

Agenda
Rio Linda / Elverta Community Water District
Finance / Administrative Committee

Visitors/Depot Center
6730 Front Street
Rio Linda, CA 95673

November 13, 2018
6:30 p.m.

Public documents relating to any open session items listed on this agenda that are distributed to the Committee members less than 72 hours before the meeting are available for public inspection on the counter of the District Office at the address listed above.

The public may address the Committee concerning any item of interest. Persons who wish to comment on either agenda or non-agenda items should fill out the Comment Card and give it to the General Manager. The Committee Chair will call for comments at the appropriate time. Comments will be subject to reasonable time limits (3 minutes).

In compliance with the Americans with Disabilities Act, if you have a disability, and you need a disability related modification or accommodation to participate in this meeting, then please contact the District office at (916) 991-1000. Requests must be made as early as possible and at least one full business day before the start of the meeting.

Call to Order

Public Comment

This is an opportunity for the public to comment on non-agenda items within the subject matter jurisdiction of the Committee. Comments are limited to 3 minutes.

Items for Discussion:

1. Review and discuss the expenditures of the District for the month of October 2018.
2. Review and discuss the Financial Reports for the month of October 2018.
3. Review and discuss the 2017-18 Financial Audit.
4. Discuss authorization for attending Regional Water Authority / Sacramento Groundwater Authority annual holiday social on 12/6/2018.
5. Discuss the request from a residential water customer for a credit from oversized service.
6. Discuss the draft policy for opting out of the inactive service fee (Resolution 2013-08).
7. Review the proposed contract with WageWorks for administration of employee medical expense Flexible Spending Accounts (FSAs).

Directors' and General Manager Comments

Items Requested for Next Month's Committee Agenda

Adjournment

Next Finance / Administrative Committee meeting: Monday, December 10, 2018 at 6:30 p.m.

ADA COMPLIANCE STATEMENT

In compliance with the Americans with Disabilities Act, if you need special assistance or materials to participate in this meeting, please contact the District Office at 916-991-1000. Notification 48 hours prior to the meeting will enable the District to make reasonable arrangements to ensure accessibility to this meeting and agenda materials.



Finance /Administrative Committee Agenda Item: 1

Date: November 13, 2018

Subject: Expenditure Summary

Staff Contact: Timothy R. Shaw, General Manager

Recommended Committee Action:

It is recommended that the Finance / Administrative Committee approve the Expenditure Summary for the month of October 2018 and forward to the November 19, 2018 meeting of the Board.

Current Background and Justification:

These expenditures were necessary and prudent for operation of the District and consistent with the policies and budget adopted by the Board of Directors. The Expenditure Summary provides the listing of expenditures which have occurred since the last regular meeting of the Board.

Conclusion:

Consistent with the District policies, the Expenditure Summary is to be reviewed by the Finance/Administrative Committee and approved by the Board of Directors.

Rio Linda Elverta Community Water District
Other Accounts Expenditure Report
 October 2018

Type	Date	Num	Name	Memo	Amount
Liability Check	10/04/2018	EFT	QuickBooks Payroll Service	For PP Ending 09/30/2018 Paydate 10/05/2018	17,408.66
Liability Check	10/05/2018	EFT	CalPERS	For PP Ending 09/30/2018 Paydate 10/05/2018	1,796.80
Liability Check	10/05/2018	EFT	CalPERS	For PP Ending 09/30/2018 Paydate 10/05/2018	1,721.51
Liability Check	10/05/2018	EFT	California State Disbursement Unit	Employee Garnishment	397.50
Liability Check	10/05/2018	EFT	Nationwide	Employee Benefits	1,200.21
Bill Pmt -Check	10/05/2018	EFT	Adept Solutions	Computer Maintenance	2,017.00
Bill Pmt -Check	10/05/2018	EFT	Comcast	Phone/Internet	412.63
Bill Pmt -Check	10/05/2018	EFT	Sprint	Field Communication	138.72
Bill Pmt -Check	10/05/2018	EFT	Republic Services	Utilities	87.26
Bill Pmt -Check	10/05/2018	EFT	Voyager Fleet Commander	Transportation Fuel	815.92
Liability Check	10/05/2018	EFT	Internal Revenue Service	Employment Taxes	5,950.24
Liability Check	10/05/2018	EFT	Employment Development	Employment Taxes	1,182.35
Paycheck	10/05/2018	5622	Employee	For PP Ending 09/30/2018 Paydate 10/05/2018	92.35
Check	10/05/2018	5623	RLECWD	Umpqua Bank Monthly Debt Service Transfer	16,500.00
Liability Check	10/05/2018	5624	Franchise Tax Board	Employee Garnishment	286.67
Check	10/05/2018	5625	Customer	Final Bill Refund	101.22
Check	10/05/2018	5626	Customer	Final Bill Refund	295.61
Check	10/05/2018	5627	Customer	Final Bill Refund	84.12
Check	10/05/2018	5628	Customer	Final Bill Refund	9.20
Check	10/05/2018	5629	Customer	Final Bill Refund	100.00
Check	10/05/2018	5630	Customer	Toilet Rebate	150.00
Check	10/05/2018	5631	Customer	Toilet Rebate	75.00
Check	10/05/2018	5632	Customer	Toilet Rebate	150.00
Bill Pmt -Check	10/05/2018	5633	ACWA/JPIA Powers Insurance Authority	2018-19 Auto & General Liability Insurance	21,221.00
Bill Pmt -Check	10/05/2018	5634	ACWA/JPIA Powers Insurance Authority	Employee Benefits	23.50
Bill Pmt -Check	10/05/2018	5635	Affinity Engineering	Engineering Fees: Elverta Specific	1,203.00
Bill Pmt -Check	10/05/2018	5636	Buckmaster Office Solutions	Office Equipment Expense	96.39
Bill Pmt -Check	10/05/2018	5637	Corix Water Products, Inc.	Distribution Supplies	255.37
Bill Pmt -Check	10/05/2018	5638	Elk Grove Security Systems	Security	84.00
Bill Pmt -Check	10/05/2018	5639	Pape Machinery Exchange	Construction Equipment Maintenance	2,777.42
Bill Pmt -Check	10/05/2018	5640	Phelan, Michael	Retiree Insurance: Lifetime Benefit	3,150.00
Bill Pmt -Check	10/05/2018	5641	Quill Corporation	Office Expense	108.46
Bill Pmt -Check	10/05/2018	5642	Rio Linda Elverta Recreation & Park	Meeting Expense	50.00
Bill Pmt -Check	10/05/2018	5643	Rio Linda Hardware and Building Supply	Shop Supplies	445.04
Bill Pmt -Check	10/05/2018	5644	Sierra Chemical Company	Chemical Supplies	811.80
Bill Pmt -Check	10/05/2018	5645	SMUD	Utilities	20,086.36
Bill Pmt -Check	10/05/2018	5646	Spok Inc.	Field Communication	15.19
Bill Pmt -Check	10/05/2018	5647	Gerald Wickham	Retiree Insurance: Lifetime Benefit	679.20
Bill Pmt -Check	10/05/2018	5648	Wood Rodgers	Engineering Fees	160.00
Liability Check	10/18/2018	EFT	AFLAC	Employee Benefits	738.92
Liability Check	10/18/2018	EFT	QuickBooks Payroll Service	For PP Ending 10/15/18 Pay date 10/19/18	19,191.26
Liability Check	10/19/2018	EFT	CalPERS	For PP Ending 10/15/18 Pay date 10/19/18	1,953.02
Liability Check	10/19/2018	EFT	CalPERS	For PP Ending 10/15/18 Pay date 10/19/18	1,830.99
Liability Check	10/19/2018	EFT	Internal Revenue Service	Employment Taxes	6,592.72

