NORTH OF THE RIVER
MUNICIPAL WATER DISTRICT

BAKERSFIELD, CALIFORNIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
JUNE 30, 2016

NORTH OF THE RIVER MUNICIPAL WATER DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
North of the River Municipal Water District
Bakersfield, California

Report on the Financial Statements

We have audited the accompanying financial statements of the North of the River Municipal Water District (District), which comprise the statement of net position as of June 30, 2016, and the related statement of revenues, expenses, and changes in net position, and statement of cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. The financial statements as of and for the year ended June 30, 2015, were audited by other auditors whose report dated December 31, 2015, expressed an unmodified opinion on those financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the Schedule of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios, the Schedule of Contributions – Pension Plans, and the Schedule of Funding Progress – Other Post-Employment Benefits Obligation on pages 30 through 33, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 29, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION
Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 29, 2016

NORTH OF THE RIVER MUNICIPAL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the North of the River Municipal 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 basic financial statements and related notes, which follow this section.

Financial Highlights

- The District incurred a net loss of $(192,984) and $(382,501) for fiscal years ended June 30, 2016 and 2015, respectively. During the year ended June 30, 2015, the District recorded a special item of $(6,477,524) to account for the loss on disposal of retail water service operations under Governmental Accounting Standards Board (GASB) Statement No. 69.

- Total operating revenues decreased by 7.8% or $(327,388) from $4,221,368 to $3,893,980, in the current year. The reduction in revenue was due to less grant income and reduced wholesale water sales.

- Total expenses for the District's operations before depreciation expense decreased by 9.6% or $(462,636) from $4,844,062 to $4,381,426, in the current year. The decrease in expenses was due to reduced water purchases and employee payroll expenses.

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

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

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

Notes to the Basic Financial Statements

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

Statement of Net Position

	June 30, 2016	June 30, 2015	Change
Assets:			
Current assets	$ 3,003,644	$ 2,989,168	$ 14,476
Non-current assets	7,258,680	7,222,366	36,314
Capital assets, net	3,719,649	4,012,433	(292,784)
Total assets	$ 13,981,973	$ 14,223,967	$ (241,994)
Liabilities:			
Current liabilities	$ 232,289	$ 178,571	$ 53,718
Non-current liabilities	945,627	914,591	31,036
Total liabilities	1,177,916	1,093,162	84,754
Deferred inflows of resources:			
Deferred pension cost	298,410	432,174	(133,764)
Total deferred inflows of resources	298,410	432,174	(133,764)
Net position:			
Net investment in capital assets	9,837,606	10,130,390	(292,784)
Restricted for capital projects	728,813	717,846	10,967
Unrestricted	1,939,228	1,850,395	88,833
Total net position	12,505,647	12,698,631	(192,984)
Total liabilities, deferred inflows of resources, and net position	$ 13,981,973	$ 14,223,967	$ (241,994)

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 of the District exceeded liabilities by $12,505,647 and $12,698,631 as of June 30, 2016 and 2015, respectively.

The District's net position (79% as of June 30, 2016, and 80% as of June 30, 2015) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending.

The District implemented GASB Statements No. 68 and No. 71 in the year ended June 30, 2015, in which the District recognized a net pension liability of $644,319 as of June 30, 2016, and $620,488 in the year ended June 30, 2015.

At the end of fiscal years 2016 and 2015, the District showed a positive balance in its unrestricted net position of $1,939,228 and $1,850,395, respectively, which may be utilized in future years.

Statement of Revenues, Expenses and Change in Net Position

	June 30, 2016	June 30, 2015	Change
Operating revenues	$ 3,893,980	$ 4,221,368	$ (327,388)
Operating expenses	(4,381,427)	(4,844,062)	462,635
Operating loss before depreciation	(487,447)	(622,694)	135,247
Depreciation expense	(292,784)	(304,525)	11,741
Operating loss	(780,231)	(927,219)	146,988
Non-operating revenues (expenses), net	587,247	7,022,242	(6,434,995)
Change in net position before special item	(192,984)	6,095,023	(6,288,007)
Special item	-	(6,477,524)	6,477,524
Change in net position	(192,984)	(382,501)	189,517
Net position:			
Beginning of year	12,698,631	14,123,122	(1,424,491)
Prior period adjustment	-	(1,041,990)	1,041,990
End of year	$ 12,505,647	$ 12,698,631	$ (192,984)

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, the District's net position decreased by $(192,983) and $(382,501) for the fiscal years ended June 30, 2016 and 2015, respectively.

