SWEETWATER SPRINGS WATER DISTRICT

TO: Board of Directors **AGENDA NO. V-A**

FROM: Steve Mack, General Manager

Meeting Date: November 2, 2017

SUBJECT: FY 2016-17 Audit discussion

RECOMMENDED ACTION: Receive a presentation by Michael Celentano, CPA, who is providing auditing services to the District, and provide direction to staff and the Auditor.

FISCAL IMPACT: (None this year, but potentially an estimated $1,250/year reduction in Audit costs for future years.)

DISCUSSION:

It was decided at last year's Audit discussion with the Board that it would be more useful to discuss Audit findings with the Board right after the Auditor's site visit rather than waiting for the draft Audit to be completed - a process that can take a few weeks or more. Our Auditor, Michael Celentano, completed his field work at our office mid-October. He will be available by phone to present his findings, and to answer any questions you might have.

In lieu of a draft Audit report attached is a Quickbooks Balance Sheet and Profit/Loss Statement that reflects all journal entries and adjusting journal entries thru Mr. Celentano's field visit. The full Audit report and approving resolution will be agendized when the Audit is completed. Below are selected items of interest from these financials, compared to FY 2015-16. These preliminary numbers may change slightly in the final Audit report.

	2016-17	**2015-16**
Net Income (Change in Net Position)	**$162,771**	$543,072
Cash transferred to CIRF	**$300,000**	$320,000 (plus $50,362)
District Reserves above Policy	**$1,405,978**	$1,051,606
Water Sales	**$2,318,328**	$2,258,205
Capital Improvement Projects	**$112,330**	$1,149,979
Debt Payments (Principal and	**$1,128,063**	$1,028,326

Interest)		
Operating Expenses	**$1,838,303**	$1,446,979
Depreciation Expense	**$805,374**	$761,456

Of note for FY 2016-17 will be a change in the accounting of our Net Pension Liability. Until two years ago, Net Pension Liability was discussed in a footnote to the Audit and was not included on the financial statements. This changed with the implementation of GASB 68, which now requires its inclusion on the Balance Sheet (or Statement of Net Position). The idea made sense: a prior GASB ruling had already added the requirement that financial statements include a line item for retiree health benefit liabilities. Requiring a line item for unfunded retiree pension liabilities was a logical extension of this line of thinking.

Unfortunately the devil has been in the compliance details of GASB 68. The calculation and journal entries for this very significant* line item are complex and not really understood by many auditors and agency staff alike even after two years of wrestling with it. For that reason, Mr. Celentano has asked staff if we would like to return to confining discussion of Net Pension Liability to a footnote in the audit report. Staff has agreed. Mr. Celentano does not believe there will be any penalties for failing to comply with the letter of GASB 68 given the size of our District.

Eliminating the GASB 68 calculation for Net Pension Liability will save the District approximately $750 in annual PERS fees for an extra report containing data required to do the GASB 68 calculation, as well as additional fees for the auditor's time. **More importantly, however, the unfunded liability information provided as part of the PERS annual agency valuation report is a more useful and understandable representation of our net (unfunded) pension liability and the one staff, our PERS actuary, and for that matter the press relies on in any discussion of pension liability.**

The journal entries required to remove the Net Pension Liability and Deferred Inflows/Outflows from our Balance Sheet have not yet been done, awaiting further guidance from the Auditor and possible direction from the Board.

* In FY 2015-16, for example, year-end accounting for changes to Net Pension Liability resulted in an additional $173,399 in non-cash Pension Expense.

Sweetwater Springs Water District
Profit & Loss
July 2016 through June 2017

				Jul '16 - Jun 17
Ordinary Income/Expense				
Income				
OPERATING REVENUE				
4031 · Water Sales				
4031.1 · Daily Water Sales Deposits				
4031.10 · Base Rate	1,487,835.69			
4031.11 · Current Charges	534,959.68			
4031.12 · Capital Debt Reduction Charge	270,659.58			
4031.1 · Daily Water Sales Deposits - Other	28,342.58			
Total 4031.1 · Daily Water Sales Deposits		2,321,797.53		
4031.2 · Delinquent Deposits Applied		2,979.35		
4031.4 · Delinquent Deposit Payments		-3,875.00		
4031.5 · Delinquent Deposit Refunds		-679.15		
4031.6 · Customer Refunds		-713.11		
4031.7 · NSF Checks		-1,181.85		
Total 4031 · Water Sales			2,318,327.77	
Total OPERATING REVENUE				2,318,327.77
NON-OPERATING REVENUE				
4447 · Del Deposit Proceeds			1,214.26	
4446 · Road Maintenance proceeds			0.00	
1002 · Construction flat charges			11,803.60	
1001 · CY Direct Charges			724,546.84	
1061 · PY Direct Charges			29,105.11	
1700 · Interest			22,729.81	
3600 · Construction New Services			12,635.79	
3601 · Construction - Service Upgrades			3,340.71	
4032 · Rent			97,864.79	
4117 · SCWA reimbursement			2,494.86	
4040 · Miscellaneous Income			2,679.18	
Total NON-OPERATING REVENUE				908,414.95
Total Income				3,226,742.72
Gross Profit				3,226,742.72
Expense				
OPERATING EXPENSES				
SALARY & BENEFITS				
Salary				
5910 · Wages	777,787.94			
5912 · Overtime	30,073.34			
5916 · On-Call Pay	32,505.00			
5918 · Extra help - Contract	36,931.20			
Total Salary		877,297.48		
Benefits				
5500 · Flex Spending (Flex spending monies pd ee's)	-439.52			
5920 · Retirement	204,831.09			
5920.2 · Retirement - EE share	-53,431.85			
5922 · Payroll Taxes - Employer Paid	15,365.82			
5930 · Health/Dental/Vision/AFLAC Ins.	162,451.41			
5931 · Retiree Health	8,580.87			
5940 · Workers Comp Insurance	44,925.46			
Total Benefits		382,283.28		
Total SALARY & BENEFITS			1,259,580.76	

