

**HUMBOLDT BAY MUNICIPAL
WATER DISTRICT**

EUREKA, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Humboldt Bay Municipal Water District
Eureka, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the major fund of Humboldt Bay Municipal Water District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Humboldt Bay Municipal Water District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's Minimum Audit Requirements and Reporting Guidelines 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 our 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, we consider internal control relevant to Humboldt Bay Municipal Water District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Humboldt Bay Municipal Water District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of Humboldt Bay Municipal Water District, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-11) and the required supplementary information (page 35-37), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2017, on our consideration of Humboldt Bay Municipal Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
April 11, 2017

Humboldt Bay Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2016

The purpose of this section of the financial statements is to present management's discussion and analysis of the Humboldt Bay Municipal Water District's (District) financial performance during the fiscal year that ended on June 30, 2016. We recommend that readers review this in conjunction with the remainder of the financial statements.

INTRODUCTION AND BACKGROUND

We would first like to provide a brief overview of the District and the customers served which will provide a context for the financial statements and the discussion which follows.

The Regional Water System:

The District was formed in 1956 pursuant to the Municipal Water District Act of the California Water Code. The District completed construction of the regional water system in 1961, and service commenced to the Cities of Eureka and Arcata and two pulp mills on the Samoa Peninsula. Since the initial construction, a number of additions and improvements to the regional system have been made, and additional wholesale customers have joined the regional system. Since inception, this regional water system has efficiently and reliably served the municipal and industrial water needs of customers in the Humboldt Bay region.

The regional water system includes the following components: R.W. Matthews Dam (which forms Ruth Lake) and the Gosselin Power House, in Trinity County; and the following facilities in Humboldt County: 1) diversion works on the Mad River northeast of Arcata capable of supplying 75 million gallons per day, 2) treatment facilities, including the Lloyd L. Hecathorn Turbidity Reduction Facility, 3) over 35 miles of pipeline infrastructure around the Humboldt Bay area to deliver water to the wholesale customers, and 4) extensive communication and control systems to operate and control the regional system including the John R. Winzler Operations and Control Center.

Customers Served and Associated Wholesale Water Contracts:

The District supplies treated domestic water to seven municipal agencies on a wholesale basis. The municipalities served by the District are the Cities of: Arcata, Blue Lake and Eureka, and the Community Services Districts of: Fieldbrook/Glendale, Humboldt, Manila and McKinleyville. Via the wholesale relationship, the District serves water to an estimated residential population of 88,000 (approximately 65% of the entire County), and to numerous businesses, industries and educational institutions.

The District provides retail water service to about 200 customers who reside outside the service territory of other water purveyors, but are located in close proximity to District facilities.

The District also has facilities to supply untreated water to customers on the Samoa Peninsula. The District was serving one wholesale industrial customer (pulp mill) until it ceased operations on October 15, 2008.

The District has long-term contracts in place with each of its seven wholesale municipal customers. These contracts have a 20-year term and will be in place through 2019 (or technically until the Safe Drinking Water State Revolving Fund (SRF) Loan Debt service to the State is paid in full shortly thereafter). The wholesale municipal customers have an opportunity to extend these contracts by up to ten years.

These contracts define the terms and conditions by which the District provides water service to its customers. The contracts specify that all operating, maintenance and capital costs associated with the regional water system are paid for by the wholesale customers. The contracts also specify the manner in which these costs are allocated *among* the wholesale customers. Furthermore, they specify that revenues received by the District, other than those associated with wholesale water sales, are credited back to the wholesale customers, and thus offset the costs that the wholesale customers otherwise pay. Examples of such revenues which are credited back to the wholesale customers include the District's share of 1% property taxes, power sales from the hydro-electric facility, interest income, revenues associated with retail water service, and other miscellaneous revenues.

Humboldt Bay Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 For the Year Ended June 30, 2016

A summary of the current cost allocation provisions of the wholesale contract is as follows:

Type of Cost	Municipal Customers' Cost Share	Industrial Customer(s) Cost Share
Debt Service for Turbidity Reduction Facility	100%	0%
Operation, Maintenance and Capital Expenditures associated with drinking water treatment facilities (i.e. facilities associated with providing safe drinking water in accordance with federal and state requirements)	100%	0%
Operation, Maintenance and Capital Expenditures associated with all other aspects of the regional water supply, pumping and distribution system (other than power for pumping water) *Change in % due to pulp mill closure.	55% increased to 100% effective April 1, 2009*	45% decreased to 0% effective April 1, 2009*
Power Costs for Pumping Water	In proportion to actual power use.	n/a

Additionally, the wholesale contracts provide that “Additions to Reserves” may be charged to the wholesale customers should the District need to replenish its General Reserve level. There were \$100,000 in charges for additions to reserves to the wholesale customers for FY 2015-16, and \$100,000 in charges for additions to reserves to the wholesale customers for FY2014-15.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements are comprised of several components: a) the Statements of Net Position, b) the Statements of Revenues, Expenses, and Changes in Net Position, and c) the Statements of Cash Flows. These financial statements present the District’s financial position on an enterprise fund basis. An enterprise fund accounts for goods or services which are provided to outside parties – in the District’s case, this is wholesale and retail water service.

BASIC FINANCIAL STATEMENTS

The financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business. These statements offer short- and long-term financial information about District activities.

The Statement of Net Position includes all of the District’s assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

Humboldt Bay Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2016

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the results of the District's operations over the past year and can be used to determine the District's general financial well-being and whether the District has recovered its costs through its water charges.

The final financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and the changes in cash resulting from operations and investments. It also provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

There may be minor rounding differences between the following tables and the financial statements.

FINANCIAL HIGHLIGHTS

- The District's net position was \$20,549,681 as of June 30, 2016, an increase of \$1,711,448 compared to June 30, 2015.
- Revenues were \$7,079,556, a decrease of \$2,744,288 from FY 2014-15.
- Expenses were \$5,368,108, a decrease of \$457,516 from FY 2014-15.

DISCUSSION AND ANALYSIS

Our analysis of the District begins on page 10 of the financial statements. The Statements of Net Position present information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. A summary of the District's Condensed Statements of Net Position is presented in Table 1 on the next page.

Humboldt Bay Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2016

TABLE 1				
CONDENSED STATEMENTS OF NET POSITION				
ASSETS	FY 2015-16	FY 2014-15	Change	
			\$	%
Current Assets	\$3,050,087	\$2,004,777	\$1,045,310	52.1%
Restricted Cash & Investments	\$3,023,699	\$3,421,185	-\$397,486	-11.6%
Land, Property & Equipment (net Accum. Depr.)	\$22,593,840	\$22,765,357	-\$171,517	-0.8%
Total Assets	\$28,667,626	\$28,191,319	\$476,307	1.7%
Deferred Outflows of Resources	\$408,002	\$261,630		
LIABILITIES				
Current Liabilities	\$1,304,111	\$1,433,582	-\$129,471	-9.0%
Unearned grant revenue	\$30,005	\$30,005	\$0	0.0%
Post-Retirement Health Benefits Obligation	\$770,816	\$691,690	\$79,126	11.4%
Net Pension Liability	\$2,002,310	\$1,969,634		
Long-term Debt	\$4,241,841	\$4,930,551	-\$688,710	-14.0%
Total Liabilities	\$8,349,083	\$9,055,462	-\$706,379	-7.8%
Deferred Inflows of Resources	\$176,864	\$559,254		
NET POSITION				
Net Investment in Capital Assets	\$17,663,262	\$17,149,715	\$513,547	3.0%
Restricted (for debt service)	\$707,178	\$707,178	\$0	0.0%
Restricted (for capital projects)	\$1,269,406	\$1,269,406	\$0	0.0%
Restricted (for credits to municipalities)	\$403,085	\$403,085	\$0	0.0%
Unrestricted	\$506,750	-\$691,151	\$1,197,901	-173.3%
TOTAL NET POSITION	\$20,549,681	\$18,838,233	\$1,711,448	9.1%

As can be seen from the table above, the net position as of June 30, 2016 was \$20,549,681, an increase of \$1,711,449 as compared to June 30, 2015. The majority of this increase is related to the grant funded construction projects.

