

RIO LINDA/ELVERTA COMMUNITY
WATER DISTRICT
ANNUAL FINANCIAL REPORT
WITH INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2017 AND 2016

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Annual Financial Report
June 30, 2017 and 2016

Table of Contents

	<u>Page</u>
Independent Auditor’s Report.....	1-2
Management’s Discussion and Analysis.....	3-8
<u>Basic Financial Statements</u>	
Statement of Net Position	9
Statements of Revenues, Expenses, and Changes in Net Position	10
Statements of Cash Flows.....	11-12
Notes to Basic Financial Statements.....	13-33
Required Supplementary Information.....	34
<u>Other Reports</u>	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	35-36
Schedule of Current Year Findings.....	37

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rio Linda/Elverta Community Water District
Rio Linda, California

Report on the Financial Statements

We have audited the accompanying financial statements of Rio Linda/Elverta Community Water District (the District), which comprise the balance sheet as of June 30, 2017 and 2016, and the related statements of revenues, expenses, changes in net position, and cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2017, and the results of its operations and cash flows for the year then ended in conformity 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 information, the schedule of the District's proportionate share of the net pension liability, and the schedule of contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied to the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Fechter & Company
Certified Public Accountants



Sacramento, California
November 10, 2017

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis June 30, 2017 and 2016

The management of the Rio Linda/Elverta Water District (District) presents this Management's Discussion and Analysis to achieve two goals:

To comply with the requirements of Governmental Accounting Standards Board Statement 34 (GASB 34) that are designed to provide more and easier-to-understand information about the finances of local government agencies such as the District; and,

To provide readers with narrative information that may help in understanding and interpreting the information presented in the District's financial statements for the fiscal year ended June 30, 2017 (FY 2016-17).

Questions or comments regarding this Management's Discussion and Analysis may be directed to the District General Manager via the following methods:

Mailing address: Rio Linda/Elverta Water District
730 L St.
Rio Linda, California 95673

Telephone: (916) 991-1000
Facsimile: (916) 991-6616
E-mail: gm@rlecwd.com

Financial Highlights

The following items are, in the opinion of District management, among the most significant in assessing the District's overall financial activities during FY 2016-17 and its financial position at the close of FY 2016-17.

- ❖ The District's assets exceeded its liabilities by \$7,961,036. The District's net investment in capital assets, \$6,698,923, is composed of the capital assets of the District net of related debt – the water transmission and distribution system, water production facilities, land, buildings and equipment belonging to the District. Unrestricted net assets totaled \$819,662, an increase from \$114,135 at the end of FY 2015-16.
- ❖ The District's operating revenues were \$2,437,489 and non-operating revenues increased by \$858,880 totaling \$3,296,369. Water sales to customers totaled 69% of all revenues.
- ❖ The District's total net long-term liabilities were \$9,050,744 and includes the Water Revenue Refunding Bond, State Revolving Fund Loan, Water Meter Replacement Loan, and Net Pension Liability.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis
June 30, 2017 and 2016

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts: (1) Management's Discussion and Analysis; and (2) the financial statements, which includes the notes to financial statements.

The financial statements provide both long-term and short-term information about the District's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses, and Changes in Net Position. All assets and liabilities associated with the operation of the District are included in the Statement of Net Position.

The Statement of Net Position presents the financial position of the District on a full accrual historical cost basis and provides information about the nature and amount of resources and obligations at year-end.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis
June 30, 2017 and 2016

Statement of Net Position

As of June 30, 2017, the total net position of the District was \$8,218,372. The following table summarizes assets, liabilities and net position at June 30, 2017, 2016, and 2015:

	2017	2016	2015
Current Assets, Unrestricted	\$ 2,236,562	\$ 2,222,310	\$ 2,660,258
Restricted Cash and Cash Equivalents	1,236,183	1,046,376	2,146,936
Capital assets, net	14,435,341	14,484,419	14,091,779
Total Assets	<u>17,908,086</u>	<u>17,753,105</u>	<u>18,898,973</u>
Total Deferred Outflows	297,772	95,128	100,881
Total Assets and Deferred Outflows	<u>18,205,858</u>	<u>17,848,233</u>	<u>18,999,854</u>
Current Liabilities	896,306	616,139	795,951
Long-term Liabilities	9,050,744	9,468,641	10,930,359
Total Liabilities	<u>9,947,050</u>	<u>10,084,780</u>	<u>11,726,310</u>
Total Deferred Inflows	40,436	65,963	167,690
Total Liabilities and Deferred Inflows	<u>9,987,486</u>	<u>10,150,743</u>	<u>11,894,000</u>
Net Position			
Net investment in capital assets	6,698,923	6,292,818	4,418,605
Restricted debt service reserves	699,787	699,145	526,199
Restricted for debt service & compliance projects	-	-	1,620,738
Unrestricted	819,662	705,527	540,312
Total Net Position	<u>\$ 8,218,372</u>	<u>\$ 7,697,490</u>	<u>\$ 7,105,854</u>

The District's net position reflects Debt Service restrictions imposed as its loan requirements. Below is a summary analysis of changes:

Summary Analysis of Changes	2017 & 2016	2016 & 2015
Total Assets and Deferred Outflows	2.0%	(6.06%)
Total Liabilities and Deferred Inflows	(1.61%)	(14.66%)
Total Net Position	6.77%	8.33%