**Rio Linda Elverta Community Water District
Other Accounts Expenditure Report
October 2018**

Type	Date	Num	Name	Memo	Amount
Liability Check	10/19/2018	EFT	Employment Development	Employment Taxes	1,303.75
Liability Check	10/19/2018	EFT	Employment Development	Employment Taxes	102.66
Liability Check	10/19/2018	EFT	Nationwide	Employee Benefits	1,251.07
Liability Check	10/19/2018	EFT	Western Health Advantage	Employee Benefits	13,580.91
Liability Check	10/19/2018	EFT	California State Disbursement Unit	Employee Garnishment	397.50
Check	10/19/2018	EFT	RLECWD - Capital Improvement	Current Monthly Transfer	42,000.00
Check	10/19/2018	EFT	RLECWD - SURCHARGE 1 ACCOUNT	Current Monthly Transfer	44,881.00
Check	10/19/2018	EFT	RLECWD - SURCHARGE 2 ACCOUNT	Bi-Monthly Transfer	72,640.50
Check	10/19/2018	EFT	RLECWD - Operating	Transfer funds for Security Deposits paid with Credit Card	700.00
Bill Pmt -Check	10/19/2018	EFT	Bankcard Center 2911	Computer, Fuel, Office, Postage	3,839.38
Bill Pmt -Check	10/19/2018	EFT	Bankcard Center 7806	Backflow Testing	165.50
Bill Pmt -Check	10/19/2018	EFT	Verizon	Field Communication	261.66
Paycheck	10/19/2018	5649	Employee	For PP Ending 10/15/18 Pay date 10/19/18	277.05
Liability Check	10/19/2018	5650	Teamsters Local #150	Union Dues	716.00
Check	10/19/2018	5651	Customer	Final Bill Refund	34.95
Bill Pmt -Check	10/19/2018	5652	Association of California Water Agencies	Membership Dues	9,450.00
Bill Pmt -Check	10/19/2018	5653	BSK Associates	Lab Fees	405.00
Bill Pmt -Check	10/19/2018	5654	California Special Districts Association	Membership Dues	6,740.00
Bill Pmt -Check	10/19/2018	5655	Churchwell White, LLP	Legal Fees	3,144.10
Bill Pmt -Check	10/19/2018	5656	Cintas Corporation	Safety	67.62
Bill Pmt -Check	10/19/2018	5657	CoreLogic Solutions	Metro Scan	134.75
Bill Pmt -Check	10/19/2018	5658	DirectHit Pest Control	Building Maintenance	100.00
Bill Pmt -Check	10/19/2018	5659	Fechter & Company CPA	Audit Fees	9,297.00
Bill Pmt -Check	10/19/2018	5660	Hopkins Technical Product	Pumping Maintenance	738.00
Bill Pmt -Check	10/19/2018	5661	PG&E	Utilities	46.93
Bill Pmt -Check	10/19/2018	5662	Quill Corporation	Office Expense	158.76
Bill Pmt -Check	10/19/2018	5663	RW Trucking	Distribution Supplies	599.77
Bill Pmt -Check	10/19/2018	5664	Sacramento Groundwater Authority	Meeting Expense	55.00
Bill Pmt -Check	10/19/2018	5665	Sacramento Local Agency Formation	Permits	498.00
Bill Pmt -Check	10/19/2018	5666	UniFirst Corporation	Uniforms	190.28
Bill Pmt -Check	10/19/2018	5667	USA BlueBooks	Pumping Maintenance	207.84
Liability Check	10/25/2018	EFT	Dental and Vision Ins.com	Employee Benefits	2,139.50
Total 10000 - Bank - Operating Account					348,571.09

**Rio Linda Elverta Community Water District
Other Accounts Expenditure Report
October 2018**

10100 - Security Deposits

Type	Date	Num	Payee	Memo	Amount
Check	10/19/2018	EFT	RLECWD - Operating Account	September 2018 Security Deposits Applied	3,000.00

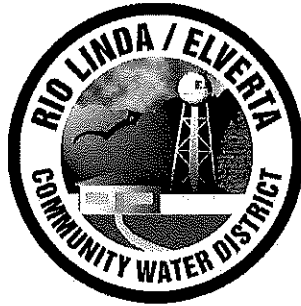
10100 - Security Deposits

3,000.00

Type	Date	Num	Payee	Memo	Amount
Check	10/19/2018	EFT	RLECWD	Transfer Loan Payment paid by Operating Funds	91,856.08

10375 - Surcharge Account 2

91,856.08



Finance /Administrative Committee Agenda Item: 2

Date: November 13, 2018

Subject: Financial Reports

Staff Contact: Timothy R. Shaw, General Manager

Recommended Committee Action:

It is recommended that the Finance / Administrative Committee review the Finance Reports of the District for the month of October 2018.

Current Background and Justification:

The financial reports are the District's balance sheet, profit and loss, and capital improvements year to date. This report provides the snapshot of the District's fiscal health for the period covered.

Conclusion:

Consistent with District policies, these financials are to be reviewed by this committee and presented to the Board of Directors to inform them of the District's current financial situation.

Rio Linda Elverta Community Water District
Balance Sheet
 As of October 31, 2018

ASSETS	
Current Assets	
Checking/Savings	
100 · Cash & Cash Equivalents	
10000 · Operating Account	
10005 · Operating Fund	345,471.84
10010 · Operating Reserve Fund	250,000.00
Total 10000 · Operating Account	595,471.84
10100 · Trust/Security Deposit Account	43,102.00
10450 · Capital Improvement	
10455 · Capital Improvement Fee Reserve	805,050.70
10460 · Vehicle Replacement Reserve	0.00
10465 · Cr6 Project	11,026.90
Total 10450 · Capital Improvement	816,077.60
10600 · LAIF GASB 45	16,156.16
Total 100 · Cash & Cash Equivalents	1,470,807.60
102 · Restricted Assets	
102.1 · Restricted Capital Improvements	
10700 · ZIONS Inv/Surcharge Reserve	493,222.66
Total 102.1 · Restricted Capital Improvements	493,222.66
102.2 · Restricted for Debt Service	
10300 · Surcharge 1 Account	667,849.45
10325 · Community Business Bank	83,266.61
10350 · Umpqua Bank	106,844.31
10350 · Surcharge 2 Account	416,886.97
Total 102.2 · Restricted for Debt Service	1,274,847.34
Total 102 · Restricted Assets	1,768,070.00
Total Checking/Savings	3,238,877.60
Accounts Receivable	9,959.25
Other Current Assets	
12000 · Water Utility Receivable	85,337.52
12200 · Accrued Revenue	150,000.00
12250 · Accrued Interest Receivable	2,532.19
15000 · Inventory Asset	96,793.78
16000 · Prepaid Expense	96,861.33
Total Other Current Assets	431,524.82
Total Current Assets	3,680,361.67
Fixed Assets	
17000 · General Plant Assets	712,766.63
17100 · Water System Facilities	20,717,058.49
17300 · Intangible Assets	373,043.42
17500 · Accum Depreciation & Amort	-8,702,559.39
18000 · Construction in Progress	1,250,105.87
18100 · Land	496,673.45
Total Fixed Assets	14,847,088.47
Other Assets	
19000 · Deferred Outflows	347,606.00
19900 · Suspense Account	0.00
Total Other Assets	347,606.00
TOTAL ASSETS	18,875,056.14

Rio Linda Elverta Community Water District
Balance Sheet
As of October 31, 2018

LIABILITIES & EQUITY

Liabilities

Current Liabilities

Accounts Payable	59,766.29
Credit Cards	1,185.23
Other Current Liabilities	525,635.81

Total Current Liabilities	<u>586,587.33</u>
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Long Term Liabilities

23000 · OPEB Liability	262,349.00
23500 · Lease Buy-Back	755,052.27
25000 · Surcharge 1 Loan	4,536,774.26
25050 · Surcharge 2 Loan	99,140.82
26000 · Water Rev Refunding	2,091,606.00
27000 · Community Business Bank	342,485.52
29000 · Net Pension Liability	1,033,555.00
29500 · Deferred Inflows-Pension	33,279.00
29600 · Deferred Inflows-OPEB	8,293.00

Total Long Term Liabilities	<u>9,162,534.87</u>
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Total Liabilities	<u>9,749,122.20</u>
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Equity

31500 · Invested in Capital Assets, Net	7,519,910.46
32000 · Restricted for Debt Service	699,786.24
38000 · Unrestricted Equity	642,702.76
Net Income	263,534.48

Total Equity	<u>9,125,933.94</u>
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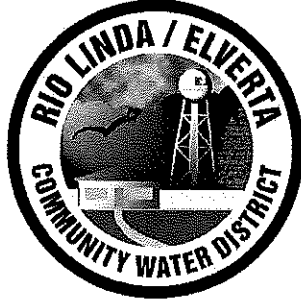
TOTAL LIABILITIES & EQUITY	<u><u>18,875,056.14</u></u>
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Rio Linda Elverta Community Water District
Operating Profit & Loss Budget Performance
 October 2018

	<u>Annual Budget</u>	<u>Oct 18</u>	<u>Jul-Oct 18</u>	<u>% of Annual Budget</u>	<u>YTD Annual Budget Balance</u>
Ordinary Income/Expense					
Income					
Total 40000 · Operating Revenue	2,664,429.00	149,461.67	847,607.26	31.81%	1,816,821.74
41000 · Nonoperating Revenue					
41110 · Investment Revenue					
41112 · Interest Revenue	400.00	30.33	167.82	41.96%	232.18
Total 41110 · Investment Revenue	400.00	30.33	167.82	41.96%	232.18
41120 · Property Tax	70,000.00	0.00	1,946.32	2.78%	68,053.68
Total 41000 · Nonoperating Revenue	70,400.00	30.33	2,114.14	3.00%	68,285.86
Total Income	<u>2,734,829.00</u>	<u>149,492.00</u>	<u>849,721.40</u>	<u>31.07%</u>	<u>1,885,107.60</u>
Gross Income	2,734,829.00	149,492.00	849,721.40	31.07%	1,885,107.60
Expense					
60000 · Operating Expenses					
60010 · Professional Fees	163,331.00	17,875.10	55,556.50	34.02%	107,774.50
60100 · Personnel Services					
60110 · Salaries & Wages	665,414.00	53,245.26	186,263.89	27.99%	479,150.11
60150 · Employee Benefits & Expense	451,439.00	32,856.65	129,771.97	28.75%	321,667.03
Total 60100 · Personnel Services	<u>1,116,853.00</u>	<u>86,101.91</u>	<u>316,035.86</u>	<u>28.30%</u>	<u>800,817.14</u>
60200 · Administration	254,977.00	25,415.10	107,726.38	42.25%	147,250.62
64000 · Conservation	6,748.00	375.00	5,658.00	83.85%	1,090.00
65000 · Field Operations	428,175.00	39,273.05	163,977.94	38.30%	264,197.06
Total 60000 · Operating Expenses	<u>1,970,084.00</u>	<u>169,040.16</u>	<u>648,954.68</u>	<u>32.94%</u>	<u>1,321,129.32</u>
69000 · Non-Operating Expenses					
69010 · Debt Service					
69100 · Revenue Bond					
69105 · Principle	133,163.00	0.00	0.00	0.00%	133,163.00
69110 · Interest	65,726.00	0.00	0.00	0.00%	65,726.00
Total 69100 · Revenue Bond	<u>198,889.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00%</u>	<u>198,889.00</u>
69125 · AMI Meter Loan					
69130 · Principle	46,818.00	0.00	23,228.99	49.62%	23,589.01
69135 · Interest	11,696.00	0.00	6,027.97	51.54%	5,668.03
Total 69125 · AMI Meter Loan	<u>58,514.00</u>	<u>0.00</u>	<u>29,256.96</u>	<u>50.00%</u>	<u>29,257.04</u>
Total 69010 · Debt Service	<u>257,403.00</u>	<u>0.00</u>	<u>29,256.96</u>	<u>11.37%</u>	<u>228,146.04</u>
69400 · Other Non-Operating Expense	2,000.00	0.00	0.00	0.00%	2,000.00
Total 69000 · Non-Operating Expenses	<u>259,403.00</u>	<u>0.00</u>	<u>29,256.96</u>	<u>11.28%</u>	<u>230,146.04</u>
Total Expense	<u>2,229,487.00</u>	<u>169,040.16</u>	<u>678,211.64</u>	<u>30.42%</u>	<u>1,551,275.36</u>
Net Ordinary Income	<u>505,342.00</u>	<u>-19,548.16</u>	<u>171,509.76</u>		
Net Income	<u>505,342.00</u>	<u>-19,548.16</u>	<u>171,509.76</u>		

