

**SOUTH BAY IRRIGATION DISTRICT**

**BASIC FINANCIAL STATEMENTS**

**Year Ended June 30, 2017**

For the Year Ended June 30, 2017

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Board of Directors  
South Bay Irrigation District  
Chula Vista, California

## **Independent Auditor's Report**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the South Bay Irrigation District (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the South Bay Irrigation District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

The financial statements of the South Bay Irrigation District for the year ended June 30, 2016 were audited by other auditors whose report dated October 5, 2016 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* 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 October 12, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.



Irvine, California  
October 12, 2017

**SOUTH BAY IRRIGATION DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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This section of the District's annual financial report presents management's analysis of the District's financial performance during the year ended June 30, 2017. Please read in conjunction with the financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- The District's net position decreased by \$30,283 or 3.6 percent to fund operating expenditures.
- The District's costs of operations increased by \$10,673 or 43.3 percent mostly due to a decrease in licenses, fees and public information.
- Non-operating revenues increased due to an increase in investment income of \$1,613 or a 47 percent increase.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The annual financial report consists of three parts: Management's Discussion and Analysis, Financial Statements, and Supplementary Information. The District currently does not have any Supplementary Information its required to disclose. The Financial Statements section also includes notes that discuss information in the financial statements with more detail.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are comprised of the following: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Net Position, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements.

The *Statement of Net Position* presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the four 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 weakening.

The *Statement of Revenues, Expenses and Changes in Net Position* presents 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 only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* presents information on cash receipts and payments for the fiscal year. The *Notes to the Basic Financial Statements* provide additional information that is essential to a full understanding of the data supplied in each of the specific financial statements listed above.

**SOUTH BAY IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION**

**Condensed Statements of Net Position  
In Thousands of Dollars**

	<b>2017</b>	<b>2016</b>
Assets		
Current Assets	\$815.2	\$847.3
Total Assets	815.2	847.3
Liabilities		
Current Liabilities	1.6	3.4
Total Liabilities	1.6	3.4
Net Position		
Unrestricted	813.6	843.9
Total Net Position	\$813.6	\$843.9

Overall, net position decreased by approximately \$30,283 in fiscal year 2016-17. This decrease is due to the use of Current Assets used to fund operations. The District does not have operating revenues and relies on cash reserves and interest income for operating expenses.

**Condensed Statements of Revenues, Expenses and Changes in Net Position  
In Thousands of Dollars**

	<b>2017</b>	<b>2016</b>
Operating Revenues	\$ -	\$ -
Non-operating Revenues	5.0	3.4
Total Revenues	5.0	3.4
Operating Expense	35.3	24.6
Total Expense	35.3	24.6
Change in Net Position	(30.3)	(21.2)
Beginning Net Position	843.9	865.1
Ending Net Position	\$843.9	\$843.9

**SOUTH BAY IRRIGATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**FINANCIAL ANALYSIS AND CONDENSED FINANCIAL INFORMATION (Continued)**

While the Statement of Net Position shows the change in financial position, the Statement of Revenues, Expenses and Changes in Net Position provides answers to the nature and source of these changes.

Total revenues for the District were \$5,048 or \$1,613 more than the previous year. This change was primarily due to an increase in rates of return on the District's investments as a result of improved market conditions. Operating expenses were \$10,673 higher due to the 2016 election fees for three members of the Board of Directors up for re-election.

**LONG-TERM DEBT**

At June 30, 2017 the District had no outstanding debt.

**CONDITIONS AFFECTING CURRENT FINANCIAL POSITION**

Management is unaware of any other conditions which could have a significant impact on the District's current financial position or operating results.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the South Bay Irrigation District's finances for the Board of Directors, taxpayers, creditors, and other interested parties. Questions concerning any of the information provided in the report or requests for additional information should be addressed to the District's Treasurer, 505 Garrett Ave., Chula Vista, CA 91910 or (619) 420-1413.

**SOUTH BAY IRRIGATION DISTRICT**

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## STATEMENT OF NET POSITION

June 30, 2017

(with prior year comparative totals)

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
Current Assets:		
Cash and cash equivalents	\$ 813,337	\$ 846,118
Accrued interest receivable	1,866	1,138
	<hr/>	<hr/>
Total Current Assets	815,203	847,256
	<hr/>	<hr/>
Total Assets	815,203	847,256
	<hr/>	<hr/>
 <b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	1,253	2,867
Accrued Liabilities	352	508
	<hr/>	<hr/>
Total Current Assets	1,605	3,375
	<hr/>	<hr/>
 <b>NET POSITION</b>		
Unrestricted	\$ 813,598	\$ 843,881
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See accompanying notes to basic financial statements.

