



El Toro Water District

Comprehensive Annual Financial Report

For the Years Ended June 30, 2017 and 2016



EL TORO WATER DISTRICT – A District of Distinction
24251 Los Alisos Blvd., Lake Forest. CA 92630 – 949-837-0660 / www.etwd.com

**El Toro Water District
Comprehensive Annual Financial Report
For the Years Ended June 30, 2017 and 2016**

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INTRODUCTORY SECTION

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El Toro Water District

"A District of Distinction"

Serving the Public, Respecting the Environment

Board of Directors

M. Scott Goldman
William H. Kahn
Jose F. Vergara
Frederick J. Adjarian
Mark L. Monin

General Manager

Robert R. Hill

November 30, 2017

Board of Directors
El Toro Water District

Introduction

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) for the El Toro Water District (District) for the fiscal years ended June 30, 2017 and 2016, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

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

District Structure and Leadership

El Toro Water District was formed in 1960 and serves nearly 50,000 people in southern Orange County and is a fully integrated water, sewer and recycled water retail operation. The District is governed by a Board of Directors consisting of five board members. The directors are elected by registered voters within the District boundaries. The Board of Directors establish policy and make decisions based on the District's mission, goals, and operations. The Board's policies are administered and implemented by the General Manager, who is appointed by the Board. Public elections are held every two years and Directors serve four year terms. Terms are staggered to ensure continuity.

The Board takes its responsibilities as sound fiscal stewards seriously. Every quarter the District has an Agreed-Upon Procedures (AUP) performed by the District auditors to focus in detail on an aspect of internal controls. Each AUP focuses on different internal control risk areas. Additionally, the District prepares a full cost of service analysis each year to determine the fairness and adequacy of its rates for the next fiscal year.

The District is also very proud to have been awarded the District of Distinction Award by the Special District Leadership Foundation, a testament to the responsible leadership that has been a long-standing tradition at the District.

Economic Condition and Outlook

The District offices are located in Orange County, which has the healthiest economic growth in the region.

California's water supply continues to be a concern. This concern has increased interest in conservation and in irrigation methods and systems. The District is a leader in the area of water conservation and will continue to make strides in this area.

Major initiatives

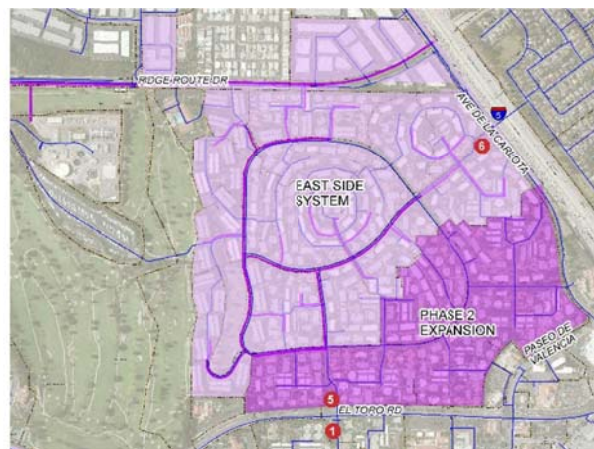
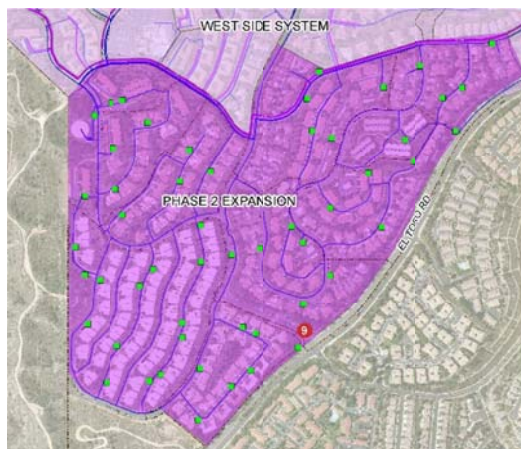
The mission of the El Toro Water District is to “provide its customers safe, adequate and reliable supply of water and wastewater service in an environmentally and economically responsible way.”

We have successfully maintained the faith of that mission for over 50 years. As we move forward, strategic planning for the next forty years to ensure operational success and customer satisfaction includes:

- Continued collaboration with our wholesale water supplier and regional partners to cost effectively and reliably develop a diverse portfolio of high quality water resources
- Expansion of local recycled water deliveries for beneficial reuse
- Proactive participation in local and regional water conservation programs to advance efficient and responsible use of existing and new water resources
- On-going infrastructure assessment, restoration and replacement with prudent financial planning that supports the District’s overall goals and actions.

Some major capital improvement projects include:

The Phase II Recycled Water Distribution System Expansion Project (Project), budgeted at \$8 million, which will add approximately 28,500 feet of new recycled water pipelines and appurtenances to the existing recycled water system. The Project will add 65 dedicated recycled water irrigation meters to the recycled water system. The project is currently under construction and is anticipated to be complete by mid-2018.



The Oso Sewer Lift Station Improvement Project, budgeted at \$ 1.5 million, expects to be complete in mid-2018. This project will replace the aging sewer lift station and increase the reliability and efficiency of sewer pumping facilities.



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's Board of Directors annually adopts an operating and capital budget prior to the new 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 the financial statement basis.

Investment Policy

The Board of Directors annually adopts an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity and yield. District funds are invested in the State Treasurer's Local Agency Investment Fund (LAIF), California Asset Management Program (CAMP), U.S. treasury obligations, government sponsored entities securities, and institutional savings and checking accounts.

Water Rates and District Revenues

District policy direction ensures that all revenues from user charges and surcharges generated from District customers must support all District operations including capital project funding. Accordingly, water rates are reviewed periodically. Water rates are user charges imposed on customers for services and are the primary component of the District's revenue. Water rates are composed of a commodity (usage) charge and a fixed (readiness-to-serve) charge.

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 The Pun Group has conducted the audit of the District's financial statements. Their unqualified Independent Auditor's Report appears in the Financial Section.

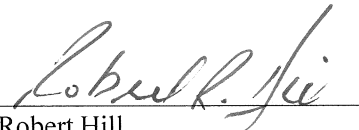
Awards and Acknowledgements

For the year ended June 30, 2016, the District received for the 1st year the Government Finance Officers Association of the United States and Canada's (GFOA) *Certificate of Achievement for Excellence in Financial Reporting*. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR. 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's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Respectfully submitted,



Robert Hill
General Manager



Neely Shahbakti
Finance Manager/Controller



DISTRICT OFFICIALS

Board of Directors

M. Scott Goldman, President

William H. Kahn, Vice President

Mark Monin, Treasurer

Jose Vergara, Director

Frederick Adjarian, Director

District Management

Robert R. Hill, General Manager

Dennis P. Cafferty, Assistant General Manager/District Engineer

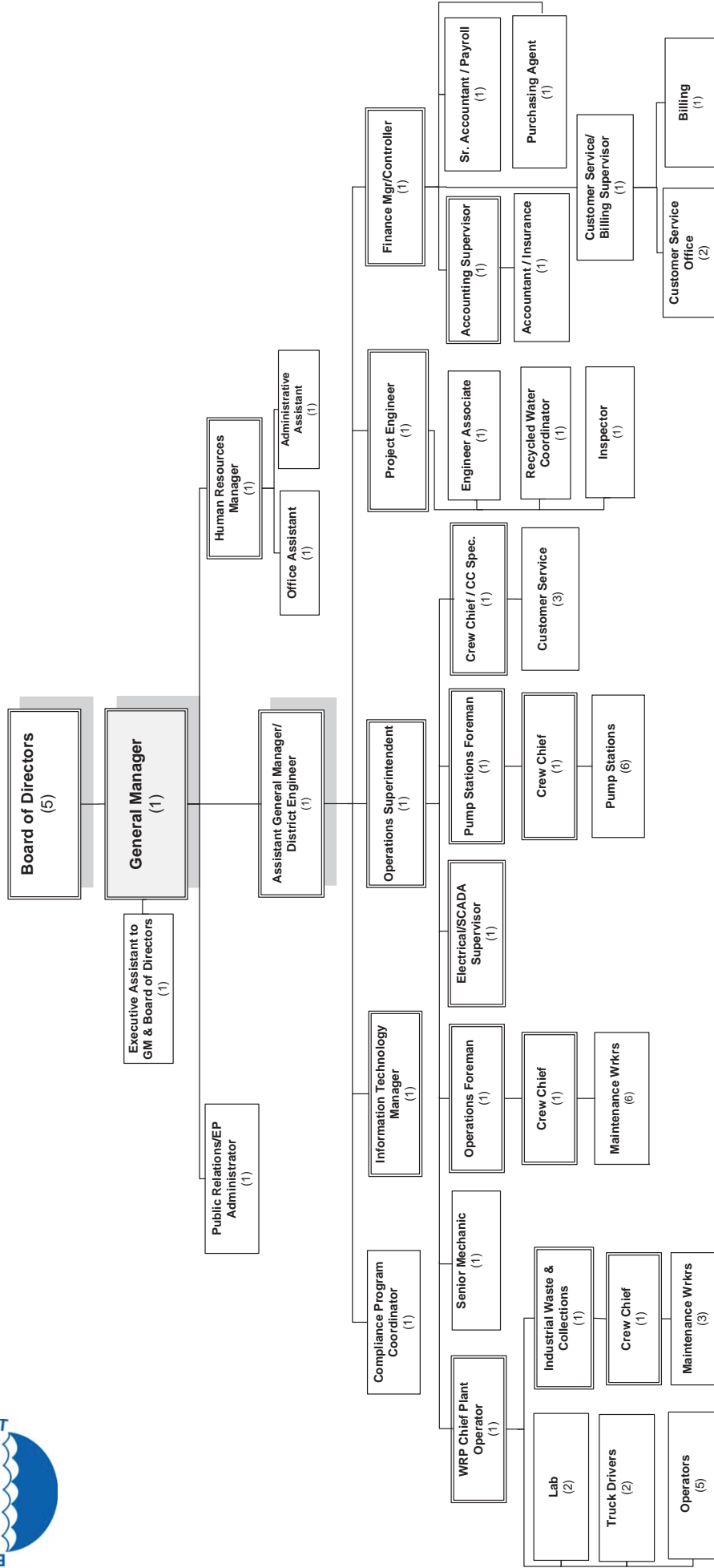
Neely Shahbakhti, Finance Manager/Controller

Judy Cimorell, Human Resource Manager

Michael Miazga, Information Technology Manager



EL TORO WATER DISTRICT ORGANIZATIONAL CHART





Government Finance Officers Association

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

Presented to

**El Toro Water District
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Christopher P. Morill

Executive Director/CEO

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the El Toro Water District
Lake Forest, California

Report on the Financial Statements

We have audited the accompanying basic financial statements of the El Toro Water District (District), which comprise of the balance sheets as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, cash flows, for the years then ended and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, 2017 and 2016, and the respective changes in financial position, and, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
of the El Toro Water District
Lake Forest, California

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 15 through 19 and the Schedule of Funding Progress – Other Post-Employment Benefits Plan on page 47 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The introductory and the statistical sections are presented for purposes of additional analysis and are not required parts of the basic financial statements. The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

The Pw Group, LLP

Santa Ana, California
December 20, 2017

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

Independent Auditors' Report

To the Board of Directors
of the El Toro Water District
Lake Forest, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the balance sheet as of June 30, 2017, and the related statements of revenues, expenses and change in net position, cash flows, for the years then ended and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated December 20, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

To the Board of Directors
of the El Toro Water District
Lake Forest, California

Purpose of this Report

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

The Pw Group, LLP

Santa Ana, California
December 20, 2017

El Toro Water District
Management's Discussion and Analysis (Unaudited)
For the Fiscal Years Ended June 30, 2017 and 2016

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the El Toro Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2017 and 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

- In 2017, the District's net position decreased 0.83% or \$577,427 to \$68,957,021 as a result of operations.
- In 2016, the District's net position increased 0.08% or \$57,702 to \$69,534,448 as a result of operations.
- In 2017, the District's operating revenues increased 6.73%, or \$1,516,093, primarily due to a \$565,736 increase in water consumption sales and a \$988,657 increase in sewer services.
- In 2016, the District's operating revenues decreased 2.62%, or (\$607,419), primarily due to the net amount of a (\$1,929,259) decrease in water consumption sales, \$197,703 increase in water service charges and a \$1,045,916 increase in sewer services.
- In 2017, the District's operating expenses increased 2.94%, or \$606,408, primarily due to an increase in transmission and distribution of \$648,253.
- In 2016, the District's operating expenses decreased 4.74%, or (\$1,026,153), primarily due to a decrease in source of supply of (\$1,215,484).

Required Financial Statements

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

The Balance Sheets include 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 Statements of Revenues, Expenses and Changes in Net Position. The statements measure the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. The statements can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statements of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statements 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.

El Toro Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Balance Sheets and the Statements 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. One 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, 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.

Balance Sheets

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Change</u>	<u>June 30, 2015</u>	<u>Change</u>
Assets:					
Current assets	\$ 19,553,765	\$ 18,675,907	\$ 877,858	\$ 23,562,063	\$ (4,886,156)
Restricted assets	1,626,039	2,180,429	(554,390)	2,285,068	(104,639)
Capital assets, net	94,743,188	95,034,195	(291,007)	90,300,408	4,733,787
Total assets	<u>\$ 115,922,992</u>	<u>\$ 115,890,531</u>	<u>\$ 32,461</u>	<u>\$ 116,147,539</u>	<u>\$ (257,008)</u>
Liabilities:					
Current liabilities	\$ 4,558,062	\$ 4,046,868	\$ 511,194	\$ 5,049,552	\$ (1,002,684)
Noncurrent liabilities	42,407,909	42,309,215	98,694	41,621,241	687,974
Total liabilities	<u>46,965,971</u>	<u>46,356,083</u>	<u>609,888</u>	<u>46,670,793</u>	<u>(314,710)</u>
Net position:					
Net investment in capital assets	57,194,565	57,306,311	(111,746)	52,204,625	5,101,686
Restricted	1,626,039	2,180,429	(554,390)	2,285,068	(104,639)
Unrestricted	10,136,417	10,047,708	88,709	14,987,053	(4,939,345)
Total net position	<u>68,957,021</u>	<u>69,534,448</u>	<u>(577,427)</u>	<u>69,476,746</u>	<u>57,702</u>
Total liabilities and net position	<u>\$ 115,922,992</u>	<u>\$ 115,890,531</u>	<u>\$ 32,461</u>	<u>\$ 116,147,539</u>	<u>\$ (257,008)</u>

In 2017, total assets increased by \$32,461 as well as total liabilities plus net position increased by \$32,461.