Total Revenues

	June 30, 2016	June 30, 2015	Increase (Decrease)
Operating revenues:			
Water sales - wholesale	$ 1,694,022	$ 1,843,430	$ (149,408)
Capital facilities charge recovery	2,181,187	2,178,315	2,872
Other charges for services	18,771	199,623	(180,852)
Total operating revenues	3,893,980	4,221,368	(327,388)
Non-operating revenues:			
Property tax revenue	569,370	539,920	29,450
Investment earnings	27,200	13,430	13,770
Groundwater storage and source of water	-	6,477,524	(6,477,524)
Other non-operating revenues	-	43,686	(43,686)
Total non-operating revenues	596,570	7,074,560	(6,477,990)
Total revenues	$ 4,490,550	$ 11,295,928	$ (6,805,378)

In 2016, total operating revenues decreased by 7.8% or $(327,388) from $4,221,368 to $3,893,980 from the prior year. The reduction in revenue was due to less grant income and reduced wholesale water sales.

Total Expenses

	June 30, 2016	June 30, 2015	Increase (Decrease)
Operating expenses:			
Source of supply - water purchases	$ 1,259,913	$ 1,462,938	$ 203,025
Kern County Water Agency - capital facilities charge	2,181,187	2,178,315	(2,872)
Pumping and power	563,712	537,923	(25,789)
Transmission and distribution	1,369	-	(1,369)
Administrative and general	375,246	664,886	289,640
Operating expenses before depreciation	4,381,427	4,844,062	462,635
Depreciation	292,785	304,525	11,740
Total operating expenses	4,674,212	5,148,587	474,375
Non-operating expenses:			
Other non-operating expenses	9,323	52,318	42,995
Total non-operating expenses	9,323	52,318	42,995
Total expenses	$ 4,683,535	$ 5,200,905	$ 517,370

In 2016, total expenses for the District's operations before depreciation expense decreased by 9.6% or $(462,635) from $4,844,062 to $4,381,427, in the current year. The decrease in expenses was due to reduced water purchases and employee payroll expenses.

Capital Asset Administration

	June 30, 2016	June 30, 2015
Capital assets:		
Non-depreciable assets	$ 26,339	$ 26,339
Depreciable assets	9,647,355	9,647,355
Accumulated depreciation	(5,954,045)	(5,661,261)
Total capital assets, net	$ 3,719,649	$ 4,012,433

At the end of fiscal year 2016 and 2015, the District's investment in capital assets amounted to $3,719,649 and $4,012,433 (net of accumulated depreciation), respectively. This investment in capital assets includes land, land improvements, structures, building, operating equipment and office equipment. See Note 5 for further information.

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net position, or operating results based on past, present, and future events.

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's General Manager at 4000 Rio del Norte Street, Bakersfield, California 93308 – (661) 393-5411.

BASIC FINANCIAL STATEMENTS

NORTH OF THE RIVER MUNICIPAL WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and investments (Note 2)	$ 2,812,187	$ 2,865,180
Accrued interest receivable	2,202	2,557
Accounts receivable - wholesale	155,623	89,269
Property taxes receivable	2,953	2,196
Prepaid items	30,679	29,966
Total Current Assets	3,003,644	2,989,168
NON-CURRENT ASSETS		
Restricted - cash and investments (Note 2)	728,813	717,846
Groundwater storage (Note 3)	411,910	386,563
Supplemental source of water rights (Note 3)	6,117,957	6,117,957
Capital assets - not being depreciated (Note 5)	26,339	26,339
Capital assets - being depreciated, net (Note 5)	3,693,310	3,986,094
Total Non-Current Assets	10,978,329	11,234,799
Total Assets	$ 13,981,973	$ 14,223,967
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	232,289	178,571
Total Current Liabilities	232,289	178,571
NON-CURRENT LIABILITIES		
Net other post-employment benefits obligation (Note 6)	301,308	294,103
Net pension liability (Note 7)	644,319	620,488
Total Non-Current Liabilities	945,627	914,591
Total Liabilities	1,177,916	1,093,162
DEFERRED INFLOWS OF RESOURCES		
Deferred pension cost (Note 7)	298,410	432,174
Total Deferred Inflows of Resources	298,410	432,174
NET POSITION		
Net investment in capital assets	9,837,606	10,130,390
Restricted for capital projects	728,813	717,846
Unrestricted	1,939,228	1,850,395
Total Net Position	12,505,647	12,698,631
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 13,981,973	$ 14,223,967

See accompanying notes to the basic financial statements.

