SWEETWATER SPRINGS WATER DISTRICT

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

FROM: Steve Mack, General Manager

Meeting Date: December 7, 2017

Subject: DISCUSSION/ACTION RE RESOLUTION 17-21, ACCEPTING THE FINAL AUDIT FOR THE FISCAL YEAR ENDING JUNE 30, 2017

RECOMMENDED ACTION:

Approve Resolution 17-21, Accepting the Final Audit for the Fiscal Year Ending June 30, 2017.

FISCAL IMPACT:

(Preparation of the FY 16-17 Audit cost $8,000.)

DISCUSSION:

Our FY 2016-17 Audit was conducted by Michael Celentano, CPA, the third audit of a three-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 no changes of note from 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 17-21, Accepting the Final Audit for the Fiscal Year Ending June 30, 2017.

Resolution No. 17-21

A Resolution of the Board of Directors of the Sweetwater Springs Water District Accepting the Final Audit for the Fiscal Year Ending June 30, 2017

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, 2017, 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 7, 2017, by the following vote.

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

_____
Sukey Robb-Wilder
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

I have audited the financial statements of the business-type activities of Sweetwater Springs Water District for the year ended June 30, 2016. 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 14, 2017. 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 14, 2017.

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 14, 2017

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, 2017, 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 14, 2017

SWEETWATER SPRINGS WATER DISTRICT

BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

SWEETWATER SPRINGS WATER DISTRICT
FINANCIAL STATEMENTS

JUNE 30, 2017

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MICHAEL A. CELENTANO
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PO Box 206
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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, 2017 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
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 GASB Statement 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment 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, fund balance, and expenses has not been determined.

Qualified Opinion

In my opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, 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, 2017 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 14, 2017

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, 2017. 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 2016-17. 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 2016-17

Net income (change in Net Position) is less than last year. Net income for the year before depreciation expense was $968,145 compared to $1,131,189 in FY 2015-16. After depreciation, the District's net position was $162,771. (p. 7.)

Surplus cash transferred to CIRF was $300,000, $30,000 less than was budgeted. (p. 10)

District reserves above policy are up. District funds available for capital improvement projects - "reserves above policy" -- were $1,405,978 at FYE 17, compared to $1,051,606 at FYE 2016. (p. 9.)

Net pension liability (a non-cash expense) has been removed from the financial statements. The District, with the approval of the Auditor, has made the decision to return to discussing net pension liability in the footnotes only, using the unfunded pension liability (UL) figures calculated by CalPERS. Adjusting entries have been made to the prior year's financial statements to provide for meaningful comparison between the two years. (See also, discussion of UL below.)

Selected revenues and expenses:

	FY 2016-17	FY 2015-16
Water Sales:	$2,318,328	$2,258,205
Operating Expenses (before depreciation):	$1,841,611	$1,619,477
Capital Improvement Projects:	$72,997	$1,149,979
Debt Payments (principal + interest):	$1,137,533	$1,028,326

Other Notes for FY 2016-17

(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 2017, Phases II and III.

(2) Unfunded pension liability (UL). UL is a net pension liability figure calculated by PERS which they use to determine annual payments, if any, needed to keep this liability near zero. In FY 2016-17, the District began a long-term plan to make extra payments beyond those required by PERS to pay down the District's UL which has escalated to $965,973 as of 6/30/2016, the most recent year available. In FY 2016-17, the District paid an extra $60,000 towards its UL obligation.

(3) State Loan 58330 paid off. The District paid off the smaller of its two State loans in FY 2016-17, accelerating the payoff date by 4 years..

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 2016-17 compared to FY 2015-16 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 $162,771 to $12,478,683 at FYE 2017, up from $12,315,912 at FYE 2016, largely due to a decrease in outstanding debt and a small increase in Cash.

