YORBA LINDA WATER DISTRICT
of Yorba Linda, California

Comprehensive Annual Financial Report

WITH REPORT ON AUDIT BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

For the Fiscal Year Ending June 30, 2016

Prepared by:

The Yorba Linda Water District Finance Department

Delia Lugo, Finance Manager
Kelly McCann, Senior Accountant
Maria Trujillo, Accounting Assistant II
Richard Cabadas, Accounting Assistant I

and

Cindy Botts, Management Analyst

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YORBA LINDA WATER DISTRICT

TABLE OF CONTENTS

For the year ended June 30, 2016

YORBA LINDA WATER DISTRICT

TABLE OF CONTENTS
(CONTINUED)

For the year ended June 30, 2016

INTRODUCTORY SECTION

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Yorba Linda Water District

September 30, 2016

Members of the Board of Directors
Yorba Linda Water District

Introduction

It is our pleasure to submit Yorba Linda Water District's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2016. This report was prepared pursuant to the guidelines set forth by the Governmental Accounting Standards Board (GASB).

District staff prepared this financial report in conjunction with an unqualified opinion issued by the independent audit firm White, Nelson, Diehl, Evans LLP. The independent auditor's report is located at the front of the financial section of this document. Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

This report consists of management's representations concerning the finances of Yorba Linda Water District. Consequently, management assumes responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the District has established a comprehensive internal control framework that is designed both to protect the District's assets from loss, theft or misuse, and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal control should not outweigh its benefits, the District's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. Management asserts that to the best of our knowledge and belief this financial report is complete and reliable in all material aspects.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Yorba Linda Water District for its comprehensive annual financial report for the fiscal year ended June 30, 2015. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for certificate again this year.

District Structure and Leadership

The Yorba Linda Water District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The Yorba Linda Water District has provided water and sewer services to the residents of the City of Yorba Linda, portions of Placentia, Brea, Anaheim, and nearby unincorporated areas since 1959, the year it was formed to take over the assets and water service responsibilities of the Yorba Linda Water Company, a mutual formed in 1909. The District is governed by a five-member Board of Directors, elected at large from within the District's service area. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The Yorba Linda Water District employs a full-time staff of 82 employees. The District's Board of Directors meets on the second and fourth Thursday of each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District provides water, sewer or a combination of both services to residents and businesses within its service area, which includes approximately 14,475 acres of land comprising 22.6 square miles. The District serves a population of approximately 76,000 and currently provides water service through approximately 24,861 residential, commercial, and light industrial connections.

District Services

Residential customers make up approximately 92% of the District's customer base and consume approximately 72% of the water provided annually by the District. The District obtains about half of its water supply from the Metropolitan Water District (MWD) through the Municipal Water District of Orange County (MWDOC) and the other half from groundwater wells within the area. In FY 2015/16 the District provided 15,743 acre-feet of water to its customers.

The District's service area is known for having larger than average residential lots and a network of horse trails spanning over 100 miles in length. In *CNN Money's* "Best Places to Live for 2012", Yorba Linda was one of four Southern California cities listed. Similarly, the City of Yorba Linda's median income is 48% greater than the overall median income for Orange County, as reported by 2010 Census data.

Economic Condition and Outlook

The District's administrative offices are located in the City of Placentia in Orange County. The economic outlook for the area shows moderate growth, which is projected to continue with new commercial business and a steadily improving housing market.

Over the FY 2012/13, FY 2013/14, and FY 2014/15 years, the District averaged annual sales of 21,407 acre-feet. On April 1, 2015, Governor Brown issued a series of Executive Orders on actions necessary to address California's severe drought conditions. Consequently, significant conservation efforts were made by the District for FY 2015/16, with the District providing only 15,743 acre-feet, due to being mandated to conserve 36% of CY 2013's usage. This percentage was lowered to 28% in February 2016 to account for differences in climate affecting different parts of the state, growth experienced by urban areas and significant investments that have been made to create new, local, drought-resilient sources of potable water supply since 2013.

As of May 2014, the District was granted annexation of the remaining 26% of its service area into Orange County Water District (OCWD). It is anticipated that with full annexation and the completion of the Fairmont Booster Pump Station project, the District will be able to pump the maximum groundwater allowable each year, at a lower cost than purchasing the same amount of imported water from MWD. However, the District would not have been able to take advantage of full annexation for FY 2015/16, even if the Fairmont Booster Pump Station project had been completed, as was the case in FY 2014/15, due to the 2003 Conjunctive Use Program (CUP) Agreement. The CUP Agreement required the District to withdraw 1,595 acre-feet, for FY 2015/16, over and above OCWD's Basin Production Percentage (BPP) for the fiscal year and pay for the water at current import water rates, after subtracting power and operations and the maintenance charges of $110 per acre-foot. Had the District been able to access the entirety of OCWD's Basin Production Percentage (BPP) for the fiscal year 2015/16, the District would have been able to lower its variable water costs by approximately $800,000. As variable water costs comprised approximately 45% of the District's operating expenses, ensuring these costs are held as low as possible is a top priority each and every fiscal year.

California's water supply continues to be a concern due to the current emergency drought mandates from the State Water Resource Control Board, projected population increases, and environmental and regulatory restrictions that threaten the State's water supply and conveyance system through the Sacramento-San Joaquin Delta—all of which lead to increasing supply costs. Within the District's boundaries, population growth is expected to increase only minimally in the next 5-10 years, as more than 50% of the current households have children under the age of 18 who are not expected to add to this growth via newborns. Additionally, the District's area is primarily "built out", and an influx of residents from outside the area is expected to remain fairly low. The State of California, however, is expected to grow by 20 million people over the next 40 years.

Mission/Vision Statement and Major Initiatives

The activities of the Board and staff of the District are driven by its Mission Statement: "Yorba Linda Water District will provide reliable, high quality water and sewer services in an environmentally responsible manner, while maintaining an economical cost and unparalleled customer service to our community," and its Vision Statement: "Yorba Linda Water District will become the leading, innovative and efficient source for high quality reliable services." The Mission and Vision Statements dictate the following five core values of the District.

1. **Integrity**– We demonstrate integrity every day by practicing the highest ethical standards and by ensuring that our actions follow our words.

2. **Accountability**– We acknowledge that both the Board and the staff of the District are accountable to the public that we serve, as well as to each other.

3. **Responsibility**– We take full responsibility for our actions- both our successes and our opportunities for growth. We maintain a commitment of courtesy, assessment and resolution with all customer concerns.

4. **Transparency** – We promote a culture where we actively listen to our customers and communicate openly about our policies, processes, and plans for the future.

5. **Teamwork** – Success centers on all departments working together and sharing information and resources to achieve common goals. We are dedicated to ensuring that every voice of the District, from the Board to each individual employee is treated with dignity and respect, and that differences are valued and individual abilities and contributions are recognized.

Major Accomplishments during FY 2015/16

Upon the completion of FY 2015/16 and as budgeted in future fiscal years, capital projects totaling $23.7 million are scheduled for completion over the next five fiscal years. Fiscal year 2015/16 projects include the following:

Well #21 Project

Total Project Budget: $2,307,000 *Proposed FY 16/17 Budget: $259,000*

This project is a new production well, south of La Palma Avenue, adjacent to OCWD's recharge basins. In FY13/14, a test well was drilled to confirm the quantity and quality of water for the well. Thereafter, the well was drilled and completed with a steel casing and pump-tested. In FY 14/15, environmental documents were prepared and certified for the project, and design plans were completed. In FY 15/16, construction of wellhead facilities and a discharge pipeline began and will be completed in FY 16/17. This project will provide the pumping capacity for the District to produce its full allotment of lower-cost groundwater.

Well #22 Project

Total Project Budget: $2,500,000 *Proposed FY 16/17 Budget: $315,000*

In FY14/15, a site was identified on OCWD property for which conceptual approval was granted by the OCWD Board for a 50-year lease for a well. In FY 15/16 negotiations with OCWD for the well site lease agreement were completed and a topographic survey prepared. Planned for FY 16/17 is the approval of the lease agreement by the OCWD and the YLWD boards. Thereafter, an RFP will be issued to retain an engineering consultant to prepare the environmental documents for the project and to prepare design specifications for the drilling of the well. Budgeted for FY17/18 is the drilling of the well and the preparation of plans for well equipping at an estimated cost of $950,000. Budgeted for FY 17/18 and FY 18/19 is construction of wellhead facilities and a discharge pipeline at an estimated cost of $1,297,360. This project will provide pumping capacity that allows the potential phase-out of older, lower-producing wells and still produce a full allotment of lower-cost groundwater.

Richfield Road Pipeline Project

Total Project Budget: $1,450,000 *Proposed FY 16/17 Budget: $1,115,000*

This project is the construction of new pipeline in Richfield Road sized to carry the discharge capacity of Wells #21 and #22, as described above, as well as a proposed future Well #23. The new pipeline will begin at the point where the lines from new wells 21 and 22 extend into south Richfield Avenue. The pipeline will be approximately 2,100 feet long and will connect to the District's existing 36-inch pipeline that extends to Highland Reservoir. Construction began in FY 15/16. Budgeted in FY 16/17 is $1,115,000 for completion of construction.

Fairmont Pump Station Upgrade Project

Total Project Budget: $7,830,005 *Proposed FY 16/17 Budget: $1,596,000*

The project is the refurbishment and upgrading of the Fairmont Booster Station. The existing 40-year-old booster station will be demolished and its two booster pumps will be replaced by eight, pumping to three different pressure zones. A new building will be constructed to house the pumps, as well as disinfection, electrical and back-up generation facilities. The project will also include refurbishment of elements of the Fairmont Reservoir. In FY14/15 environmental documents were completed and certified and design plans were completed. Construction is estimated to begin in mid FY 16/17 and be completed in FY 18/19, with a total estimated construction cost of $7,070,000. This project will make it possible for the District to deliver lower-cost groundwater to the higher, easterly section of its service area, as a fully redundant second source of water to all parts of the District.

Lakeview Grade Separation Project
Total Project Budget: $662,000 *Proposed FY 16/17 Budget: $250,000*
The Orange County Transportation Authority (OCTA) is the lead agency for a planned Lakeview Avenue bridge over Orangethorpe Avenue and the adjacent BNSF Railroad tracks. As part of the project, the District's water line in Lakeview Avenue through the project area had to be replaced. The District's share of the pipeline replacement construction cost is $250,000. Construction of the pipeline and appurtenant work was completed by OCTA in FY 15/16, with final close-out in FY 16/17. As a result of this project, the District will have a new 18-inch diameter water line to replace an older line, nearing the end of its useful life.

2015 Pipeline Replacement Project
Total Project Budget: $1,240,000 *Proposed FY 16/17 Budget: $609,000*
In accordance with the District's Asset Management Plan, the District is replacing older water pipelines as part of an ongoing program. Staff completed design of approximately 2,000 feet of the replacement pipeline reaches in FY 15/16. Construction started in late FY 15/16, with completion in FY16/17, at an estimated construction cost of $1,210,000. Additional waterline replacement work will be designed and installed during subsequent fiscal years.

Timber Ridge Booster Station Rehabilitation
Total Project Budget: $900,000 *Proposed FY 17/18 Budget: $900,000*
Timber Ridge Booster Station is undersized and needs additional emergency pumping capacity. Staff will evaluate alternatives including a new gas engine enclosed with a new building, or a new electric generator and possibly upsizing one or more of the existing pumps. This work is planned for FY 17/18. This project will provide new, more reliable pumping capacity for the District.

Lakeview Booster Piping
Total Project Budget: $154,000 *Proposed FY 17/18 Budget: $139,000*
The District will coordinate the installation of an isolation valve to allow for a direct water supply from the Highland Pump Station to the Lakeview Reservoir, while providing for a direct water supply from the Lakeview Reservoir to the Lakeview Booster Pump Station. This project will improve water quality. Construction is anticipated to be complete during FY 17/18.

PRS Rehabilitation Phase 2
Total Project Budget: $726,000 *Proposed FY 16/17 Budget: $450,000*
The District begin the second phase of work for rehabilitation or replacement of existing Pressure Reducing Stations (PRS) that require frequent maintenance, and do not meet current District standards. This will also include water line replacement work. Design work will be completed in FY 16/17 and construction will follow that year and the next at a cost of $528,000. Phase 3 work will begin the following year.

Other major accomplishments in fiscal year 2015/16 include the following:

- Completed planning and construction of 2016 Sewer Main CIPP Rehabilitation Project
- Initiated construction of the Well 21 Equipping Project
- Initiated construction of the Richfield Pipeline Project
- Initiated construction of the 2015 Pipeline Replacement Project
- Initiated solicitation for construction bids for Fairmont Booster Station Replacement Project
- Received Conceptual Approval from OCWD for Site for Well 22
- Initiated in-house preparation of the 2015 Water Master Plan
- Initiated in-house design of the Box Canyon PRS and Ohio St Waterline Replacement Project
- Completed the 2015 Urban Water Management Plan
- Evaluated and Updated the Financial Reserves Policy to Improve Resiliency During Drought and other Decreasing Water Sales Conditions (i.e. Disasters and/or Contamination Events)
- Revised Business Model to Achieve Cost Recovery of Approximately 45% of Operations and Maintenance Costs with Base Fee, and to Reduce Reliance on Volumetric Revenue Over the Course of Four Fiscal Years
- Reduced Reliance on Import Water Supply
- Improved Water Use Efficiency and Compliance with District Regulations
- Implemented Conservation and Enforcement Programs to Support Emergency Drought Condition
- Continued Implementation of the District's Computerized Maintenance and Management System (CMMS)
- Implemented Increased Distribution System Leakage Detection and Prevention Program
- Considered Opportunities for Expanded Sewer Service Area
- Conduct Leadership Training to Improve Organizational Effectiveness and Efficiency
- Implemented Communication Campaign to Educate Customers about the Value of Water and Cost of Service
- Received State and National Recognition for FY 2014/15 CAFR
- Received State and National Recognition for FY 2015/16 Budget Document
- Updated Administrative Penalty Ordinance No. 16-01 to comply with State Mandated water use restrictions

<u>Future Years</u>

Amidst the national economic conditions and the Governor's state declaration of Drought Water Emergency, our region continues to face water supply issues due to extended drought seasons, as well as judicial, environmental and regulatory restrictions. First and foremost, we continue to monitor the State's mandated water conservation restrictions and potential shift of our property tax revenues. Secondly, with water conservation and reduced water sales, our ability to maintain a high level of services while holding costs down, has been seriously challenged. In addition to the above, District staff, with the assistance of Raftelis Financial Consultants, Inc, developed financial models for the water and sewer enterprises to ensure financial sufficiency that includes the establishment of adequate reserve balances, meets the operation and maintenance costs, and ensures sufficient funding for capital refurbishment and replacement needs.