Sweetwater Springs Water District
Profit & Loss
July 2016 through June 2017

		Jul '16 - Jun 17
SERVICES & SUPPLIES		
Communications		
6040-I · Internet service	1,943.02	
6040-C · Cell Phones	3,927.39	
6040-P · Pagers & Radios	378.36	
6040-T · Telephones	14,884.46	
Total Communications		21,133.23
Insurances		
6101 · Gen. Liability	30,745.04	
Total Insurances		30,745.04
Maint/Rep - Office & Vehicles		
6140 · Vehicle Maintenance	10,411.96	
6151 · Office Maintenance	6,982.67	
Total Maint/Rep - Office & Vehicles		17,394.63
Maint/Repair - Facilities		
6085 · Janitorial Services	7,263.80	
6100 · SCADA system	16,370.95	
6180 · Distribution System Repairs	96,428.51	
6235 · Treatment Sys/Well Repairs	51,536.43	
6143 · Generator Maintenance	396.19	
Total Maint/Repair - Facilities		171,995.88
Miscellaneous Expenses		
6280 · Memberships	10,505.06	
6593 · Governmental Fees	33,568.56	
Total Miscellaneous Expenses		44,073.62
Office Expense		
6410 · Postage	19,758.25	
6430 · Printing Expense	4,897.78	
6461 · Office Supplies	5,153.41	
6800 · Subscriptions/Legal Notices	804.11	
6890 · Computers/Software	1,251.15	
Total Office Expense		31,864.70
Operating Supplies		
6300 · Chemicals	17,890.61	
6880 · Tools and Equipment	2,741.01	
6881 · Safety Equipment	1,167.00	
Total Operating Supplies		21,798.62
Professional Services		
6083 · Laundry Service	2,640.74	
6514 · Lab/Testing Fees	10,539.50	
6570 · Consultant Fees	17,390.00	
6610 · Legal	11,230.00	
6630 · Audit/Accounting	35,860.46	
Total Professional Services		77,660.70
Rents & Leases		
6820 · Equipment	1,588.76	
6840 · Building & Warehouse	28,348.20	
Total Rents & Leases		29,936.96

Sweetwater Springs Water District
Profit & Loss
July 2016 through June 2017

				Jul '16 - Jun 17
Transportation & Travel				
7120 · Seminars & related travel	1,670.82			
7201 · Vehicle Gas	18,763.16			
7300 · Travel Reimbursements	5,533.66			
Total Transportation & Travel		25,967.64		
Uniforms				
6021.1 · Boots	1,500.00			
6021.3 · T-shirts	1,528.56			
Total Uniforms		3,028.56		
Utilities				
7320 · Electricity	100,423.18			
7321 · Propane	2,699.73			
Total Utilities		103,122.91		
Total SERVICES & SUPPLIES			578,722.49	
Total OPERATING EXPENSES				1,838,303.25
NON-OPERATING EXPENSES				
7980 · Depreciation Expense			805,373.81	
7930 · Road Maintenance - Mt. Jackson			0.00	
7910 · Principal - State Loans			0.00	
7900 · Principal Pymt - Bonds			0.00	
7911 · Principal - Priv. Placemnt Loan			-0.01	
7912 · Principal-2013 Cap One Rev Bond			0.00	
7920 · Interest expense			416,987.94	
Total NON-OPERATING EXPENSES				1,222,361.74
FIXED ASSET EXPENDITURES				
8573 · Vehicles			0.00	
System Upgrades (Cap. Imp.)				
8511.1 · Tank/Facilities Sites		0.00		
8511.20 · CIP 2016		3,306.72		
8511.21 · CIP 2017		0.00		
Total System Upgrades (Cap. Imp.)			3,306.72	
Total FIXED ASSET EXPENDITURES				3,306.72
Total Expense				3,063,971.71
Net Ordinary Income				162,771.01
Other Income/Expense				
Other Income				
TRANSFERS FROM OTHER FUNDS				
4620.2 · Tfers from Operations			702,621.00	
Total TRANSFERS FROM OTHER FUNDS				702,621.00
Total Other Income				702,621.00