NORTH OF THE RIVER MUNICIPAL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
OPERATING REVENUES		
Water sales - wholesale	$ 1,694,022	$ 1,843,430
Capital facilities charge recovery	2,181,187	2,178,315
Other charges for services	18,771	199,623
Total operating revenues	3,893,980	4,221,368
OPERATING EXPENSES		
Source of supply - water purchases	1,259,913	1,462,938
Kern County Water Agency - capital facilities charge	2,181,187	2,178,315
Pumping and power	563,712	537,923
Governmental fees	1,369	-
Administrative and general	375,246	664,886
Total operating expenses	4,381,427	4,844,062
Operating income before depreciation expense	(487,447)	(622,694)
Depreciation expense	(292,784)	(304,525)
Operating loss	(780,231)	(927,219)
NON-OPERATING REVENUE (EXPENSE)		
Property tax revenue	569,370	539,920
Investment earnings	27,200	13,430
Groundwater storage and supplemental source of water rights exchange (Note 3)	-	6,477,524
Other non-operating revenues	-	43,686
Other non-operating expenses	(9,323)	(52,318)
Total non-operating revenue (expense), net	587,247	7,022,242
Change in net position	(192,984)	6,095,023
SPECIAL ITEM		
Loss on disposal of retail water service operations (Note 4)	-	(6,477,524)
Total special item	-	(6,477,524)
CHANGE IN NET POSITION	(192,984)	(382,501)
NET POSITION, BEGINNING OF YEAR	12,698,631	13,081,132
NET POSITION, END OF YEAR	$ 12,505,647	$ 12,698,631

See accompanying notes to the basic financial statements.

NORTH OF THE RIVER MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers and others	$ 3,827,224	$ 4,450,624
Payments made for employees	(196,608)	-
Cash paid to vendors and suppliers for materials and services	(4,259,889)	(5,717,775)
Net cash provided by operating activities	(629,273)	(1,267,151)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Property tax revenue	569,370	542,501
Other non-operating revenues	-	43,686
Other non-operating expenses	(9,323)	(52,318)
Net cash provided by non-capital financing activities	560,047	533,869
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	-	(7,088)
Net cash used in capital and related financing activities	-	(7,088)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment earnings	27,200	12,494
Net cash used by investing activities	27,200	12,494
NET DECREASE IN CASH AND CASH EQUIVALENTS	(42,026)	(727,876)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,583,026	4,310,902
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,541,000	$ 3,583,026
Reconciliation of cash and cash equivalents to the accompanying financial statements:		
Cash and investments	$ 2,812,187	$ 2,865,180
Restricted - cash and investments	728,813	717,846
Total Cash and Cash Equivalents	$ 3,541,000	$ 3,583,026

See accompanying notes to the basic financial statements.

NORTH OF THE RIVER MUNICIPAL WATER DISTRICT
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (780,231)	$ (927,219)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	292,784	304,525
Loss on disposal of retail water service operations	-	(761,371)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable - other	(66,756)	229,256
Prepaid items	(713)	(9,509)
Groundwater storage	(25,347)	26,996
(Increase) decrease in deferred outflows of resources:		
Employer contributions to pension plan made after the measurement date	-	422,198
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	53,718	(114,465)
Net other post-employment benefits obligation	7,205	(26,036)
Net pension liability	23,831	(533,815)
Increase (decrease) in deferred inflows of resources:		
Deferred pension cost	(133,764)	122,289
Total adjustments	150,958	(339,932)
NET CASH USED IN OPERATING ACTIVITIES	$ (629,273)	$ (1,267,151)

See accompanying notes to the basic financial statements.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The North of the River Municipal Water District (District) was formed in April 1969, under provisions of Division 12 of the Water Code of the State of California. The purpose of the District is to finance, construct, operate, and maintain a water system to serve properties within the District's boundaries. The District contracts with Kern County Water Agency for its water supply, and provides wholesale potable water to water purveyors in the unincorporated areas of greater Bakersfield, California. The District is governed by a Board of Directors made up of five members elected by the qualified voters in the District.

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

Basis of Presentation

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

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

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

Accounting Changes

The following GASB Statements have been implemented in the current financial statements:

GASB Statement No. 72	*Fair Value Measurement and Application*	The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2015. There was no effect on the District's accounting or financial reporting as a result of implementation.
GASB Statement No. 73	*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*	The provisions of this statement are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. There was no effect on the District's accounting or financial reporting as a result of implementation.
GASB Statement No. 76	*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*	The provisions of this statement are effective for reporting periods beginning after June 15, 2015. There was no effect on the District's accounting or financial reporting as a result of implementation.
GASB Statement No. 79	*Certain External Investment Pools and Pool Participants*	The requirements of this statement are effective for fiscal years beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015. There was no effect on the District's accounting or financial reporting as a result of implementation.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Future GASB Statements

The GASB Statements listed below will be implemented in future financial statements. The District is assessing, but has not yet determined, the effects of the implementation of the standards on its financial statements.

