# SWEETWATER SPRINGS WATER DISTRICT

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

**FROM:** Steve Mack, General Manager

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**Meeting Date: December 6, 2018**

**Subject: DISCUSSION/ACTION RE RESOLUTION 18-16, ACCEPTING THE FINAL AUDIT FOR THE FISCAL YEAR ENDING JUNE 30, 2018**

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**RECOMMENDED ACTION:**

Approve Resolution 18-16, Accepting the Final Audit for the Fiscal Year Ending June 30, 2018.

**FISCAL IMPACT:**

(Preparation of the FY 2017-18 Audit cost $8,000.)

**DISCUSSION:**

Our FY 2017-18 Audit was conducted by Michael Celentano, CPA, the first audit of a two-year contract with Mr. Celentano. Mr. Celentano appeared by telephone at the November meeting to present to and discuss the draft Audit prepared after his October site visit. He will not be at the December meeting; however, the Final Audit contains only minor corrections to the draft Audit.

As a reminder, the Audit presents the District's financials using a partial accrual method of accounting, which differs from the cash presentation staff prepares for the Board on a quarterly basis.

Staff recommends the Board approve Resolution 18-16, Accepting the Final Audit for the Fiscal Year Ending June 30, 2018.

# Resolution No. 18-16

## A Resolution of the Board of Directors of the Sweetwater Springs Water District Accepting the Final Audit for the Fiscal Year Ending June 30, 2018

**WHEREAS,** the Sweetwater Springs Water District is required to have annual audits performed relative to the spending of public funds; and

**WHEREAS,** Michael Celentano, CPA provides said auditing service and is under contract with the District to perform such audits.

**NOW, THEREFORE BE IT RESOLVED,** that the Board of Directors of the Sweetwater Springs Water District has reviewed the audit as prepared by Michael Celentano, CPA for the year ending June 30, 2018, and accepts the information contained therein.

I hereby certify that the foregoing is a full, true, and correct copy of a Resolution duly and regularly adopted and passed by the Board of Directors of the SWEETWATER SPRINGS WATER DISTRICT, Sonoma County, California, at a meeting held on December 6, 2018, by the following vote.

| Director | Aye | No |
|---|---|---|
| Sukey Robb-Wilder | _____ | _____ |
| Tim Lipinski | _____ | _____ |
| Rich Holmer | _____ | _____ |
| Gaylord Schaap | _____ | _____ |
| Pip Marquez de la Plata | _____ | _____ |

_____
Pip Marquez de la Plata
President of the Board of Directors

_____
Attest: Julie A. Kenny
Clerk of the Board of Directors

**MICHAEL A. CELENTANO**
Certified Public Accountant
PO Box 206
530-629-3015 Willow Creek Ca 95573 maccpa@pacific.net

To the Management and
The Board of Directors of
Sweetwater Springs Water District

In planning and performing my audit of the financial statements of the business-type activities of Sweetwater Springs Water District as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, I considered Sweetwater Springs Water District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sweetwater Springs Water District's internal control. Accordingly, I do not express an opinion on the effectiveness of the Sweetwater Springs Water District's internal control.

My 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, as discussed below, I identified certain deficiencies in internal control that I consider to be 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. I did not identify any deficiencies in internal control that I consider to be material weaknesses.

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. I consider the following deficiency in Sweetwater Springs Water District's internal to be significant deficiency:

District Structure

The size of the District's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Directors remains involved in the financial affairs of the District to provide oversight and independent review functions.

This communication is intended solely for the information and use of management, Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Michael A Celentano
Certified Public Accountant

November 1, 2018

**MICHAEL A. CELENTANO**
Certified Public Accountant
PO Box 206
530-629-3015 Willow Creek Ca 95573 maccpa@pacific.net

To the Management and
The Board of Directors of
Sweetwater Springs Water District

I have audited the financial statements of the business-type activities of Sweetwater Springs Water District for the year ended June 30, 2018. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in my letter to you dated November 1, 2018. Professional standards also require that I communicate to you the following information related to my audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Sweetwater Springs Water District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. I noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the District's financial statements was:

> Management's estimate of the other postemployment benefits payable and pension liabilities are based on industry guidelines and actuarial tables. I evaluated the key factors and assumptions used to develop these other postemployment benefits payable and pension liabilities in determining that it is reasonable in relationship to the financial statements taken as a whole

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

I encountered no significant difficulties in dealing with management in performing and completing my audit.

*Corrected and Uncorrected Misstatements*

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

*Management Representations*

I have requested certain representations from management that are included in the management representation letter dated November 1, 2018.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, I made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to my audit of the financial statements. I compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of management and the Board of Directors of Sweetwater Springs Water District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Michael A Celentano
Certified Public Accountant

November 1, 2018

# SWEETWATER SPRINGS WATER DISTRICT

## BASIC FINANCIAL STATEMENTS

## JUNE 30, 2018

**SWEETWATER SPRINGS WATER DISTRICT**
**FINANCIAL STATEMENTS**

**JUNE 30, 2018**

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**MICHAEL A. CELENTANO**
Certified Public Accountant
PO Box 206
530-629-3015 Willow Creek Ca 95573 maccpa@pacific.net

Board of Directors
Sweetwater Springs Water District
Guerneville, California

Independent Auditor's Report

I have audited the accompanying financial statements of the business-type activities of Sweetwater Springs Water District as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

**Auditor's Responsibility**
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

**Basis for Qualified Opinion**

Management has not adopted GASB Statement 68 "Accounting and Financial Reporting of Pension Plans." and amendments to GASB 68". Accounting principles generally accepted in the United States of America require that Unfunded Pension Liability, Deferred Inflows/Outflows and Adjusted Pension Expense be recorded currently which would increase the liabilities and decrease the fund balance and change the pension expense. The amount by which this departure would affect the liabilities by increasing Net Pension Liability

by $895,273 and decreasing fund balance by $895,273. The effect on Deferred Inflows/Outflows and payroll and employee benefits expenses has not been determined. See Footnote 6 for more detail.

Management has not adopted GASB Statement 75 "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions". Accounting principles generally accepted in the United States of America require that Unfunded Postemployment Benefit's Liability, Deferred Inflows/Outflows and Adjusted Employee Benefits Expense be recorded currently which would increase the liabilities and decrease the fund balance and change the employee benefit expense. The amount by which this departure would affect the liabilities by increasing Net OPEB Liability by $338,664 and decreasing fund balance by $338,664. The effect on Deferred Inflows/Outflows and payroll and employee benefit expenses has not been determined. See Footnote 11 for more detail.