The largest portion of the District's net position is its investment in capital assets called property and equipment (e.g., land, buildings, equipment, and water system infrastructure), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide water services to its wholesale and retail customers, and consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to satisfy these liabilities.

The Statements of Revenues, Expenses, and Changes in Net Position (page 12) present information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes, or earned but unused vacation leave).

Humboldt Bay Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2016

A summary of the District's Condensed Statements of Revenues, Expenses, and Changes in Net Position is presented in Table 2.

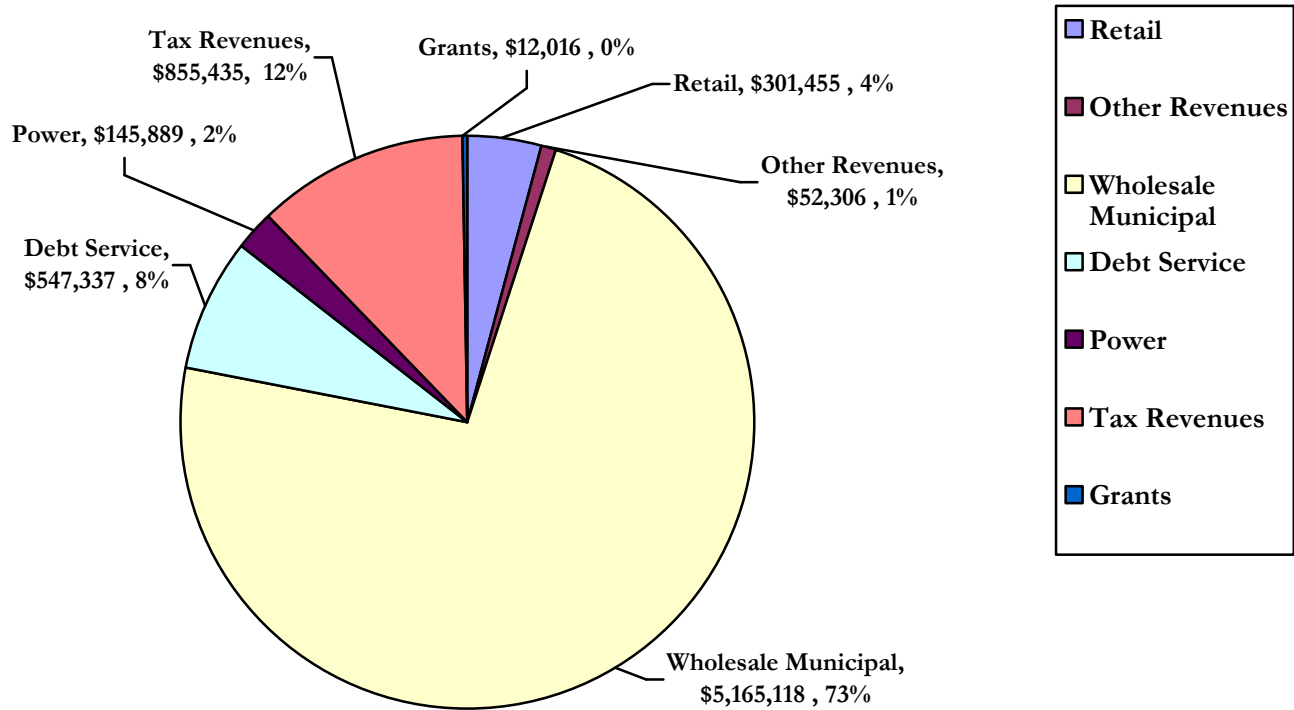
TABLE 2				
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION				
	FY 2015-16	FY 2014-15	Change	
			\$	%
REVENUES				
*Operating:				
Water Sales	\$5,466,573	\$5,119,386	\$347,187	6.8%
Power Sales	\$145,889	\$143,226	\$2,663	1.9%
SRF Debt Service Receipt	\$547,337	\$547,337	\$0	0.0%
Other Operating	\$18,753	\$17,026	\$1,727	10.1%
*Non-Operating:				
Taxes	\$855,435	\$811,219	\$44,216	5.5%
Interest Income	\$33,553	\$23,260	\$10,293	44.3%
Grant Revenues	\$12,016	\$3,162,390	-\$3,150,374	-99.6%
Other Income	\$0	\$0	\$0	0%
Total Revenues	\$7,079,556	\$9,823,844	-\$2,744,288	-27.9%
EXPENSES				
Operating expense	\$4,352,963	\$4,629,181	-\$276,218	-6.0%
Non-operating expense	\$24,459	\$26,838	-\$2,379	-8.9%
Loss on asset disposal	\$0	\$0		
Depreciation	\$1,209,226	\$1,056,242	\$152,984	14.5%
Grant expenses	\$0	\$337,671		100.0%
Less Reimbursements	-\$218,540	-\$224,308	\$5,768	-2.6%
Total Expenses	\$5,368,108	\$5,825,624	-\$457,516	-7.9%
Change in Net Position	\$1,711,448	\$3,998,220	-\$2,286,772	-57.2%
Beginning Net Position	\$18,838,233	\$14,840,013	\$3,998,220	26.9%
Ending Net Position	\$20,549,681	\$18,838,233	\$1,711,448	9.1%

While the Statements of Net Position show the changes in financial position, the Statements of Revenues, Expenses, and Changes in Net Position explain the nature and source of these changes. As shown in Table 2, the change in net position increased by \$1,711,448 compared to the prior year. The changes in revenues and expenses which contributed to this change in net position are reflected in the above line-item detail.

As a supplement to the Statements of Revenues, Expenses, and Changes in Net Position, Chart 1 presents operating and non-operating revenues earned in FY 2015-16 by category along with the proportionate share of the total revenue each category represents. The total revenues reflected in Chart 1 are \$7,079,556. The municipal customer receipts of \$547,337 for repayment of the District's SRF Loan for the Turbidity Reduction Facility, which is further described in the subsequent Long-Term Debt section and the grant funding receipts of \$12,016, are associated with repayment of long-term debt and special funding respectively and not current operations. The major fluctuations in revenues and expenses relate to the increased grant funding and related expenditures. The Power revenue was slightly higher due to increased rainfall compared to the prior year.

Humboldt Bay Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 For the Year Ended June 30, 2016

Chart 1 Revenues Received by Category for FY 2015-16



Total Revenues \$7,079,556

PROPERTY AND EQUIPMENT

The District has invested approximately \$61,600,000 in a broad range of infrastructure for the regional water system. Table 3 presents a summary of the District's property and equipment. The majority of the current year additions in the amount of \$2,373,492 is comprised of the Emergency Intertie transmission line in the amount of \$476,197. As described below in Capital Improvement Program, this project was fully funded through the Prop 50 Grant Program and construction in progress projects in the amount of \$777,425.