**SOUTH BAY IRRIGATION DISTRICT****STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**For the year ended June 30, 2017  
(with prior year comparative totals)

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>	<u>\$ -</u>	<u>\$ -</u>
Total Operating Revenues	<u>-</u>	<u>-</u>
<b>OPERATING EXPENSES</b>		
Audit and accounting	2,150	3,550
Board secretary and treasurer services	4,080	4,080
Conferences and meetings	209	2,420
Directors' fees	3,900	5,500
Legal fees and costs	11,489	7,508
Licenses, fees, notices and public information	12,770	684
Membership fees and dues	160	150
Office supplies and expenses	61	150
Payroll expenses	298	423
Telephone	214	193
Total Operating Expenses	<u>35,331</u>	<u>24,658</u>
Operating Income (Loss)	<u>(35,331)</u>	<u>(24,658)</u>
<b>NON-OPERATING REVENUES</b>		
Investment income	<u>5,048</u>	<u>3,435</u>
Total Non-Operating Revenue	<u>5,048</u>	<u>3,435</u>
Change in Net Position	(30,283)	(21,223)
Net Position at Beginning of Year	<u>843,881</u>	<u>865,104</u>
Net Position at End of Year	<u>\$ 813,598</u>	<u>\$ 843,881</u>

See accompanying notes to basic financial statements.

**SOUTH BAY IRRIGATION DISTRICT**

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STATEMENT OF CASH FLOWS  
For the year ended June 30, 2017  
(with prior year comparative totals)

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash payments for operating goods and services	\$ (37,101)	\$ (23,228)
Net Cash and Cash Equivalents Used by Operating Activities	<u>(37,101)</u>	<u>(23,228)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received on investments	4,320	2,907
Net Cash and Cash Equivalents Provided by Investing Activities	<u>4,320</u>	<u>2,907</u>
Increase (Decrease) in Cash and Cash Equivalents	(32,781)	(20,321)
Cash and Cash Equivalents, Beginning of Year	<u>846,118</u>	<u>866,439</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 813,337</u></u>	<u><u>\$ 846,118</u></u>
<b>Reconciliation of operating income (loss) to net cash flows provided (used) by operating activities:</b>		
Operating Loss	\$ (35,331)	\$ (24,658)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Increase (decrease) in accounts payable	<u>(1,770)</u>	<u>1,430</u>
Net Cash and Cash Equivalents Used by Operating Activities	<u><u>\$ (37,101)</u></u>	<u><u>\$ (23,228)</u></u>

There were no noncash capital, financing and investing activities.

See accompanying notes to basic financial statements.

**Note 1. Description of Organization and Significant Accounting Policies*****Nature of Organization***

South Bay Irrigation District (“District”) is located in the southwestern portion of San Diego County, south of the main portion of the City of San Diego and east of San Diego Bay. It includes the western portion of the City of Chula Vista and an adjacent unincorporated territory. The District was formed in 1951. In 1952, it became a member agency of the San Diego County Water Authority which, in turn, is a member of the Metropolitan Water District of Southern California (MWD). In 1972, the District and the City of National City created Sweetwater Authority (“Authority”) under a “Joint Powers Agreement” for the purpose of owning, operating, managing, maintaining and improving the water system serving the City of National City, the City of Chula Vista and certain adjacent unincorporated portions of San Diego County. All of the South Bay Irrigation District board members are also board members of the Sweetwater Authority.

***Reporting Entity***

The District has defined its reporting entity in accordance with the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards. These standards provide guidance for determining which governmental activities; organizations and functions should be included in the reporting entity and how information about them should be presented. The basic criterion for inclusion of a governmental unit in a governmental reporting entity are: (1) financial interdependency, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations, and (5) accountability for fiscal matters.

The scope of this report extends exclusively to the financial information of South Bay Irrigation District. The Governing Board of the District has no oversight responsibility over any other governmental unit or agency. As such, the Board's governing authority, designation of management, ability to significantly influence operation, and accountability for fiscal matters extend only to the affairs of the District.

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting. Under the economic measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the District is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting financial reporting purposes.

