# San Elijo Joint Powers Authority

Cardiff by the Sea, California

## Financial Statements and Independent Auditors' Report

*For the Year Ended June 30, 2017*

THE PUN GROUP
ACCOUNTANTS & ADVISORS

# San Elijo Joint Powers Authority
## Financial Statements
## For the Year Ended June 30, 2017

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# FINANCIAL SECTION

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THE PUN GROUP
ACCOUNTANTS & ADVISORS

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors
of the San Elijo Joint Powers Authority
Cardiff by the Sea, California

**Report on Financial Statements**

We have audited the accompanying financial statements of the San Elijo Joint Powers Authority ("SEJPA"), which comprise the statement of net position as of June 30, 2017, and the related statement of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Elijo Joint Powers Authority as of June 30, 2017, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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**Emphasis of a Matter**

*Implementation of GASB Statement No. 75*

As discussed in Note 15 to the financial statements, the SEJPA implemented Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The adoption of this standard required retrospective application of previously reported net position and reclassification of certain accounts as of July 1, 2016 as described in Note 14 to the financial statements. In addition, the net other post employment benefit (OPEB) liability is reported in the Statement of Net Position in the amount of $423,020 as of the measurement date. Net OPEB liability is calculated by actuaries using estimates and actuarial techniques from an actuarial valuation as of June 30, 2017, the measurement date. Our opinion is not modified with respect to this matter.

**Other Matters**

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion, Analysis, the Schedule of Proportionate Share of the Net Pension Liability, the Schedule of Plan Contributions, and the Schedule of Changes in Net OPEB Liability and Related Ratios, as identified in the accompanying table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 an opinion on the financial statements of the SEJPA. The Combining Schedule of Net Position, the Combining Schedule of Revenues, Expenses and Changes in Net Position, the Combining Schedule of Cash Flows, the Operating Budget Comparison Schedule - Wastewater, and the Operating Budget Comparison Schedule – Reclamation, are presented for purposes of additional analysis and are not a required part of the financial statements.

The Combining Schedule of Net Position, the Combining Schedule of Revenues, Expenses, and Changes in Net Position, and the Combining Statement of Cash Flows are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Schedule of Net Position, Combining Schedule of Revenues, Expenses, and Changes in Net Position, and Combining Schedule of Cash Flows are fairly stated, in all material respects, in relation to the financial statements as a whole.

The Operating Budget Comparison Schedule - Wastewater and the Operating Budget Comparison Schedule - Reclamation have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or any assurance on them.

The Pun Group, LLP

The Pun Group, LLP
Certified Public Accountants
San Diego, California
September 29, 2017

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Our discussion and analysis of the financial performance of the San Elijo Joint Powers Authority's (SEJPA) provides an overview of the SEJPA's financial activities as of and for the year ended June 30, 2017. Please read it in conjunction with the SEJPA's financial statements which begin on page 12.

## Financial Statements

This discussion and analysis provides an introduction and a brief description of the SEJPA's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. The SEJPA's financial statements include four components:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to the Financial Statements

The statement of net position includes all of the SEJPA's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position may be displayed in three categories:

- Net investment in capital assets
- Restricted net position
- Unrestricted net position

The ***statement of net position*** provides the basis for computing rate of return evaluating the capital structure of the SEJPA and assessing its liquidity and financial flexibility.

The ***statement of revenues, expenses and changes in net position*** presents information which shows how the SEJPA's net position changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses and changes in net position measures the results of the SEJPA's operations over the past year and determines whether the SEJPA has recovered its costs through charges for services and other expenses.

The ***statement of cash flows*** provides information regarding the SEJPA's cash receipts and cash disbursements during the year. This statement may report cash activity in four categories:

- Operations
- Capital and related financing
- Noncapital financing
- Investing

This statement differs from the statement of revenues, expenses and changes in net position because the statement accounts only for transactions that result in cash receipts or cash disbursements.

The ***notes to the financial statements*** provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

## Financial Highlights

The SEJPA's net position increased by $4,144,331, net of a prior period adjustment of $(249,118), to $42,244,685 for the year ended June 30, 2017.

The SEJPA's revenues totaled $11,873,208 for the year ended June 30, 2017, an increase of $3,984,130 resulting principally from an increase in Wastewater revenue from other government agencies for the Land Outfall Replacement and an energy grant for efficiency improvements.

The SEJPA's expenses totaled $7,479,759 for the year ended June 30, 2017. The expense decrease was $24,599 or (0.3)% and included a provision of $140,000 for reducing the pension obligation. Total expense was slightly lower than budget and met expectation for the year.

## Financial Analysis of the SEJPA

### Net Position

The following is a summary of the SEJPA's statements of net position at June 30:

| | 2017 | 2016 | Increase (Decrease) | Percent Increase (Decrease) |
|---|---|---|---|---|
| **Assets:** | | | | |
| Current and other assets | $ 15,038,645 | $ 12,723,888 | $ 2,314,757 | 18.2% |
| Capital assets | 39,261,847 | 39,415,397 | (153,550) | -0.4% |
| **Total Assets** | 54,300,492 | 52,139,285 | 2,161,207 | 4.1% |
| **Deferred Outflows of Resources** | 1,194,748 | 1,088,315 | 106,433 | 9.8% |
| **Liabilities:** | | | | |
| Current liabilities | 3,160,006 | 2,960,787 | 199,219 | 6.7% |
| Non-current liabilities | 9,952,926 | 11,474,845 | (1,521,919) | -13.3% |
| **Total Liabilities** | 13,112,932 | 14,435,632 | (1,322,700) | -9.2% |
| **Deferred Inflows of Resources** | 137,623 | 691,614 | (553,991) | -80.1% |
| **Net Position:** | | | | |
| Net investment in capital assets | 33,848,762 | 33,118,058 | 730,704 | 2.2% |
| Restricted | 630,000 | 630,000 | - | 0.0% |
| Unrestricted | 7,765,923 | 4,352,296 | 3,413,627 | 78.4% |
| **Total Net Position** | $ 42,244,685 | $ 38,100,354 | $ 4,144,331 | 10.9% |

Net position increased by $4,144,331 from fiscal year 2016 to 2017. Net investment in capital assets increased $730,704 in fiscal year 2017. This increase is the result of principal paid on the SEJPA's long-term debt and the increase in investment in capital assets, net of depreciation expense.

### Financial Analysis of the SEJPA (Continued)

### Net Position (Continued)

Restricted net position is unchanged for the year ended June 30, 2017 as funds restricted for bond reserves remain in place.

Unrestricted net position (those that can be used to finance day-to-day operations) increased $3,413,627.

### Revenues, Expenses and Changes in Net Position

The following is a summary of the SEJPA's revenues, expenses and changes in net position for the years ended June 30:

| | 2017 | 2016 | Increase (Decrease) | Percent Increase (Decrease) |
|---|---|---|---|---|
| **Revenues** | | | | |
| Operating contributions from members | $ 3,379,007 | $ 3,214,224 | $ 164,783 | 5.1% |
| Charges for services to other government agencies | 6,959,676 | 3,362,063 | 3,597,613 | 107.0% |
| Other nonoperating revenue | 291,804 | 254,047 | 37,757 | 14.9% |
| Member agency assessments | 915,336 | 997,819 | (82,483) | -8.3% |
| State grants | 327,385 | 60,925 | 266,460 | 437.4% |
| **Total revenues** | 11,873,208 | 7,889,078 | 3,984,130 | 50.5% |
| **Expenses** | | | | |
| Operating expenses | 7,209,365 | 7,169,720 | 39,645 | 0.6% |
| Nonoperating expenses | 270,394 | 334,638 | (64,244) | -19.2% |
| **Total expenses** | 7,479,759 | 7,504,358 | (24,599) | -0.3% |
| **Increase in net position** | $ 4,393,449 | $ 384,720 | $ 4,008,729 | 1042.0% |

### Capital Assets

The following is a summary of capital assets at June 30:

| | 2017 | 2016 | Increase (Decrease) | Percent Increase (Decrease) |
|---|---|---|---|---|
| Construction in progress | $ 2,171,335 | $ 2,593,101 | $ (421,766) | -16.3% |
| Plant equipment | 70,265,253 | 67,950,514 | 2,314,739 | 3.4% |
| Lab equipment | 101,240 | 110,294 | (9,054) | -8.2% |
| Office equipment | 70,690 | 79,786 | (9,096) | -11.4% |
| Vehicles | 289,287 | 289,287 | - | 0.0% |
| Subtotal | 72,897,805 | 71,022,982 | 1,874,823 | 2.6% |
| Less accumulated depreciation | (33,635,958) | (31,607,585) | (2,028,373) | 6.4% |
| Total capital assets, net | $ 39,261,847 | $ 39,415,397 | $ (153,550) | -0.4% |

**Financial Analysis of the SEJPA (Continued)**

**Capital Assets (Continued)**

The net additions to capital assets for fiscal year 2017 totaled $1,874,823. Capital asset additions included projects for Turbo Blowers and Land Outfall Replacement as well for as several smaller projects.

**Long-Term Debt**

The following is a summary of long-term debt at June 30:

| | 2017 | 2016 | Increase (Decrease) | Percent Increase (Decrease) |
|---|---|---|---|---|
| 2011 Refunding Revenue Bonds | $ 3,234,580 | $ 4,619,428 | $ (1,384,848) | -30.0% |
| State loan payable | 3,140,027 | 3,877,758 | (737,731) | -19.0% |
| Private placement loan payable | 1,602,066 | 1,681,260 | (79,194) | -4.7% |
| SFID Reimbursement Agreement payable | 438,339 | 445,343 | (7,004) | -1.6% |
| Total long-term debt | $ 8,415,012 | $ 10,623,789 | $ (2,208,777) | -20.8% |

The total long term debt decreased by $2,208,777 primarily due to the principal payments made on the 2011 Refunding Revenue Bonds and the State Loan Payable. The Current Portion increased due to the amortization of the debt.

**Economic Factors**

Consistent with the prior year, SEJPA's fiscal year 2017-18 sanitary fund operations and maintenance budget is $4,652,174. The water reclamation budget is $1,489,905. Sales of reclaimed water are budgeted to be approximately 1,510 acre feet in the upcoming year.

Contingency funding for each program area has been reviewed and budgeted on the basis of the potential for unforeseen events within each activity area. For all programs, the amount in contingency funding is $145,500 and is $6,300 higher than last year's budget levels.