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis June 30, 2017 and 2016

Changes in Net Position

The following table summarizes the changes in net position for the fiscal year ended June 30, 2017, 2016, and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues	\$ 2,437,489	\$ 2,300,359	\$ 2,428,497
Operating Expenses:			
Personnel services	986,515	733,073	762,133
Professional services	175,449	138,340	146,459
Field operations			
Transmission and distribution	101,896	67,778	77,694
Pumping	192,760	198,706	174,093
Transportation	14,869	15,484	18,112
Treatment	16,579	14,562	13,005
Other	42,038	60,127	52,491
Conservation	11,544	14,545	11,549
Administration	228,942	218,905	235,369
Depreciation and Amortization	624,455	609,090	978,027
Total Operating Expenses	<u>2,395,047</u>	<u>2,070,610</u>	<u>2,468,932</u>
Net Income from Operations	42,442	229,749	(40,435)
Non-Operating Revenues	858,880	591,551	716,743
Non-Operating Expenses	<u>(445,496)</u>	<u>(286,305)</u>	<u>(290,993)</u>
Net Non-Operating Revenues	<u>413,384</u>	<u>305,246</u>	<u>425,750</u>
Net income before capital contributions	<u>455,826</u>	<u>534,995</u>	<u>385,315</u>
Capital Contributions			
Capacity fees	36,650	48,420	27,610
Contributed assets	<u>28,593</u>	<u>20,222</u>	<u>12,598</u>
Total Capital Contributions	<u>65,243</u>	<u>68,642</u>	<u>40,208</u>
Change in net position	521,069	603,637	425,523
Net position, beginning of year	7,697,490	7,105,854	7,837,659
Prior period adjustment	<u>(187)</u>	<u>(12,001)</u>	<u>(1,157,328)</u>
Beginning net position, restated	<u>7,697,303</u>	<u>7,093,853</u>	<u>6,680,331</u>
Net position, end of year	<u>\$ 8,218,372</u>	<u>\$ 7,697,490</u>	<u>\$ 7,105,854</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis June 30, 2017 and 2016

Changes from FY 2015/2016 to FY 2016/2017:

Total net position increased \$520,882 or 6.77% from fiscal year 2016 to 2017.

Total operating revenues increased \$137,130 or 5.96% from fiscal year 2016 to 2017. Which is about the levels for 2014 and 2015 as water consumption has "bounced" back slightly. Operating revenue exceeded operating expenses by \$42,442. Operating expenses increased by \$324,437, a 15.67% increase from fiscal year 2016 to 2017.

Changes from FY 2014/2015 to FY 2015/2016:

Total net position increased \$591,636 or 8.33% from fiscal year 2015 to 2016.

Total operating revenues decreased \$128,138 or 5.28% from fiscal year 2015 to 2016. Operating revenue exceeded operating expenses by \$229,749. Operating expenses decreased by \$398,322, a 16.13% decrease from fiscal year 2015 to 2016.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2017, the District's net investment in capital assets was \$6,698,923 including: the water transmission and distribution system (underground pipelines, water services, water meters, fire hydrants, and other components); water production facilities (groundwater wells); land; buildings and both mobile and fixed equipment.

Additional information on the District's capital assets can be found in Note 3, Capital Assets, of the notes to the basic financial statements.

Debt Administration

The District continues to meet its debt obligations under its Water Revenue Refunding Bonds. Through scheduled debt service payments during 2016-17, principal on its collective debt was reduced by \$124,776 during the year. The District's total debt from its 2015 issuance now stands at approximately \$2.35 million.

The District continues to meet its debt obligations to the State Water Resource Control Board State Revolving Fund (SRF) Loan through scheduled debt service payments during 2016-17, principal on its collective debt was reduced by \$324,644 during the year. The District's total debt from the SRF Loan now stands at approximately \$5.04 million.

The District continues to meet its debt obligation called the Meter Replacement Loan for the AMR/AMI Meter Program capital improvement project. Principal on its collective debt was reduced by \$43,791 during the year. The District's total debt from the Meter Replacement Loan now stands at approximately \$434,703.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis June 30, 2017 and 2016

Compensated absences, composed of vacation hours earned by employees that are payable upon termination or retirement, are valued at \$21,579 at the end of 2016-17, an increase of \$5,219 from the 2015-16 year-end amount of \$16,360.

Additional information on debt activity can be found in Note 4, Long-Term Liabilities, of the notes to the basic financial statements.

ECONOMIC FACTORS AND FUTURE BUDGET CONSIDERATIONS

The District adopted a budget for FY 2017-18 (\$2.44 M revenue and \$2.39 M expenses) with a 9.5% increase in income, a 3.5% increase in expense, and a 35.6% increase in net income compared with the FY 2016-17 Operating Budget.

The District implemented a Water Rate and Capacity Fee increase in September 2016 to fund repairs/renovation projects addressing aging infrastructure and regulatory changes. This included Chromium 6 (Cr6) compliance and adding new supply facilities to consolidate and replace less efficient aging wells. In addition, these funds will assist to address operating costs of the District, while maintaining financial reserves to comply with debt covenants.

A significant portion of the District's budget continues to be repayment of 15-year long-term debt consolidated financing of Water Revenue Bonds in the amount of \$198,158 per year.

In addition, the District is currently paying down its twenty-year term State Revolving Fund (SRF) construction loan in the amount of \$7,179,073. \$1.5 million was paid on the principal with surcharge money the District had collected from our customers over the years. This principal prepayment saves the District \$600,000 in interest over the life of the loan. There was also an additional payment of \$230,677 in FY 2016-17. Total annual payments are approximately \$461,354 per year for the next 14 years.

In September 2016, the District was awarded Prop 84 funding in the amount of \$530,000 for Well 10 Cr6 Treatment Mitigation. The District had also submitted Pre-applications to the State for Prop 1 funding for well 15 and well 2a Cr6 Treatment in the amounts of \$965,625 and \$540,000, respectively. The District did not receive funding commitments for these projects and is considering alternatives.

Growth remains on the horizon, but not in the financial planning range. Although financial contributions from the development community will directly off-set some planning and engineering costs during FY 2017-18. Additionally, infill projects and some small commercial development is likely to continue if the economic conditions remain favorable. Rio Linda is strategically located directly between the large new commercial development in the Airport Industrial Park and the McClellan Business park. Both areas are bringing additional jobs into the region which adds to housing demand in the District. Sacramento County has recently approved increased density for a project within the District boundaries, yet there are no financial agreements or definitive plans in place. It is likely that any significant projects which would increase the number of connections or water demand will not occur until FY 2021-22.

