CPAs AND ADVISORS

BANNING UTILITY AUTHORITY

JUNE 30, 2016

COMPONENT UNIT FINANCIAL STATEMENTS

Focused
on YOU

BANNING UTILITY AUTHORITY
BANNING, CALIFORNIA

COMPONENT UNIT FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

BANNING UTILITY AUTHORITY

COMPONENT UNIT FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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CPAs AND ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Commission of the
Banning Utility Authority
City of Banning, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Banning Utility Authority (the Authority), a component unit of the City of Banning, 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 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

203 N. Brea Blvd., Suite 203 | Brea, CA 92821 | Phone: 714.672.0022

To the Commission of the
Banning Utility Authority
City of Banning, California

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Banning Utility Authority, a component unit of the City of Banning, California, as of June 30, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of changes in net pension liability and related ratios, and the schedule of contributions 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.

Management has omitted the 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.

Other Information

Its discussed in Note 1, the financial statements present only the Banning Utility Authority Funds and are not intended to present fairly the financial position and results of operations of the City of Banning in conformity with accounting principles general accepted in the United States.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2017 on our consideration of the Authority'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.

Lance, Soll & Lunghard, LLP

Brea, California
March 31, 2017

BANNING UTILITY AUTHORITY

STATEMENT OF NET POSITION
JUNE 30, 2016

	Water Enterprise Fund	Wastewater Enterprise Fund	Totals
Assets:			
Current:			
Pooled cash and investments	$ 14,781,245	$ 17,911,528	$ 32,692,773
Receivables:			
Accounts, net	1,640,281	497,026	2,137,307
Loans	2,307	-	2,307
Interest	22,628	25,237	47,865
Inventories	449,886	-	449,886
Restricted:			
Cash with fiscal agent	2,577,191	3,350,653	5,927,844
Total Current Assets	**19,473,538**	**21,784,444**	**41,257,982**
Noncurrent:			
Capital assets - net of accumulated depreciation	47,295,224	13,918,847	61,214,071
Total Noncurrent Assets	**47,295,224**	**13,918,847**	**61,214,071**
Total Assets	**66,768,762**	**35,703,291**	**102,472,053**
Deferred Outflows of Resources:			
Deferred charge on refunding	941,952	89,358	1,031,310
Deferred pension related items	405,636	202,259	607,895
Total Deferred Outflows of Resources	**1,347,588**	**291,617**	**1,639,205**
Liabilities:			
Current:			
Accounts payable	$ 349,163	$ 104,668	$ 453,831
Accrued liabilities	49,051	21,278	70,329
Accrued interest	178,977	62,742	241,719
Deposits payable	167,388	91,800	259,188
Compensated absences	75,913	35,967	111,880
Bonds, notes, and capital leases	455,000	432,639	887,639
Total Current Liabilities	**1,275,492**	**749,094**	**2,024,586**
Noncurrent:			
Net Pension Liability	2,429,360	1,186,858	3,616,218
Compensated absences	77,256	36,604	113,860
Bonds, notes, and capital leases	26,376,516	5,994,753	32,371,269
Total Noncurrent Liabilities	**28,883,132**	**7,218,215**	**36,101,347**
Total Liabilities	**30,158,624**	**7,967,309**	**38,125,933**
Deferred Inflows of Resources:			
Deferred pension related items	359,963	175,140	535,103
Total Deferred Inflows of Resources	**359,963**	**175,140**	**535,103**
Net Position:			
Net investment in capital assets	21,539,986	7,580,813	29,120,799
Restricted for capital projects	2,577,191	3,268,139	5,845,330
Restricted for debt service	-	82,514	82,514
Unrestricted	13,480,586	16,920,993	30,401,579
Total Net Position	**$ 37,597,763**	**$ 27,852,459**	**$ 65,450,222**

BANNING UTILITY AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION JUNE 30, 2016

