PERRIS

PUBLIC UTILITY AUTHORITY

FINANCIAL STATEMENTS

Year Ended June 30, 2016

Perris Public Utility Authority
Financial Statements
Year Ended June 30, 2016

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TEAMAN, RAMIREZ & SMITH, INC.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Perris Public Utility Authority
Perris, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Perris Public Utility Authority (the "Authority"), a component unit of the City of Perris, California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority'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 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. 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 Authority'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 Authority'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 financial position of the Authority, as of June 30, 2016, and the changes in financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Richard A. Teaman, CPA • David M. Ramirez, CPA • Javier H. Carrillo, CPA • Bryan P. Daugherty, CPA • Joshua J. Calhoun, CPA
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Emphasis of Matters

Going Concern

The accompanying financial statements have been prepared assuming that the Perris Public Utility Authority will continue as a going concern. As discussed in Note 9 to the financial statements, the Authority has a deficit in net position. This condition raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 9. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Other Matters

Required Supplementary Information

Management has omitted *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the required supplementary information on pages 20-21 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 January 24, 2017, on our consideration of the City of Perris'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 Authority's internal control over financial reporting and compliance.

Teaman Ramirez & Smith, Inc.

Riverside, California
January 24, 2017

Perris Public Utility Authority
Statement of Net Position
June 30, 2016

ASSETS	
Current Assets:	
Cash	$ 142,480
Accounts Receivable	244,502
Noncurrent Assets:	
Land, Not Being Depreciated	300,564
Capital Assets, Net of Depreciation	8,676,559
Total Assets	9,364,105
DEFERRED OUTFLOWS OF RESOURCES	
Pension Related Items	19,318
Total Deferred Outflows of Resources	19,318
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities	320,467
Compensated Absences Payable - Current Portion	2,394
Loans Payable from City of Perris - Current Portion	195,988
Deposits	88,434
Noncurrent Liabilities:	
Advance from City of Perris	561,097
Compensated Absences Payable	12,581
Loans Payable from City of Perris	5,291,671
Net Pension Liability	79,463
Notes Payable	4,410,000
Total Liabilities	10,962,095
DEFERRED INFLOWS OF RESOURCES	
Pension Related Items	10,760
Total Deferred Inflows of Resources	10,760
NET POSITION	
Unrestricted	(1,589,432)
Total Net Position (Deficit)	$ (1,589,432)

The accompanying notes are an integral part of this statement.

Perris Public Utility Authority
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016

OPERATING REVENUES	
Charges for Services	$ 874,279
Total Operating Revenues	874,279
OPERATING EXPENSES	
Maintenance and Operations	106,350
Contractual Services	289,939
Administrative and General	93,592
Depreciation	321,080
Total Operating Expenses	810,961
Operating Income (Loss)	63,318
NON-OPERATING REVENUES (EXPENSES)	
Investment Earnings	111
Interest Expense	(341,019)
Total Non-Operating Revenues (Expenses)	(340,908)
Change in Net Position	(277,590)
Net Position (Deficit), Beginning of Year	(1,311,842)
Net Position (Deficit), End of Year	$ (1,589,432)

The accompanying notes are an integral part of this statement.

Perris Public Utility Authority
Statement of Cash Flows
Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	$ 938,448
Cash Payments for Employee Services	(82,359)
Cash Payments to Suppliers for Goods and Services	(450,736)
Net Cash Provided by (Used for) Operating Activities	405,353
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Advances from the City of Perris	146,633
Net Cash Provided by (Used for) Noncapital Financing Activities	146,633
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal Payments on Capital Debt	(195,988)
Interest Payments on Capital Debt	(341,019)
Net Cash Provided by (Used for) Noncapital Financing Activities	(537,007)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Earnings	264
Net Cash Provided by (Used for) Investing Activities	264
Net Increase (Decrease) in Cash and Cash Equivalents	15,243
Cash and Cash Equivalents - Beginning of Year	127,237
Cash and Cash Equivalents - End of Year	$ 142,480
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	
Operating Income (Loss)	$ 63,318
Adjustments to Reconcile Net Operating Income to Net Cash Provided by (Used for) Operating Activities:	
Depreciation	321,080
Changes in Assets and Liabilities:	
Accounts Receivable (Increase) Decrease	68,169
Pension Related Deferred Outflows of Resources (Increase) Decrease	(10,935)
Accounts Payable and Accrued Liabilities Increase (Decrease)	(34,079)
Compensated Absences Payable Increase (Decrease)	(40)
Deposits (Increase) Decrease	(4,000)
Net Pension Liability Increase (Decrease)	19,304
Pension Related Deferred Inflows of Resources Increase (Decrease)	(17,464)
TOTAL CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 405,353