CAPITAL BUDGET VS ACTUAL FISCAL YEAR 2018-2019
July through October 2018

	GENERAL		CONNECTIONS		CHROMIUM MITIGATION & NEW WELLS		VEHICLE REPLACEMENT	
	Annual Budget	YTD Actual	Annual Budget	YTD Actual	Annual Budget	YTD Actual	Annual Budget	YTD Actual
BEGINNING FUND BALANCE	\$ 1,426,064.00	\$ 1,426,064.00	\$ 129,988.00	\$ 129,988.00	\$ (454,317.00)	\$ (454,317.00)	\$ -	\$ -
FUNDING SOURCES								
Fund Transfers								
Operating Fund Transfers In	500,000.00	166,000.00	-	-	-	-	-	-
CIP Fund Intrafund Transfers	(10,000.00)	-	-	-	-	-	10,000.00	-
Surcharge 2 Surplus Repayment	-	-	-	-	435,752.00	-	-	-
Contributed Funding								
Capacity Fee Revenue	-	-	40,000.00	14,062.01	-	-	-	-
Contributed Facilities (Developers)	-	-	-	-	-	-	-	-
Grant Revenue	-	-	-	-	20,000.00	-	-	-
Loan Proceeds-OPUS Bank	-	-	-	-	2,468,239.00	-	-	-
Investment Revenue	350.00	197.13	-	-	-	-	-	-
Sale of Fixed Assets	-	-	-	-	-	-	-	-
TOTAL FUNDS AVAILABLE FOR CIP PROJECTS	1,916,414.00	1,592,261.13	169,988.00	144,050.01	2,469,674.00	(454,317.00)	10,000.00	-
PROJECTS								
A - WATER SUPPLY								
A-1 - Well 10 - Cr6 Treatment	-	-	-	-	40,000.00	-	-	-
A-2 - Well 16	-	-	-	-	2,448,239.00	-	-	-
A-3 - Well 17	25,000.00	-	-	-	-	-	-	-
A-4 - Miscellaneous Pump Replacements	40,000.00	-	-	-	-	-	-	-
Total A - WATER SUPPLY	65,000.00	-	-	-	2,488,239.00	-	-	-
B - WATER DISTRIBUTION								
B-1 - System Valve Replacements	35,000.00	-	-	-	-	-	-	-
B-2 - Paving Replacements	25,000.00	-	-	-	-	-	-	-
B-3 - Service Replacements	30,000.00	-	-	-	-	-	-	-
B-4 - Large Meter Replacements	5,000.00	-	-	-	-	-	-	-
Total B - WATER DISTRIBUTION	95,000.00	-	-	-	-	-	-	-
M - GENERAL PLANT ASSETS								
M-1 - Ice Machine	3,500.00	2,803.96	-	-	-	-	-	-
M-2 - Billing Software Upgrade	25,000.00	30,138.50	25,000.00	-	-	-	-	-
Total M - GENERAL PLANT ASSETS	28,500.00	32,942.46	25,000.00	-	-	-	-	-
FO - PROJECTS FUNDED BY OTHERS								
TOTAL FO - PROJECTS FUNDED BY OTHERS	-	-	-	-	-	-	-	-
C - CONTINGENCY								
C-1 - Contingency (10% of Est A,B,M, & FO)	18,850.00	-	2,500.00	-	248,823.90	-	-	-
TOTAL BUDGETED PROJECT EXPENDITURES	207,350.00	32,942.46	27,500.00	-	2,737,062.90	-	-	-
ENDING FUND BALANCE	\$ 1,709,064.00	\$ 1,559,318.67	\$ 142,488.00	\$ 144,050.01	\$ (267,388.90)	\$ (454,317.00)	\$ 10,000.00	\$ -



Finance/Administration Committee

Agenda Item: 3

Date: November 13, 2018

Subject: 2017-18 Financial Audit

Staff Contact: Timothy R. Shaw, General Manager

Recommended Committee Action:

Review and discuss the Fiscal Year 2017/2018 Audit report from Fechter and Company, then recommend acceptance of the report by the Board at the November 19th meeting.

Current Background and Justification:

Sound oversight of the financial matters for the District warrant regular auditing. Additionally, annual audit conducted by an independent auditor are required by law. The recent annual audit of the District's accounts has now been completed by Fechter & Co. Certified Public Accountants.

Staff recommendation:

I recommend the Finance/Admin Committee forward an item onto the November 19th Board agenda to accept the audit report and direct staff to post and distribute the report as required.

October 29, 2018

Board of Directors
Rio Linda/Elverta Community Water District
730 L Street
Rio Linda, California 95673

We have audited the financial statements of the Rio Linda/Elverta Community Water District (the District) for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 11, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

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

Management's estimate of the net pension liability is based on CalPERS actuarial reports. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

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

Board of Directors
Rio Linda/Elverta Community Water District

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 29, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the Required Supplementary Information related to pensions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

Very truly yours,

Fechter & Company,
Certified Public Accountants

A handwritten signature in cursive script that reads "Fechter & Company, CPAs". The signature is written in black ink and is positioned above the printed name of the firm.

Sacramento, California

RIO LINDA/ELVERTA COMMUNITY
WATER DISTRICT
ANNUAL FINANCIAL REPORT
WITH INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2018 AND 2017

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Annual Financial Report
June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018, 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.

Implementation of New Accounting Standards

As disclosed in the Note 1 of the financial statements, the County implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, during fiscal year 2018. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2018 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
October 29, 2018

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis June 30, 2018 and 2017

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, 2018 (FY 2017-18).

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 Community Water District
730 L St.
Rio Linda, California 95673

Telephone: (916) 991-1000
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 2017-18 and its financial position at the close of FY 2017-18.

- ❖ The District's assets exceeded its liabilities by \$8,556,279. The District's net investment in capital assets, \$7,519,910, 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 \$642,616, a decrease of \$177,046 from the end of FY 2016-17.
- ❖ The District's operating revenues were \$2,637,352 and non-operating revenues were \$877,763, totaling \$3,515,115. Water sales to customers totaled 71% of all revenues.
- ❖ The District's total net long-term liabilities were \$9,120,964 and includes the Water Revenue Refunding Bond, State Revolving Fund Loan, Water Meter Replacement Loan, Installment Sales Agreement, Unearned revenue, OPEB Liability, and Net Pension Liability.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis
June 30, 2018 and 2017

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, 2018 and 2017

Statement of Net Position

As of June 30, 2018, the total net position of the District was \$8,862,313. The following table summarizes assets, liabilities and net position at June 30, 2018, 2017, and 2016:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current Assets, Unrestricted	\$ 2,008,366	\$ 2,236,562	\$ 2,222,310
Restricted Cash and Cash Equivalents	1,517,981	1,236,183	1,046,376
Capital assets, net	<u>14,847,090</u>	<u>14,435,341</u>	<u>14,484,419</u>
Total Assets	<u>18,373,437</u>	<u>17,908,086</u>	<u>17,753,105</u>
Total Deferred Outflows	<u>347,606</u>	<u>297,772</u>	<u>95,128</u>
Total Assets and Deferred Outflows	<u>18,721,043</u>	<u>18,205,858</u>	<u>17,848,233</u>
Current Liabilities	696,194	896,306	616,139
Long-term Liabilities	<u>9,120,964</u>	<u>9,050,744</u>	<u>9,468,641</u>
Total Liabilities	<u>9,817,158</u>	<u>9,947,050</u>	<u>10,084,780</u>
Total Deferred Inflows	<u>41,572</u>	<u>40,436</u>	<u>65,963</u>
Total Liabilities and Deferred Inflows	<u>9,858,730</u>	<u>9,987,486</u>	<u>10,150,743</u>
Net Position			
Net investment in capital assets	7,519,910	6,698,923	6,292,818
Restricted debt service reserves	699,787	699,787	699,145
Unrestricted	<u>642,616</u>	<u>819,662</u>	<u>705,527</u>
Total Net Position	<u>\$ 8,862,313</u>	<u>\$ 8,218,372</u>	<u>\$ 7,697,490</u>