GASB Statement No. 74	*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*	The provisions of this statement are effective for fiscal years beginning after June 15, 2016.
GASB Statement No. 75	*Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*	The provisions of this statement are effective for fiscal years beginning after June 15, 2017.
GASB Statement No. 77	*Tax Abatement Disclosures*	The provisions of this statement are effective for reporting periods beginning after December 15, 2015.
GASB Statement No. 78	*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*	The requirements of this statement are effective for fiscal years beginning after December 15, 2015.
GASB Statement No. 80	*Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*	The requirements of this statement are effective for reporting periods beginning after June 15, 2016.
GASB Statement No. 81	*Irrevocable Split-Interest Agreements*	The requirements of this statement are effective for periods beginning after December 15, 2016.
GASB Statement No. 82	*Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*	The requirements of this statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

Cash and Investments

Cash and cash equivalents include all highly liquid investments with original maturities of 90 days or less and are carried at cost, which approximates fair value. Investments are reported at fair value. Changes in fair value that occur during a fiscal year are recognized as unrealized gains or losses and reported for that fiscal year. Investment income comprises interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Allowance for Doubtful Accounts

Customer accounts receivable consist of amounts owed by organizations for services rendered in the regular course of business operations. Uncollectable accounts are based on prior experience and management's assessment of the collectability of existing accounts. As of June 30, 2016, no allowance for doubtful accounts has been recorded as the District deems all accounts receivable balances collectable.

Property Taxes

Property taxes are levied on July 1 and are payable in two installments: November 1 and February 1 of each year. Property taxes become delinquent on December 10 and April 10, for the first and second installments, respectively. The lien date is January 1. The County of Kern, California (County) bills and collects property taxes and remits them to the District according to a payment schedule established by the County.

The County is permitted by state law to levy properties at 1% of full market value (at time of purchase) and can increase the property tax rate at no more than 2% per year. The District receives a share of this basic tax levy proportionate to what it received during the years 1976-1978. Property taxes are recognized in the fiscal year for which the taxes have been levied.

Prepaid Items

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

Capital Assets

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

Transmission and distribution system	50 to 75 years
Structures and improvements	10 to 30 years
Land improvements	25 years
Equipment	5 to 10 years
Vehicles	5 years
Office furniture	7 years
Surveys and plans	2 to 5 years

Major outlays for capital assets are capitalized as construction in progress until fully constructed. Once the construction is completed the capital asset is transferred and depreciated based on its useful life.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans (Note 6). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. The following timeframes are used for pension reporting:

California Public Employees' Retirement System (CalPERS)

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Measurement Period	July 1, 2014 to June 30, 2015

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions (Continued)

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

Net Position

Net position represents the difference between all other elements in the statement of net position and should be displayed in the following three components:

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

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

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

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

Use of Estimates

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

NOTE 2 – CASH AND INVESTMENTS

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

	2016	2015
Cash and investments	$ 2,812,187	$ 2,865,180
Restricted - cash and investments	728,813	717,846
Total Cash and Investments	$ 3,541,000	$ 3,583,026

NOTE 2 – CASH AND INVESTMENTS (Continued)

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

		2016		2015
Deposits held with financial institutions	$	60,540	$	138,698
Investments		3,480,460		3,444,328
Total Cash and Investments	$	3,541,000	$	3,583,026

Authorized Deposits and Investments

The District is legally empowered by statute and resolution to invest in the California Assets Management Program (CAMP), California State Investment Pool – Local Agency Investment Fund (LAIF) and the Kern County Treasurer's Pooled Investment Fund (KCPIF). The District's investment policy identifies other investment types that are authorized for the District to invest in under the California Government Code.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balance, up to $250,000 is federally insured.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., brokerdealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

			Maturity
Type of Investment	Credit Rating	Fair Value	12 Months or Less
California Assets Management Program (CAMP)	AAA	$ 1,664,094	$ 1,664,094
California Local Agency Investment Fund (LAIF)	Not Rated	728,313	728,313
Kern County Pooled Investment Fund (KCPIF)	Not Rated	1,088,053	1,088,053
Total		$ 3,480,460	$ 3,480,460

NOTE 2 – CASH AND INVESTMENTS (Continued)

Fair Value of Investments

The District measures and records its investments using fair value measurement guidelines established by U.S. GAAP. These Guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3*: Unobservable inputs.