	Water Enterprise Fund	Wastewater Enterprise Fund	Totals
Operating Revenues:			
Sales and service charges	$ 8,856,234	$ 3,482,411	$ 12,338,645
Miscellaneous	27,415	1,495	28,910
Total Operating Revenues	**8,883,649**	**3,483,906**	**12,367,555**
Operating Expenses:			
Salaries and benefits	1,296,607	516,155	1,812,762
Supplies and services	3,642,564	1,334,933	4,977,497
Repairs and maintenance	11,782	59,059	70,841
Bad debt expense	37,079	11,670	48,749
Depreciation expense	1,211,968	533,025	1,744,993
Total Operating Expenses	**6,200,000**	**2,454,842**	**8,654,842**
Operating Income (Loss)	2,683,649	1,029,064	3,712,713
Nonoperating Revenues (Expenses):			
Intergovernmental	2,239	1,375	3,614
Interest revenue and change in fair value of investments	56,646	64,635	121,281
Interest expense	(1,113,885)	(305,507)	(1,419,392)
Total Nonoperating Revenues (Expenses)	**(1,055,000)**	**(239,497)**	**(1,294,497)**
Income (Loss) Before Transfers	1,628,649	789,567	2,418,216
Transfers out	(488,000)	(181,000)	(669,000)
Changes in Net Position	1,140,649	608,567	1,749,216
Net Position:			
Beginning of Fiscal Year	36,457,114	27,243,892	63,701,006
End of Fiscal Year	**$ 37,597,763**	**$ 27,852,459**	**$ 65,450,222**

BANNING UTILITY AUTHORITY

STATEMENT OF CASH FLOWS
JUNE 30, 2016

	Water Enterprise Fund	Wastewater Enterprise Fund	Totals
Cash Flows from Operating Activities:			
Cash received from customers and users	$ 8,406,970	$ 3,412,822	$ 11,819,792
Cash received from interfund service provided	27,415	1,495	28,910
Cash paid to suppliers for goods and services	(3,494,416)	(1,391,549)	(4,885,965)
Cash paid to employees for services	(1,319,416)	(541,902)	(1,861,318)
Net Cash Provided by Operating Activities	**3,620,553**	**1,480,866**	**5,101,419**
Cash Flows from Non-Capital Financing Activities:			
Cash transfers out	(488,000)	(181,000)	(669,000)
Intergovernmental	2,239	1,375	3,614
Net Cash Used by Non-Capital Financing Activities	**(485,761)**	**(179,625)**	**(665,386)**
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(757,479)	(110,384)	(867,863)
Proceeds from refunding capital debt	25,365,000	-	25,365,000
Defeased capital debt	(29,165,000)	-	(29,165,000)
Principal paid on capital debt	(945,000)	(416,640)	(1,361,640)
Interest paid on capital debt	(1,098,999)	(311,109)	(1,410,108)
Deferred gain on refunding of capital debt	(941,652)	-	(941,652)
Bond premium	2,503,093	-	2,503,093
Defeased capital debt premium	(1,035,984)	-	(1,035,984)
Net Cash Used by Capital and Related Financing Activities	**(6,076,021)**	**(838,133)**	**(6,914,154)**
Cash Flows from Investing Activities:			
Issuance of notes and loans receivable	(371)	-	(371)
Interest received	52,852	58,979	111,831
Net Cash Provided by Investing Activities	**52,481**	**58,979**	**111,460**
Net Increase in Cash and Cash Equivalents	**(2,888,748)**	**522,087**	**(2,366,661)**
Cash and Cash Equivalents at Beginning of Year	20,247,184	20,740,094	40,987,278
Cash and Cash Equivalents at End of Year	**$ 17,358,436**	**$ 21,262,181**	**$ 38,620,617**
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	$ 2,683,649	$ 1,029,064	$ 3,712,713
Adjustments to reconcile operating income (loss) net cash provided (used) by operating activities:			
Depreciation	1,211,968	533,025	1,744,993
Bad debt expense	15,772	11,670	27,442
(Increase) decrease in accounts receivable	(462,626)	(81,225)	(543,851)
(Increase) decrease in inventories	(11,656)	-	(11,656)
Increase (decrease) in accounts payable	192,128	(18,010)	174,118
Increase (decrease) in accrued liabilities	16,537	6,592	23,129
Increase (decrease) in deposits payable	(2,410)	25,497	23,087
Increase (decrease) in employee salary/benefit obligations	(42,692)	(21,629)	(64,321)
Increase (decrease) in compensated absences	19,883	(4,118)	15,765
Total Adjustments	**936,904**	**451,802**	**1,388,706**
Net Cash Provided by Operating Activities	**$ 3,620,553**	**$ 1,480,866**	**$ 5,101,419**
Non-Cash Investing, Capital, and Financing Activities:			
Amortization of Unamortized Premiums/Discounts	$ 91,577	$ (4,216)	$ 87,361
Amortization of Gain/Loss on Defeasance	(14,766)	-	(14,766)