**Qualified Opinion**

In my opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraphs, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Sweetwater Springs Water District as of June 30, 2018 and the respective changes in financial position and 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 management's discussion and analysis on pages 3-9 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Michael A Celentano
Certified Public Accountant

November 1, 2018

# Management Discussion & Analysis (Unaudited)

Management has prepared this financial overview of the activities of the Sweetwater Springs Water District for the fiscal year ended June 30, 2018. It serves as an introduction to the financial statements contained in the Audit Report and a summary of major activities of the District for the fiscal year. Much of the analysis is comparative to last year's activity.

The Discussion begins with a selection of financial activities that management considers worthy of special note for FY 2017-18. The condensed financial statements that follow provide a complete financial summary of the Audit Report. Following the financial statements are additional details on capital spending, District debt and future plans of the District.

## I. SELECTED FINANCIAL ACTIVITIES IN 2017-18

**Net income (change in Net Position)** is more than last year. Net income for the year before depreciation expense was $1,223,202 compared to $968,145 in FY 2016-17. After depreciation, the District's net position was $411,067. (p. 6)

**Surplus cash transferred to CIRF** was $320,000. (p. 9)

**District reserves above policy** are down. District funds available for capital improvement projects - "reserves above policy" -- were $1,079,028 at FYE 18, compared to $1,405,978 at FYE 2017. (p. 8.)

**Unfunded pension liability (UL).** This liability has ballooned in recent years. For purposes of the Audit, discussion of UL is confined to the footnotes. However, management will continue to call attention to this liability in the MD&A until it is reduced to a minimal amount or eliminated entirely. In FY 2017-18, the District's extra payment towards this liability -- $75,883 -- was received too late to be included in the FYE balance shown below.

**Selected revenues and expenses, and PERS UL:**

| | FY 2017-18 | FY 2016-17 |
|---|---|---|
| Water Sales: | $2,447,124 | $2,318.328 |
| Operating Expenses (before depreciation): | $1,802,340 | $1,841,611 |
| Capital Improvement Projects: | $862,402 | $72,997 |
| Debt Payments (principal + interest): | $1,009,259 | $1,137,533 |
| PERS Unfunded Liability*: | $895,273 | $966,816 |

**Other Notes for FY 2017-18**

**(1) USDA Bond.** At FYE the District has been approved for but not yet received additional bond funding from USDA totaling $1.8 million at a 2.25% interest rate for the construction of CIP 2018 (formerly, CIP 2017, Phases 2 and 3). USDA bond proceeds will only be distributed after project completion. Therefore, the project will require interim financing to proceed.

**(2) PARS investment.** in FY 2017-18, the District moved $200,000 of its reserves from the County investment pool to a pension trust administered by the Public Agency Retirement System (PARS). Trust assets can be invested in higher risk investment funds that may in the long run provide greater investment returns than County managed funds.

## II. BASIC FINANCIAL STATEMENTS

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The two statements contained in this Management's Discussion and Analysis are condensed versions of the statements in the Audit Report:

The Statement of Net Position is comparable to a Balance Sheet. It includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations of the District's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

All of the current fiscal year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position, comparable to an Income Statement. This statement measures the success of the District's operations over the past fiscal year and can be used to determine the District's creditworthiness and whether the District has successfully recovered all its costs through its user fees and other charges.

Not included in this Management's Discussion and Analysis but required in the Audit report is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

## STATEMENT OF NET POSITION

A summary of the District's Statement of Net Position in FY 2017-18 compared to FY 2016-17 is presented in Table 1 below. Generally, an increase in the District's net position is a good indicator of whether its financial health is improving or deteriorating. The District's net position increased by $411,067 to $12,889,750 at FYE 2018, up from $12,478,683 at FYE 2017, largely due to a decrease in outstanding debt.

**Table 1**
**Condensed Statement of Net Position**

| | FYE 2018 | FYE 2017 | $ Change | % Change |
|---|---|---|---|---|
| Cash | 2,539,277 | 2,826,437 | (287,160) | -10.2% |
| Capital Assets | 20,509,394 | 20,459,126 | 50,268 | 0.2% |
| Other Assets | 439,981 | 405,874 | 34,107 | 8.4% |
| **Total Assets** | **23,488,652** | **23,691,437** | **(202,785)** | **-0.9%** |
| Bond & Loan principal debt outstanding | 10,325,169 | 10,949,082 | (623,913) | -5.7% |
| Other long-term liabilities | 23,481 | 66,663 | (43,182) | -64.8% |
| Other short-term liabilities | 250,252 | 197,009 | 53,243 | 27.0% |
| **Total Liabilities** | **10,598,902** | **11,212,754** | **(613,852)** | **-5.5%** |
| Net investment in capital assets | 10,184,225 | 9,510,044 | 674,181 | 7.1% |
| Restricted | 0 | 0 | 0 | |
| Unrestricted | 2,705,525 | 2,968,639 | (263,114) | -8.9% |
| **Total Net Position** | **12,889,750** | **12,478,683** | **411,067** | **3.3%** |

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position provides additional information concerning this year's revenues and expenses that impacted net position. Table 2 below compares the District's Statement of Revenues, Expenses, and Changes in Net Position in FY 2017-18 versus FY 2016-17.

**Table 2**
**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

| | FYE 2018 | FYE 2017 | $ Change | % Change |
|---|---|---|---|---|
| Water Sales | 2,447,124 | 2,318,328 | 128,796 | 5.6% |
| Property Tax Assessment (flat charge) | 765,929 | 765,456 | 473 | 0.1% |
| Non-Operating Revenues | 189,388 | 142,960 | 46,428 | 32.5% |
| **Total Revenues** | **3,402,441** | **3,226,744** | **175,697** | **5.4%** |
| Operating Expenses: | | | | |
| Salaries & Benefits | 1,307,495 | 1,259,581 | 47,914 | 3.8% |
| Services & Supplies | 494,844 | 582,030 | (87,186) | -15.0% |
| Other | | | 0 | - |
| **Total Operating Expenses** | **1,802,339** | **1,841,611** | **(39,272)** | **-2.1%** |
| Non-Operating Expenses: | | | | |
| Interest | 376,900 | 416,988 | (40,088) | -9.6% |
| Other | 0 | 0 | 0 | 0.0% |
| **Total Non-Operating Expenses** | **376,900** | **416,988** | **(40,088)** | **-9.6%** |
| **Total Expenses** | **2,179,239** | **2,258,599** | **(79,360)** | **-3.5%** |
| **Income before Other Items and Depreciation Expense** | **1,223,202** | **968,145** | **255,057** | **26.3%** |
| Other income | 0 | 0 | 0 | - |
| Other expense | 0 | 0 | 0 | 0.0% |
| Depreciation Expense | (812,135) | (805,374) | (6,761) | 0.8% |
| **Change in Net Position (Net Income)** | **411,067** | **162,771** | **248,296** | **152.5%** |

**Income before Other Items and Depreciation Expense** was $411,067, an increase from last fiscal year.

Total **revenues** were $3,402,441, about 5.4% more than last year. Water Sales were up 5.6% from last year. As in recent years, the District increased rates by 3%. Actual water usage was also up compared to FY 2016-17. Flat charge revenue, collected via property tax bills, is expected to remain constant from year to year at around $750,000. This year it came in at $765,929. Non-operating revenues consist primarily of (1) interest income; (2) rent received from cell tower tenants on the District's Mt. Jackson property; and (3) construction of new services during the fiscal year. In addition, this year the District received $36,424 in FEMA/OES funding for prior year flood activity bringing total non-operating revenues to $189,388, significantly more ($46,428 more) than last year.