In 2016, the decrease in current assets of \$4.8 million is directly related to the \$4.7 million increase capital assets as the District continues to utilize its cash reserves to construct its capital projects.

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 \$68,957,021 and \$69,534,448 as of June 30, 2017 and 2016, respectively.

El Toro Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

By far the largest portion of the District's net position (83% as of June 30, 2017 and 82% as of June 30, 2016) 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.

At the end of fiscal years 2017 and 2016, the District showed a balance in its restricted net position of \$1,626,039 and \$2,180,429, respectively, which is restricted for capital projects.

At the end of fiscal years 2017 and 2016, the District showed a positive balance in its unrestricted net position of \$10,136,417 and \$10,047,708, respectively, which may be utilized in future years.

Statements of Revenues, Expenses and Changes in Net Position

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Change</u>	<u>June 30, 2015</u>	<u>Change</u>
Revenues:					
Operating revenues	\$ 24,032,874	\$ 22,516,781	\$ 1,516,093	\$ 23,124,200	\$ (607,419)
Non-operating revenues	<u>1,298,287</u>	<u>1,352,114</u>	<u>(53,827)</u>	<u>1,357,378</u>	<u>(5,264)</u>
Total revenues	<u>25,331,161</u>	<u>23,868,895</u>	<u>1,462,266</u>	<u>24,481,578</u>	<u>(612,683)</u>
Expenses:					
Operating expenses	21,218,983	20,612,575	606,408	21,638,728	(1,026,153)
Depreciation	4,068,743	3,378,409	690,334	2,831,181	547,228
Non-operating expenses	<u>706,683</u>	<u>397,680</u>	<u>309,003</u>	<u>132,375</u>	<u>265,305</u>
Total expenses	<u>25,994,409</u>	<u>24,388,664</u>	<u>1,605,745</u>	<u>24,602,284</u>	<u>(213,620)</u>
Capital contributions	<u>85,821</u>	<u>577,471</u>	<u>(491,650)</u>	<u>-</u>	<u>577,471</u>
Change in net position	<u>(577,427)</u>	<u>57,702</u>	<u>(635,129)</u>	<u>(120,706)</u>	<u>178,408</u>
Net position:					
Beginning of year	<u>69,534,448</u>	<u>69,476,746</u>	<u>57,702</u>	<u>69,597,452</u>	<u>(120,706)</u>
End of year	<u>\$ 68,957,021</u>	<u>\$ 69,534,448</u>	<u>\$ (577,427)</u>	<u>\$ 69,476,746</u>	<u>\$ 57,702</u>

The statements of revenues, expenses and changes of net position reflect how the District's net position changed during the fiscal year. In the case of the District, the District's change in net position decreased by \$577,427 and increased by \$57,702, respectively, for the fiscal years ended June 30, 2017 and 2016.

El Toro Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Total Revenues

Operating revenues:	June 30, 2017	June 30, 2016	Change	June 30, 2015	Change
Water consumption sales	\$ 8,635,462	\$ 8,069,726	\$ 565,736	\$ 9,998,985	\$ (1,929,259)
Water service charges	4,177,505	4,381,402	(203,897)	4,183,699	197,703
Sewer service charges	10,759,981	9,771,324	988,657	8,725,408	1,045,916
Standby charges	1,525	3,292	(1,767)	4,818	(1,526)
Reimbursements from others	331,179	233,000	98,179	116,957	116,043
Other charges for services	127,222	58,037	69,185	94,333	(36,296)
Total operating revenues	24,032,874	22,516,781	1,516,093	23,124,200	(607,419)
Non-operating revenues:					
Property taxes	888,973	843,301	45,672	815,554	27,747
Rental revenue	181,491	172,665	8,826	246,196	(73,531)
Investment earnings	75,113	147,447	(72,334)	76,804	70,643
Other non-operating revenue	152,710	188,701	(35,991)	218,824	(30,123)
Total non-operating revenues	1,298,287	1,352,114	(53,827)	1,357,378	(5,264)
Total revenue	\$ 25,331,161	\$ 23,868,895	\$ 1,462,266	\$ 24,481,578	\$ (612,683)

In 2017, the District's operating revenues increased 6.73%, or \$1,516,093, primarily due to a \$565,736 increase in water consumption sales and a \$988,657 increase in sewer services.

In 2016, the District's operating revenues decreased 2.62%, or (\$607,419), primarily due to the net amount of a (\$1,929,259) decrease in water consumption sales, \$197,703 increase in water service charges and a \$1,045,916 increase in sewer services.

Total Expenses

Operating expenses:	June 30, 2017	June 30, 2016	Change	June 30, 2015	Change
Source of supply	\$ 7,435,534	\$ 7,555,626	\$ (120,092)	\$ 8,771,110	\$ (1,215,484)
Pumping	1,460,096	1,466,757	(6,661)	1,295,650	171,107
Water treatment	3,380,526	3,243,194	137,332	3,126,545	116,649
Transmission and distribution	5,037,124	4,388,871	648,253	4,673,922	(285,051)
Customer service	694,479	592,405	102,074	516,361	76,044
General and administrative	3,211,224	3,365,722	(154,498)	3,255,140	110,582
Total operating expenses	21,218,983	20,612,575	606,408	21,638,728	(1,026,153)
Depreciation	4,068,743	3,378,409	690,334	2,831,181	547,228
Non-operating expenses:					
Interest expense	706,683	397,680	309,003	132,375	265,305
Total non-operating expenses	706,683	397,680	309,003	132,375	265,305
Total expenses	\$ 25,994,409	\$ 24,388,664	\$ 1,605,745	\$ 24,602,284	\$ (213,620)

In 2017, the District's operating expenses increased 2.94%, or \$606,408, primarily due to an increase in transmission and distribution of \$648,253.

In 2016, the District's operating expenses decreased 4.74%, or (\$1,026,153), primarily due to a decrease in source of supply of (\$1,215,484).

El Toro Water District
Management's Discussion and Analysis (Unaudited) (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Capital Asset Administration

Capital asset balances were as follows:

<u>Description</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Non-depreciable assets	\$ 9,293,359	\$ 23,330,431	\$ 50,198,865
Depreciable assets	152,232,271	134,567,813	99,587,183
Accumulated depreciation	<u>(66,782,442)</u>	<u>(62,864,049)</u>	<u>(59,485,640)</u>
Total capital assets, net	<u>\$ 94,743,188</u>	<u>\$ 95,034,195</u>	<u>\$ 90,300,408</u>

At the end of fiscal years 2017, 2016 and 2015, the District's investment in capital assets amounted to \$94,743,188, \$95,034,195 and \$90,300,408 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, buildings, equipment, vehicles and construction-in-process, etc. (See Note 3 for further information)

Debt Administration

Long-term debt balances were as follows:

<u>Description</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Loans payable	<u>\$ 37,548,623</u>	<u>\$ 37,727,884</u>	<u>\$ 38,095,783</u>
Total long-term debt	<u>\$ 37,548,623</u>	<u>\$ 37,727,884</u>	<u>\$ 38,095,783</u>

See Note 5 for further information on the long-term debt administration.

Conditions Affecting Current Financial Position

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

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 El Toro Water District at 24251 Los Alisos Boulevard, Lake Forest, California.

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BASIC FINANCIAL STATEMENTS

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El Toro Water District
Balance Sheets
June 30, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents (Note 2)	\$ 6,758,714	\$ 5,932,447
Investments (Note 2)	8,993,296	8,971,968
Accrued interest receivable	55,662	41,176
Accounts receivable – water sales and sewer services	2,925,659	2,851,591
Accounts receivable – grants	46,980	47,470
Accounts receivable – other	2,710	4,841
Property taxes receivable	9,409	6,703
Materials and supplies inventory	562,450	642,701
Prepaid items	198,885	177,010
Total current assets	<u>19,553,765</u>	<u>18,675,907</u>
Non-current assets:		
Restricted – cash and cash equivalents (Note 2)	1,626,039	2,180,429
Capital assets – not being depreciated (Note 3)	9,293,359	23,330,431
Capital assets, net – being depreciated (Note 3)	<u>85,449,829</u>	<u>71,703,764</u>
Total non-current assets	<u>96,369,227</u>	<u>97,214,624</u>
Total assets	<u><u>\$ 115,922,992</u></u>	<u><u>\$ 115,890,531</u></u>
 <u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,871,227	\$ 1,858,661
Accrued salaries and related payables	246,194	199,108
Customer deposits and unearned revenue	53,210	35,575
Accrued interest payable	310,511	300,229
Long-term liabilities – due within one year:		
Compensated absences (Note 4)	331,102	314,907
Loans payable (Note 5)	<u>1,745,818</u>	<u>1,338,388</u>
Total current liabilities	<u>4,558,062</u>	<u>4,046,868</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (Note 4)	993,304	944,719
Net other post-employment benefits obligation (Note 7)	5,611,800	4,975,000
Loans payable (Note 5)	<u>35,802,805</u>	<u>36,389,496</u>
Total non-current liabilities	<u>42,407,909</u>	<u>42,309,215</u>
Total liabilities	<u>46,965,971</u>	<u>46,356,083</u>
Net position:		
Net investment in capital assets (Note 8)	57,194,565	57,306,311
Restricted — capital projects	23,081	577,471
Restricted — debt service	1,602,958	1,602,958
Unrestricted	<u>10,136,417</u>	<u>10,047,708</u>
Total net position	<u>68,957,021</u>	<u>69,534,448</u>
Total liabilities and net position	<u><u>\$ 115,922,992</u></u>	<u><u>\$ 115,890,531</u></u>

El Toro Water District
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ending June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Water consumption sales	\$ 8,635,462	\$ 8,069,726
Water service charges	4,177,505	4,381,402
Sewer service charges	10,759,981	9,771,324
Standby charges	1,525	3,292
Reimbursements from others	331,179	233,000
Other charges for services	127,222	58,037
Total operating revenues	<u>24,032,874</u>	<u>22,516,781</u>
Operating expenses:		
Source of supply	7,435,534	7,555,626
Pumping	1,460,096	1,466,757
Treatment	3,380,526	3,243,194
Transmission and distribution	5,037,124	4,388,871
Customer service	694,479	592,405
General and administrative	3,211,224	3,365,722
Total operating expenses	<u>21,218,983</u>	<u>20,612,575</u>
Operating income before depreciation	2,813,891	1,904,206
Depreciation expense	(4,068,743)	(3,378,409)
Operating (loss)	<u>(1,254,852)</u>	<u>(1,474,203)</u>
Non-operating revenues(expenses):		
Property taxes	888,973	843,301
Rental revenue	181,491	172,665
Investment earnings	75,113	147,447
Interest expense	(706,683)	(397,680)
Other non-operating revenue	152,710	188,701
Total non-operating revenues, net	<u>591,604</u>	<u>954,434</u>
Net (loss) before capital contributions	(663,248)	(519,769)
Capital contributions:		
Capital facility fees	62,740	559,311
Capital grants	23,081	18,160
Total capital contributions	<u>85,821</u>	<u>577,471</u>
Change in net position	(577,427)	57,702
Net position:		
Beginning of year	69,534,448	69,476,746
End of year	<u>\$ 68,957,021</u>	<u>\$ 69,534,448</u>

El Toro Water District
Statements of Cash Flows
For the Years Ending June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash receipts from customers for water sales and services	\$ 24,312,773	\$ 22,366,108
Cash paid to employees for salaries and wages	(6,338,651)	(6,338,651)
Cash paid to vendors and suppliers for materials and services	(14,060,724)	(13,982,871)
Net cash provided by operating activities	<u>3,913,398</u>	<u>2,044,586</u>
Cash flows from non-capital financing activities:		
Proceeds from property taxes	886,267	844,395
Net cash provided by non-capital financing activities	<u>886,267</u>	<u>844,395</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(3,777,736)	(8,112,196)
Capital contributions	86,311	2,268,490
Proceeds received from debt issuance	9,715,035	2,611,026
Debt principal refinanced	(8,562,088)	-
Principal paid	(1,332,208)	(2,978,925)
Interest paid	(696,401)	(641,859)
Net cash (used in) capital and related financing activities	<u>(4,567,087)</u>	<u>(6,853,464)</u>
Cash flows from investing activities:		
Sale of investments	9,172,195	2,980,744
Purchase of investments	(9,243,492)	(3,071,524)
Proceeds from investment earnings	110,596	133,515
Net cash provided by investing activities	<u>39,299</u>	<u>42,735</u>
Net increase (decrease) in cash and cash equivalents	271,877	(3,921,748)
Cash and investments:		
Beginning of year	8,112,876	12,034,624
End of year	<u>\$ 8,384,753</u>	<u>\$ 8,112,876</u>
Reconciliation of cash and investments:		
Cash and investments	\$ 6,758,714	\$ 5,932,447
Restricted – cash and investments	<u>1,626,039</u>	<u>2,180,429</u>
Total cash and investments	<u>\$ 8,384,753</u>	<u>\$ 8,112,876</u>

El Toro Water District
Statements of Cash Flows (Continued)
For the Years Ending June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating (loss)	\$ (1,254,852)	\$ (1,474,203)
Adjustments to reconcile operating (loss) to net cash provided by operating		
Depreciation expense	4,068,743	3,378,409
Rental revenue	181,491	172,665
Other non-operating revenue	152,710	188,701
Changes in assets – (increase)decrease:		
Accounts receivable – water sales and sewer services	(74,068)	(546,120)
Accounts receivable – other	2,131	51,756
Materials and supplies inventory	80,251	26,297
Prepaid items	(21,875)	(50,287)
Changes in liabilities – increase(decrease):		
Accounts payable and accrued expenses	12,566	(397,774)
Accrued salaries and related payables	47,086	55,539
Customer deposits and unearned revenue	17,635	(17,675)
Compensated absences	64,780	(131,572)
Net other post-employment benefits obligation	636,800	788,850
Total adjustments	<u>5,168,250</u>	<u>3,518,789</u>
Net cash provided by operating activities	<u>\$ 3,913,398</u>	<u>\$ 2,044,586</u>
Non-cash investing, capital and financing transactions:		
Change in fair-value of investments	<u>\$ (49,969)</u>	<u>\$ 14,541</u>

El Toro Water District
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2017 and 2016

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

Organization and Operations of the Reporting Entity

El Toro Water District (District) was organized in September 1960, under provisions of the County Water District Act (Sections 34000 et. seq. of the Water Code of the State of California). The District is governed by a Board of Directors made up of five members elected by the qualified voters in the District. The purpose of the District is to finance, construct, operate and maintain a water and wastewater system to serve properties within the District's boundaries.