At June 30, 2016, the District had no investments that are required to be disclosed in the three-tiered fair value hierarchy.

Interest Rate Risk

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

Credit Risk

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

Investment in California Asset Management Program

The CAMP is a California joint powers authority established in 1989 which provides California public agencies with professional investment services for surplus funds. The CAMP Pool is a permitted investment for all local agencies under California Government Code Section 53601(p). CAMP is directed by a Board of Trustees, which is made up of experienced local government finance directors and treasurers. Further information may be found at www.camponline.com.

Investment in California State Investment Pool – LAIF

The District is a voluntary participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

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

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

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

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investment in KCPIF

The KCPIF is a pooled investment fund program governed by the Kern County Board of Supervisors, and administered by the Kern County Treasurer and Tax Collector. Investments in the KCPIF are highly liquid as deposits and withdrawals can be made at any time without penalty. The KCPIF does not impose a maximum investment limit.

The County's bank deposits are either federally insured or collateralized in accordance with the California Government Code. KCPIF detail may be obtained from the Kern County Treasurer and Tax Collector's website at www.kcttc.co.kern.ca.us.

NOTE 3 – GROUNDWATER STORAGE AND SUPPLEMENTAL SOURCE OF WATER RIGHTS

Groundwater Storage

Effective July 1, 2014, the District exchanged its retail water service operations to the Oildale Mutual Water Company. In this exchange, the District received 193,181 acre-feet of groundwater stored in the Kern County groundwater basin totaling $359,567. During the 2016 fiscal year, the District purchased an additional 4,239 acre-feet of stored water at $5.98 per acre-foot totaling $25,347. This purchase covered the water stored from July 1, 2015 through June 30, 2016. As of June 30, 2016, the District has groundwater storage of 202,028 acre-feet.

	Acre-Feet	Balance
Groundwater storage exchanged	197,789	$ 386,563
Purchased storage in 2016	4,239	25,347
Total groundwater storage	202,028	$ 411,910

Supplemental Source of Water Rights

The District also received as part of the retail water service operations exchange the assignment of a supplemental source of water rights to purchase from the North of the River Sanitary District No. 1, the net amount of future treated wastewater recharged into the groundwater basin through ownership and operation of their wastewater treatment plants. The District has received all rights of ownership of the recharged wastewater. The District can purchase future recharged wastewater for $5.00 per acre foot. The annual purchase price for recharged wastewater is escalated by 2% per annum to cover potential inflation. Per GASB Statement No. 51, this intangible asset is considered to have an indefinite useful life and should not be amortized in future years.

	Balance
North of the River Sanitary District No. 1 - Supplemental source of water supply rights	$ 6,117,957
Total supplemental source of water supply rights	$ 6,117,957

NOTE 4 – LOSS ON DISPOSAL OF RETAIL WATER SERVICE OPERATIONS

On April 29, 2014, the Board of Directors of both the District and the Oildale Mutual Water Company (Company) executed a *Retail Transfer Agreement* between the two agencies. The District and the Company determined that it was in the public's interest for the Company to assume the responsibility for providing retail water service operations in the area previously included in the *District's Retail Service*

NOTE 4 – LOSS ON DISPOSAL OF RETAIL WATER SERVICE OPERATIONS (Continued)

Area. The Company acquired all of the retail water facilities owned by the District which are necessary for the provision of such water service on July 1, 2014. The District's retail customers were then transferred to and became shareholders of the Company. The Company will assume responsibility for providing retail water service in the area previously included in the *District's Retail Service Area*. The disposal of the District's retail water service operations resulted in a loss on disposal of retail water service operations in the amount of $6,477,524, for the year ended June 30, 2015. There were no significant special items for the year ended June 30, 2016.

The Board of Directors of both the District and the Company have determined that the District retain its wholesale water facilities and operations. However, that it is in the public's interest for the Company to manage, operate and maintain the District's wholesale water facilities and operations. The Company on behalf of the District shall manage, operate, maintain, repair and replace, in a timely manner, the wholesale water facilities of the District. As long as the Company is the sole customer of the District, the Company will pay all costs associated with the operation, maintenance, repair and replacement of the wholesale facilities. The Company may pay for such costs in cash or through in-kind services. The Manager of the Company, or such other person as he/she shall designate with approval of the District's Board of Directors, shall serve as the Contract General Manager of the District. The initial term of this agreement shall be until January 1, 2035.