Note 1: Reporting Entity and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

The Banning Utility Authority (Authority) is a joint powers authority which was established on June 1, 2005 pursuant to a Joint Exercise of Powers Agreement between the City of Banning and the Redevelopment Agency of the City of Banning in accordance with the Joint Powers Law (Article 1 through 4 of Chapter 5, division 7, title 1 of the California Government code) for the purpose of assisting the City in the leasing of the utility system. The Banning Redevelopment Agency was dissolved as of January 31, 2012, through the Supreme Court decision on Assembly Bill 1X26. The City serves as the Successor Agency to the Redevelopment Agency of the City of Banning. The Authority's Officers are the Banning City Council. The Authority is a separate legal entity, which is financially accountable to the City of Banning. It is considered a component unit of the City and, accordingly, is included in the Comprehensive Annual Financial Report of the City of Banning.

The Authority consists of the Water Enterprise Fund and the Wastewater Enterprise Fund. These funds account for the operations of the Water and Wastewater utilities, respectively. Both funds render services on a user charge basis to residents and businesses located within the City of Banning. The City has issued its Basic Financial Statements under a separate cover and are available at City Hall.

b. Basis of Accounting/Measurement Focus

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenses, as appropriate.

Proprietary Fund financial statements include a statement of net position, a statement of revenues, expenses and changes in fund net position, and a statement of cash flows for each major proprietary fund.

Proprietary Funds are accounted for using the *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the statement of net position. The statement of revenues, expenses and changes in fund net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating Revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

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

c. Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

d. Cash, Cash Equivalents and Investments

1. Cash Management

The Authority pools cash with the City's resources of its various funds to facilitate cash management. Cash in excess of current requirements is invested and reported as investments. It is the City's intent to hold investments until maturity. However, the City may, in response to market conditions, call investments prior to maturity in order to improve the quality, liquidity or yield of the portfolio. Interest earnings are apportioned among funds based on ending accounting period cash and investments balances. More information on investments is available in the City's financial statements.

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and highly liquid investments with original maturities of three months or less at the time of acquisition.

2. Investment Valuation

Investments for the City, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Pools, require governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the fiscal year in which that change occurred. All investments have been stated at fair value.

3. State Investment Pool

The City and the Authority participates in the Local Agency Investment Fund (LAIF), an investment pool managed by the State of California. LAIF has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as a result of changes in interest rates.

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

4. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Authority considered all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All cash and investments of the proprietary fund types are pooled with the City's pooled cash and investments.

e. Unbilled Services Receivables

Utility revenue is recorded when earned. Customers are billed monthly. The estimated value of services provided, but unbilled, at year-end has been included in the accompanying financial statements.

f. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

g. Inventories and Prepaid Items

Inventory is valued at cost using the first in, first out method. Inventory in the Proprietary Funds consists of expandable supplies held for future consumption or capitalization. The cost is recorded as an expense when inventory items are consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

h. Capital Assets

The Authority's assets are capitalized at historical cost or estimated historical cost. The Authority follows the City policy, which has set the capitalization threshold for reporting capital assets at $5,000 (amount not rounded) and an estimated useful life in excess of two years. Gifts or contributions of capital assets are recorded at fair market value when received. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Assets	Years
Utility Plant	20-60

i. Deferred Outflows/Inflows of Resources

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) until then. The Authority currently has two items that qualify for reporting in this category. The first item is the deferred charge on refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item relates to the deferred outflows from changes in net pension Liability.

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

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 Authority has one item that qualifies for reporting in this category. It is the changes in net pension liability.

j. Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the pension plans fiduciary net positions and additions to/deductions from the pension plans fiduciary net positions have been determined on the same basis as they are reported by the 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.

k. New Accounting Pronouncements

During the fiscal year ended June 30, 2016, the Authority implemented the following GASB standards:

GASB Statement No. 72 – Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is 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. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statement for reporting periods beginning after June 15, 2015.