The El Toro Water District Public Facilities Corporation (Corporation) was organized on May 21, 1993 pursuant to the Non-Profit Public Benefit Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporation Code), solely for the purpose of providing financial assistance to the District. The Corporation, an entity legally separate from the District, is governed by substantially all the board members of the District. The Corporation is inactive at this time.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements 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 for a component that has substantively the same governing body as the District's governing body, and additionally (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility for the activities of the component unit.

Basis of Presentation

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Financial Statements (i.e., balance sheet, the statement of revenues, expenses and changes in net position, and statement of cash flows) report information on all of the activities of the primary government. The District accounts for its operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services on a continuing basis be financed or recovered primarily through member assessments and charges for services; 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.

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

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

Use of Estimates

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

Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Investments

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.

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

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

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

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

Restricted Assets

Amounts shown as restricted assets have been restricted by either debt indenture, by law, or contractual obligations to be used for specified purposes, such as servicing debt and/or construction of capital assets.

Accounts Receivable

The District extends credit to customers in the normal course of operations. Management deems all accounts receivable as collectible at year-end. Accordingly, an allowance for doubtful accounts has not been provided in the accompanying basic financial statements.

Prepaid Items

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

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

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

Materials and Supplies Inventory

Materials and supplies inventory consist of expendable supplies and are valued at the lower of cost or market using first-in first-out basis.

Property Taxes

The Orange County Assessor's Office assesses all real and personal property within the County each year. The Orange County Tax Collector's Offices bills and collects the District's share of property taxes. The Orange County Auditor-Controller's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations. Property taxes receivable at year-end are related to property taxes collected by the Orange County 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	November 10 and February 10
Collection dates	December 11 and April 11

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. Donated assets are recorded at acquisition cost at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

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

	<u>Estimated Useful Life</u>
Building	25 to 40 years
Vehicles	5 to 25 years
Office furniture and equipment	5 to 10 years
Computer software	5 to 10 years
Land improvements	20 to 50 years
Water Facilities:	
Reservoir	100 years
Transmission and distribution	20 to 60 years
Filtration plant	30 to 40 years
Other plant and equipment	5 to 15 years
Sanitation Facilities:	
Collection and transmission	15 to 50 years
Treatment and disposal plant	15 to 30 years
Other plant and equipment	5 to 15 years

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

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

Construction-in-Process

The cost of acquisition and construction of major plant and equipment is recorded as construction in process (CIP). As facilities are constructed by the District and become operative, they are transferred from CIP to the plant and equipment accounts, or are expensed if determined that the cost does not meet the requirements of the capitalization policy.

Compensated Absences

The District's policy is to permit employees hired prior to July 1, 1997 to accumulate earned vacation up to a total of 160 hours and employees hired after July 1, 1997 to accumulate earned vacation up to a total of 240 hours, with amounts exceeding the limit being paid out as part of the employee's current regular compensation.

The District's sick leave policy is to permit employees to accumulate sick leave up to a total of 960 hours. At the end of each calendar year, any amounts exceeding the limit will be transferred to vacation time for employees hired prior to July 1, 1997 and paid out 50% to those hired after July 1, 1997 at the employee's current regular compensation rate. A factor of 5% times the number of complete years of employment will be applied to the hours accumulated over 960 hours to determine the number of hours to be transferred or paid out.

Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.

Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of the net amount of assets that are not included in the determination of *restricted* or *investment in capital assets, net of related debt*.

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.

Water Sales and Sewer Services

Water sales and sewer services are billed on a monthly cyclical basis and recognize the respective revenues when they are earned.

Capital Contributions

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

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 2 – Cash and Investments

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

<u>Description</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Cash and cash equivalents	\$ 6,758,714	\$ 5,932,447
Investments	8,993,296	8,971,968
Restricted – cash and cash equivalents	1,626,039	2,180,429
Total	<u>\$ 17,378,049</u>	<u>\$ 17,084,844</u>

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

<u>Description</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Cash on hand	\$ 700	\$ 700
Demand deposits held with financial institutions	648,227	661,220
Investments	16,729,122	16,422,924
Total	<u>\$ 17,378,049</u>	<u>\$ 17,084,844</u>

Demand Deposits

At June 30, 2017 and 2016, the carrying amount of the District's demand deposits was \$648,227 and \$661,220, respectively, and the financial institution balance was \$727,374 and \$754,765, respectively. The \$79,147 and \$93,545 respective net difference as of June 30, 2017 and 2016 represents outstanding checks, deposits-in-transit and/or other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The entity's Treasurer may waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC.

The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an agent of depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an agent of depositor has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California agents of depository are considered to be held for, and in the name of, the local government.

Custodial Credit Risk

The 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 deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's investment policy requires that collateral be held by an independent third party with whom the District has a current custodial agreement.

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 2 – Cash and Investments (Continued)

Custodial Credit Risk (Continued)

The custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District's investment policy requires that all security transactions are conducted on a delivery-versus-payment (DVP) method and that all securities are held by a qualified, third-party custodian, as evidenced by safekeeping receipts. The trust department of the District's bank may act as third-party custodian, provided that the custodian agreement is separate from the banking agreement. 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).

As of June 30, 2017 and 2016 none of the District's deposits and investments was exposed to disclosable custodial credit risk.

Investments

The District's investments as of June 30, 2017 were as follows:

Type of Investments	Measurement Input	Credit Rating Moody's	June 30, 2017 Fair Value	Maturity		
				12 Months or Less	13 to 24 Months	25 to 60 Months
U.S. treasury obligations	Level 2	Aaa	\$ 480,947	\$ -	\$ 330,683	\$ 150,264
Government sponsored entities securities	Level 2	Aaa	4,185,264	-	2,254,603	1,930,661
Corporate medium-term notes	Level 2	Aaa-A3	2,236,664	255,617	579,881	1,401,166
Commercial paper	Level 2	P-1	148,751	148,751	-	-
Negotiable certificates of deposit	Level 2	Aa2-A1	991,718	-	991,718	-
Mortgage pass-through securities	Level 2	Aaa	943,739	-	-	943,739
Local Agency Investment Fund (LAIF)	Uncategorized	N/A	7,735,826	7,735,826	-	-
California Asset Management Program (CAMP) Pool	Level 2	N/A	6,213	6,213	-	-
Total investments			\$ 16,729,122	\$ 8,146,407	\$ 4,156,885	\$ 4,425,830

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

Type of Investments	Measurement Input	Credit Rating Moody's	June 30, 2016 Fair Value	Maturity		
				12 Months or Less	13 to 24 Months	25 to 60 Months
U.S. treasury obligations	Level 2	Aaa	\$ 2,786,514	\$ 1,003,712	\$ 761,396	\$ 1,021,406
Government sponsored entities securities	Level 2	Aaa	5,820,027	4,815,107	-	1,004,920
Corporate medium-term notes	Level 2	Aaa-A3	267,368	-	267,368	-
Local Agency Investment Fund (LAIF)	Uncategorized	N/A	7,450,956	7,450,956	-	-
California Asset Management Program (CAMP) Pool	Level 2	N/A	98,059	98,059	-	-
Total investments			\$ 16,422,924	\$ 13,367,834	\$ 1,028,764	\$ 2,026,326

Authorized Deposits and Investments

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

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 2 – Cash and Investments (Continued)

Authorized Deposits and Investments (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
State on local agency bonds	5-years	None	None
U.S. treasury obligations	5-years	None	None
Government sponsored agency securities	5-years	None	None
Banker's acceptances	270 days	30%	30%
Corporate medium-term notes	5-years	30%	None
Commercial paper	180 days	30%	10%
Negotiable certificates of deposit	5-years	30%	None
Mortgage pass-through securities	5-years	20%	None
Money market mutual funds	5-years	20%	20%
Collateralized bank deposits	None	None	None
California Local Agency Investment Fund (LAIF)	None	\$50 million	None
California Asset Management Program (CAMP)	None	50%	None

Investment in California – Local Agency Investment Fund (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 entity'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. Further information about LAIF is available on the California State Controller's website: www.treasurer.ca.gov/pmia-laif/

The District's investments with LAIF at June 30, 2017 and 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.

The District had \$7,735,826 and \$7,450,956 invested in LAIF, which had invested 2.89% and 2.81% of the pooled investment funds as of June 30, 2017 and June 30, 2016, respectively, in structured notes and medium-term asset-backed securities. The LAIF fair value factor of 0.998940671 and 1.000621222 was used to calculate the fair value of the investments in LAIF as of June 30, 2017 and 2016, respectively.

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 2 – Cash and Investments (Continued)

Investment in California Asset Management Program (CAMP)

The California Asset Management Program (CAMP) is a public joint powers authority which provides California Public Agencies with investment management services for surplus funds and comprehensive investment management, accounting and arbitrage rebate calculation services for proceeds of tax-exempt financings. The CAMP currently offers the Cash Reserve Portfolio, a short-term investment portfolio, as a means for Public Agencies to invest these funds. Public Agencies that invest in the Pool (Participants) purchase shares of beneficial interest. Participants may also establish individual, professionally managed investment accounts (Individual Portfolios) by separate agreement with the Investment Advisor.

The District has a separate account with the Investment Advisor to manage the District's CAMP portfolio which consists of \$8,987,083 and 8,873,909 of investments at June 30, 2017 and 2016. Also the District has invested \$6,213 and \$98,059 in the CAMP money market pool as of June 30, 2017 and 2016, respectively.

Fair Value Measurement Input

The District categorizes its fair value measurement inputs within the fair value hierarchy established by generally accepted accounting principles. The District has presented its measurement inputs as noted in the table above.

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 credit rating by a nationally recognized statistical rating organization. The District has utilized Moody's for its investment credit ratings. As of June 30, 2017 and 2016, the District has presented its investment security credit rating ranges as noted in the table above.

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 fair values of investments with longer maturities have greater sensitivity to changes in market interest rates. The District's investment policy follows the Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. The District has elected to use the segmented time distribution method of disclosure for the maturities of its investments as related to interest rate risk as noted in the table above.

Concentration of Credit Risk

The District's investment policy contains no limitations on the amount that can be invested in any one governmental agency or non-governmental issuer beyond that stipulated by the California Government Code. There were no investments in any one governmental or non-governmental issuer that represented 5% or more of the District's total investments except for those in LAIF.

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 3 – Capital Assets

Major capital assets additions during the year include upgrades and extensions of the District's water and wastewater pumping, water transmission and distribution systems and plant facilities in the following schedules:

Changes in capital assets for the year ended June 30, 2017 were as follows:

Description	Balance July 1, 2016	Additions	Deletions/ Transfers	Balance June 30, 2017
Non-depreciable assets:				
Land	\$ 7,451,586	\$ -	\$ -	\$ 7,451,586
Construction-in-process	15,878,845	2,017,925	(16,054,997)	1,841,773
Total non-depreciable assets	23,330,431	2,017,925	(16,054,997)	9,293,359
Depreciable assets:				
Capacity rights	342,382	-	-	342,382
Sources of supply	19,940,206	-	27,800	19,968,006
Pumping	21,622,114	10,905	-	21,633,019
Treatment	36,983,786	1,487,623	41,086	38,512,495
Transmission and collection	42,893,849	-	15,986,111	58,879,960
General plant facilities	12,785,476	261,283	(150,350)	12,896,409
Total depreciable assets	134,567,813	1,759,811	15,904,647	152,232,271
Accumulated depreciation:				
Capacity rights	(219,157)	(6,846)	-	(226,003)
Sources of supply	(10,031,944)	(374,698)	-	(10,406,642)
Pumping	(9,603,714)	(925,073)	-	(10,528,787)
Treatment	(23,252,612)	(1,289,652)	-	(24,542,264)
Transmission and collection	(9,332,893)	(1,040,504)	-	(10,373,397)
General plant facilities	(10,423,729)	(431,970)	150,350	(10,705,349)
Total accumulated depreciation	(62,864,049)	(4,068,743)	150,350	(66,782,442)
Total depreciable assets, net	71,703,764	(2,308,932)	16,054,997	85,449,829
Total capital assets, net	\$ 95,034,195	\$ (291,007)	\$ -	\$ 94,743,188

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 3 – Capital Assets (Continued)

Changes in capital assets for the year ended June 30, 2017 were as follows:

Description	Balance July 1, 2015	Additions	Deletions/ Transfers	Balance June 30, 2016
Non-depreciable assets:				
Land	\$ 7,451,586	\$ -	\$ -	\$ 7,451,586
Construction-in-process	42,747,279	6,665,002	(33,533,436)	15,878,845
Total non-depreciable assets	<u>50,198,865</u>	<u>6,665,002</u>	<u>(33,533,436)</u>	<u>23,330,431</u>
Depreciable assets:				
Capacity rights	342,382	-	-	342,382
Sources of supply	19,916,326	14,250	9,630	19,940,206
Pumping	16,939,940	5,776	4,676,398	21,622,114
Treatment	32,289,581	1,070,670	3,623,535	36,983,786
Transmission and collection	17,652,296	17,680	25,223,873	42,893,849
General plant facilities	12,446,658	338,818	-	12,785,476
Total depreciable assets	<u>99,587,183</u>	<u>1,447,194</u>	<u>33,533,436</u>	<u>134,567,813</u>
Accumulated depreciation:				
Capacity rights	(212,312)	(6,845)	-	(219,157)
Sources of supply	(9,657,053)	(374,891)	-	(10,031,944)
Pumping	(8,817,937)	(785,777)	-	(9,603,714)
Treatment	(22,145,894)	(1,106,718)	-	(23,252,612)
Transmission and collection	(8,723,980)	(608,913)	-	(9,332,893)
General plant facilities	(9,928,464)	(495,265)	-	(10,423,729)
Total accumulated depreciation	<u>(59,485,640)</u>	<u>(3,378,409)</u>	<u>-</u>	<u>(62,864,049)</u>
Total depreciable assets, net	<u>40,101,543</u>	<u>(1,931,215)</u>	<u>33,533,436</u>	<u>71,703,764</u>
Total capital assets, net	<u><u>\$ 90,300,408</u></u>	<u><u>\$ 4,733,787</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 95,034,195</u></u>

Construction-In-Process

The District is involved in various construction projects throughout the year. Once completed, those projects are capitalized and depreciated over the life of the asset. The balance of construction-in-process was \$1,841,773, \$15,878,845 and \$42,747,279 as of June 30, 2017, 2016 and 2015, respectively.