NOTE 5 – CAPITAL ASSETS

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

	Balance July 1, 2015	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2016
Non-Depreciable Assets:				
Land and land rights	$ 7,088	$ -	$ -	$ 7,088
Construction-in-process	19,251	-	-	19,251
Total Non-Depreciable Assets	26,339	-	-	26,339
Depreciable Assets:				
Transmission and distribution system	8,200,367	-	-	8,200,367
Structures and improvements	951,985	-	-	951,985
Land improvements	233,606	-	-	233,606
Equipment	124,591	-	-	124,591
Vehicles	-	-	-	-
Office furniture	136,806	-	-	136,806
Total Depreciable Assets	9,647,355	-	-	9,647,355
Accumulated Depreciation:				
Transmission and distribution system	(4,490,417)	(249,915)	-	(4,740,332)
Structures and improvements	(751,891)	(28,121)	-	(780,012)
Land improvements	(207,198)	(5,920)	-	(213,118)
Equipment	(82,400)	(5,724)	-	(88,124)
Vehicles	-	-	-	-
Office furniture	(129,355)	(3,104)	-	(132,459)
Total Accumulated Depreciation	(5,661,261)	(292,784)	-	(5,954,045)
Total Depreciable Assets, Net	3,986,094	(292,784)		3,693,310
Total Capital Assets, Net	$ 4,012,433	$ (292,784)	$ -	$ 3,719,649

NOTE 6 – NET OTHER POST-EMPLOYMENT BENEFITS OBLIGATION

Plan Description

The District provides Other Post-Employment Benefits (OPEB) to employees who retire from the District and meet certain eligibility requirements. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

Funding Policy

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

Annual OPEB Cost and Net OPEB Asset

The following table shows the components of the District's Annual OPEB cost for the fiscal year ended June 30, 2016, the amount actually contributed to the plan and the changes in the District's net OPEB obligation:

Summary changes in net other post-employment benefits obligation as of June 30, 2016, was as follows:

	2016
Annual OPEB Cost:	
Annual required contribution (ARC)	$ 52,162
Interest on net OPEB obligation	20,600
Adjustment to annual required contribution	(1,000)
Total Annual OPEB Cost	71,762
Contributions Made	
Contributions made	(64,557)
Total Change in Net OPEB Obligation	7,205
Net OPEB Obligation	
Beginning of Year	294,103
Year End	$ 301,308

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

Three-Year History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Contributions Made	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	$ 71,762	$ 64,557	89.96%	$ 301,308
2015	74,796	100,832	134.81%	294,103
2014	120,857	168,218	139.19%	320,139

NOTE 6 – NET OTHER POST-EMPLOYMENT BENEFITS OBLIGATION (Continued)

Annual OPEB Cost and Net OPEB Asset (Continued)

The most recent valuation (dated June 30, 2016) includes an Actuarial Accrued Liability of $580,776. Plan assets amounted to $105,691. The covered payroll (annual payroll of active employees covered by the Plan) for the year ended June 30, 2016, was $0. The funded ratio of the liability was 18.20%.

Actuarial Methods and Assumptions

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

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

Valuation date	June 30, 2015
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent, open 15 years
Remaining amortization period	12 years as of the valuation date
Asset valuation method	15 years smoothed market
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increase	2.75%
Inflation - discount rate	2.75%
Health care trend rate	4.00%

NOTE 7 – NET PENSION LIABILITY AND PENSION PLAN

Type of Account	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Net Pension Liability:				
CalPERS - Miscellaneous Classic Plan	$ 620,488	$ 23,831	$ -	$ 644,319
Total Net Pension Liability	$ 620,488	$ 23,831	$ -	$ 644,319

NOTE 7 – NET PENSION LIABILITY AND PENSION PLAN (Continued)

Type of Account	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Deferred Inflows of Resources:				
Recognized net differences between projected and actual earnings on pension plan investments	$ 192,127	$ -	$ (133,764)	$ 58,363
Changes in employer contributions and differences between proportionate share of pension expense	228,336	-	-	228,336
Recognized portion of adjustment due to differences in proportions	11,711	-	-	11,711
Deferred Inflows of Resources	$ 432,174	$ -	$ (133,764)	$ 298,410

General Information about the Pension Plan

The Plan

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

	Miscellaneous Plan
	Classic Tier 1
Hire date	Prior to January 1, 2013
Benefit formula	3.0% @ 60
Benefit vesting schedule	5 years of services
Benefits payments	Monthly for life
Retirement age	50 - 67 & up
Monthly benefits, as a % of eligible compensation	2.0% to 3.0%
Required member contribution rates	8.000%
Required employer contribution rates	16.773%