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

<u>Summary Analysis of Changes</u>	<u>2018 & 2017</u>	<u>2017 & 2016</u>
Total Assets and Deferred Outflows	2.83%	2.00%
Total Liabilities and Deferred Inflows	(1.29%)	(1.61%)
Total Net Position	7.84%	6.77%

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis June 30, 2018 and 2017

Changes in Net Position

The following table summarizes the changes in net position for the fiscal year ended June 30, 2018, 2017, and 2016:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues	\$ 2,637,352	\$ 2,437,489	\$ 2,300,359
Operating Expenses:			
Personnel services	1,061,163	986,515	733,073
Professional services	177,479	175,449	138,340
Field operations	379,372	368,142	356,657
Conservation	5,946	11,544	14,545
Administration	230,626	228,942	218,905
Depreciation and Amortization	654,174	624,455	609,090
Total Operating Expenses	<u>2,508,760</u>	<u>2,395,047</u>	<u>2,070,610</u>
Net Income from Operations	128,592	42,442	229,749
Non-Operating Revenues	877,763	858,880	591,551
Non-Operating Expenses	<u>(254,684)</u>	<u>(445,496)</u>	<u>(286,305)</u>
Net Non-Operating Revenues	<u>623,079</u>	<u>413,384</u>	<u>305,246</u>
Net income before capital contributions	<u>751,671</u>	<u>455,826</u>	<u>534,995</u>
Capital Contributions			
Capacity fees	129,808	36,650	48,420
Contributed assets	<u>22,833</u>	<u>28,593</u>	<u>20,222</u>
Total Capital Contributions	<u>152,641</u>	<u>65,243</u>	<u>68,642</u>
Change in net position	904,312	521,069	603,637
Net position, beginning of year	8,218,372	7,697,490	7,105,854
Prior period adjustment	<u>(260,371)</u>	<u>(187)</u>	<u>(12,001)</u>
Beginning net position, restated	<u>7,958,001</u>	<u>7,697,303</u>	<u>7,093,853</u>
Net position, end of year	<u>\$ 8,862,313</u>	<u>\$ 8,218,372</u>	<u>\$ 7,697,490</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis June 30, 2018 and 2017

Changes from Fiscal Year 2016/2017 to Fiscal Year 2017/2018:

Total net position increased \$643,941 or 7.84% from fiscal year 2017 to 2018.

Total operating revenues increased \$199,863 or 8.20% from fiscal year 2017 to 2018, which is about the levels for 2014 and 2015. Operating revenue exceeded operating expenses by \$128,592. Operating expenses increased by \$113,713, a 4.75% increase from fiscal year 2017 to 2018.

Changes from Fiscal Year 2015/2016 to Fiscal Year 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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2018, the District's net investment in capital assets was \$7,519,910 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 2017-18, principal on its collective debt was reduced by \$129,077 during the year. The District's total debt from its 2016 issuance now stands at approximately \$2.22 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 2017-18, principal on its collective debt was reduced by \$333,901 during the year. The District's total debt from the SRF Loan now stands at approximately \$4.71 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 \$45,399 during the year. The District's total debt from the Meter Replacement Loan now stands at approximately \$389,304.

During FY 17-18, the District entered into an installment sale agreement with Opus Bank for \$3.87 million. However, as of June 30, 2018, the District had drawn down only \$91,141 on the agreement. The first principal payment of \$90,000 was paid on October 1, 2018.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Management's Discussion and Analysis June 30, 2018 and 2017

Compensated absences, composed of vacation hours earned by employees that are payable upon termination or retirement, are valued at \$22,142 at the end of 2017-18, an increase of \$563 from the 2016-17 year-end amount of \$21,579.

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 2018-19 (\$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 2017-18 Operating Budget.

The District implemented a multi-year Water Rate adjustment and Capacity Fee increase in calendar year 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 2017-18. Total annual payments are approximately \$461,354 per year for the next 14 years.

In September 2017, 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 2018-19. 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, 2018
(WITH COMPARATIVE DATA FOR JUNE 30, 2017)

	2018	2017
ASSETS		
Current Assets:		
Cash and investments	\$ 1,382,434	\$ 1,634,434
Accounts receivable	484,826	433,175
Accrued interest receivable	1,633	1,399
Inventory	96,794	132,852
Prepaid expenses	42,679	34,702
Total current assets	2,008,366	2,236,562
Restricted Assets		
Restricted cash and investments	1,517,981	1,236,183
Capital Assets, Net		
Capital assets	14,847,090	14,435,341
TOTAL ASSETS	18,373,437	17,908,086
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension outflows	347,606	297,772
LIABILITIES		
Current Liabilities:		
Accounts payable	143,915	213,542
Accrued salaries and benefits	27,105	30,683
Accrued interest payable	11,087	11,730
Deposits payable	92,532	61,138
Unearned revenue	49,255	49,255
Current portion of compensated absences liability	22,142	21,579
Current portion of long-term liabilities	440,158	340,362
Total current liabilities	786,194	728,289
Long-term Liabilities:		
Unearned revenue	755,052	804,307
Bonds and loans payable	6,980,008	7,489,040
OPEB liability	262,349	22,453
Net pension liability	1,033,555	902,961
TOTAL LIABILITIES	9,817,158	9,947,050
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows	33,279	40,436
Deferred OPEB inflows	8,293	-
TOTAL DEFERRED INFLOWS OF RESOURCES	41,572	40,436
NET POSITION		
Net investment in capital assets	7,519,910	6,698,923
Restricted for debt service reserves	699,787	699,787
Unrestricted	642,616	819,662
TOTAL NET POSITION	\$ 8,862,313	\$ 8,218,372

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, 2018
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2017)

	2018	2017
Operating revenues:		
Water sales	\$ 2,499,949	\$ 2,289,627
Account service charges	102,010	102,660
Other water service fees	35,393	45,202
Total operating revenues	2,637,352	2,437,489
Operating expenses:		
Personnel services	1,061,163	986,515
Professional services	177,479	183,207
Field operations:		
Transmission and distribution	96,154	101,896
Pumping	187,256	192,760
Transportation	16,660	14,869
Treatment	17,487	16,579
Other	61,815	42,038
Conservation	5,946	11,544
Administration	230,626	221,184
Depreciation	654,174	624,455
Total operating expenses	2,508,760	2,395,047
Operating income	128,592	42,442
Non-operating revenues and (expenses):		
Surcharge	743,152	729,739
Interest income	3,703	3,935
Property tax	81,653	75,951
Rental income	49,255	49,255
Loss on disposition of assets	(26,050)	(14,048)
Interest expense	(209,540)	(224,195)
Other non-operating expenses	(19,094)	(207,253)
Total non-operating revenues and (expenses)	623,079	413,384
Income before capital contributions	751,671	455,826
Capital Contributions		
Capacity fees	129,808	36,650
Contributed assets	22,833	28,593
Total capital contributions	152,641	65,243
Change in net position	904,312	521,069
Beginning net position	8,218,372	7,697,490
Prior period adjustment	(260,371)	(187)
Beginning net position, restated	7,958,001	7,697,303
Ending net position	\$ 8,862,313	\$ 8,218,372

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, 2018
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2017)

	2018	2017
Cash flows from operating activities:		
Receipts from customers	\$ 2,617,095	\$ 2,467,325
Payments to suppliers	(834,969)	(711,526)
Payments to employees	(987,307)	(905,544)
	794,819	850,255
Cash Flows from non-capital financing activities:		
Property taxes received	81,653	75,951
	81,653	75,951
Cash flows from capital and related financing activities:		
Surcharge revenue received	743,152	729,739
Capacity fees	129,808	36,650
Payments on long-term debt	(508,377)	(493,211)
Purchase and construction of capital assets	(1,084,590)	(561,019)
Abandonment of well project	(19,094)	(207,253)
Proceeds from the issuance of long-term debt	99,141	-
Interest and fees paid on long-term debt	(210,183)	(224,817)
	(850,143)	(719,911)
Cash flows from investing activities:		
Investment income received	3,469	3,803
	3,469	3,803
Net increase in cash and cash equivalents	29,798	210,098
Cash and cash equivalents, beginning of year	\$ 2,870,617	\$ 2,660,519
Cash and cash equivalents, end of year	\$ 2,900,415	\$ 2,870,617
Cash and cash equivalents consist of the following:		
Unrestricted	\$ 1,382,434	\$ 1,634,434
Restricted	1,517,981	1,236,183
	\$ 2,900,415	\$ 2,870,617

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, 2018
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2017)

	2018	2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 128,592	\$ 42,442
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	654,174	624,455
Changes in assets and liabilities:		
Accounts receivable	(51,651)	30,860
Inventory	36,058	(25,815)
Prepaid expenses	(7,977)	1,126
Accounts payable	(69,627)	97,240
Accrued salaries and benefits	(3,578)	1,487
Deposits payable	31,394	(1,024)
Compensated absences	563	5,219
Other post employment benefits asset/liability	(12,182)	10,517
Net pension liability	89,053	63,748
	\$ 794,819	\$ 850,255
 Supplemental Disclosure of Non-Cash Activities		
Donated capital assets	\$ 22,833	\$ 28,593

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, 2018 and 2017

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 4,635 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, 2018 and 2017

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, 2018 and 2017

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," and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, 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 7 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 two items which qualify for reporting in this category. Please refer to Notes 7 and 8 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 County remits the entire amount levied and handles all delinquencies, retaining interest and

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2018 and 2017

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

Property Taxes: (continued)

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.