Water Rate & Increases

Beginning October 1, 20156, YLWD charged a uniform commodity rate of $2.70 per unit and a monthly fixed charge based on the size of the meter. Meters sized 5/8 and 3/4 inch were increased from $10.06 to $26.29, 1 inch meters were increased from $16.77 to $41.57, 1 ½ inch meters were increased from $33.54 to $79.77, 2 inch meters were increased from $53.66 to $125.61, 3 inch meters were increased from $117.37 to $270.77, 4 inch meters were increased from $211.26 to $484.69 and 6 inch meters were increased from $469.47 to $1225.77. One unit of water equals 748 gallons, equating one gallon of water to a cost of approximately $0.05. At an average of 18 units of water per month (approximately 13,500 gallons), a typical 1 inch metered YLWD customer would pay about $90.27 on the average for their monthly water bill. YLWD also provided wastewater service to approximately 18,900 of the District's water customer base in fiscal year 2015/16, at a charge of $5.94 per month for traditional single family residential customers, $5.58 per month for multi-family residential customers, and $5.94 plus a $0.36 per unit charge based on water consumption above 7 units for commercial customers. These rates are the result of a Cost of Service analysis via the 2015 Water and Sewer Rate Study Report, which addressed the impacts of the Governor's Executive Orders, including the mandated conservation of 36% and subsequent lowered water sales. The result of this study was a five-year rate increase to customers on the Monthly Service Charge, approved by the Yorba Linda Water District Board of Directors. The approved rate increase for the first year is a percentage on the District's overall revenue and consists of a 36% revenue adjustment beginning on October 1, 2015, a 5% adjustment beginning on July 1, 2016, a 5% adjustment beginning on July 1, 2017, a 5% adjustment beginning on July 1, 2018, and a 5% adjustment beginning on July 1, 2019. The first year increase (October 1, 2015) was intended to assist in covering the significant reduction in water sales due to the mandated conservation. The future year increases will assist in covering the costs associated with operating, maintaining and replacing the District's water facilities. The District will also be passing through to customers any future increases on the commodity charge from its water suppliers as these charges are based on the amount of water sold.

As of May 2016, the State of California mandated conservation levels were reduced based on local agency drought resilience ("stress tests"). The District's mandated conservation level was further reduced from 28% to 0%. Due to this significant change in circumstance, the District anticipated that it would sell additional water in FY 2016/17, allowing a reduction in the first year monthly service charge increase. The reduction will be proportional based on meter size. Meters sized 5/8 and 3/4 inch will be reduced from $26.29 to $19.45, 1 inch meters will be reduced from $41.57 to $32.49, 1 ½ inch meters will be reduced from $79.77 to $64.78, 2 inch meters will be reduced from $125.61 to $103.69, 3 inch meters will be reduced from $270.77 to $227.04, 4 inch meters will be reduced from $484.69 to $408.55 and 6 inch meters will be reduced from $1225.77 to $907.95.

Another of the mandates from the Governor's Executive Orders relates to the development of "rate structures and other pricing mechanisms, including by not limited to surcharges, fees, and penalties, to maximize water conservation consistent with statewide water restrictions". The District chose Administrative Penalties, which serve as a fine for exceeding usage above the average usage per customer type, minus the original 36% mandated reduction in usage on a block structure. For Residential customers, usage above 18 units per billing period was penalized, for Commercial customers, usage above 50 units was penalized and for Irrigation customers, usage above 115 units was penalized. The block fines for Residential customers ranged from $10 to $160 per billing period. For Commercial customers, the fines ranged from $25 to $400 per billing period and for Irrigation customers, the fines ranged from $65 to $1,000 per billing period. The total Administrative Penalty funds collected for FY 2015/16 was approximately $1.7 million. These funds are considered "designated" and cannot be used to pay for the general Cost of Service of the District. Instead, costs related to the Governor's mandate, are paid out of the funds collected. Approximately $380,000 in expenses related to the conservation mandate, including the mandated temporary staff and vehicle costs, legal services regarding the mandate and communication pieces sent to customers for conservation education were paid out of the collected funds in FY 2015/16. The net effect of the Administrative Penalty fund for FY 2015/16 is approximately $1.3 million.

In FY 2011/12, the Board of Directors recommended that staff pursue a line of credit with Wells Fargo for $7 million with a 3-year renewable term and an interest rate based on 1 month London Inter-Bank Offered Rate (LIBOR), currently calculated at 1.10%. The line of credit allowed the District to pursue future capital improvement projects with a minimal borrowing cost and a lowered financial burden to our customers. The line of credit will be paid in full on September 30, 2016, without further extension.

In FY 2015/16, Yorba Linda Water District faced many challenges related to water supply and demand. The District's water supply is currently derived from both groundwater (68.6%) and import water (31.4%). Both import and groundwater prices have dramatically increased over the past four fiscal years, and it is anticipated that costs will continue to increase as supplies become more strained from projected population increases, cyclical drought conditions, and environmental and regulatory restrictions.

Enhanced Outreach & Communications
The District continues to enhance its communications presence within the community. Within the FY 2015/16 Budget, the District funded a Public Information Manager and one Public Affairs Representative position. The Public Affairs division of the Administration department develops and disseminates information to the public and supports water conservation programs with the overall goal of developing a more transparent image of the District to the community.

As part of the Governor's Executive Orders, additional personnel for conservation-related enforcement and education were also mandated. Therefore, one temporary full-time Conservation Supervisor and four temporary part-time Water Conservation Representatives were budgeted in FY 2015/16.

The District's Citizens Advisory Committee, made up of local residents, who serve as ambassadors to the community, meet with District staff on a monthly basis to discuss and provide recommendations on various pending District issues. The committee has been actively involved with issues such as the water rate increase, the water conservation ordinance, continuing conservation outreach, public information, and various other matters as they arise.

Technological Advancements in Progress
Technological advancements include the incorporation of a Computerized Maintenance & Management System (CMMS), which automates and tracks field work orders and provide actual costs to perform work-order related functions. In planning is an Automated Purchase Requisitioning System, which will provide better workflow and approvals for purchasing items, as well as have direct integration with the District's financial software.

Internal Control Structure
District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control
The District Board of Directors adopts an operating and capital budget every fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and financial statement presentation.

Cash and Investment Management
In order of priority, the District's objectives when investing, reinvesting, purchasing, acquiring, selling and managing public funds are as follows:

1. *Safety:* Safety of principal is the foremost objective of the investment program. Investments made by the District are undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required to prevent any potential loss on any individual security or depository from exceeding the income generated from the remainder of the portfolio.

2. *Liquidity:* The investment portfolio is to remain sufficiently liquid to enable the District to meet all operating requirements that might be reasonably anticipated.

3. *Return on Investments:* The investment portfolio is designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Audit and Financial Reporting
State Law and Bond covenants require the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of White, Nelson, Diehl, Evans LLP has conducted the audit of the District's financial statements. Their unqualified (clean) Independent Auditor's Report appears in the Financial Section.

Other References
More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

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

Respectfully submitted,

Marc Marcantonio
General Manager

Delia Lugo
Finance Manager

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Yorba Linda Water District
Board of Directors and Executive Staff

Ric Collett, President

Michael Beverage, Vice President

Robert R. Kiley
Director

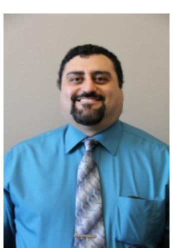
Phil Hawkins
Director

Gary T. Melton
Director

Steven R. Conklin
Engineering Manager

Marc Marcantonio
General Manager

John DeCriscio
Operations Manager

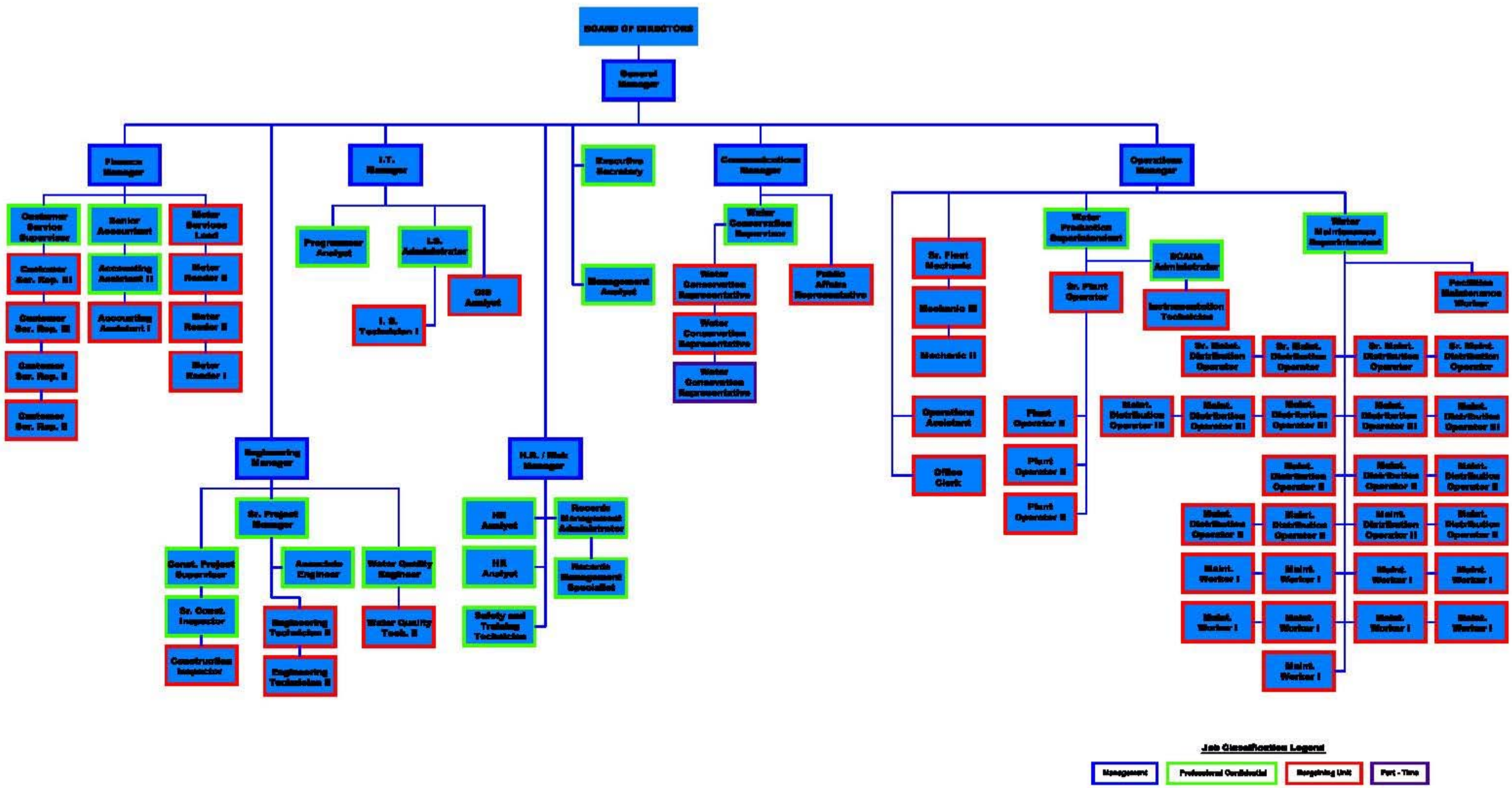


Art Vega
IT Manager

Gina Knight
HR & Risk Manager

Damon Micalizzi
Public Affairs Manager

Delia Lugo
Finance Manager

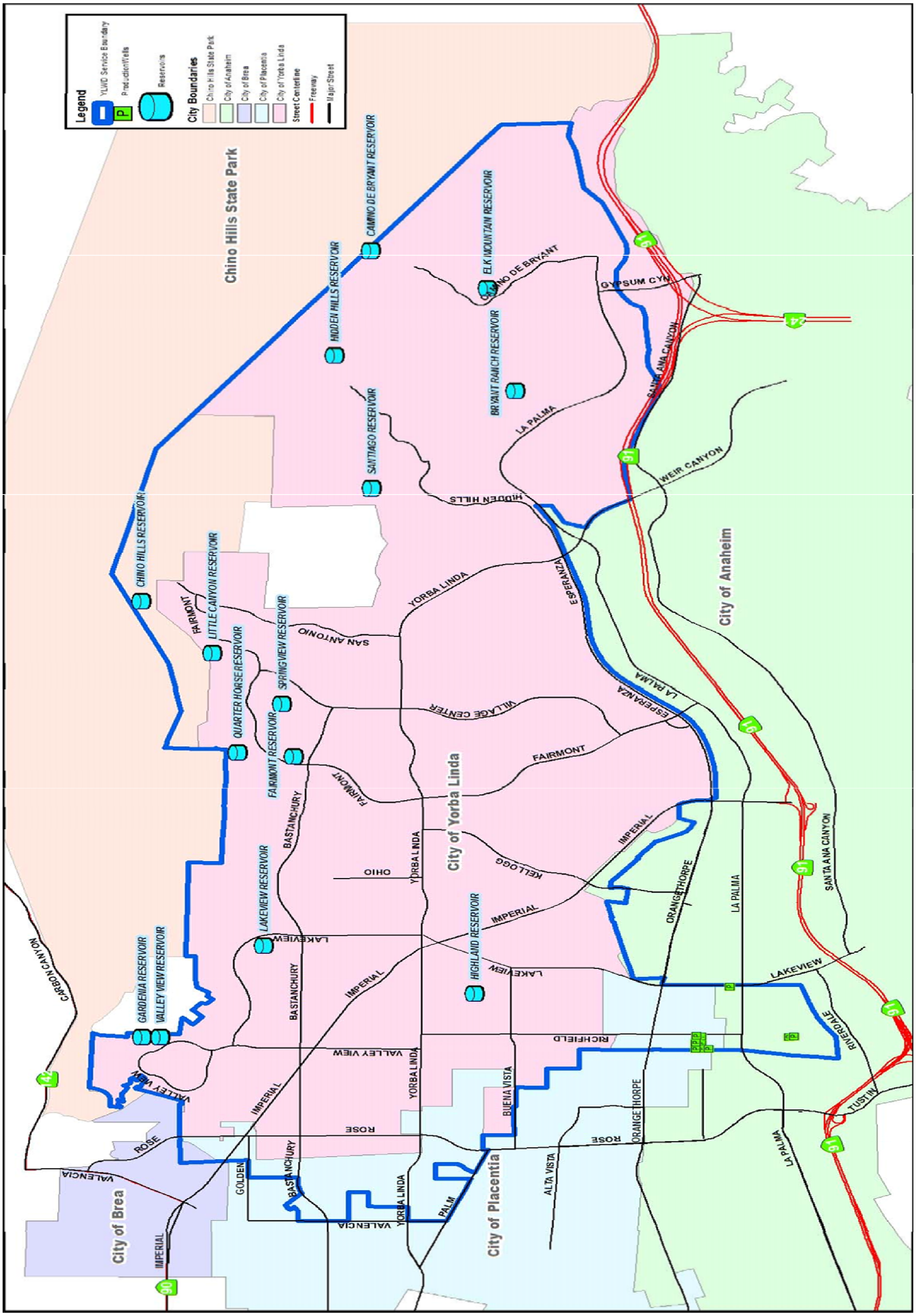


Yorba Linda Water District

Organizational Chart
FY 2016-2017

ORGANIZATIONAL CHART

District Boundaries



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For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Jeffrey R. Emer

Executive Director/CEO

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Yorba Linda Water District
Placentia, California

Report on the Financial Statements

We have audited the accompanying financial statements of Yorba Linda 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Yorba Linda 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, as well as the accounting systems prescribed by the State Controller's Office and State regulations governing Special Districts.