Note 2: Cash and Investments

The Authority's cash is pooled with City funds for investment purposes, with interest being allocated on the basis of the Authority's overall percentage of participation. Investment policies and associated risk factors applicable to the Authority's funds are those of the City and are included in the City's financial statements. As of June 30, 2016, cash and investments of the Authority was as follows:

Unrestricted Cash and Investments – Pooled Cash	$32,692,773
Restricted Cash and Investments:	
Cash with Fiscal Agents	5,927,844
Total Cash and Investments	$38,620,617

Note 3: Receivables

As of June 30, 2016, the Authority had $2,137,307 in accounts receivables. Receivables are reported net of allowance for doubtful accounts, which were established based on current collection experience. Allowances for doubtful accounts were $46,618 for the Water Enterprises Fund and $14,337 for the Wastewater Enterprise Fund.

Note 4: Changes in Capital Assets

Capital Assets of the Authority for the year ended June 30, 2016, consisted of the following:

	Beginning Balance	Increases	Transfers	Ending Balance
Capital assets, not being depreciated:				
Land	$ 677,827	$ -	$ -	$ 677,827
Construction-in-progress	2,186,298	746,708	(159,881)	2,773,125
Total Capital Assets, Not Being Depreciated	2,864,125	746,708	(159,881)	3,450,952
Capital assets, being depreciated:				
Utility plant	101,448,176	122,124	159,881	101,730,181
Total Capital Assets, Being Depreciated	101,448,176	122,124	159,881	101,730,181
Less accumulated depreciation:				
Utility plant	42,222,069	1,744,993	-	43,967,062
Total Accumulated Depreciation	42,222,069	1,744,993	-	43,967,062
Total Capital Assets, Being Depreciated, Net	59,226,107	(1,622,869)	159,881	57,763,119
Capital Assets, Net	$ 62,090,232	$ (876,161)	$ -	$ 61,214,071

Note 4: Changes in Capital Assets (Continued)

Depreciation expense was charged to business-type activities as follows:

Water Utilities	$ 1,211,968
Wastewater Utilities	533,025
Total Depreciation Expense	$ 1,744,993

Note 5: Long-Term Debt

The following is a summary of the changes in long-term debt for the fiscal year ended June 30, 2016:

	Balance at July 1, 2015	Defeased	Incurred	Retired	Balance at June 30, 2016	Due Within One Year
2005 Water Revenue Bond	$ 29,165,000	$ 29,165,000	$ -	$ -	$ -	$ -
2005 Wastewater Revenue Bond	5,260,000	-	-	160,000	5,100,000	165,000
2015 Water Enterprise Revenue Bond	-	-	25,365,000	945,000	24,420,000	455,000
Loans Payable	1,670,469	-	-	260,856	1,409,613	267,639
Compensated Absences	209,975	-	105,464	89,699	225,740	111,880
Total	$ 36,305,444	$ 29,165,000	$ 25,470,464	$ 1,455,555	31,155,353	$ 999,519
Less:						
Unamortized original issue premium					2,411,516	
Unamortized original issue discount					(82,221)	
Net Business-Type Activities					$ 33,484,648	

a. Compensated Absences

Accumulated vacation, sick leave, holiday and compensatory time amounted to $225,740.

b. 2005 Water Revenue Bonds

On December 8, 2005, the Banning Utility Authority issued $35,635,000 in Water Enterprise Revenue Bonds, Refunding and Improvement Projects. The Proceeds of these Bonds were utilized to refund and defease $2,475,000 in 1986 Water Utility Fund Certificates of Participation and $1,890,000 in 1989 Water Utility Fund Certificates of Participation and to provide additional funds to pay for certain capital project improvements.

The bonds consist of serial bonds maturing in the years 2006 to 2020 are payable November 1 in annual installments of $620,000 to $1,025,000. The bonds bear interest at 3.25% to 4.5%. Bonds maturing after November 1, 2020, in the amount of $23,585,000 are term bonds and bear interest at 5.25%. At June 30, 2016, the bonds were refunded by the issuance of the 2015 Water Revenue Refunding Bonds and have been removed from long term debt.