Plan Description

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

NOTE 7 – NET PENSION LIABILITY AND PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

Members Covered by Benefit Terms

At June 30, 2014, the following members were covered by the benefit terms:

	Classic Tier 1
Active members	-
Transferred and terminated members	6
Retired members and beneficiaries	6
Total plan members	12

Benefit Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments (COLA), and death benefits to plan members and beneficiaries. A Classic CalPERS Miscellaneous member becomes eligible for service retirement upon attainment of age 55 with at least 5 years of credited service. Public Employees' Pension Reform Act (PEPRA) Miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the monthly average of the member's highest 36 full-time equivalent monthly pay. Retirement benefits for Classic Miscellaneous members are calculated as 3.0% of the average final 36 months compensation.

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

A member's beneficiary may receive the basic death benefit if the member dies while actively employed. The member must be actively employed with the District to be eligible for this benefit. A member's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the members' accumulated contributions, where interest is currently credited at 7.65% per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

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

Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 2.0%.

Contributions

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

NOTE 7 – NET PENSION LIABILITY AND PENSION PLAN (Continued)

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

Actuarial Methods and Assumptions Used to Determine the Total Pension Liability

For the measurement period ended June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. Both the June 30, 2014, and the June 30, 2015, total pension liabilities were based on the following actuarial methods and assumptions:

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

All other actuarial assumptions used in the June 30, 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 CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%, which is net of administrative expenses. CalPERS' Management has determined that using the lower discount rate has resulted in a slightly higher total pension liability and net pension liability and the difference was deemed immaterial to the financial statements. The long-term expected rate of return on the pension plan investments was determined in which best-estimate ranges of expected future real rates are developed for each major asset class. In determining the long-term expected rate of return, both short-term and long-term market return expectations as well as the expected pension fund cash flows were considered. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years.

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.*

NOTE 7 – NET PENSION LIABILITY AND PENSION PLAN (Continued)

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

Discount Rate (Continued)

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

Investment Type	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.

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

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

	Miscellaneous
1% Decrease Net Pension Liability	$ 1,080,568
Current Discount Rate Net Pension Liability	$ 644,319
1% Increase Net Pension Liability	$ 289,145

Plan Fiduciary Net Position

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

NOTE 7 – NET PENSION LIABILITY AND PENSION PLAN (Continued)

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

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the Plan's proportionate share of the risk pool collective net pension liability over the measurement period:

	Plan Total Pension Liability	Plan Fiduciary Net Position	Change in Plan Net Pension Liability
CalPERS - Miscellaneous Classic Plan:			
Balance as of June 30, 2014 (Valuation Date)	$ 3,764,122	$ 3,143,634	$ 620,488
Balance as of June 30, 2015 (Measurement Date)	$ 3,882,621	$ 3,238,302	$ 644,319
Change in Plan Net Pension Liability	$ 118,499	$ 94,668	$ 23,831

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

(1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2014). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability (TPL) determines the net pension liability (NPL) at the valuation date.

(2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2015). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2015 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2014-15).

(3) The individual plan's TPL, FNP, and NPL are also calculated at the valuation date.

(4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.

(5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The Plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.

(6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

NOTE 7 – <u>NET PENSION LIABILITY AND PENSION PLAN</u> (Continued)

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

<u>Proportionate Share of Net Pension Liability and Pension Expense</u> (Continued)

The District's proportionate share of the net pension liability was as follows:

Calculation Dates	Classic Tier 1 Percentage
Balance as of June 30, 2014 (Valuation Date)	0.02511%
Balance as of June 30, 2015 (Measurement Date)	0.02349%
Change in Plan Net Pension Liability Percentage	-0.00162%

For the year ended June 30, 2016, the District recognized pension expense in the amount of $23,831.

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

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the risk pool. The EARSL for risk pool for the 2014-15 measurement period is 3.8 years, which was obtained by dividing the total service years of 467,023 (the sum of remaining service lifetimes of the active employees) by 122,410 (the total number of participants: active, inactive, and retired).