New Accounting Pronouncements: During the year ended June 30, 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

NOTE 2: CASH AND INVESTMENTS

Cash and investments as June 30, 2018 and 2017, are classified in the accompanying financial statements as follows:

	2018	2017
Cash and cash equivalents	\$ 1,382,434	\$ 1,634,434
Restricted cash and investments	1,517,981	1,236,183
Total Cash and Investments	\$ 2,900,415	\$ 2,870,617

Cash and investments as of June 30, 2018 and 2017, consisted of the following:

	2018	2017
Deposits with financial institutions	\$ 2,392,798	\$ 2,363,783
Total Cash	2,392,798	2,363,783
Investment in Local Agency Investment Fund (LAIF)	15,993	15,806
Held by Bond Trustee:		
Money market mutual fund	65,127	7,719
Negotiable certificates of deposits	377,386	433,640
Government agency securities	49,111	49,669
Total Investments	507,617	506,834
Total Cash and Investments	\$ 2,900,415	\$ 2,870,617

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2018 and 2017

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, 2018, 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, 2018 and 2017

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:

	Total	12 Months Or Less	13-24 Months	25-60 Months
Local Agency Investment Fund Held by Bond Trustee:	\$ 15,993	\$ 15,993	\$	\$
Money market mutual fund	65,127	65,127		
Negotiable certificates of deposits	377,386	226,483	49,197	101,706
Government agency securities	49,111		49,111	
Total Investments	<u>\$ 507,617</u>	<u>\$ 307,603</u>	<u>\$ 98,308</u>	<u>\$ 101,706</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.

	Minimum Legal Rating	Total	Ratings as of Year End	
			AAA	Not Rated
Local Agency Investment Fund Held by Bond Trustee:	N/A	\$ 15,993	\$	\$ 15,993
Money market mutual fund	N/A	65,127		65,127
Negotiable certificates of deposits	N/A	377,386		377,386
Government agency securities	A	49,111	49,111	
Total Investments		<u>\$ 507,617</u>	<u>\$ 49,111</u>	<u>\$ 458,506</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2018 and 2017

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, 2018, the carrying amount of the District's deposits were \$2,900,415 and the balances in financial institutions were \$2,890,419. Of the balance in financial institutions, \$1,668,714 was covered and \$1,221,705 was not covered by federal depository insurance. As of June 30, 2018, 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:

Reported Investment Type	Amount
Money market mutual funds	\$ 65,127
Negotiable certificates of participation	377,386
Government agency securities	49,111

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, 2018 and 2017

NOTE 3: CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Disposals	Transfers/ Adjustments	Balance June 30, 2018
Capital assets not being depreciated:					
Land	\$ 496,673	\$	\$	\$	\$ 496,673
Construction in progress	<u>637,767</u>	<u>686,561</u>	<u></u>	<u>(74,222)</u>	<u>1,250,106</u>
Total Capital Assets not being depreciated	<u>1,134,440</u>	<u>686,561</u>	<u></u>	<u>(74,222)</u>	<u>1,746,779</u>
Capital assets being depreciated:					
Water System Facilities	20,562,699	298,289	(218,150)	74,222	20,717,060
General plant assets	606,507	107,122	(862)		712,767
Intangible assets	<u>373,043</u>	<u></u>	<u></u>	<u></u>	<u>373,043</u>
Total capital assets being depreciated	<u>21,542,249</u>	<u>405,411</u>	<u>(219,012)</u>	<u>74,222</u>	<u>21,802,870</u>
Less accumulated depreciation for:					
Water System Facilities	(7,569,537)	(588,402)	192,101		(7,965,838)
General plant assets	(444,099)	(49,062)	862		(492,299)
Intangible assets	<u>(227,712)</u>	<u>(16,710)</u>	<u></u>	<u></u>	<u>(244,422)</u>
Total accumulated depreciation	<u>(8,241,348)</u>	<u>(654,174)</u>	<u>192,963</u>	<u></u>	<u>(8,702,559)</u>
Total capital assets being depreciated, net	<u>13,300,901</u>	<u>(248,763)</u>	<u>(26,049)</u>	<u>74,222</u>	<u>13,100,311</u>
Capital assets, net	<u>\$ 14,435,341</u>	<u>\$ 437,798</u>	<u>\$ (26,049)</u>	<u>\$</u>	<u>\$ 14,847,090</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2018 and 2017

NOTE 3: CAPITAL ASSETS – CONTINUED

Capital asset activity for the year ended June 30, 2017, was 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	<u>588,994</u>	<u>481,993</u>	<u></u>	<u>(433,220)</u>	<u>637,767</u>
Total Capital Assets not being depreciated	<u>1,085,667</u>	<u>481,993</u>	<u></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	<u>403,145</u>	<u></u>	<u>(30,102)</u>	<u></u>	<u>373,043</u>
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	<u>(227,056)</u>	<u>(16,709)</u>	<u>16,053</u>	<u></u>	<u>(227,712)</u>
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>

Depreciation expense in the amount of \$654,174 and \$624,455 was recorded for the years ended June 30, 2018 and 2017, 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, 2018, the District’s loan balance was \$2,224,769.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2018 and 2017

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, 2018, the District's loan balance was \$4,706,952.

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, 2018, the District's loan balance was \$389,304.

Installment Sale Agreement: On March 1, 2018, the District entered into an installment sale agreement with Opus Bank for \$3,870,000 at an interest rate of 3.28%. Proceeds from the agreement are for the construction of Well 10 and Well 16. Assuming the entire amount of the loan is borrowed by the District, semi-annual principal payments, ranging from \$90,000 to \$160,000, and semi-annual interest payments, ranging from \$2,624 to \$74,046, are due on April 1 and October 1, through April 1, 2033. However, as of June 30, 2018, the District had drawn down only \$99,141 of the loan balance. The first scheduled principal payment of \$90,000 is due on October 1, 2018.

The activity of the District's long-term liabilities during the year ended June 30, 2018, was as follows:

	Balance July 1, 2017 <u>(restated)</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, 2018	Due Within One Year
State safe drinking water loan	\$ 5,040,853	\$	\$ (333,901)	\$ 4,706,952	\$ 170,177
2015 water revenue refunding	2,353,846		(129,077)	2,224,769	133,163
Water meter replacement loan	434,703		(45,399)	389,304	46,818
Opus Bank loan		<u>99,141</u>		<u>99,141</u>	<u>90,000</u>
Subtotal bonds and loans payable	<u>7,829,402</u>	<u>99,141</u>	<u>(508,377)</u>	<u>7,420,166</u>	<u>440,158</u>
Compensated absences	21,579	29,744	(29,181)	22,142	22,142
Net pension liability	902,961	130,594		1,033,555	
Other post-employment benefits	<u>282,824</u>	<u>10,265</u>	<u>(30,740)</u>	<u>262,349</u>	
	<u>\$ 9,036,766</u>	<u>\$ 269,744</u>	<u>\$ (568,298)</u>	<u>\$ 8,738,212</u>	<u>\$ 462,300</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2018 and 2017

NOTE 4: LONG-TERM LIABILITIES - CONTINUED

The activity of the District’s long-term liabilities during the year 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
Subtotal bonds and loans payable	<u>8,322,613</u>		<u>(493,211)</u>	<u>7,829,402</u>	<u>340,362</u>
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>\$ 361,941</u>

The annual requirements to amortize the outstanding debt for the 2015 Water Refunding Loan as of June 30, 2018, are as follows:

	Principal	Interest	Total
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	152,273	48,649	200,922
2023-2027	842,000	171,278	1,013,278
2028-2032	664,424	40,136	704,560
	<u>\$ 2,224,769</u>	<u>\$ 498,106</u>	<u>\$ 2,722,875</u>

The annual requirements to amortize the outstanding debt for the Safe Drinking Water State Revolving Fund Loan as of June 30, 2018, are as follows:

	Principal	Interest	Total
2019	\$ 170,177	\$ 60,501	\$ 230,678
2020	346,943	114,411	461,354
2021	355,919	105,435	461,354
2022	365,128	96,227	461,355
2023	374,575	86,780	461,355
2024-2028	2,023,352	283,422	2,306,774
2029-2031	1,070,858	40,579	1,111,437
	<u>\$ 4,706,952</u>	<u>\$ 787,355</u>	<u>\$ 5,494,307</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2018 and 2017

NOTE 4: LONG-TERM LIABILITIES - CONTINUED

The annual requirements to amortize the outstanding debt for the Water Meter Replacement Loan as of June 30, 2018, are as follows:

	Principal	Interest	Total
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	52,948	5,566	58,514
2024-2026	140,124	6,564	146,688
	\$ 389,304	\$ 49,954	\$ 439,258

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 \$2,722,875 and \$2,921,567 at June 30, 2018 and 2017, 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, 2018 and 2017, respectively. The total surcharge fee revenues were \$743,152 and \$729,739 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017.

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, 2018 and 2017.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2018 and 2017

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, 2018, was \$804,307.

NOTE 6: 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:

	2018	2017
Debt service reserve on 2015 Water Revenue Refunding		
Bonds	\$ 238,432	\$ 238,432
Debt service reserve on State Loan	461,355	461,355
Total Restricted Net Position	\$ 699,787	\$ 699,787

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.