Note 5: Long-Term Debt (Continued)

c. 2005 Wastewater Revenue Bonds

On December 8, 2005, the Banning Utility Authority issued $7,100,000 in Wastewater Enterprise Revenue Bonds, Refunding and improvement projects. The Proceeds of these Bonds were utilized to refund and defease $1,895,000 in 1989 Wastewater Utility Fund Certificates of Participation and to provide additional funds to pay for certain capital project improvements.

As a result, the 1989 Wastewater Utility Fund Certificates of Participation are considered to be defeased and the liability for those bonds has been removed from long-term debt. The advance refunding resulted in a decrease in the Authority's debt service payments over the next 14 years of approximately $1,550,638. The economic loss (difference between the present values of the debt service payments on the old and new debt) amounts to approximately $404,306.

The bonds consist of serial bonds maturing in the years 2006 to 2020 are payable November 1 in annual installments of $135,000 to $265,000. The bonds bear interest at 3.25% to 4.5%. Bonds maturing between November 1, 2021 and November 1, 2025, in the amount of $1,100,000 are term bonds and bear interest at 4.5%. Bonds maturing between November 1, 2026 and November 1, 2035, in the amount of $3,105,000 are term bonds and bear interest at 4.625%. The outstanding principal balance at June 30, 2016 amounted to $5,100,000.

The total debt service payment requirements with respect to the above bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	$ 165,000	$ 226,430	$ 391,430
2018	170,000	219,606	389,606
2019	180,000	212,494	392,494
2020	185,000	204,966	389,966
2021	195,000	197,128	392,128
2022-2026	1,100,000	846,281	1,946,281
2027-2031	1,380,000	564,250	1,944,250
2032-2036	1,725,000	206,391	1,931,391
Total	$ 5,100,000	$ 2,677,546	$ 7,777,546

Note 5: Long-Term Debt (Continued)

d. Loan Payable - California Water Resource Control Board

On March 17, 1999, the City entered into a loan contract with the California Water Resource Control Board (Board). The loan was to provide the City with assistance for the Wastewater treatment facility upgrade project. The loan amount was $4,658,883 and is subject to a service charge of 2.6% per annum. The loan is to be repaid within 20 years through 20 equal annual installments of principal and service charges. The outstanding loan balance at June 30, 2016, was $1,409,613. The loan is recorded in the BUA Wastewater Utility Enterprise Fund.

Year Ending June 30,	Principal	Service Charge	Total
2017	$ 267,639	$ 36,650	$ 304,289
2018	274,597	29,691	304,288
2019	281,737	22,552	304,289
2020	289,063	15,227	304,290
2021	296,577	7,711	304,288
Total	$ 1,409,613	$ 111,831	$ 1,521,444

e. Loan Payable - 2015 Water Enterprise Revenue Bonds

On August 19, 2015, the Banning Utility Authority issued $25,365,000 in Water Enterprise Revenue Bonds, Refunding and Improvement Projects. The proceeds of the bonds, together with other money being made available by the Authority, will be used to (i) finance certain capital improvements to the Water Enterprise; (ii) refund a portion of the Authority's $35,635,000 Water Enterprise Revenue Bonds, Refunding and Improvement Projects, 2005 Series, currently outstanding in the aggregate principal amount of $29,165,000; and (iii) pay costs of issuance of the Bonds. As a result, the refunding bonds defeased the liability of the 2005 Water Revenue Bonds, which have been removed from long-term debt. The refunding resulted in an economic gain of $9,756,559. The 2015 Water Enterprise Revenue Bonds bear interest at rates ranging from 2.00% to 5.00%. Interest is payable semi-annually on May 1 and November 1. The balance outstanding as of June 30, 2016 of the debt service payments are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	$ 455,000	$ 1,069,313	$ 1,524,313
2018	730,000	1,053,813	1,783,813
2019	745,000	1,027,963	1,772,963
2020	970,000	988,813	1,958,813
2021	1,020,000	939,063	1,959,063
2021 - 2026	5,935,000	3,854,438	9,789,438
2026 - 2031	7,450,000	2,326,597	9,776,597
2031 - 2036	7,115,000	675,534	7,790,534
Total	$ 24,420,000	$ 11,935,534	$ 36,355,534

Note 6: Insurance

The Authority is covered under the City of Banning's insurance policies. Therefore, the limitation and self-insured retentions applicable to the City also apply to the Authority.