Humboldt Bay Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
 For the Year Ended June 30, 2016

TABLE 3
PROPERTY AND EQUIPMENT

	FY 2015-16	FY 2014-15	Change	
			\$	%
Buildings	\$1,593,110	\$1,483,244	\$109,866	7.4%
Equip - Auto/Mobile/Office/Radio/Tools	\$2,533,155	\$2,417,532	\$115,623	4.8%
Water System Infrastructure (excludes land)	\$55,063,151	\$54,312,395	\$750,756	1.4%
Total Property and Equipment	\$59,189,416	\$58,213,171	\$976,245	1.7%
Less Accumulated Depreciation	-\$38,978,980	-\$37,856,493	\$1,122,487	3.0%
Add Projects in Progress	\$1,011,432	\$1,036,707	-\$25,275	-2.4%
Total Property & Equipment (net of depr)	\$21,221,868	\$21,393,385	-\$171,517	-0.8%

LONG-TERM DEBT

At June 30, 2016 year-end, the District has two long-term notes payable outstanding for a total amount of \$4,930,551. The first has an outstanding balance of \$4,105,026. This is the SRF Loan used to finance the Turbidity Reduction Facility. The SRF loan carries no interest (i.e. zero percent), and has a repayment term of 20 years. The initial SRF loan balance at its inception in 2004 was \$10,946,736. The debt service for the SRF Loan is paid in its entirety by the District's wholesale municipal customers in accordance with the wholesale water contracts (via Price Factor 1).

The second note payable has an outstanding balance of \$825,525. This is the Water System Improvement Loan or US Bank loan, used to finance various improvements to the water system consisting generally of well and pump improvements, and pipeline replacement. The US Bank loan carries interest at 2.63%, and has a repayment term of 10 years. The District makes semi-annual payments of \$81,094 including principal and interest to US Bank, for a resulting annual payment of \$162,188. The Water System Improvement loan balance at its inception in 2011 was \$1,418,000. The debt service for the Water System Improvement Loan is paid in its entirety by the District's wholesale municipal customers in accordance with the wholesale water contracts (via Price Factor 2).

DESCRIPTION OF CURRENTLY KNOWN FACTS OR CONDITIONS THAT MAY HAVE A SIGNIFICANT EFFECT ON THE FINANCIAL POSITION OR RESULTS OF OPERATIONS

Pulp Mill Closure

On October 15, 2008 (FY2008-09), the District's only industrial customer, Evergreen Pulp, shut down its pulp mill for "three to six months". The mill did not reopen and was sold on February 6, 2009 to Samoa Acquisition Corporation (SAC). The District had an interim agreement with the new owner until April 30, 2009. The District shut off the water supply to the mill on May 1, 2009.

The mill had been paying 45% of the District's operation, maintenance, and capital expenditure costs associated with all aspects of the regional water supply except for the drinking water treatment facilities. For 2008-09, the mill's contribution to the cost of the regional water system would have been approximately \$1.1 million.

Under the terms of the District's Ordinance 16 contracts, costs were shifted to the remaining wholesale customers (seven municipal agencies) beginning April 1, 2009. Whereas the municipalities had previously been paying 55% of costs, they now pay 100%.

Humboldt Bay Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2016

Under the terms of the District's Ordinance 16 contracts, costs were shifted to the remaining wholesale customers (seven municipal agencies) beginning April 1, 2009. Whereas the municipalities had previously been paying 55% of costs, they now pay 100%.

SAC did try, under the name Freshwater Tissue, to raise financing to restart the mill but announced on September 28, 2010, that it was unsuccessful and was trying to sell off assets. The mill is not expected to reopen in the foreseeable future. This industrial property was recently acquired by the Humboldt Bay Harbor Recreation and Conservation District for development.

In order to replace the revenue that was being generated by its former industrial customers, the District has been conducting a comprehensive water resources planning effort to identify possible new customers or uses for the water that is now available. Any water use options that are deemed feasible will likely take several years to implement.

Capital Improvement Program

The District is implementing a substantial capital improvement program (CIP) given the age of its infrastructure (50 years). Mechanisms to finance CIP projects include pursuing grant funding, issuing new long-term debt, and working with wholesale municipal customers to increase revenues through water rates.

The first completed large infrastructure project undertaken was the Ranney Collector #3 Rehabilitation project. For financing purposes this was bundled with the Techite Pipeline Replacement project. The funding plan for these combined projects consists of the following components:

Collected from District's wholesale customers for the Ranney project	\$ 322,000
Utilization of the District's Drinking Water Facilities Plant Reserve	630,000
US Bank Loan (10 year loan at 2.63%)	1,418,000
FEMA Grant for Techite project	<u>2,795,000*</u>
Total Projected Project Costs and Financing	<u>\$ 5,165,000</u>

*For the Techite Replacement project, the District received the grant agreement for a Federal Emergency Management Agency (FEMA) grant in the amount of \$2,795,000. The project was put out to bid and a contractor was selected prior to the June 30, 2014 fiscal year end. The contractor commenced the construction project in August 2014 and completed it prior to June 30, 2015.

Another large project is replacement of the District's pipeline that crosses over the Mad River to serve the City of Blue Lake and the Fieldbrook-Glendale Community Services District. The project cost is estimated to be \$3,500,000 in current dollars. For this project, the District has been awarded a State of California Department of Water Resources Proposition 84 grant via the North Coast Integrated Regional Water Management Plan in the amount of \$700,000. Similar to the Techite Replacement project, the District has received a commitment for a Federal Emergency Management Agency (FEMA) Hazard Mitigation grant in the amount of \$2,668,750. FEMA has initiated its National Environmental Policy Act (NEPA) process for this project. Once this is completed, the District anticipates receiving the FEMA grant agreement. Any shortfall will be funded by the District through financing and/or water rates.

The Emergency Intertie project is a multijurisdictional project that the District is leading. The project partners are: HBMWD, the City of Arcata, the City of Eureka and the McKinleyville Community Services District. This project installs new water transmission interconnections between the agencies to allow for water supply redundancy in the event of a supply line disruption. A State of California Department of Public Health Proposition 50 grant in the amount of \$3,648,550 has been received for this project. The Grant Agreement was executed at the beginning of the 2013/14 fiscal year. The project was put out to bid and a contractor was selected.

Humboldt Bay Municipal Water District
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended June 30, 2016

The construction began prior to the end of the 2013/14 fiscal year and was completed prior to June 30, 2015. The assets created via this construction project were transferred to the respective agencies via the terms and conditions of the Special Facilities Agreement dated May 3, 2013.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Finance Manager or General Manager at Humboldt Bay Municipal Water District, 828 Seventh Street, Eureka, California, 95502.