Construction-in-process consisted of the following projects as of June 30:

Project Description	June 30, 2017	June 30, 2016	June 30, 2015
GIS/CMMS mater plan	\$ 465,333	\$ 463,851	\$ 408,164
Recycled water distriubution system expansion	396,619	1,648,105	23,546,952
Baker pump station	352,270	239,105	-
Demonstration garden	293,918	-	-
Recycled water tertiary treatment plant	-	-	9,783,247
Baker water treatment plant	-	13,376,532	8,642,296
Various other minor projects <\$100,000	333,633	151,252	366,620
Total construction-in-progress	<u><u>\$ 1,841,773</u></u>	<u><u>\$ 15,878,845</u></u>	<u><u>\$ 42,747,279</u></u>

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 4 – Compensated Absences

Changes to compensated absences for the year ended June 30, 2017 was as follows:

<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>	<u>Current Portion</u>	<u>Non-current Portion</u>
\$ 1,259,626	\$ 501,233	\$ (436,453)	\$ 1,324,406	\$ 331,102	\$ 993,304

Changes to compensated absences for the year ended June 30, 2016 was as follows:

<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>	<u>Current Portion</u>	<u>Non-current Portion</u>
\$ 1,391,198	\$ 454,788	\$ (586,360)	\$ 1,259,626	\$ 314,907	\$ 944,719

Note 5 – Long-Term Debt

Changes to long-term debt for the year ended June 30, 2017 was as follows:

<u>Description</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>	<u>Amount Due Within One Year</u>	<u>Amount Due In More Than One Year</u>
Loans payable:						
Main extension contract	\$ 6,180	\$ -	\$ -	\$ 6,180	\$ 6,180	\$ -
SRF Loan – 2010	3,318,231	-	(168,554)	3,149,677	173,105	2,976,572
SRF Loan – 2013	25,841,385	-	(1,163,654)	24,677,731	1,183,437	23,494,294
Baker water treatment plant agreement	8,562,088	-	(8,562,088)	-	-	-
Baker water treatment plant – refinance loan	-	9,715,035	-	9,715,035	383,096	9,331,939
Total loans payable	\$ 37,727,884	\$ 9,715,035	\$ (9,894,296)	\$ 37,548,623	\$ 1,745,818	\$ 35,802,805

Changes to long-term debt for the year ended June 30, 2016 was as follows:

<u>Description</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>	<u>Amount Due Within One Year</u>	<u>Amount Due In More Than One Year</u>
Loans payable:						
Main extension contract	\$ 6,180	\$ -	\$ -	\$ 6,180	\$ 6,180	\$ -
SRF Loan – 1995	1,653,809	-	(1,653,809)	-	-	-
SRF Loan – 2010	3,482,354	-	(164,123)	3,318,231	168,554	3,149,677
SRF Loan – 2013	26,737,577	264,801	(1,160,993)	25,841,385	1,163,654	24,677,731
Baker water treatment plant agreement	6,215,863	2,346,225	-	8,562,088	-	8,562,088
Total loans payable	\$ 38,095,783	\$ 2,611,026	\$ (2,978,925)	\$ 37,727,884	\$ 1,338,388	\$ 36,389,496

Main Extension Contracts

The Main Extension Contracts are payable to the developers without interest. The payments are based on a percentage of revenue received from units served by the water main. The contracts must be repaid in not more than 25 years, but may be paid off in advance at the option of the District. The outstanding balance at June 30, 2017 and 2016 was \$6,180.

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 5 – Long-Term Debt (Continued)

State Revolving Fund Loan 1995 – Wastewater Treatment Plant Upgrade

In December 1995, the District entered into an agreement with the California State Water Resources Control Board (SWRCB) for a State Revolving Fund Loan (SRF Loan) in an amount of \$9,570,000 with an imputed interest rate of less than 1.50% per annum for the Wastewater Treatment Plant upgrade project. The loan was scheduled to mature in 2018. Principal and interest were payable annually on May 1st at an imputed interest rate of less than 1.5%. In 2016, the District paid-off the balance of this loan of \$1,653,809.

State Revolving Fund Loan 2010 – Northline Lift Station Improvement Project

In October 2010, the District entered into an agreement with the California State Water Resources Control Board (SWRCB) for a State Revolving Fund Loan (SRF Loan) in an amount of \$3,918,590 for the Northline Lift Station Improvement project. The loan carries an interest rate of 2.70% per annum. The loan is scheduled to mature in 2032. Principal and interest are payable annually at the interest rate of 2.70%.

Future annual debt service requirements on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 173,105	\$ 85,041	\$ 258,146
2019	177,778	80,368	258,146
2020	182,578	75,568	258,146
2021	187,508	70,638	258,146
2022	192,571	65,575	258,146
2023-2027	1,043,710	247,020	1,290,730
2028-2032	1,192,427	98,303	1,290,730
Total	<u>\$ 3,149,677</u>	<u>\$ 722,513</u>	<u>\$ 3,872,190</u>

State Revolving Fund Loan 2013 – Recycled Water Treatment Plan Project

In February 2013, the District entered into an agreement with the California State Water Resources Control Board (SWRCB) for a State Revolving Fund Loan (SRF Loan) in an amount of \$28,002,378 with an interest rate of 1.70% per annum for the Recycled Water Treatment Plan project. The loan is scheduled to mature in 2035. Principal and interest are payable annually at the interest rate of 1.70%.

Future annual debt service requirements on the loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,183,437	\$ 419,521	\$ 1,602,958
2019	1,203,555	399,403	1,602,958
2020	1,224,015	378,943	1,602,958
2021	1,244,824	358,134	1,602,958
2022	1,265,986	336,972	1,602,958
2023-2027	6,660,166	1,354,624	8,014,790
2028-2032	7,245,859	768,931	8,014,790
2033-2035	4,649,889	160,595	4,810,484
Total	<u>\$ 24,677,731</u>	<u>\$ 4,177,123</u>	<u>\$ 28,854,854</u>

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 5 – Long-Term Debt (Continued)

Baker Water Treatment Plant Agreement and Refinance Loan

In December 2013, the District entered into the Baker Water Treatment Plant Agreement, along with five other public entities relating to the Baker treatment plant. In January 2014, the District entered into an installment sale agreement with the Irvine Ranch Water District (IRWD) for the purchase of the District's portion of rights, title and interest to the capacity, not-to-exceed the amount of \$12,500,000. As of June 30, 2017, construction costs used for the project were \$8,562,088 and also accrued as a long-term debt liability on the financial statements.

In 2017, the District refinanced IRWD's installment sale agreement with a loan from Texas Capital Bank for \$9,715,035 with an interest rate of 3.10%. The loan is scheduled to mature in 2036. Principal and interest are payable annually at the interest rate of 3.10%.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 383,096	\$ 301,166	\$ 684,262
2019	394,972	289,290	684,262
2020	407,217	277,046	684,263
2021	419,840	264,422	684,262
2022	432,855	251,407	684,262
2023-2027	2,374,070	1,047,243	3,421,313
2028-2032	2,765,584	655,730	3,421,314
2033-2036	2,537,401	199,649	2,737,050
Total	<u>\$ 9,715,035</u>	<u>\$ 3,285,953</u>	<u>\$ 13,000,988</u>

Note 6 – Defined Contribution and Deferred Compensation Plans

The District contributes to the El Toro Water District Retirement Savings Plan and Trust (the Plan), which is qualified defined contribution pension plan under Section 401(a) and 401(k) of the Internal Revenue Code. The Plan is administered by the District. The District's Board of Directors has approved the funding of this benefit and may change the percentage as deemed necessary.

As of February 1, 2016, the District executed an amendment to the Plan authorizing the District (as Employer) to match an amount equal to 75% of each participant's contributions to either 401(k) or 457 Plans, but no more than 10% of their annual compensation. The District's contributions are limited to deposits toward the 401(k) plan only.

In addition, the District contributes an amount equal to 9% of compensation for a plan year, for all qualified participants regardless of whether they are employee on the last day of the plan year, and regardless of whether they made any salary deferrals to the plan. Employees are immediately vested in the employer contributions. District contributions were \$865,926 and \$787,740 as of June 30, 2017 and 2016, respectively.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of the plan assets held in trust at June 30, 2017 and 2016 were \$19,264,145 and \$18,052,140, respectively.

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

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 7 – Other Post-Employment Benefits Payable

Plan Description – Eligibility

The District pays all or a portion of the cost of health insurance for retirees (including prescription drug benefits) under any group plan offered by the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA) Health Program, subject to certain restrictions as determined by the District. The District's plan is an agent multiple-employer plan.

Plan Description – Benefits

The District offers post employment medical benefits to retired employees who satisfy the eligibility rules. Certain spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any medical plan available through the District's Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA) Health Program, a cost-sharing multiple-employer medical coverage plan. The contribution requirements of eligible retired employees and the District are established and may be amended by the Board of Directors.

Funding Policy

The District accrues the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The District accrues a fixed contribution towards the cost of the post-employment benefit plan for those employees who meet the required service years for retirement from the District. The District funds the plan on a pay-as-you-go basis and maintains an OPEB obligation liability for the difference between pay-as-you-go and the actuarially determined ARC cost.

Annual OPEB Cost and Net OPEB Obligation

For the years ended June 30, 2017 and 2016, the District's OPEB cost was \$811,963 and \$923,944, respectively. The District's net OPEB payable obligation amounted to \$5,611,800 and \$4,975,000 for the years ended June 30, 2017 and 2016. The District made contributions of \$175,163 and \$135,094 for the years ended June 30, 2017 and 2016, respectively. The balance in the OPEB payable consists of the following:

<u>Description</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Annual OPEB cost:		
Annual required contribution (ARC)	\$ 810,674	\$ 963,954
Interest on net OPEB obligation	199,000	167,446
Adjustment to annual required contribution	(197,711)	(207,456)
Total annual OPEB cost	<u>811,963</u>	<u>923,944</u>
Contributions made:		
Contributions made	(175,163)	(135,094)
Total contributions made	<u>(175,163)</u>	<u>(135,094)</u>
Total change in net OPEB obligation	636,800	788,850
Net OPEB obligation:		
Beginning of year	<u>4,975,000</u>	<u>4,186,150</u>
End of year	<u>\$ 5,611,800</u>	<u>\$ 4,975,000</u>

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 7 – Other Post-Employment Benefits Payable (Continued)

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2017 and the two preceding years were as follows:

<i>Three-Year History of Net OPEB Obligation</i>				
Fiscal Year Ended	Annual OPEB Cost	Contributions Made	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable(Asset)
June 30, 2017	\$ 811,963	\$ 175,163	21.57%	\$ 5,611,800
June 30, 2016	923,944	135,094	14.62%	4,975,000
June 30, 2015	930,004	138,490	14.89%	4,186,150

Actuarial Methods and Assumptions

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

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

Valuation date	July 1, 2016
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of increasing payroll
Remaining amortization period	20 Years as of the valuation date
Asset valuation method	30 Year smoothed market
Actuarial assumptions:	
Investment rate of return	4.00%
Projected salary increase	3.00%
Inflation - discount rate	4.00%
Health care trend rate	6.00%

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 8 – Net Position

Net investment in capital assets consisted of the following:

<u>Description</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Net investment in capital assets:		
Capital assets – not being depreciated	\$ 9,293,359	\$ 23,330,431
Capital assets, net – being depreciated	85,449,829	71,703,764
Loans payable – current	(1,745,818)	(1,338,388)
Loans payable – non-current	<u>(35,802,805)</u>	<u>(36,389,496)</u>
Total net investment in capital assets	<u>\$ 57,194,565</u>	<u>\$ 57,306,311</u>

Note 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. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2017 and 2016, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$2,000,000, combined single limit at \$2,000,000 per occurrence. The JPIA purchases additional excess coverage layers: \$60 million per occurrence 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 \$1,500,000 with a \$5,000 deductible per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverage.
- Property loss coverage is up to \$100,000,000 with a \$1,000 deductible; the ACWA/JPIA is self-insured up to \$50,000 and excess insurance has been purchased.
- Underground Storage Tank Pollution Liability, the District is insured up to \$1,000,000 with a \$10,000 deductible; the Authority is self-insured up to \$500,000 and excess insurance coverage has been purchased to cover losses ranging from \$500,000 to \$1,000,000.
- Dam failure liability coverage up to \$20.0 million per occurrence; the ACWA/JPIA is self-insured up to \$50,000 and excess insurance coverage has been purchased.
- Workers' compensation insurance up to California statutory limits for all work related injuries/illnesses covered by California law. The ACWA/JPIA is self-insured up to \$2.0 million and excess insurance coverage has been purchased.

Settled claims have not exceeded any of the coverage amounts and there were no reductions in the District's insurance coverage during the year ending June 30, 2017, 2016 and 2015. 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 was no IBNR claims payable as of June 30, 2017, 2016 and 2015.

El Toro Water District
Notes to the Financial Statements (Continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 10 – Commitments and Contingencies

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water and wastewater 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 capital contributions.

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.

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REQUIRED SUPPLEMENTARY INFORMATION

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El Toro Water District
Required Supplementary Information (Unaudited)
Schedule of Funding Progress – Other Post-Employment Benefits Plan
For the Years Ended June 30, 2017 and 2016

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)
July 1, 2016	\$ -	\$ 11,262,329	\$ 11,262,329	0.00%	\$ 4,058,095	277.53%
July 1, 2013	\$ -	\$ 9,358,165	\$ 9,358,165	0.00%	\$ 4,058,095	230.60%
July 1, 2010	\$ -	\$ 6,244,208	\$ 6,244,208	0.00%	\$ 5,366,236	116.36%
July 1, 2007	\$ -	\$ 4,398,864	\$ 4,398,864	0.00%	\$ 4,200,911	104.71%

Notes to the Schedule:

Funding progress is presented for the year(s) that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every two years or annually, if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2020, based on the year ending June 30, 2019.