BASIC FINANCIAL STATEMENTS

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017
(WITH COMPARATIVE DATA FOR JUNE 30, 2016)

	2017	2016
ASSETS		
Current Assets:		
Cash and investments	\$ 1,634,434	\$ 1,614,143
Accounts receivable	433,175	464,035
Accrued interest receivable	1,399	1,267
Inventory	132,852	107,037
Prepaid expenses	34,702	35,828
Total current assets	2,236,562	2,222,310
Restricted Assets		
Restricted cash and investments	1,236,183	1,046,376
Capital Assets, Net		
Capital assets	14,435,341	14,484,419
TOTAL ASSETS	17,908,086	17,753,105
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension outflows	297,772	95,128
LIABILITIES		
Current Liabilities:		
Accounts payable	213,542	116,302
Accrued salaries and benefits	30,683	29,196
Accrued interest payable	11,730	12,352
Deposits payable	61,138	62,162
Unearned revenue	49,255	49,255
Current portion of compensated absences liability	21,579	16,360
Current portion of long-term liabilities	508,379	330,512
Total current liabilities	896,306	616,139
Long-term Liabilities:		
Unearned revenue	804,307	853,562
Bonds, loans, and settlements payable	7,321,023	7,992,101
OPEB liability	22,453	11,936
Net pension liability	902,961	611,042
TOTAL LIABILITIES	9,947,050	10,084,780
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows	40,436	65,963
NET POSITION		
Net investment in capital assets	6,698,923	6,292,818
Restricted for debt service reserves	699,787	699,145
Unrestricted	819,662	705,527
TOTAL NET POSITION	\$ 8,218,372	\$ 7,697,490

The accompanying notes are an integral part of these financial statements.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
Operating revenues:		
Water sales	\$ 2,289,627	\$ 2,173,094
Account service charges	102,660	95,530
Other water service fees	45,202	31,735
Total operating revenues	2,437,489	2,300,359
Operating expenses:		
Personnel services	986,515	733,073
Professional services	175,449	138,340
Field operations:		
Transmission and distribution	101,896	67,778
Pumping	192,760	198,706
Transportation	14,869	15,484
Treatment	16,579	14,562
Other	42,038	60,127
Conservation	11,544	14,545
Administration	228,942	218,905
Depreciation	624,455	609,090
Total operating expenses	2,395,047	2,070,610
Operating income	42,442	229,749
Non-operating revenues and (expenses):		
Surcharge	729,739	481,329
Interest income	3,935	14,513
Property tax	75,951	46,454
Rental income	49,255	49,255
Loss on disposition of assets	(14,048)	(45,899)
Interest expense	(224,195)	(238,303)
Other non-operating expenses	(207,253)	(2,103)
Total non-operating revenues and (expenses)	413,384	305,246
Income before capital contributions	455,826	534,995
Capital Contributions		
Capacity fees	36,650	48,420
Contributed assets	28,593	20,222
Total capital contributions	65,243	68,642
Change in net position	521,069	603,637
Beginning net position	7,697,490	7,105,854
Prior period adjustment	(187)	(12,001)
Beginning net position, restated	7,697,303	7,093,853
Ending net position	\$ 8,218,372	\$ 7,697,490

The accompanying notes are an integral part of these financial statements.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Receipts from customers	\$ 2,467,325	\$ 2,376,564
Payments to suppliers	(711,526)	(907,846)
Payments to employees	(905,544)	(922,643)
	<u>850,255</u>	<u>546,075</u>
Cash Flows from non-capital financing activities:		
Property taxes received	<u>75,951</u>	<u>46,454</u>
	<u>75,951</u>	<u>46,454</u>
Cash flows from capital and related financing activities:		
Surcharge revenue received	729,739	481,329
Capacity fees	36,650	48,420
Payments on long-term debt	(493,211)	(2,044,917)
Purchase and construction of property	(561,019)	(1,041,511)
Abandonment of well project	(207,253)	-
Proceeds from the issuance of long-term debt	-	694,356
Interest and fees paid on long-term debt	(224,817)	(239,498)
	<u>(719,911)</u>	<u>(2,101,821)</u>
Cash flows from investing activities:		
Investment income received	<u>3,803</u>	<u>14,114</u>
	<u>3,803</u>	<u>14,114</u>
Net increase (decrease) in cash and cash equivalents	210,098	(1,495,178)
Cash and cash equivalents, beginning of year	<u>\$ 2,660,519</u>	<u>\$ 4,155,697</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,870,617</u></u>	<u><u>\$ 2,660,519</u></u>
Cash and cash equivalents consist of the following:		
Unrestricted	\$ 1,634,434	\$ 1,614,143
Restricted	<u>1,236,183</u>	<u>1,046,376</u>
	<u><u>\$ 2,870,617</u></u>	<u><u>\$ 2,660,519</u></u>

The accompanying notes are an integral part of these financial statements.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2017
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 42,442	\$ 229,749
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	624,455	609,090
Changes in assets and liabilities:		
Accounts receivable	30,860	68,855
Inventory	(25,815)	(30,158)
Prepaid expenses	1,126	4,324
Accounts payable	97,240	(153,565)
Accrued salaries and benefits	1,487	5,041
Deposits payable	(1,024)	7,350
Compensated absences	5,219	(6,242)
Lawsuit settlement	-	(17,800)
Other post employment benefits asset/liability	10,517	12,644
Net pension liability	63,748	(183,213)
	\$ 850,255	\$ 546,075
 Supplemental Disclosure of Non-Cash Activities		
Donated capital assets	\$ 28,593	\$ 20,222

The accompanying notes are an integral part of these financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Rio Linda/Elverta Community Water District (District) have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. In addition, the District applies Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

Reporting Entity: The District was formed on November 9, 1948, and provided water and sewer services. Sewer services were transferred to Sacramento County in 1976. The District no longer provides sewer service. The District currently provides domestic water service and fire flows to approximately 4,610 metered accounts, including procurement, quality, and distribution. The District is governed by a Board of Directors consisting of five directors elected by residents of the District.

Basis of Presentation – Fund Accounting: The District's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net position for the enterprise fund represent the amount available for future operations.

Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Net position is segregated into amounts invested in capital assets, net of related debt, amounts restricted, and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The District uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Earned but unbilled water services are accrued as revenue.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Accounting: (continued)

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principle operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents held include bank deposits, Local Agency Investment Fund (LAIF), an investment pool managed by the State of California, and money market mutual funds.