Table 1
Condensed Statement of Net Position

	FYE 2017	FYE 2016	$ Change	% Change
Cash	2,826,437	2,686,459	139,978	5.2%
Capital Assets	20,459,126	21,152,170	(693,044)	-3.3%
Other Assets	405,874	405,876	(2)	0.0%
Total Assets	**23,691,437**	**24,244,505**	**(553,068)**	**-2.3%**
Bond & Loan principal debt outstanding	10,949,082	11,660,156	(711,074)	-6.1%
Other long-term liabilities	66,663	72,724	(6,061)	-8.3%
Other short-term liabilities	197,009	195,713	1,296	0.7%
Total Liabilities	**11,212,754**	**11,928,593**	**(715,839)**	**-6.0%**
Net investment in capital assets	9,510,044	9,492,014	18,030	0.2%
Restricted	0	0	0	
Unrestricted	2,968,639	2,823,898	144,741	5.1%
Total Net Position	**12,478,683**	**12,315,912**	**162,771**	**1.3%**

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 2016-17 versus FY 2015-16.

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

	FYE 2017	FYE 2016	$ Change	% Change
Water Sales	2,318,328	2,258,205	60,123	2.7%
Property Tax Assessment (flat charge)	765,456	774,640	(9,184)	-1.2%
Non-Operating Revenues	142,960	143,240	(280)	-0.2%
Total Revenues	**3,226,744**	**3,176,085**	**50,659**	**1.6%**
Operating Expenses:				
Salaries & Benefits	1,259,581	1,153,731	105,850	9.2%
Services & Supplies	582,030	465,746	116,284	25.0%
Other			0	-
Total Operating Expenses	**1,841,611**	**1,619,477**	**222,134**	**13.7%**
Non-Operating Expenses:				
Interest	416,988	425,419	(8,431)	-2.0%
Other	0	0	0	0.0%
Total Non-Operating Expenses	**416,988**	**425,419**	**(8,431)**	**-2.0%**
Total Expenses	**2,258,599**	**2,044,896**	**213,703**	**10.5%**
Income before Other Items and Depreciation Expense	**968,145**	**1,131,189**	**(163,044)**	**-14.4%**
Other income	0	0	0	-
Other expense	0	0	0	0.0%
Depreciation Expense	(805,374)	(761,456)	(43,918)	5.8%
Change in Net Position (Net Income)	**162,771**	**369,733**	**(206,962)**	**-56.0%**

Income before Other Items and Depreciation Expense was $163,044 less than last fiscal year.

Total **revenues** were $3,226,744, slightly higher ($50,569) than last year. Water Sales were up from last year. As in recent years, the District increase rates by 3% and, with flood-level rains officially ending the drought, actual water usage was slightly more that last year. Flat charge revenue, collected via property tax bills, is expected to remain constant from year to year at around $750,000. This year they exceeded that amount by $15,456. Non-operating revenues - (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 was about the same as last year, totaling $142,960.

On the expense side, total **expenses** increased by $221,134, or 13.7%, due in equal parts to increases in Salaries & Benefits and Service & Supplies. Salaries & Benefits increased mainly due to increases to employee health benefits and to an extra payment in the sum of pension liability payment of $60,000 made to PERS. Services & Supplies increased as costs increased in a number of categories, particularly repairs to the District's distribution system which can vary widely from year to year and in system fees paid to the State.

Income after accounting for "Other Items" (Change in Net Position) was $162,771, compared to $369,733 in FY 2015-16. Increases in expenses in FY 2016-17 outpaced increases in revenue. As well, Depreciation Expense - a non-cash expense - continues to rise each year as the District continues with annual capital improvements that depreciate over a 40-year life.

III. CAPITAL SPENDING

In FY 2016-17, the District spent just $72,997 on construction projects, broken down as follows:

Project	Project Description	Amount spent FY 2016-17	% complete at FYE 2017
CIP 2017, Phase I* *(*CIP 2017 will be constructed in 3 phases)*	Replace approximately 2,200 lf of existing main and 17 services on River Road from Rio Nido to Old River Road near Outlet Drive	$71,678	19% complete (Project total: $1,024,884)
Tank/Facilities Improvements	(Various site improvements)	$1,319	N/A
		$72,997	

In addition to these capital projects, the District spent a total of $39,333 on a new truck. Also, $45,589 was spent on various in-house large maintenance projects that included $36,832 for an emergency repair on Neeley Road in Guerneville to replace and relocate 225' of mainline from under a failing road.