On the expense side, total **expenses** decreased by $79,360, or 3.5%, compared to last year due in equal parts to net decreases in Operating Expenses and interest expenses. Within Operating Expenses, Salaries & Benefits increases were more than offset by decreases in Services and Supplies, mainly due to fewer repairs to the District's distribution system, which can vary widely from year to year. Interest expenses are down as the District's debt continues to age and each debt payment pays more principal and less interest.

**Income after accounting for "Other Items" (Change in Net Position)** was $411,067, compared to $162,771 in FY 2016-17, the happy result when you have more revenue and less expenses than the previous year.

## III. CAPITAL SPENDING

In FY 2017-18, the District spent $862,403 on construction projects, broken down as follows:

| Project | Project Description | Amount spent FY 2017-18 | % complete at FYE 2018 |
|---|---|---|---|
| CIP 2017 | Replace approximately 2,200 lf of existing main and 17 services on River Road from Rio Nido to Old River Road near Outlet Drive | $764,857 | 100% complete (Project total: $959,930) |
| Tank/Facilities Improvements | (Various site improvements) | $60,723 | N/A |
| CIP 2018* *(*formerly CIP 2017, Phases 2 and 3)* | Replace approximately 4,600 lf of main and 58 services on Old River Road at Morningside east to the eastern section of Foothill Drive | $36,823 | 2.4% complete (Project total: $1,535,000) |
| | | $862,403 | |

In addition to these capital projects, the District spent a total of $25,775 was spent on various in-house large maintenance projects.

## IV. DISTRICT DEBT/SOURCES OF DEBT REPAYMENT

At the beginning of FY 2017-18, the District owed a total of $10,949,082 in bond debt, state loans, and a private placement loan. During the year the District made $623,913 in principal payments.

The table below summarizes activity on the bonds and loans in FY 2017-18:

| DEBT TYPE | ORIGINAL PRINCIPAL | PRINCIPAL OWED JULY 1, 2017 | PRINCIPAL PAID FY 2017-18 | PRINCIPAL OWED FYE 2018 |
|---|---|---|---|---|
| USDA G.O. Bonds | $1,647,875 (2014) | $1,596,984 | $26,355 | $1,570,629 |
| Capital One Bonds | 7,993,000 (2013)* | $6,620,000 | $332,000 | $6,288,000 |
| State Loans | $3,013,500 (1996) | $676,857 | $127,549 | $549,308 |
| Private Placement Loan | $3,000,000 (2008) | $2,055,241 | $138,009 | $1,917,232 |
| | | $10,949,082 | $623,913 | $10,325,169 |

With interest, actual payments on District bond and loan debt were $1,009,259. The District allocates revenue from flat charges, the CDR[1] portion of the Water Sales revenue, and capital interest to pay for annual principal and interest on debt, itemized for FY 2017-18 as shown below:

| | |
|---|---|
| Flat Charges: | $765,929 |
| CDR Revenue: | $278,615 |
| Capital interest: | $17,073 |
| **Total:** | **$1,061,617** |

The excess from these sources of revenue -- $52,358 in FY 2017-18 -- increased *District reserves above policy*.

## V. DISTRICT RESERVES AND RESERVES ABOVE POLICY

The District adopted a Reserve Policy in 2009 that calls for leaving a designated amount of District funds in reserve for emergencies. All other District funds are considered "reserves above policy" and available for spending/capital improvement projects. At fiscal year end, District funds at the County and with PARS totaled $2,314,663. District policy reserves were $1,235,635, leaving $1,079,028 available for spending ("reserves above policy"). Below is a history of the District's reserves above policy since the adoption of the District Reserve Policy:

| | |
|---|---|
| Fiscal Year End 2010: | $3,238,830 |
| Fiscal Year End 2011: | $4,023,083 |
| Fiscal Year End 2012: | $3,475,569 |
| Fiscal Year End 2013: | $3,206,882 |
| Fiscal Year End 2014: | $2,507,800 |
| Fiscal Year End 2015: | $1,774,258 |
| Fiscal Year End 2016: | $1,051,606 |
| Fiscal Year End 2017: | $1,405,978 |
| Fiscal Year End 2018: | $1,079,028 |

District reserves above policy were down this year. This generally means the District dipped into reserves to pay for spending on capital projects.

## VI. ECONOMIC FACTORS, PROJECTED CAPITAL EXPENDITURES/SOURCES OF FUNDING

The bulk of the District's income is tied to water sales and flat charge revenue, both unaffected in any major way by economic events. The bulk of the District's cash on hand - over 80 percent - is conservatively managed via the County of Sonoma's investment pool. Interest rates remain low, but invested principal remains untouched In FY 2017-18, the District transferred $200,000 to a pension trust administered by the Public Agency Retirement System (PARS). Use of the PARS funds is limited to offsetting the costs of the PERS retirement program. The upside is that the PARS funds are invested in mutual funds. While these funds are a higher risk investment, they may also generate higher returns

The District's 2018-24 Capital Improvement Program identifies over $5 million of additional capital projects. According to the District's long-term budget for this same time period annual capital construction costs will average about $600,000. The District's capital construction is funded from four sources:

- **Surplus revenue**. The District has a plan to increase surplus revenue to $500,000 annually. In FY 2017-18 it was budgeted at $320,000.

[1] CDR stands for "Capital Debt Reduction".

- **Grants**. The District is not anticipating any grant revenue as of FYE.
- **Loan proceeds.** The District's indebtedness was approximately $10.3 million at the end of FY 2017-18. At FYE the District has been approved for $1.8 million in additional bond indebtedness through USDA at a rate of 2.25%.
- **Reserves.** Reserves available for capital spending ("reserves above policy") were at $1,079,028 at FYE 2018.