**Note 1. Description of Organization and Significant Accounting Policies (Continued)*****Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)***

The Net Position of the District is classified into three components: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. These classifications are defined as follows:

**Net investment in Capital Assets**

This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes or borrowing that are attributable to the acquisition of the asset, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets.

**Restricted Net Position**

This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

**Unrestricted Net Position**

This component of net position consists of net position that does not meet the definition of “net investment in capital assets” or “restricted net position”.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues are those revenues that are generated by participation in the Sweetwater Joint Power Authority while operating expenses pertain directly to the furnishing of those services. Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of participation in the Sweetwater Joint Power Authority.

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

***Deferred Outflows/Inflows of Resource***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District does not have any type of these items as of June 30, 2017.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any type of these items as of June 30, 2017.

**Note 1. Description of Organization and Significant Accounting Policies (Continued)*****Statement of Cash Flows***

For purposes of reporting the statement of cash flows, the District considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

***Investments***

Investments are reported at fair value in the financial statements. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported at fair value based on the fair value per share of the pool's underlying portfolio.

***Revenue***

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and the producing and delivering of goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are from participation in the Sweetwater Joint Power Authority. Operating expenses for the District include administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

***Use of Estimates***

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

***Fair Value Measurements***

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**Note 1. Description of Organization and Significant Accounting Policies (Continued)*****Fair Value Measurements (Continued)***

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

The asset's or liability's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The determination of what constitutes observable requires judgment by the District's management. District management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market.

The categorization of an investment or liability within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to District management's perceived risk of that investment or liability.

When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy. When quoted prices in active markets are not available, fair values are based on evaluated prices received by District management.

***Comparative Financial Statements***

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which selected financial data was derived. The Authority has reclassified certain prior year information to conform with current year presentations.

**Note 2. Cash and Investments**

Cash and investments are classified in the accompanying financial statements as of June 30, 2017 as follows:

Statement of net position:

Current assets	
Cash and cash equivalents	\$813,337
Total cash and investments	<u>\$813,337</u>

Cash and investments as of June 30, 2017 consist of the following:

Deposits with financial institutions	\$ 17,315
Investments – Local Agency Investment Fund	796,022
Total cash and investments, at fair value	<u>\$813,337</u>

***Investments Authorized by the District's Investment Policy***

The table below identifies the investment types that are authorized by the District's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. & Local Agency Securities	5 years	70%	None
U.S. Treasury Obligations	5 years	None	None
Banker's Acceptances	180 days	20%	None
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	2 years	30%	None
Bank Demands	N/A	5%	None
Repurchase Agreements	1 year	20%	None
Money Market Mutual Funds	N/A	20%	None
Local Agency Investment Fund (LAIF)	N/A	**	None
Managed Pools	N/A	None	20%

\*\*Maximum investment in LAIF is \$65 million per California Government Code.

**Note 2. Cash and Investments (Continued)*****Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations are provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2017.

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More than 60 Months</u>
Local Agency Investment Fund	\$796,022	\$796,022	-	-	-
<b>Total</b>	<b>\$796,022</b>	<b>\$796,022</b>	<b>-</b>	<b>-</b>	<b>-</b>

***Credit Risk***

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the District's Investment Policy, and the actual rating as of June 30, 2017 for each investment type.

The District's investments and the actual rating as of the year ended June 30, 2017 for each investment type are as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
Local Agency Investment Fund	\$796,022	N/A	-	-	-	\$796,022
<b>Total</b>	<b>\$796,022</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>\$796,022</b>

***Concentration of Credit Risk***

The investment policy of the District contains certain limitations on the amount that can be invested in any one issuer and as stipulated by the California Government Code. At June 30, 2017 there were no investments in any one issuer that represented 5% or more of the District's total investments.

**Note 2. Cash and Investments (Continued)*****Custodial Credit Risk***

Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the District and are held by either the counter-party or the counter-party's trust department or agent but not in the District's name.

All cash is entirely insured or collateralized. The California Government Code requires California banks and savings and loans associations to secure District's deposits by pledging government securities, which equal at least 110% of the District's deposits. California law also permits financial institutions to secure the District's deposits by the pledging of first trust deed mortgage notes in excess of 150% of the District's deposits. The District may waive collateral requirements for deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000.

All of the District's investments are held in the name of the District with the District's custodial bank or by the District's counterparty's trust department.

***Investment in State Investment Pool***

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