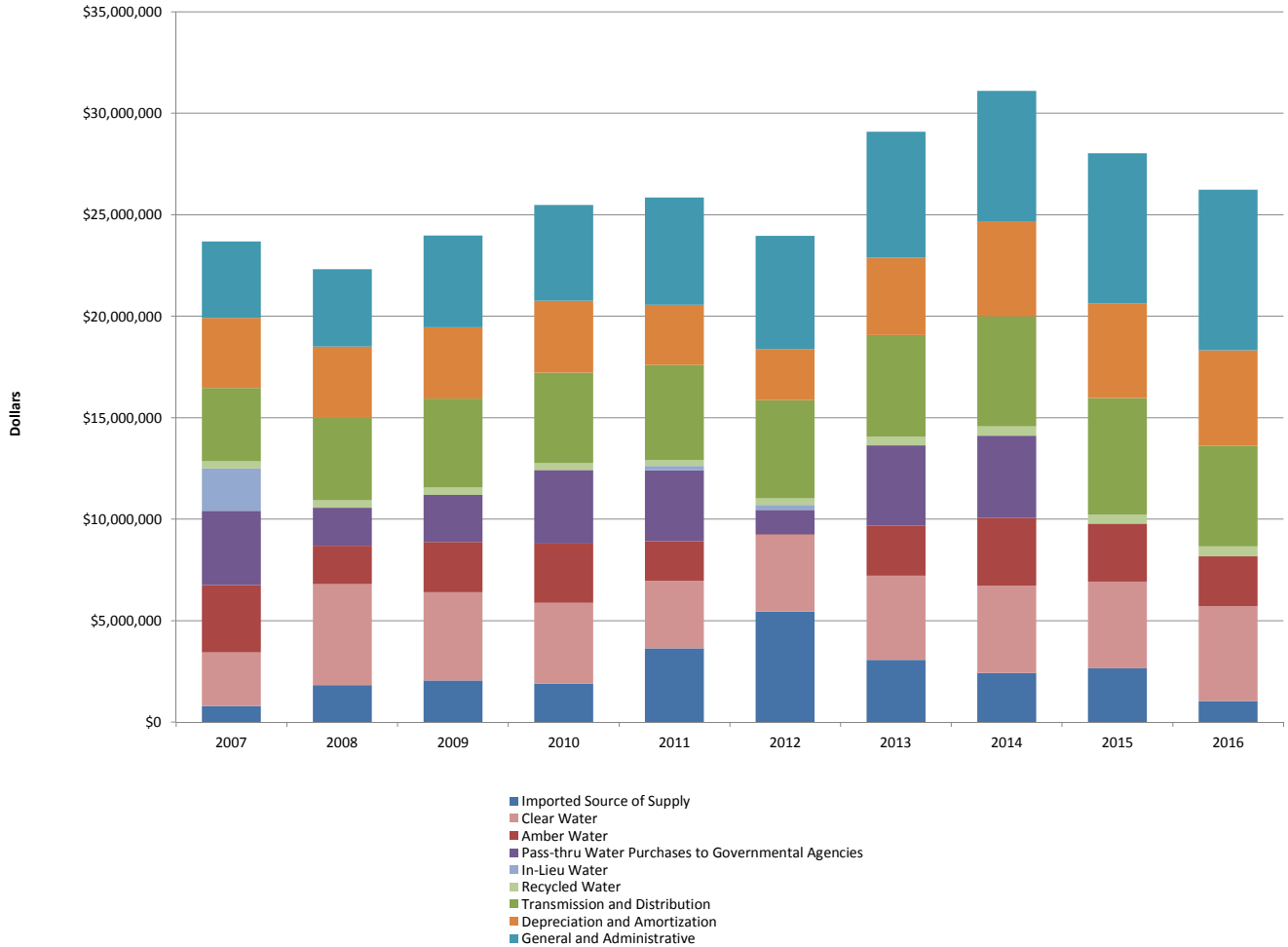
¹ Excludes revenues from sales at cost to the City of Huntington Beach.