**MORE ABOUT DISTRICT SURPLUS REVENUES**

The District is in the midst of a long-term plan to increase District surplus revenues to a sustainable $500,000 annually.[2] The plan contemplates nine years of 3% water increases. FY 2017-18 was the seventh year of this plan. Below is a table of *budgeted* operating surpluses from recent years (actual surpluses may vary). As the table shows, despite the annual increase to water rates, rising costs have kept budgeted operating surpluses holding steady at around $320,000:

| Year | Year of 9-year Budget Plan (3% water increase each year) | Budgeted Operating Surplus |
|---|---|---|
| F 2010-11 | N/A | $240,000 |
| FY 2011-12 | 1 of 9 | $240,000 |
| FY 2012-13 | 2 of 9 | $220,000 |
| FY 2013-14 | 3 of 9 | $390,000 |
| FY 2014-15 | 4 of 9 | $260,000 |
| FY 2015-16 | 5 of 9 | $320,000 |
| FY 2016-17 | 6 of 9 | $330,000 |
| **FY 2017-18** | **7 of 9** | **$320,000** |
| FY 2018-19 | 8 of 9 | $360,000 |

## VI. REQUEST FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Sweetwater Springs Water District at P.O. Box 48, Guerneville, California, 95446.

[2] "Sustainable Funding for Needed Capital Improvements", dated April 18, 2011.

**SWEETWATER SPRINGS WATER DISTRICT**
**STATEMENT OF NET POSITION**
**June 30, 2018 and 2017**

| | June 30, 2018 | June 30, 2017 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and investments | $ 1,197,925 | $ 1,291,036 |
| Accounts receivable | 142,602 | 115,357 |
| Flat charges receivables | 40,659 | 39,282 |
| Unbilled revenue | 193,964 | 188,480 |
| Inventory | 56,505 | 56,505 |
| Prepaid expenses | 6,250 | 6,250 |
| TOTAL CURRENT ASSETS | 1,637,905 | 1,696,910 |
| NONCURRENT ASSETS | | |
| Land | 143,053 | 143,053 |
| Construction in progress | 36,823 | 195,073 |
| Buildings and improvements | 30,743,673 | 29,723,020 |
| Machinery and equipment | 616,822 | 616,822 |
| Less-accumulated depreciation | (11,030,977) | (10,218,842) |
| TOTAL CAPITAL ASSETS, NET | 20,509,394 | 20,459,126 |
| OTHER NONCURRENT ASSETS | | |
| Restricted cash and investments | 1,341,352 | 1,535,401 |
| TOTAL OTHER NONCURRENT ASSETS | 1,341,352 | 1,535,401 |
| TOTAL ASSETS | 23,488,651 | 23,691,437 |
| **LIABILITIES** | | |
| CURRENT LIABILITIES | | |
| Accounts payable | 33,536 | 21,561 |
| Accrued wages | 6,000 | 5,848 |
| Accrued interest | 140,761 | 149,207 |
| Customer deposits | 14,864 | 15,257 |
| Road maintenance obligations | 10,140 | 5,136 |
| Current portion of long term debt | 657,870 | 624,313 |
| TOTAL CURRENT LIABILITIES | 863,171 | 821,322 |
| LONG TERM LIABILITIES | | |
| Compensated absences | 69,954 | 65,956 |
| General obligation bonds payable | 7,488,007 | 7,858,629 |
| California safe drinking water bonds payable | 412,961 | 548,908 |
| Citizens business bank (COP) payable | 1,766,331 | 1,917,232 |
| Other postemployment benefits payable | (1,523) | 707 |
| TOTAL LONG TERM LIABILITIES | 9,735,730 | 10,391,432 |
| TOTAL LIABILITIES | 10,598,901 | 11,212,754 |
| **NET POSITION** | | |
| Net Investment in capital assets | 10,184,225 | 9,510,044 |
| Unrestricted | 2,705,525 | 2,968,639 |
| TOTAL NET POSITION | $ 12,889,750 | $ 12,478,683 |

See accompanying notes to basic financial statements

## SWEETWATER SPRINGS WATER DISTRICT
## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
### For the Fiscal Year Ended June 30, 2018 and 2017

| | Totals June 30, 2018 | Totals June 30, 2017 |
|---|---|---|
| **Operating Revenues** | | |
| Charges for services | $ 2,447,124 | $ 2,318,328 |
| Total Operating Revenues | 2,447,124 | 2,318,328 |
| **Operating Expenses** | | |
| Salaries and employee benefits | 1,307,495 | 1,259,581 |
| Service and supplies | 494,845 | 582,030 |
| Depreciation | 812,135 | 805,374 |
| Total Operating Expenses | 2,614,475 | 2,646,985 |
| Operating Income (Loss) | (167,351) | (328,657) |
| **Non-Operating Revenues (Expenses)** | | |
| Interest income | 25,245 | 22,730 |
| Rents | 101,914 | 97,865 |
| Flat charges | 765,929 | 765,456 |
| Other non-operating revenue | 62,230 | 22,365 |
| Interest expense | (376,900) | (416,988) |
| Total Non-Operating Revenues (Expenses) | 578,418 | 491,428 |
| Net Income (Loss) | 411,067 | 162,771 |
| Total Net Position, Beginning of Fiscal Year | 12,478,683 | 12,315,912 |
| Total Net Position, End of Fiscal Year | $ 12,889,750 | $ 12,478,683 |

See accompanying notes to basic financial statements

**SWEETWATER SPRINGS WATER DISTRICT**
**STATEMENT OF CASH FLOWS**
**For the Fiscal Year Ended June 30, 2018 and 2017**

| | Totals June 30, 2018 | Totals June 30, 2017 |
|---|---|---|
| Cash Flows From Operating Activities | | |
| Cash received from customers | $ 2,414,395 | $ 2,315,442 |
| Payments to suppliers for goods and services | (478,966) | (575,573) |
| Payments to employees and related items | (1,304,868) | (1,262,646) |
| Net cash flows provided by operating activities | 630,561 | 477,223 |
| Cash Flows From Capital and Related Financing Activities | | |
| Acquisition of capital assets | (862,403) | (112,330) |
| Payment on long term debt | (623,913) | (711,074) |
| Interest payments | (385,346) | (425,505) |
| Net cash flows (used) by capital and related financing activities | (1,871,662) | (1,248,909) |
| Cash Flows From Non-Capital and Related Financing Activities | | |
| Flat charges | 764,552 | 768,704 |
| Miscellaneous non-operating revenues | 62,230 | 22,365 |
| Net cash provided by non-capital and related financing activities | 826,782 | 791,069 |
| Cash Flows From Investing Activities | | |
| Rents | 101,914 | 97,865 |
| Interest income | 25,245 | 22,730 |
| Net cash flows provided by investing activities | 127,159 | 120,595 |
| Net Increase (Decrease) in Cash and Investments | (287,160) | 139,978 |
| Cash and Investments, Beginning of Fiscal Year | 2,826,437 | 2,686,459 |
| Cash and Investments, End of Fiscal Year | $ 2,539,277 | $ 2,826,437 |
| Reconciliation of Cash and Investments to Amounts Reported on the Statement of Net Position: | | |
| Cash and investments | $ 1,197,925 | $ 1,291,036 |
| Restricted cash and investments | 1,341,352 | 1,535,401 |
| | $ 2,539,277 | $ 2,826,437 |
| Supplemental Disclosures: | | |
| Interest expense during the fiscal year | $ 376,900 | $ 416,988 |
| Interest capitalized during the fiscal year | $ - | $ - |