The capital project program will have a budget of $2,524,650 during the upcoming year. This is primarily for improvements to the wastewater, ocean outfall, and reclamation programs.

Costs of sanitary services are allocated on the basis of percentage of use, as indicated by measured flows, or level of effort, as appropriate. On the basis of connected equivalent dwelling units (EDU's) for wastewater treatment provided to the member agencies, the budgeted cost is approximately $159 per EDU per year for 2017-18. This represents a 2% increase from 2016-17. The Encinitas Ranch Golf Course pays a set annual price for interruptible water service. For the remaining water agencies, recycled water sales are based on individual contracts which may include minimum annual purchase volumes and negotiated water rate prices. These revenues are supplemented by incentives from the Metropolitan Water District and the San Diego County Water Authority.

**Economic Factors (Continued)**

On October 8, 2012, the Board adopted a resolution to amend the contract between CalPERS and the SEJPA. This resolution amended the contract to include Section 20475 (Different Level of Benefits) for new Miscellaneous Members of the Public Employees' Retirement System, Section 21353 (2% at 60 Full Formula), and Section 20037 (Three-Year Final Compensation) this resolution will be applicable to all SEJPA employees entering membership for the first time in the miscellaneous classification after June 30, 2015. The lower benefit payout will result in a lower contribution rate for the SEJPA in the future as new employees enter the SEJPA workforce. All employees will pay the full employee portion of the CalPERS retirement benefit.

**Contacting the Authority's Financial Manager**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the SEJPA's finances and to demonstrate the SEJPA's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the SEJPA, at (760) 753-6203, ext. 73.

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# FINANCIAL STATEMENTS

# San Elijo Joint Powers Authority
## Statement of Net Position
## June 30, 2017

| | |
|---|---|
| **ASSETS** | |
| **Current assets:** | |
| Cash and investments | $ 10,814,333 |
| Due from other governmental agencies | 476,396 |
| Accrued interest receivable | 59,645 |
| Prepaid items | 29,003 |
| Current portion of loans receivable | 1,365,000 |
| **Total current assets** | 12,744,377 |
| **Non-current assets:** | |
| Restricted cash and cash equivalents | 630,247 |
| Loans receivable - net of current portion | 1,650,000 |
| Other assets | 14,021 |
| Capital assets: | |
| Nondepreciable | 2,171,335 |
| Depreciable, net of accumulated depreciation | 37,090,512 |
| Total capital assets | 39,261,847 |
| **Total non-current assets** | 41,556,115 |
| **Total assets** | 54,300,492 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Deferred amount on refunding | 113,537 |
| Deferred outflows of resources related to pensions | 1,081,211 |
| **Total deferred outflows of resources** | 1,194,748 |

See accompanying Notes to the Financial Statements

# San Elijo Joint Powers Authority
## Statement of Net Position (Continued)
## June 30, 2017

| | |
|---|---|
| **LIABILITIES** | |
| **Current liabilities:** | |
| Accounts payable | $ 373,666 |
| Accrued liabilities | 322,946 |
| Accrued interest payable | 113,450 |
| Retention payable | 13,160 |
| Unearned revenue | 93,452 |
| Revenue refunding bonds - due within one year | 1,365,000 |
| State loan payable - due within one year | 756,175 |
| Private placement loan payable - due within one year | 82,525 |
| Compensated absences - due within one year | 39,632 |
| **Total current liabilities** | 3,160,006 |
| **Non-current liabilities:** | |
| Due to member agencies payable from restricted assets | 247 |
| Revenue refunding bonds - due in more than one year | 1,869,580 |
| State loan payable - due in more than one year | 2,383,852 |
| Private placement loan payable - due in more than one year | 1,519,541 |
| SFID reimbursement agreement payable | 438,339 |
| Net pension liability | 2,924,994 |
| Total OPEB liability | 423,020 |
| Compensated absences - due in more than one year | 393,353 |
| **Total non-current liabilities** | 9,952,926 |
| **Total liabilities** | 13,112,932 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Deferred inflows of resources related to pensions | 137,623 |
| **Total deferred inflows of resources** | 137,623 |
| **Net Position:** | |
| Net investment in capital assets | 33,848,762 |
| Restricted | 630,000 |
| Unrestricted | 7,765,923 |
| **Total Net Position** | $ 42,244,685 |

See accompanying Notes to the Financial Statements

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# San Elijo Joint Powers Authority
## Statement of Revenues, Expenses, and Changes in Net Position
## For the Year Ended June 30, 2017

| | |
|---|---|
| **Operating revenues:** | |
| Charges for services to other government agencies | $ 6,959,676 |
| Contributions from the City of Encinitas | 1,866,496 |
| Contributions from the City of Solana Beach | 1,512,511 |
| **Total operating revenues** | 10,338,683 |
| **Operating expenses:** | |
| Personnel costs | 2,844,929 |
| Depreciation and amortization | 2,104,886 |
| Utilities | 843,064 |
| Contracted services | 555,644 |
| Supplies | 258,550 |
| Disposal services | 193,563 |
| Miscellaneous | 170,830 |
| Repair parts expense | 106,145 |
| Permit/purveyor fees | 75,029 |
| Insurance | 56,725 |
| **Total operating expenses** | 7,209,365 |
| **Operating income** | 3,129,318 |
| **Non-operating revenues (expenses):** | |
| Investment income | 209,300 |
| State grants | 327,385 |
| Rental income | 26,618 |
| Loss on disposal of assets | (2,282) |
| Interest expense | (268,112) |
| Other | 55,886 |
| **Total non-operating revenues, net** | 348,795 |
| **Net income before capital contributions** | 3,478,113 |
| **Capital contributions:** | |
| Member agency assessments | 915,336 |
| **Total capital contributions** | 915,336 |
| **Change in net position** | 4,393,449 |
| **Net position:** | |
| Beginning of year, as restated ( Note 14) | 37,851,236 |
| End of year | $ 42,244,685 |

See accompanying Notes to the Financial Statements

# San Elijo Joint Powers Authority
## Statement of Cash Flows
## For the Year Ended June 30, 2017

| | |
|---|---|
| **Cash flows from operating activities:** | |
| Cash receipts from customers | $ 10,437,954 |
| Cash payments to vendors and suppliers for materials and services | (2,207,148) |
| Cash payments to employees for services | (2,793,743) |
| **Net cash provided by operating activities** | 5,437,063 |
| **Cash flows from non-capital financing activities:** | |
| Rental and other nonoperating income | 82,504 |
| **Net cash provided by non-capital financing activities** | 82,504 |
| **Cash flows from capital and related financing activities:** | |
| Acquisition and construction of capital assets | (1,948,520) |
| Principal paid on long-term debt | (2,208,576) |
| Interest paid on long-term debt | (260,644) |
| Proceeds of state grants | 327,385 |
| Capital contributions | 915,336 |
| **Net cash (used in) capital and related financing activities** | (3,175,019) |
| **Cash flows from investing activities:** | |
| Proceeds from loans receivable | 1,305,000 |
| Proceeds from retrofit loans receivable | 579 |
| Investment earnings | 215,991 |
| **Net cash provided by investing activities** | 1,521,570 |
| **Net increase in cash and cash equivalents** | 3,866,118 |
| **Cash and cash equivalents:** | |
| Beginning of year | 7,578,462 |
| End of year | $ 11,444,580 |
| **Cash and cash equivalents:** | |
| Cash and cash equivalents | $ 10,814,333 |
| Restricted cash and cash equivalents | 630,247 |
| **Total cash and cash equivalents** | $ 11,444,580 |

See accompanying Notes to the Financial Statements

# San Elijo Joint Powers Authority
## Statement of Cash Flows (Continued)
## For the Year Ended June 30, 2017

| | |
|---|---|
| **Reconciliation of operating income to net cash provided by operating activities:** | |
| Operating income | $ 3,129,318 |
| **Adjustments to reconcile operating income to net cash provided by operating activities:** | |
| Depreciation and amortization | 2,104,886 |
| **Change in assets, liabilities, deferred outflows of resources, and deferred inflows of resources:** | |
| Due from other governmental agencies | 244,167 |
| Prepaid items | (10,174) |
| Deferred outflows related to pensions | (147,713) |
| Accounts payable | 50,527 |
| Accrued liabilities | 247,878 |
| Retentions payable | 12,049 |
| Unearned revenue | (144,896) |
| Net pension liability | 461,510 |
| Net OPEB liability | 18,951 |
| Compensated absences | 24,551 |
| Deferred inflows related to pensions | (553,991) |
| **Total adjustments** | 2,307,745 |
| **Net cash provided by operating activities** | $ 5,437,063 |

| | |
|---|---|
| **Non-cash items:** | |
| Amortization of other assets | $ 5,098 |
| Amortization of deferred amount on refunding | 41,287 |
| **Total non-cash items** | $ 46,385 |

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# NOTES TO THE FINANCIAL STATEMENTS

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## Note 1 – Reporting Entity

The San Elijo Joint Powers Authority (SEJPA) was established on June 17, 1987 with the power to own, operate, maintain and upgrade the San Elijo Water Reclamation Facility (WRF) through an agreement between the Cardiff Sanitation District (Cardiff) and the Solana Beach Sanitation District (Solana Beach) (collectively, the "member agencies"). The SEJPA which is governed by a board consisting of four members, two from each member agency; serves as a wastewater treatment facility for the member agencies as well as portions of Rancho Santa Fe Community Services District, Improvement Areas 2 and 3, and portions of the City of San Diego. On July 1, 1990, the City of Solana Beach succeeded to the powers and responsibilities of the Solana Beach Sanitation District; and on October 18, 2001, the City of Encinitas succeeded to the powers and responsibilities of the Cardiff Sanitation District.

Under the agreement establishing the SEJPA, Cardiff retained its right to 56% of the available treatment capacity of the plant, and Solana Beach retained its right to the remaining 44%. In May 1989 through an agreement between the SEJPA and the member agencies to upgrade and expand the WRF; Solana Beach paid Cardiff to increase its ownership percentage and capacity rights to 50%.

The SEJPA and the City of Escondido are joint owners and users, 21% and 79% respectively, of the San Elijo Ocean Outfall which is generally comprised of a regulator station and piping extending from an on-shore location out into the ocean.

The criteria used in determining the scope of the reporting entity is based on the provisions of GASB Cod. Sec, 2100 "Defining the Financial Reporting Entity." The SEJPA is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the SEJPA appoints a voting majority of the component units board, or because the component unit will provide a financial benefit or impose a financial burden on the SEJPA. The SEJPA has no component units.