² Includes bimonthly meter charges/

Source: Mesa Water District Audited Financial Statements.

**Mesa Water District
Operating Expenses by Activity
Last Ten Fiscal Years
Schedule 3**

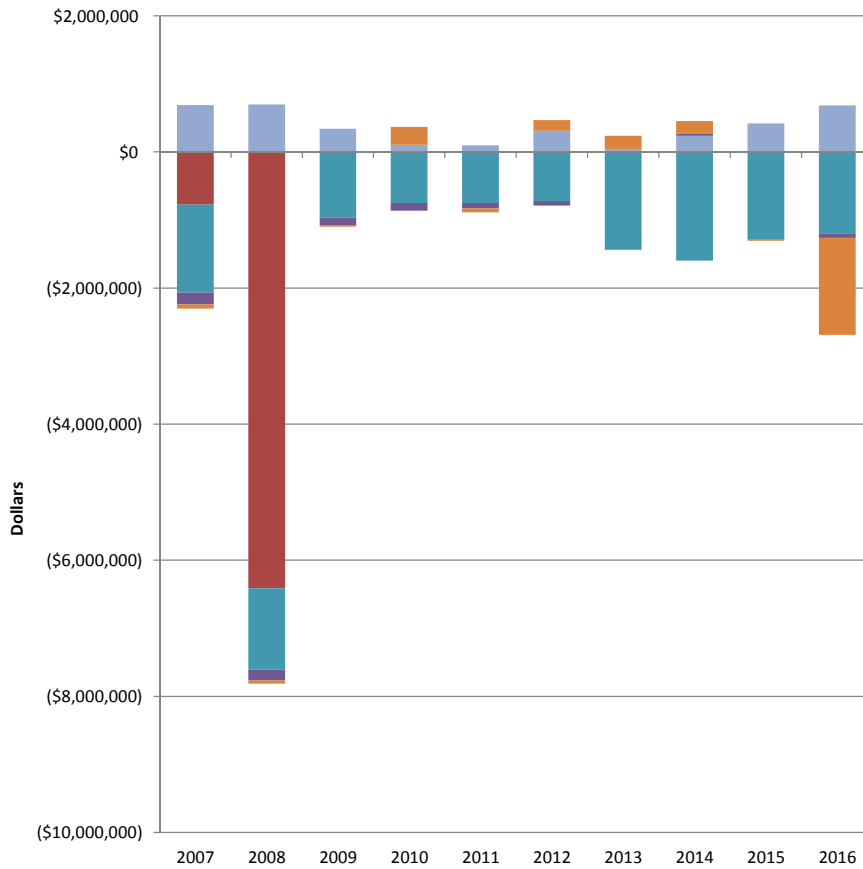
| Fiscal Year | Imported Source of Supply | Pass-thru Water Purchases to Governmental Agencies | | | | Recycled Water | Transmission and Distribution | Depreciation and Amortization | General and Administrative | Total Operating Expenses |
|-------------|---------------------------|--|-------------|---------------|-----------|----------------|-------------------------------|-------------------------------|----------------------------|--------------------------|
| | | Clear Water | Amber Water | In-Lieu Water | | | | | | |
| 2007 | 793,521 | 2,641,180 | 3,322,247 | 3,646,283 | 2,101,378 | 341,953 | 3,622,632 | 3,442,188 | 3,764,222 | 23,675,604 |
| 2008 | 1,827,324 | 4,969,970 | 1,886,228 | 1,883,331 | - | 361,854 | 4,096,822 | 3,482,048 | 3,806,857 | 22,314,434 |
| 2009 | 2,047,418 | 4,352,458 | 2,469,328 | 2,328,144 | - | 361,556 | 4,381,860 | 3,511,025 | 4,526,168 | 23,977,957 |
| 2010 | 1,897,896 | 3,975,004 | 2,924,926 | 3,623,321 | - | 337,400 | 4,461,625 | 3,539,223 | 4,717,630 | 25,477,025 |
| 2011 | 3,629,226 | 3,343,162 | 1,943,963 | 3,494,841 | 209,053 | 300,364 | 4,680,458 | 2,967,260 | 5,280,501 | 25,848,828 |
| 2012 | 5,449,257 | 3,767,638 | 38,178 | 1,200,178 | 249,703 | 325,349 | 4,838,681 | 2,507,029 | 5,577,027 | 23,953,040 |
| 2013 | 3,073,519 | 4,134,259 | 2,472,987 | 3,948,733 | - | 443,319 | 5,005,698 | 3,798,924 | 6,217,746 | 29,095,185 |
| 2014 | 2,427,936 | 4,287,888 | 3,353,823 | 4,035,580 | - | 470,767 | 5,425,385 | 4,687,354 | 6,414,856 | 31,103,589 |
| 2015 | 2,645,852 | 4,273,537 | 2,864,506 | - | - | 436,560 | 5,750,908 | 4,673,633 | 7,380,985 | 28,025,981 |
| 2016 | 1,031,539 | 4,682,120 | 2,453,295 | - | - | 496,582 | 4,961,178 | 4,702,756 | 7,900,124 | 26,227,594 |