Note 7: Operating Lease

In December 2005, the Authority entered into an operating lease with the City of Banning for the use of the City of Banning's water and wastewater systems. The lease agreement states that an initial payment of $17,000,000 be paid to the City of Banning, with additional annual installments equal to the total surplus revenues and other funds pledged. The lease agreement is for a term of 55 years and the amount paid to the City of Banning over that time cannot exceed the fair value of the water and wastewater systems. In 2005-2006, the Authority paid the City of Banning the initial payment of $17,000,000. The Authority made a payment of $651,000 during the fiscal year ending June 30, 2016.

Note 8: City Employees Retirement Plan (Defined Benefit Pension Plan)

a. Miscellaneous Plan

Plan Description

All qualified permanent and probationary employees of the Authority are eligible to participate in the City's Miscellaneous Plan, agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. 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.

Note 8: City Employees Retirement Plan (Defined Benefit Pension Plan) (Continued)

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

Miscellaneous Plan		
	Prior to	On or after
Hire date	January 1, 2013*	January 1, 2013
Benefit formula	2.5% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50	52
Monthly benefits, as a % of eligible compensation	2.00% to 2.50%	1.1% to 2.00%
Required employee contribution rates	7.975%	6.250%
Required employer contribution rates	21.151%	21.151%

* Closed to new entrants not previously in CalPERS

Employees Covered

At June 30, 2016, the following Authority employees were covered by the benefit terms of the plan:

Inactive employees	31
Active employees	16
Total	**47**

Contribution

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 both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the period ended June 30, 2016, Authority's portion of contributions totaling $244,728 was recognized as a reduction to the net pension liability.

Net Pension Liability

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2015, using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures.

Note 8: City Employees Retirement Plan (Defined Benefit Pension Plan) (Continued)

A summary of principal assumptions and methods used to determine the net pension liability is shown below.

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

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.65% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) 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. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2007, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Change of Assumptions

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.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. 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.

Note 8: City Employees Retirement Plan (Defined Benefit Pension Plan) (Continued)

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.65 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

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

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

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

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (1)	Real Return Years 11+ (2)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00	0.99	2.43
Inflation Sensitive	6.00	0.45	3.36
Private Equity	10.00	6.83	6.95
Real Estate	10.00	4.50	5.13
Infrastructure and Forestland	2.00	4.50	5.09
Liquidity	2.00	(0.55)	(1.05)

(1) An expected inflation of 2.5% used for this period
(2) An expected inflation of 3.0% used for this period

Note 8: City Employees Retirement Plan (Defined Benefit Pension Plan) (Continued)

Changes in the Net Pension Liability

The following table shows the changes in net pension liability recognized over the measurement period.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Assets) (c)=(a)-(b)
Balance at: 6/30/2014 (Valuation Date) (1)	$ 11,371,093	$ 8,062,961	$ 3,308,132
Changes Recognized for the Measurement Period:			
Service Cost	224,071	-	224,071
Interest on the Total Pension Liability	841,278	-	841,278
Changes of Assumptions	(200,971)	-	(200,971)
Difference between Expected and Actual Experience	(8,812)	-	(8,812)
Plan to Plan Resource Movement	-	1,684	(1,684)
Contribution from the Employer	-	267,794	(267,794)
Contributions from Employees	-	102,468	(102,468)
Net Investment Income (2)	-	184,645	(184,645)
Benefit Payments including Refunds of Employee Contributions	(499,974)	(499,974)	-
Administrative Expense	-	(9,111)	9,111
Net Changes During 2014-15	355,592	47,506	308,086
Balance at: 6/30/2015 (Measurement Date) (1)	**$ 11,726,685**	**$ 8,110,467**	**$ 3,616,218**

(1) The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense. This may differ from the plan assets reported in the funding actuarial valuation report.
(2) Net of administrative expenses.

Sensitivity of the Net Pension Liability to Changes in the Discount Rates

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65 percent) or 1 percentage-point higher (8.65 percent) than the current rate:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Miscellaneous Plan's Net Pension Liability/(Assets)	$ 5,154,959	$ 3,616,218	$ 2,336,330

*This information represents the sensitivity of the City's overall Net Pension Liability to changes in the discount rates.