## Note 2 – Summary of Significant Accounting Policies

### *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.

### *Method of Accounting*

The Financial Statements (i.e., the statement of net position, the statement of revenues, expenses and changes in net position, and statement of cash flows) report information on all of the activities of the SEJPA.

The SEJPA utilizes accounting principles appropriate for an enterprise fund to record its activities. Accordingly, 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. 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.

## Note 2 – Summary of Significant Accounting Policies (Continued)

### *Method of Accounting (Continued)*

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

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

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

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

### *Estimates*

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

### *Revenue Recognition*

The SEJPA recognizes revenue from charges for services to other government agencies and contributions from its members when they are earned. Operating activities generally result from providing services and producing and delivering goods. As such, the SEJPA considers charges for services to other government agencies and contributions from the cities to be operating revenues.

### *Cash and Cash Equivalents*

Cash and cash equivalents include all highly liquid investments with original maturities of 90 days or less and are carried at cost, which approximates fair value. The majority of the SEJPA's cash and investments are invested in the State of California's Local Agency Investment Fund ("LAIF"). The SEJPA does not own any specifically identifiable securities or investments in LAIF. As a participant in LAIF, the SEJPA has rights to its ratable share of the pooled cash and investments in LAIF, on a dollar-for-dollar basis. The SEJPA's ratable share of investment income from the LAIF pool is calculated and distributed on a quarterly basis. Investment income is reported as non-operating revenue in the Statement of Revenues, Expenses and Changes in Net Position. Since all amounts invested in LAIF are available upon demand, the SEJPA considers all amounts invested in LAIF to be cash equivalents.

**Note 2 – Summary of Significant Accounting Policies (Continued)**

***Cash and Cash Equivalents (Continued)***

Certain disclosure requirements, if applicable for deposit and investment risk, are specified for the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentration of Credit Risk
- Foreign Currency Risk

***Investments***

Investments are stated at their fair value which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

***Allowance for Doubtful Accounts***

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all amounts due from other government agencies, loans receivable and the retrofit loans receivable were fully collectible; therefore no allowance for doubtful accounts was recorded at June 30, 2017.

***Capital Assets***

Capital assets consist of construction in progress, plant equipment, lab equipment, office equipment, and vehicles. Capital assets purchased or acquired with a cost exceeding $2,000 and an estimated useful life of more than one year are reported at historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

## Note 2 – Summary of Significant Accounting Policies (Continued)

### *Capital Assets (Continued)*

Depreciation is calculated on the straight-line method over the following estimated useful lives:

| Asset Type | Years |
|---|---|
| Plant equipment | 5 - 50 |
| Lab equipment | 5 - 40 |
| Office equipment | 5 - 20 |
| Vehicles | 5 |

### *Capitalized Interest*

The SEJPA incurred interest charges on long-term debt. No interest was capitalized as a cost of construction for the year ended June 30, 2017.

### *Amortization*

Bond insurance costs are being amortized on the straight-line method over periods not to exceed the debt maturities. Amortization expense totaled $5,098 for the year ended June 30, 2017.

The original issue premium is being amortized on the straight-line method over the remaining life of the related debt. Amortization of the original issue premium totaled $79,847 for the year ended June 30, 2017 and is included in interest expense.

The deferred amount on refunding is being amortized over the remaining life of the refunded debt. Amortization expense totaled $41,287 for the year ended June 30, 2017, and is included in interest expense.

### *Classification of Liabilities*

Certain liabilities which are currently payable have been classified as noncurrent because they will be funded from restricted assets.

### *Compensated Absences*

Employees are entitled to accrue vacation leave up to a maximum amount equal to twice the employees' annual accrual rate, after which accrual ceases until the balance of maximum accrued falls below the maximum accumulation (208 – 368 hours, depending on length of service). Upon separation of employment, accrued vacation benefits that have not been used are paid to the employee. Sick leave benefits may be accrued up to a maximum of 1,000 hours after which accrual ceases. Employee who are not terminated for cause and have given the SEJPA 14 calendar days written notice are paid for 50% of their sick leave balance upon separation. Accumulated and unpaid vacation and sick-leave totaling $432,985 is accrued when incurred and included in noncurrent liabilities at June 30, 2017.

## Note 2 – Summary of Significant Accounting Policies (Continued)

### *Risk Management*

The SEJPA is a member of the California Sanitation Risk Management Authority (CSRMA). CSRMA is a risk-pooling self-insurance authority created under provisions of California Government Code Sections 6500 et. seq. The purpose of CSRMA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. Each insured agency pays for its proportionate share of its individually contracted insurance coverage and consulting services. At June 30, 2017, the SEJPA participated in the programs of CSRMA as follows:

- **General Liability including Bodily Injury, Property Damage, Public Entity Errors and Omissions, Employment Practices Liability and Automobile Liability**

  The CSRMA Pooled Liability (shared risk) Program provides $25,500,000 per occurrence and in aggregate. CSRMA is self-insured up to $15,500,000 and additional $10,000,000 in excess insurance has been purchased to bring the total limit of liability coverage to $25,500,000. SEJPA has a $100,000 deductible in the CSRMA Pooled Liability Program.

- **Property Damage**

  $61,118,112 in scheduled values is covered through the APIP Property Program with a $1,000,000,000 shared loss limit per occurrence with a $5,000 deductible. Coverage includes: all risk property coverage, mobile equipment, auto physical damage and boiler and machinery. The SEJPA has a $5,000 to $350,000 deductible for boiler and machinery coverage depending on the size of the machinery.

- **Faithful Performance/Employee Dishonesty Bond**

  SEJPA is insured up to $2,000,000 with a $2,500 deductible. Coverage includes: employee dishonesty, faithful performance forgery or alteration, computer fraud, money and securities theft, disappearance and destruction.

- **Workers' Compensation**

  SEJPA participates in CSRMA's Workers' Compensation Program, which currently self-insures the first $750,000 of each claim. The members have no deductible or self-insured retention. Excess insurance provides statutory limits for Workers' Compensation and $750,000 for each accident or each employee for disease in limits for Employers Liability.

The SEJPA pays annual premiums for this coverage. They are subject to retrospective adjustments based on claims experienced. The nature and amounts of the adjustments cannot be estimated and are charged to expense as invoiced. The SEJPA's insurance expense totaled $56,727 for the year ended June 30, 2017. There were no instances in the past three years where a settlement exceeded the SEJPA's coverage.

**Note 2 – Summary of Significant Accounting Policies (Continued)**

***Pensions***

For purposes of measuring the net pension liability at June 30, 2016, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans (Note 11). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

| CalPERS | |
|---|---|
| Valuation date | June 30, 2015 |
| Measurement date | June 30, 2016 |
| Measurement period | July 1, 2015 to June 30, 2016 |

***Net Position***

In the financial statements, net position is categorized as follows:

*Net Investment in Capital Assets* – This component of net position consists of capital assets, net of accumulated depreciation, less outstanding balances of any bonds, mortgages, notes, other borrowings, and deferred inflows and outflows of resources that are attributable to the acquisition, construction, or improvement of those assets.

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

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

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

***Economic Dependency***

The SEJPA received approximately 33% of its operating revenues from its member agencies for the year ended June 30, 2017.

## Note 3 – Cash and Cash Equivalents

At June 30, 2017, cash and investments are reported at fair value based on quoted market prices. The following table presents the fair value measurements of investments recognized in the accompanying statement of net position measured at fair value on a recurring basis and the level within GASB 72 fair value hierarchy in which the fair value measurements fall at June 30, 2017:

| | Amount Invested | Percentage of Portfolio | Measurement Input |
|---|---|---|---|
| Cash on hand | $ 172 | 0.00% | N/A |
| Deposits held with financial institutions | 386,134 | 3.37% | N/A |
| Local Agency Investment Fund (LAIF) | 11,058,274 | 96.62% | N/A |
| **Total cash and investments** | $ 11,444,580 | 100.00% | |

| | |
|---|---|
| **Cash and investments reported in the accompanying Statement of Net Position:** | |
| Cash and investments | $ 10,814,333 |
| Restricted cash and cash equivalents | 630,247 |
| **Total cash, investments, and cash equivalents** | $ 11,444,580 |

## Note 3 – Cash and Cash Equivalents (Continued)

### *Investments Authorized by the California Government Code and the SEJPA's Investment Policy*

The table below identifies the investment types that are authorized for the SEJPA by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate 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 SEJPA, rather than the general provision of the California Government Code or the SEJPA's investment policy:

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Minimum Rating |
|---|---|---|---|
| Local agency bonds | 5 years | None | None |
| U.S. Treasury obligations | 5 years | None | None |
| State obligations | 5 years | None | None |
| CA local agency obligations | 5 years | None | None |
| U.S. agency securities | 5 years | None | None |
| Bankers' acceptances | 180 days | 40% | None |
| Commercial paper | 270 days | 25% | A1 |
| Negotiable certificates of deposit | 5 years | 30% | None |
| Repurchase agreements | 1 year | None | None |
| Reverse repurchase agreements | 92 days | 20% | None |
| Medium-term notes | 5 years | 30% | A |
| Mutual funds | n/a | 20% | Multiple |
| Money market mutual funds | n/a | 20% | Multiple |
| Collateralized bank deposits | 5 years | None | None |
| Mortgage pass-through securities | 5 years | 20% | AA |
| Time deposits | 5 years | None | None |
| California Local Agency Investment Fund (LAIF) | n/a | None | None |
| County pooled investments | n/a | None | None |

The SEJPA's Investment Policy is more restrictive than the California Government Code. The SEJPA may invest in the California Local Agency Investment Fund and the San Diego County Pooled Money Investment account. Open ended money market mutual funds are being held by the bond trustee.

As of June 30, 2017, the SEJPA had $11,058,274 invested in LAIF, which had invested 0.94% of the pool investment funds in structured notes and asset-backed securities.

### *Disclosures Relating to Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. The SEJPA manages its exposure to interest rate risk by purchasing shorter term investments so that a portion of the portfolio is maturing over time as necessary to provide the cash flows and liquidity needed for operations.