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.

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 proportionate share of the net pension liability, the schedule of contributions - defined benefit pension plans, and the other post-employment benefits plan - schedule of funding progress, 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplementary information consisting of the combining schedules, the schedule of operating expenses by cost center and nature of expenses for water and sewer, and the schedule of capital assets, and the statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedules, the schedule of operating expenses by cost center and nature of expenses for water and sewer, and the schedule of capital assets, as listed in the table of contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

Other Matters (Continued)

Other Information (Continued)

Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules, the schedule of operating expenses by cost center and nature of expenses for water and sewer, and the schedule of capital assets are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White Nelson Diehl Evans LLP

Irvine, California
September 30, 2016

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For the Year Ended June 30, 2016

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

Financial Highlights

- The District's net position increased by $4 million, or a 2.3% increase in net position.
- During the year the District's revenues were $35.1 million, an increase of 9.3%.
- During the year, the District's expenses were $32.1 million, a decrease of 4.2%.

Required Financial Statements

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

The District's statements consist of two funds; the Water Fund and the Sewer Fund. The District's records are maintained on an enterprise basis, as it is the intent of the Board of Directors that the costs of providing water and sewer to the customer of the District are financed primarily through user charges.

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

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 19 through 54.

Statement of Net Position

	2016	2015	Change
Assets:			
Current assets	$ 44,555,956	$ 35,311,996	$ 9,243,960
Restricted assets	2,199,135	2,177,524	21,611
Capital assets, net			
Not depreciable	5,005,418	3,533,928	1,471,490
Depreciable, net of accumulated depreciation	184,944,351	190,817,182	(5,872,831)
Note receivable	78,567	154,107	(75,540)
Other post-employment benefit (OPEB) asset	276,289	142,700	133,589
Total assets	237,059,716	232,137,437	4,922,279
Deferred Outflows of Resources:			
Deferred amount on refunding & pension plans	1,137,794	1,037,227	100,567
Liabilities:			
Liabilities payable from unrestricted current assets	12,753,581	5,221,619	7,531,962
Liabilities payable from restricted assets	1,080,000	1,045,000	35,000
Non-current liabilities	58,656,501	64,474,415	(5,817,914)
Total liabilities	72,490,082	70,741,034	1,749,048
Deferred Inflows of Resources:			
Deferred amounts from pension plans	1,331,326	1,810,965	(479,639)
Net position:			
Net investment in capital assets	153,776,247	157,092,210	(3,315,963)
Restricted for water conservation	1,603,050	189,314	1,413,736
Unrestricted	8,996,805	3,341,141	5,655,664
Total net position	$ 164,376,102	$ 160,622,665	$ 3,753,437

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by $164.4 million and $160.6 million as of June 30, 2016 and 2015, respectively. The net change between these two reported fiscal years is primarily due the assessment of monthly Administrative Penalties to customer accounts for excessive water use as determined and enforced under Ordinance No. 15-01 that went into effect June 1, 2015 in response the State Water Resources Control Board conservation mandate levied on the District, as well the increase of rates as a result of the 2015 Water and Sewer Rate Study that became effective on October 1, 2015.

By far the largest portion of the District's net position (94% and 98% as of June 30, 2016 and 2015, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

For the year ended June 30, 2016, the District showed a positive balances in its unrestricted net position of $9 million and in its restricted for water conservation position of $1.6 million., which indicates that there are reserves to be utilized in future years, which is a significant increase from the stated balance of $3.5 million for the year ended June 30, 2015.

Statement of Revenues, Expenses and Changes in Net Position

	2016	2015	Change
Revenues:			
Operating revenues:			
Water sales	$ 27,820,638	$ 26,446,618	$ 1,374,020
Sewer revenue	1,849,114	1,775,676	73,438
Other operating revenue	2,665,835	1,461,106	1,204,729
Total operating revenues	32,335,587	29,683,400	2,652,187
Non-operating revenues:			
Investment income	288,817	187,316	101,501
Property taxes	1,615,454	1,496,489	118,965
Other non-operating income	872,420	744,572	127,848
Total non-operating revenue	2,776,691	2,428,377	348,314
Total revenues	35,112,278	32,111,777	3,000,501
Expenses:			
Operating expenses:			
Variable costs	10,470,181	12,733,762	(2,263,581)
Pesonnel services	8,096,853	7,778,763	318,090
Supplies and services	4,355,033	3,806,900	548,133
Depreciation	7,546,407	7,432,586	113,821
Total operating expenses	30,468,474	31,752,011	(1,283,537)
Non-operating expenses:			
Interest expense	1,671,539	1,683,039	(11,500)
Other non-operating expense	7,273	116,528	(109,255)
Total non-operating expenses	1,678,812	1,799,567	(120,755)
Total expenses	32,147,286	33,551,578	(1,404,292)
Net income(loss) before capital contributions	2,964,992	(1,439,801)	4,404,793
Capital contributions	788,445	705,848	82,597
Change in net position	3,753,437	(733,953)	4,487,390
Net position, beginning of year	160,622,665	161,356,618	(733,953)
Net position, end of year	$ 164,376,102	$ 160,622,665	$ 3,753,437

The statement of revenues, expenses and changes of net position shows how the District's net position changed during the fiscal years. In the case of the District, net position increased by $3.75 million and decreased by $734 thousand for the fiscal years ended June 30, 2016 and 2015, respectively. .

A closer examination of the sources of changes in net position reveals that:

In 2016, the District's total revenues increased by $3 million, primarily due to a net increase in water sales of $1.4 million as a result of the increase of rates (service charges) resulting from the 2015 Water and Sewer Rate Study, as well as an in increase in Other Operating Revenue of $1.2 million predominantly due to the assessment of Administrative Penalties as authorized by Ordinance No. 15-01. Total expenses decreased by $1.4 million primarily due to a decrease in variable water costs of $2.3 million.

Capital Assets

Changes in capital asset amounts for 2016 were as follows:

	Balance 2015	Additions	Transfers/ Deletions	Balance 2016
Capital assets:				
Capital assets, not being depreciated	$ 3,533,928	$ 2,599,329	(1,127,839)	$ 5,005,418
Capital assets, being depreciated	273,377,461	1,688,763	(297,183)	274,769,041
Less accumulated depreciation	(82,560,279)	(7,546,407)	281,996	(89,824,690)
Total capital assets, net	$ 194,351,110	$ (3,258,315)	$ (1,143,026)	$ 189,949,769

At the end of fiscal year 2016 and 2015, the District's investment in capital assets amounted to $189.9 million and $194.4 million, respectively (net of accumulated depreciation). This investment in capital assets includes land, transmission and distribution systems, reservoirs, tanks, pumps, buildings and structures, equipment, vehicles and construction-in-process, etc. Major capital assets projects in fiscal year 2015-16 include the construction of various water and sewer mains for development and the purchase of various district vehicles and equipment.

Additional information regarding capital assets can be found in note 4 in Notes to Basic Financial Statements.

Long-Term Liabilities

Changes in long-term debt amounts for the year ended June 30, 2016 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
2008 Revenue Certificates of Participation	$ 30,630,000	$ -	$ (765,000)	$ 29,865,000
2012A Refuding Certificate of Participation	7,795,000	-	(280,000)	7,515,000
Subtotal	38,425,000	-	(1,045,000)	37,380,000
Add (Less):				
2008 Pemium	598,855	-	(26,420)	572,435
2012A Premium	862,620	-	(47,701)	814,919
Total Certificates	39,886,475	-	(1,119,121)	38,767,354
Line of Credit	5,994,099	889,621		6,883,720
Compensated Balances	1,204,595	840,567	(602,817)	1,442,345
Total	$ 47,085,169	$ 1,730,188	$ (1,721,938)	$ 47,093,419

Additional information regarding long-term liabilities can be found in note 5 in Notes to Basic Financial Statements.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, 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 1717 E. Miraloma Avenue, Placentia, California 92807 or the Finance Department at (714) 701-3040.

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BASIC FINANCIAL STATEMENTS

YORBA LINDA WATER DISTRICT

STATEMENTS OF NET POSITION

June 30, 2016
(With prior year data for comparison only)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2016	2015
CURRENT ASSETS:		
UNRESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	$ 32,387,523	$ 24,026,870
Investments (Note 2)	7,288,244	7,283,882
Accounts receivable - water and sewer services	4,216,747	3,342,733
Accounts receivable - property taxes	13,629	16,168
Note receivable	75,540	72,634
Accrued interest receivable	46,424	36,563
Prepaid expenses and deposits	292,950	270,984
Inventory	234,899	262,162
TOTAL UNRESTRICTED ASSETS	44,555,956	35,311,996
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	78,403	55,756
Investments (Note 2)	2,120,732	2,121,768
TOTAL RESTRICTED ASSETS	2,199,135	2,177,524
TOTAL CURRENT ASSETS	46,755,091	37,489,520
NONCURRENT ASSETS:		
Capital assets (Note 4):		
Not depreciable	5,005,418	3,533,928
Depreciable, net of accumulated depreciation	184,944,351	190,817,182
Note receivable	78,567	154,107
Other post-employment benefit (OPEB) asset (Note 6)	276,289	142,700
TOTAL NONCURRENT ASSETS	190,304,625	194,647,917
TOTAL ASSETS	237,059,716	232,137,437
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amounts from pension plans	712,574	587,176
Deferred amount on refunding	425,220	450,051
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,137,794	1,037,227

See accompanying notes to basic financial statements. (Continued)

YORBA LINDA WATER DISTRICT

STATEMENTS OF NET POSITION
(CONTINUED)

June 30, 2016
(With prior year data for comparison only)

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	2016	2015
CURRENT LIABILITIES:		
PAYABLE FROM UNRESTRICTED CURRENT ASSETS:		
Accounts payable	$ 4,127,475	$ 3,456,202
Accrued expenses	120,799	280,197
Compensated absences payable - current portion (Note 5)	360,586	301,149
Customer and construction deposits	521,967	417,992
Unearned revenue	324,769	342,064
Accrued interest payable	414,265	424,015
Payable on line of credit (Note 5)	6,883,720	-
TOTAL PAYABLE FROM UNRESTRICTED CURRENT ASSETS	12,753,581	5,221,619
PAYABLE FROM RESTRICTED ASSETS:		
Certificates of Participation - current portion (Note 5)	1,080,000	1,045,000
TOTAL PAYABLE FROM RESTRICTED ASSETS	1,080,000	1,045,000
TOTAL CURRENT LIABILITIES	13,833,581	6,266,619
LONG-TERM LIABILITIES (LESS CURRENT PORTION):		
Unearned annexation revenue	14,598,067	13,642,769
Compensated absences (Note 5)	1,081,758	903,446
Payable on line of credit (Note 5)	-	5,994,099
Certificates of Participation (Note 5)	37,687,354	38,841,475
Net pension liability (Note 7)	5,289,322	5,092,626
TOTAL LONG-TERM LIABILITIES (LESS CURRENT PORTION)	58,656,501	64,474,415
TOTAL LIABILITIES	72,490,082	70,741,034
DEFERRED INFLOWS OF RESOURCES:		
Deferred amounts from pension plans	1,331,326	1,810,965
NET POSITION:		
Net investment in capital assets (Note 8)	153,776,247	157,092,210
Restricted for water conservation	1,603,050	189,314
Unrestricted	8,996,805	3,341,141
TOTAL NET POSITION	$ 164,376,102	$ 160,622,665

See accompanying notes to basic financial statements.

YORBA LINDA WATER DISTRICT

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

For the year ended June 30, 2016
(With prior year data for comparison only)

	2016	2015
OPERATING REVENUES:		
Water sales	$ 27,820,638	$ 26,446,618
Sewer revenues	1,849,114	1,775,676
Other operating revenues	2,665,835	1,461,106
TOTAL OPERATING REVENUES	32,335,587	29,683,400
OPERATING EXPENSES:		
Variable water costs	10,470,181	12,733,762
Personnel services	8,096,853	7,778,763
Supplies and services	4,355,033	3,806,900
Depreciation	7,546,407	7,432,586
TOTAL OPERATING EXPENSES	30,468,474	31,752,011
OPERATING INCOME (LOSS)	1,867,113	(2,068,611)
NONOPERATING REVENUES (EXPENSES):		
Property taxes	1,615,454	1,496,489
Investment income	288,817	187,316
Interest expense	(1,671,539)	(1,683,039)
Other nonoperating revenues	872,420	744,572
Other nonoperating expenses	(7,273)	(116,528)
TOTAL NONOPERATING REVENUES (EXPENSES)	1,097,879	628,810
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	2,964,992	(1,439,801)
CAPITAL CONTRIBUTIONS	788,445	705,848
CHANGES IN NET POSITION	3,753,437	(733,953)
NET POSITION - BEGINNING OF YEAR	160,622,665	161,356,618
NET POSITION - END OF YEAR	$ 164,376,102	$ 160,622,665

See accompanying notes to basic financial statements.