BASIC FINANCIAL STATEMENTS

Humboldt Bay Municipal Water District

STATEMENT OF NET POSITION

June 30, 2016

ASSETS

Current assets:

Cash and investments	\$ 2,252,121
Restricted cash and investments:	3,023,699
Total cash and investments	<u>5,275,820</u>
Accounts receivable	573,195
Interest receivable	20,985
Grants Receivable	27,953
Inventory	74,637
Prepaid items	101,196
Total current assets	<u>6,073,786</u>

Capital assets:

Non-depreciable assets	2,383,404
Depreciable assets (net of depreciation)	<u>20,210,436</u>
Total assets	<u>28,667,626</u>

DEFERRED OUTFLOWS

Deferred outflows related to pensions	<u>408,002</u>
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LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	205,694
Compensated absences	273,853
Accrued expenses	135,827
Unearned income	30,005
Total current liabilities	<u>645,379</u>

Long-term liabilities:

Due within one year	688,737
Due in more than one year	4,241,841
Other post-employment benefits	770,816
Net pension liability	<u>2,002,310</u>
Total long-term liabilities	<u>7,703,704</u>
Total liabilities	<u>8,349,083</u>

DEFERRED INFLOWS

Deferred inflows related to pensions	<u>176,864</u>
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Net position:

Invested in capital assets, net of related debt	17,663,262
Restricted for debt service	707,178
Restricted for capital projects	1,269,406
Restricted for credits to municipalities	403,085
Unrestricted	506,750
Total net position	<u>\$ 20,549,681</u>

The accompanying notes are an integral part of these financial statements.

Humboldt Bay Municipal Water District
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
For the Year Ended June 30, 2016

Operating revenues:	
Municipal customer water sales	\$ 5,165,118
Retail customer water sales	301,455
Debt service receipts	547,337
Total water sales	<u>6,013,910</u>
Power sales	145,889
Other operating revenues	18,753
Total operating revenues	<u>6,178,552</u>
Operating expenses:	
Salaries and benefits	2,744,008
Employee retirement contributions	(108,581)
Power and pumping	648,184
Engineering	272,303
Materials and supplies	69,677
Repairs and maintenance	144,612
Auto and travel expenses	46,380
Insurance	99,675
Legal and accounting fees	42,696
Professional assistance	80,866
Tax and license	117,262
Training	39,004
Bad debt	233
Other operating expenses	156,644
Depreciation	<u>1,209,226</u>
Total operating expenses before reimbursements	<u>5,562,189</u>
Reimbursements for services and costs	<u>(218,540)</u>
Total operating expenses	<u>5,343,649</u>
Operating income (loss)	<u>834,903</u>
Non-operating revenues (expenses):	
Tax revenues	855,435
Grant revenues	12,016
Interest revenues	33,553
Grant expenses	-
Interest expense	<u>(24,459)</u>
Total non-operating revenues (expenses)	<u>876,545</u>
Changes in net position	1,711,448
Net position, beginning of period	<u>18,838,233</u>
Net position, end of period	<u>\$ 20,549,681</u>

The accompanying notes are an integral part of these financial statements.

Humboldt Bay Municipal Water District
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016

Cash flows from operating activities:	
Receipts from customers	\$ 6,378,675
Payments to suppliers	(1,836,346)
Payments to employees	<u>(2,852,589)</u>
Net cash provided (used) by operating activities	<u>1,689,740</u>
Cash flows from non-capital financing activities:	
Taxes and assessments	<u>855,435</u>
Net cash provided (used) by non-capital financing activities	<u>855,435</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,037,707)
Receipts of capital grants	502,995
Interest expense	(24,607)
Payment on current portion of bonds	<u>(685,065)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,244,384)</u>
Cash flows from investing activities:	
Interest earned	<u>17,976</u>
Net cash provided by investing activities	<u>17,976</u>
Net increase (decrease) in cash and cash equivalents	1,318,767
Cash and cash equivalents - beginning of period	<u>3,957,053</u>
Cash and cash equivalents - end of period	<u>\$ 5,275,820</u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:	
Operating income (loss)	\$ 834,903
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation	1,209,226
Changes in certain assets and liabilities:	
Accounts receivable	200,123
Inventory	(2,961)
Prepaid items	(1,620)
Accounts payable	(57,567)
Accrued expenses	(10,009)
Compensated absences	1,916
Deferred outflows	(146,372)
Deferred inflows	(382,390)
Net pension liability	32,676
Other post employment benefits	11,815
Unearned income	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ 1,689,740</u>

The accompanying notes are an integral part of these financial statements.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Humboldt Bay Municipal Water District (the District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

This summary of significant accounting policies of the District is presented to assist in understanding the financial statements. The financial statements and notes are representations of management, who is responsible for their integrity and objectivity. These accounting policies have been consistently applied in the preparation of the financial statements.

A. Reporting Entity

The District has no oversight responsibility over any other governmental unit and is not included in any other governmental “reporting entity” as defined in GASB pronouncements. The Board of Directors are elected by the public and have the decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

B. Nature of Activities

The District is a state-authorized special purpose government established to provide water services to the Humboldt Bay region. It was formed in 1956 under provisions of the Municipal Water District Act of 1911. The District provides retail water service to residential customers, and it contracts with seven municipal agencies for the purchase of treated domestic water for resale.

C. Basis of Presentation

The financial statements required by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 63, include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

The District utilizes an enterprise fund, which is a proprietary fund type. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds account for goods or services that are provided to outside parties. The District has elected to use the reporting model for special-purpose governments engaged only in business-type activities. In accordance with the business-type activities reporting model, the District prepares its statement of cash flows using the direct method.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured. Basis of accounting refers to the timing of the recognition of revenues and expenditures in the accounts and their reporting in the financial statements.

Proprietary fund types are accounted for on an economic resources measurement focus using the accrual basis of accounting in which revenues are recognized when earned and expenses are recognized when the related liabilities are incurred.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Measurement Focus/Basis of Accounting (concluded)

The proprietary fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's practice to first use specifically designated restricted resources before using unrestricted resources.

E. Allowance for Doubtful Accounts

The District evaluates the collectability of water sales and grants receivable in order to determine the allowance for doubtful accounts. As of June 30, 2016, the District determined that the various receivables are fully collectible and recorded \$0 for the allowance for doubtful accounts. Based on historical experience, the District does not expect amounts to become uncollectible, however if they are, they will be charged to operations as a bad debt expense. The impact of any bad debt expense recorded in the future is expected to be immaterial to the financial statements.

F. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

G. Fair Value Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs are used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs - other than quoted prices included within level 1 - that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The District's investment policy has been to invest idle cash in demand deposits, time deposits and the Humboldt County Treasurer's Investment Pool. Investments are reported at fair value. The County Pool is operated in accordance with applicable state laws and regulations, and the reported value of the District's investment in the County Pool is the same as the fair value of the pool shares.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Fair Value Hierarchy (concluded)

State statutes authorize the District to invest in obligations of the U.S. Treasury, Federal Agency obligations, commercial paper, the LAIF and other instruments. The Loan and Installment Agreement underlying the issuance of Loans and Installment Purchase Agreements authorize permitted investments consistent with the State of California Government Code but broader in scope than the District's usual investment practices.

The District accounts for cash equivalents in the Humboldt County Treasurer's Investment Pool and the LAIF Pool at cost. Management considers the difference between book value and fair value immaterial. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

H. Capital Assets

Capital assets are defined as assets with an initial cost of \$1,000 and projects costing \$5,000 or more. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Assets that individually may be below threshold amounts are capitalized if collectively they are above the threshold amount.

Additions to and replacements of capital assets are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction, when significant. The costs of betterments or repairs that extend the life of a capital asset are added to capital accounts.

Depreciation of all exhaustible capital assets is charged as an expense against operations, with accumulated depreciation reflected in the statement of net position. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Dam, pipeline, buildings, water collection system, South Bay extension, Fieldbrook extension, Blue Lake extension, Lindley extension, Essex diversion, hydro plant penstock and piping	40 Years
Pump station and related facilities	10 - 40 Years
Hydro plant turbine and generators	20 Years
Tools and shop equipment, office equipment, pipeline connections, and hydro switchgear and controls	10 Years
Radio communication system and computers	5 Years
Vehicles	5 - 10 Years
Supplemental construction - except valves	40 Years
Supplemental construction - valves	20 Years

I. Estimates

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

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Investments

The District's adopted investment policy seeks to promote the safety of principal, provide adequate liquidity for operational needs, earn market rates of return on investments consistent with liquidity needs and investment quality, and conform to legal requirements.