## Note 3 – Cash and Cash Equivalents (Continued)

### *Disclosures Relating to Interest Rate Risk (Continued)*

Information about the sensitivity of the fair values of the SEJPA's investments (including investments held by the bond trustee) to market interest rate fluctuations is shown via the distribution of the SEJPA's investments by maturity at June 30, 2017 as follows:

| Description | Balance | Maturity 12 Months or Less |
|---|---|---|
| Cash on hand | $ 172 | $ 172 |
| Deposits held with financial institutions | 386,134 | 386,134 |
| California Local Agency Investment Fund (LAIF) | 11,058,274 | 11,058,274 |
| Total cash and cash equivalents | $ 11,444,580 | $ 11,444,580 |

### *Disclosures Relating to Credit Risk*

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

Credit ratings as of June 30, 2017 were as follows:

| Description | Minimum Legal Rating | Standards & Poor's Rating at June 30, 2017 |
|---|---|---|
| Local Agency Investment Fund (LAIF) | N/A | Not Rated |
| Open ended money market mutual funds | N/A | Not Rated |

### *Concentration of Credit Risk*

Concentration of credit is the risk of loss attributed to the magnitude to the SEJPA's investment in a single issue. GASB Statement No. 40 requires disclosure by amount and issuer, of investments in any one issuer that represent 5% or more of total investments.

The investment policy of the SEJPA contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The SEJPA holds no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the SEJPA's total investments at June 30, 2017.

**Note 3 – Cash and Cash Equivalents (Continued)**

***Custodial Credit Risk***

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

At June 30, 2017, none of the SEJPA's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. At June 30, 2017, no SEJPA investments were held by the same broker-dealer (counterparty) that was used by the SEJPA to buy the securities.

***Investment in State of California Local Agency Investment Fund***

The SEJPA is a voluntary participant in the Local Agency Investment Fund ("LAIF") that is regulated by California Government Code under the oversight of the Treasurer of the State of California. The fair value of the SEJPA's investment in this pool is reported in the accompanying financial statements at amounts based upon the SEJPA'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.

SEJPA's investments with Local Agency Investment Fund (LAIF) include a portion of the pool funds invested in structured notes and asset-backed securities. These investments include the following:

- 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. They are issued by corporations and by government-sponsored enterprises.

- Asset-Backed Securities - entitle their purchaser to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's), small business loans or credit card receivables.

LAIF is overseen by the Local Investment Advisory Board, which consists of five members, in accordance with State statute. The fair value of our position in the pool is the same as the value of the pool shares.

As of June 30, 2017, SEJPA had $11,058,274 invested in LAIF, which had invested 0.94% of the pool investment funds in structured notes and asset-backed securities. The LAIF fair value factor of 0.998940671 was used to calculate the fair value of the investment in LAIF.

### Note 4 – Due From Other Government Agencies

The SEJPA provides reclaimed water and wastewater treatment to a variety of governmental agencies within San Diego County. The following is a detail of amounts owed to/from the SEJPA by these agencies at June 30, 2017:

| Description | | Balance |
|---|---|---|
| San Dieguito Water District | $ | 100,771 |
| San Diego County Water Authority | | 74,990 |
| Rancho Santa Fe CSD 2 & 3 | | 29,463 |
| City of Encinitas | | 98,833 |
| Santa Fe Irrigation District | | 90,109 |
| City of Del Mar | | 48,228 |
| Olivenhain Municipal Water District | | 26,607 |
| Other | | 7,395 |
| Total due from other governmental agencies | $ | 476,396 |

### Note 5 – Restricted Assets

Restricted assets were provided by and are to be used for the following at June 30, 2017:

| Funding Source | Use | | Amount |
|---|---|---|---|
| Receipts from customers | State loan reserve requirement | $ | 630,000 |
| Debt proceeds and interest earned | Debt service - Solana Beach | | 59 |
| Debt proceeds and interest earned | Debt service - Encinitas | | 188 |
| | | $ | 630,247 |

### Note 6 – Loans Receivable

The City of Encinitas and the City of Solana Beach have entered into the third amendment and restated loan agreements with the SEJPA. The loans bear interest from 2% to 4%. Principal and interest are payable semi-annually four days prior to each September 1 and March 1 of each year, in order to provide the SEJPA with sufficient funds to service the debt on the Refunding Revenue Bonds (See Note 9). Loans receivable consist of the following at June 30, 2017:

| | | |
|---|---|---|
| City of Solana Beach | $ | 1,593,303 |
| City of Encinitas | | 1,421,697 |
| Subtotal | | 3,015,000 |
| Less: current portion | | (1,365,000) |
| **Total** | $ | 1,650,000 |

## Note 7 – Retrofit Loans Receivable

The SEJPA has entered into agreements with certain reclaimed water users whereby the SEJPA reimbursed the reclaimed water users for reasonable costs incurred for the retrofitting of the water user's facilities in order for them to accept and use reclaimed water for non-potable purposes. The water users agreed to repay the SEJPA the aggregate amount of the retrofit work together with interest ranging from 3.5% to 4.5%. Reclaimed water is purchased at the potable water rate with the difference between the two rates being considered repayment of the reimbursed costs with the payment first applied to interest. All retrofit loans have been paid in full as of June 30, 2017.

## Note 8 – Capital Assets

A summary of changes in capital assets for the year ended June 30, 2017 is as follows:

| Description | Balance July 1, 2016 | Additions | Deletions | Transfers | Balance June 30, 2017 |
|---|---|---|---|---|---|
| **Non-depreciable assets:** | | | | | |
| Construction in progress | $ 2,593,101 | $ 1,685,497 | $ - | $ (2,107,263) | $ 2,171,335 |
| **Total non-depreciable assets** | 2,593,101 | 1,685,497 | - | (2,107,263) | 2,171,335 |
| **Depreciable assets:** | | | | | |
| Plant equipment | 67,950,514 | 246,130 | (38,654) | 2,107,263 | 70,265,253 |
| Lab equipment | 110,294 | - | (9,054) | - | 101,240 |
| Office equipment | 79,786 | 16,893 | (25,989) | - | 70,690 |
| Vehicles | 289,287 | - | - | - | 289,287 |
| **Total depreciable assets** | 68,429,881 | 263,023 | (73,697) | 2,107,263 | 70,726,470 |
| **Accumulated depreciation:** | | | | | |
| Plant equipment | (31,187,156) | (2,066,152) | 30,818 | - | (33,222,490) |
| Lab equipment | (98,780) | (4,723) | 27,813 | - | (75,690) |
| Office equipment | (73,938) | (5,490) | 12,784 | - | (66,644) |
| Vehicles | (247,711) | (23,423) | - | - | (271,134) |
| **Total accumulated depreciation** | (31,607,585) | (2,099,788) | 71,415 | - | (33,635,958) |
| **Total depreciable assets, net** | 36,822,296 | (1,836,765) | (2,282) | 2,107,263 | 37,090,512 |
| **Total capital assets, net** | $ 39,415,397 | $ (151,268) | $ (2,282) | $ - | $ 39,261,847 |

Depreciation totaled $2,099,788 for the year ended June 30, 2017. Depreciation plus amortization of other assets of $5,098, as reported in the Statement of Revenues, Expenses, and Changes in Net Position, totaled $2,104,886 for the year ended June 30, 2017.

## Note 9 – Noncurrent Liabilities

A summary of changes in noncurrent liabilities for the year ended June 30, 2017 is as follows:

| | Balance July 1, 2016 | Prior Period Adjustment | Additions | Deletions | Balance June 30, 2017 | Classification Due Within One Year | Classification Due in More Than One Year |
|---|---|---|---|---|---|---|---|
| **Payable from Restricted Assets:** | | | | | | | |
| Due to member agencies payable from restricted assets | $ 46 | $ - | $ 201 | $ - | $ 247 | $ - | $ 247 |
| **Total payable from restricted assets** | 46 | - | 201 | - | 247 | - | 247 |
| **Long-Term Debt:** | | | | | | | |
| 2011 Refunding Revenue Bonds | 4,320,000 | - | - | (1,305,000) | 3,015,000 | 1,365,000 | 1,650,000 |
| add: original issue premium | 299,428 | - | - | (79,848) | 219,580 | - | 219,580 |
| State loan payable | 3,877,758 | - | - | (737,731) | 3,140,027 | 756,175 | 2,383,852 |
| Private placement loan payable | 1,681,260 | - | - | (79,194) | 1,602,066 | 82,525 | 1,519,541 |
| SFID Reimbursement Agreement payable | 445,343 | - | - | (7,004) | 438,339 | - | 438,339 |
| **Total long-term debt** | 10,623,789 | - | - | (2,208,777) | 8,415,012 | 2,203,700 | 6,211,312 |
| **Other Noncurrent Liabities:** | | | | | | | |
| Compensated absences | 408,434 | - | 183,227 | (158,676) | 432,985 | 39,632 | 393,353 |
| Total OPEB liability | 154,951 | 249,118 | 18,951 | - | 423,020 | - | 423,020 |
| Net pension liability | 2,463,484 | - | 461,510 | - | 2,924,994 | - | 2,924,994 |
| **Total other noncurrent liabilities** | 3,026,869 | 249,118 | 663,688 | (158,676) | 3,780,999 | 39,632 | 3,741,367 |
| **Total long-term obligations** | $ 13,650,704 | $ 249,118 | $ 663,889 | $ (2,367,453) | $ 12,196,258 | $ 2,243,332 | $ 9,952,926 |

### *2011 Refunding Revenue Bonds*

In December 2011, the SEJPA issued the 2011 Revenue Refunding Bonds in the amount of $9,235,000 for the purpose of refunding its 2003 Refunding Revenue Bonds and prepaying a note to the California Energy Commission. The 2003 Refunding Revenue Bonds had been issued to refund the 1993 Refunding Revenue Bonds, the proceeds of which had been loaned to its two member agencies to finance the upgrade and expansion of the water pollution control facility.

Although the refunding resulted in a deferred amount on refunding of $340,611, the SEJPA in effect reduced the aggregate debt service payments by approximately $222,000 each year over the next six years and obtained an economic gain (difference between the present values of the old debt and the new debt service payments) of $1,251,450. The deferred amount on refunding totaled $113,537 at June 30, 2017.

The 2011 Refunding Revenue Bonds are payable in annual principal installments ranging from $50,000 to $1,415,000 through March 1, 2021. Interest payments are due semiannually on September 1, and March 1. Interest rates on the bonds range from 2% to 4%. The 2011 Refunding Revenue Bonds outstanding total $3,015,000 at June 30, 2017. Accrued interest totaled $39,222 at June 30, 2017. The member agencies have covenanted to make payments of loan installments in each year from net revenues derived from the operation of each Agency's respective wastewater collection system.