YORBA LINDA WATER DISTRICT

STATEMENTS OF CASH FLOWS

For the year ended June 30, 2016
(With prior year data for comparison only)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 31,395,182	$ 30,303,296
Cash payments to employees for salaries and wages	(8,560,432)	(7,712,084)
Cash payments to suppliers of goods and services	(13,978,278)	(17,815,294)
Other revenues	191,163	250,274
Other expenses	(17,558)	(91,640)
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,030,077	4,934,552
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from line of credit	889,621	1,351,443
Proceeds from property taxes and assessments	1,617,367	1,504,786
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	2,506,988	2,856,229
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from annexation fees and capital contributions	1,559,883	791,037
Acquisition and construction of capital assets	(2,378,666)	(1,989,442)
Proceeds from sales of capital assets	35,607	17,638
Principal paid on long-term liabilities	(1,045,000)	(1,010,000)
Interest paid on long-term liabilities	(1,777,335)	(1,798,933)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(3,605,511)	(3,989,700)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments	24,119,590	22,758,754
Purchase of investments	(23,946,800)	(22,884,574)
Interest and investment earnings	278,956	181,119
NET CASH PROVIDED BY INVESTING ACTIVITIES	451,746	55,299
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,383,300	3,856,380
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	24,082,626	20,226,246
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 32,465,926	$ 24,082,626

See accompanying notes to basic financial statements. (Continued)

YORBA LINDA WATER DISTRICT

STATEMENTS OF CASH FLOWS
(CONTINUED)

For the year ended June 30, 2016
(With prior year data for comparison only)

	2016	2015
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	$ 1,867,113	$ (2,068,611)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	7,546,407	7,432,586
Other revenues	191,163	250,274
Other expenses	(17,558)	(91,640)
Changes in operating assets, deferred outflows of resources, operating liabilities and deferred inflows of resources:		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(874,014)	633,922
Inventory	27,263	(23,959)
Prepaid expenses and deposits	(21,966)	(3,723)
Other post-employment benefits (OPEB) asset	(133,589)	(3,757)
Deferred outflows of resources from pension plans	(125,398)	(49,067)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expenses	671,273	(1,369,234)
Accrued salaries and wages	(159,398)	17,019
Accrued compensated absences	237,749	157,253
Customer and construction deposits	103,975	108,258
Net pension liability	196,696	(1,865,734)
Deferred inflows of resources from pension plans	(479,639)	1,810,965
Total adjustments	7,162,964	7,003,163
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 9,030,077	$ 4,934,552
CASH AND CASH EQUIVALENTS - FINANCIAL STATEMENT CLASSIFICATION:		
Unrestricted	$ 32,387,523	$ 24,026,870
Restricted	78,403	55,756
TOTAL CASH AND CASH EQUIVALENTS - FINANCIAL STATEMENT CLASSIFICATION	$ 32,465,926	$ 24,082,626
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:		
Amortization related to long-term debt	$ 74,121	$ 74,124
Capital contributions	$ 759,665	$ 258,331

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

   a. Organization and Description of the Reporting Entity:

      The Yorba Linda Water District (the District) is an independent special district established in 1959, which operates under the authority of Division 12 of the California Water Code for the purpose of providing water and sewer services to the properties within the District. The District is governed by a five member board of Directors elected by the voters in the area to four-year terms. The District provides two services which include Water and Sewer. Water is provided to the entire service area. Sewer is provided to most of the service area. The District's service area includes Yorba Linda and portions of Placentia, Anaheim, Brea, and areas of unincorporated Orange County. The District provides water service to approximately 74,800 residents and sewer service to approximately 58,200 residents.

      The financial statements present the District and its component units. The District is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the District appoints a voting majority or the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the District.

      The District's reporting entity includes the Yorba Linda Water District Public Financing Corporation, a California nonprofit public benefit corporation, formed in July 2003 for the purpose of providing assistance to the District and other public agencies in the State of California of which the District is a member, or is otherwise engaged with in the financing, refinancing, acquiring, constructing and rehabilitating of facilities, land and equipment, in the sale or leasing of facilities, land and equipment for the use, benefit and enjoyment of the public served by such agencies and any other purpose incidental thereto. Although the District and the Public Financing Corporation are legally separate entities, the District's Board of Directors is financially responsible for the Public Financing Corporation and, therefore, the accompanying financial statements include the accounts and records of the Public Financing Corporation using the blending method as required by accounting principles generally accepted in the United States of America. There are no separate financial statements for the Public Financing Corporation.

   b. Basic Financial Statements:

      The basic financial statements are comprised of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, the Statements of Cash Flows and the notes to the basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Basis of Presentation:

The accounts of the District are an enterprise fund. An enterprise fund is a Proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

d. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting. 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 Statements of Net Position. The Statements 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 the timing of related cash flows.

e. New Accounting Pronouncements:

GASB 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

e. New Accounting Pronouncements (Continued):

GASB Current Year Standards (Continued):

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 employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are 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.

GASB 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"*, the provisions that address employers 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

e. New Accounting Pronouncements (Continued):

GASB Pending Accounting Standards (Continued):

- 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"*, the 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 is effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

f. Cash and Cash Equivalents:

The District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

g. Investments and Investment Policy:

The District has adopted an investment policy directing the District's General Manager or Finance Manager to invest, reinvest, sell or exchange securities.

Investments are stated 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. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

h. Accounts Receivable:

The District extends credit to customers in the normal course of operations. Management has evaluated the accounts and believes they are all collectible. Management evaluates all accounts receivable and if it is determined that they are uncollectible they are written off as a bad debt expense. A charge of $66,391 was made to bad debt expense for the year ended June 30, 2016.

i. Prepaid Expenses:

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

j. Inventory:

Inventory consists primarily of materials and supplies used in the construction and maintenance of the water and sewer systems and are stated at cost using the average-cost method on a first in, first out basis.

k. Capital Assets:

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Contributed assets are recorded at estimated fair market value at the date of contribution. 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 the straight-line basis over the estimated useful lives of the assets as follows:

Source of Supply	30 to 75 years
Pumping Plant	20 to 40 years
Water Treatment Plant	12 to 40 years
Sewer Plant	5 to 60 years
Transmission and Distribution Plant	10 to 40 years
General Plant	3 to 40 years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

l. Interest Expense:

The District incurs interest charges on the Line of Credit and Certificates of Participation. Interest expense of $21,923 has been capitalized as an addition to the cost of construction for the year ended June 30, 2016.

m. Deferred Outflows/Inflows of Resources:

In addition to assets, the statements 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 so will not be recognized as an outflow of resources (expense) until that time. The District has the following items that qualify for reporting in this category:

- Deferred loss on refunding reported in the Statements of Net Position. A deferred loss 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 21 years.
- Deferred outflow related to pensions. This amount is equal to employer contributions made after the measurement date of the net pension liability.
- Deferred outflow related to pensions for differences between expected and actual experiences. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans, which is 3.8 years.

In addition to liabilities, the statements 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 future periods and will not be recognized as an 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 resulting from the difference in projected and actual earnings on investments of the pension plans fiduciary net position. This amount is amortized over five years.
- Deferred inflows from pensions resulting from changes in 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 plans, which is 3.8 years.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

m. Deferred Outflows/Inflows of Resources (Continued):

The District has the following items that qualify for reporting in this category (continued):

- Deferred inflow related to pensions for the changes in proportion and differences between employer contributions and the proportionate share of contributions. 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 plans, which is 3.8 years.

n. Compensated Absences:

The District's policy is to permit employees to accumulate earned vacation and sick leave. The liability for vested vacation and sick leave is recorded as an expense when earned. Employees may carry forward up to one and one-half years of earned vacation days and an unlimited number of sick leave days. Upon termination or retirement, permanent employees are entitled to receive compensation at their current base salary for all unused vacation leave except for those employees that have not completed the probationary period.

Permanent employees that retire in accordance with the California Public Employee's Retirement System (CalPERS) qualifications are entitled to receive cash compensation at their current base salary for three-eighths of all unused sick leave and the remaining five-eighths of the unused sick leave is contributed to the employee's CalPERS account. The District has accrued 100% of the unused sick leave as a liability as it expects most employees to meet the CalPERS requirements when retiring or leaving the District.

o. Construction Advances and Deposits:

Construction deposits are collected by the District to cover the cost of construction projects within the District. Funds in excess of project costs are refunded to the customer.

p. Construction Bonding Deposits:

The District's policy is to maintain certain bonding requirements for water and sewer construction projects performed within District boundaries to ensure the proper completion of the project. Deposited amounts are refunded upon final approval of the project.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

q. Unearned Revenue:

Unearned revenue consists of customer refunds that have not been cashed and prepaid connection fees. Connection fees are collected by the District to cover the cost of service connections within the District. Funds in excess of connection costs are refunded to the customer.

r. Unearned Annexation Revenue:

The District collects a fee from newly annexed developments for all residential and commercial properties. This fee is in-lieu of the District's share of 40 years of the 1% property tax revenue which the District no longer received post-Proposition 13. The fee is a present worth value required to generate a forty year revenue stream equivalent to the lost property tax revenue.

It is calculated based on the fair market value estimate of the improved property at the time the fee is collected and based on the current rate of return on the District's investments. The deposit balance accrues interest and provides a source of operational revenue for the District and is amortized on a straight-line basis over 40 years. This unearned revenue source may be used for capital facilities in the future if approved by the Board.

s. Net Position:

In the Statements of Net Position, net position is classified in 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.
- Restricted net position - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments. Amounts reported in restricted net position for the year ended June 30, 2016 represent the following:
    - $30,523 for payment to a vendor of retention due upon project completion, and
    - $1,572,527, which is the balance remaining of administrative penalty fees collected by the District that must be used for capital improvement projects that are related to conservation efforts, water use efficiency improvements, water conservation education, and regulatory compliance.
- Unrestricted net position - This amount is all net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

t. Net Position Flow Assumptions:

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 Statements of Net Position, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied.

u. Operating Revenues and Expenses:

Operating revenues, such as charges for services (water sales and sewer service charges) result from exchange transactions associated with the principal activity of the District. Nonoperating revenues, such as property taxes and assessments, and investment income, result from nonexchange transactions or ancillary activities in which the District receives value without directly giving equal value in exchange.

Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

v. Property Taxes and Assessments:

The Orange County Assessor's Office assesses all real and personal property within the County each year. The Orange County Tax Collector's Office bills and collects the District's share of property taxes and assessments. The Orange County Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property taxes in California are levied in accordance with Article XIIIA of the State Constitution at 1% of countywide assessed valuations. This levy is allocated pursuant to state law to the appropriate units of local governments.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

v. Property Taxes and Assessments (Continued):

Property taxes receivable at year-end are related to property taxes collected by the Orange County Tax Collector which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Dates:	First Installment - November 1
	Second Installment - March 1
Collection Dates:	First Installment - December 10
	Second Installment - April 10

w. Water and Sewer Sales:

The District recognizes water and sewer service charges based on cycle billings rendered to the customers each month.

x. Capital Contributions:

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

y. Pensions:

For purposes of measuring the net pension liability and deferred outflows/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) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

z. Budgetary Policies:

The District adopts annual nonappropriated budget for planning, control and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

aa. 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which this selected financial data was derived. Certain reclassifications have been made to the prior year amounts to conform to the current year's presentation. There is no effect on the change in net position.

ab. Use of Estimates:

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and, accordingly, include amounts that are based on management's best estimates and judgments. Accordingly, actual results could differ from the estimates.

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments as of June 30, 2016 are reported in the accompanying statements of net position as follows:

Unrestricted Current Assets:	
Cash and cash equivalents	$ 32,387,523
Investments	7,288,244
Restricted Assets:	
Cash and cash equivalents	78,403
Investments	2,120,732
Total Cash and Investments	$ 41,874,902

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

Cash on hand	$ 1,250
Deposits with financial institutions	1,192,898
Investments	40,680,754
Total Cash and Investments	$ 41,874,902

2. CASH AND INVESTMENTS (Continued):

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

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

This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio *	Maximum Investment in One Issuer	Minimum Credit Rating
Bank or Savings and Loans	5 years	None	None	FDIC or FSLIC
Negotiable Certificates of Deposit	5 years	30%	None	A and FDIC/ collateralized
Local Agency Investment Fund	N/A	None	None	N/A
Orange County Commingled Investment Pool	N/A	None	None	N/A
California Asset Management Program	N/A	(1)	None	N/A
United States Treasury Bills, Notes and Bonds	5 years	None	None	N/A
United States Government Sponsored Agency Securities	5 years	None	None	N/A
Corporate Bonds	5 years	30%	None	A
Bankers Acceptances	180 days	10%	5%	A-1
Commercial Paper	270 days	25%	5%	A-1
CalTRUST Investment Pool	N/A	None	None	N/A
Money Market Funds	N/A	20%	10%	N/A

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

(1) Limited to bond proceeds held by the District.

N/A - Not Applicable

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by Debt Agreements:

Investments 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. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
Cash	None	None	None
United States Treasury Bills, Notes and Bonds	None	None	None
United States Treasury Obligations	None	None	None
Resolution Funding Corp. (REFCORP)	None	None	None
Prefunded Municipal Bonds	None	None	None
United States Government Sponsored Agency Securities	None	None	None
Commercial Paper	None	None	None
Money Market Funds	None	None	None
Certificates of Deposits	None	None	None
Guaranteed Investment Contracts	None	None	None
Bankers Acceptance	1 year	None	None
Repurchase Agreements	30 days	None	None
Local Agency Investment Fund	None	None	None

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. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations.

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk (Continued):

Information about the sensitivity of the fair values of the District's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2016.

	Remaining Maturity (in Months)					
Investment Type	12 Months or Less	13 to 24 Months	25 to 36 Months	37 to 48 Months	48 to 60 Months	Totals
CalTRUST Investment Pool	$ 19,836,129	$ -	$ -	$ -	$ -	$19,836,129
Local Agency Investment Fund	11,435,649	-	-	-	-	11,435,649
United States Government						
Sponsored Agency Securities	-	1,502,210	-	500,370	-	2,002,580
Negotiable Certificates of Deposit	499,288	4,087,209	449,569	-	249,598	5,285,664
Held by Bond Trustee:						
United States Government						
Sponsored Agency Securities	-	2,120,732	-	-	-	2,120,732
	$ 31,771,066	$ 7,710,151	$ 449,569	$ 500,370	$ 249,598	$40,680,754

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 in the following table are the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual Moody's credit rating as of June 30, 2016 for each investment type.