NOTE 7: 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.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2018 and 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN - CONTINUED

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 \$62,310 for the year ended June 30, 2018, and \$59,865 for the year ended June 30, 2017. 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 2017/2018, 2016/2017, and 2015/2016 was 8.418%, 8.377%, and 8.003%, respectively. The required employer contribution rate for the PEPRA plan for fiscal year 2017/2018, 2016/2017, and 2015/2016 was 6.533%, 6.555%, and 6.237%, 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, 2018, 2017, and 2016, were \$126,796, \$118,924, and \$95,128, respectively, which were equal to the required contributions each year.

At June 30, 2018, the District reported a liability of \$1,033,555 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, 2017, 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.

For the fiscal year ended June 30, 2018, the District recognized a pension expense of \$201,099 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, 2018, 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 – 7.15%
- Investment Rate – 7.15%
- 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

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2018 and 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN - CONTINUED

The actuarial assumptions used in the June 30, 2017 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 (7.15%) 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%	5.38%
Global Fixed Income	19.0%	2.27%
Inflation Sensitive	6.0%	1.39%
Private Equity	12.0%	6.63%
Real Estate	11.0%	5.21%
Infrastructure and Forestland	3.0%	5.36%
Liquidity	2.0%	(0.90)%

The discount rate used to measure the total pension liability was 7.15 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 (6.15%) or 1 percentage point higher (8.15%) than the current rate:

	1% Decrease 6.15%	Discount Rate 7.15%	1% Increase 8.15%
District’s proportionate share of the net pension plan liability	\$ 1,612,511	\$ 1,033,555	\$ 554,054

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2018 and 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN – CONTINUED

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

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.

For the year ended June 30, 2018, the District recognized pension expense of \$201,099. 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. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of Assumptions	\$ 162,246	\$ -
Differences between Expected and Actual Experience	-	18,865
Differences between Projected and Actual Investment Earnings	39,722	-
Differences between Employer's Contributions and Proportionate Share of Contributions	1,623	5,624
Change in Employer's Proportion	17,218	8,790
Pension Contributions Made Subsequent to Measurement Date	126,797	-
	<u>\$ 347,606</u>	<u>\$ 33,279</u>

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.

\$126,797 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. 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>
2019	\$ 39,650
2020	106,695
2021	64,770
2022	(23,584)
Total	<u>\$ 187,531</u>

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2018 and 2017

NOTE 8: OTHER POST EMPLOYMENT BENEFITS (OPEB) LIABILITY

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date July 1, 2017
 Measurement Date June 30, 2018
 Measurement Period July 1, 2017 to June 30, 2018

Plan Description: The District’s retiree healthcare benefit is not subject to the Public Employees’ Medical & Hospital Care Act (PEMHCA). The District provides funding in varying amounts to eligible retirees to assist eligible retirees with their cost of maintaining healthcare insurance.

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 \$600/month for retiree and \$800/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 \$600/month for retiree and \$800/month for retiree plus one coverage, based on years of service at retirement, as follows:

Years of Service	District Share	Retiree Share
0 -9.9	0% (\$0/\$0)	100%
10	50%(\$300/\$400)	50%
11	55% (\$330/\$440)	45%
12	60% (\$360/\$480)	40%
13	65% (\$390/\$520)	35%
14	70% (\$420/\$560)	30%
15	75% (\$450/\$600)	25%
16	80% (\$480/\$640)	20%
17	85% (\$510/\$680)	15%
18	90% (\$540/\$720)	10%
19	95% (\$570/\$760)	5%
20+	100% (\$600/\$800)	0%

Tier 3: Hired on or after May 1, 2004 and before January 1, 2013: Eligible for District-paid benefits after the later of age 50 and 5 years of service. Benefit of \$300/month for the retiree only.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2018 and 2017

NOTE 8: OTHER POST EMPLOYMENT BENEFITS (OPEB) LIABILITY - CONTINUED

Plan Description: (continued)

Tier 4: Hired on or after January 1, 2013: Eligible for District-paid benefits after the later of age 62 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.

One retired General Manager is receiving District-paid benefits of \$300/month until age 65. One retired management employee and one retired Board member are receiving benefits being provided according to special arrangements not expected to be repeated in the future. The retired management employee is receiving District-paid benefits equal to elected healthcare coverage; the retired Board member is receiving District-paid benefits not to exceed \$1,050 for retiree and spouse coverage.

Current Board members will not be entitled to District-paid retiree health benefits upon retirement.

Plan membership as of July 1, 2017, consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	3
Active plan members	7

Contributions: The contribution requirements of the District are established and may be amended by the District’s board. While GASB Statement 75 requires that the liability for all post-employment benefits be measured, it does not require that an agency “pre-fund” the accrued liability. The District will pay for the post-employment healthcare cost on a “pay-as-you-go” basis. The provisions of GASB Statement 75 determine the amount that must be presented as an annual expense and accrued liability on the District’s financial statements. The contributions made on behalf of the plan members for the year ended June 30, 2018 were \$21,017.

Net OPEB Liability: The District’s net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2017. Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2018 and 2017

NOTE 8: OTHER POST EMPLOYMENT BENEFITS (OPEB) LIABILITY – CONTINUED

Actuarial assumptions. The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	3.00 percent
Healthcare cost trend rate	6.00 percent for 2017; 5.00 percent for 2018; 5.00 percent for 2019; and 5.00 percent for 2020 and later years

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

Actuarial assumptions used in the July 1, 2017 valuation were based on a review of plan experience during the period July 1, 2015 to June 30, 2017.

Net OPEB Liability: (continued)

Discount rate. GASB 75 requires a discount rate that reflects the following:

- a) The long-term expected rate of return on OPEB plan investments – to the extent that the OPEB plan’s fiduciary net position (if any) is projected to be sufficient to make projected benefit payments and assets are expected to be invested using a strategy to achieve that return;
- b) A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher – to the extent that the conditions in (a) are not met.

To determine a resulting single (blended) rate, the amount of the plan’s projected fiduciary net position (if any) and the amount of projected benefit payments is compared in each period of projected benefit payments. The discount rate used to measure the District’s Total OPEB liability is based on these requirements and the following information:

Reporting Date	Measurement Date	Long-Term Expected Return of Plan Investments (if any)	Municipal Bond 20-Year High Grade Rate Index	Discount Rate
July 1, 2017	July 1, 2017	4.00%	3.13%	3.13%
June 30, 2018	June 30, 2018	4.00%	3.13%	3.62%

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2018 and 2017

NOTE 8: OTHER POST EMPLOYMENT BENEFITS (OPEB) LIABILITY – CONTINUED

Changes in the Net OPEB Liability

The table below shows the changes in the total OPEB liability, the Plan Fiduciary Net Position, and the net OPEB liability during the measurement period ending on June 30, 2018 for the District.

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability(Asset) (c) = (a) – (b)
Balance at June 30, 2017	\$ 282,824		\$ 282,824
Changes recognized for the measurement period:			
Service cost	1,739		1,739
Interest	8,526		8,526
Changes of assumptions	(9,723)		(9,723)
Employer contributions		21,017	(21,017)
Benefit payments	(21,017)	(21,017)	
Net changes	(20,475)		(20,475)
Balance at June 30, 2018	\$ 262,349	\$	\$ 262,349

Sensitivity of the District’s Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1- percentage point lower (2.62 percent) or 1-percentage-point higher (4.62 percent) than the current discount rate:

	1% Decrease 2.62%	Discount Rate 3.62%	1% Increase 4.62%
District’s proportionate share of the net OPEB liability	\$ 282,804	\$ 262,349	\$ 244,124

Sensitivity of the District’s Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.00 percent decreasing to 4.00 percent) or 1- percentage-point higher (5.00 percent increasing to 6.00 percent) than the current healthcare cost trend rates:

	1% Decrease 4.00%	Trend Rate 5.00%	1% Increase 6.00%
District’s proportionate share of the net OPEB liability	\$ 248,921	\$ 262,349	\$ 277,423

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2018 and 2017

NOTE 8: OTHER POST EMPLOYMENT BENEFITS (OPEB) LIABILITY – CONTINUED

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the District’s deferred outflows of resources and deferred inflows of resources to OPEB from the following sources are:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	-	8,293

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The recognition period differs depending on the source of the gain or loss. The amortization period for the change in assumptions is 6.8 years.

Amounts reported as deferred outflows and deferred inflows of resources will be recognized in OPEB expense as follows:

Year Ending June 30,	Amount
2019	\$ 1,430
2020	1,430
2021	1,430
2022	1,430
2023	1,430
2024	1,143
Total	\$ 8,293

Net OPEB Expense

For the year ended June 30, 2018, the District’s OPEB expense was \$8,835. Detail of the expense is shown below:

Service Cost	\$1,739
Interest Cost	8,526
Recognition of Deferred Outflows and Inflows:	
Changes of assumptions	(1,430)
Net OPEB Expense	\$8,835

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Notes to Basic Financial Statements
June 30, 2018 and 2017

NOTE 9: 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 Self-Insured Retention	Re- insurance/Excess Commercial Insurance	Deductible
General Liability	\$ 5,000,000	\$ 55,000,000	None
Auto Liability	5,000,000		
Employment Practices Liability	5,000,000		
Property Damage	100,000	500,000,000	\$1,000 - \$50,000
Public Employee Theft, Depositors Forgery, and Funds Transfer Fraud	100,000	n/a	\$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 10: PRIOR PERIOD ADJUSTMENT

In fiscal year 2017-18, a prior period adjustment to reduce net position was recorded for \$260,371 to restate the beginning balance of the net OPEB liability.