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STATISTICAL SECTION

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**El Toro Water District
Index to the Statistical Section
For the Fiscal Years Ended June 30, 2017 and 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, note disclosures, and required supplementary information says about the District's overall financial health.

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Financial Trends	52
These schedules contain information to help the reader understand how the District's financial performance and well-being have changed over time.	
Revenue Capacity	56
These schedules contain information to help the reader assess the District's most significant own-source revenue, water sales.	
Debt Capacity	61
These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.	
Demographic Information	63
This schedule offers demographic indicators to help the reader understand the environment within which the District's financial activities take place.	
Operating Information	66
This schedule contains service and infrastructure data to help the reader understand how the information in the District's financial report relates to the service the District provides.	

El Toro Water District
Changes in Net Position and Net Position by Component
Last Ten Fiscal Years

	Fiscal Year				
	2008	2009	2010	2011	2012
Changes in net position:					
Operating revenues ^(see Schedule 2)	\$ 17,480,073	\$ 17,899,450	\$ 18,619,690	\$ 19,483,679	\$ 21,323,356
Operating expenses ^(see Schedule 3)	(18,324,866)	(19,193,622)	(20,476,460)	(21,120,634)	(22,010,956)
Operating income (loss)	(844,793)	(1,294,172)	(1,856,770)	(1,636,955)	(687,600)
Non-operating revenues (expenses)					
Property Taxes Ad-Valorem	739,683	735,906	715,968	690,711	691,377
Rental revenue	-	-	-	-	-
Investment earnings	1,113,066	669,632	335,679	268,749	208,446
Interest expense	(846,994)	(748,153)	(647,011)	(521,469)	(487,724)
Other non-operating revenues	399,235	418,911	374,266	347,260	527,254
Other non-operating expenses	-	-	-	-	-
Total non-operating revenues(expenses), net	1,404,990	1,076,296	778,902	785,251	939,353
Net income before capital contributions	560,197	(217,876)	(1,077,868)	(851,704)	251,753
Capital contributions	69,855	368,603	76,396	105,199	124,071
Changes in net position	\$ 630,052	\$ 150,727	\$ (1,001,472)	\$ (746,505)	\$ 375,824
Net position by component:					
Net investment in capital assets	\$ 41,818,156	\$ 42,688,205	\$ 43,164,937	\$ 44,623,580	\$ 45,207,184
Restricted:					
Debt Service	2,794,443	3,113,524	3,438,994	3,646,427	3,888,332
Capital Projects	1,019,716	1,067,938	960,095	1,010,945	1,221,358
Total restricted	3,814,159	4,181,462	4,399,089	4,657,372	5,109,690
Unrestricted	21,629,758	20,543,133	18,847,302	16,383,871	15,723,773
Total net position	\$ 67,262,073	\$ 67,412,800	\$ 66,411,328	\$ 65,664,823	\$ 66,040,647

El Toro Water District
Changes in Net Position and Net Position by Component (Continued)
Last Ten Fiscal Years

	Fiscal Year				
	2013	2014	2015	2016	2017
Changes in net position:					
Operating revenues ^(see Schedule 2)	\$ 22,592,576	\$ 23,188,691	\$ 23,124,200	\$ 22,516,781	\$ 24,032,874
Operating expenses ^(see Schedule 3)	(22,785,966)	(24,484,521)	(24,469,909)	(23,990,984)	(25,287,726)
Operating income (loss)	(193,390)	(1,295,830)	(1,345,709)	(1,474,203)	(1,254,852)
Non-operating revenues (expenses)					
Property Taxes Ad-Valorem	753,865	774,568	815,554	843,301	888,973
Rental revenue	-	165,282 ⁽²⁾	246,196	172,665	181,491
Investment earnings	124,439	51,881	76,804	147,447	75,113
Interest expense	(327,684)	(185,655)	(132,375)	(397,680)	(706,683) ⁽³⁾
Other non-operating revenues	463,981	56,564	218,824	188,701	152,710
Other non-operating expenses	(1,571,619) ⁽¹⁾	-	-	-	-
Total non-operating revenues(expenses), net	(557,018)	862,640	1,225,003	954,434	591,604
Net income before capital contributions	(750,408)	(433,190)	(120,706)	(519,769)	(663,248)
Capital contributions	3,092,146	1,648,257	-	577,471	85,821
Changes in net position	\$ 2,341,738	\$ 1,215,067	\$ (120,706)	\$ 57,702	\$ (577,427)
Net position by component:					
Net investment in capital assets	\$ 53,386,647	\$ 57,218,606	\$ 52,204,625	\$ 57,306,311	\$ 57,194,565
Restricted:					
Debt Service	3,326,941	2,772,564	2,285,068	1,602,958	1,602,958
Capital Projects	29,640	83,771	571,268	577,471	23,081
Total restricted	3,356,581	2,856,335	2,856,336	2,180,429	1,626,039
Unrestricted	11,639,157	9,522,511	14,415,785	10,047,708	10,136,417
Total net position	\$ 68,382,385	\$ 69,597,452	\$ 69,476,746	\$ 69,534,448	\$ 68,957,021

(1) Refund to Golden Rain Foundation the Sinking fund balance in connection with the agreement that ETWD to provide Disinfected Tertiary Recycled Water for irrigation within the Laguna Woods Village Golf Course.

(2) In FY 13/14 the District created a separate line item for cell tower rental income. In the prior years this revenue was included with other non-operating revenues.

(3) In FY 16/17 expenses included the Baker Water Treatment Plant loan interests with Texas Capital.

**El Toro Water District
Operating Revenues by Source
Last Ten Fiscal Years**

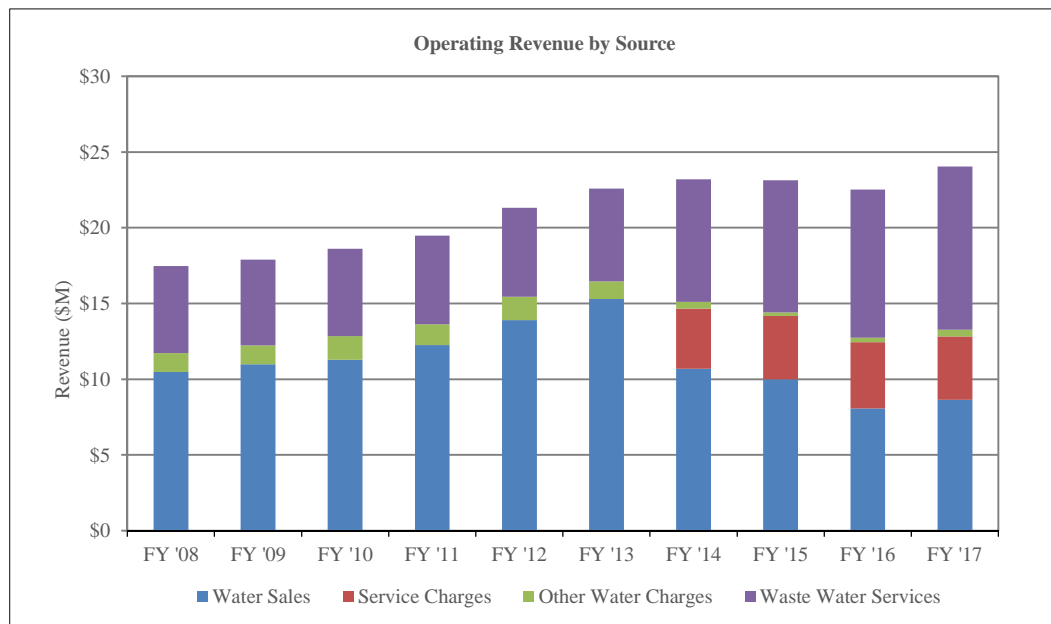
Fiscal Year	Water Sales	Service Charges	Other Water Charges	Waste Water Services	Total Operating Revenue
2008	10,485,270	-	1,239,296	5,755,507	17,480,073
2009	10,979,651	-	1,249,794	5,670,005	17,899,450
2010	11,279,626	-	1,559,956	5,780,108	18,619,690
2011	12,247,255	-	1,387,466	5,848,958	19,483,679
2012	13,902,298	-	1,538,758	5,882,300	21,323,356
2013	15,293,372	-	1,169,883	6,129,321	22,592,576
2014	10,687,396	3,979,752 ⁽¹⁾	443,673 ⁽²⁾	8,077,870	23,188,691
2015	9,998,985	4,183,699	216,108	8,725,408	23,124,200
2016	8,069,726	4,381,402	294,329	9,771,324	22,516,781
2017	8,635,462	4,177,505	459,926	10,759,981	24,032,874

Other Water Charges - by Category

Fiscal Year	Standby Charge	Reimbursement	Other	Total Other Water Charges
2008	974,868	123,608	140,820	1,239,296
2009	982,468	206,912	60,414	1,249,794
2010	993,161	102,061	464,734	1,559,956
2011	983,895	125,860	277,711	1,387,466
2012	970,517	171,014	397,227	1,538,758
2013	984,847	117,364	67,672	1,169,883
2014	10,623 ⁽²⁾	124,353	308,697	443,673
2015	4,818	116,957	94,333	216,108
2016	3,292	233,000	58,037	294,329
2017	1,525	331,179	127,222	459,926

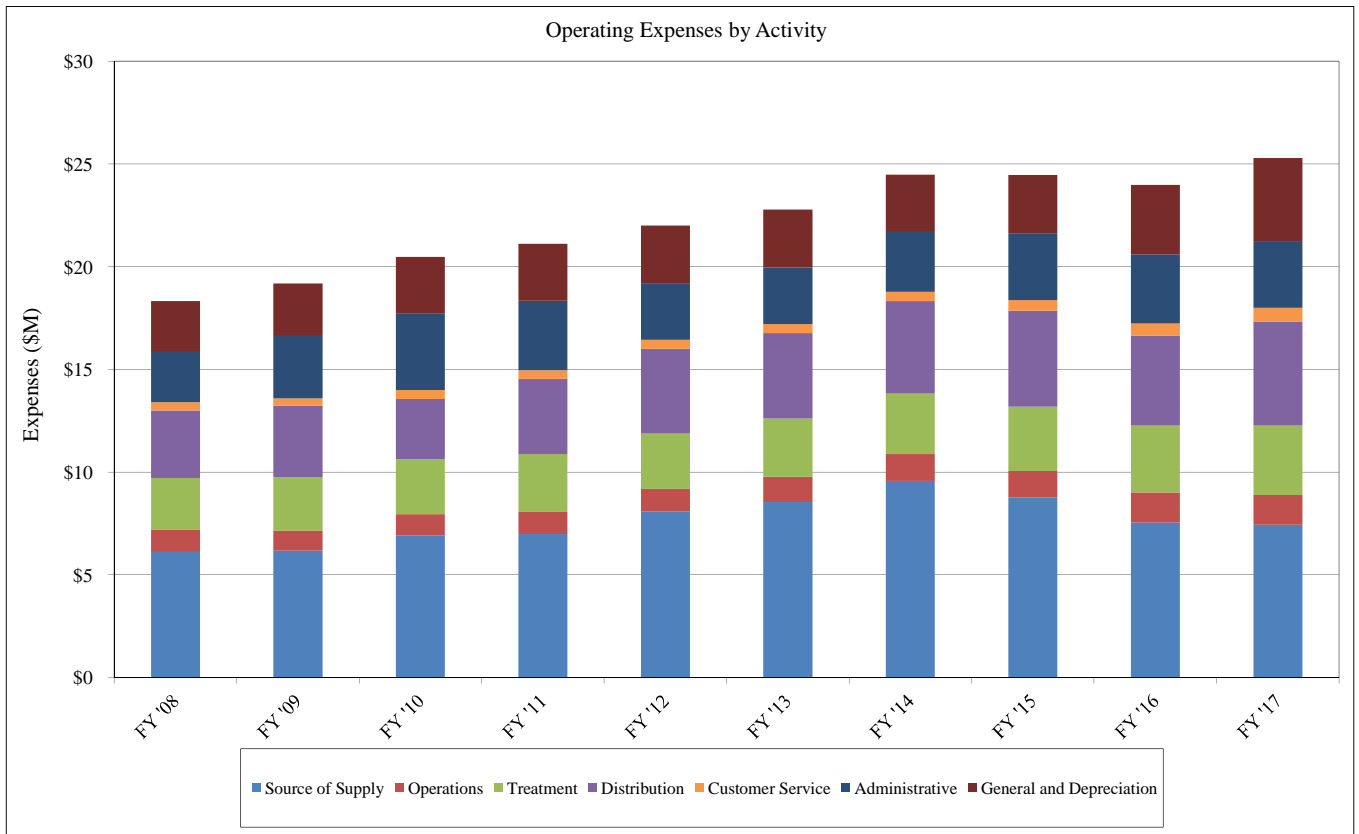
(1) Starting in 2014, Service Charge Revenues was separated from Water Sales Revenues.

(2) The Standby Charge was for the Water Recycling Project, and collections of this fee were not needed after FY 12/13.