Source: Mesa Water District Audited Financial Statements

Mesa Water District
Non-operating Revenues and (Expenses)
Last Ten Fiscal Years
Schedule 4

| Fiscal Year | Investment Earnings⁽¹⁾ | Interest Expense- Long-Term Debt | Gain (Loss) on Sale/ Disposition Capital Assets, Net | Other Non-Operating, Net | Pension Plan Prior Service | Nonoperating Revenues/(Expenses) |
|--------------------|--|---|---|---------------------------------|-----------------------------------|---|
| 2007 | 688,588 | (1,292,290) | (175,858) | (58,474) | (775,498) | (1,613,532) |
| 2008 | 696,673 | (1,192,813) | (160,554) | (44,533) | (6,413,660) | (7,114,887) |
| 2009 | 338,335 | (966,598) | (106,544) | (25,913) | - | (760,720) |
| 2010 | 103,864 | (749,969) | (115,994) | 264,304 | - | (497,795) |
| 2011 | 94,758 | (748,517) | (82,164) | (55,014) | - | (790,937) |
| 2012 | 313,494 | (720,536) | (68,158) | 153,510 | - | (321,690) |
| 2013 | 43,234 | (1,429,154) | (6,288) | 195,562 | - | (1,196,646) |
| 2014 | 238,672 | (1,595,546) | 28,155 | 185,931 | - | (1,142,788) |
| 2015 | 404,763 | (1,293,727) | 9,639 | (10,611) | - | (889,936) |
| 2016 | 681,378 | (1,196,589) | (69,130) | (1,424,659) | - | (2,009,000) |