Restricted Assets: Certain proceeds of the District's long-term debt are classified as restricted investments on the balance sheet because their use is limited by applicable debt covenants and ordinances. In addition, proceeds from the surcharge levied on customer accounts are restricted for capital improvements. Certain other amounts received by the District are restricted for other purposes.

Investments: Investments are stated at their fair value, which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

Inventory: Inventory consists primarily of materials used in the construction and maintenance of the water distribution facilities and is valued on a first-in, first-out basis.

Capital Assets: Capital assets are recorded at historical cost. Donated assets are valued at acquisition value on the date received. Self-constructed assets are recorded based on the amount of direct labor, material, and certain overhead charged to the asset construction. Depreciation is calculated using the straight-line method over estimated useful lives of 8 to 60 years for transmission and distribution and 3 to 50 years for general plant assets.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets: (continued)

Maintenance and repairs are charged to operations when incurred. It is the District's policy to capitalize all capital assets with an initial cost of more than \$1,500 and an estimated useful life in excess of two years. Costs of assets sold or retired (and the related amounts of accumulated depreciation) are eliminated from the balance sheet in the year of sale or retirement, and the resulting gain or loss is recognized in operations.

Accounts Receivable: The District issues water invoices bi-monthly based on meter readings. Delinquent water invoices may have a lien placed on the property. The District does not provide for an allowance for uncollectible accounts due to the lien process.

Deferred Outflows and Inflows of Resources: Pursuant to GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*," the District recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the District that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category. Please refer to Note 6 for a detailed listing of the deferred outflows of resources the District has recognized.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the District that is applicable to a future reporting period. The District has one item which qualifies for reporting in this category. Please refer to Note 6 for a detailed listing of the deferred inflows of resources.

Unearned Revenues: Unearned revenue represents funds received for future rental income on various cell tower leases.

Contributed Facilities: The District receives facilities (hydrant, pipes, valves, etc.) from developers resulting from developers preparing the sites to connect to the District. The District records these items as capital assets and depreciates them over their estimated useful life.

Property Taxes: Property tax revenue is recognized in the fiscal year for which the tax and assessment is levied. The County of Sacramento levies, bills, and collects property taxes and special assessments for the District. Under the County's "Teeter Plan", the

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 1: REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property Taxes: (continued)

County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on July 1. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31.

Compensated Absences: The District has a policy whereby employees can accrue up to a maximum of 240 hours of vacation leave. All accrued vacation leave will be paid to the employee on termination of employment. Accumulated unpaid vacation leave is accrued when earned. Employees accrue sick leave, but any remaining balance at termination of employment is not paid out to the employee; thus, the District does not accrue a liability for sick leave, except for those that have contracts that specifically state that sick leave will be paid out upon termination.

NOTE 2: CASH AND INVESTMENTS

Cash and investments as June 30, 2017 and 2016, are classified in the accompanying financial statements as follows:

	2017	2016
Cash and cash equivalents	\$ 1,634,434	\$ 1,614,143
Restricted cash and investments	1,236,183	1,046,376
Total Cash and Investments	\$ 2,870,617	\$ 2,660,519

Cash and investments as of June 30, 2017 and 2016, consisted of the following:

	2017	2016
Deposits with financial institutions	\$ 2,363,783	\$ 2,154,953
Total Cash	2,363,783	2,154,953
Investment in Local Agency Investment Fund (LAIF)	15,806	15,704
Held by Bond Trustee:		
Money market mutual fund	7,719	5,663
Negotiable certificates of deposits	433,640	434,158
Government agency securities	49,669	50,041
Total Investments	506,834	505,566
Total Cash and Investments	\$ 2,870,617	\$ 2,660,519

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 2: CASH AND INVESTMENTS - CONTINUED

Investment Policy: California statutes authorize districts to invest idle, surplus, or reserve funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 – Financial Affairs. The table below identifies the investment types that are authorized by the District’s investment policy and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. The District’s investment policy is more restrictive than the California Government Code, as it limits the length of maturity and/or the maximum percentage at the portfolio of several investment types. Where there is a difference, the table presents the more restrictive requirement.

This table does not address investments of debt proceeds held by the 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. During the year ended June 30, 2017, the District’s permissible investments included the following instruments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Investment in One Issuer
Local Agency Bonds	None	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	75%	None
State of California obligations	None	None	None
Bankers Acceptances	180 days	40%	30%
Commercial Paper	180 days	20%	10%
Negotiable Certificates of Deposits	5 years	20%	None
Repurchase Agreements	180 days	20%	None
Local Agency Bonds	None	None	None
Medium Term Corporate Notes	5 years	25%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage pass-through securities	5 years	20%	None
LAIF	N/A	\$50m	None
Bank Savings Account	N/A	25%	None

* Excluding amounts held by the bond trustee that are not subject to California Government Code restrictions.

The District complied with the provisions of the California Government Code pertaining to the types of investments held, the institutions in which deposits were made, and the security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 2: CASH AND INVESTMENTS - CONTINUED

Investments Authorized by Debt Agreements: Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The Water Revenues Refunding Bond agreements contain certain provisions that address interest rate risk and credit risk, but not concentration of credit risk.

