

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.

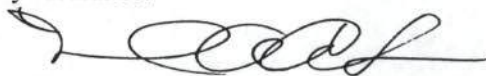
Qualified Opinion

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:

	<u>FY 2017-18</u>	<u>FY 2016-17</u>
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

	<u>FYE 2018</u>	<u>FYE 2017</u>	<u>\$ Change</u>	<u>% Change</u>
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

	<u>FYE 2018</u>	<u>FYE 2017</u>	<u>\$ Change</u>	<u>% Change</u>
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:

<u>DEBT TYPE</u>	<u>ORIGINAL PRINCIPAL</u>	<u>PRINCIPAL OWED JULY 1, 2017</u>	<u>PRINCIPAL PAID FY 2017-18</u>	<u>PRINCIPAL OWED FYE 2018</u>
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 CDR¹ 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:	<u>\$17,073</u>
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	<u>1,637,905</u>	<u>1,696,910</u>
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	<u>20,509,394</u>	<u>20,459,126</u>
OTHER NONCURRENT ASSETS		
Restricted cash and investments	1,341,352	1,535,401
TOTAL OTHER NONCURRENT ASSETS	<u>1,341,352</u>	<u>1,535,401</u>
TOTAL ASSETS	<u>23,488,651</u>	<u>23,691,437</u>
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	<u>863,171</u>	<u>821,322</u>
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	<u>9,735,730</u>	<u>10,391,432</u>
TOTAL LIABILITIES	<u>10,598,901</u>	<u>11,212,754</u>
NET POSITION		
Net Investment in capital assets	10,184,225	9,510,044
Unrestricted	2,705,525	2,968,639
TOTAL NET POSITION	<u>\$ 12,889,750</u>	<u>\$ 12,478,683</u>

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	<u>2,447,124</u>	<u>2,318,328</u>
Operating Expenses		
Salaries and employee benefits	1,307,495	1,259,581
Service and supplies	494,845	582,030
Depreciation	<u>812,135</u>	<u>805,374</u>
Total Operating Expenses	<u>2,614,475</u>	<u>2,646,985</u>
Operating Income (Loss)	<u>(167,351)</u>	<u>(328,657)</u>
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	<u>(376,900)</u>	<u>(416,988)</u>
Total Non-Operating Revenues (Expenses)	<u>578,418</u>	<u>491,428</u>
Net Income (Loss)	411,067	162,771
Total Net Position, Beginning of Fiscal Year	<u>12,478,683</u>	<u>12,315,912</u>
Total Net Position, End of Fiscal Year	<u><u>\$ 12,889,750</u></u>	<u><u>\$ 12,478,683</u></u>

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	<u>630,561</u>	<u>477,223</u>
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	<u>(1,871,662)</u>	<u>(1,248,909)</u>
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	<u>826,782</u>	<u>791,069</u>
Cash Flows From Investing Activities		
Rents	101,914	97,865
Interest income	25,245	22,730
Net cash flows provided by investing activities	<u>127,159</u>	<u>120,595</u>
Net Increase (Decrease) in Cash and Investments	(287,160)	139,978
Cash and Investments, Beginning of Fiscal Year	<u>2,826,437</u>	<u>2,686,459</u>
Cash and Investments, End of Fiscal Year	<u>\$ 2,539,277</u>	<u>\$ 2,826,437</u>
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
	<u>\$ 2,539,277</u>	<u>\$ 2,826,437</u>
Supplemental Disclosures:		
Interest expense during the fiscal year	<u>\$ 376,900</u>	<u>\$ 416,988</u>
Interest capitalized during the fiscal year	<u>\$ -</u>	<u>\$ -</u>

(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

SWEETWATER SPRINGS WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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.

SWEETWATER SPRINGS WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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.

SWEETWATER SPRINGS WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Totals</u>
Cash on hand	\$ 500	\$ -	\$ 500
Cash in bank	124,136	81,492	205,628
Cash and investments	<u>1,073,289</u>	<u>1,259,860</u>	<u>2,333,149</u>
Total Cash and Investments	<u>\$ 1,197,925</u>	<u>\$ 1,341,352</u>	<u>\$ 2,539,277</u>
Statement of Net Position:			
Cash and investments	\$ 1,197,925		
Restricted cash and investments	<u>1,341,352</u>		
Total	<u>\$ 2,539,277</u>		

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.

SWEETWATER SPRINGS WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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	Remaining maturity (in Months)					
		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	\$ -	\$ -	\$ -	\$ -	\$ -
	<u>\$ 2,539,277</u>	<u>\$ 2,539,277</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SWEETWATER SPRINGS WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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).

SWEETWATER SPRINGS WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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	<u>\$ 12,263,167</u>	<u>\$ -</u>	<u>\$ (623,913)</u>	<u>\$ 10,325,169</u>	<u>\$ 657,870</u>

SWEETWATER SPRINGS WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>\$ 1,596,984</u>	<u>\$ 845,278</u>	<u>\$ 2,442,262</u>

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.

SWEETWATER SPRINGS WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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	<u>\$ 6,620,000</u>	<u>\$ 1,990,476</u>	<u>\$ 8,610,476</u>

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	<u>\$ 676,857</u>	<u>\$ 56,233</u>	<u>\$ 733,090</u>

SWEETWATER SPRINGS WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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	<u>\$ 1,917,233</u>	<u>\$ 360,539</u>	<u>\$ 2,277,772</u>

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.

SWEETWATER SPRINGS WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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

SWEETWATER SPRINGS WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

Three-Year Trend Information For PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
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 District paid an 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:

<u>Valuation Date</u>	<u>Accrued Liability</u>	<u>Shared Mkt Value/Assets</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>
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:

<u>Valuation Date</u>	<u>Accrued Liability</u>	<u>Shared Mkt Value/Assets</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>
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.

SWEETWATER SPRINGS WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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:

SWEETWATER SPRINGS WATER DISTRICT
Notes to Basic Financial Statements
June 30, 2018

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	<u>\$ (1,523)</u>

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:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percent of Annual OPEB Cost</u>	<u>OPEB Obligation (Asset)</u>
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.

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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%

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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.