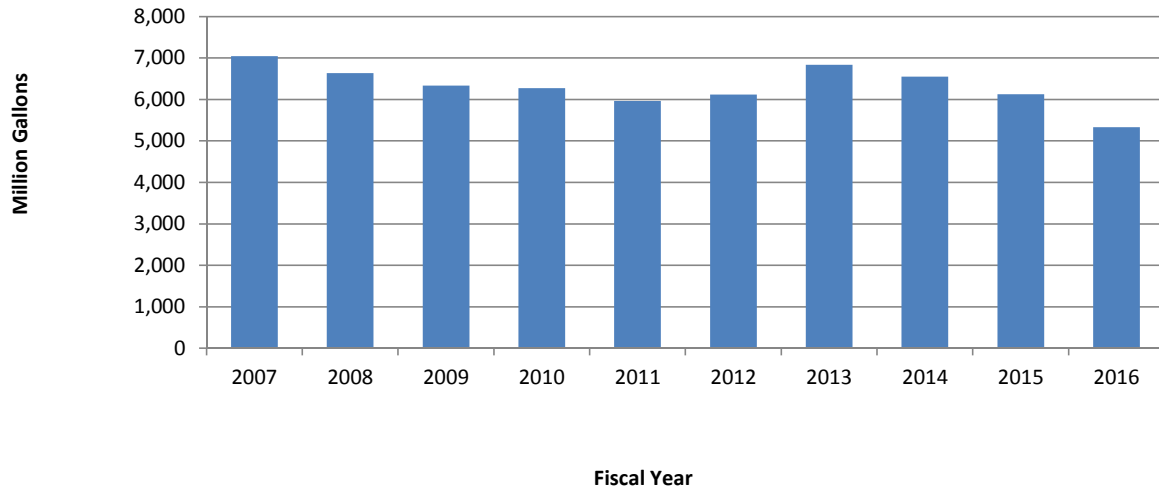


- Pension Plan Prior Service
- Investment Earnings(1)
- Interest Expense- Long-Term Debt
- Gain (Loss) on Sale/ Disposition Capital Assets, Net
- Other Non-Operating, Net

Note: (1) Includes Interest Income Realized and Unrealized Gains and Losses On Investments.
Source: Mesa Water District Audited Financial Statements

**Mesa Water District
Operating Revenue Base
Last Ten Fiscal Years
Schedule 5**

| Fiscal Year | Water Consumption (Gallons) | AF | Sales AF | Production AF |
|------------------------|--|--------|----------|---------------|
| 2007 | 7,048,852,096 | 21,526 | 21,527 | 22,701 |
| 2008 | 6,632,737,815 | 20,278 | 20,278 | 20,998 |
| 2009 | 6,338,694,880 | 19,453 | 19,753 | 20,040 |
| 2010 | 6,276,476,792 | 18,234 | 18,234 | 19,262 |
| 2011 | 5,964,539,630 | 17,359 | 17,359 | 18,305 |
| 2012 | 6,119,286,269 | 17,874 | 17,874 | 18,779 |
| 2013 | 6,836,777,586 | 18,701 | 18,701 | 20,981 |
| 2014 | 6,551,560,206 | 19,011 | 19,011 | 20,106 |
| 2015 | 6,130,560,714 | 18,110 | 18,110 | 18,814 |
| 2016 | 5,330,922,360 | 15,057 | 15,057 | 16,360 |



Note: For Information Regarding Water Sales See Schedule 2 'Operating Revenue by Source'.
Source: Mesa Water District Billing System

**Mesa Water District
Revenue Rates
Last Ten Fiscal Years
Schedule 7**

Minimum Bimonthly Service Charge - Potable Water Service

| Meter Size | | 6/30/07 | 6/30/08 | 6/30/09 | 6/30/10 | 6/30/11 | 6/30/12 | 6/30/13 | 6/30/14 | 6/30/15 | 6/30/16 |
|------------|----|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| 5/8" | \$ | 15.00 | 15.00 | 15.00 | 16.00 | 17.00 | 18.00 | 19.00 | 20.00 | 21.50 | 22.50 |
| 3/4" | | 22.50 | 22.50 | 22.50 | 24.00 | 25.50 | 27.00 | 28.50 | 30.00 | 32.50 | 33.50 |
| 1" | | 37.50 | 37.50 | 37.50 | 40.00 | 42.50 | 45.00 | 47.50 | 50.00 | 54.00 | 55.50 |
| 1 1/2" | | 75.00 | 75.00 | 75.00 | 80.00 | 85.00 | 90.00 | 95.00 | 100.00 | 108.00 | 111.50 |
| 2" | | 120.00 | 120.00 | 120.00 | 128.00 | 136.00 | 144.00 | 152.00 | 160.00 | 172.50 | 178.50 |
| 3" | | 262.50 | 262.50 | 262.50 | 280.00 | 297.50 | 315.00 | 332.50 | 350.00 | 378.00 | 390.00 |
| 4" | | 750.00 | 750.00 | 750.00 | 504.00 | 535.50 | 567.00 | 598.50 | 630.00 | 680.00 | 702.00 |
| 6" | | 1,490.00 | 1,490.00 | 1,125.00 | 1,120.00 | 1,190.00 | 1,260.00 | 1,330.00 | 1,400.00 | 1,510.00 | 1,560.00 |
| 8" | | 1,860.00 | 1,860.00 | 1,687.50 | 1,920.00 | 2,040.00 | 2,160.00 | 2,280.00 | 2,400.00 | 2,590.00 | 2,670.00 |
| 10" | | N/A | N/A | N/A | 3,040.00 | 3,230.00 | 3,420.00 | 3,610.00 | 3,800.00 | 4,100.00 | 4,230.00 |