**Note 9 – Noncurrent Liabilities (Continued)**

***2011 Refunding Revenue Bonds (Continued)***

Debt service requirements on the 2011 Refunding Revenue Bonds are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 1,365,000 | $ 117,668 | $ 1,482,668 |
| 2019 | 1,415,000 | 63,068 | 1,478,068 |
| 2020 | 115,000 | 6,468 | 121,468 |
| 2021 | 120,000 | 3,420 | 123,420 |
| Total | $ 3,015,000 | $ 190,624 | $ 3,205,624 |

***State Loan Payable***

In March 1998, the SEJPA entered into an agreement with the State Water Resources Control Board for funding of the San Elijo Water Reclamation System. The loan was funded through the State Revolving Fund loan program administered by the State of California in the amount of $12,633,522. The State Revolving Fund loan program provides funding for water reclamation projects at a reduced interest rate of 2.5%. The state loan payable outstanding totaled $3,140,028 at June 30, 2017. Accrued interest totaled $68,688 at June 30, 2017. The San Elijo Water Reclamation Project represented the construction of tertiary treatment, operational storage facilities, effluent pump stations and a reclaimed water distribution system. Annual loan payments are made by the SEJPA in the amount of $834,675 and continue through August 2020. The SEJPA has agreed to maintain a dedicated source of revenue sufficient to provide reasonable assurance of repayment of the loan.

The terms of the state loan payable require the SEJPA to place $63,000 into a reserve fund each year for ten (10) years, beginning with the issuance of the loan. The reserve fund balance was $630,000 at June 30, 2017 (See Note 4).

Debt service requirements on the State Loan Payable are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 756,175 | $ 78,500 | $ 834,675 |
| 2019 | 775,079 | 59,596 | 834,675 |
| 2020 | 794,456 | 40,219 | 834,675 |
| 2021 | 814,317 | 20,358 | 834,675 |
| Total | $ 3,140,027 | $ 198,673 | $ 3,338,700 |

**Note 9 – Noncurrent Liabilities (Continued)**

***Private Placement Loan Payable***

In November 2011, the SEJPA entered into a private placement loan payable with Municipal Finance Corporation in the amount of $2,000,000 to fund advanced water treatment improvements (Advanced Water Treatment Project) at the San Elijo Water Reclamation Facility. Interest accrues at 4.15% on the unpaid principal balance and is payable in forty (40) semi-annual payments of $74,077 including principal and interest and continue through December 2031. The private placement loan payable outstanding totaled $1,602,067 at June 30, 2017. Accrued interest totaled $5,540 at June 30, 2017. The SEJPA's obligation to pay the loan repayments is a special obligation limited solely to the net revenues as defined in the loan agreement. The SEJPA has covenanted that it will fix, prescribe and collect rates, fees and charges sufficient to generate net revenues at least equal to 115% of the amount of the maximum annual debt service.

Debt service requirements on the private placement loan payable are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 82,525 | $ 68,959 | $ 151,484 |
| 2019 | 85,975 | 65,638 | 151,613 |
| 2020 | 89,580 | 58,574 | 148,154 |
| 2021 | 93,336 | 54,817 | 148,153 |
| 2022 | 97,249 | 50,904 | 148,153 |
| 2023-2027 | 550,941 | 189,825 | 740,766 |
| 2028-2032 | 602,460 | 64,217 | 666,677 |
| Total | $ 1,602,066 | $ 552,934 | $ 2,155,000 |

***SFID Reimbursement Agreement Payable***

The Santa Fe Irrigation District (SFID) constructed a reclaimed water distribution pipeline extension of 3,400 linear feet to the SEJPA's reclaimed water distribution system in order to extend SEJPA's existing recycled water distribution system and enable the SFID to serve new reclaimed water customers. SEJPA agreed to reimburse SFID for the cost of design and construction of the extension in the amount of $526,149 and the SFID agreed to convey ownership of the extension to SEJPA. Under the terms of the agreement, the reimbursement amount shall be increased each July 1st by adding interest at the rate equivalent to the average LAIF rate for the past four quarters, but not less than 1% nor greater than 2.5% calculated on the unpaid monthly balance. SEJPA shall reimburse the SFID at a monthly rate of $450 per acre foot of recycled water delivered through the extension including water delivered to purveyors other than SFID. In addition, SEJPA made an initial down payment of $50,000. SEJPA will further make a lump sum payment of all remaining principal and interest due after completion of the 20th year of this agreement if the average annual delivery volume of the extension from year 13 through year 15 exceeds 50 acre feet annually. Future payments on the SFID reimbursement agreement payable are contingent upon future reclaimed water sales, therefore future maturities have not been estimated and the agreement is considered noncurrent. The SFID reimbursement agreement payable totaled $438,339 at June 30, 2017.

## Note 10 – Postemployment Benefits

### *Plan Description*

The SEJPA provides medical insurance benefits to eligible retirees in accordance with various labor agreements subject to the SEJPA's vesting schedule. Medical benefits are typically available at age 55 and are only available to those retirees that select CalPERS medical upon the date of retirement. The current maximum contribution by the SEJPA to the retiree is $128 per month, which is set by CalPERS.

### *Eligibility*

Employees of the SEJPA are eligible for retiree health benefits if they retire within 120 days of their separation date. Membership in the plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation:

| | |
|---|---|
| Active plan members | 20 |
| Retirees | 4 |
| Total | 24 |

### *Contributions*

The obligation of the SEJPA to contribute to the plan is established and may be amended by the Board of Directors. The Board of Directors has established a policy of funding the actuarially determined contribution (ADC) on a pay as you go basis. For the fiscal year ended June 30, 2017, the SEJPA's average contribution rate was 0.33 % of covered-employee payroll. Employees are not required to contribute to the plan.

### *Total OPEB Liability*

The SEJPA's total OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017. The total OPEB liability at June 30, 2017 was:

| | |
|---|---|
| Total OPEB liability | $ 423,020 |
| Total OPEB liability | $ 423,020 |

## Note 10 – Postemployment Benefits (Continued)

### *Actuarial Assumptions*

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Actuarial Assumptions: | |
| Discount Rate | 3.35% |
| Inflation | 2.75% |
| Aggregate payroll increases | 3.00% |
| Expected long-term investment rate of return | n/a |
| Mortality, Termination, and Disability | CalPERS 1997-2011 |
| Mortality Improvement Scale | Modified MP-2014, which converge to ultimate mortality improvement rates in 2022. |
| Pre-retirement turnover | Ranging from 0.01% to 17.42% based on termination rates under the CalPERS pension plan. |
| Healthcare Trend Rate | An annual healthcare cost trend rate of 6.5% initially reduced by decrements to an ultimate of 5.0% therefore. |

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2016 through June 30, 2017.

### *Discount Rate*

The discount rate used to measure the total OPEB liability was 3.35% percent. This discount rate is the mid-point, rounded to five basis points, of the range of 3-20 year municipal bond rate indices; S&P Municipal bond 20 Year High Grade Rate Index, Bond Buyer 20-Bond GO Index, and Fidelity GO AA 20 Year Bond Index.

### *Change in the Total OPEB Liability*

| | Total OPEB Liability |
|---|---|
| Balance at June 30, 2016 (as restated) | $ 404,069 |
| Changes Recognized for the Measurement Period: | |
| Service Cost | 18,267 |
| Interest on the total OPEB liability | 13,926 |
| Benefit payments | (13,242) |
| Net Changes during July 1, 2016 to June 30, 2017 | 18,951 |
| Balance at June 30, 2017 (Measurement Date) | $ 423,020 |

## Note 10 – Postemployment Benefits (Continued)

### *Change in the Total OPEB Liability (Continued)*

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the SEJPA, as well as what the SEJPA's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.35 percent) or 1-percentage- point higher (4.35 percent) than the current discount rate:

| Plan's Total OPEB Liability/(Asset) | | |
|---|---|---|
| Discount Rate - 1% (2.35%) | Current Discount Rate (3.35%) | Discount Rate + 1% (4.35%) |
| $ 491,013 | $ 423,020 | $ 368,391 |

Sensitivity of the Total OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the total OPEB liability of the SEJPA, as well as what the SEJPA's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.5 percent decreasing to 4.0 percent) or 1-percentage-point higher (7.5 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

| Plan's Total OPEB Liability | | |
|---|---|---|
| Discount Rate - 1% (5.5% decreasing to 4.0%) | Healthcare Cost Trend Rates (6.5% decreasing to 5.0%) | Discount Rate + 1% (7.5% decreasing to 5.0%) |
| $ 363,686 | $ 423,020 | $ 497,784 |

### *OPEB Expense*

For the fiscal year ended June 30, 2017, the SEJPA recognized OPEB expense of $32,193. There were no deferred outflows or deferred inflows of resources associated with OPEB at June 30, 2017.

## Note 11 – Defined Benefit Pension Plan

### *Plan Descriptions*

All qualified permanent and probationary employees are eligible to participate in the Miscellaneous Plan of the San Elijo Joint Powers Authority, (All Plans) a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS) in which the SEJPA participates with other public agencies that each have fewer than 100 active members and share the same benefit formula. CalPERS acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

### *Benefits Provided*

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The SEJPA participates in the miscellaneous 2.5% at 55 pool, for those employees hired before July 1, 2012. New employees with no prior CalPERS membership and those with prior CalPERS membership with a break in service greater than six months, hired after July 1, 2012 participate in the miscellaneous 2% at 62 pool. Employees hired after July 1, 2012 with prior CalPERS membership with less than six months break in service, participate in the miscellaneous 2% at 60 pool.