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 market interest rates. One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair value of the District's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

	<u>Total</u>	<u>12 Months Or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>
Local Agency Investment Fund	\$ 15,806	\$ 15,806	\$	\$
Held by Bond Trustee:				
Money market mutual fund	7,719	7,719		
Negotiable certificates of deposits	433,640	50,117	228,696	154,827
Government agency securities	49,669			49,669
Total Investments	<u>\$ 506,834</u>	<u>\$ 73,642</u>	<u>\$ 228,696</u>	<u>\$ 204,496</u>

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 a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

	<u>Minimum Legal Rating</u>	<u>Total</u>	<u>Ratings as of Year End</u>	
			<u>AAA</u>	<u>Not Rated</u>
Local Agency Investment Fund	N/A	\$ 15,806	\$	\$ 15,806
Held by Bond Trustee:				
Money market mutual fund	N/A	7,719		7,719
Negotiable certificates of deposits	N/A	433,640		433,640
Government agency securities	A	49,669	49,669	
Total Investments		<u>\$ 506,834</u>	<u>\$ 49,669</u>	<u>\$ 457,165</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 2: CASH AND INVESTMENTS - CONTINUED

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 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 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 market 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 public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2017, the carrying amount of the District’s deposits were \$2,870,617 and the balances in financial institutions were \$2,824,867. Of the balance in financial institutions, \$1,413,132 was covered and \$1,411,735 was not covered by federal depository insurance. As of June 30, 2017, District investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the District to buy the securities:

<u>Reported Investment Type</u>	<u>Amount</u>
Money market mutual funds	\$ 7,719
Negotiable certificates of participation	433,640
Government agency securities	49,669

Investment in LAIF: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the District’s investment in this pool is reported in the accompanying financial statements at amounts based upon the District’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements June 30, 2017 and 2016

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Additions	Disposals	Transfers/ Adjustments	Balance June 30, 2017
Capital assets not being depreciated:					
Land	\$ 496,673	\$	\$	\$	\$ 496,673
Construction in progress	588,994	481,993		(433,220)	637,767
Total Capital Assets not being depreciated	<u>1,085,667</u>	<u>481,993</u>		<u>(433,220)</u>	<u>1,134,440</u>
Capital assets being depreciated:					
Water System Facilities	20,039,978	89,501		433,220	20,562,699
General plant assets	594,236	18,119	(5,848)		606,507
Intangible assets	403,145		(30,102)		373,043
Total capital assets being depreciated	<u>21,037,359</u>	<u>107,620</u>	<u>(35,950)</u>	<u>433,220</u>	<u>21,542,249</u>
Less accumulated depreciation for:					
Water System Facilities	(7,003,110)	(566,240)		(187)	(7,569,537)
General plant assets	(408,441)	(41,506)	5,848		(444,099)
Intangible assets	(227,056)	(16,709)	16,053		(227,712)
Total accumulated depreciation	<u>(7,638,607)</u>	<u>(624,455)</u>	<u>21,901</u>	<u>(187)</u>	<u>(8,241,348)</u>
Total capital assets being depreciated, net	<u>13,398,752</u>	<u>(516,835)</u>	<u>(14,049)</u>	<u>433,033</u>	<u>13,300,901</u>
Capital assets, net	<u>\$ 14,484,419</u>	<u>\$ (34,842)</u>	<u>\$ (14,049)</u>	<u>\$ (187)</u>	<u>\$ 14,435,341</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements June 30, 2017 and 2016

NOTE 3: CAPITAL ASSETS – CONTINUED

Capital asset activity for the year ended June 30, 2016 is as follows:

	Balance July 1, 2015	Additions	Disposals	Transfers/ Adjustments	Balance June 30, 2016
Capital assets not being depreciated:					
Land	\$ 496,673	\$	\$	\$	\$ 496,673
Construction in progress	631,834	575,617		(618,457)	588,994
Total Capital Assets not being depreciated	<u>1,128,507</u>	<u>575,617</u>		<u>(618,457)</u>	<u>1,085,667</u>
Capital assets being depreciated:					
Water System Facilities	19,096,450	325,966		617,562	20,039,978
General plant assets	603,967	110,830	(31,557)	(89,004)	594,236
Intangible assets	407,225	39,960	(44,040)		403,145
Total capital assets being depreciated	<u>20,107,642</u>	<u>476,756</u>	<u>(75,597)</u>	<u>528,558</u>	<u>21,037,359</u>
Less accumulated depreciation for:					
Water System Facilities	(6,413,185)	(555,628)		(34,297)	(7,003,110)
General plant assets	(505,063)	(41,518)	18,688	119,452	(408,441)
Intangible assets	(226,122)	(11,944)	11,010		(227,056)
Total accumulated depreciation	<u>(7,144,370)</u>	<u>(609,090)</u>	<u>29,698</u>	<u>85,155</u>	<u>(7,638,607)</u>
Total capital assets being depreciated, net	<u>12,963,272</u>	<u>(132,334)</u>	<u>(45,899)</u>	<u>613,713</u>	<u>13,398,752</u>
Capital assets, net	<u>\$ 14,091,779</u>	<u>\$ 443,283</u>	<u>\$ (45,899)</u>	<u>\$ (4,744)</u>	<u>\$ 14,484,419</u>

Depreciation expense in the amount of \$624,455 and \$609,090 was recorded for the years ended June 30, 2017 and 2016, respectively, and is included with depreciation expense on the Statement of Revenues, Expenses, and Changes in Net Position.

NOTE 4: LONG-TERM LIABILITIES

2015 Water Revenue Refunding Bonds: On April 1, 2015, the District entered into a loan agreement with Umpqua Bank to issue Series 2015 Water Revenue Refunding Bonds at an interest rate of 3.61%, the proceeds of which were used to provide financing for the refunding and defeasance of the District's 2003 Water Revenue Refunding Bonds. These 2003 Bonds were issued to refund debt used to finance certain capital improvements to the District's water system. Semi-annual principal payments, ranging from \$48,776 to \$136,000, and semi-annual interest payments, ranging from \$1,210 to \$40,642, are due on May 1 and November 1, through November 1, 2031. As of June 30, 2017, the District's loan balance was \$2,353,846.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 4: LONG-TERM LIABILITIES - CONTINUED

Safe Drinking Water State Revolving Fund Loan: On June 30, 2011, the District finalized the Safe Drinking Water Loan funding agreement in the amount of \$7,499,045 at an interest rate of 2.57% to be paid over 20 years. The loan proceeds will assist the District in complying with the State safe drinking water standards. The project was completed in June 2015, and the actual borrowed by the District was only \$7,179,073. Semi-annual loan payments of \$230,677 are due on January 1 and July 1, through July 1, 2035. As of June 30, 2017, the District's loan balance was \$5,040,853.