The District follows the authority governing investments for municipal governments set forth in the California Government Code, Sections 53601 through 53686. The Code authorizes the District to invest in obligations of the U.S. Treasury in the form of notes, bonds, bills or instruments for which the faith and credit of the United States are pledged for payment. The District may also invest in registered treasury notes, or bonds of the State of California and commercial paper of "prime" quality as defined by California Government Code Section 53635 and as rated by Standard and Poors Corporation or Moody's Commercial Paper Record.

The District's investment policy states that the District will structure its portfolio to meet cash requirements for ongoing operations thereby avoiding the need to sell securities prior to their maturity. The policy does not place formal limits on investment maturities.

K. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, the District recognizes deferred outflows and inflows of resources.

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period.

L. Net Position

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

Net investment in capital assets - consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets.

Restricted net position - net position is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by creditors, grantors, laws, or regulations. The District has restricted net position for debt service, advance charges related to capital projects per contracts, and for revenue credits to the seven municipal customers per Ordinance 16 (see Notes 6, 9, 10 and 11).

Unrestricted net position - consists of all other net position that does not meet the definition of "net investment in capital assets" or "restricted net position" and is available for general use by the District. A net position deficit of \$691,150 exists at June 30, 2016. See Note 16 for further discussion.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

M. Property Taxes

The lien date for secured property taxes is March 1 of each year. Taxes are levied as of July 1 on all secured real property and are due and payable November 1 and February 1 of the following fiscal year. Humboldt County is responsible for assessing, collecting, and distributing property taxes in accordance with enabling legislation.

Since the passage of California Proposition 13, beginning with fiscal year 1978-79, taxes are based either on a 1% rate applied to the 1975-76 assessed value of the property, or on 1% of the sales price of the property on sales transactions and construction which occur after the 1975-76 assessment. Assessed values on properties (exclusive of increases related to sales transactions and improvements) can rise at a maximum of 2% per year. The amount collected by the County is distributed in accordance with State law to the various public agencies. Therefore, the District does not levy a specific tax rate but receives a share of the property tax revenue based on State formula. The District's tax rate is \$1.00/\$100 of assessed value, the maximum allowable under Proposition 13.

During fiscal year 1993-94, an alternate method of property tax allocation (the "Teeter Plan") was adopted by the County. Under this plan, the county auditor/controller distributes 100 percent of current secured taxes billed to taxing entities during the current year, whether collected or not. The District recognizes property tax revenues (including tax increment revenues) to the extent of each year's tax allocation received or to be received within 60 days after the end of each fiscal year.

N. Restricted Assets

Assets that are restricted as to withdrawal or use for other than current operations, for the liquidation of long-term debts or for expenditure in the acquisition or construction of capital assets are separately reported as restricted assets and not as current assets.

O. Pension

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

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
 For the Year Ended June 30, 2016

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENT

Cash, cash equivalents, and investment at June 30, 2016, consist of the following:

Cash:	
Demand accounts	\$ 455,837
State Treasurer's Pool (LAIF)	1,600
County investment pool	<u>1,794,684</u>
Total	<u>\$ 2,252,121</u>
Restricted cash:	
U.S. Bank demand accounts	\$ 707,646
County investment pool	<u>2,316,053</u>
Total	<u>\$ 3,023,699</u>

The U.S. Bank commercial checking account balances are carried at cost. One of the U.S. Bank money market accounts is restricted for servicing the Safe Drinking Water State Revolving Fund (SRF) loan (see Note 9). The District transfers \$136,834 quarterly from a fund in the Humboldt County Treasurer's Investment Pool to the restricted U.S. Bank money market account. U.S. Bank, acting as a fiscal agent, administers the semiannual loan payments for a total annual payment of \$547,337.

Restricted cash and cash equivalents include restrictions imposed by creditors, grantors, laws, regulations, and designations imposed by the Board of Directors (see Note 10). Restricted cash and cash equivalents in the Humboldt County Treasurer's Investment Pool are as follows:

Restricted for debt service	\$ 48,190
Restricted for municipalities	431,103
Restricted for capital projects	<u>1,836,760</u>
Total restricted cash in County Pool	<u>\$ 2,316,053</u>

Custodial Credit Risk - Deposits:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of a counter-party (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits.

Under California Law this collateral is held in the District's name and places the District ahead of general creditors of the institution. The District has waived collateral requirements for the portion of deposits covered by federal depository insurance.

All monies in the Humboldt County Treasurer's Pool are not evidenced by specific securities; and therefore are not subject to custodial credit risk. The average number of days to maturity for investments in the County Pool is 644 days.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENT (concluded)

The following is a summary of the fair value hierarchy of the fair value of investments of the District as of June 30, 2016:

<u>Investment Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Exempt</u>	<u>Total</u>
Demand Accounts	\$ -	\$ -	\$ 1,163,483	\$ 1,163,483
State Treasurer's Pool (LAIF)	-	1,600	-	1,600
County investment pool	-	<u>4,110,737</u>	-	<u>4,110,737</u>
Total Investments	<u>\$ -</u>	<u>\$ 4,112,337</u>	<u>\$ 1,163,483</u>	<u>\$ 5,275,820</u>

Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The Humboldt County Treasurer's Pool and LAIF are classified in Level 2 of the fair value hierarchy, is valued using quoted prices for a non-active market portfolio at fiscal year-end. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the custodian bank.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable from customers at June 30, 2016, consist of the following:

Resale customers	
City of Eureka	\$ 212,295
City of Arcata	87,172
Humboldt CSD	71,043
McKinleyville CSD	71,090
Others	18,027
Subtotal resale customers	459,627
Maintenance and operations charges to others	64,648
Domestic customers and others	34,531
Hydroelectric sales, Pacific Gas and Electric	<u>14,388</u>
Total accounts receivable	<u>\$ 573,194</u>

NOTE 4 - LAND

Land at June 30, 2016, consists of land and land rights of the General District, South Bay Water extension, and District No. U-1. There were no changes in land during the year ended June 30, 2016.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 5 - PROPERTY AND EQUIPMENT

Changes in property and equipment during the year ended June 30, 2016, are as follows:

	Balance at 07/01/15	Additions	Deletions	Balance at 6/30/16
<u>Governmental Activities</u>				
Capital assets, not being depreciated:				
Land	\$ 1,371,972	\$ -	\$ -	\$ 1,371,972
Construction in progress	<u>1,036,707</u>	<u>251,285</u>	<u>276,560</u>	<u>1,011,432</u>
Total capital assets, not being depreciated	<u>2,408,679</u>	<u>251,285</u>	<u>276,560</u>	<u>2,383,404</u>
Capital assets, being depreciated:				
Buildings and improvements	1,483,244	109,866	-	1,593,110
Equipment	2,417,532	192,362	76,739	2,533,155
Water System Infrastructure	38,396,588	734,486	10,000	39,121,074
Ruth Lake Infrastructure	10,560,911	26,268	-	10,587,179
District No. U -1	<u>5,354,898</u>	<u>-</u>	<u>-</u>	<u>5,354,898</u>
Total capital assets, being depreciated	<u>58,213,173</u>	<u>1,062,982</u>	<u>86,739</u>	<u>59,189,416</u>
Total accumulated depreciation	(37,856,493)	(1,209,226)	(86,739)	(38,978,980)
Total capital assets being depr. - net	<u>20,356,680</u>	<u>(146,244)</u>	<u>-</u>	<u>20,210,436</u>
Capital assets - net	<u>\$ 22,765,359</u>	<u>\$ 105,041</u>	<u>\$ 276,560</u>	<u>\$ 22,593,840</u>

Total depreciation expense charged to operations for the year ended June 30, 2016, was \$1,209,226. All capital assets are depreciable except land and projects in progress.