(continued)

See accompanying notes to basic financial statements

**SWEETWATER SPRINGS WATER DISTRICT**
**COMPARATIVE STATEMENT OF CASH FLOWS**
**For the Fiscal Year Ended June 30, 2018 and 2017**

**(Continued)**

| | Totals June 30, 2018 | Totals June 30, 2017 |
|---|---|---|
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations: | | |
| Operating income (loss) | $ (167,351) | $ (327,950) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities: | | |
| Depreciation | 812,135 | 805,374 |
| Salaries and employee benefits | | (707) |
| (Increase) Decrease in Operating Assets: | | |
| Accounts receivable/Unbilled Revenue | (32,729) | (2,886) |
| Inventory | | (110) |
| Prepaid expenses | | (250) |
| Increase (Decrease) in Operating Liabilities: | | |
| Accounts payable | 11,975 | 12,130 |
| Accrued wages | 152 | 2,996 |
| Compensated absences | 3,998 | (6,997) |
| Customer deposits payable | (393) | (319) |
| Road maintenance obligations | 5,004 | (4,994) |
| Other postemployment benefits payable | (2,230) | 936 |
| Total Adjustments | 797,912 | 805,173 |
| Net Cash Provided by Operating Activities | $ 630,561 | $ 477,223 |

See accompanying notes to basic financial statements

## Note 1: Summary of Significant Accounting Policies

### A. Reporting Entity

The Sweetwater Springs Water District (District) was formed on December 6, 1988 with Resolution #88-2184 through an election under Section 30290 of the California State Water Code. The District supplies water services to residential and commercial users, and provides for connections to and the servicing of the delivering system. The District's Board of Directors has the responsibility of overseeing the financial activities of the District.

The District accounting policies conform to accounting principles generally accepted in the United States of America as applicable to governments, in accordance with the uniform system of accounts for water utility special enterprise districts as prescribed by the State Controller in compliance with the government code of the State of California.

### B. Basis of Accounting

The District follows the accrual basis of accounting. The District's policy is to record all assets, liabilities, revenues, and expenses on the accrual basis of accounting and the flow of economic resources measurement focus. Under this method, revenue is recognized when earned and expenses are recognized when the related liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

### C. Proprietary Fund Accounting

The District has one fund which is considered a proprietary fund.

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows.

In accordance with GASB Statement No. 20 and No. 62, the District has opted to apply all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

Operating revenues in the proprietary fund 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 operation of the fund. All other expenses are reported as non-operating expenses.

### D. Budgetary Reporting

The annual budget is prepared in accordance with the basis of accounting utilized by the District. The budget is not legally required and therefore budget to actual information has not been presented, either as a statement or required or other supplementary information.

## Note 1: Summary of Significant Accounting Policies (Continued)

### E. Receivables

Bad debts associated with accounts receivable for services are tracked each year by staff, but have been deemed immaterial. Other receivables, if any, are shown at the anticipated recoverable amount, unless otherwise noted.

### F. Flat Charges Receivable

Flat charges receivable represent direct charges owed to the District by property owners.

### G. Inventories

Inventory consists primarily of water meters, water pipes, valves and fittings. Inventory is valued at estimated cost.

### H. Capital Assets

Property, plant, and equipment are recorded at cost or estimated historical cost if actual cost is not available. Contributed assets are recorded at their fair value at the time of transfer to the District. Assets with a value of $1,000 or less are expensed in the years acquired.

Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Depreciation is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. The range of estimated useful lives are as follows:

| | |
|---|---|
| Water system | 40 years |
| Leasehold improvements | 7 years |
| Equipment | 3-5 years |

### I. Vacation and Sick Leave

Vacation pay is accrued by the District in the period earned. At June 30, 2018 and 2017, accrued vacation pay amounted to $69,954 and $65,956 respectively.

### J. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### L. New Accounting Pronouncement

The District has not implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 75 for the fiscal year ended June 30, 2018 and has continued with the requirements GASB No. 45.

## Note 2: Cash and Investments

The cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of District debt instruments or District agreements.

The District's cash and investments are comprised of the following at June 30, 2018:

| | Unrestricted | Restricted | Totals |
|---|---|---|---|
| Cash on hand | $ 500 | $ - | $ 500 |
| Cash in bank | 124,136 | 81,492 | 205,628 |
| Cash and investments | 1,073,289 | 1,259,860 | 2,333,149 |
| Total Cash and Investments | $ 1,197,925 | $ 1,341,352 | $ 2,539,277 |

| | |
|---|---|
| Statement of Net Position: | |
| Cash and investments | $ 1,197,925 |
| Restricted cash and investments | 1,341,352 |
| Total | $ 2,539,277 |

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

The table below identifies the investment types that are authorized for the Sweetwater Springs Water District (District) by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|
| Local Agency Bonds | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| State of California Obligations | 5 years | None | None |
| CA Local Agency Obligations | 5 years | None | None |
| U.S. Agencies | 5 years | None | None |
| Bankers' Acceptances | 180 days | 40% | 30% |
| Commercial Paper - Selected Agencies | 270 days | 25% | 10% |
| Commercial Paper - Other Agencies | 270 days | 40% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Repurchase Agreements | 1 year | None | None |
| Reverse Repurchase Agreements & Securities Lending Agreements | 92 days | 20 % of the base value of the portfolio | None |
| Medium-Term Notes | 5 years | 30% | None |
| Mutual Funds | N/A | 20% | 10% |
| Money Market Mutual Funds | N/A | 20% | None |
| Collateralized Bank Deposits | 5 years | None | None |
| Mortgage Pass-Through Securities | 5 years | 20% | None |
| Time Deposits | 5 years | None | None |
| County Pooled Investment Funds | N/A | None | None |
| Local Agency Investment Fund (LAIF) | N/A | None | $ 50 Million |