IV. DISTRICT DEBT/SOURCES OF DEBT REPAYMENT

At the beginning of FY 2016-17, the District owed a total of $11,660,157 in bond debt, state loans, and a private placement loan. During the year the District made $711,075 in principal payments, which included accelerated payoff of the smaller state loan (State Loan 58330).

The table below summarizes activity on the bonds and loans in FY 2016-17:

DEBT TYPE	ORIGINAL PRINCIPAL	PRINCIPAL OWED JULY 1, 2016	PRINCIPAL PAID FY 2016-17	PRINCIPAL OWED FYE 2017
USDA G.O. Bonds	$1,647,875 (2014)	$1,622,728	$25,744	$1,596,984
Capital One Bonds	7,993,000 (2013)*	$6,941,000	$321,000	$6,620,000
State Loans	$3,013,500 (1996)	$909,508	$232,651	$676,857
Private Placement Loan	$3,000,000 (2008)	$2,186,921	$131,680	$2,055,241
		$11,660,157	$711,075	$10,949,082

With interest, actual payments on District bond and loan debt were $1,129,063. 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 2016-17 as shown below:

Flat Charges:	$765,456
CDR Revenue:	$270,375
Capital interest:	$12,811
Total:	**$1,048,642**

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

The shortfall from these sources of revenue -- $80,421 shortfall in FY 2016-17 -- will decrease *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 totaled $2,641,613. District policy reserves were $1,235,635, leaving $1,405,978[2] 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

District reserves above policy were up this year, reflecting that the District spent almost nothing 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. In FY 2016-17, District reserves remain conservatively managed via the County of Sonoma's investment pool. Interest rates remain low, but invested principal remains untouched. At FYE, the District is considering placing a portion of its reserves with the Public Agency Retirement Services (PARS) with the goal of obtaining higher returns.

Water sales revenue has been impacted from state and local water conservation campaigns triggered in part by a multi-year drought. The drought officially ended in FY 2016-17, but customers are still using less water than in the years prior to the drought. The loss of revenue due to conservation has been manageable, due to the District's water rate structure that provides revenue stability regardless of water use.

The District's 2017-24 Capital Improvement Program identifies approximately $3 million of additional capital projects that still need to be completed to bring District facilities to an acceptable standard.[3] According to the District's long-term budget for this same time period annual capital construction costs will average about $700,000. 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 2016-17 it was budgeted at $330,000.
- **Grants**. The District is not anticipating any grant revenue as of FYE.
- **Loan proceeds.** The District's indebtedness was approximately $10.9 million at the end of FY 2016-17. At FYE the District has been approved for $1.8 million in additional bond indebtedness through USDA at a rate of 2.25%.

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[2] Source: FY 2017-18 County Funds spreadsheet.
[3] Source: 2016-23 Capital Improvement Program

- **Reserves.** Reserves available for capital spending ("reserves above policy") were at $1,405,978 at FYE 2017.

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.[4] The plan contemplates nine years of 3% water increases. FY 2016-17 was the sixth 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

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.