The Plan's provisions and benefits in effect at June 30, 2017, are summarized as follows:

| | Miscellaneous | | |
|---|---|---|---|
| | Prior to | On or After July 1, 2012 | |
| Hire Date | July 1, 2012 | Second Tier | PEPRA |
| Benefit formula | 2.5% @ 55 | 2% @ 60 | 2% @ 62 |
| Benefit vesting schedule | 5 years service | 5 years service | 5 years service |
| Benefit payments | Monthly for life | Monthly for life | Monthly for life |
| Retirement age | 50 | 50 - 63 | 52 - 67 |
| Monthly benefits, as a % of eligible compensation | 2.0% to 2.5% | 1.092% to 2.418% | 1.0% to 2.5% |
| Required employee contribution rates | 8.00% | 7.00% | 6.25% |
| Required employer contribution rates | 10.069% | 7.159% | 6.533% |

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

## Note 11 – Defined Benefit Pension Plan (Continued)

### *Employees Covered by the Benefit Terms*

For the year ended June 30, 2017, the SEJPA's plan's proportionate share of aggregate employer contributions made for the plan was as follows:

| | Miscellaneous |
|---|---|
| Contributions - employer | $ 315,703 |

At June 30, 2017, the following employees were covered by the benefit terms for the miscellaneous plan:

| | Miscellaneous |
|---|---|
| Active employees | 21 |
| Inactive employees or beneficiaries currently receiving benefits | 13 |
| Inactive employees entitled to, but not yet receiving benefits | 14 |
| Total | 48 |

### *Pension Liabilities, Pension Expenses and Deferred Outflow/Inflows of Resources Related to Pensions*

As of June 30, 2017, the SEJPA reported net pension liabilities for its proportionate shares of the net pension liability of the plan as follows:

| | Miscellaneous |
|---|---|
| Proportionate share of net pension liability | $ 2,924,994 |

The SEJPA's net pension liability for the plan is measured as the proportionate share of the net pension liability. The net pension liability of the plan is measured as of June 30, 2016, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The SEJPA's proportion of the net pension liability was based on a projection of the SEJPA's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

**Note 11 – Defined Benefit Pension Plan (Continued)**

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

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

(1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2015). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability ("TPL") determines the net pension liability ("NPL") at the valuation date.

(2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2016). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2016 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2015-16).

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

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

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

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

The SEJPA's proportionate share of the net pension liability for the plan as of June 30, 2017 was as follows:

| | Miscellaneous |
|---|---|
| Proportion June 30, 2015 | 0.089800% |
| Proportion June 30, 2016 | 0.079200% |
| Change - increase (decrease) | -0.010600% |

### Note 11 – Defined Benefit Pension Plan (Continued)

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

For the year ended June 30, 2017, the SEJPA recognized pension expense of $355,852. At June 30, 2017, the SEJPA reported deferred outflows of resources and deferred inflows of resources from the following sources:

| | Deferred outflows of Resources | Deferred inflows of Resources |
|---|---|---|
| Contribution made after the measurement date | $ 437,683 | $ - |
| Difference between expected and actual experience | 8,378 | - |
| Changes of assumptions | - | (102,830) |
| Net difference between projected and actual earnings on pension plan investments | 535,200 | - |
| Employer contributions in excess/(under) proportionate share of contributions | - | (34,793) |
| Adjustments due to difference in proportions | 99,950 | - |
| Total | $ 1,081,211 | $ (137,623) |

The $437,683 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Measurement Period Ended June 30 | Deferred Outflows/ (Inflows) of Resources |
|---|---|
| 2017 | $ 74,133 |
| 2018 | 80,962 |
| 2019 | 212,184 |
| 2020 | 138,626 |
| 2021 | - |
| Thereafter | - |
| Total | $ 505,905 |

## Note 11 – Defined Benefit Pension Plan (Continued)

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

*Actuarial Methods and Assumptions Used to Determine Total Pension Liability*

For the measurement period ended June 30, 2016, the total pension liability was determined by rolling forward the June 30, 2015 total pension liability determined in the June 30, 2015 actuarial accounting valuation. The June 30, 2016 total pension liability was based on the following actuarial methods and assumptions:

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal in accordance with the requirement of GASB Statement No. 68 |
| Actuarial Assumptions: | |
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Salary Increases | 3.3% to 14.2% depending on age, service, and type of employment |
| Investment Rate of Return | 7.65% |
| Mortality Rate Table | Derived using CalPERS' Membership Data for all Funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. |
| Post Retirement Benefit Increase | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter. |

The underlying mortality assumption and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details for the Experience Study can be found on the CalPERS website under "Forms and Publications."

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

*Change of Assumption*

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2016 measurement date to correct the adjustment, which previously reduced the discount rate for administrative expense.

*Discount Rate*

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

## Note 11 – Defined Benefit Pension Plan (Continued)

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

*Discount Rate (Continued)*

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

| Asset Class | New Strategic Allocation | Real Return Years 1 - 10 [1] | Real Return Years 11 + [2] |
|---|---|---|---|
| Global equity | 51.00% | 5.25% | 5.71% |
| Private equity | 10.00% | 0.99% | 2.43% |
| Global fixed income | 20.00% | 0.45% | 3.36% |
| Liquidity | 1.00% | 6.83% | 6.95% |
| Real assets | 12.00% | 4.50% | 5.13% |
| Inflation sensitive assets | 6.00% | 4.50% | 5.09% |
| Other | 0.00% | -0.55% | -1.05% |

[1] An expected inflation of 2.5% was used for this period.

[2] An expected inflation of 3.0% was used for this period.

The discount rate used to measure the total pension liability was 7.65% for the plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 Section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. The difference was deemed immaterial to the Public Agency Cost Sharing Multiple-Employer Defined Benefit Pension Plan.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

## Note 11 – Defined Benefit Pension Plan (Continued)

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

Discount Rate (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the plan, as of the measurement date calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| Plan's Net Pension Liability/(Asset) | | |
|---|---|---|
| Discount Rate - 1% (6.65%) | Current Discount Rate (7.65%) | Discount Rate + 1% (8.65%) |
| $ 4,460,153 | $ 2,924,994 | $ 1,656,261 |

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

***Payable to the Pension Plan***

At June 30, 2017, the SEJPA reported a payable of $0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

## Note 12 – Net Position

At June 30, 2017, net investment in capital assets consisted of the following:

| Description | Balance |
|---|---|
| Net investment in capital assets: | |
| Capital assets – not being depreciated | $ 2,171,335 |
| Capital assets, net – being depreciated | 37,090,512 |
| Loans receivable - capital | 3,015,000 |
| Deferred amount on refunding | 113,537 |
| Accrued interest payable | (113,450) |
| Retention payable | (13,160) |
| 2011 Refunding Revenue Bonds | (3,234,580) |
| State loan payable | (3,140,027) |
| Private placement loan | (1,602,066) |
| SFID loan payable | (438,339) |
| Total net investment in capital assets | $ 33,848,762 |

## Note 13 – Commitments and Contingencies

### *Contracts*

The SEJPA has entered into various contracts for the purchase of material and construction of capital assets. The amounts contracted are based on the contractor's estimated cost of construction. At June 30, 2017, the total unpaid amount on these contracts is approximately $10,502,671.

### *Litigation*

Legal claims and lawsuits arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the SEJPA's financial position.

### *Operating Leases*

Under an agreement dated April 11, 1991 the SEJPA leases a maintenance facility to the City of Encinitas for $1 per year for an initial term of 30 years. The lease may be renewed or extended at the expiration of the initial term at a rate mutually agreed upon. In addition to the annual payment of $1, the City agreed to reimburse the SEJPA within 30 days for all engineering and inspection costs incurred as a result of the engineering and construction of the maintenance facility. The City also agreed to reimburse the SEJPA for all construction costs incurred by the SEJPA as a result of the construction of the maintenance facility in 30 equal annual installments at an interest rate equal to the interest rate on the bonds issued for construction of the upgrade and expansion of the Water Pollution Control Facility. The lease payments collected are then remitted directly to the member agencies.

In January 2007, the SEJPA entered into a Communications Site License Agreement as lessor with Omnipoint Communications, Inc. which was subsequently conveyed to T-Mobile West, LLC. The initial term of the agreement, which calls for an annual payment of $20,400 and increasing 3% annually, is for 5 years commencing the earlier of the date the licensees intend to commence construction or October 1, 2007. This lease agreement may be extended automatically for five additional five-year terms on the same terms and conditions at the election of Omnipoint. The lease is currently extended through October 1, 2017. The SEJPA recognized rental income in the amount of $26,618 for the year ended June 30, 2017.

## Note 14 – Prior Period Adjustments

The SEJPA recorded the following prior period adjustment in order to implement GASB 75 in fiscal year 2017:

| | Wastewater | Reclamation | Total |
|---|---|---|---|
| Net position at July 1, 2016, as previously reported | $ 25,638,369 | $ 12,461,985 | $ 38,100,354 |
| To implement GASB 75 for net OPEB liability | (206,768) | (42,350) | (249,118) |
| Net position at July 1, 2016, as restated | $ 25,431,601 | $ 12,419,635 | $ 37,851,236 |

## Note 15 – New and Upcoming Governmental Accounting Standards Implementation

***New Governmental Accounting Standards Implemented for the Year Ended June 30, 2017***

***GASB Statement No. 73***

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

***GASB Statement No. 74***

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which addresses reporting by postemployment benefits other than pensions (OPEB) plans that administer benefits on behalf of governments. This statement basically parallels GASB Statement 67 and replaces GASB Statement 43.

***GASB Statement No. 75***

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This statement applies to government employers who provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement basically parallels GASB Statement 68 and replaces GASB Statement 45.

***GASB Statement No. 77***

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments.

***GASB Statement No. 78***

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

**Note 15 – New and Upcoming Governmental Accounting Standards Implementation (Continued)**

***New Governmental Accounting Standards Implemented for the Year Ended June 30, 2017 (Continued)***

***GASB Statement No. 79***

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

***GASB Statement No. 80***

In December 2015, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

***Upcoming Governmental Accounting Standards Implementation***

The SEJPA is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB statements:

***GASB Statement No. 81***

In December 2015, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. Application of this statement is effective for the SEJPA's fiscal year ending June 30, 2018.

***GASB Statement No. 82***

In December 2015, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). Application of this statement is effective for the SEJPA's fiscal year ending June 30, 2018.

## Note 15 – New and Upcoming Governmental Accounting Standards Implementation (Continued)

### *Upcoming Governmental Accounting Standards Implementation (Continued)*

### *GASB Statement No. 83*

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (ARO). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. Application of this statement is effective for the SEJPA's fiscal year ending June 30, 2019.

### *GASB Statement No. 84*

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. Application of this statement is effective for the SEJPA's fiscal year ending June 30, 2020.

### *GASB Statement No. 85*

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement also addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Application of this statement is effective for the SEJPA's fiscal year ending June 30, 2018.

### *GASB Statement No. 86*

In April 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. Application of this statement is effective for the SEJPA's fiscal year ending June 30, 2018.