NOTE 6 - COMPENSATED ABSENCES

Compensated absences consist of estimates of future obligations relating to accumulated unpaid vacation and sick leave compensation. There are predetermined limits to the amount of vacation and sick leave hours that can be accumulated by an employee. The District will pay the employee at the end of each calendar year for any excess vacation time accumulated that year.

Upon retirement, an employee will receive compensation for unused accumulated vacation. The employee also has the option under the District's California Public Employees' Retirement System (CalPERS) contract to convert 100% of the unused sick leave accrual to CalPERS service credit, or to receive a 35% cash payment and convert the remainder to CalPERS service credit. However, if an employee with less than ten years of employment terminates or retires, the unused accumulated sick leave is not eligible for compensation or CalPERS service credit conversion. Compensated absences payable as of June 30, 2016 was \$273,853.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 7 - LONG-TERM NOTES PAYABLE

The following is a summary of changes in long-term debt as of June 30, 2016:

	Balance at 07/01/15	Increase	Decrease	Balance at 6/30/16	Current
California Safe Drinking Water					
State Revolving Fund (SRF) Note	\$ 4,652,363	\$ -	\$ 547,337	\$ 4,105,026	\$ 273,667
Water System Improvement Loan	963,280	-	137,755	825,525	141,401
Compensated absences	271,937	1,916	-	273,853	-
Other post-employment benefits	759,001	11,815	-	770,816	-
Total	<u>\$ 6,646,581</u>	<u>\$ 13,731</u>	<u>\$ 685,092</u>	<u>\$ 5,975,220</u>	<u>\$ 415,068</u>

California Safe Drinking Water State Revolving Fund (SRF) Note

The District has a loan with the California Department of Water Resources (acting on behalf of the California Department of Health Services) under the provisions of the California SRF Law of 1997. The proceeds of the SRF loan were used to finance the construction of the Turbidity Reduction Facility. The loan, which matures in January of 2024, carries no interest and has a repayment term of 20 years. The District pays \$547,337 annually in two semiannual payments. A U.S. Bank money market account is restricted for servicing the loan. The debt service for the loan is paid in its entirety by the District's municipal customers. Future debt service on the loan is:

Year Ending June 30	Principal	Interest	Total
2017	\$ 273,667	\$ -	\$ 273,667
2018	547,337	-	547,337
2019	547,337	-	547,337
2020	547,337	-	547,337
2021	547,337	-	547,337
2022	547,337	-	547,337
2023	547,337	-	547,337
2024	547,337	-	547,337
Total	<u>\$ 4,105,026</u>	<u>\$ -</u>	<u>\$ 4,105,026</u>

Water System Improvement Loan

The District has a loan, which matures in September of 2021, with Municipal Finance Corporation (MFC) to finance various capital improvements to the water supply system. Under the ten-year installment sales agreement, the District is obligated to pay semiannual installment payments of principal and interest at the rate of 2.63% per annum on the unpaid principal balance. MFC assigned its rights to receive and enforce the payments under the agreement to US Bank. The debt service for the loan is paid in its entirety by the District's municipal water customers. Future debt service on the loan is:

Year Ending June 30	Principal	Interest	Total
2017	\$ 141,401	\$ 20,787	\$ 162,188
2018	145,145	17,043	162,188
2019	148,987	13,201	162,188
2020	152,931	9,257	162,188
2021	156,981	6,222	163,203
2022	80,041	1,053	81,094
Total	<u>\$ 825,486</u>	<u>\$ 67,563</u>	<u>\$ 893,049</u>

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 7 - LONG-TERM NOTES PAYABLE (concluded)

Net position restricted for debt service for the years ended June 30, 2016 was \$707,178.

NOTE 8 - NET POSITION

Restrictions on net position are imposed by creditors, grantors, laws, and regulations. Unrestricted net position as of June 30, 2016, has a deficit balance due to the impact of GASB 68 (See Note 16).

NOTE 9 - WHOLESALE WATER CONTRACTS

The District is primarily a wholesale water provider. The District's Ordinance 16 as amended in June 2006 establishes rates, charges, and conditions of service for water sales to the municipal water customers. The costs of constructing, operating, maintaining, repairing and replacing the water treatment facilities and maintaining reasonable reserves are allocated among the municipal customers.

The District has long-term contracts with its wholesale customers that govern wholesale rates, charges and conditions of service. The District has twenty-year contracts, effective July 1, 1999, in place with the following wholesale municipal customers:

- City of Arcata
- City of Blue Lake
- City of Eureka
- Fieldbrook-Glendale Community Services District
- Humboldt Community Services District
- McKinleyville Community Services District
- Manila Community Services District

All operating, maintenance, and capital costs associated with the regional water system are paid for by the wholesale customers. The rate structure is based on "Price Factor" formulas which allocate, in proportionate shares, the operating, maintenance and capital costs of the District to each of the wholesale customers. Municipal customers are billed monthly for water usage based on their share of such operating, maintenance and capital costs.

Revenues received by the District, other than those associated with wholesale water sales, are credited back to the wholesale municipal customers. These revenues include property tax revenues, power sales, interest income, retail water service revenues and other miscellaneous revenues. The revenue credit is applied ratably on a monthly basis during the course of the year.

The seven wholesale municipal customers are initially billed based on the District's approved budget, with the costs spread out evenly across the fiscal year. At year-end, the budgeted costs are reconciled with actual costs. Any underpayments or overpayments are divided into even monthly installments and applied to the municipalities' billing during the course of the following year.

The District had a contract with Evergreen Pulp, Inc., to supply wholesale industrial and retail water which was cancelled when the mill was sold in February 2009. The mill had been charged based on actual costs as incurred. The mill had been paying 45% of the District's operation, maintenance, and capital expenditure costs associated with all aspects of the regional water supply except for the drinking water treatment. Beginning April 1, 2009, costs were shifted to the seven municipal customers. Whereas the municipalities had previously been paying 55% of costs, they currently pay 100%.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 9 - WHOLESALE WATER CONTRACTS (concluded)

During the fiscal year ended June 30, 2009, the contracts with the municipal customers were amended to provide greater specificity regarding remedies in the event of inaccuracies due to metering equipment. The contracts were also amended to allow the District to retain \$393,358 in overpayments due to the municipal customers as of June 30, 2009. The overpayments were placed into the Municipal Supplemental Reserve Account dedicated for municipal customer purposes and benefit. The account is normally designated as a partially restricted reserve per Board of Director's policy; however, due to the deficit balance of unrestricted net assets, designations are not appropriate for the year ended June 30, 2016 (see Note 10). As of June 30, 2016, the reserve account had a balance of \$417,270.