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

SWEETWATER SPRINGS WATER DISTRICT
STATEMENT OF NET POSITION
June 30, 2017 and 2016

	June 30, 2017	June 30, 2016
ASSETS		
CURRENT ASSETS		
Cash and investments	$ 1,291,036	$ 950,265
Accounts receivable	303,837	300,951
Flat charges receivables	39,282	42,530
Inventory	56,505	56,395
Prepaid expenses	6,250	6,000
TOTAL CURRENT ASSETS	1,696,910	1,356,141
NONCURRENT ASSETS		
Land	143,053	143,053
Construction in progress	195,073	123,395
Buildings and improvements	29,723,020	29,721,701
Machinery and equipment	616,722	577,389
Less-accumulated depreciation	(10,218,742)	(9,413,368)
TOTAL CAPITAL ASSETS, NET	20,459,126	21,152,170
OTHER NONCURRENT ASSETS		
Restricted cash and investments	1,535,401	1,736,194
TOTAL OTHER NONCURRENT ASSETS	1,535,401	1,736,194
TOTAL ASSETS	23,691,437	24,244,505
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	21,561	9,431
Accrued wages	5,848	2,852
Accrued interest	149,207	157,724
Customer deposits	15,257	15,576
Road maintenance obligations	5,136	10,130
Current portion of long term debt	624,313	622,829
TOTAL CURRENT LIABILITIES	821,322	818,542
LONG TERM LIABILITIES		
Compensated absences	65,956	72,953
General obligation bonds payable	7,858,629	8,216,984
California safe drinking water bonds payable	548,908	765,102
Citizens business bank (COP) payable	1,917,232	2,055,241
Other postemployment benefits payable	707	(229)
TOTAL LONG TERM LIABILITIES	10,391,432	11,110,051
TOTAL LIABILITIES	11,212,754	11,928,593
NET POSITION		
Net Investment in capital assets	9,510,044	9,492,014
Unrestricted	2,968,639	2,823,898
TOTAL NET POSITION	$ 12,478,683	$ 12,315,912

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, 2017 and 2016

	Totals June 30, 2017	Totals June 30, 2016
Operating Revenues		
Charges for services	$ 2,318,328	$ 2,258,205
Total Operating Revenues	2,318,328	2,258,205
Operating Expenses		
Salaries and employee benefits	1,259,581	1,153,731
Service and supplies	582,030	465,746
Depreciation	805,374	761,456
Total Operating Expenses	2,646,985	2,380,933
Operating Income (Loss)	(328,657)	(122,728)
Non-Operating Revenues (Expenses)		
Interest income	22,730	17,518
Rents	97,865	108,747
Flat charges	765,456	774,640
Other non-operating revenue	22,365	16,975
Interest expense	(416,988)	(425,419)
Total Non-Operating Revenues (Expenses)	491,428	492,461
Net Income (Loss)	162,771	369,733
Total Net Position, Beginning of Fiscal Year	12,315,912	11,946,179
Total Net Position, End of Fiscal Year	$ 12,478,683	$ 12,315,912

See accompanying notes to basic financial statements

SWEETWATER SPRINGS WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2017 and 2016

	Totals June 30, 2017	Totals June 30, 2016
Cash Flows From Operating Activities		
Cash received from customers	$ 2,315,442	$ 2,236,431
Payments to suppliers for goods and services	(575,573)	(461,555)
Payments to employees and related items	(1,262,646)	(1,174,539)
Net cash flows provided by operating activities	477,223	600,337
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(112,330)	(1,218,512)
Payment on long term debt	(711,074)	(602,908)
Interest payments	(425,505)	(433,053)
Net cash flows (used) by capital and related financing activities	(1,248,909)	(2,254,473)
Cash Flows From Non-Capital and Related Financing Activities		
Flat charges	768,704	775,481
Miscellaneous non-operating revenues	22,365	16,975
Net cash provided by non-capital and related financing activities	791,069	792,456
Cash Flows From Investing Activities		
Rents	97,865	108,747
Interest income	22,730	17,518
Net cash flows provided by investing activities	120,595	126,265
Net Increase (Decrease) in Cash and Investments	139,978	(735,415)
Cash and Investments, Beginning of Fiscal Year	2,686,459	3,421,874
Cash and Investments, End of Fiscal Year	$ 2,826,437	$ 2,686,459
Reconciliation of Cash and Investments to Amounts Reported on the Statement of Net Position:		
Cash and investments	$ 1,291,036	$ 950,265
Restricted cash and investments	1,535,401	1,736,194
	$ 2,826,437	$ 2,686,459
Supplemental Disclosures:		
Interest expense during the fiscal year	$ 416,988	$ 425,419
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, 2017 and 2016

(Continued)

	Totals June 30, 2017	Totals June 30, 2016
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations:		
Operating income (loss)	$ (328,657)	$ (122,728)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	805,374	761,456
Salaries and employee benefits		
(Increase) Decrease in Operating Assets:		
Accounts receivable	(2,886)	(21,774)
Inventory	(110)	
Prepaid expenses	(250)	
Increase (Decrease) in Operating Liabilities:		
Accounts payable	12,130	2,746
Accrued wages	2,996	(20,808)
Compensated absences	(6,997)	4,325
Customer deposits payable	(319)	2,445
Road maintenance obligations	(4,994)	(4,993)
Other postemployment benefits payable	936	(332)
Total Adjustments	805,880	723,065
Net Cash Provided by Operating Activities	$ 477,223	$ 600,337