**El Toro Water District
Operating Revenues by Source
Last Ten Fiscal Years**

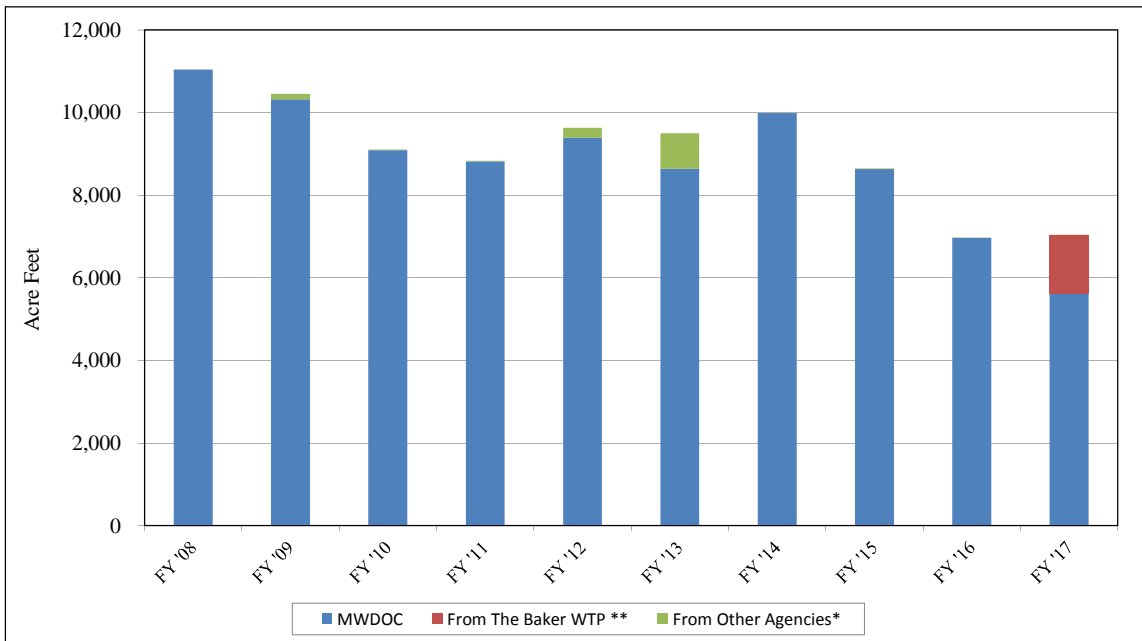
Fiscal Year	Source of Supply	Pumping Operations	Water Treatment	Water Distribution	Customer Service	General and Administrative	Depreciation	Total Operating Expenses
2008	6,114,603	1,079,452	2,522,488	3,289,093	405,656	2,450,088	2,463,486	18,324,866
2009	6,186,436	980,644	2,599,942	3,464,569	362,977	3,031,571	2,567,483	19,193,622
2010	6,924,687	1,038,275	2,673,452	2,922,913	442,574	3,733,666	2,740,893	20,476,460
2011	6,993,701	1,076,206	2,813,771	3,658,325	423,521	3,381,145	2,773,965	21,120,634
2012	8,096,104	1,096,347	2,688,844	4,124,778	440,218	2,732,748	2,831,917	22,010,956
2013	8,554,214	1,232,213	2,831,190	4,160,251	438,053	2,753,292	2,816,753	22,785,966
2014	9,584,718	1,293,752	2,953,328	4,492,432	465,163	2,913,731	2,781,397	24,484,521
2015	8,771,110	1,295,650	3,126,545	4,673,922	516,361	3,255,140	2,831,181	24,469,909
2016	7,555,626	1,466,757	3,243,194	4,388,871	592,405	3,365,722	3,378,409	23,990,984
2017	7,435,534	1,460,096	3,380,526	5,037,124	694,479	3,211,224	4,068,743	25,287,726



**El Toro Water District
Source of Water for Sales
Last Ten Fiscal Years**

Source of Water for Sales (AF)

<u>Fiscal Year</u>	<u>MWDOC</u>	<u>From The Baker WTP **</u>	<u>From Other Agencies*</u>	<u>Total Production</u>
2008	11,040	-	-	11,040
2009	10,319	-	133	10,452
2010	9,088	-	17	9,105
2011	8,819	-	15	8,834
2012	9,395	-	235	9,630
2013	8,640	-	861	9,501
2014	9,986	-	-	9,986
2015	8,631	-	19	8,650
2016	6,967	-	8	6,976
2017	5,616	1,417	1	7,034



Note: See Schedule 2 "Operating Revenue by Source" for information regarding water revenues.

*The District has inter-connections with Moulton Niguel Water District, Irvine Ranch Water District, and Santa Margarita Water District. Water is purchased from one of the three agencies in the case of repairs or upgrades to the District's infrastructure, which would necessitate a temporary alternate source of water.

**The Baker Water Treatment Plant (WTP) is a joint regional project by five South Orange County water districts, located in the City of Lake Forest, provides 28.1 million gallons per day (mgd) of drinking water. The District has the capacity right of 3.2 mgd.

**El Toro Water District
Water Operation Rates and Charges
Last Ten Fiscal Years**

Water Rates ⁽¹⁾					
Rate per CCF⁽²⁾					Rate per AF
Fiscal Year	Tier 1	Tier 2	Tier 3	Tier 4	Commercial / Industrial
2008	1.43	1.43	1.43	1.43	1.43
2009	1.57	1.57	1.57	1.57	1.57
2010	1.89	1.89	1.89	1.89	1.89
2011	1.80	2.20	4.38	5.94	2.06
2012	1.92	2.32	4.50	6.06	2.15
2013	2.07	2.47	4.79	6.35	2.30
2014	2.19	2.59	4.91	6.47	2.42
2015	2.34	2.68	5.04	7.04	2.63
2016	2.46	2.83	5.61	7.18	2.79
2017	2.46	2.83	5.61	7.18	2.79

Monthly Water Service Charge					
Fiscal Year	5/8" Meter	3/4" Meter	1" Meter	1 1/2" Meter	2" Meter
2008	6.95	8.85	12.70	22.30	45.80
2009	6.95	8.85	12.70	22.30	45.80
2010	7.60	10.14	15.20	27.87	53.22
2011	7.60	10.14	15.20	27.87	53.22
2012	7.60	10.14	15.20	27.87	53.22
2013	8.56	11.42	17.12	31.38	59.93
2014	9.31	12.42	18.61	34.12	65.15
2015	9.98	13.31	19.95	36.56	69.81
2016	9.98	13.31	19.95	36.56	69.81
2017	10.93	14.58	21.86	40.06	76.48

Monthly Water Capital Replacement and Refurbishment (CR&R) Charge					
Fiscal Year	5/8" Meter	3/4" Meter	1" Meter	1 1/2" Meter	2" Meter
2008	2.21	2.21	3.70	8.99	22.56
2009	2.21	2.21	3.70	8.99	22.56
2010	2.21	2.21	3.70	8.99	22.56
2011	3.31	3.31	5.54	13.46	33.70
2012	4.66	4.66	7.78	18.91	47.47
2013	4.66	4.66	7.78	18.91	47.47
2014	4.66	4.66	7.78	18.91	47.47
2015	4.66	4.66	7.78	18.91	47.47
2016	4.66	4.66	7.78	18.91	47.47
2017	4.66	4.66	7.78	18.91	47.47

Notes:

(1) The District is required to follow the rules of Proposition 218 when raising or adjusting its rates.

For more information, goto http://www.lao.ca.gov/1996/120196_prop_218/understanding_prop218_1296.html

(2) CCF = 100 Cubic Feet = 748 gallons

For more information on the District's rate structure, visit <http://etwd.com/governance/rate-structure/>

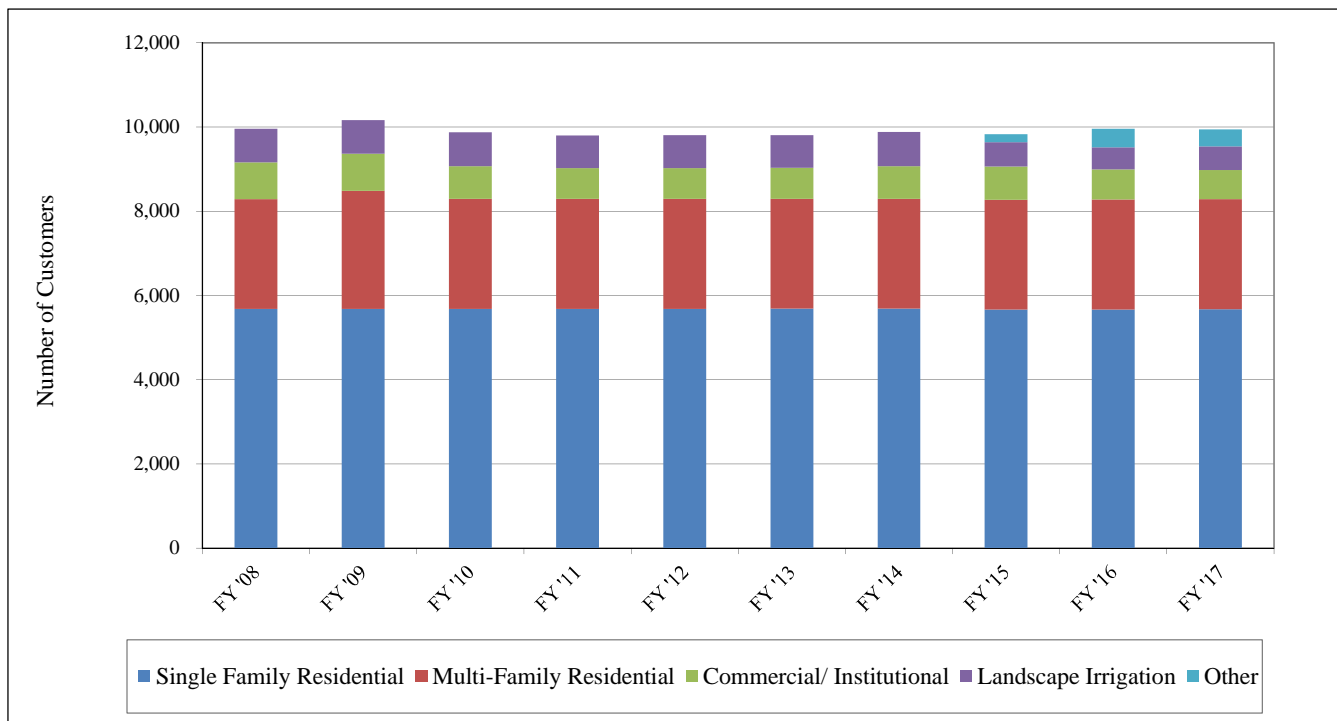
**El Toro Water District
Water Operation Rates and Charges
Last Ten Fiscal Years**

Sewer Rates by Customer Class									
	2009	2010	2011	2012	2013	2014	2015	2016	2017
Residential Rates (monthly charge per EDU)									
Residential Unrestricted	\$ 16.60	\$ 17.49	\$ 17.49	\$ 17.49	\$ 17.77	\$ 18.99	\$ 20.50	\$ 22.02	\$ 23.11
Multi-Family Restricted	13.30	13.87	13.87	13.87	14.09	15.06	16.26	17.46	18.33
Multi-Family Unrestricted	15.80	16.49	16.49	16.49	16.75	17.90	19.33	20.76	21.79
Commercial Rates (per ccf of water used)									
Animal Kennel / Hospital	\$ 2.40	\$ 2.86	\$ 2.86	\$ 2.86	\$ 2.91	\$ 3.11	\$ 3.36	\$ 3.61	\$ 3.79
Car Wash	2.39	2.84	2.84	2.84	2.89	3.09	3.34	3.59	3.77
Department / Retail Store	2.41	2.86	2.86	2.86	2.91	3.11	3.36	3.61	3.79
Dry Cleaners	2.13	2.50	2.50	2.50	2.54	2.72	2.94	3.16	3.32
Golf Course / Camp / Park	2.39	2.49	2.49	2.49	2.53	2.71	2.93	3.15	3.31
Health Spa	2.39	2.85	2.85	2.85	2.90	3.10	3.35	3.60	3.78
Hospital / Convalescent Home	2.12	2.50	2.50	2.50	2.54	2.72	2.94	3.16	3.32
Hotel	3.61	4.33	4.33	4.33	4.40	4.71	5.09	5.47	5.74
Market	4.70	5.68	5.68	5.68	5.77	6.17	6.67	7.17	7.53
Mortuary	4.68	5.66	5.66	5.66	5.75	6.15	6.64	7.14	7.50
Nursery / Greenhouse	2.44	2.54	2.54	2.54	2.58	2.76	2.98	3.20	3.36
Professional / Financial Office	2.41	2.86	2.86	2.86	2.91	3.11	3.36	3.61	3.79
Public Institution	2.35	2.80	2.80	2.80	2.85	3.05	3.30	3.55	3.73
Repair / Service Station	2.41	2.85	2.85	2.85	2.90	3.10	3.35	3.60	3.78
Restaurant	4.74	2.69	2.69	2.69	2.74	2.93	3.17	3.41	3.58
Schools	2.49	2.95	2.95	2.95	3.00	3.21	3.47	3.73	3.92
Theater	2.43	2.86	2.86	2.86	2.91	3.11	3.36	3.61	3.79
Warehouse / Storage	1.93	2.25	2.25	2.25	2.29	2.45	2.65	2.85	3.00
Basic Commercial	2.12	2.50	2.50	2.50	2.54	2.72	2.94	3.16	3.32

Monthly Sewer Capital Replacement and Refurbishment (CR&R) Charge										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Residential Charge (Per EDU)										
Single Family	\$ 3.93	\$ 3.93	\$ 3.93	\$ 4.55	\$ 4.93	\$ 4.93	\$ 4.93	\$ 4.93	\$ 4.93	\$ 4.93
Multi-Family Restricted	3.15	3.15	3.15	3.61	3.95	3.95	3.95	3.95	3.95	3.91
Multi-Family Unrestricted	3.74	3.74	3.74	4.29	4.69	4.69	4.69	4.69	4.69	4.65
Commercial (per Meter)										
5/8" Meter	\$ 3.93	\$ 5.58	\$ 5.58	\$ 6.42	\$ 4.34	\$ 4.34	\$ 4.34	\$ 4.34	\$ 4.34	\$ 4.34
3/4" Meter	5.44	5.44	5.44	7.34	7.34	7.34	7.34	7.34	7.34	7.34
1" Meter	12.65	12.65	12.65	12.38	13.55	13.55	13.55	13.55	13.55	13.55
1 ½" Meter	26.65	26.65	26.65	25.60	24.07	24.07	24.07	24.07	24.07	24.07
2" Meter	60.78	60.78	60.78	68.77	70.96	70.96	70.96	70.96	70.96	70.96
Public Authority (per Meter)										
1" Meter	\$ 3.93	\$ 3.93	\$ 3.93	\$ 4.55	\$ 4.93	\$ 4.93	\$ 4.93	\$ 4.93	\$ 4.93	\$ 4.93
1 ½" Meter	17.69	17.69	17.69	20.48	24.65	24.65	24.65	24.65	24.65	24.65
2" Meter	34.34	34.34	34.34	35.20	39.71	39.71	39.71	39.71	39.71	39.71