NOTE 11: SUBSEQUENT EVENT

Management has evaluated subsequent events through October 29, 2018, 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

Pensions

June 30, 2018

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, 2017</u>	<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%	0.02825%
District’s proportionate share of the net pension liability	\$1,033,555	\$902,961	\$611,042	\$611,042
District’s covered payroll	523,983	516,107	377,098	377,098
District’s proportionate share of the net pension liability as a percentage of its covered payroll	197.25%	174.96%	162.04%	162.04%
Plan Fiduciary net position as a percentage of the total pension liability	75.87%	81.32%	78.76%	78.76%

CALPERS - Schedule of District contributions:

Last 10 Fiscal Years*

Measurement Date	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Actuarially determined contribution	\$ 118,924	\$ 95,128	\$ 70,003	\$ 70,003
Contributions in relation to the actuarially determined contribution	118,924	95,128	70,003	70,003
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District’s covered payroll	\$ 523,983	\$ 516,107	\$ 377,098	\$ 377,098
Contributions as a percentage of covered payroll	22.70%	18.43%	18.56%	18.56%

* Fiscal year ended June 30, 2015 was the first year of implementation.

Additional years will be presented as they become available.

RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT

Required Supplementary Information

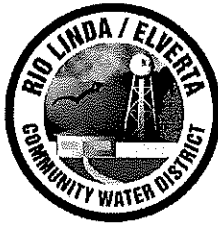
Other Post-Employment Benefits

June 30, 2018

Last 10 Fiscal years*

	<u>2018</u>
Net OPEB liability	
Service cost	\$ 1,739
Interest	8,526
Change in assumptions	(9,723)
Benefit payments	<u>(21,017)</u>
Net change in Net OPEB liability	(20,475)
 Net OPEB liability - beginning	 <u>282,824</u>
 Net OPEB liability - ending	 <u><u>\$ 262,349</u></u>
 Covered payroll	 \$ 604,181
Net OPEB liability (asset) as a percentage of covered payroll	43.42%
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%

* Fiscal year ended June 30, 2018 was the first year of implementation.
Additional years will be presented as they become available.



Finance/Administration Committee

Agenda Item: 4

Date: November 13, 2018

Subject: Authorize Attending Regional Water Authority – Sacramento
Groundwater Authority Annual Holiday Social

Staff Contact: Timothy R. Shaw, General Manager

Recommended Committee Action:

Discuss the authorization process for Board Member attendance of the annual RWA/SGA Holiday Social and costs therefor.

Current Background and Justification:

The District recently received its invitation and payment processing document (copy included with committee packets) for the December 6th event. The deadline to pay the \$70 per person for attending event is December 3rd.

District written policy and applicable statutes require that the Board authorize attendance and costs therein. Authorizing the year-long appointment of Board Members to represent the District at RWA/SGA board meetings does not cover attendance and cost for social events.

Social events and the relatively higher meal costs typically encountered are not addressed in the current District policy. A sample policy from the Institute of Local Government (included with the committee packets) is a more comprehensive policy, which also establishes the finding that *“sharing a meal with regional, state and federal officials is frequently the best opportunity for a more extensive, focused and uninterrupted communication about the city/county/district’s policy concerns”*;

Staff recommendation:

Forward an item onto the November 19th Board agenda to recommend approval and funding for the December 6th RGA/SGA annual holiday social.

Please complete and return
with payment to:
Regional Water Authority
by Monday, December 3, 2018

Name(s): _____

Organization: _____

Cost:
\$70 per person

Please Indicate Choice(s) Below:
_____ Oven Roasted Prime Rib
_____ Charbroiled Chicken Piccata

Mail to:
Regional Water Authority
5620 Birdcage Street, Suite 180
Citrus Heights, CA 95610
(916) 967-7692

Regional Water Authority
5620 Birdcage Street, STE. 180
Citrus Heights, CA 95610

Mr. Tim Shaw
Rio Linda/Eiverta CWD
730 L Street
Rio Linda, CA 95673



US POSTAGE

\$00.21

ZIP 95610
011D1062559

*You Are Cordially
Invited to Attend*
the
Regional Water Authority
and
Sacramento Groundwater
Authority
*Eighteenth
Annual Holiday
Social*

Thursday, December 6, 2018

*Seventeenth
Annual
Holiday Social*

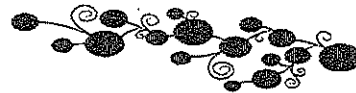
Thursday
December 6, 2018

at the

*North Ridge
Country Club*
7600 Madison Avenue
Fair Oaks, California

6:00 p.m. Cocktails
(No Host Bar)
7:00 p.m. Dinner

Spouses & Guests Welcome



Presentation of the
Regional Water Authority
Distinguished Service
and
Water Statesperson of
the Year Awards



Musical Entertainment
by Jeff Marcelo

**Final Deadline to
Respond:**

Monday, December 3, 2018

No Exceptions

Return this portion
with payment to:

Regional Water Authority
5620 Birdcage Street, Suite 180
Citrus Heights, CA 95610

(916) 967-7692





Sample Expense and Use Of Public Resources Policy Statement¹

01/04/2006

Findings

Whereas, _____ [*insert public agency name*] takes its stewardship over the use of its limited public resources seriously.

Whereas, public resources should only be used when there is a substantial benefit to the *city/county/special district*.

Whereas, such benefits include:

1. The opportunity to discuss the community's concerns with state and federal officials;
2. Participating in regional, state and national organizations whose activities affect the *city/county/district*;
3. Attending educational seminars designed to improve officials' skill and information levels; and
4. Promoting public service and morale by recognizing such service.

Whereas, 1) legislative and other regional, state and federal agency business is frequently conducted over meals; 2) sharing a meal with regional, state and federal officials is frequently the best opportunity for a more extensive, focused and uninterrupted communication about the *city/county/district's* policy concerns; and 3) each meal expenditure must comply with the limits and reporting requirements of local, state and federal law.

Whereas, this policy provides guidance to elected and appointed officials on the use and expenditure of *city/county/district* resources, as well as the standards against which those expenditures will be measured.

DRAFTING NOTES

¹ Local agencies that have authority to reimburse legislative body members for expenses incurred in the performance of their official duties must adopt, in a public meeting, written expense policies that specify the types of occurrences which will be reimbursable. See Cal. Gov't Code § 53232.2(b). The policy may also specify rates or default to Internal Revenue Service rates. See Cal. Gov't Code § 53232.2(c).

[For non-charter cities] Whereas, this policy satisfies the requirements of Government Code sections 53232.2 and 53233.3. *[For charter cities: Whereas, this policy would satisfy the requirements of Government Code sections 53232.2 and 53233.3 in the event such requirements could be constitutionally applied to charter cities.]*

Whereas, this policy supplements the definition of actual and necessary expenses for purposes of state laws relating to permissible uses of public resources.²

Whereas, this policy also supplements the definition of necessary and reasonable expenses for purposes of federal and state income tax laws.³

Whereas, this policy also applies to any charges made to a *city/county/district* credit card,⁴ cash advances or other line of credit.

² See also Cal. Gov't Code §1223 (allowing an allowance or mileage rate for state, county, judicial district, or city officer's automobile owned, rented or used in performance of duties); § 1091.5 (finding no impermissible interest in a contract if officer or employee is reimbursed actual and necessary expenses in performance of official duty); Cal. Water Code § 34741 ("Each director shall receive...expenses incurred in the performance of his duties required or authorized by the board."); Cal. Health & Safety Code § 32103 (allowing travel and incidental expenses incurred hospital district board members in the performance of their official duties as approved by the board); Cal. Gov't Code § 25008 (county supervisors are allowed expenses associated with traveling outside county on county business and to state association meeting); § 25305 (county may purchase automobiles for use of county officers and employees in lieu of mileage; county board may allow officers and employees using county automobiles their actual and necessary expenses when traveling on county business); See Cal. Gov't Code § 36514.5 (city council members); 65 Cal. Op. Att'y Gen. 517, 521 (1982) (interpreting Government Code section 36514.5); Cal. Health & Safety Code § 33114 (similar authority as to expenses of redevelopment agency members).

³ See, e.g., 26 U.S.C. § 162.

⁴ Because of the potential for confusing an agency credit card with a personal card, a number of agencies have concluded it is wiser not to issue officials credit cards. This is consistent with state law that appears not to forgive inappropriate public agency expenses if they are reimbursed. In the prosecution of one county supervisor for personal use of public resources, the court concluded that reimbursement was not a defense. See *People v. Bishop*, 2000 WL 520878 (2000) (conviction for personal and campaign use of county facilities and personnel). The court cited to *People v. Dillon*, 199 Cal. 1 (1926), a case in which convictions were upheld on facts demonstrating that the city was reimbursed for money improperly disbursed by the defendant. While *Dillon* did not expressly reject a reimbursement defense, the court said the decision cannot be reconciled with such a defense.

Authorized Expenses⁵

City/County/District funds, equipment, supplies (including letterhead), titles,⁶ and staff time must only be used for authorized *city/county/district* business.⁷ Expenses incurred in connection with the following types of activities generally constitute authorized expenses, as long as the other requirements of this policy are met:

1. Communicating with representatives of regional, state and national government on *city/county/district* adopted policy positions;⁸
2. Attending educational seminars designed to improve officials' skill and information levels;⁹
3. Participating in regional, state and national¹⁰ organizations whose activities affect the *city's/county's/district's* interests;
4. Recognizing service to the *city/county/district* (for example, thanking a longtime employee with a retirement gift or celebration of nominal value and cost);¹¹
5. Attending *city/county/district* events;¹²

⁵ This section is designed to satisfy Government Code section 53232.2(b), which requires local agencies to specify what types of occurrences qualify for reimbursement.