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, 2017 and 2016, accrued vacation pay amounted to $65,956 and $72,953 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 implemented the requirements of Governmental Accounting Standards Board (GASB) Statement Nos. 68, and 71 during the fiscal year ended June 30, 2015 and continued with these requirements during fiscal year ended June 30, 2016. For the fiscal year ended June 30, 2017 the District went back to reporting its pension liability under GASB 27 and 50 the predecessor to GASB 68 and 71. Due to this change and to make the financial statements comparable the fiscal year ended June 30, 2016 has been restated. The net affect to the June 30, 2016 financial statements are as follows; Deferred inflows pension

expense went from $60,072 to zero, Net pension liability went from $500,704 to zero, Salaries and benefits went from $980,392 to $1,153,731and Net position unrestricted went from $2,2263,122 to $2,823,898. These affected the Balance Sheet in which the Total Liabilities decreased by $560,776 and Net Position increased by $560,776 and the Statement of Revenues, Expenses and Changes in Net Position in which Operating Expenses increased by $173,339 and Total Net Position, Beginning of Fiscal Year increased by $734,115.

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, 2017:

	Unrestricted	Restricted	Totals
Cash on hand	$ 500	$ -	$ 500
Cash in bank	101,948	76,474	178,422
Cash and investments	1,188,588	1,458,927	2,647,515
Total Cash and Investments	$ 1,291,036	$ 1,535,401	$ 2,826,437

Statement of Net Position:	
Cash and investments	$ 1,291,036
Restricted cash and investments	1,535,401
Total	$ 2,826,437

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.

Note 2: Cash and Investments (Continued)

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

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:

Investment Type	Totals	12 Months or Less	13 to 24 Months	25-36 Months	37-48 Months	49-60 Months	More Than 60 Months
County Pooled Investment Fund	$ 2,647,515	$ 2,647,515	$ -	$ -	$ -	$ -	$ -
	$ 2,647,515	$ 2,647,515	$ -	$ -	$ -	$ -	$ -

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
County Pooled Investment Fund	$ 2,647,515	N/A	$ -	$ -	$ -	$ -	$ 2,647,515
Total	$ 2,647,515		$ -	$ -	$ -	$ -	$ 2,647,515

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, 2017, 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, 2017, was as follows:

	Balance at July 1, 2016	Additions	Deletions	Transfers	Balance at June 30, 2017
Capital assets, not being depreciated:					
Land	$ 143,053	$ -	$ -	$ -	$ 143,053
Construction in progress	123,395	71,678			195,073
Total capital assets, not being depreciated	266,448	71,678			338,126
Capital Assets, being depreciated:					
Building and improvements	29,721,701	1,319			29,723,020
Machinery and equipment	577,389	39,333			616,722
Total capital assets, being depreciated	30,299,090	40,652			30,339,742
Accumulated depreciation:					
Building and improvements	(8,933,721)	(778,408)			(9,712,129)
Machinery and equipment	(479,647)	(26,966)			(506,613)
Total accumulated depreciation	(9,413,368)	(805,374)			(10,218,742)
Total depreciable assets, net	20,885,722	(764,722)			20,121,000
Total capital assets, net	$ 21,152,170	$ (693,044)	$ -	$ -	$ 20,459,126

Depreciation expense of $805,374 was incurred and recorded as an operating expense for June 30, 2017.