Water Meter Replacement Loan: In July 2015, the District entered into an installment purchase agreement with Holman Capital Corporation for \$499,835 at an interest rate of 3.10% to be paid over 10 years. The agreement is for the acquisition and installation of 813 meters and solar-powered data collectors that will electronically connect to the existing automatic meter reading system, and installation of a dashboard system that will provide water data analytics to detect leaks, high water users, and overall system performance. Semi-annual loan payments of \$29,257 are due on January 23 and July 23, through July 23, 2025. As of June 30, 2017, the District's loan balance was \$434,703.

Legal Settlement: In February 2013, the District entered into a legal settlement with a former employee whereby \$89,000 of the settlement is due in 29 monthly installments starting July 15, 2013. The final payment of \$17,800 was paid in fiscal year 2015-16.

The activity of the District's long-term liabilities during the years ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
State safe drinking water loan	\$ 5,365,497	\$	\$ (324,644)	\$ 5,040,853	\$ 165,885
2015 water revenue refunding	2,478,622		(124,776)	2,353,846	129,077
Water meter replacement loan	478,494		(43,791)	434,703	45,400
Compensated absences	16,360	30,610	(25,391)	21,579	21,579
Net pension liability	611,042	291,919		902,961	
Other post-employment benefits	11,936	31,377	(20,860)	22,453	
	<u>\$ 8,961,951</u>	<u>\$ 353,906</u>	<u>\$ (539,462)</u>	<u>\$ 8,776,395</u>	<u>\$ 361,940</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 4: LONG-TERM LIABILITIES - CONTINUED

The activity of the District’s long-term liabilities during the years ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
State safe drinking water loan	\$ 6,984,552	\$ 194,521	\$ (1,813,576)	\$ 5,365,497	\$ 161,712
2015 water revenue refunding	2,688,622		(210,000)	2,478,622	124,776
Water meter replacement loan		499,835	(21,341)	478,494	44,024
Legal settlement	17,800		(17,800)		
Compensated absences	22,602		(6,242)	16,360	16,360
Net pension liability	698,281		(87,239)	611,042	
Other post-employment benefits	(708)	31,377	(18,733)	11,936	
	<u>\$ 10,411,149</u>	<u>\$ 725,733</u>	<u>\$ (2,174,931)</u>	<u>\$ 8,961,951</u>	<u>\$ 346,872</u>

The annual requirements to amortize the outstanding debt for the 2015 Water Refunding Loan as of June 30, 2017, are as follows:

	Principal	Interest	Total
2018	\$ 129,077	69,616	198,693
2019	133,163	65,726	198,889
2020	139,015	61,717	200,732
2021	145,736	57,489	203,225
2022	148,158	53,111	201,269
2023-2027	814,846	195,823	1,010,669
2028-2032	843,851	64,239	908,090
	<u>\$ 2,353,846</u>	<u>\$ 567,721</u>	<u>\$ 2,921,567</u>

The annual requirements to amortize the outstanding debt for the Safe Drinking Water State Revolving Fund Loan as of June 30, 2017, are as follows:

	Principal	Interest	Total
2018	\$ 165,885	\$ 64,792	\$ 230,677
2019	338,193	123,161	461,354
2020	346,943	114,411	461,354
2021	355,919	105,435	461,354
2022	365,128	96,227	461,355
2023-2027	1,972,323	334,450	2,306,773
2028-2031	1,496,462	76,332	1,572,794
	<u>\$ 5,040,853</u>	<u>\$ 914,808</u>	<u>\$ 5,955,661</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 4: LONG-TERM LIABILITIES - CONTINUED

The annual requirements to amortize the outstanding debt for the Water Meter Replacement Loan as of June 30, 2017, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 45,400	\$ 13,114	\$ 58,514
2019	46,818	11,696	58,514
2020	48,281	10,233	58,514
2021	49,789	8,725	58,514
2022	51,344	7,170	58,514
2023-2026	<u>193,071</u>	<u>12,129</u>	<u>205,200</u>
	<u>\$ 434,703</u>	<u>\$ 63,067</u>	<u>\$ 497,770</u>

Pledged Revenue: The District pledged future water system revenues, net of specified expenses, to repay the 2015 Water Revenue Refunding Bonds in the original amount of \$2,688,622. Proceeds of the refunded bonds funded the acquisition and construction of certain facilities, as indicated above. The Bonds are payable solely from water customer net revenues and are payable through November 2031. Annual principal and interest payments on the Bonds are expected to require less than 80% of net revenues. Total principal and interest remaining to be paid on the Bonds was \$2,921,567 and \$3,119,725 at June 30, 2017 and 2016, respectively.

The District pledged surcharge fee revenues, to repay the 2011 State Safe Drinking Water Loan in the amount up to \$7,499,045. Proceeds of the Loan funded the construction of wells to meet State safe drinking water standards. Annual principal and interest payments on the Loan are expected to be fully recovered by the surcharge fees from customers. Total principal and interest paid on the loan from surcharge fees was \$461,355 and \$461,355 for the years ended June 30, 2017 and 2016, respectively. The total surcharge fee revenues were \$729,739 and \$481,329 for the years ended June 30, 2017 and 2016, respectively. The District is required to maintain net revenues at least 1.2 times total annual debt service. The District’s surcharge revenues exceeded this requirement at June 30, 2017 and 2016.

Arbitrage Rebate Liability: Section 148(f) of the Internal Revenue Code requires issuers of tax-exempt state and local bonds to remit to the federal government amounts equal to (a) the excess of the actual amounts earned on all “Non-Purpose Investments” allocable to “Gross Proceeds” of an issue of municipal obligations less the amount that would have been earned if the investments bore a rate equal to the amount that would have been earned if the investments bore a rate equal to the yield on the issue, plus (b) all income attributable to the excess. Issuers must make rebate payments at least once every five years and upon final retirement or redemption of the bonds. There was no arbitrage liability at June 30, 2017 and 2016.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 5: UNEARNED REVENUE

In August 2014, the District assigned the right to receive rental income on various cell tower leases for a period of 20 years to Wireless Capital Partners, LLC, in exchange for \$985,101 of cash. The District is also entitled to receive 50% of any rental increases after the expiration of the current leases. The District will recognize the revenue from this agreement over a period of 20 years, or \$49,255 annually. The balance of unearned revenue at June 30, 2017, was \$853,562.