The accompanying notes are an integral part of this statement.

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The City of Perris (City) and the Perris Redevelopment Agency (Agency) formed a Joint Powers Authority, pursuant to a Joint Exercise Powers Agreement, dated as of December 29, 1999, by and between the Agency and the City. The Perris Public Utility Authority (Utility Authority) was created to assist the City in its financing objectives by purchasing and operating the Sewer and Water systems from the City. On February 1, 2012, the Perris Redevelopment Agency was dissolved by legislation from the California State Legislature and a decision by the California Supreme Court. The City of Perris is the Successor Agency of the Perris Redevelopment Agency which oversees the remaining activities of the former Perris Redevelopment Agency.

The City and the Utility Authority entered into a "Purchase Agreement", dated March 16, 2000, to sell the Sewer and Water Enterprise from the City to the Utility Authority. The sale price was based upon the completion of an appraisal of the Enterprise, which was not completed until November 2000. On August 28, 2001, the original purchase agreement was rescinded and replaced by a new purchase agreement. This agreement was subsequently rescinded on February 12, 2002. Therefore, transactions related to the sale have not been enacted nor are they presented in these financial statements. The Utility Authority, in December 2008, purchased the McCanna Ranch Water Company.

The Authority's office and records are located at City Hall, 101 North "D" Street, Perris, California, telephone number (951) 943-6100.

The Authority is a component unit of the City of Perris and, accordingly, the financial statements of the Authority are included in the financial statements of the City of Perris. The Authority is an integral part of the reporting entity of the City of Perris. The funds of the Authority have been blended within the financial statements of the City because the City Council of the City of Perris is the governing board of the Authority and exercises control over the operations of the Authority. Only the funds of the Authority are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Perris.

B) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The Authority reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Authority is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and space rentals. The Authority's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting.* Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred regardless of the timing of related cash flows.

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Proprietary funds distinguish operating revenues and expenses from those revenues and expenses that are non-operating. Operating revenues are those revenues that are generated by utility services 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 utility services.

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

C) Cash and Cash Equivalents

In accordance with GASB Statement 9, for purposes of the Statement of Cash Flows, all cash and investments with original maturities of 90 days or less are considered cash or cash equivalents.

D) Investments

As a governmental entity other than an external investment pool in accordance with GASB 31, the Authority's investments are stated at fair value except for interest-earning investment contracts. At June 30, 2016, the Authority held no investments; therefore, no adjustment is reflected in these financial statements.

E) Uncollectible Accounts Receivable

The Authority uses the allowance method for uncollectible accounts receivable. Included in accounts receivable is an allowance for doubtful accounts of $22,432.

F) Capital Assets

Capital assets, which include land, buildings, building improvements, machinery, vehicles, and infrastructure assets, are reported in the Statement of Net Position. Capital assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Capital assets purchased in excess of $5,000, and buildings and building improvements purchased in excess of $20,000 are capitalized if they have an expected useful life of 2 years or more. Infrastructure is capitalized if cost is in excess of $50,000 and it has an expected useful life of 2 years or more. The cost of normal maintenance and repairs that do not add to the value of the asset's lives are not capitalized.

Major capital outlay for capital assets and improvements are capitalized as projects are constructed. For debt-financed capital assets, interest incurred during the construction phase is reflected in the capitalization value of the asset constructed, net of interest earned on the invested proceeds over the same period. Capital assets acquired through lease obligations are valued at the present value of future lease payments at the date acquired. Donated capital assets are valued at their estimated fair market value at the date of donation.