<u>Deferred Outflows of Resources and Deferred Inflows of Resources</u>

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
Beginning balance	$ -	$ 432,174
Recognized net differences between projected and actual earnings on pension plan investments	-	(133,764)
Changes in employer contributions and differences between proportionate share of pension expense		
Recognized portion of adjustment due to differences in proportions	-	-
Total	$ -	$ 298,410

NOTE 7 – NET PENSION LIABILITY AND PENSION PLAN (Continued)

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

Amortization of Deferred Outflows of Resources and Deferred Inflows of Resources

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

Amortization Period Fiscal Year Ended June 30	Deferred Inflows of Resources
2017	$ (133,764)
2018	(116,615)
2019	(48,031)
Total	$ (298,410)

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2016, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $2,500,000, combined single limit at $2,500,000 per occurrence. The District purchased additional excess coverage layers: $10,000,000 for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to $400,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.

- Property loss is paid at the replacement cost for property on file, if replaced within three years after the loss, otherwise paid on an actual cash value basis, to a combined total of $1.0 billion per occurrence, subject to a $2,000 deductible per occurrence.

- Boiler and machinery coverage for the replacement cost up to $100 million per occurrence, subject to a $1,000 deductible per occurrence.

- Public officials personal liability up to $500,000 each occurrence, with an annual aggregate of $500,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of $500 per claim.

- Workers' compensation insurance per statutory requirements and Employer's Liability Coverage up to $5 million.

NOTE 8 – <u>RISK MANAGEMENT</u> (Continued)

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

NOTE 9 – <u>COMMITMENTS AND CONTINGENCIES</u>

Grant Awards

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

Litigation

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

NOTE10 – <u>SUBSEQUENT EVENTS</u>

Subsequent events have been evaluated through November 29, 2016, which is the date the financial statements were issued. There are no reportable events through this date.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH OF THE RIVER MUNICIPAL WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016

SCHEDULE OF THE PLAN'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY AND RELATED RATIOS
AS OF JUNE 30, 2016
LAST 10 YEARS[1]

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS)
MISCELLANEOUS CLASSIC PLAN

	June 30, 2015[1]	June 30, 2014[1]
Plan's Proportion of the Net Pension Liability/(Asset) for the Public Agency Cost-Sharing Multiple-Employer Miscellaneous Plans	0.02349%	0.00997%
Plan's Proportionate Share of the Net Pension Liability/(Asset)	$ 644,319	$ 620,488
Plan's Covered-Employee Payroll	$ -	$ 456,765
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll	N/A	135.84%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	N/A	83.52%

[1] Fiscal year 2015 was the 1st year of implementation; therefore, only two years are shown.

Notes to Schedule:

Benefit changes: In 2016 and 2015, there were no benefit changes.

Changes in assumptions: In 2016 and 2015, there were no changes in assumptions.

NORTH OF THE RIVER MUNICIPAL WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016

SCHEDULE OF CONTRIBUTIONS – PENSION PLAN
AS OF JUNE 30, 2016
LAST 10 YEARS[1]

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS)
MISCELLANEOUS CLASSIC PLAN

	2014-15[1]	2013-14[1]
Actuarially Determined Contribution[2]	$ -	$ 112,313
Contribution in Relation to the Actuarially Determined Contribution[2]	-	(458,874)
Contribution Deficiency (Excess)	$ -	$ (346,561)
Covered-Employee Payroll[3 4]	$ -	$ 456,765
Contributions as a Percentage of Covered-Employee Payroll	N/A	100.46%

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

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

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

4 Payroll from prior year was assumed to increase by the 3.00% payroll growth assumption.

NORTH OF THE RIVER MUNICIPAL WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2016

SCHEDULE OF CONTRIBUTIONS – PENSION PLAN
AS OF JUNE 30, 2016
LAST 10 YEARS[1]
(Continued)

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS)
MISCELLANEOUS CLASSIC PLAN (Continued)

Notes to Schedule:

Valuation date:	June 30, 2014

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of payroll
Asset valuation method	Market Value
Inflation	2.75%
Salary increases	3.0%, average, including inflation of 2.75%
Investment rate of return	7.65%, net of administrative expense
Retirement age	55 - 62 yrs.
Mortality	Derived using CalPERS' Membership Data for all Funds

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

Changes of Assumptions: There were no changes in assumptions.

SCHEDULE OF FUNDING STATUS – OTHER POST-EMPLOYMENT BENEFITS OBLIGATION

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2015	$ 105,691	$ 580,776	$ 475,085	18.20%	$ -	0.00%
July 1, 2013	-	1,823,883	1,823,883	0.00%	514,000	354.84%
July 1, 2010	-	1,346,542	1,346,542	0.00%	640,000	210.40%
July 1, 2008	-	1,310,887	1,310,887	0.00%	500,451	261.94%

Notes to the Schedule:

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement No. 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every two years or annually, if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2018, based on the year ending June 30, 2017.