As of June 30, 2016, the municipal customers overpaid \$611,648, for operating, maintenance, and capital costs. Overpayments in the amount of \$395,581 were credited to the municipalities' 2015/2016 billings. Overpayments in the amount of \$611,648 will be credited to the municipalities' 2016/2017 billings. As of June 30, 2016, there were additional credits to the municipalities in the amount of \$13,833. At June 30, 2016, total net position restricted for credits to the municipalities was \$403,085.

The municipal water customers may be charged in advance in order to fund future capital projects. For the year ended June 30, 2016, the municipal customers had balances in advance charges of \$2,252,764 for improvement projects.

Additions to the District's general reserves may be charged to the wholesale customers should the District need to replenish its general reserve level. For the year ended June 30, 2016, the District charged the wholesale customers \$100,000.

NOTE 10 - DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are (until paid or made available to the employee or other beneficiary) placed in trust for the benefit of the participants or their beneficiaries, and are not the assets of the District.

Effective January 1, 2013, the District contributes \$25 per month for each employee who is not currently participating in the deferred compensation program. The District will provide a contribution match of up to \$50 per month for employees who are participating in the deferred compensation program.

The District has a fiduciary responsibility to the participating employees in administration of the plan, but is not liable for losses arising from depreciation or other declines in the value of the plan assets.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
 For the Year Ended June 30, 2016

NOTE 11 - PENSION PLAN

A. General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost Sharing Multiple-Employer Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The District sponsors two miscellaneous rate plans. Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information. These reports can be obtained at CalPERS website (www.calpers.ca.gov).

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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

	Miscellaneous 1 st Tier	Miscellaneous PEPRA
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 – 63	52 - 67
Monthly benefits, as a % of annual salary	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.3%
Required employer contribution rates	8.030%	6.237%

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability and side fund, if applicable. The dollar amounts are billed on a monthly basis. The District's required contribution for the unfunded liability was \$123,952 for the fiscal year ended June 30, 2016

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 11 - PENSION PLAN (continued)

A. General Information about the Pension Plan (concluded)

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 Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The District's contributions to the plan for the year ended June 30, 2016 were \$386,697.

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

As of June 30, 2016, the District reported a net pension liability for its proportionate share of the net pension liability of the Plan of \$2,002,310.

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

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

<u>District's Miscellaneous Plan</u>	<u>Miscellaneous</u>
Proportion - June 30, 2014	0.0788%
Proportion - June 30, 2015	0.0730%
Change – Increase (Decrease)	(0.0058)%

For the year ended June 30, 2016, the District recognized pension expense of \$152,494. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	\$ 386,697	\$ -
Changes in assumptions	-	153,893
Differences between actual and expected experience	16,266	(143,361)
Net differences between projected and actual earnings on plan investments	-	77,148
Change in employer's proportion	-	60,021
Net differences between the employer's actual contributions and the employer's proportionate share of contributions	5,039	29,163
Total	\$ 408,002	\$ 176,864

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 11 - PENSION PLAN (continued)

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

\$386,697 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:

<u>Year Ended June 30</u>	
2016	\$ (241,767)
2017	(244,064)
2018	(303,161)
2019	837,355
2020	-
Thereafter	-

C. Actuarial Assumptions

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

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2% ⁽¹⁾
Investment Rate of Return	7.65% ⁽²⁾
Mortality	Derived from CalPERS Membership Data for all Funds ⁽³⁾

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) 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.

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

Change of Assumptions

GASB Statement No. 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expenses but without reduction for pension plan administrative expenses. The discount rate of 7.5 percent used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65 percent used for the June 30, 2015 measurement date is without reduction of pension plan administrative expenses.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 11 - PENSION PLAN (continued)

D. Discount Rate

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 the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the test revealed the assets would not run out. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected PERF cash flows. Using historical returns on 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.

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

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10⁽¹⁾</u>	<u>Real Return Years 11+⁽²⁾</u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	<u>2.0%</u>	(0.55)%	(1.05)%
Total	<u>100.00%</u>		

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

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

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

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

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
 For the Year Ended June 30, 2016

NOTE 11 - PENSION PLAN (concluded)

D. Discount Rate (concluded)

	<u>Miscellaneous</u>
1% Decrease	6.65%
Net Pension Liability	\$25,952,558
Current Discount Rate	7.65%
Net Pension Liability	\$16,582,007
1% Increase	8.65%
Net Pension Liability	\$8,871,091

E. Pension Plan Fiduciary Net Position

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

F. Payable to Pension Plan

The District did not have an outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS

A. Plan Description

The District provides a defined benefit healthcare plan (the "Retiree Health Plan"). The District shoulders a certain percentage of eligible retirees' actual costs subject to a maximum of \$640 per month.

The duration of retiree benefits provided by the District depends on the date an employee was hired by the District. For all full-time regular employees hired by the District prior to July 8, 2004, the District will pay the medical costs premium during the life of a retiree subject to a maximum of \$640 per month.

For all full-time regular employees hired by the District after July 8, 2004, the District will pay 100% of the medical cost premium during retirement, subject to a maximum of \$640 per month, for a maximum of 10 years or until the retiree reaches age 65, whichever comes first.

All health plan participants are on a group plan rate. In addition to the District's actual costs, the District is required to recognize an implicit subsidy since the District allows its retirees to participate in the plan. The difference between the group plan rate that the retiree must pay and the actual or estimated individually rated premium for the retiree is the implicit rate subsidy (because the retiree continues to participate in the group plan, an implicit rate subsidy exists on the part of the employer).

B. Funding Policy

The District's Board of Directors will not be funding the plan in the current year but will follow a pay-as-you-go approach. The Board will review the funding requirements and policy annually.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 12 - OTHER POSTEMPLOYMENT BENEFITS (continued)

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years.

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

	2016
Annual Required Contributions	\$ 132,292
Interest on Net OPEB Obligation	22,770
Adjustment to Annual Required Contribution	(29,041)
Annual OPEB cost (expense)	126,021
Implicit subsidy contributions	(42,844)
Contributions made	(71,362)
Increase in Net OPEB Obligation/(Asset)	11,815
Net OPEB Obligation – beginning of year	759,001
Net OPEB Obligation – end of year	\$ 770,816

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three fiscal years is as follows:

Fiscal Year Ended	Annual OPEB Cost	Amount Contributed	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/14	\$ 228,416	\$ 59,475	26%	\$ 624,218
6/30/15	\$ 228,813	\$ 61,814	27%	\$ 759,001
6/30/16	\$ 126,021	\$ 71,362	56%	\$ 770,816

D. Funding Status and Funding Progress

As of July 1, 2015, the actuarial accrued liability (AAL) for benefits was \$2,299,470, all of which was unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS (continued)

E. Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 65, or at the first subsequent year in which the member would qualify for benefits.

Mortality - Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics website (www.cdc.gov). The calculation of OPEB liability for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.

Turnover - The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific age-based turnover data provided in Table 1 in paragraph 35 of GASB Statement No. 45. In addition the expected future working lifetimes of employees were determined using Table 2 in paragraph 35c of GASB Statement No. 45.

Healthcare cost trend rate - Healthcare cost trend rates were selected based on CalPERS Circular Letter No. 600-006-12. The ultimate trend rate was 3%.

Health insurance premiums - 2015 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid. An employee is assumed to continue with the same medical plan upon retirement. If an employee waived medical coverage, then such waiver is assumed to continue into retirement.

Medicare Coordination - Medicare was assumed as the primary payer for current and future retirees at age 65.