Investment Type	Minimum Legal Rating	Total	Not Rated	AA+	AAA
CalTRUST Investment Pool	N/A	$ 19,836,129	$ 17,069,642	$ 2,766,487	$ -
Local Agency Investment Fund	N/A	11,435,649	11,435,649	-	-
United States Government					
Sponsored Agency Securities	N/A	2,002,580	-	-	2,002,580
Negotiable Certificates of Deposit	A	5,285,664	5,285,664	-	-
Held by Bond Trustee:					
United States Government					
Sponsored Agency Securities	N/A	2,120,732	-	-	2,120,732
		$ 40,680,754	$ 33,790,955	$ 2,766,487	$ 4,123,312

2. CASH AND INVESTMENTS (CONTINUED):

Concentration of Credit Risk:

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code with the exception of banker's acceptances, commercial paper and money market funds which are limited to an investment in any one issuer of 5%, 5% and 10%, respectively.

Custodial Credit Risk:

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, the District 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, the District 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 and CalTRUST Investment Pool).

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2016, all of the District's deposits with financial institutions were covered by federal depository insurance limits or were held in collateralized accounts.

Investment in State Investment Pool:

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's prorate share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio).

2. CASH AND INVESTMENTS (CONTINUED):

Investment in CalTRUST Investment Pool:

CalTRUST is a Joint Powers Agency Authority created by local public agencies to provide a convenient method for local public agencies to pool their assets for investment purposes. CalTRUST is governed by a Board of Trustees made up of experienced local agency treasurers and investment officers. The Board sets overall policies for the program and selects and supervises the activities of the investment manager and other agents. CalTRUST maintains and administers four pooled accounts within the program: Money Market, Short-Term, Medium-Term and Long-Term. The Money Market account permits daily transactions, with same-day liquidity (provided redemption requests are received by 1:00 p.m. Pacific time), with no limit on the amount of funds that may be invested. The Short-Term account permits an unlimited number of transactions per month (with prior day notice), with no limit on the amount of funds that may be invested. The Medium- and Long-Term accounts permit investments, withdrawals and transfers once per month, with five days advance notice. All CalTRUST accounts comply with the limits and restrictions placed on local agency investments by the California Government Code. CalTRUST imposes a $250,000 minimum investment; however, there is no maximum limit. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's percentage interest of the fair value provided by CalTRUST for the CalTRUST accounts (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by CalTRUST.

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.

2. CASH AND INVESTMENTS (CONTINUED):

Fair Value Measurements (Continued):

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.

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 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 broker.

The District's management has valued the U.S. Government Sponsored Agency Securities and Negotiable Certificates of Deposit at Level 2 based on similar assets. Amounts invested in the CalTRUST Investment Pool and Local Agency Investment Fund are valued at Level 2 based on information provided by CalTRUST and the State of California, respectively.

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.

2. CASH AND INVESTMENTS (CONTINUED):

Fair Value Measurements (Continued):

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	Total
CalTRUST Investment Pool	$ -	$ 19,836,129	$ -	$ 19,836,129
Local Agency Investment Fund	-	11,435,649	-	11,435,649
U.S. Government Sponsored Agency Securities	-	2,002,580	-	2,002,580
Negotiable Certificates of Deposit	-	5,285,664	-	5,285,664
Held by Bond Trustee:				
U.S. Government Sponsored Agency Securities	-	2,120,732	-	2,120,732
Total Investments	$ -	$ 40,680,754	$ -	$ 40,680,754

3. RESTRICTED ASSETS:

Restricted assets were provided by, and are to be used for the following as of June 30, 2016:

Source	Use	Amount
Bond proceeds	Repayment of debt	$ 2,168,612
District funds	Payment of retention	30,523
Total Restricted Assets		$ 2,199,135

4. CAPITAL ASSETS:

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

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets, not being depreciated:				
Land, mineral and water rights	$ 287,419	$ -	$ -	$ 287,419
Construction in progress	3,246,509	2,599,329	(1,127,839)	4,717,999
Total capital assets, not being depreciated	3,533,928	2,599,329	(1,127,839)	5,005,418
Capital assets, being depreciated:				
Source of supply	6,096,155	-	-	6,096,155
Pumping plant	25,604,231	-	-	25,604,231
Water treatment plant	3,130,572	-	-	3,130,572
Transmission and distribution plant	217,719,069	1,075,794	-	218,794,863
General plant	20,827,434	612,969	(297,183)	21,143,220
Total capital assets, being depreciated	273,377,461	1,688,763	(297,183)	274,769,041
Less accumulated depreciation for:				
Source of supply	(2,315,573)	(168,655)	-	(2,484,228)
Pumping plant	(7,555,843)	(943,781)	-	(8,499,624)
Water treatment plant	(1,553,445)	(197,192)	-	(1,750,637)
Transmission and distribution plant	(61,968,685)	(5,055,655)	-	(67,024,340)
General plant	(9,166,733)	(1,181,124)	281,996	(10,065,861)
Total accumulated depreciation	(82,560,279)	(7,546,407)	281,996	(89,824,690)
Total capital assets, being depreciated, net	190,817,182	(5,857,644)	(15,187)	184,944,351
Total capital assets, net	$ 194,351,110	$ (3,258,315)	$ (1,143,026)	$ 189,949,769

Depreciation expense for the depreciable capital assets was $7,546,407 in 2016.

5. LONG-TERM LIABILITIES:

Changes in long-term liabilities for the year ended June 30, 2016 were as follows:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Certificates of Participation:					
2008 Revenue Certificates of Participation	$ 30,630,000	$ -	$ (765,000)	$ 29,865,000	$ 795,000
2012A Revenue Refunding Certificates of Participation	7,795,000	-	(280,000)	7,515,000	285,000
Subtotal	38,425,000	-	(1,045,000)	37,380,000	1,080,000
Add (Less):					
2008 Premium	598,855	-	(26,420)	572,435	-
2012A Premium	862,620	-	(47,701)	814,919	-
Total Certificates of Participation	39,886,475	-	(1,119,121)	38,767,354	1,080,000
Line of credit	5,994,099	889,621	-	6,883,720	6,883,720
Compensated absences	1,204,595	840,566	(602,817)	1,442,344	360,586
Total	$ 47,085,169	$ 1,730,187	$ (1,721,938)	$ 47,093,418	$ 8,324,306

2008 Revenue Certificates of Participation:

In February 2008, the Corporation issued $34,995,000 2008 Revenue Certificates of Participation for the purpose of financing the 2008 Capital Improvement Projects. The Certificates bear interest ranging from 4% to 5%, payable semiannually on April 1 and October 1. The Term Certificates of $10,885,000 are due on October 1, 2038. The legal reserve requirement is $2,147,096. At June 30, 2016 the reserve fund had a balance of $2,157,518. At June 30, 2016 the 2008 Certificates outstanding balance was $29,865,000.

The Certificates are obligations of the Corporation payable solely from payments received from the District pursuant to the Installment Purchase Agreement, by and between the District and the Corporation. The Installment Purchase Agreement requires the District to fix, prescribe and collect rates and charges for the water service which will be at least sufficient to yield during each fiscal year net revenues equal to 110% of the debt service for such fiscal year. For fiscal year 2016, the net revenues equal to 402% of the debt service.

The Certificates of Participation are subject to federal arbitrage regulations. The District calculated no arbitrage rebate due as of March 2013.

5. LONG-TERM LIABILITIES (CONTINUED):

2008 Revenue Certificates of Participation (Continued):

The annual debt service requirements for the 2008 Revenue Certificates of Participation outstanding at June 30, 2016 are as follows:

Year Ending	Principal	Interest	Total
2017	$ 795,000	$ 1,333,396	$ 2,128,396
2018	825,000	1,300,996	2,125,996
2019	860,000	1,267,296	2,127,296
2020	895,000	1,232,196	2,127,196
2021	930,000	1,195,696	2,125,696
2022 - 2026	5,245,000	5,374,122	10,619,122
2027 - 2031	6,435,000	4,136,313	10,571,313
2032 - 2036	8,040,000	2,487,363	10,527,363
2037 - 2039	5,840,000	447,250	6,287,250
Subtotal	$ 29,865,000	$ 18,774,628	$ 48,639,628

2012A Revenue Refunding Certificates of Participation:

In September 2012, the Corporation issued $8,330,000 of Revenue Refunding Certificates of Participation, Series 2012A. The 2012A Certificates were issued to provide funds (1) to advance refund all of the currently outstanding District Certificates of Participation Series 2003 and (2) to pay costs of issuance of the 2012A Bonds. The District completed the refunding to reduce its total debt service payments over the next 21 years by over $1.72 million, resulting in an economic gain (difference between the present value of the old and new debt service payments) of over $1.32 million. The 2003 Certificates were paid off in October 2012.

The Certificates bear interest ranging from 2% to 5%, payable semiannually on April 1 and October 1. There is no reserve requirement for the 2012A Revenue Refunding Certificates of Participation.

The Certificates are obligations of the Corporation payable solely from payments received from the District pursuant to the Installment Purchase Agreement, by and between the District and the Corporation. The Installment Purchase Agreement requires the District to fix, prescribe and collect rates and charges for the water service which will be at least sufficient to yield during each fiscal year net revenues equal to 110% of the debt service for such fiscal year. For fiscal year 2016, the net revenues equal to 402% of the debt service.

The Certificates of Participation are subject to federal arbitrage regulations. The District has no arbitrage calculation due until September 2017.

5. LONG-TERM LIABILITIES (CONTINUED):

2012A Refunding Certificates of Participation (Continued):

The annual debt service requirements for the 2012A Revenue Refunding Certificates of Participation outstanding at June 30, 2016 are as follows:

Year Ending	Principal	Interest	Total
2017	$ 285,000	$ 303,487	$ 588,487
2018	295,000	293,312	588,312
2019	310,000	281,212	591,212
2020	315,000	268,712	583,712
2021	335,000	255,712	590,712
2022 - 2026	1,890,000	1,031,917	2,921,917
2027 - 2031	2,410,000	512,515	2,922,515
2032 - 2033	1,675,000	82,120	1,757,120
Subtotal	$ 7,515,000	$ 3,028,987	$ 10,543,987

Line of Credit:

On September 24, 2012, the District established a $7,000,000 Line of Credit (Line) pursuant to a line of credit agreement (Credit Agreement) with Wells Fargo Bank, NA. The Line is subordinate to the 2008 Revenue Certificates of Participation and the Revenue Refunding Bonds, Series 2012A and borrowings from it are due and payable by September 30, 2016. The District has decided not to extend the maturity date of the line of credit. The Line has an interest rate equal to One-Month LIBOR + 0.90%, with an annual unused commitment fee of 0.35%. As of June 30, 2016, the District has drawn down $6,883,720 of the available Line and has incurred $75,943 of interest expense and fees.

The Credit Agreement requires the District to fix, prescribe and collect rates and charges for the water service which will be at least sufficient to yield during each fiscal year net revenues equal to 110% of the debt service for such fiscal year. For fiscal year 2016, the net revenues equal to 402% of the debt service.

Compensated Absences:

Compensated absences are comprised of unpaid vacation leave, sick leave and compensating time off which are accrued as earned. (See Note 1n).

6. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN:

a. Plan Description:

The District, through a single employer defined benefit plan, provides post-employment health care benefits. Specifically, the District provides health (medical, dental and vision) insurance for its retired employees and directors, their dependent spouses (if married and covered on the District's plan at time of retirement), or survivors in accordance with Board resolutions. Medical coverage is provided for retired employees who are age 50 or over and who have a minimum of 5 years service with the District. The District pays 100% of the premium for the retiree and two-thirds of the premium amount for eligible dependents accrued at a rate of one year for every three years of service. Two-thirds of the premium amount of medical coverage is provided for the surviving spouse of retired employees for the remaining vested period. The plan does not provide a publicly available financial report.

b. Funding Policy:

The contribution requirements of plan members and the District are established and may be amended by the District, District's Board of Directors, and/or the employee associations. Currently, contributions are not required from plan members. The District has established a trust to fund future OBEP benefits. For the year ended June 30, 2016, the District made a contribution of $211,867 to the OPEB trust and made payments totaling $135,100 for retiree health care insurance benefits.

c. Annual OPEB Cost and Net OPEB Asset:

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities of the plan over a period not to exceed thirty years.

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

Annual required contribution	$ 211,867
Interest on net OPEB asset	(9,989)
Adjustment to annual required contribution	11,500
Annual OPEB cost (expense)	213,378
Actual contributions made	(346,967)
Increase in net OPEB asset	(133,589)
Net OPEB asset - beginning of year	(142,700)
Net OPEB asset - end of year	$ (276,289)

6. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED):

c. Annual OPEB Cost and Net OPEB Asset (Continued):

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset for the years ended June 30, 2016, 2015 and 2014 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Asset
6/30/14	$ 189,177	99.25%	$ (138,943)
6/30/15	189,162	101.99%	(142,700)
6/30/16	213,378	162.61%	(276,289)

d. Funded Status and Funding Progress:

As of July 1, 2015, the most recent actuarial valuation date, the plan was 34.74% funded. The actuarial accrued liability for benefits was $2,136,664, and the actuarial value of assets was $742,379, resulting in an unfunded actuarial accrued liability (UAAL) of $1,394,285. Assets were valued using a five year smoothing formula with a 20% corridor around market value. The covered payroll (annual payroll of active employees covered by the plan) was $5,899,338 and the ratio of the UAAL to the covered payroll was 23.63%.

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

6. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED):

e. Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the July 1, 2015 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included an inflation rate of 2.75% per annum, an investment return of 7% per annum, a projected salary increase of 2.75% per annum and a health inflation rate of 4.0% per annum. The District is using the level percentage of payroll method to allocate amortization cost by year and a closed 30 year period for the initial unfunded actuarial accrued liability and an open 25 year amortization for any residual unfunded actuarial accrued liabilities.

7. PENSION PLANS:

a. General Information about the Pension Plans:

Plan Descriptions:

All qualified permanent and probationary employees are eligible to participate in the District's 2.0% at 55 (Tier I), 2.0% at 60 (Tier II), and 2.0% at 62 (Tier III PEPRA) Miscellaneous 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 District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided:

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. 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.

7. PENSION PLANS (CONTINUED):

a. General Information about the Pension Plans (Continued):

Benefits Provided (Continued):

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

	Miscellaneous		
	Tier I	Tier II	Tier III - PEPRA
	Prior to	On or After	On or After
Hire date	December 22, 2011	December 22, 2011	January 1, 2013
Benefit formula	2%@55	2%@60	2%@62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 63	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	7%	6.25%
Required employer contribution rates	11.522%	8.435%	6.25%

Contributions:

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

7. PENSION PLANS (CONTINUED):

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of all Plans as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$ 5,289,322

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015, and the total pension liability for each 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 plans relative to the projected contributions of all participating employers, actuarially determined.