Minimum Bimonthly Service Charge - Fireline Water Service - Class I

| Meter Size | | 6/30/07 | 6/30/08 | 6/30/09 | 6/30/10 | 6/30/11 | 6/30/12 | 6/30/13 | 6/30/14 | 6/30/15 | 6/30/16 |
|------------|----|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 2" | \$ | 14.00 | 14.00 | 14.00 | 15.00 | 16.00 | 17.00 | 18.00 | 19.00 | 20.50 | 21.00 |
| 3" | | 21.00 | 21.00 | 21.00 | 22.50 | 24.00 | 25.50 | 27.00 | 28.50 | 31.00 | 32.00 |
| 4" | | 28.00 | 28.00 | 28.00 | 30.00 | 32.00 | 34.00 | 36.00 | 38.00 | 41.00 | 42.50 |
| 6" | | 42.00 | 42.00 | 42.00 | 45.00 | 48.00 | 51.00 | 54.00 | 57.00 | 61.50 | 63.50 |
| 8" | | 56.00 | 56.00 | 56.00 | 60.00 | 64.00 | 68.00 | 72.00 | 76.00 | 82.00 | 84.50 |
| 10" | | 70.00 | 70.00 | 70.00 | 90.00 | 96.00 | 102.00 | 108.00 | 114.00 | 123.00 | 127.00 |
| 12" | | 84.00 | 84.00 | 84.00 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

Minimum Bimonthly Service Charge - Fireline Water Service - Class II

| Meter Size | | 6/30/07 | 6/30/08 | 6/30/09 | 6/30/10 | 6/30/11 | 6/30/12 | 6/30/13 | 6/30/14 | 6/30/15 | 6/30/16 |
|------------|----|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 2" | \$ | 28.00 | 28.00 | 28.00 | 30.00 | 32.00 | 34.00 | 36.00 | 38.00 | 41.00 | 42.50 |
| 3" | | 42.00 | 42.00 | 42.00 | 45.00 | 48.00 | 51.00 | 54.00 | 57.00 | 61.50 | 63.50 |
| 4" | | 56.00 | 56.00 | 56.00 | 60.00 | 64.00 | 68.00 | 72.00 | 76.00 | 82.00 | 84.50 |
| 6" | | 84.00 | 84.00 | 84.00 | 90.00 | 96.00 | 102.00 | 108.00 | 114.00 | 123.00 | 127.00 |
| 8" | | 112.00 | 112.00 | 112.00 | 120.00 | 128.00 | 136.00 | 144.00 | 152.00 | 164.00 | 169.50 |
| 10" | | 140.00 | 140.00 | 140.00 | 180.00 | 192.00 | 204.00 | 216.00 | 228.00 | 246.00 | 254.00 |
| 12" | | 168.00 | 168.00 | 168.00 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