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 the market interest rates. The District manages its exposure to interest rate risk by investing a majority of its cash and investments in the County Pooled Investment Fund.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

| | | Remaining maturity (in Months) | | | | | |
|---|---|---|---|---|---|---|---|
| Investment Type | Totals | 12 Months or Less | 13 to 24 Months | 25-36 Months | 37-48 Months | 49-60 Months | More Than 60 Months |
| Public Agency Retirement Svc | $ 200,000 | $ 200,000 | | | | | |
| County Pooled Investment Fund | $ 2,339,277 | $ 2,339,277 | $ - | $ - | $ - | $ - | $ - |
| | $ 2,539,277 | $ 2,539,277 | $ - | $ - | $ - | $ - | $ - |

**Note 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 rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code and the District's investment policy, and the actual rating as of fiscal year end for each investment type.

| Investment Type | Amount | Rating | Disclosure | AAA | AA | A | Rated |
|---|---|---|---|---|---|---|---|
| Public Agency Retirement Svc | $ 200,000 | | | | | | $ 200,000 |
| County Pooled Investment Fund | $ 2,339,277 | N/A | $ - | $ - | $ - | $ - | $ 2,396,277 |
| Total | $ 2,539,277 | | $ - | $ - | $ - | $ - | $ 2,596,277 |

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments that represent 5% or more of total District investments (other than Sonoma County Investment Pool).

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 California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental 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 fair 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 the District's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2018, the District's deposits with financial institutions were not in excess of federal depository insurance limits.

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 District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Sonoma County Investment Pool).

## Note 3: Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

| | | | | | |
|---|---|---|---|---|---|
| **Capital Assets, being depreciated:** | | | | | |
| Building and improvements | 29,723,020 | 1,020,653 | | | 30,743,673 |
| Machinery and equipment | 616,822 | | | | 616,822 |
| Total capital assets, being depreciated | 30,339,842 | 1,020,653 | | | 31,360,495 |
| **Accumulated depreciation:** | | | | | |
| Building and improvements | (9,712,129) | (778,848) | | | (10,490,977) |
| Machinery and equipment | (506,713) | (33,287) | | | (540,000) |
| Total accumulated depreciation | (10,218,842) | (812,135) | | | (11,030,977) |
| Total depreciable assets, net | 20,121,000 | 208,518 | | | 20,329,518 |
| **Total capital assets, net** | $ 20,459,126 | $ 245,341 | $ (195,073) | $ - | $ 20,509,394 |

Depreciation expense of $812,135 was incurred and recorded as an operating expense for June 30, 2018.

## Note 4: Long-Term Debt

The following is a summary of changes in long-term debt for the District for the fiscal year ended June 30, 2018:

| | Balance at July 1, 2017 | Additions | Repayments | Balance at June 30, 2018 | Due Within One Year |
|---|---|---|---|---|---|
| 2003 General Obligation Bonds | 1,596,984 | | (26,355) | 1,570,629 | 27,622 |
| 2013 General Obligation Refunding Bonds | 6,620,000 | | (332,000) | 6,288,000 | 343,000 |
| California Safe Drinking Bonds | 676,857 | | (127,549) | 549,308 | 136,346 |
| Citizens Business Bank Certificates of Participation | 2,055,241 | | (138,009) | 1,917,232 | 150,902 |
| Total | $ 12,263,167 | $ - | $ (623,913) | $ 10,325,169 | $ 657,870 |

**Note 4: Long-Term Debt (Continued)**

2003 General Obligation Bonds

On April 29, 2003, and pursuant to Resolution No. 03-15, the District authorized the issuance of General Obligation Bond of 1990, Series 2003 in the principal amount of $4,000,000. The bond was issued as a single fully registered bond and matures in installments of the same principal amounts on the same dates as the registered bonds it represents. Interest on the bond is 4.5% per annum, payable commencing on March 1, 2004 and semi-annually thereafter on September 1st and March 1st in each year to maturity. During the fiscal year ended June 30, 2014, the District prepaid $1,994,000 of the outstanding principal on the 2003 General Obligation Bonds from a portion of the proceeds of the 2013 General Obligation Refunding Bonds. The first installment payment that was due September 1, 2014 was deferred until September 1, 2015. The accrued interest of $36,875, as a result of the deferred payment date, was added to the principal balance for a total outstanding balance of $1,647,875.

The scheduled annual minimum debt service requirements at June 30, 2018 are as follows:

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2019 | 26,355 | $ 37,929 | $ 64,284 |
| 2020 | 26,981 | 37,303 | 64,284 |
| 2021 | 27,622 | 36,663 | 64,285 |
| 2022 | 28,278 | 36,007 | 64,285 |
| 2023 | 28,950 | 35,336 | 64,286 |
| 2024-2028 | 155,394 | 166,040 | 321,434 |
| 2029-2033 | 174,744 | 146,699 | 321,443 |
| 2034-2038 | 196,504 | 124,950 | 321,454 |
| 2039-2043 | 220,976 | 100,492 | 321,468 |
| 2044-2048 | 248,492 | 72,989 | 321,481 |
| 2049-2053 | 279,436 | 42,061 | 321,497 |
| 2054 | 183,252 | 8,809 | 192,061 |
| Total | $ 1,596,984 | $ 845,278 | $ 2,442,262 |

2013 General Obligation Refunding Bonds

On August 1, 2013, the District issued $7,993,000 of General Obligation Refunding Bonds bearing interest of 4.50% and payable semi-annually on September 1 and March 1, maturing on September 1, 2033. The proceeds of the Bonds were used to (i) prepay, in full, the 1992 General Obligation Bonds; (ii) partial prepayment of the 2003 General Obligation Bonds, and (iii) pay the costs of issuing the Bonds. The outstanding principal balance of the 2013 General Obligation Refunding Bonds at June 30, 2015 was $7,553,000.

$7,821,765 from the 2013 General Obligation Refunding Bonds was placed in an irrevocable trust that is to be used to service the future debt requirements of the 1992 General Obligation Bonds and the 2003 General Obligation Bonds. The refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debts) of $648,545. The aggregate difference in debt service between the old and new debt is $923,427.

The District defeased the 1992 General Obligation Bonds by placing a portion of the proceeds of the 2013 General Obligation Refunding Bonds in an irrevocable trust to provide for all future debt service payments on the 1992 General Obligation Bonds. Accordingly, the trust account assets and the liability for the defeased 1992 General Obligation Bonds is not included in the District's financial statements.