**El Toro Water District
Water Customers by Type*
Last Ten Fiscal Years**

As of June 30	Number of Customers by Type					Total
	Single Family Residential	Multi-Family Residential	Commercial/ Institutional	Landscape Irrigation	Other	
2008	5,676	2,609	876	798	-	9,959
2009	5,676	2,809	876	798	-	10,159
2010	5,677	2,613	775	806	-	9,871
2011	5,677	2,613	733	774	-	9,797
2012	5,677	2,613	735	777	-	9,802
2013	5,683	2,610	735	775	-	9,803
2014	5,683	2,610	774	813	-	9,880
2015	5,662	2,610	785	583	187 ⁽¹⁾	9,828
2016	5,667	2,612	709	526	439	9,953
2017	5,668	2,616	694	559	406	9,943



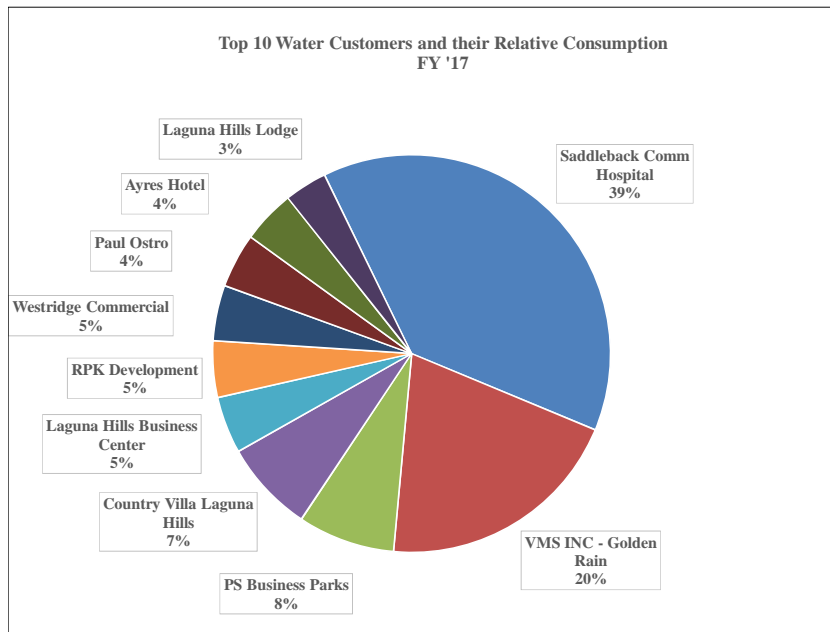
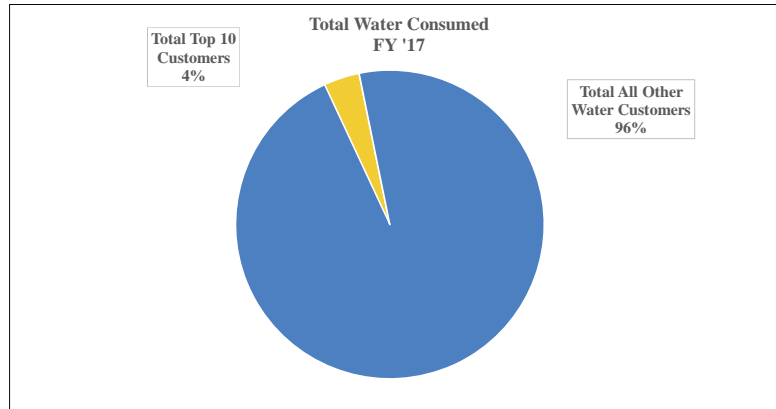
(1) The District did not track "Other" connections in total prior to FY 14/15.

*The District is completely built out and has had 8,950 sewer connections for the past 10 years.

**El Toro Water District
Top Ten Water Customers
Last Ten Fiscal Years**

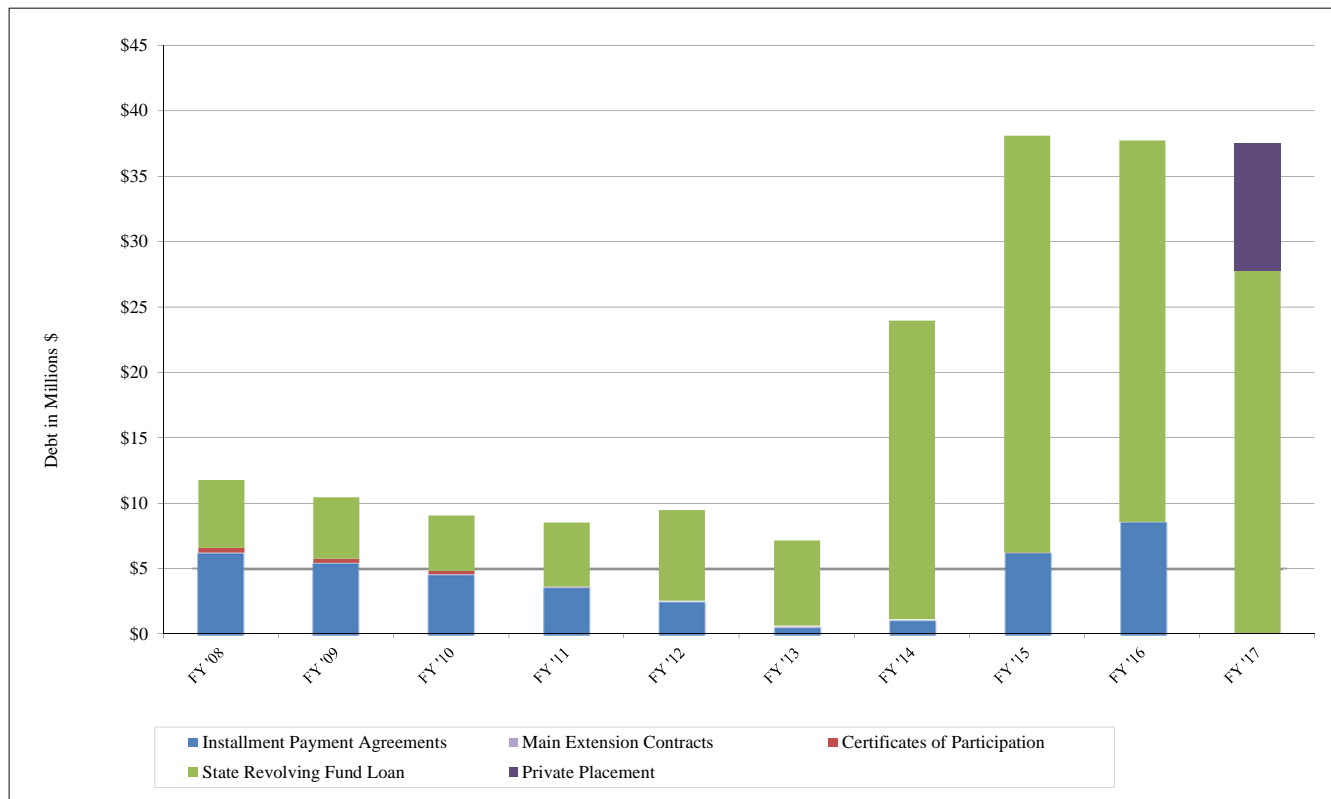
Customer	FY '08		Customer	FY '17	
	Annual Usage (HCF)	Percent of Total		Annual Usage (HCF)	Percent of Total
Saddleback Comm Hospital	49,760	1.04%	Saddleback Comm Hospital	48,586	1.44%
Simon Properties #4665	11,899	0.25%	VMS INC - Golden Rain	25,485	0.76%
Country Villa Laguna Hills	11,485	0.24%	PS Business Parks	9,964	0.30%
PS Business Parks	10,151	0.21%	Country Villa Laguna Hills	9,423	0.28%
PCM - Golden Rain	8,654	0.18%	Laguna Hills Business Center	5,831	0.17%
Reg De La Cuesta	8,107	0.17%	RPK Development	5,809	0.17%
Laguna Hills Business Center	7,202	0.15%	Westridge Commercial	5,703	0.17%
RPK Development	6,602	0.14%	Paul Ostro	5,587	0.17%
Ayres Hotel	6,042	0.13%	Ayres Hotel	5,468	0.16%
LHT Saddleback, LLC	6,041	0.13%	Laguna Hills Lodge	4,368	0.13%
Total Top 10 Customers	125,943	2.64%	Total Top 10 Customers	126,224	3.75%
Total All Other Water Customers	4,643,206	97.36%	Total All Other Water Customers	3,241,876	96.25%
Total Water Consumed	4,769,149	100.00%	Total Water Consumed	3,368,100	100.00%

HCF = 100 cubic feet



**El Toro Water District
Outstanding Debt by Type
Last Ten Fiscal Years**

Fiscal Year	Certificates of Participation	Installment Payment Agreements	State Revolving Fund Loan	Main Extension Contracts	Private Placement	Total Debt	Total Debt per Capita	Total Debt as % of Personal Income
2008	380,000	6,198,768	5,184,768	6,180	-	11,769,716	244	0.49%
2009	310,000	5,434,162	4,706,983	6,180	-	10,457,325	217	0.46%
2010	240,000	4,577,495	4,220,583	6,180	-	9,044,258	188	0.38%
2011	-	3,615,586	4,890,863	6,180	-	8,512,629	177	0.34%
2012	-	2,535,858	6,920,615	6,180	-	9,462,653	198	0.36%
2013	-	621,878	6,505,874	6,180	-	7,133,932	149	0.28%
2014	-	1,123,184 ⁽¹⁾	22,823,592 ⁽²⁾	6,180	-	23,952,956	502	0.90%
2015	-	6,215,863 ⁽¹⁾	31,873,740 ⁽²⁾	6,180	-	38,095,783	795	1.33%
2016	-	8,562,088 ⁽¹⁾	29,159,616 ⁽²⁾	6,180	-	37,727,884	779	1.25%
2017	-	-	27,827,408	6,180	9,715,035 ⁽¹⁾	37,548,623	764	N/A ⁽³⁾

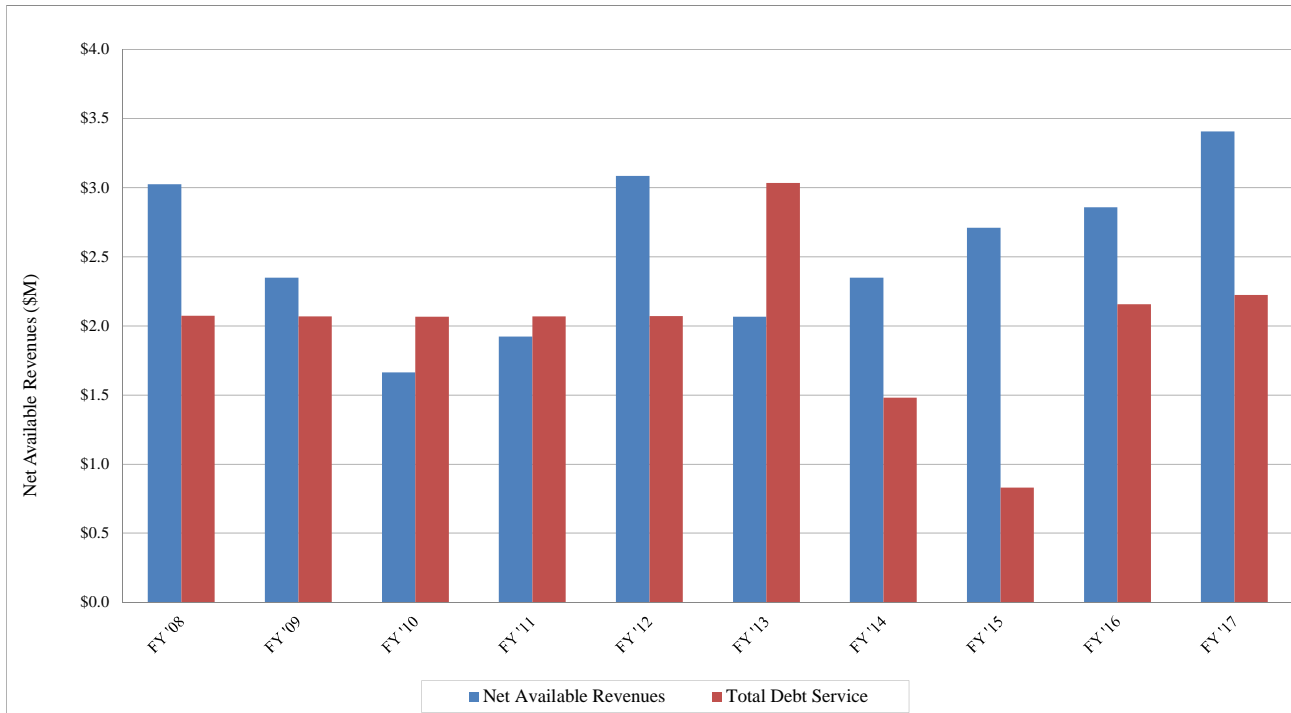


Notes:

- (1) In Dec 2013 the District entered into an agreement for the Baker Water Treatment Plant with five other entities. Additions in 2013 and 2014 were \$1,123,184 and \$5,092,679 respectively. This project was completed and refinanced in December 2016 with Texas Capital for a lower interest rate.
- (2) In 2013 the District entered into a loan agreement with the State Water Resources Control Board for the Recycled Water Treatment Plan Project. Additions in 2013 and 2014 were \$16,995,763 and \$9,741,814 respectively. Interest rate on the loan is 1.7% per annum.
- (3) Personal Income data is not available for 2017. The Bureau of Economic Analysis typically releases this information in November of the following year.