Water Use Rate (per 100 cubic feet = 748 gallons)

| User Type | | 6/30/07 | 6/30/08 | 6/30/09 | 6/30/10 | 6/30/11 | 6/30/12 | 6/30/13 | 6/30/14 | 6/30/15 | 6/30/16 |
|-----------------------------|----|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <u>Residential</u> | | | | | | | | | | | |
| Potable Commodity Rate | \$ | 1.99 | 2.17 | 2.50 | 2.60 | 2.70 | 2.85 | 3.00 | 3.15 | 3.40 | 3.51 |
| <u>Non-Residential</u> | | | | | | | | | | | |
| Construction Commodity Rate | \$ | N/A | N/A | 3.75 | 3.90 | 4.05 | 4.28 | 4.50 | 4.73 | 5.10 | 5.26 |
| Fireline Commodity Rate | \$ | 3.98 | 4.34 | 5.00 | 5.20 | 5.40 | 5.70 | 6.00 | 6.30 | 6.80 | 7.02 |
| Recycled Commodity Rate | \$ | 1.79 | 1.95 | 2.25 | 2.34 | 2.43 | 2.57 | 2.70 | 2.84 | 2.51 | 2.32 |

**Mesa Water District
Ten Largest Water Users by Revenue
Current Fiscal Year and Five Years Ago
Schedule 8**

| FY 2015/16 | | Consumption | Acre Feet | % of Total | FY 2010/11 | | Consumption | Acre Feet | % of Total |
|-------------------|--------------------------------------|--------------------|------------------|-------------------|--------------------------------------|---------|--------------------|------------------|-------------------|
| 1 | Mesa Verde Partners | 232,783 | 534 | 3.3% | Mesa Verde (Costa Mesa Golf Course) | 163,413 | 375 | 2.2% | |
| 2 | City of Costa Mesa | 150,496 | 345 | 2.1% | Newport-Mesa Unified School District | 159,147 | 365 | 2.1% | |
| 3 | County of Orange | 114,334 | 262 | 1.6% | City of Costa Mesa | 158,208 | 363 | 2.1% | |
| 4 | Newport-Mesa Unified School District | 113,698 | 261 | 1.6% | County of Orange | 98,597 | 226 | 1.3% | |
| 5 | The Irvine Company, Inc. | 73,589 | 169 | 1.0% | Fairview Developmental Center | 87,023 | 200 | 1.2% | |
| 6 | South Coast Plaza | 69,198 | 159 | 1.0% | United Dominion Realty | 84,989 | 195 | 1.1% | |
| 7 | Fairview State Hospital | 67,858 | 156 | 1.0% | CalTrans | 78,730 | 181 | 1.0% | |
| 8 | CalTrans | 57,823 | 133 | 0.8% | South Coast Plaza | 77,023 | 177 | 1.0% | |
| 9 | Casden Lakes | 57,734 | 133 | 0.8% | The Irvine Company, L.L.C. | 68,439 | 157 | 0.9% | |
| 10 | Coast Community College | 55,357 | 127 | 0.8% | Coast Community College | 68,130 | 156 | 0.9% | |
| | | | <u>2,279</u> | <u>14.0%</u> | | | <u>2,396</u> | <u>13.8%</u> | |

Sales in Acre Feet

| | |
|-----------------------|---------------|
| Potable | 15,057 |
| Recycled | <u>1,217</u> |
| Total Sales Acre Feet | <u>16,274</u> |