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, 2017:

	Balance at July 1, 2016	Additions	Repayments	Balance at June 30, 2017	Due Within One Year
2003 General Obligation Bonds	1,622,728		(25,744)	1,596,984	26,355
2013 General Obligation Refunding Bonds	6,941,000		(321,000)	6,620,000	332,000
California Safe Drinking Bonds	909,508		(232,651)	676,857	127,949
Citizens Business Bank Certificates of Participation	2,186,920		(131,679)	2,055,241	138,009
Total	$ 12,263,167	$ -	$ (711,074)	$ 10,949,082	$ 624,313

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, 2017 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2018	26,355	$ 37,929	$ 64,284
2019	26,981	37,303	64,284
2020	27,622	36,663	64,285
2021	28,278	36,007	64,285
2022	28,950	35,336	64,286
2023-2027	155,394	166,040	321,434
2028-2032	174,744	146,699	321,443
2033-2037	196,504	124,950	321,454
2038-2042	220,976	100,492	321,468
2043-2047	248,492	72,989	321,481
2048-2052	279,436	42,061	321,497
2053-2054	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 balance at June 30, 2017 is $2,055,241.

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

Fiscal Year Ended June 30,	Principal	Interest	Total
2018	$ 138,009	$ 96,004	$ 234,013
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
2023-2027	948,903	131,479	1,080,382
2028-2029	314,321	9,794	324,115
Total	$ 2,055,241	$ 456,543	$ 2,511,784

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 $2,295. 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 $29,937 and $29,012 for June 30, 2017 and 2016 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, 2016 Annual Actuarial Valuation Report. Details of the benefits provided can be obtained in Appendix B of the June 30, 2016 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 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. 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, 2016 (the measurement date), the active employee contribution rate is 8.377% percent of annual pay and the average employer's contribution rate is 12.802 percent of annual payroll for the 2% @ 55 plan and the active employee contribution rate is 6.555 percent of annual pay and the average employer's contribution rate is 6.555 percent of annual payroll for the 2% @ 62 plan. Employer contributions rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

Annual Pension Cost

For June 30, 2017, the District's annual pension cost of $151,399 for PERS was equal to the District's required and actual contributions and plus an additional $60,000 towards it's unfunded liability. The required portion of the contribution was determined as part of the June 30, 2016 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% 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 2.75%. 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, 2017 was determined as part of the June 30, 2016 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
6/30/15	$114,256 (includes unfunded)	100%	$ 0
6/30/16	85,337	100%	$ 0
6/30/17	$91,399*	100%	$ 0

* The District paid an additional $60,000 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
6/30/14	$3,460,337	$2,959,633	$500,704	85.5%	$720,008
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

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

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). 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, 2017, the District has paid Coastland a total of $193,704.

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, 2017, $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 2016-17, the District contributed $7,644, which covered current premiums, but did not include any 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	$ 8,576
Interest on net OPEB obligation	(7)
Adjustment to ARC	12
Annual OPEB cost (expense)	8,581
Contributions made	(7,644)
Increase in net OPEB obligation	937
Net OPEB obligation – Beginning of the year	(229)
Net OPEB obligation – End of year	$ 708

The District 's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2014-15, 2015-16, and 2016-17 were as follows:

Fiscal Year	Annual OPEB Cost	Percent of Annual OPEB Cost	OPEB Obligation (Asset)
6/30/2015	$ 6,935	151%	$ 103
6/30/2016	7,807	104%	(229)
6/30/2017	$ 8,581	89%	708

Funded Status and Funding Progress

As of June 30, 2017, the most recent Alternate Measurement Method valuation date, the plan was 6.6 percent funded. The actuarial accrued liability for benefits was $479,571, and the actuarial value of assets was $31,495, resulting in an unfunded actuarial accrued liability (UAAL) of $448,076. The covered payroll (annual payroll of active employees covered by the plan) was $603,595, and the ratio of the UAAL to the covered payroll was 74.2 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 the June 30, 2017 actuarial valuation, the actuarial assumptions included a 3.3 percent investment rate of return, a 75 percent continuity rate that retirees will continue to participate in CalPERS health, and an annual healthcare cost trend rate of 3.2 percent. 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, 2017 was twenty-six (26) years.

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 14, 2017 that meet the above definition.

SUPPLEMENTARY INFORMATION

Required Supplementary Information
June 30, 2017

Other Postemployment Benefits

Schedule of Funding Progress

Valuation Date	Liability (a)	Assets (b)	Assets) (a)-(b)	Status (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%