NOTE 6: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63 (defined in footnote No. 1), the District recognized deferred outflows of resources in the financial statements. These items are a consumption of net position by the District that is applicable to a future reporting period.

As of June 30, 2017, the District reported \$297,772 as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the year-end June 30, 2017.

The District also recognized deferral inflows of resources on the Statement of Net Position. This is an acquisition of net position by the District that is applicable to a future reporting period. The District had one item related to pensions that is captured as a deferred inflow of resources. The total at June 30, 2017, was \$40,436.

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 8,249
2019	11,445
2020	75,360
2021	43,359
Total	<u>\$ 138,413</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 7: NET POSITION

Restrictions: Restricted net position consist of constraints placed on net position use through external requirements imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or constraints by law through constitutional provisions or enabling legislation. Restricted net position consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Debt service reserve on 2015 Water Revenue Refunding Bonds	\$ 238,432	\$ 237,790
Debt service reserve on State Loan	<u>461,355</u>	<u>461,355</u>
Total Restricted Net Position	<u>\$ 699,787</u>	<u>\$ 699,145</u>

The restrictions for debt service represent debt service and other reserves required by the related debt covenants. The restriction for State Loan repayment represents surcharges collected under Ordinance No. 2009-03 passed by the Board in May 2009 to fund projects to comply with a State of California Department of Public Health Compliance Order and to repay the State Loan per the loan agreement.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 8: DEFINED BENEFIT PENSION PLAN

Plan Description: The District contributes to the California Public Employees Retirement System (PERS), a cost sharing multiple-employer public employee defined benefit pension plan. The District participates in the miscellaneous 2% at 55 risk pool. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public employers within the State of California. PERS require agencies with less than 100 active members in the plan to participate in the risk pool. All full and part-time District employees working at least 1,000 hours per year are eligible to participate in PERS. Under PERS, benefits vest after five years of service. Upon retirement, participants are entitled to an annual retirement benefit, payable for life, in an amount equal to a benefit factor times the monthly average salary of their highest twelve consecutive months, full-time equivalent, monthly pay. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by a contract with PERS and adopts those benefits through District resolution. PERS issues a separate comprehensive annual financial report. Copies of the PERS' annual financial report may be obtained from the PERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy: Active plan members were required to contribute 7% of their annual covered salary. Starting in December 2011, the District contributed 3.5% on behalf of the employees. The contributions made by the District on behalf of the employees were \$59,865 for the year ended June 30, 2017, and \$38,324 for the year ended June 30, 2016. The District is required to contribute at an actuarially determined rate. The District has two tiers of participants, classic and PEPRA. The required employer contribution rate for the classic plan for fiscal year 2016/2017, 2015/2016, and 2014/2015 was 8.377%, 8.003%, and 19.600%, respectively. The required employer contribution rate for the PEPRA plan for fiscal year 2016/2017, 2015/2016, and 2014/2015 was 6.555%, 6.237%, and 6.250%, respectively. The contribution requirements of the plan members and the District are established and may be amended by PERS. The District's contributions for the years June 30, 2017, 2016, and 2015, were \$118,924, \$95,128, and \$76,957, respectively, which were equal to the required contributions each year.

At June 30, 2017, the District reported a liability of \$902,961 in the Statement of Net Position for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, which was actuarially determined.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 8: DEFINED BENEFIT PENSION PLAN - CONTINUED

For the fiscal year ended June 30, 2017, the District recognized a pension expense of \$184,023 in its financial statements. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees.

- Discount Rate – 7.65%
- Investment Rate – 7.65%
- Inflation Rate – 2.75%
- Salary Increases – Varies by Entry Age and Service
- COLA Increases – up to 2.75%
- Post-Retirement Mortality – Derived using CalPERS’ Membership Data for all Funds

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011, through June 30, 2014.

The long-term expected rate of return on pension plan investments (7.65%) was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	47.0%	5.71%
Global Fixed Income	19.0%	2.43%
Inflation Sensitive	6.0%	3.36%
Private Equity	12.0%	6.95%
Real Estate	11.0%	5.13%
Infrastructure and Forestland	3.0%	5.09%
Liquidity	2.0%	(1.05)%

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 8: DEFINED BENEFIT PENSION PLAN – CONTINUED

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension fund’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the pension fund’s fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investments, and was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.65%) or 1 percentage point higher (8.65%) than the current rate:

	1% Decrease 6.65%	Discount Rate 7.65%	1% Increase 8.65%
District’s proportionate share of the net pension plan liability	\$ 1,405,571	\$ 902,961	\$ 487,579

Detailed information about the pension fund’s fiduciary net position is available in the separately issued PERS comprehensive annual financial report which may be obtained by contacting PERS.

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) LIABILITY

Plan Description: The District provides health benefits for employees and retirees through the Northern California General Teamsters Security Fund for members of Teamsters Local 150, and through outside providers for non-teamsters employees and retirees.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) LIABILITY - CONTINUED

Plan Description: (continued)

Retiree health benefits vary by tier, which is based on date of hire, as follows:

Tier 1: Hired prior to January 1, 2003: Eligible for District-paid retiree health benefits after the later of age 50 and 5 years of service. Coverage will be for retiree and one eligible dependent, up to \$466/month for retiree and \$675/month for retiree plus one coverage.

Tier 2: Hired on or after January 1, 2003 but prior to May 1, 2004: The District contributes a percentage of the premium for retiree and one eligible dependent, up to a maximum of \$466/month for retiree and \$675/month for retiree plus one coverage, based on years of service at retirement, as follows:

<u>Years of Service</u>	<u>Hired on or After January 1</u>
10	50%
11	55%
12	60%
13	65%
14	70%
15	75%
16	80%
17	85%
18	90%
19	95%
20	100%

Tiers 3 and 4: Hired on or after May 1, 2004: Eligible for District-paid benefits after the later of age 59 and 20 years of service. Benefits limited to \$300/month for the retiree only.

Benefits for all tiers end at eligibility for Medicare (age 65). Benefits are reduced for employees working less than full-time for the 3-year period before retirement.