Payroll increase - Changes in the payroll for current employees are expected to increase at the rate of approximately 2% annually.

Discount rate - The calculation uses an annual discount rate of 3%. This is based on the assumed long-term return on plan assets or employer assets.

Actuarial cost method - The entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a period of 30 years.

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS (concluded)

F. Plan for Funding

On an ongoing basis, the District will be reviewing its assumptions, comparing them against actual experience and recalculating the needed funding with the goal of paying for post-employment benefits out of interest earned on designated funds.

The schedule of funding progress, presented as required supplemental information following the notes to these financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to actuarial liabilities for benefits.

NOTE 13 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of loss is variable as to the deductible amount per occurrence. Liability losses up to \$1 million and property losses up to \$50,000, are covered through a pooled self-insurance program, administered by the Association of California Water Agencies - Joint Powers Insurance Authority (ACWA-JPIA). Through participation in ACWA-JPIA, the District is covered by commercial liability insurance for losses in excess of \$1 million, up to an insured maximum of \$60 million. Separately, the District insures for property damages in excess of the pooled limit of \$1 million, with commercial insurance for losses up to \$100 million.

The ACWA-JPIA began operations on October 1, 1979, and has continued without interruption since that time. The District is one of approximately two hundred and eighty-eight districts participating in the pool. The responsibilities of the ACWA-JPIA and the District are as follows:

Responsibilities of the ACWA-JPIA:

- a. Provide insurance coverage as necessary.
- b. Assist members in obtaining insurance coverage for risks not included within the coverage of the ACWA-JPIA.
- c. Assist each member's designated risk manager with the implementation risk management function.
- d. Provide loss prevention and safety consulting services to members as required.
- e. Provide claims adjusting and subrogation services for claims covered by the ACWA-JPIA's joint protection programs.
- f. Provide loss analysis and control in order to identify high exposure operations and to evaluate proper levels of self-retention and deductibles.
- g. Review members' contracts to determine sufficiency of indemnity and insurance provisions when requested.
- h. Conduct risk management audits to review the participation of each member in the programs.
- i. The ACWA-JPIA shall have such other responsibilities as deemed necessary by the Board of Directors and Executive Committee (of the ACWA-JPIA).

Humboldt Bay Municipal Water District
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 13 - RISK MANAGEMENT (concluded)

Responsibilities of the District:

- a. The governing board of each member district shall appoint a representative and at least one alternate representative to the Board of Directors.
- b. Each member shall appoint an employee of the member to be responsible for the risk management function within that member and serve as a liaison between the member and the ACWA-JPIA as to risk management.
- c. Each member shall maintain an active safety officer and/or committee, and shall consider all recommendations of the ACWA-JPIA concerning unsafe practices.
- d. Each member shall maintain its own set of records, including a loss log, in all categories of risk covered by the joint protection program to insure accuracy of the ACWA-JPIA's loss reporting system.
- e. Each member shall pay its deposit premium and premium adjustments within thirty days of the invoice date.
- f. Each member shall provide the ACWA-JPIA with such other information or assistance as may be necessary for the ACWA-JPIA to carry out the joint protection programs.
- g. Each member shall cooperate with and assist the ACWA-JPIA, and any insurer of the ACWA-JPIA, in all matters and covered claims and will comply with all bylaws, rules and regulations adopted by the Board of Directors and Executive Committee of the ACWA-JPIA.

There have been no significant reductions in insurance coverage from the prior year. The amounts of settlements have not exceeded the insurance coverage in each of the past three fiscal years.

NOTE 14 - CONTINGENCIES

The District receives, on a cost-reimbursement basis, federal and state funds to carry out a variety of projects and studies. As a recipient of federal and state funds, the District is responsible for maintaining an internal control structure that ensures compliance with all laws and regulations related to these programs. All federal and state program expenditures are subject to financial and compliance audits by the awarding agency. Such audits could result in claims against the District for disallowed costs or noncompliance with contract provisions. No provision has been made for any liabilities which may arise from the noncompliance or questioned costs since the amounts, if any, cannot be determined at this time.

On January 27, 2016, CalOES issued a draft audit letter questioning \$378,404 of costs relating to Federal Hazard Mitigation Grant Program funds for the Techite project. The District submitted that other District matching costs will qualify for funding under terms of the grant if the \$378,404 of questioned costs is ultimately determined to be disallowed. On April 5, 2016, CALOES accepted the District's Corrective Action Plan dated March 31, 2016 and considered the matter closed and no further action is necessary.

NOTE 15 - SUBSEQUENT EVENTS

The District's management has evaluated subsequent events through the date the financial statements were available to be issued, and concluded that no additional adjustments to the financial statements or disclosures are required for the year ending June 30, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

Humboldt Bay Municipal Water District
PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
 Required Supplementary Information
 Last 10 Years*

	<u>June 30, 2015</u>	<u>June 30, 2016</u>
Proportion of the net pension liability	0.0788%	0.0730%
Proportionate share of the net pension liability	\$ 1,969,634	\$ 2,002,310
Covered payroll	\$ 1,692,541	\$ 1,746,146
Proportionate share of the net pension liability as a percentage of covered payroll	116.37%	114.67%
Plan fiduciary net position as a percentage of the total pension liability	80.51%	80.90%

NOTES TO SCHEDULE:

Changes in Benefit Terms- None

Changes in Assumptions

The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

* Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Humboldt Bay Municipal Water District
SCHEDULE OF CONTRIBUTIONS
 Required Supplementary Information
 Last 10 Years*

	June 30, 2015	June 30, 2016
Actuarially required contribution (actuarially determined)	\$ 229,022	\$ 253,791
Contributions in relation to the actuarially determined contributions	229,022	253,791
Contribution deficiency (excess)	\$ -	\$ -
Covered payroll	\$ 1,692,541	\$ 1,746,146
Contributions as a percentage of covered-employee payroll	13.53%	14.53%

* Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Humboldt Bay Municipal Water District
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS
 Required Supplementary Information
 Last 10 Years*

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) Entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL as a % of Payroll ([a-b]/c)
July 1, 2009	\$ 1,994,945	\$ -0-	\$ 1,994,945	0%	\$ 1,520,676	131.2%
July 1, 2012	\$ 2,413,787	\$ -0-	\$ 2,413,787	0%	\$ 1,567,071	154.0%
July 1, 2015	\$ 2,299,470	\$ -0-	\$ 2,299,470	0%	\$ 1,930,233	119.1%

NOTE 1 - SCHEDULE DESCRIPTION

Humboldt Bay Municipal Water District (the District) sponsors a defined benefit postemployment healthcare plan (the Plan) to subsidize healthcare benefits to eligible retired employees. The above schedule presents information about the funded status for the Plan's two actuarial valuations.

NOTE 2 - ACTUARIAL VALUATIONS

Actuarial valuations of an on-going plan involve estimates of the value of the reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contribution of the District are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Information regarding the actuarial methods and assumptions for the July 1, 2015 actuarial valuation can be found in Note 14 of the basic financial statements.

OTHER SUPPLEMENTARY INFORMATION

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

Board of Directors
Humboldt Bay Municipal Water District
Eureka, California

We have audited the basic financial statements, as listed in the table of contents, of Humboldt Bay Municipal Water District as of and for the year ended June 30, 2016, and have issued our report thereon dated April 11, 2017. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Humboldt Bay Municipal Water District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Humboldt Bay Municipal Water District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Humboldt Bay Municipal Water District's internal control over financial reporting.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
April 11, 2017