**Note 4: Long-Term Debt (Continued)**

2013 General Obligation Refunding Bonds (Continued)

The scheduled annual minimum debt service requirements at June 30, 2017 are as follows:

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 332,000 | $ 232,344 | $ 564,344 |
| 2019 | 343,000 | 220,194 | 563,194 |
| 2020 | 359,000 | 207,558 | 566,558 |
| 2021 | 368,000 | 194,472 | 562,472 |
| 2022 | 383,000 | 180,954 | 563,954 |
| 2023-2027 | 2,136,000 | 683,208 | 2,819,208 |
| 2028-2032 | 2,505,000 | 264,690 | 2,769,690 |
| 2033 | 194,000 | 7,056 | 201,056 |
| Total | $ 6,620,000 | $ 1,990,476 | $ 8,610,476 |

California Safe Drinking Bonds Payable

On June 24, 1993 the State Department of Water Resources provided a $2,870,000 and $400,000 loan to the District under the Safe Drinking Water Bond Act of 1986. The project financed by this loan consists of construction of three wells, interconnection of the system's service area, and construction of five storage facilities and appurtenances.

The bonds bear interest at 2.955% and mature on April 1, 2021 and 2022. Principal payments are due semi-annually on October 1 and April 1 including interest. A 5% administrative fee is included in the principal amount. The balances at June 30, 2017 are $676,857 and $0 (paid off in FYE June 30, 2017) respectively.

The scheduled annual minimum debt service requirements at June 30, 2017 are as follows:

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $ 127,549 | $ 19,069 | $ 146,618 |
| 2019 | 131,346 | 15,272 | 146,618 |
| 2020 | 135,235 | 11,383 | 146,618 |
| 2021 | 139,298 | 7,320 | 146,618 |
| 2022 | 143,429 | 3,189 | 146,618 |
| Total | $ 676,857 | $ 56,233 | $ 733,090 |

## Note 4: Long-Term Debt (Continued)

Citizens Business Bank Certificates of Participation Payable

On August 1, 2008, Citizens Business Bank as assigned from Municipal Finance Corporation provided a $3,000,000 loan to the District in the form of Certificates of Participation.

The Certificates of Participation bear interest at 4.75% through August 1, 2018 and then due to a rate renegotiation with Citizen Business Bank in November 2016 was reduced to 3.1% and will remain until the loan matures on August 1, 2028. Principal and interest payments are due semi-annually on February 1st and August 1st in the amount of $117,007 through August 1, 2018 and $108,038 for the remainder of the loan.

The scheduled annual minimum debt service requirements at June 30, 2018 are as follows:

| Fiscal Year Ended June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 150,902 | $ 74,143 | $ 225,045 |
| 2020 | 162,570 | 53,506 | 216,076 |
| 2021 | 167,649 | 48,427 | 216,076 |
| 2022 | 172,887 | 43,190 | 216,077 |
| 2023 | 178,288 | 37,789 | 216,077 |
| 2024-2028 | 978,547 | 101,835 | 1,080,382 |
| 2029 | 106,390 | 1,649 | 108,039 |
| Total | $ 1,917,233 | $ 360,539 | $ 2,277,772 |

## Note 5: Operating Leases

The District has entered into an operating lease arrangement as lessee for the District offices. The term of the lease is for five years with an option to extend for seven, one year periods. The initial five year lease expired on July 31, 2004. The District's current monthly lease expense for the District offices is $2,483. On May 6, 2014, the District renegotiated the office lease. The new lease commences August 1, 2014 and expires on July 31, 2017, at a cost of $2,364 per month. The new lease has an option to extend for one additional term of three years which was extended on July 31, 2017.

The District has also entered into an operating lease arrangement as lessee for a postage machine. The term of the lease is five years, beginning in October 2015. The District's current quarterly lease expense for the postage machine is $313.

The total rental payments for all leasing arrangements charged to expenses were $31,081 and $29,937 for June 30, 2018 and 2017 respectively.

## Note 6: Employees Retirement Plan (Defined Benefit Pension Plan)

### *General Information about the Pension Plan*

Plan Description, Benefits Provided and Employees Covered

The plan is a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plan benefit provisions, assumptions for funding purposes but not accounting purposes, and membership information is listed in the June 30, 2017 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2017 actuarial valuation report. This report is a publically available valuation report that can be obtained at CalPERS' website under Forms and Publications.

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2017 (the measurement date), the active employee contribution rate is 6.896 percent of annual pay and the average employer's contribution rate is 8.418 percent of annual payroll for the 2% @ 55 plan and the active employee contribution rate is 6.250 percent of annual pay and the average employer's contribution rate is 6.533 percent of annual payroll for the 2% @ 62 plan. Employer contributions rates may change if plan contracts are amended.

Annual Pension Cost

For June 30, 2018, the District's annual pension cost of $100,219 for PERS was equal to the District's required and actual contributions and plus an additional $75,883 towards its unfunded liability. The required portion of the contribution was determined as part of the June 30, 2017 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.00% investment rate return of (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.00% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.625%. The actuarial value of PERS assets was determined by an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases and decreases in the rate spread directly over a 5-year period instead. The required and actual contribution rate for June 30, 2018 was determined as part of the June 30, 2017 actuarial valuation in which PERS using the same assumptions as the previous year

Three-Year Trend Information For PERS

| Fiscal Year | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 6/30/16 | $ 85,337 | 100% | $ 0 |
| 6/30/17 | 91,399* | 100% | $ 0 |
| 6/30/18 | $100,219** | 100% | $ 0 |

* The District paid an additional $60,000 towards it's unfunded liability during the year
** The Distict paid and additional $75,883 towards it's unfunded liability during the year

The table below shows a three-year analysis of the actuarial accrued liability of the 2% @55 plan, the plan's share of the pool's market value of assets, plan's share of the pool's unfunded liability, funded ratio and the annual covered payroll as of June 30:

| Valuation Date | Accrued Liability | Shared Mkt Value/Assets | Unfunded Liability | Funded Ratio | Covered Payroll |
|---|---|---|---|---|---|
| 6/30/15 | $ 3,758,656 | $ 3,087,967 | $ 670,689 | 82.2% | $ 691,449 |
| 6/30/16 | 4,199,233 | 3,233,260 | 965,973 | 77.0% | 750,856 |
| 6/30/17 | $4,489,369 | $3,594,908 | $894,461 | 80.1% | $766,121 |

The table below shows a two-year analysis of the actuarial accrued liability of the 2% @62 plan, the plan's share of the pool's market value of assets, plan's share of the pool's unfunded liability, funded ratio and the annual covered payroll as of June 30:

| Valuation Date | Accrued Liability | Shared Mkt Value/Assets | Unfunded Liability | Funded Ratio | Covered Payroll |
|---|---|---|---|---|---|
| 6/30/15 | $ 3,258 | $ 3,100 | $158 | 95.2% | $ 36,004 |
| 6/30/16 | 9,220 | 8,377 | 843 | 90.9% | 43,901 |
| 6/30/17 | $16,915 | $16,103 | $812 | 95.2 | $47.021 |

Note 7: Net Position

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

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it 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 on net investment in capital assets or restricted net position.