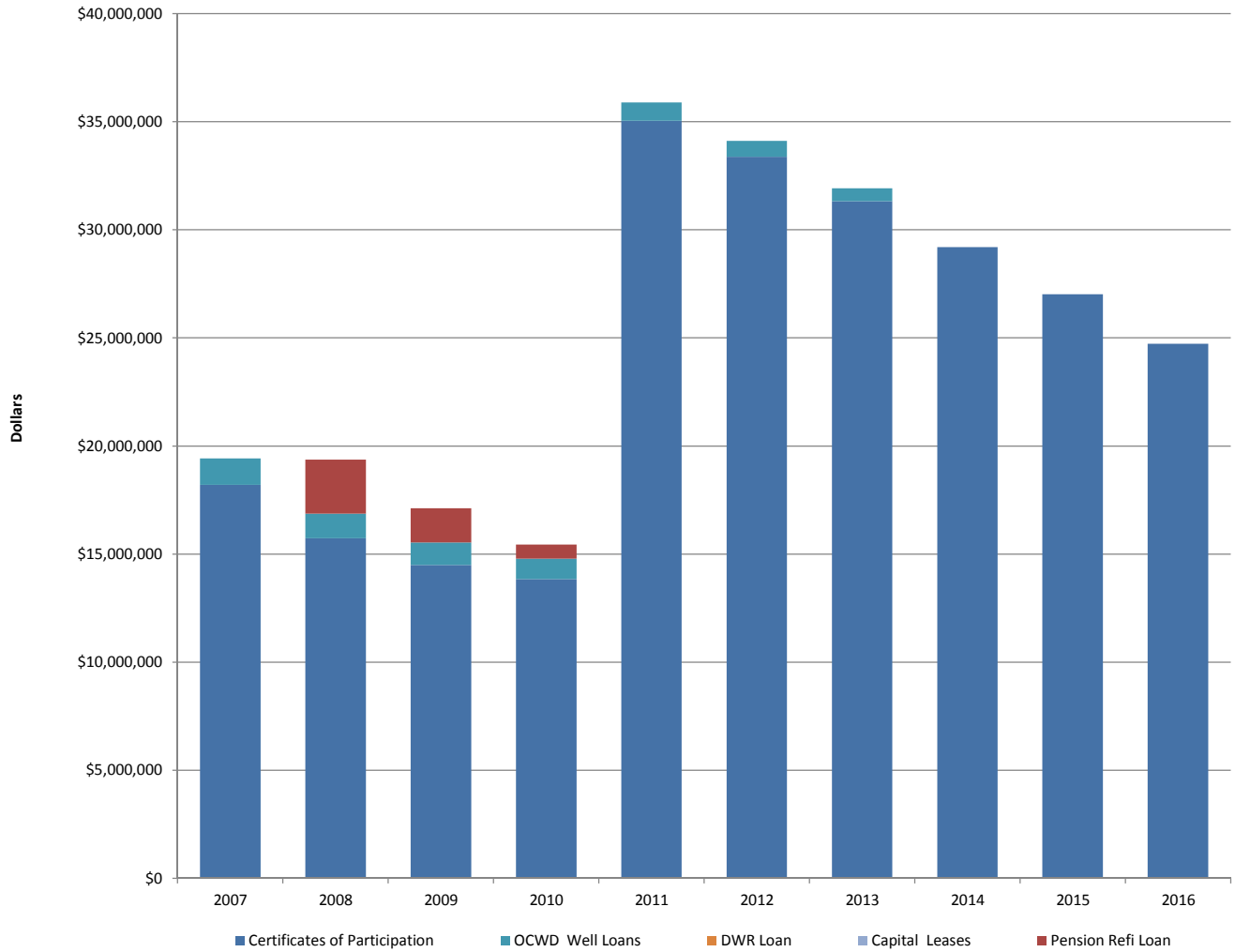
Sales in Acre Feet

| | |
|-----------------------|---------------|
| Potable | 16,448 |
| Recycled | <u>911</u> |
| Total Sales Acre Feet | <u>17,359</u> |

Sour Mesa Water District Billing System

Mesa Water District
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
Schedule 9

| Fiscal Year | Certificates of Participation | OCWD Well Loans | DWR Loan | Capital Leases | Pension Refi Loan | Total | | |
|-------------|-------------------------------|-----------------|----------|----------------|-------------------|------------|------------|-------------------------------|
| | | | | | | Debt | Per Capita | As a Share of Personal Income |
| 2007 | 18,202,188 | 1,226,813 | - | - | - | 19,429,001 | 170.50 | 0.34% |
| 2008 | 15,735,780 | 1,134,675 | - | - | 2,504,362 | 19,374,817 | 166.53 | 0.35% |
| 2009 | 14,490,700 | 1,039,311 | - | - | 1,595,174 | 17,125,185 | 146.15 | 0.30% |
| 2010 | 13,845,738 | 940,612 | - | - | 650,474 | 15,436,824 | 139.38 | 0.26% |
| 2011 | 35,050,518 | 838,455 | - | - | - | 35,888,973 | 322.28 | 0.59% |
| 2012 | 33,380,023 | 732,724 | - | - | - | 34,112,747 | 305.00 | 0.56% |
| 2013 | 31,319,523 | 596,770 | - | - | - | 31,916,293 | 285.39 | 0.50% |
| 2014 | 29,204,027 | - | - | - | - | 29,204,027 | 254.83 | 0.43% |
| 2015 | 27,013,531 | - | - | - | - | 27,013,531 | 241.55 | 0.41% |
| 2016 | 24,723,036 | - | - | - | - | 24,723,036 | 215.73 | 0.36% |