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F) Capital Assets - Continued

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements and in the fund financial statements of the proprietary funds. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective balance sheet. The range of lives used for depreciation purposes for each capital asset class is as follows:

Buildings	30 - 45 years
Building Improvements	7 - 30 years
Machinery	6 - 15 years
Vehicles	5 - 15 years
Infrastructure	20 - 40 years
Structures and Improvements	35 - 40 years
Reservoirs and Manholes	50 - 60 years
Boosters	25 years
Other Equipment and Services	35 - 60 years

G) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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 then. The Authority has deferred outflows related to pensions. This includes pension contributions subsequent to the measurement date of the net pension liability and other amounts (see Note 8), which are amortized by an actuarial determined period.

In addition to liabilities, the statement of financial 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 Authority has deferred inflows related to pensions. These amounts (see Note 8) are amortized by an actuarial determined period.

H) Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's California Public Employees' Retirement System (CalPERS) plans (Plans) and additional to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. The Authority's net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, represents the Authority's proportionate share of the City of Perris's related amounts. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I) Net Position

GASB No. 63 requires that the difference between assets, liabilities and deferred outflows/inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position classified as net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding principal of related debt. Restricted net position is the net position that has external constraints placed on them by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions, or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

J) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, deferred outflows/inflows of resources, liabilities, revenues, and expenses, as appropriate, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

2) CASH AND INVESTMENTS

Cash and Investments are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash	$ 142,480

Cash and investments consist of the following:

Deposits with Financial Institutions	$ 142,480

2) CASH AND INVESTMENTS - Continued

Investments Authorized by the California Government Code and the Authority's Investment Policy

The table below identifies the investment types that are authorized by the Authority's investment policy. The table also identifies certain provisions of the California Government Code (or the Authority's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity[(1)]	Maximum Percentage Of Portfolio[(2)]	Maximum Investment In One Issuer
Local Agency Bonds	5 years	10%	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40% of market value	5%
Commercial Paper	270 days	25% of market value	5%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	92 days	20%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	80%	None
Bank / Time Deposits	5 years	25%	None

(1) No more than 50% of the portfolio shall have maturity dates in excess of 2 years at any given time.
(2) Excluding amounts held by bond trustee that are not subject to California Government Code Restrictions.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rates 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.

2) CASH AND INVESTMENTS - Continued

Disclosures Relating to 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.

Concentration of Credit Risk

The investment policy of the Authority contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Government Code.

Custodial Credit Risk

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

As of June 30, 2016, no deposits of the Authority with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2016, the Authority held no investments.

3) CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Depreciated:				
Land	$ 300,564	$	$	$ 300,564
Total Capital Assets Not Depreciated	300,564	0	0	300,564
Capital Assets Being Depreciated:				
Major Equipment	396,481			396,481
Structures and Improvements	244,829			244,829
Reservoirs	1,608,367			1,608,367
Mains	5,641,405			5,641,405
Services	1,335,421			1,335,421
Meters	204,327			204,327
Hydrants	656,884			656,884
Wells	996,070			996,070
Total Capital Assets Being Depreciated	$ 11,083,784	$ 0	$ 0	$ 11,083,784
Less Accumulated Depreciation:				
Major Equipment	$ (128,857)	$ (19,824)	$	$ (148,681)
Structures and Improvements	(37,563)	(5,779)		(43,342)
Reservoirs	(232,317)	(35,741)		(268,058)
Mains	(1,047,689)	(161,184)		(1,208,873)
Services	(289,341)	(44,514)		(333,855)
Meters	(44,271)	(6,811)		(51,082)
Hydrants	(121,922)	(18,768)		(140,760)
Wells	(184,115)	(28,459)		(212,574)
Total Accumulated Depreciation	(2,086,145)	(321,080)	0	(2,407,225)
Total Capital Assets Being Depreciated, Net	8,997,639	(321,080)	0	8,676,559
Capital Assets, Net of Depreciation	$ 9,298,203	$ (321,080)	$ 0	$ 8,977,123

4) COMPENSATED ABSENCES PAYABLE

Accumulated vacation and sick leave benefits and compensatory time payable in future years when used by City employees amounted to $14,975 at June 30, 2016 with $2,394 estimated to be due within one year.