The District maintains the majority of its cash with the Sonoma County Treasury in a general operating account, debt service accounts, and construction accounts.

Cash restricted to long-term debt repayment is held in the debt service accounts, and cash restricted to water system improvements is held in the construction accounts. The restrictions arise from provisions of the General Obligation Bond Issues and California Safe Drinking Water Loan Contract #58340.

## Note 8: Deferred Compensation Plans

The District offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans are available to all employees. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust by a third party administrator (ING and AIG Valic) for the exclusive benefit of the plan participants and their beneficiaries as prescribed by Internal Revenue Code Section 457 (g). Accordingly, these assets have been excluded from the accompanying financial statements.

## Note 9: Risk Management

The District participates in a joint venture under a joint powers agreement (JPA) with the Special District Risk Management Authority (SDRMA) for insurance purposes. The SDRMA is a joint powers agency formed pursuant to Section 6500 et seq., California Government Code, is comprised of California special districts, and agencies. The relationship between the District and JPA is such that the JPA is not a component of the District for financial reporting purposes. The SDRMA's purpose is to jointly fund and develop programs to provide stable, efficient, and long term risk financing for special districts. These programs are provided through collective self-insurance; the purchase of insurance coverage's; or a combination thereof. SDRMA provides general and auto liability, workers' compensation, public officials' and employees' errors and omissions, employment practices liability, property loss, and boiler and machinery coverage.

## Note 10: Contingencies

In October, 2015 the District entered into a contract with Coastland Civil Engineering, Inc. for $285,884 (with a potential of up to $10,000 in extra fees) for engineering of the 2017 Capital Improvement Project (CIP 2017), which was originally to be completed in two phases and referred to as CIP, Phase 1 and CIP, Phase 2, but was renamed CIP 2017 and CIP 2018. In March, 2016, this contract was amended to add an additional $69,000 to the contract, for a total of $354,000. As of June 30, 2018, the District has paid Coastland a total of $311,262.

In May, 2017, the District entered into a contract with Piazza Construction for $663,005 (with a potential of $66,300 in additional charges) for construction of CIP 2017, Phase 1. As of June 30, 2018 this project was completed. A total of $659,680 was paid to Piazza Construction.

In April, 2018, the District entered into a contract with Piazza Construction for $1,039,963 (with a potential of $104,000 in additional charges) for construction of CIP 2017, Phase 2, which was renamed CIP 2018. As of June 30, 2018, $0 was paid to complete this contract.

## *Note 11: Post-Retirement Health Insurance*

*Plan Description*

The District provides certain health insurance benefits to retired employees in accordance with memoranda of understanding as follows:

For employees who retire from the District after at least five (5) years of service with CalPERS and who have reached the age of fifty (50) years old, and who continue health insurance through a District-sponsored health insurance plan, the District will contribute the minimum monthly amount (as required by CalPERS) of the health insurance premium ($128 and $125 for the calendar year 2017 and 2016 respectively).

Funding Policy

The District adopted a resolution to enter into an agreement with CalPERS to participate in the California Employer's Retiree Benefit Trust Program (CERBT). For fiscal year 2017-18, the District contributed $7,698, which covered current premiums and $3,000 of additional prefunding of benefits. Currently, there are 3 retirees who are receiving benefits.

Annual OPEB and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45's Alternative Measurement Method allowed for employers with less than 100 plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the fiscal year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation.

| | |
|---|---|
| Annual required contribution | $ 5,471 |
| Interest on net OPEB obligation | 34 |
| Adjustment to ARC | (37) |
| Annual OPEB cost (expense) | 5,468 |
| Contributions made | (7,698) |
| Increase in net OPEB obligation | 2,230 |
| Net OPEB obligation – Beginning of the year | 707 |
| Net OPEB obligation – End of year | $ (1,523) |

The District 's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2015-16, 2016-17, and 2017-18 were as follows:

| Fiscal Year | Annual OPEB Cost | Percent of Annual OPEB Cost | OPEB Obligation (Asset) |
|---|---|---|---|
| 6/30/2016 | $ 7,807 | 104% | $ (229) |
| 6/30/2017 | 8,581 | 89% | 708 |
| 6/30/2018 | $ 5,468 | 141% | $ (1,523) |

Funded Status and Funding Progress

As of June 30, 2018, the most recent Alternate Measurement Method valuation date, the plan was 10 percent funded. The actuarial accrued liability for benefits was $ 370,760, and the actuarial value of assets was $ 37,076, resulting in an unfunded actuarial accrued liability (UAAL) of $ 338,664. The covered payroll (annual payroll of active employees covered by the plan) was $ 577,326, and the ratio of the UAAL to the covered payroll was 58.7 percent.

The Alternate Measurement Method valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

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

In fiscal year 2017/2018, the District revised its actuarial assumptions used to calculate the ARC as follows: (1) The minimum Employer Contribution rate of increase was decreased from 3.2 percent to 2.75 percent based on the five years' actual MEC increases. (2) The discount rate used was increased from 3.3 percent to 4.78 percent based on methodology presented in GASB 75. In addition actuarial assumptions presume a 75 percent of employees will choose to participate in CalPERS health upon retirement. The actuarial value of assets is not applicable (no assets as of the initial valuation date). The UAAL is being amortized as a flat percentage of covered payrolls over thirty years. The remaining amortization period at June 30, 2018 was twenty-five (25) years.

Other Postemployment Benefits

Schedule of Funding Progress

| Date | (a) | (b) | (a)-(b) | (b)/(a) |
|---|---|---|---|---|
| 6/30/2014 | $ 392,471 | $ 15,287 | $ 377,184 | 3.9% |
| 6/30/2015 | $ 422,461 | $ 21,482 | $ 400,979 | 5.1% |
| 6/30/2016 | $ 418,666 | $ 25,428 | $ 393,238 | 6.1% |
| 6/30/2017 | $ 479,571 | $ 31,495 | $ 448,076 | 6.6% |
| 6/30/2018 | $ 370,760 | $ 37,076 | $ 333,684 | 10.0% |

## Note 12 Subsequent Event

Subsequent events are those events or transactions that occur subsequent to the effective date of the financial statements, but prior to the issuance of the final reports, which may have a material effect on the financial statement or disclosures therein.

There are no subsequent events that have occurred through November 1, 2018 that meet the above definition.