Source: Mesa Water District Audited Financial Statements

Mesa Water District
City of Costa Mesa Principal Employers
Current Year and Nine Years Ago
Schedule 11

| 2015-2016 | | | 2006-2007 ⁽¹⁾ | | |
|---|----------------------------|-------------------|---|----------------------------|-------------------|
| Name of Company | Number of Employees | % of Total | Name of Company | Number of Employees | % of Total |
| Epl Intermediate, Inc. | 3,998 | 6.53% | Coast Community College District Foundation | 3,044 | 4.66% |
| Experian Information Solution | 3,700 | 6.04% | Orange Coast Community College | 2,500 | 3.83% |
| Coast Community College District Foundation | 2,900 | 4.73% | Coast Community College | 2,131 | 3.26% |
| Automobile Club of Southern California | 2,516 | 4.11% | Fairview Development Center | 1,500 | 2.30% |
| Orange Coast Community College | 1,900 | 3.10% | Interinsurance Exchange | 1,200 | 1.84% |
| California State Hospital- Fairview Develop. Center | 1,500 | 2.45% | First Team Real Estate Inc. | 1,025 | 1.57% |
| Westar Capital Associates II, LLC | 1,184 | 1.93% | Los Angeles Times | 1,000 | 1.53% |
| Deloitte Consulting L.L.P. | 800 | 1.31% | Macy's Department Store | 800 | 1.23% |
| Dynamic Cooking Systems, Inc. | 700 | 1.14% | Resources Connection Inc. | 750 | 1.15% |
| Filenet Corporation 600 10 0.98% | 600 | 0.98% | International Business Machines | 750 | 1.15% |

(1) Data not available for fiscal year 2005-2006

**Mesa Water District
Historic Water Supply
In Acre Feet Per Year
Last Five Fiscal Years
Schedule 13**

| Fiscal Year | Groundwater | Supplemental Water | | | Total |
|--------------------|--------------------|---------------------------|-----------------------|----------------------|--------------|
| | | MWDOC | Recycled Water | In-Lieu Water | |
| 2016 | 14,855 | 202 | 1,217 | - | 16,274 |
| 2015 | 15,658 | 1,997 | 1,159 | - | 18,814 |
| 2014 | 16,775 | 2,029 | 1,302 | - | 20,106 |
| 2013 | 15,667 | 2,900 | 1,251 | - | 19,818 |
| 2012 | 10,852 | 6,169 | 968 | 790 | 18,779 |

Source: Mesa Water District Records

**Mesa Water Deliveries
Historic Water Deliveries
In Acre Feet Per Year
Last Five Fiscal Years
Schedule 14**

| Fiscal Year | Potable Water Deliveries | Recycled Water Deliveries | Total | % Increase (Decrease) |
|--------------------|---------------------------------|----------------------------------|--------------|------------------------------|
| 2016 | 14,822 | 1,217 | 16,039 | -11.44% |
| 2015 | 16,951 | 1,159 | 18,110 | -4.74% |
| 2014 | 17,709 | 1,302 | 19,011 | 1.66% |
| 2013 | 17,450 | 1,251 | 18,701 | 4.63% |
| 2012 | 16,906 | 968 | 17,874 | 1.91% |