There are three retired management employees and one retired Board member with benefits being provided according to special arrangements not expected to be repeated in the future. Current management and Board members will not be entitled to District-paid retiree health benefits upon retirement.

Funding Policy: As required by GASB 45, an actuary will determine the District's Annual Required Contributions (ARC) at least once every three fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost for one year, and (2) a component for amortization of the total unfunded actuarial accrued liability (UAAL) over a period not to exceed 30 years.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) LIABILITY - CONTINUED

Funding Policy: (continued)

GASB 45 does not require pre-funding of OPEB benefits. The District’s funding policy is to continue to pay healthcare premiums for retirees as they become due (“pay-as-you-go”).

Annual OPEB Cost and Net OPEB Obligation: The following table shows the components of the District’s Annual OPEB Cost for the fiscal years ended June 30, 2017 and 2016, the amount actually contributed to the plan (including administrative costs), and changes in the District’s Net OPEB Obligation:

	2017	2016
Annual required contributions	\$ 6,703	\$ 6,703
Interest on net OPEB obligation	34	34
Amortization of unfunded liability	24,640	24,640
Annual OPEB cost (expense)	31,377	31,377
Contributions made	(20,860)	(18,733)
Increase in net OPEB obligations	10,517	12,644
Net OPEB obligations – beginning of year	11,936	(708)
Net OPEB (asset) obligation – end of year	\$ 22,453	\$ 11,936

The District’s Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the plan, and the Net OPEB Obligation for the fiscal year ended June 30, 2015, 2016, and 2017, are as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2015	\$ 25,492	\$ 23,166	90.88%	\$ (708)
6/30/2016	31,377	18,733	59.70%	11,936
6/30/2017	31,377	20,860	66.48%	22,453

Funded Status and Funding Progress: The funded status of the plan as of January 1, 2012, the Plan’s most recent actuarial valuation date, was as follows:

Actual Valuation Date	Actuarial Value of Assets (a)	Projected Unit Credit Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2012	\$ -	\$ 233,310	\$ 233,310	0.00%	\$ 284,775	\$ 81.9%
7/1/2015	-	231,245	231,245	0.00%	516,107	44.8%

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) LIABILITY - CONTINUED

Funded Status and Funding Progress: (continued)

Actuarial 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 District 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, presents multiyear trend information that shows 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 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 methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The plan's most recent actuarial valuation was performed as of July 1, 2015. In that valuation, the Projected Unit Credit (PUC) Cost Method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual medical trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 5 percent after 3 years. These assumptions reflect an implicit 3 percent general inflation assumption. The District's Unfunded Actuarial Accrued Liability is being amortized as a level dollar amount on an open basis over 30 years. The remaining amortization period as of June 30, 2017, was 11 years.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2017 and 2016

NOTE 10: INSURANCE

The District participates in the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA), a public entity risk pool of California water agencies, for general and auto liability, public official's liability, employment practices liability, property damage and fidelity insurance. ACWA/JPIA provides insurance through the pool up to a certain level, beyond which the group purchases commercial excess insurance.

The District pays an annual premium to ACWA/JPIA that includes its pro-rata share of excess insurance premiums, charges for the pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the ACWA/JPIA. The District's deductibles and maximum coverage are as follows:

Coverage	ACWA/JPIA	Commercial Insurance	Deductible
General and Auto Liability (Includes Public Officials Liability)	\$ 2,000,000	\$ 58,000,000	None
Employment Practices Liability	2,000,000		
Property Damage	100,000	100,000,000	\$500 - \$50,000
Fidelity	100,000		\$1,000

The District continues to carry commercial insurance for all other risks of loss to cover all claims for risk of loss to which the District is exposed. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11: NON-OPERATING EXPENSES

In fiscal year 2016-17, the District recorded non-operating expenses of \$205,319 for the abandonment of the construction of Well 17.

NOTE 12: PRIOR PERIOD ADJUSTMENT

In fiscal year 2016-17, a prior period adjustment to reduce net position was recorded for \$187 to restate the beginning balance of capital assets. A similar adjustment of \$12,001 was recorded in fiscal year 2015-16.

NOTE 13: SUBSEQUENT EVENT

Management has evaluated subsequent events through November 10, 2017, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Required Supplementary Information

Pension

June 30, 2017

Rio Linda/Elverta Community Water District – Schedule of the District’s proportionate share of the Net Pension Liability:

Last 10 Fiscal years*

Measurement Date	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
District’s proportion of the net pension liability	0.02599%	0.02490%	0.02825%
District’s proportionate share of the net pension liability	\$902,961	\$611,042	\$698,281
District’s covered employee payroll	523,983	516,107	377,098
District’s proportionate share of the net pension liability as a percentage of its covered-employee payroll	172.33%	118.39%	185.17%
Plan Fiduciary net position as a percentage of the total pension liability	75.87%	81.32%	78.76%

CALPERS - Schedule of District contributions:

Last 10 Fiscal Years*

Measurement Date	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Actuarially determined contribution	\$ 118,924	\$ 95,128	\$ 70,003
Contributions in relation to the actuarially determined contribution	<u>118,924</u>	<u>95,128</u>	<u>70,003</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District’s covered-employee payroll	\$ 523,983	\$ 516,107	\$ 377,098
Contributions as a percentage of covered employee payroll	22.70%	18.43%	18.56%

* Fiscal year ended June 30, 2015 was the first year of implementation.
Additional years will be presented as they become available.

OTHER REPORTS

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Rio Linda/Elverta Community Water District
Rio Linda, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Rio Linda/Elverta Community Water District (the 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, and have issued our report thereon dated November 10, 2017.

Internal Control Over Financial Reporting

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

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. 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.

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

To the Board of Directors
Rio Linda/Elverta Community Water District

Compliance and Other Matters

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

Purpose of this Report

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

Fechter & Company
Certified Public Accountants

A handwritten signature in cursive script that reads "Fechter & Company, CPAs".

Sacramento, California
November 10, 2017

RIO LIND/ELVERTA COMMUNITY WATER DISTRICT

SCHEDULE OF CURRENT YEAR FINDINGS

June 30, 2017

No findings in the current year.