### Note 15 – New and Upcoming Governmental Accounting Standards Implementation (Continued)

***Upcoming Governmental Accounting Standards Implementation (Continued)***

***GASB Statement No. 87***

In June 2017, GASB issued Statement No. 87, *Leases.* This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Application of this statement is effective for the SEJPA's fiscal year ending June 30, 2020.

### Note 16 – Subsequent Events

***Issuance of Debt and Notes Receivable***

On June 21, 2017, the SEJPA issued $22,115,000 of 2017 Revenue Bonds (Clean Water Projects) (the "Bonds") that were funded on July 6, 2017. The Bonds were issued for the purpose of funding facilities and improvements as part of the SEJPA's capital improvement plan. The SEJPA entered into *Series 2017 Loan Agreements* with the City of Encinitas and the City of Solana Beach (together the "Cities") to assist in the financing of the Cities' respective shares of the Bonds. Each *Series 2017 Loan Agreement* is an absolute and unconditional obligation of the City of Encinitas and the City of Solana Beach, respectively, to make payments from an secured by a pledge of System Revenues and other funds of each respective City lawfully available therefor and does not constitute an obligation of the other City. Each of the Cities has agreed to pay its respective Loan Installments from its System Revenues comprised of gross revenues derived from its respective wastewater collection and disposal system (including the SEJPA's treatment of wastewater collected by its system) after the deduction of operation and maintenance expenses, in an amount sufficient to pay the annul principal and interest due under its respective *Series 2017 Loan Agreement*. In addition, each City has made covenants under its respective *Series 2017 Loan Agreement* regarding the collection of its System Revenues, and the SEJPA has made certain covenants with respect to the operation and maintenance of its facilities. The Loan Installments paid by Encinitas would pay approximately 50% of the total debt service on the Bonds and the Loan Installments paid by Solana Beach would pay approximately 50% of the debt service on the Bonds.

# REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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# San Elijo Joint Powers Authority
## Required Supplementary Information (Unaudited)
## Schedules of the Plan's Proportionate Share of the Net Pension Liability and Related Ratios
## Last Ten Fiscal Years*
## Miscellaneous Plan
## As of June 30, 2017

| | 6/30/2016 [1] | 6/30/2015 [1] | 6/30/2014 [1] |
|---|---|---|---|
| Plan's proportion of the net pension liability | 0.079200% | 0.089800% | 0.031140% |
| Plan's proportionate share of the net pension liability | $ 2,924,994 | $ 2,463,640 | $ 1,937,636 |
| Plan's covered-employee payroll [2] | $ 1,916,333 | $ 1,718,001 | $ 1,707,696 |
| Plan's proportionate share of the net pension liability as a percentage of covered-employee payroll | 152.63% | 143.40% | 113.46% |
| Plan's fiduciary net position | $ 8,559,081 | $ 8,203,952 | $ 7,976,883 |
| Plan's fiduciary net position as a percentage of the total pension liability | 74.53% | 76.91% | 80.46% |
| Plan's proportionate share of aggregate employer contributions [3, 4] | $ 315,703 | $ 308,067 | $ 215,709 |

**Notes to Schedule:**

**Benefit changes**. In 2015, benefit terms were modified to base miscellaneous employee pensions on a final three-year average salary instead of a final five-year average salary.

**Changes in assumptions**. In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of miscellaneous employees.

* - Fiscal year 2015 was the first year of implementation, therefore only three years are shown.

[1] Ten year historical information is not available.

[2] Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

[3] The plan's proportionate share of aggregate contributions may not match the actual contributions made by the employer during the measurement period. The plan's proportionate share of aggregate contributions is based on the plan's proportion of fiduciary net position shown on line 5 of the table above as well as any additional side fund (or unfunded liability) contributions made by the employer during the measurement period.

[4] This data is not required to be displayed by GASB 68 for employers participating in cost-sharing plans, but it is being shown here because it is used in the calculation of the Plan's pension expense.

# San Elijo Joint Powers Authority
## Required Supplementary Information (Unaudited)
## Schedule of Contributions
## Last Ten Fiscal Years*
## Miscellaneous Plan
## As of June 30, 2017

| | 2016-17 [1] | 2015-16 [1] | 2014-15 [1] | 2013-14 [1] |
|---|---|---|---|---|
| Contractually determined contribution (actuarially determined) | $ 302,683 | $ 286,852 | $ 267,504 | $ 256,232 |
| Contributions in relation to the actuarially determined contributions [2] | (437,683) | (411,852) | (267,504) | (256,232) |
| **Contribution deficiency (excess)** | $ (135,000) | $ (125,000) | $ - | $ - |
| Covered-employee payroll [3, 4] | $ 1,916,333 | $ 1,829,430 | $ 1,832,405 | $ 1,707,696 |
| Contributions as a percentage of covered-employee payroll [3] | 22.84% | 22.51% | 14.60% | 15.00% |

[1] Ten year historical information is not available.

[2] Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

[3] Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

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

**Notes to Schedule**

Valuation date: 6/30/2015

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2014-15 were from the June 30, 2012 public agency valuations.

**Methods and assumptions used to determine contribution rates:**

| | |
|---|---|
| Actuarial cost method | Entry Age Normal |
| Amortization method/period | For details, see June 30, 2011 Funding Valuation Report |
| Asset valuation method | Actuarial Value of Assets. For details, see June 30, 2011 Funding Valuation Report. |
| Inflation | 2.75% |
| Salary increases | Varies by entry age and service |
| Payroll growth | 3.00% |
| Investment rate of return | 7.50%, net of pension plan investment and administrative expenses, including inflation |
| Retirement age | The probabilities of retirement are based on the 2010 CalPERS Experience study for the period from 1997 to 2007. |
| Mortality | The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries. |

* - Fiscal year 2015 was the first year of implementation, therefore only four years are shown.

# San Elijo Joint Powers Authority
## Required Supplementary Information (Unaudited)
## Schedule of Changes in Net OPEB Liability and Related Ratios
## Last Ten Fiscal Years [1]
## For the Year Ended June 30, 2017

| Measurement period, year ending: | 6/30/2017 [1] |
|---|---|
| **Total OPEB liability** | |
| Service cost | $ 18,267 |
| Interest | 13,926 |
| Changes of benefit terms | - |
| Differences between expected and actual experience | - |
| Changes of assumptions | - |
| Benefit payments, including refunds of member contributions | (13,242) |
| **Net change in total OPEB liability** | 18,951 |
| **Total OPEB liability - beginning** | 404,069 |
| **Total OPEB liability - ending (a)** | $ 423,020 |
| **OPEB fiduciary net position** | |
| Contributions - employer | $ 13,242 |
| Net investment income | - |
| Benefit payments, including refunds of member contributions | (13,242) |
| Administrative expense | - |
| **Net change in plan fiduciary net position** | - |
| **Plan fiduciary net position - beginning** | - |
| **Plan fiduciary net position - ending (b)** | - |
| **Plan net OPEB liability - ending (a) - (b)** | $ 423,020 |
| **Plan fiduciary net position as a percentage of the total OPEB liability** | 0.00% |
| **Covered-employee payroll** | $ 1,856,890 |
| **Plan net OPEB liability as a percentage of covered-employee payroll** | 22.78% |

[1] Ten year historical information is not available.

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# SUPPLEMENTARY INFORMATION

# San Elijo Joint Powers Authority
## Combining Statement of Net Position
## June 30, 2017

| | Wastewater | Reclamation | Total |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and investments | $ 9,954,046 | $ 860,287 | $ 10,814,333 |
| Due from other governmental agencies | 148,118 | 328,278 | 476,396 |
| Accrued interest receivable | 56,459 | 3,186 | 59,645 |
| Prepaid items | 24,252 | 4,751 | 29,003 |
| Current portion of loans receivable | 1,365,000 | - | 1,365,000 |
| **Total current assets** | 11,547,875 | 1,196,502 | 12,744,377 |
| **Non-current assets:** | | | |
| Restricted cash and cash equivalents | 247 | 630,000 | 630,247 |
| Loans receivable - net of current portion | 1,650,000 | - | 1,650,000 |
| Other assets | 14,021 | - | 14,021 |
| Capital assets: | | | |
| Nondepreciable | 478,242 | 1,693,093 | 2,171,335 |
| Depreciable, net of accumulated depreciation | 21,518,028 | 15,572,484 | 37,090,512 |
| Total capital assets | 21,996,270 | 17,265,577 | 39,261,847 |
| **Total non-current assets** | 23,660,538 | 17,895,577 | 41,556,115 |
| **Total assets** | 35,208,413 | 19,092,079 | 54,300,492 |
| **Deferred outflows of resources:** | | | |
| Deferred amount on refunding | 113,537 | - | 113,537 |
| Deferred outflows related to pensions | 913,758 | 167,453 | 1,081,211 |
| **Total deferred outflows of resources** | 1,027,295 | 167,453 | 1,194,748 |

# San Elijo Joint Powers Authority
## Combining Statement of Net Position (Continued)
## June 30, 2017

| | Wastewater | Reclamation | Total |
|---|---|---|---|
| **Current liabilities:** | | | |
| Accounts payable | $ 307,195 | $ 66,471 | $ 373,666 |
| Accrued liabilities | 228,470 | 94,476 | 322,946 |
| Accrued interest payable | 39,222 | 74,228 | 113,450 |
| Retention payable | 13,160 | - | 13,160 |
| Unearned revenue | 93,452 | - | 93,452 |
| Revenue refunding bonds - due within one year | 1,365,000 | - | 1,365,000 |
| State loan payable - due within one year | - | 756,175 | 756,175 |
| Private placement loan payable - due within one year | - | 82,525 | 82,525 |
| Compensated absences - due within one year | 32,895 | 6,737 | 39,632 |
| **Total current liabilities** | 2,079,394 | 1,080,612 | 3,160,006 |
| **Non-current liabilities:** | | | |
| Due to member agencies payable from restricted assets | 247 | - | 247 |
| Revenue refunding bonds - due in more than one year | 1,869,580 | - | 1,869,580 |
| State loan payable - due in more than one year | - | 2,383,852 | 2,383,852 |
| Private placement loan payable - due in more than one year | - | 1,519,541 | 1,519,541 |
| SFID reimbursement agreement payable | - | 438,339 | 438,339 |
| Net pension liability | 2,494,432 | 430,562 | 2,924,994 |
| Total OPEB liability | 350,959 | 72,061 | 423,020 |
| Compensated absences - due in more than one year | 339,067 | 54,286 | 393,353 |
| **Total non-current liabilities** | 5,054,285 | 4,898,641 | 9,952,926 |
| **Total liabilities** | 7,133,679 | 5,979,253 | 13,112,932 |
| **Deferred inflows of resources** | | | |
| Deferred inflows related to pensions | 131,087 | 6,536 | 137,623 |
| **Total deferred inflows of resources** | 131,087 | 6,536 | 137,623 |
| **Net position:** | | | |
| Net investment in capital assets | 21,837,845 | 12,010,917 | 33,848,762 |
| Restricted | - | 630,000 | 630,000 |
| Unrestricted | 7,133,097 | 632,826 | 7,765,923 |
| **Total net position** | $ 28,970,942 | $ 13,273,743 | $ 42,244,685 |