5) ADVANCE FROM CITY OF PERRIS

The City of Perris advanced the Authority $128,007, $196,474, $99,195 and $146,632 in fiscal years 2011, 2013, 2014 and 2016 respectively. These advances were used to assist the Authority with general operations. These advances are not expected to be paid within one year and bears, no interest. Currently, there is no debt service schedule available. The balance of these advances is $561,097 as of June 30, 2016.

6) LOANS PAYABLE FROM CITY OF PERRIS

On March 31, 2015, the City of Perris and the Authority entered into a loan agreement for $5,879,635. The loan is being used to provide funding for a settlement agreement with BAI Investor, LLC related to the notes payable described in Note 7. Interest on the loan accrues 6% per annum. Principal on the loan is payable in annual payments of $195,988 and a final payment of $195,983 commencing June 30, 2015 through June 30, 2044. The balance of the loan payable is $5,487,659 as of June 30, 2016.

The future debt requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	$ 195,988	$ 329,260	$ 525,248
2018	195,988	317,500	513,488
2019	195,988	305,741	501,729
2020	195,988	293,982	489,970
2021	195,988	282,222	478,210
2022-2026	979,940	1,234,723	2,214,663
2027-2031	979,940	940,741	1,920,681
2032-2036	979,940	646,759	1,626,699
2037-2041	979,940	352,777	1,332,717
2042-2044	587,959	70,555	658,514
Total	$ 5,487,659	$ 4,774,260	$ 10,261,919

7) NOTES PAYABLE

On December 12, 2008, the Perris Public Utility Authority entered into a promissory note with McCanna Ranch Water Company for $9,360,000. The note is for the acquisition of the company's capital assets and operations. Interest on the note accrues at 2% per annum. The note is secured by the issuance of bonds. The first bond is required to equal or exceed $4,950,000. The remaining $4,410,000 shall be determined by the subsequent issuance of bonds according to the promissory note covenants. On March 31, 2015, the Authority approved a settlement agreement with BAI Investor, LLC that requires two payments to settle the debt. The Authority agreed to pay BAI Investor $5,879,635 to satisfy the $4,950,000 first payment. The $4,410,000 second payment will become due when the State Water Resources Control Board issues an amendment to the Authority's permit allowing appropriation of additional water from the underground stream diversion of that water to other parts of the City. The promissory note, currently, has no debt service schedule available. The balance of the promissory note is $4,410,000 as of June 30, 2016.

8) PENSION PLAN

A) General Information about the Pension Plans

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Authority's Miscellaneous Employee Pension Plan, a cost-sharing multiple employer defined benefit pension plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Authority's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of fulltime 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	
Hire Date	Prior to January 1, 2013	On or After January 1, 2013[1]
Benefit Formulas	2.0% at 60 2.7% at 55	2% at 62
Benefit Vesting Schedule	5 Years Service	5 Years Service
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	50 - 55	52 - 67
Monthly Benefits, as a % of Eligible Compensation	2.0% - 2.7%	1.0% - 2.5%
Required Employee Contribution Rates	8%	6.25%
Required Employer Contribution Rates	10.958%	6.237%

[1] For employees hired on or after January 1, 2013, they are included in their respective PEPRA (California Public Employees' Pension Reform Act) Plans with the above provisions and benefits.

8) PENSION PLAN - Continued

A) General Information about the Pension Plans - Continued

Benefits Provided **- Continued**

	Miscellaneous 2nd Tier	
Hire Date	Prior to January 1, 2013	On or After January 1, 2013[(1)]
Benefit Formulas	2.0% at 60	2% at 62
Benefit Vesting Schedule	5 Years Service	5 Years Service
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	55 - 60	52 - 67
Monthly Benefits, as a % of Eligible Compensation	1.092% - 2.418%	1.0% - 2.5%
Required Employee Contribution Rates	1.5%	6.25%
Required Employer Contribution Rates	6.709%	6.237%

[(1)] For employees hired on or after January 1, 2013, they are included in their respective PEPRA (California Public Employees' Pension Reform Act) Plans with the above provisions and benefits.