Sweetwater Springs Water District
Profit & Loss
July 2016 through June 2017

	Jul '16 - Jun 17	
Other Expense		
TRANSFERS TO OTHER FUNDS		
8620.7 · Tfers to CIRF for CDR Revenue	300,375.00	
8620.10 · Tfer to CIRF - PY Surplus Incom	50,392.00	
8620.3 · Tfers to CIRF	300,000.00	
8620.4 · Tfers to Operating Reserves	11,854.00	
8620.5 · Tfers to Building Fund	15,000.00	
8620.2 · Tfers to In-House Constr	25,000.00	
Total TRANSFERS TO OTHER FUNDS		702,621.00
Total Other Expense		702,621.00
Net Other Income		0.00
Net Income		**162,771.01**

Sweetwater Springs Water District
Balance Sheet
As of June 30, 2017

		Jun 30, 17
ASSETS		
Current Assets		
Checking/Savings		
Cash		
101 · Cash at County		
101.1 · Operations (7106-0100) (Cash Balance at County 776013)	255,161.07	
101.2 · Bldg Fund (7106-0200)	195,850.00	
101.3 · Oper. Reserve (7106-0300)	86,956.00	
101.5 · In-House Constr. Dept 7106-0500	72,683.88	
101.7 · CIRF - Dep't 7106-0600	577,936.98	
101.10 · State Loan 58340 (7106-0900-LG)	146,740.72	
101.6 · Cap/Debt Policy Res (7106-1100)	510,829.00	
101.13 · Priv. Placement - 7106-1200	801,357.29	
Total 101 · Cash at County		2,647,514.94
102 · Petty Cash and Cash Boxes		500.00
103 · District Bank Accounts		
103.1 · West America - Daily $$, EFTs (Payroll, PERS, Deposits)	86,645.19	
103.2 · West America - Warrants (For In-house warrants)	-7,136.30	
103.3 · Flexible Spending Account	7,181.32	
103.4 · Delinquent Deposit Account	15,257.39	
103.5 · Road Maintenance	5,136.09	
103.8 · GO Bond payments	71,337.95	
Total 103 · District Bank Accounts		178,421.64
Total Cash		2,826,436.58
Total Checking/Savings		2,826,436.58
Accounts Receivable		
105 · Flat Charges Receivable		
105.1 · Uncollected flat charges	54,686.49	
105.2 · Allow.-Uncollectible Flat Chges	-15,403.29	
Total 105 · Flat Charges Receivable		39,283.20
109 · Water Sales Receivable		303,836.73
Total Accounts Receivable		343,119.93
Other Current Assets		
123 · Inventory		56,504.78
143 · Prepaid expenses		6,250.00
Total Other Current Assets		62,754.78
Total Current Assets		3,232,311.29
Fixed Assets		
161 · Land		143,053.50
162 · Buildings & Improvements		
162.1 · Cost	29,723,018.64	
162.2 · Accumulated Depreciation	-9,712,129.54	
Total 162 · Buildings & Improvements		20,010,889.10
164 · Equipment		
164.1 · Cost	616,822.80	
164.2 · Accumulated Depreciation	-506,712.16	
Total 164 · Equipment		110,110.64
163 · Construction in Progress		195,072.94
Total Fixed Assets		20,459,126.18
TOTAL ASSETS		**23,691,437.47**

Sweetwater Springs Water District
Balance Sheet
As of June 30, 2017

	Jun 30, 17
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
201 · Vendors Payable	13,738.43
Total Accounts Payable	13,738.43
Other Current Liabilities	
227 · Capital One Bond Current	332,000.00
224 · Private Placement Loan current	138,008.93
205 · State Loans current	127,549.31
222 · GO Bonds current	26,355.00
223 · Interest Payable	149,206.64
207 · Salaries & Benefits Payable	71,804.17
215 · Insurance Payable	7,822.01
Total Other Current Liabilities	852,746.06
Total Current Liabilities	866,484.49
Long Term Liabilities	
228 · Pension L - Deferred Inflows	60,072.00
229 · Net Pension (PERS) Liability	500,704.00
235 · Capital One Bond	6,288,000.00
225 · PERB Payable (Post employment retirement health benefit)	707.29
233 · Private Placement Loan	1,917,232.06
220 · Customer Deposits	15,257.39
290 · Road Maintenance Reserves	5,136.09
231 · State Loans	549,307.69
232 · GO Bonds	1,570,629.00
Total Long Term Liabilities	10,907,045.52
Total Liabilities	11,773,530.01
Equity	
301 · Contributed Capital	5,088,765.55
310 · Retained Earnings	6,666,370.90
Net Income	162,771.01
Total Equity	11,917,907.46
TOTAL LIABILITIES & EQUITY	**23,691,437.47**