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

	Miscellaneous
Proportion - June 30, 2014	0.20606%
Proportion - June 30, 2015	0.19280%
Change - Increase (Decrease)	-0.01326%

7. PENSION PLANS (CONTINUED):

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

For the year ended June 30, 2016, the District recognized pension expense of $266,486. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 674,827	$ -
Differences between actual and expected experience	37,747	-
Change in assumptions	-	(357,119)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(795,180)
Net differences between projected and actual earnings on plan investments	-	(179,027)
Total	$ 712,574	$ (1,331,326)

$674,827 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	$ (546,717)
2018	(539,604)
2019	(436,101)
2020	228,843
2021	-
Thereafter	-

7. PENSION PLANS (CONTINUED):

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

Actuarial Assumptions:

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

	Miscellaneous
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	3.3% - 14.2% (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.

7. PENSION PLANS (CONTINUED):

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

Change of Assumptions:

GASB 69, 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.

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.

7. PENSION PLANS (CONTINUED):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (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	100.00%		

(a) An expected inflation of 2.5% used for this period
(b) An expected inflation of 3.0% used for this period

7. PENSION PLANS (CONTINUED):

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

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 all Plans, calculated using the discount rate for each 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:

	Miscellaneous
1% Decrease	6.65%
Net Pension Liability	$ 9,616,857
Current Discount Rate	7.65%
Net Pension Liability	$ 5,289,322
1% Increase	8.65%
Net Pension Liability	$ 1,716,439

Pension Plans Fiduciary Net Position:

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

c. Payable to the Pension Plans:

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

8. NET INVESTMENT IN CAPITAL ASSETS:

The balance of net investment in capital assets consisted of the following as of June 30, 2016:

Capital assets, net of accumulated depreciation	$ 189,949,769
Certificates of participation - current	(1,080,000)
Certificates of participation - long-term	(37,687,354)
Unspent debt proceeds	2,168,612
Deferred amount on refunding	425,220
Net investment in capital assets	$ 153,776,247

9. 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. In an effort to manage its risk exposure, the District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (the Authority).

The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et. seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

At June 30, 2016, as a member of the Authority, the District participated in the insurance programs as follows:

- General and auto liability, public officials and employee's error and omissions: Total risk financing self-insurance limits of $2,000,000, combined single limit at $2,000,000 per occurrence. The Authority purchases additional excess coverage layers: $58 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

- Employee dishonesty coverage up to $100,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages, subject to a $1,000 deductible per occurrence.

- 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. The District's Retrospective Allocation Point (deductible) is $25,000 per occurrence. The Authority is self-insured for the first $100,000, and purchases excess coverage up to $150 million limited to insurable value, subject to a $1,000 deductible, except for a $500 deductible on vehicles.

9. RISK MANAGEMENT (CONTINUED):

- 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. The Authority is self-insured to $2,000,000 and has purchased excess insurance to the statutory limit.

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

10. PRE-ANNEXATION AGREEMENT:

In June 2008, the District entered into a pre-annexation agreement with Placentia Yorba Linda Unified School District (PYLUSD) whereby the District intends to provide access to water and sewer service to the PYLUSD for the benefit of a property that PYLUSD wishes to develop for public high school use. Per the agreement, PYLUSD agreed to fund additional District reservoir improvements equal to the cost of constructing additional 450,000 gallons of reservoir storage. The cost for the additional water storage was estimated to be approximately $1.50 per gallon, resulting in a total approximate cost of $675,000. PYLUSD paid the District $32,500 within 30 days of execution of the agreement. The remaining balance is payable over a nine-year period at an annual interest rate of 4%. Annual payments of $81,704, which include principal and interest, started in the fiscal year ended June 30, 2010. The remaining outstanding balance at June 30, 2016 was $154,107 plus interest receivable of $9,306. The current portion of the note receivable and interest receivable as of June 30, 2016 is $75,540 and $6,164, respectively. As of June 30, 2016 the District reservoir improvements have been completed. The District has completed its obligation in its entirety and has earned the rights to the entire amount. Therefore, the outstanding balance is recorded in the District's books as a note receivable.

11. COMMITMENTS AND CONTINGENCIES:

Construction Contracts:

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and advances for construction. The District has committed to approximately $1,293,021 of open construction contracts as of June 30, 2016. Construction contracts include:

Project Name	Total Approved Contract	Construction Costs to Date	Balance to Complete
Well No. 21	$ 1,057,745	$ 638,609	$ 419,136
Lakeview Grade Separation	250,000	-	250,000
YLWD-Fairmont/Zone 5 BPS Project	657,588	557,440	100,148
2015 Waterline Replacement	737,700	267,140	470,560
Richfield Road Pipeline	91,866	57,067	34,799
2016 Sewer Main CIPP Rehab Project	248,154	229,776	18,378
	$ 3,043,053	$ 1,750,032	$ 1,293,021

Litigation:

The District is a defendant in certain legal actions arising in the normal course of operations. In the opinion of management and legal counsel, any liability resulting from these actions will not result in a material adverse effect on the District's financial statements.

12. SUBSEQUENT EVENTS:

In September 2016, the Board approved to pay-off the principal, accrued interest and applicable fees due by September 30, 2016 for the 2012 $7 million line of credit agreement between the District and Wells Fargo Bank utilizing the Water Capital Project Reserves. As of June 30, 2016, the District has drawn down $6,883,720 of the available line.

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through September 30, 2016, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

YORBA LINDA WATER DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Ten Fiscal Years*

Fiscal year ended	June 30, 2016	June 30, 2015
Measurement date	June 30, 2015	June 30, 2014
Plan's proportion of the net pension liability	0.07706%	0.08184%
Plan's proportionate share of the net pension liability	$ 5,289,322	$ 5,092,626
Plan's covered - employee payroll	$ 5,564,327	$ 5,054,265
Plan's proportionate share of the net pension liability as a percentage of its covered - employee payroll	95.06%	100.76%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability	83.35%	83.03%
Plan's proportionate share of aggregate employer contributions	$ 916,213	$ 673,737

Notes to Schedule:

Benefit Changes:
There were no changes in benefits.

Changes in Assumptions:
GASB 69, 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.

YORBA LINDA WATER DISTRICT

SCHEDULE OF CONTRIBUTIONS

Last Ten Fiscal Years*

Fiscal year ended	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	$ 674,827	$ 587,176
Contributions in relation to the actuarially determined contributions	(674,827)	(587,176)
Contribution deficiency (excess)	$ -	$ -
Covered - employee payroll	$ 5,899,338	$ 5,564,327
Contributions as a percentage of covered - employee payroll	11.44%	10.55%

Notes to Schedule:

Valuation Date 6/30/2013

Methods and Assumptions Used to Determine Contribution Rates:

Cost-sharing employers	Entry age**
Amortization method	Level percentage of payroll, closed**
Asset valuation method	Market Value***
Inflation	2.75%**
Salary increases	3.30% to 14.20% depending on age, service, and type of employment**
Investment rate of return	7.50%, net of pension plan investment expense, including inflation**
Retirement age	50 years (2%@55 and 2%@60), 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.

OTHER POST-EMPLOYMENT BENEFITS PLAN
SCHEDULE OF FUNDING PROGRESS

For the year ended June 30, 2016

Retiree Health Plan

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Actuarial Accrued Liability (UAAL) (a) - (b)	Funded Ratio (b)/(a)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(a)-(b)]/(c)
03/01/2011	$ 1,594,667	$ -	$ 1,594,667	0.00%	$ 5,044,860	31.61%
06/30/2011	$ 1,597,488	$ 164,291	$ 1,433,197	10.28%	$ 4,773,686	30.02%
07/01/2013	$ 1,896,791	$ 537,913	$ 1,358,878	28.36%	$ 5,200,000	26.13%
07/01/2015	$ 2,136,664	$ 742,379	$ 1,394,285	34.74%	$ 5,899,338	23.63%

SUPPLEMENTARY INFORMATION

YORBA LINDA WATER DISTRICT

COMBINING SCHEDULE OF NET POSITION

June 30, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Water	Sewer	Totals
CURRENT ASSETS:			
UNRESTRICTED ASSETS:			
Cash and cash equivalents	$ 28,491,374	$ 3,896,149	$ 32,387,523
Investments	7,086,020	202,224	7,288,244
Accounts receivable - water and sewer services	4,018,043	198,704	4,216,747
Accounts receivable - property taxes	12,627	1,002	13,629
Note receivable	75,540	-	75,540
Accrued interest receivable	42,566	3,858	46,424
Prepaid expenses and deposits	292,950	-	292,950
Inventory	234,899	-	234,899
TOTAL UNRESTRICTED ASSETS	40,254,019	4,301,937	44,555,956
RESTRICTED ASSETS:			
Cash and cash equivalents	78,403	-	78,403
Investments	2,120,732	-	2,120,732
TOTAL RESTRICTED ASSETS	2,199,135	-	2,199,135
TOTAL CURRENT ASSETS	42,453,154	4,301,937	46,755,091
NONCURRENT ASSETS:			
Capital assets:			
Not depreciable	4,605,042	400,376	5,005,418
Depreciable, net of accumulated depreciation	147,140,467	37,803,884	184,944,351
Note receivable	78,567	-	78,567
Other post-employment benefit (OPEB) asset	256,949	19,340	276,289
TOTAL NONCURRENT ASSETS	152,081,025	38,223,600	190,304,625
TOTAL ASSETS	194,534,179	42,525,537	237,059,716
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred amounts from pension plans	630,792	81,782	712,574
Deferred loss on refunding	425,220	-	425,220
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,056,012	81,782	1,137,794

YORBA LINDA WATER DISTRICT

COMBINING SCHEDULE OF NET POSITION
(CONTINUED)

June 30, 2016

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	Water	Sewer	Totals
CURRENT LIABILITIES:			
PAYABLE FROM UNRESTRICTED CURRENT ASSETS:			
Accounts payable	$ 3,937,566	$ 189,909	$ 4,127,475
Accrued expenses	120,799	-	120,799
Compensated absences payable - current portion	360,586	-	360,586
Customer and construction deposits	482,732	39,235	521,967
Unearned revenue	324,769	-	324,769
Accrued interest payable	414,265	-	414,265
Payable on line of credit	6,883,720	-	6,883,720
TOTAL PAYABLE FROM UNRESTRICTED CURRENT ASSETS	12,524,437	229,144	12,753,581
PAYABLE FROM RESTRICTED ASSETS:			
Certificates of Participation - current portion	1,080,000	-	1,080,000
TOTAL PAYABLE FROM RESTRICTED ASSETS	1,080,000	-	1,080,000
TOTAL CURRENT LIABILITIES	13,604,437	229,144	13,833,581
LONG-TERM LIABILITIES (LESS CURRENT PORTION):			
Unearned annexation revenue	14,598,067	-	14,598,067
Compensated absences	1,081,758	-	1,081,758
Certificates of Participation	37,687,354	-	37,687,354
Net pension liability	4,682,265	607,057	5,289,322
TOTAL LONG-TERM LIABILITIES (LESS CURRENT PORTION)	58,049,444	607,057	58,656,501
TOTAL LIABILITIES	71,653,881	836,201	72,490,082
DEFERRED INFLOWS OF RESOURCES:			
Deferred amounts from pension plans	1,178,529	152,797	1,331,326
NET POSITION:			
Net investment in capital assets	115,571,987	38,204,260	153,776,247
Restricted for water conservation	1,603,050	-	1,603,050
Unrestricted	5,582,744	3,414,061	8,996,805
TOTAL NET POSITION	$ 122,757,781	$ 41,618,321	$ 164,376,102

YORBA LINDA WATER DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

For the year ended June 30, 2016

	Water	Sewer	Totals
OPERATING REVENUES:			
Water sales	$ 27,820,638	$ -	$ 27,820,638
Sewer revenues	-	1,849,114	1,849,114
Other operating revenues	2,596,208	69,627	2,665,835
TOTAL OPERATING REVENUES	30,416,846	1,918,741	32,335,587
OPERATING EXPENSES:			
Variable water costs	10,470,181	-	10,470,181
Personnel services	7,244,718	852,135	8,096,853
Supplies and services	3,895,962	459,071	4,355,033
Depreciation	6,182,985	1,363,422	7,546,407
TOTAL OPERATING EXPENSES	27,793,846	2,674,628	30,468,474
OPERATING INCOME (LOSS)	2,623,000	(755,887)	1,867,113
NONOPERATING REVENUES (EXPENSES):			
Property taxes	1,615,454	-	1,615,454
Investment income	265,006	23,811	288,817
Interest expense	(1,671,539)	-	(1,671,539)
Other nonoperating revenues	745,541	126,879	872,420
Other nonoperating expenses	(7,273)	-	(7,273)
TOTAL NONOPERATING REVENUES (EXPENSES)	947,189	150,690	1,097,879
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	3,570,189	(605,197)	2,964,992
CAPITAL CONTRIBUTIONS	347,795	440,650	788,445
CHANGES IN NET POSITION	3,917,984	(164,547)	3,753,437
NET POSITION - BEGINNING OF YEAR	118,839,797	41,782,868	160,622,665
NET POSITION - END OF YEAR	$ 122,757,781	$ 41,618,321	$ 164,376,102

YORBA LINDA WATER DISTRICT

COMBINING SCHEDULE OF CASH FLOWS

For the year ended June 30, 2016

	Water	Sewer	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	$ 29,509,140	$ 1,886,042	$ 31,395,182
Cash payments to employees for salaries and wages	(7,652,080)	(908,352)	(8,560,432)
Cash payments to suppliers of goods and services	(13,677,200)	(301,078)	(13,978,278)
Other revenues	93,261	97,902	191,163
Other expenses	(17,558)	-	(17,558)
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,255,563	774,514	9,030,077
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Proceeds from line of credit	889,621	-	889,621
Proceeds from property taxes and assessments	1,617,367	-	1,617,367
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	2,506,988	-	2,506,988
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from annexation fees and capital contributions	1,531,103	28,780	1,559,883
Acquisition and construction of capital assets	(1,649,272)	(729,394)	(2,378,666)
Proceeds from sales of capital assets	5,004	30,603	35,607
Principal paid on long-term liabilities	(1,045,000)	-	(1,045,000)
Interest paid on long-term liabilities	(1,777,335)	-	(1,777,335)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(2,935,500)	(670,011)	(3,605,511)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sale of investments	24,108,938	10,652	24,119,590
Purchases of investments	(23,946,800)	-	(23,946,800)
Interest and investment earnings	256,600	22,356	278,956
NET CASH PROVIDED BY INVESTING ACTIVITIES	418,738	33,008	451,746
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,245,789	137,511	8,383,300
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	20,323,988	3,758,638	24,082,626
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 28,569,777	$ 3,896,149	$ 32,465,926