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 Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The Authority's contributions to the Plan for the year ended June 30, 2016 were $7,878.

As of June 30, 2016, the Authority reported a net pension liability for its proportionate shares of the net pension liability of the Plan of $79,463.

The Authority's net pension liability for the Plan is measured as the proportionate share of the net pension liability (allocated percentage from the City of Perris's CalPERS actuarial valuation report). The net pension liability of the Plan 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 Authority's proportion of the net pension liability was based from an allocated percentage on a projection of the City of Perris's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

8) PENSION PLAN - Continued

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

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

	CalPERS Pension Plan
Proportion - June 30, 2014	0.00243%
Proportion - June 30, 2015	0.00290%
Change - Increase (Decrease)	0.00047%

For the year ended June 30, 2016, the Authority recognized pension expense (credit) of $(1,217). At June 30, 2016, the Authority 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 measurement date	$ 7,878	$
Differences between actual and expected experience	475	
Changes in assumptions		(4,498)
Change in employer's proportion and differences between the employer's contributions and the employer's Proportionate share of contributions	10,965	(4,007)
Net differences between projected and actual earnings on plan investments		(2,255)
Total	$ 19,318	$ (10,760)

The Authority reported $7,878 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 inflow of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2017	$ (869)
2018	(751)
2019	(563)
2020	2,863

8) PENSION PLAN - Continued

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

Actuarial Assumptions

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

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

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation
(3) The Mortality Rate Table was derived using CalPERs' membership data for all funds. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report from the CalPERS website.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period 1997 to 2011 including updates to salary increase, mortality and retirement rates. The Experience Study can be found on the CalPERS website.

Discount Rate

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

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.

8) PENSION PLAN - Continued

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

Discount Rate - Continued

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound 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 the 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 CalPERS Board effective on July 1, 2014.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
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	2.0%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

8) PENSION PLAN - Continued

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

Discount Rate - Continued

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Authority's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Authority'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:

	CalPERS Pension Plan
1% Decrease	6.65%
Net Pension Liability	$ 134,514
Current Discount Rate	7.65%
Net Pension Liability	$ 79,463
1% Increase	8.65%
Net Pension Liability	$ 34,012

Pension Plan Fiduciary Net Position

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

9) COMMITMENTS AND CONTINGENCIES

Going Concern and Management's Plan

As shown in the basic financial statements, the Authority had a negative change in net position of $(277,590), and had a negative net position of $(1,589,432) for the fiscal year ended June 30, 2016. These factors raise substantial doubt about the Authority's ability to continue as a going concern. The Authority's management settled a lawsuit with the homeowners' association and performed a rate study to determine rate charges necessary to cover operating costs of the Authority, debt service on the note with McCanna Ranch Water Company, and lost revenue recovery for prior year operations. The Authority approved the rate increase to cover each of the obligations listed and anticipates substantial recovery of the enterprises' financial health in the next five years. The ability of the Authority to continue as a going concern is dependent on the progress of the plan in subsequent fiscal years. These financial statements do not include any adjustments that might be necessary if the Authority is unable to continue as a going concern.

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REQUIRED SUPPLEMENTARY INFORMATION

Perris Public Utility Authority
Schedule of the Authority's Proportionate Share of the Net Pension Liability
CalPERS Pension Plan
Last Ten Years*
As of June 30, 2016

Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered - Employee Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.00243%	$ 60,159	$ 89,836	66.97%	86.36%
2016	0.00290%	$ 79,463	$ 85,815	92.60%	86.35%

Notes to Schedule:

Benefit Changes. In 2016, there was no benefit terms modified.

Changes in Assumptions. In 2016 there was a change in assumptions regarding the discount rate. GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50 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 expense.

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

Perris Public Utility Authority
Schedule of Contributions
CalPERS Pension Plan
Last Ten Years*
As of June 30, 2016

Fiscal Year	Contractually Required Contribution (Actuarially Determined)	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2015	$ 7,797	$ (7,797)	$ 0	$ 85,815	9.09%
2016	$ 7,878	$ (7,878)	$ 0	$ 72,332	10.89%

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