Note 8: City Employees Retirement Plan (Defined Benefit Pension Plan) (Continued)

Pension Plan Fiduciary Net Position

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

Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the Banning Utility Authority incurred a pension expense of $245,131 for the Plan. At June 30, 2015, the City of Banning has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 268,518	$ -
Difference between Expected and Actual Experience	-	(5,308)
Change in Assumptions	-	(121,764)
Net Difference between Projected and Actual Earnings on Pension Plan Investments	339,377	(408,031)
Total	**$ 607,895**	**$ (535,103)**

The $268,518 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 or deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal year ended June 30:	Deferred Outflows/(Inflows) of Resources
2017	$ (136,340)
2018	(93,982)
2019	(51,625)
2020	86,221
Total	$ (195,726)

CITY OF BANNING

MISCELLANEOUS PLAN
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)

	2016	2015
TOTAL PENSION LIABILITY		
Service Cost	$ 224,071	$ 237,490
Interest	841,278	801,304
Difference Between expected and Actual Experience	(8,812)	-
Changes in Assumptions	(200,971)	-
Benefit Payments, Including Refunds of employee Contributions	(499,975)	(466,020)
Net Change in Total Pension Liability	**$ 355,591**	**$ 572,774**
Total Pension Liability - Beginning	**11,371,093**	**10,798,319**
Total Pension Liability - Ending (a)	**$ 11,726,684**	**$ 11,371,093**
PLAN FIDUCIARY NET POSITION		
Contribution - Employer	$ 267,794	$ 274,228
Contribution - Employee	102,468	110,378
Plan to Plan Resource Movement	1,684	-
Net Investment Income	184,645	1,194,753
Benefit Payments, Including Refunds of Employee Contributions	(499,975)	(466,020)
Administrative Expense	(9,111)	-
Net Change in Fiduciary Net Position	**$ 47,505**	**$ 1,113,339**
Plan Fiduciary Net Position - Beginning	**8,062,961**	**6,949,622**
Plan Fiduciary Net Position - Ending (b)	**$ 8,110,466**	**$ 8,062,961**
Plan Net Pension Liability/(Assets) - Ending (a) - (b)	**$ 3,616,218**	**$ 3,308,132**
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	**69.16%**	**70.91%**
Covered-Employee Payroll	**$ 1,084,435**	**$ 1,073,672**
Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll	**333.47%**	**308.11%**

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: The discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent.

Measurement Date: All information in this schedule is as of the measurement date noted in the financial statement footnotes.

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

MISCELLANEOUS PLAN
SCHEDULE OF PLAN CONTRIBUTIONS
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS (1)

	2016	2015
Actuarially Determined Contribution	$ 268,518	$ 244,728
Contribution in Relation to the Actuarially Determined Contribution	(268,518)	(244,728)
Contribution Deficiency (Excess)	$ -	$ -
Covered-Employee Payroll	$ 903,564	$ 1,084,435
Contributions as a Percentage of Covered-Employee Payroll	29.72%	22.57%

(1) Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore only two years are shown.

Note to Schedule:

Valuation Date:	June 30, 2013
Methods and assumptions used to determine contribution rates:	
Amortization method	Level percentage of payroll, closed
Assets valuation method	Market Value
Discount Rate	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on Age,. Service, and type of employment.
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation of 2.75% and an annual production growth of 0.25%.
Investment rate of return	7.50% net of pension plan investment and administrative expenses, including inflation.
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

LSL
CPAs AND ADVISORS

INDEPENDENT AUDITORS' 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*

To the Commission of the
Banning Utility Authority
City of Banning, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Banning Utility Authority (the Authority), a component unit of the City of Banning, California, (the City), 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, and have issued our report thereon dated March 3, 2017.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 City'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. We consider the following deficiencies to be material weaknesses:

Long-Term Liability Reconciliation

Condition:
In performing our audit procedures, it was noted that the City did not properly record a material debt service payment for the 2015 Water Refunding Revenue Bonds. The amount that was not recorded as a reduction to the liability was $945,000. We recommend that the City reconcile the City's debt on a monthly basis to assist in ensuring all liabilities are properly recorded.

Management's Response: Management has reviewed the deficiency identified and agrees with LSL recommendations.

To the Commission of the
Banning Utility Authority
City of Banning, California

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

Compliance and Other Matters

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

Purpose of this Report

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

Lance, Soll & Lunghard, LLP

Brea, California
March 31, 2017