(Continued)

YORBA LINDA WATER DISTRICT

COMBINING SCHEDULE OF CASH FLOWS
(CONTINUED)

For the year ended June 30, 2016

	Water	Sewer	Totals
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income (loss)	$ 2,623,000	$ (755,887)	$ 1,867,113
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	6,182,985	1,363,422	7,546,407
Other revenues	93,261	97,902	191,163
Other expenses	(17,558)	-	(17,558)
Changes in operating assets, deferred outflows of resources, operating liabilities and deferred inflows of resources:			
(Increase) decrease in assets and deferred outflows: of resources:			
Accounts receivable	(846,067)	(27,947)	(874,014)
Inventory	27,263	-	27,263
Prepaid expenses and deposits	(21,966)	-	(21,966)
Other post-employment benefits (OPEB) asset	(124,238)	(9,351)	(133,589)
Deferred outflows of resources from pension plans	(111,006)	(14,392)	(125,398)
Increase (decrease) in liabilities and deferred inflows of resources:			
Accounts payable and accrued expenses	515,335	155,938	671,273
Accrued salaries and wages	(159,398)	-	(159,398)
Accrued compensated absences	237,749	-	237,749
Customer and construction deposits	106,672	(2,697)	103,975
Net pension liability	174,122	22,574	196,696
Deferred inflows of resources from pension plans	(424,591)	(55,048)	(479,639)
Total adjustments	5,632,563	1,530,401	7,162,964
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 8,255,563	$ 774,514	$ 9,030,077
CASH AND CASH EQUIVALENTS - FINANCIAL STATEMENT CLASSIFICATION:			
Unrestricted	$ 28,491,374	$ 3,896,149	$ 32,387,523
Restricted	78,403	-	78,403
TOTAL CASH AND CASH EQUIVALENTS - FINANCIAL STATEMENT CLASSIFICATION	$ 28,569,777	$ 3,896,149	$ 32,465,926
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:			
Amortization related to long-term debt	$ 74,121	$ -	$ 74,121
Capital contributions	$ 347,795	$ 411,870	$ 759,665

YORBA LINDA WATER DISTRICT

SCHEDULE OF OPERATING EXPENSES BY COST CENTER
AND NATURE OF EXPENSES FOR WATER AND SEWER

For the year ended June 30, 2016

	Water	Sewer	Totals
OPERATING EXPENSES:			
Variable Water Costs:			
Imported water	$ 3,010,536	$ -	$ 3,010,536
OCWD replenishment assessment	3,824,753	-	3,824,753
Continuous use program	1,241,474	-	1,241,474
MWD connection charge	1,181,136	-	1,181,136
Fuel and power/pumping	1,212,282	-	1,212,282
Total Variable Water Costs	10,470,181	-	10,470,181
Personnel Services:			
Unit salaries	5,435,979	684,520	6,120,499
Fringe benefits	1,751,863	163,740	1,915,603
Director's fees	56,876	3,875	60,751
Total Personnel Services	7,244,718	852,135	8,096,853
Supplies and Services:			
Communications	208,295	13,533	221,828
Contractual services	494,674	35,819	530,493
Data processing	210,246	15,057	225,303
District activities	8,153	591	8,744
Dues and memberships	73,585	5,716	79,301
Fees and permits	213,650	10,491	224,141
Insurance	238,391	17,943	256,334
Maintenance	337,744	188,595	526,339
Materials	772,078	33,564	805,642
Noncapital equipment	146,580	40,840	187,420
Office expense	38,507	2,556	41,063
Professional services	631,353	22,570	653,923
Training	23,863	3,898	27,761
Travel and conferences	45,877	2,983	48,860
Uncollectible accounts	61,639	4,752	66,391
Utilities	79,116	5,309	84,425
Vehicle expense	312,211	54,854	367,065
Total Supplies and Services	3,895,962	459,071	4,355,033
Depreciation	6,182,985	1,363,422	7,546,407
TOTAL OPERATING EXPENSES	$ 27,793,846	$ 2,674,628	$ 30,468,474

YORBA LINDA WATER DISTRICT

SCHEDULE OF CAPITAL ASSETS

For the year ended June 30, 2016

	Water	Sewer	Totals
Land, Mineral and Water Rights:			
Land	$ 78,558	$ -	$ 78,558
Water rights	86,300	-	86,300
Mineral rights	63,650	-	63,650
Land rights and easements	385	58,526	58,911
Total Land, Mineral and Water Rights	228,893	58,526	287,419
Source of Supply:			
Wells	5,531,787	-	5,531,787
MWD connection	564,368	-	564,368
Total Source of Supply	6,096,155	-	6,096,155
Pumping Plant:			
Structures and improvements	13,532,628	-	13,532,628
Equipment	11,640,027	431,576	12,071,603
Total Pumping Plant	25,172,655	431,576	25,604,231
Water Treatment Plant:			
Structures and improvements	1,302,811	-	1,302,811
Equipment	1,827,761	-	1,827,761
Total Water Treatment Plant	3,130,572	-	3,130,572
Transmission and Distribution Plant:			
Mains	78,385,673	47,419,209	125,804,882
Reservoirs and tanks	61,565,606	-	61,565,606
Service and meter installation	6,058,428	2,767,929	8,826,357
Fire hydrants	6,893,255	-	6,893,255
Meters	9,428,245	-	9,428,245
Fire mains	717,746	-	717,746
Structures and improvements	2,875,096	-	2,875,096
Control system	2,650,191	33,485	2,683,676
Total Transmission and Distribution Plant	168,574,240	50,220,623	218,794,863
General Plant:			
Structures and improvements	13,373,615	-	13,373,615
Transportation equipment	1,690,158	1,401,250	3,091,408
Power operated equipment	601,673	-	601,673
Communication equipment	511,269	-	511,269
Computer equipment	2,067,290	238,071	2,305,361
Office furniture	1,098,711	-	1,098,711
Tools, shops and garage equipment	96,292	-	96,292
Other	4,650	-	4,650
Store equipment	60,241	-	60,241
Total General Plant	19,503,899	1,639,321	21,143,220
Construction in Progress	4,376,149	341,850	4,717,999
Accumulated depreciation	(75,337,054)	(14,487,636)	(89,824,690)
Total Capital Assets	$ 151,745,509	$ 38,204,260	$ 189,949,769

STATISTICAL SECTION

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YORBA LINDA WATER DISTRICT

DESCRIPTION OF STATISTICAL SECTION CONTENTS

June 30, 2016

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 and the note disclosures say about the government's overall financial health.

Contents:

Yorba Linda Water District
Changes in Net Position
Last Ten Fiscal Years

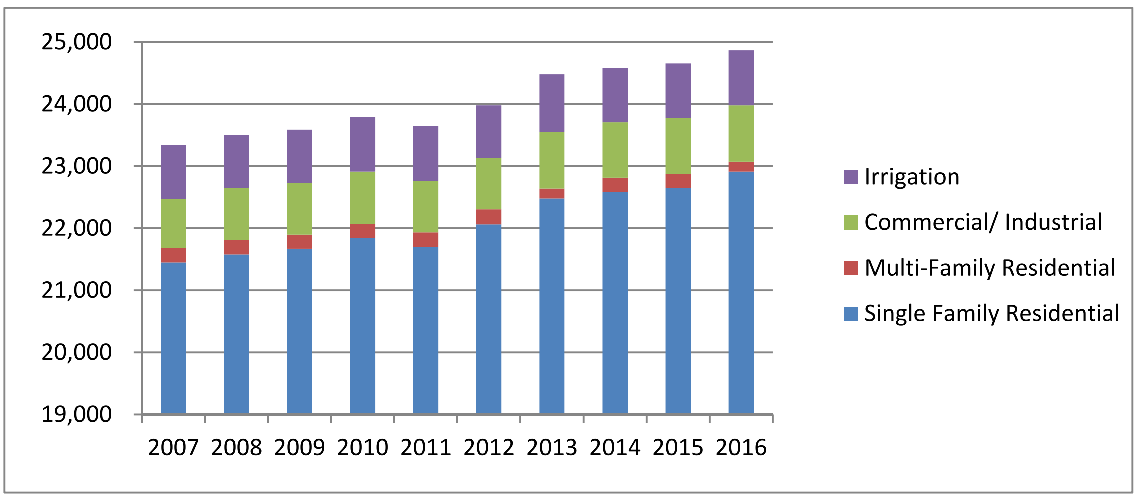
	Fiscal Year			
Changes in Net Position:	**2016**	**2015**	**2014**	**2013**
Operating Revenues				
Water Sales	$ 27,820,638	$ 26,446,618	$ 28,376,082	$ 26,369,940
Sewer Revenues	1,849,114	1,775,676	1,762,816	1,762,039
Other Operating Revenues	2,665,835	1,461,106	1,047,625	723,577
Operating Expenses				
Variable Water Costs	10,470,181	12,733,762	14,673,144	13,509,336
Personnel Services	8,096,853	7,778,763	7,529,481	7,225,729
Supplies and Services	4,355,033	3,806,900	3,849,183	4,222,398
Depreciation	7,546,407	7,432,586	7,315,084	6,884,213
Operating Loss	1,867,113	(2,068,611)	(2,180,369)	(2,986,120)
Nonoperating Revenues (Expenses)				
Property Taxes	1,615,454	1,496,489	1,394,722	1,340,916
Investment Income	288,817	187,316	145,048	137,569
Interest Expense	(1,671,539)	(1,683,039)	(1,715,429)	(1,781,416)
Bond Issuance Costs	-	-	-	(192,410)
Other Nonoperating Revenues	872,420	744,572	1,325,685	588,854
Other Nonoperating Expenses	(7,273)	(116,528)	(47,948)	(35,954)
Total Nonoperating Revenues (Expenses)	1,097,879	628,810	1,102,078	57,559
Net Income (Loss) Before Capital Contributions and Extraordinary Items	2,964,992	(1,439,801)	(1,078,291)	(2,928,561)
Capital Contributions	788,445	705,848	2,128,579	1,174,673
Extraordinary Items	-	-	5,000,000	-
Changes in Net Position	$ 3,753,437	$ (733,953)	$ 6,050,288	$ (1,753,888)
Net Position by Component:				
Net Investment in Capital Assets	$ 153,776,247	$ 157,092,210	$ 161,159,541	$ 161,494,158
Restricted	1,603,050	-	-	-
Unrestricted	8,996,805	3,530,455	6,617,328	232,423
Total Net Position	$ 164,376,102	$ 160,622,665	$ 167,776,869	$ 161,726,581

Source: YLWD Audited Financial Statements (Continued)

Fiscal Year					
2012	2011	2010	2009	2008	2007
$ 24,998,673	$ 22,686,251	$ 21,806,164	$ 19,626,738	$ 19,470,109	$ 18,944,233
1,785,804	1,274,579	1,275,980	1,259,723	1,247,907	806,897
848,238	1,035,545	1,102,143	439,302	380,175	393,285
12,275,853	11,268,306	10,688,318	10,859,328	10,516,507	10,703,037
6,979,088	6,902,995	6,677,757	6,498,959	5,751,384	5,276,878
3,811,125	3,686,333	3,576,147	4,151,058	4,361,512	3,395,303
6,595,720	5,279,860	5,153,891	4,167,958	3,572,726	3,445,868
(2,029,071)	(2,141,119)	(1,911,826)	(4,351,540)	(3,103,938)	(2,676,671)
1,273,855	1,258,769	1,269,441	1,283,521	1,263,656	1,186,441
277,137	274,152	244,857	689,108	1,508,193	2,180,067
(1,626,190)	(1,172,503)	(1,170,498)	(1,469,925)	(824,387)	(468,087)
-	-	-	-	-	-
805,654	739,062	589,201	479,911	270,429	455,067
(108,984)	(406,575)	(151,300)	(177,553)	(133,604)	(138,501)
621,472	692,905	781,701	805,062	2,084,287	3,214,987
(1,407,599)	(1,448,214)	(1,130,125)	(3,546,478)	(1,019,651)	538,316
17,214,138	706,319	6,278,135	4,363,527	4,100,051	6,913,095
(5,000,000)	-	-	-	-	-
$ 10,806,539	$ (741,895)	$ 5,148,010	$ 817,049	$ 3,080,400	$ 7,451,411
$ 161,672,565	$ 146,235,362	$ 146,877,122	$ 141,514,024	$ 139,677,663	$ 121,317,296
9,598,420	12,620,256	15,797,432	14,063,802	14,523,549	23,089,201
(6,228,771)	(4,619,943)	(7,696,984)	(6,158,513)	(4,898,647)	1,815,668
$ 165,042,214	$ 154,235,675	$ 154,977,570	$ 149,419,313	$ 149,302,565	$ 146,222,165

Yorba Linda Water District
Number of Connections
Last Ten Fiscal Years

Fiscal Year	Single Family Residential	Multi-Family Residential	Commercial/ Industrial	Irrigation	Direct Rate (Billing Unit)
2007	21,451	228	792	868	1.57
2008	21,580	228	840	857	1.79
2009	21,672	228	831	855	2.52
2010	21,846	228	837	877	2.52
2011	21,701	231	833	879	2.52
2012	22,064	240	829	846	2.52
2013	22,480	158	908	933	2.64
2014	22,586	230	892	876	2.70
2015	22,649	230	898	876	2.70
2016	22,914	160	903	887	2.70



Source: YLWD Billing System

Yorba Linda Water District
Ten Largest Customers
Current and Five Years Ago

FY 2016

	Customer Name	Business Type	Annual Revenues	% of Total Revenues
1	City of Yorba Linda	Government	$ 1,949,735	6.03%
2	Placentia-Yorba Linda USD	Government	249,396	0.77%
3	Aspetic Tech	Manufacturer	108,087	0.33%
4	RRE Yorba Linda Holdings	Manufacturer	134,905	0.42%
5	Yorba Linda Villages	Homeowners' Assoc.	117,461	0.36%
6	The Hills at Yorba Linda	Homeowners' Assoc.	146,595	0.45%
7	Fairmont Hill Coummunity Assoc	Homeowners' Assoc.	85,340	0.26%
8	Cartel Electronics	Manufacturer	64,384	0.20%
9	Lake Park Mobile Home Community	Homeowners' Assoc.	74,579	0.23%
10	Cal Water	Manufacturer	60,935	0.19%
			$ 2,991,417	9.25%