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# San Elijo Joint Powers Authority
## Combining Statement of Revenues, Expenses, and Changes in Net Position
## For the Year Ended June 30, 2017

| **Operating revenues:** | **Wastewater** | **Reclamation** | **Total** |
|---|---|---|---|
| Charges for services to other government agencies | $ 4,484,696 | $ 2,474,980 | $ 6,959,676 |
| Contributions from the City of Encinitas | 1,866,496 | - | 1,866,496 |
| Contributions from the City of Solana Beach | 1,512,511 | - | 1,512,511 |
| **Total operating revenues** | 7,863,703 | 2,474,980 | 10,338,683 |
| **Operating expenses:** | | | |
| Personnel costs | 2,320,363 | 524,566 | 2,844,929 |
| Depreciation and amortization | 1,487,519 | 617,367 | 2,104,886 |
| Utilities | 565,315 | 277,749 | 843,064 |
| Contracted services | 420,239 | 135,405 | 555,644 |
| Supplies | 153,245 | 105,305 | 258,550 |
| Disposal services | 193,563 | - | 193,563 |
| Miscellaneous | 85,457 | 85,373 | 170,830 |
| Repair parts expense | 90,233 | 15,912 | 106,145 |
| Permit/purveyor fees | 49,930 | 25,099 | 75,029 |
| Insurance | 39,253 | 17,472 | 56,725 |
| **Total operating expenses** | 5,405,117 | 1,804,248 | 7,209,365 |
| **Operating income** | 2,458,586 | 670,732 | 3,129,318 |
| **Non-operating revenues (expenses):** | | | |
| Investment income | 199,103 | 10,197 | 209,300 |
| State grants | - | 327,385 | 327,385 |
| Rental income | 26,618 | - | 26,618 |
| Loss on disposal of assets | (2,282) | - | (2,282) |
| Interest expense | (113,906) | (154,206) | (268,112) |
| Other | 55,886 | - | 55,886 |
| **Total non-operating revenues (expenses), net** | 165,419 | 183,376 | 348,795 |
| **Net income before capital contributions** | 2,624,005 | 854,108 | 3,478,113 |
| **Capital contributions:** | | | |
| Member agency assessments | 915,336 | - | 915,336 |
| **Total capital contributions** | 915,336 | - | 915,336 |
| **Change in net position** | 3,539,341 | 854,108 | 4,393,449 |
| **Net position:** | | | |
| **Beginning of year, as restated (Note 14)** | 25,431,601 | 12,419,635 | 37,851,236 |
| **End of year** | $ 28,970,942 | $ 13,273,743 | $ 42,244,685 |

# San Elijo Joint Powers Authority
## Combining Statement of Cash Flows
## For the Year Ended June 30, 2017

| | Wastewater | Reclamation | Total |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Cash receipts from customers | $ 7,863,012 | $ 2,574,942 | $ 10,437,954 |
| Cash payments to vendors and suppliers for materials and services | (1,516,419) | (690,729) | (2,207,148) |
| Cash payments to employees for services | (2,318,749) | (474,994) | (2,793,743) |
| **Net cash provided by operating activities** | 4,027,844 | 1,409,219 | 5,437,063 |
| **Cash flows from non-capital financing activities:** | | | |
| Rental and other nonoperating income | 82,504 | - | 82,504 |
| **Net cash provided by non-capital financing activities** | 82,504 | - | 82,504 |
| **Cash flows from capital and related financing activities:** | | | |
| Acquisition and construction of capital assets | (1,588,838) | (359,682) | (1,948,520) |
| Principal paid on long-term debt | (1,384,645) | (823,931) | (2,208,576) |
| Interest paid on long-term debt | (90,022) | (170,622) | (260,644) |
| Proceeds of state grants | - | 327,385 | 327,385 |
| Capital contributions | 915,336 | - | 915,336 |
| **Net cash used in capital and related financing activities** | (2,148,169) | (1,026,850) | (3,175,019) |
| **Cash flows from investing activities:** | | | |
| Proceeds from loans receivable | 1,305,000 | - | 1,305,000 |
| Proceeds from retrofit loans receivable | - | 579 | 579 |
| Investment earnings | 206,357 | 9,634 | 215,991 |
| **Net cash provided by investing activities** | 1,511,357 | 10,213 | 1,521,570 |
| **Net increase in cash and cash equivalents** | 3,473,536 | 392,582 | 3,866,118 |
| **Cash and cash equivalents:** | | | |
| **Beginning of year** | 6,480,757 | 1,097,705 | 7,578,462 |
| **End of year** | $ 9,954,293 | $ 1,490,287 | $ 11,444,580 |
| Cash and cash equivalents | $ 9,954,046 | $ 860,287 | $ 10,814,333 |
| Restricted cash and cash equivalents | 247 | 630,000 | 630,247 |
| **Total cash and cash equivalents** | $ 9,954,293 | $ 1,490,287 | $ 11,444,580 |

# San Elijo Joint Powers Authority
## Combining Statement of Cash Flows (Continued)
## For the Year Ended June 30, 2017

| | Wastewater | Reclamation | Total |
|---|---|---|---|
| **Reconciliation of operating income to net cash provided by operating activities:** | | | |
| Operating income | $ 2,458,586 | $ 670,732 | $ 3,129,318 |
| **Adjustments to reconcile operating income to net cash provided by operating activities:** | | | |
| Depreciation and amortization | 1,487,519 | 617,367 | 2,104,886 |
| **Change in assets, liabilities, deferred outflows of resources, and deferred inflows of resources:** | | | |
| Due from other governmental agencies | 81,986 | 162,181 | 244,167 |
| Prepaid items | (10,302) | 128 | (10,174) |
| Deferred outflows related to pensions | (122,601) | (25,112) | (147,713) |
| Accounts payable | 79,069 | (28,542) | 50,527 |
| Accrued liabilities | 166,698 | 81,180 | 247,878 |
| Retentions payable | 12,049 | - | 12,049 |
| Unearned revenue | (82,677) | (62,219) | (144,896) |
| Net pension liability | 383,053 | 78,457 | 461,510 |
| Net OPEB liability | 15,729 | 3,222 | 18,951 |
| Compensated absences | 18,548 | 6,003 | 24,551 |
| Deferred inflows related to pensions | (459,813) | (94,178) | (553,991) |
| **Total adjustments** | 1,569,258 | 738,487 | 2,307,745 |
| **Net cash provided by operating activities** | $ 4,027,844 | $ 1,409,219 | $ 5,437,063 |
| **Non-cash items:** | | | |
| Amortization of other assets | $ 5,098 | $ - | $ 5,098 |
| Amortization of deferred amount on refunding | 41,287 | - | 41,287 |
| **Total non-cash items** | $ 46,385 | $ - | $ 46,385 |

# San Elijo Joint Powers Authority
## Operating Budget Comparison Schedule - Wastewater
## For the Year Ended June 30, 2017
## (Unaudited)

| | Budget | Actual | Variance |
|---|---|---|---|
| **Operating revenues:** | | | |
| Charges for services to other government agencies | $ 1,622,723 | $ 4,484,696 | $ 2,861,973 |
| Contributions from the City of Encinitas | 1,767,662 | 1,866,496 | 98,834 |
| Contributions from the City of Solana Beach | 1,514,518 | 1,512,511 | (2,007) |
| **Total operating revenues** | 4,904,903 | 7,863,703 | 2,958,800 |
| **Operating expenses:** | | | |
| Personnel costs | 2,434,379 | 2,320,363 | 114,016 |
| Utilities | 609,746 | 565,315 | 44,431 |
| Contracted services | 538,002 | 420,239 | 117,763 |
| Supplies | 194,311 | 153,245 | 41,066 |
| Disposal services | 225,920 | 193,563 | 32,357 |
| Miscellaneous | 101,547 | 85,457 | 16,090 |
| Repair parts expense | 135,097 | 90,233 | 44,864 |
| Permit/purveyor fees | 59,725 | 49,930 | 9,795 |
| Insurance | 46,389 | 39,253 | 7,136 |
| Capital expense | 46,550 | - | 46,550 |
| Contingency | 139,200 | - | 139,200 |
| **Total operating expenses** | 4,530,866 | 3,917,598 | 613,268 |
| **Operating income (loss)** | $ 374,037 | $ 3,946,105 | $ 3,572,068 |

# San Elijo Joint Powers Authority
## Operating Budget Comparison Schedule - Reclamation
## For the Year Ended June 30, 2017
## (Unaudited)

| | Budget | Actual | Variance |
|---|---|---|---|
| **Operating revenues:** | | | |
| Charges for services to other government agencies | $ 2,621,001 | $ 2,474,980 | $ (146,021) |
| Contributions from the City of Encinitas | - | - | - |
| Contributions from the City of Solana Beach | - | - | - |
| **Total operating revenues** | 2,621,001 | 2,474,980 | (146,021) |
| **Operating expenses:** | | | |
| Personnel costs | 520,828 | 524,566 | (3,738) |
| Utilities | 367,406 | 277,749 | 89,657 |
| Contracted services | 305,495 | 135,405 | 170,090 |
| Supplies | 116,609 | 105,305 | 11,304 |
| Disposal services | - | - | - |
| Miscellaneous | 92,808 | 85,373 | 7,435 |
| Repair parts expense | 42,840 | 15,912 | 26,928 |
| Permit/purveyor fees | 28,000 | 25,099 | 2,901 |
| Capital expense | 4,950 | - | 4,950 |
| Insurance | 19,511 | 17,472 | 2,039 |
| **Total operating expenses** | 1,498,447 | 1,186,881 | 311,566 |
| **Operating income (loss)** | $ 1,122,554 | $ 1,288,099 | $ 165,545 |

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