**El Toro Water District
Debt Service Coverage
Last Ten Fiscal Years**

Fiscal Year	Net Revenue			Debt Service			
	Total Revenues	Operating Expenses ⁽¹⁾	Net Available Revenues	Principal	Interest	Total Debt Service	Coverage Ratio
2008	19,732,057	16,708,374	3,023,683	1,220,799	851,269	2,072,068	1.46
2009	19,723,899	17,374,292	2,349,607	1,312,391	757,000	2,069,391	1.14
2010	20,045,603	18,382,578	1,663,025	1,413,067	652,359	2,065,426	0.81
2011	20,790,399	18,868,138	1,922,261	1,532,100	536,214	2,068,314	0.93
2012	22,750,433	19,666,763	3,083,670	1,663,826	406,826	2,070,652	1.49
2013	23,934,861	21,868,516	2,066,345	2,673,722	359,134	3,032,856	0.68
2014	24,236,986	21,888,779	2,348,207	1,299,923	179,490	1,479,413	1.59
2015	24,481,578	21,771,103	2,710,475	691,667	137,746	829,413	3.27
2016	23,868,895	21,010,255	2,858,640	1,697,913	459,070	2,156,983	1.33
2017	25,331,161	21,925,666	3,405,495	1,532,173	691,970	2,224,143	1.53

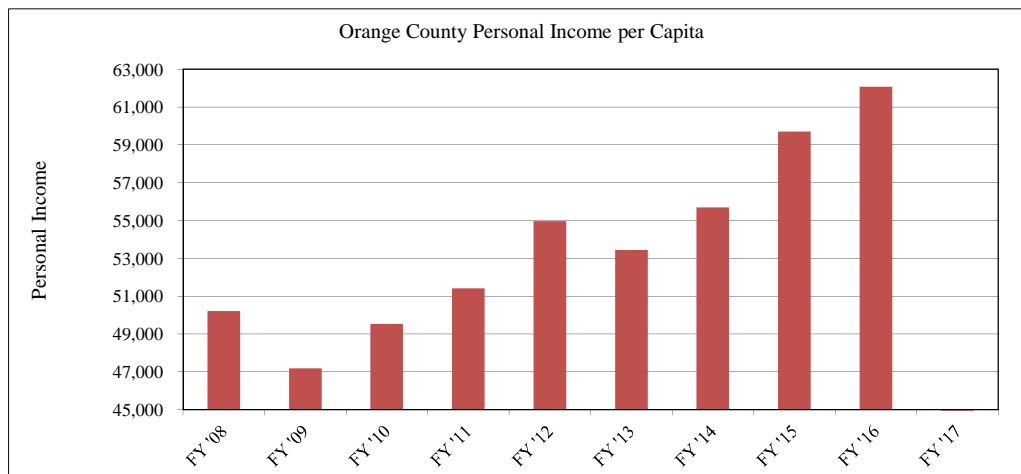
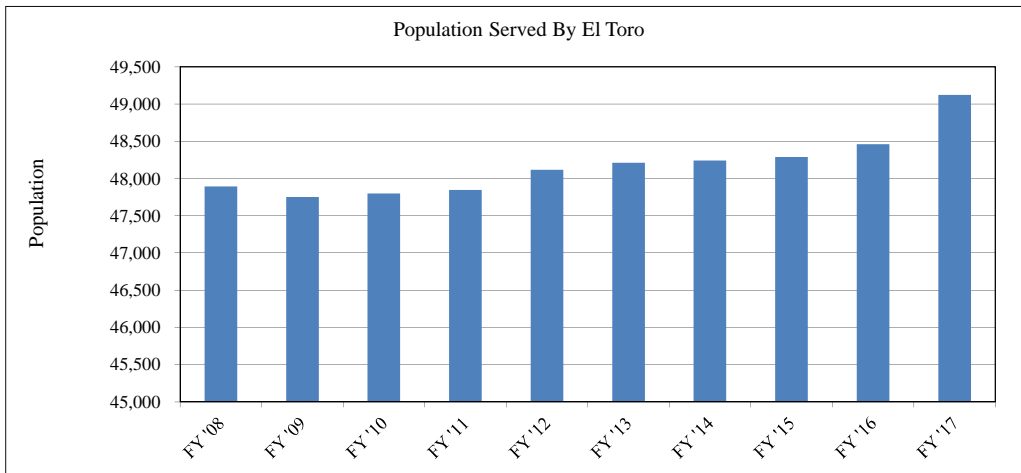


Notes:

(1) Operating expenses less depreciation and amortization.

**El Toro Water District
Demographics and Economic Statistics - County of Orange
Last Ten Fiscal Years**

Calendar Year	Population Served by El Toro	Orange County		
		Personal Income (thousands \$)	Personal Income per Capita	Unemployment Rate at 6/30
2008	47,895	148,492,015	50,207	5.3%
2009	47,752	140,937,698	47,181	9.0%
2010	47,800	149,486,476	49,537 (1)	9.8%
2011	47,847	157,031,273	51,420 (1)	9.4%
2012	48,117	169,583,534	54,972 (1)	8.3%
2013	48,214	166,369,802	53,451 (1)	6.9%
2014	48,244	174,586,467 (1)	55,699 (1)	5.5%
2015	48,289	188,471,529 (1)	59,708 (1)	4.5%
2016	48,461	196,920,661 (1)	62,071 (1)	4.3%
2017	49,124	N/A	N/A	3.8%



N/A - Data not available for time period

SOURCE: State of California, Employment Development Department, <http://www.edd.ca.gov>

SOURCE: Bureau of Economic Analysis, <http://www.bea.gov>

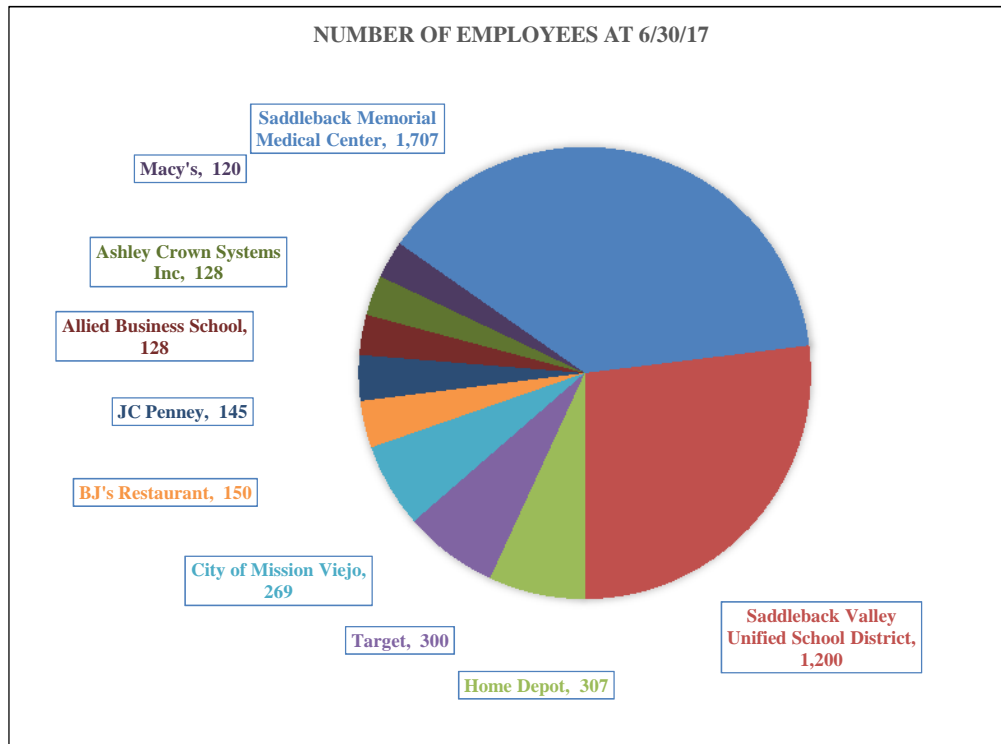
Notes:

(1) Bureau of Economic Analysis revised estimates for 2010-2016, reflect county population estimates available as of March 2017.

El Toro Water District Principal Employers Last Ten Fiscal Years

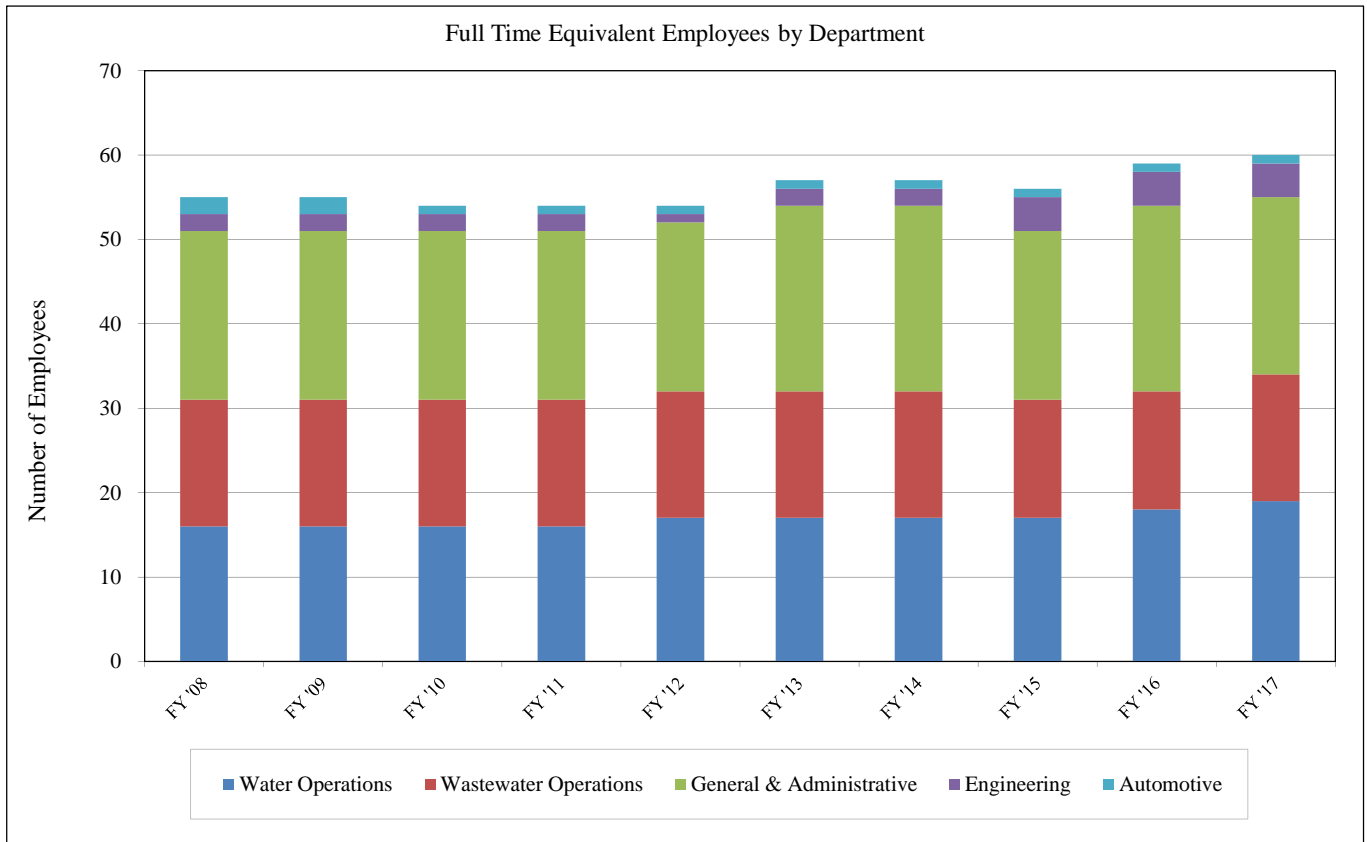
Employer	Number of Employees at 6/30/17	Percent of Total
Saddleback Memorial Medical Center	1,707	38.33%
Saddleback Valley Unified School District	1,200	26.94%
Home Depot	307	6.89%
Target	300	6.74%
City of Mission Viejo	269	6.04%
BJ's Restaurant	150	3.37%
JC Penney	145	3.26%
Allied Business School	128	2.87%
Ashley Crown Systems Inc	128	2.87%
Macy's	120	2.69%
Total Principal Employers	4,454	100.00%

Service Area: Covers about 5,430 acres including all of the city of Laguna Woods (36%), and portions of the cities of Laguna Hills (21%), Mission Viejo (12%), Lake Forest (27%) and Aliso Viejo (4%)



**El Toro Water District
Full Time Equivalent Employees by Department
Last Ten Fiscal Years**

Fiscal Year	Water Operations	Wastewater Operations	General & Administrative	Engineering	Automotive	Total
2008	16	15	20	2	2	55
2009	16	15	20	2	2	55
2010	16	15	20	2	1	54
2011	16	15	20	2	1	54
2012	17	15	20	1	1	54
2013	17	15	22	2	1	57
2014	17	15	22	2	1	57
2015	17	14	20	4	1	56
2016	18	14	22	4	1	59
2017	19	15	21	4	1	60



El Toro Water District
Operating and Capacity Indicators
Last Ten Fiscal Years

Fiscal Year	Water System			
	Miles of Water Mains	Service Connections	Annual Production (MG)	Average Daily Production (MGD)
2008	170	9,959	3,597,253,660	9,855,489
2009	170	10,159	3,405,702,738	9,330,692
2010	170	9,871	2,966,945,713	8,128,618
2011	170	9,797	2,878,545,866	7,886,427
2012	170	9,802	3,137,906,174	8,597,003
2013	170	9,803	3,137,906,174	8,597,003
2014	170	9,880	3,253,807,760	8,914,542
2015	170	9,828	2,818,530,813	7,722,002
2016	170	9,953	2,273,038,362	6,227,502
2017	170	9,943	2,291,973,506	6,279,379.47

Fiscal Year	Sewer System			
	Miles of Sewers Lines	Service Connections	Annual Sewerage (MG)	Daily Sewerage (MGD)
2008	114	9,959	1,580,046,650	4,328,895
2009	114	10,159	1,503,797,750	4,119,994
2010	114	9,871	1,489,460,350	4,080,713
2011	114	9,797	1,501,516,800	4,113,745
2012	114	9,802	1,441,560,400	3,949,481
2013	114	9,803	1,395,615,550	3,823,604
2014	114	9,880	1,261,691,200	3,456,688
2015	114	9,828	1,242,466,050	3,404,017
2016	114	9,953	1,096,485,250	3,004,069
2017	114	9,943	1,145,590,845	3,138,605

Fiscal Year	Recycled Water			
	Miles of Recycled Pipe	Service Connections	Annual Sewerage (MG)	Daily Sewerage (MGD)
2008	19	1	157,032,654	430,226
2009	19	1	143,529,430	393,231
2010	19	1	169,575,599	464,591
2011	19	1	185,162,307	507,294
2012	19	1	244,385,545	669,549
2013	19	1	190,260,557	521,262
2014	19	1	142,584,791	390,643
2015	19	70 (1)	159,560,925	437,153
2016	19	138 (1)	337,874,517	925,684
2017	19	210 (1)	462,485,422	1,267,083

Notes:

AF - Acre Feet

MG - Millions of Gallons

MGD - Millions of Gallons per Day

(1) The increase in Recycled Connections was a result of Recycled Water Project to transition irrigation customers to recycled water.