FY 2011*

	Customer Name	Business Type	Annual Revenues	% of Total Revenues
1	City of Yorba Linda	Government	$ 1,614,372	6.46%
2	Placentia-Yorba Linda USD	Government	289,092	1.16%
3	Yorba Linda Villages	Homeowners' Assoc.	106,004	0.42%
4	Rancho Dominquez Assoc.	Homeowners' Assoc.	99,387	0.40%
5	Archstone Apts.	Apartment Complex	91,111	0.36%
7	Cal Water	Manufacturer	88,672	0.35%
6	Tac West Inc	Manufacturer	81,068	0.32%
8	Placentia Linda Hospital	Hospital	72,838	0.29%
9	Advanced Management	Apartment Complex	68,314	0.27%
10	St Francis of Assissi	Private School	66,345	0.27%
			$ 2,577,203	10.31%

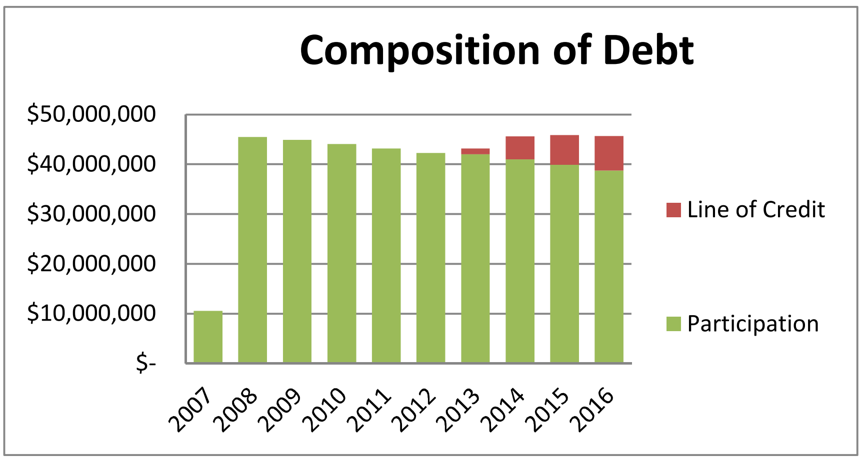
NOTES:

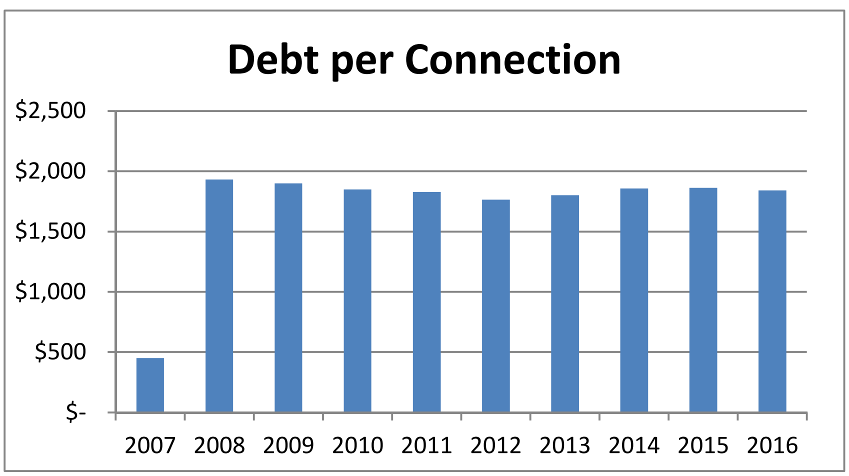
* Last available data
# Annual Sales may include Administrative Penalty Revenue
Ten Largest Customers is based upon the total annual consumption in "units" (748 gallons per unit), not the total Annual Sales.

Source: YLWD Billing Department

Yorba Linda Water District
Ratio of Outstanding Debt
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds	Wells Fargo Bank Line of Credit	Certificates of Participation	Total Debt	Total Per Connection	Total Per Capita	Total As a Share of Personal Income
2007	$ -	$ -	$ 10,540,139	$ 10,540,139	$ 451	$ 148	0.38%
2008	-	-	45,502,080	45,502,080	1,932	637	1.53%
2009	-	-	44,911,092	44,911,092	1,900	628	1.50%
2010	-	-	44,065,104	44,065,104	1,848	611	1.50%
2011	-	-	43,189,117	43,189,117	1,827	604	1.44%
2012	-	-	42,278,129	42,278,129	1,764	575	1.32%
2013	-	1,171,131	42,009,722	43,180,853	1,802	577	1.28%
2014	-	4,642,656	40,970,599	45,613,255	1,858	616	1.32%
2015	-	5,994,099	39,886,475	45,880,574	1,861	613	1.33%
2016	-	6,883,720	38,767,354	45,651,074	1,841	581	1.26%





Source: YLWD Audited Financial Statements

Yorba Linda Water District
Debt Coverage
Last Ten Fiscal Years

Fiscal Year	Revenues	Operating & Maint. Costs	Net Revenues	Debt Service Principal	Debt Service Interest	Debt Service Total	Coverage Ratio
2007	$ 23,036	$ 18,703	$ 4,333	$ 205	$ 469	$ 674	6.43
2008	22,822	19,829	2,993	210	919	1,129	2.65
2009	22,514	20,604	1,910	570	2,051	2,621	0.73
2010	24,417	19,928	4,489	825	1,951	2,776	1.62
2011	25,912	20,845	5,067	855	1,949	2,804	1.81
2012	27,818	21,950	5,868	890	1,915	2,805	2.09
2013	27,055	23,790	3,265	925	1,985	2,910	1.12
2014	29,309	24,853	4,456	965	1,813	2,778	1.60
2015	27,759	23,102	4,657	1,010	1,714	2,724	1.71
2016	30,417	21,611	8,806	1,045	1,777	2,822	3.12

NOTE: Excludes depreciation and debt service payments

Source: YLWD Audited Financial Statements

Yorba Linda Water District
Demographics
Last Ten Fiscal Years

YLWD

Year	Population *	City of YL Population	Personal Income	Personal Income per Capita
2007	71,258	67,904	$ 2,772,221,232	$ 38,904
2008	71,428	68,312	2,974,469,711	41,643
2009	71,507	68,852	2,996,211,308	41,901
2010	72,083	69,816	2,943,660,024	40,837
2011	71,520	70,681	2,993,957,236	41,862
2012	73,498	72,706	3,192,753,120	43,440
2013	74,861	65,777	3,374,570,547	45,078
2014	73,990	67,069	3,461,036,956	46,777
2015	74,787	67,826	3,451,134,500	46,146
2016	78,539	67,637	3,624,303,533	46,147

County of Orange

Year	Population	Unemployment Rate	Personal Income	Personal Income per Capita
2007	3,098,121	3.9%	$ 150,214,330	$ 48,486
2008^	3,121,251	5.2%	157,828,108	50,566
2009^	3,139,017	9.0%	159,710,562	50,879
2010#^	3,170,721	9.8%	150,467,328	47,455
2011#^	3,192,916	8.7%	155,323,766	48,646
2012^	3,182,171	7.9%	160,637,055	50,480
2013^	3,055,792	8.5%	160,072,905	52,383
2014	3,081,804	6.2%	168,966,068	54,827
2015	3,113,991	5.4%	177,412,900	56,973
2016	3,132,681	4.6%	169,792,810	54,200

NOTES: ^ No personal income data available for County of Orange, used State of California data.

No population data available for County of Orange, used State of California data.

Sources: City of Yorba Linda CAFR
County of Orange CAFR
State of California, Employment Development Department
State of California, Department of Finance

Yorba Linda Water District
Ten Largest Employers
Current and Nine Years Ago

	2016*		2007+	
Employer ^	**Employees**	**% of Total Labor Force**	**Employees**	**% of Total Labor Force**
Placentia Linda Hospital	460	0.029 %	441	0.023 %
Nobel Biocare USA, Inc.	350	0.022 %	323	0.017 %
Viasys Respiratory Care, Inc. (CareFusion)	300	0.019 %	359	0.019 %
Home Depot	300	0.019 %	300	0.015 %
Costco Wholesale Corp.	299	0.019 %	204	0.011 %
Sprouts	180	0.011 %	110	0.006 %
City of Yorba Linda	171	0.011 %	180	0.009 %
Stater Brothers	150	0.009 %	129	0.007 %
Kohl's Inc.	150	0.009 %	145	0.007 %
Vons	125	0.008 %	167	0.009 %
Total	2,485	0.155 %	2,358	0.122 %

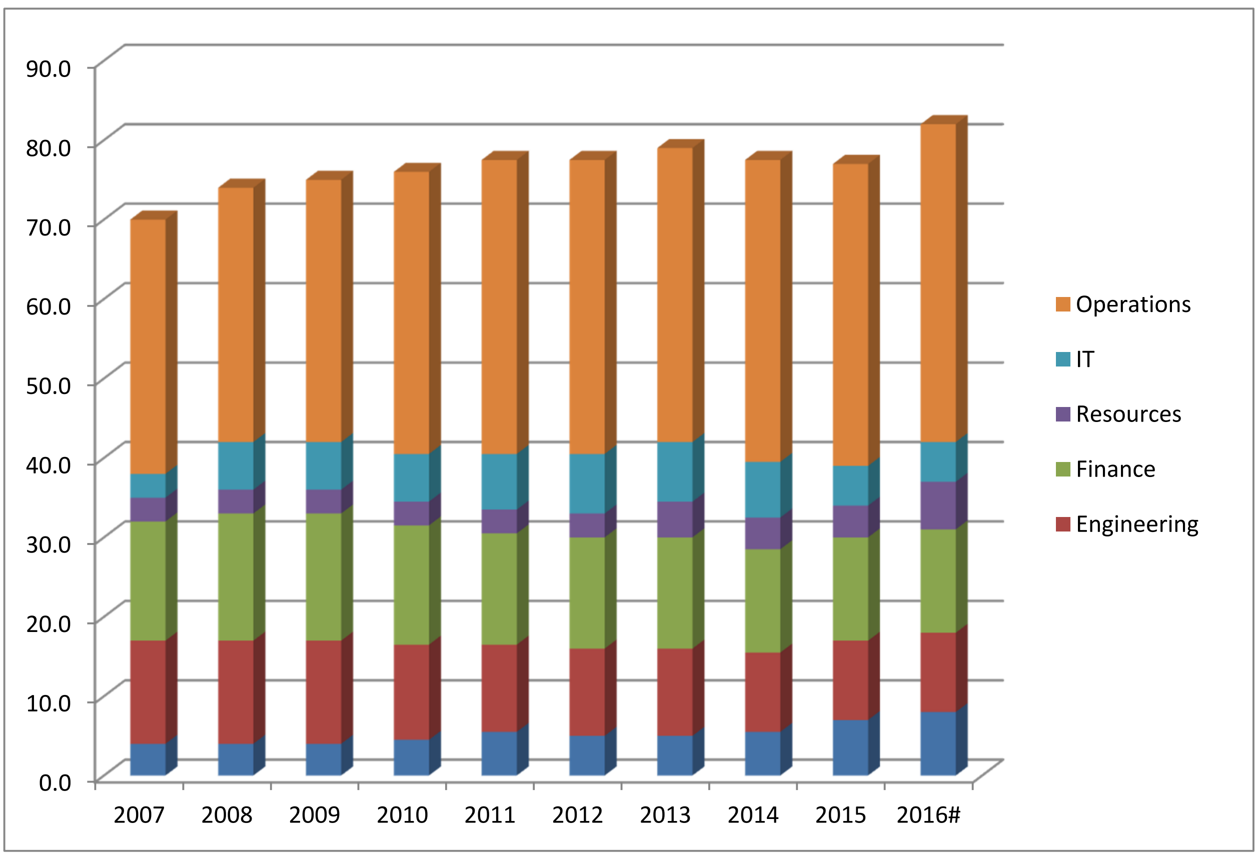
NOTES: * Most current available data
+ Oldest available data
^ The Placentia- Yorba Linda Unified School District has 2,500 employees and serves the entire communities of Yorba Linda and Placentia, and also serves parts of the Cities of Brea, Anaheim and Fullerton. YLWD cannot provide the number of employees working within the boundaries of Yorba Linda.

Source: City of Yorba Linda CAFR

Yorba Linda Water District
Number of Employees
Last Ten Fiscal Years

Full Time Equivalent Employees by Department *

Fiscal Year	Department: Administration	Engineering	Finance	Human Resources	IT	Operations	Total
2007	4.0	13.0	15.0	3.0	3.0	32.0	70.0
2008	4.0	13.0	16.0	3.0	6.0	32.0	74.0
2009	4.0	13.0	16.0	3.0	6.0	33.0	75.0
2010	4.5	12.0	15.0	3.0	6.0	35.5	76.0
2011	5.5	11.0	14.0	3.0	7.0	37.0	77.5
2012	5.0	11.0	14.0	3.0	7.5	37.0	77.5
2013	5.0	11.0	14.0	4.5	7.5	37.0	79.0
2014	5.5	10.0	13.0	4.0	7.0	38.0	77.5
2015	7.0	10.0	13.0	4.0	5.0	38.0	77.0
2016#	8.0	10.0	13.0	6.0	5.0	40.0	82.0



NOTES: * Number of employees in each department are authorized and funded positions.
Includes 3FTE temporary positions in relation to the SWRCB Emergency Mandate.

Source: YLWD Human Resources Department

Yorba Linda Water District
Operating and Capacity Indicators
Last Ten Fiscal Years

Fiscal Year	Miles of Water Mains Installed*	Yearly Water Production (MG)	Average Production (MGD)	Number of Field Service Calls
2007	9.72	8,360	22.9	1,565
2008	9.72	8,027	22.0	1,943
2009	9.72	7,590	20.8	1,674
2010	9.72	6,569	18.0	1,640
2011	2.00	6,282	17.2	1,924
2012	2.02	6,780	18.6	1,693
2013	1.10	7,099	19.4	1,561
2014	0.77	7,329	20.1	1,579
2015	1.53	6,447	17.7	1,247
2016	2.86	4,408	12.1	1,873

Fiscal Year	Number of Booster Pumps	Capacity by Booster Pump (GPM)	Number of Reservoirs	Capacity by Reservoir (MG)
2007	11	43,025	11	41
2008	11	43,025	11	41
2009	11	43,025	12	49
2010	11	43,025	12	49
2011	12	46,525	14	57
2012	12	46,525	14	57
2013	12	46,525	14	57
2014	12	46,525	14	57
2015	12	52,025	14	57
2016	12	52,025	14	57

MG - Millions of Gallons
MGD - Millions of Gallons per Day
GPM - Gallon per Minute

NOTE: * Miles of Water Main estimated

Sources: YLWD Asset Management Plan 2010
YLWD Operations Department

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