⁶ Some agencies allow elected officials to use their titles "for identification purposes only" as long as the communication makes it clear that the use of the title does not imply agency participation in or endorsement of a communication.

⁷ State law prohibits personal use of public resources. *See, e.g.*, Cal. Gov't Code § 8314 (making it unlawful for state or local officials to use public resources for personal or campaign purposes).

⁸ *See* Cal. Gov't Code §§ 50023 (legislative bodies of cities and counties may directly or through a representative attend legislative bodies and meet with representatives of executive agencies, and present information; cost and expense incident to such meetings are proper charges against the local agency); 53060.5 (cost of "attending" the Legislature and presenting information are proper charges against special districts; each district board member is allowed \$.11 per mile for automobile travel and actual traveling expenses when traveling by public conveyance).

⁹ *See Madden v. Riley*, 53 Cal. App. 2d 814, 823, 128 P.2d 602, 607 (1942) (propriety of conference expenses for networking purposes).

¹⁰ Some agencies may want to limit pre-approved travel to in-state travel only. This may be accomplished in the section that follows by requiring pre-approval for all out-of-state-travel.

¹¹ Counties have specific statutory authority to honor those who have performed unique or noteworthy public service. *See* Cal. Gov't Code § 26206 (specifying that such honors must be of nominal value and cost). *See also* 10 Cal. Op. Att'y Gen. 18 (1947) (school district may issue recognition pins).

¹² Agency officials may wish to consider whether attending certain agency events are expenses that officials should bear personally (or through their officeholder accounts under the Political Reform Act), particularly if attendance at such events is politically advantageous.

6. Implementing a *city/county/district*-approved strategy for attracting or retaining businesses to the *city/county/district*, which will typically involve at least one staff member; and¹³

7. *[For those agencies that pay meeting stipends, for example, water districts]* Meetings such as those listed above for which a meeting stipend is expressly authorized under this policy.

All other expenditures require prior approval by the *city/county/district* governing body.¹⁴

The following expenses also require prior governing body approval:

1. International *[and out-of-state]*¹⁵ travel;
2. Expenses which exceed the annual limits established for each office holder,¹⁶ and
3. Expenses exceeding \$ _____ per trip.¹⁷

Examples of personal expenses that the *city/county/district* will not reimburse include, but are not limited to:

1. The personal portion of any trip;
2. Political or charitable contributions or events;
3. Family expenses, including partner's expenses when accompanying official on agency-related business, as well as children- or pet-related expenses;¹⁸

¹³ A consensus among the peer reviewers was that such meetings typically ought to involve the agency's economic development staff or chief administrative officer to insure the meetings are maximally productive.

¹⁴ Any expense not authorized by the agency's expense reimbursement policy must be approved in advance at a public meeting of the governing body. See Cal. Gov't Code §53232.2(f).

¹⁵ For some agencies, pre-approval of out-of-state travel may not make sense, given the frequency with which such travel occurs or the proximity of state lines.

¹⁶ Some jurisdictions find it useful to set an annual per office holder "budget" for such expenses. Such a budget does not, however, excuse agency officials from making a determination that each expense complies with the agency's policy, the law and ethical considerations. A strong argument can be made that, effective January 1, 2006, agencies may not pay flat monthly mileage allowances without requiring a mileage log or other proof of travel. See Cal. Gov't Code §53232.3(a)-(c).

¹⁷ The threshold for pre-approval of travel over a certain amount for any kind of travel is subject to community standards.

¹⁸ 75 Cal. Op. Att'y Gen. 20 (1992) (concluding there is no substantial public purpose associated with a public agency paying for spouse travel expenses).

4. Entertainment expenses, including theater, movies (either in-room or at the theater), sporting events (including gym, massage and/or golf related expenses), or other cultural events;
5. Non-mileage personal automobile expenses, including repairs, traffic citations, insurance or gasoline; and
6. Personal losses incurred while on *city/county/district* business. Any questions regarding the propriety of a particular type of expense should be resolved by the approving authority before the expense is incurred.

Meeting Stipends¹⁹

General

Consistent with _____,²⁰ directors receive \$ _____²¹ per day ("daily

¹⁹ This section should only be included for those local agencies whose enabling acts provide for per-day meeting stipends.

²⁰ Insert relevant code section establishing meeting stipend amounts and limits for type of agency.

²¹ Insert amount that does not exceed statutory limits. State law limits direct compensation for some local officials. These limits do not apply to any local agency that pays compensation in the form of a salary, including members of the board of directors of irrigation districts which provide electricity, directors of utility districts with boards having seven members and harbor district directors. The limits apply primarily to officials of independent districts who do not fall within these last two exceptions. With regard to nonsalaried officials, a stipend for attending a meeting or for a day of service can be paid for: a meeting of any "legislative body" of the agency (as Government Code section 54952 defines that term), a meeting of an advisory body (such as a less-than-a-quorum, temporary, *ad hoc* advisory subcommittee of a legislative body), and conference attendance including ethics training conferences, assuming that the stipend is authorized by another statute. Cal. Gov't Code § 53232.1(a). If the agency wishes to compensate officials for attendance at other events, it may do so "only if the governing body has adopted, in a public meeting, a written policy specifying" the other events which constitute "the performance of official duties" allowing compensation. Cal. Gov't Code § 53232.1(b).

City councils fix the compensation of all appointive officers and employees by resolution or ordinance. Cal. Gov't Code § 36506. We believe this statute provides authority to compensate city appointive officers and employees and reimburse expenses. For counties, the board of supervisors prescribes the compensation of all county officers and shall provide for the number, compensation, tenure, appointment and conditions of employment of county employees. Except as otherwise required by Article XI of the California Constitution, such action may be taken by resolution of the board of supervisors as well as by ordinance. Cal. Gov't Code § 25300.

Note, however, that unless specifically authorized by another statute, a city council may not enact an ordinance providing for compensation to elected city council members in excess of the schedules authorized under the Government Code. See Cal. Gov't Code § 36516(d). If a statute provides for additional council member compensation for serving on a commission--but that statute does not specify an amount of compensation-- the compensation is \$150 per month. See Cal. Gov't Code § 36516(d). If a community development commission is formed to oversee redevelopment functions, commissioner compensation may not exceed \$75 per commissioner per meeting, with a maximum of two meetings (\$150) per month. See Cal. Health & Safety Code §34130.5(b). If a community development commission is

meeting stipend”) for each day’s attendance at meetings, as defined in this policy. Such compensation is in addition to any reimbursement for meals, lodging, travel and expenses consistent with this policy.

Meetings and Service Subject To Daily Stipend

To be entitled to a daily stipend under this policy, the event in question must constitute one of the following:

1. A meeting of the district board within the meaning of Government Code section 54952.2(a);²²
2. A meeting of a district committee within the meaning of Government Code section 54952(b);²³
3. An advisory body meeting within the meaning of Government Code section 54952(b);²⁴ or
4. A conference or organized educational activity conducted in compliance with Government Code section 54952.2(c), including ethics training required by Government Code sections 53234 and following;²⁵
5. A meeting of any multi-jurisdictional governmental body on which the district

formed to oversee both redevelopment and housing authority functions, commissioner compensation may not exceed \$150 per commissioner per meeting, with a maximum of two meetings (\$300) per month. *See* Cal. Health & Safety Code §34130.5(c).

²² *See* Cal. Gov’t Code § 53232.1(a)(1) (authorizing that compensation be paid at meeting of a legislative body and tying it to the definition of meeting in section 54952.2(a), which reads as follows:

As used in this chapter, “meeting” includes any congregation of a majority of the members of a legislative body at the same time and place to hear, discuss, or deliberate upon any item that is within the subject matter jurisdiction of the legislative body or the local agency to which it pertains.)

²³ That section reads as follows:

A commission, committee, board, or other body of a local agency, whether permanent or temporary, decision-making or advisory, created by charter, ordinance, resolution, or formal action of a legislative body. However, advisory committees, composed solely of the members of the legislative body that are less than a quorum of the legislative body are not legislative bodies, except that standing committees of a legislative body, irrespective of their composition, which have a continuing subject matter jurisdiction, or a meeting schedule fixed by charter, ordinance, resolution, or formal action of a legislative body are legislative bodies for purposes of this chapter.

See Cal. Gov’t Code § 53232.1(a)(2).

²⁴ *See* Cal. Gov’t Code § 53232.1(a)(2) (authorizing that compensation be paid at meeting of an advisory body). *See also* Cal. Gov’t Code § 54952(b) (“advisory committees, composed solely of the members of the legislative body that are less than a quorum of the legislative body”).

²⁵ *See* Cal. Gov’t Code § 53232.1(a)(3) (authorizing that compensation be paid at conferences or organized educational activities).

director serves as the district's designated representative.²⁶

6. Any meeting attended or service provided on a given day at the formal request of the district board and for which the district board approves payment of a daily meeting stipend.²⁷

Aggregate Limits

The number of days for which a district director receives a daily stipend will not exceed the aggregate limits established by state law.²⁸

Cost Control²⁹

To conserve *city/county/district* resources and keep expenses within community standards for public officials, expenditures should adhere to the following guidelines. In the event that expenses are incurred which exceed these guidelines, the cost borne or reimbursed by the *city/county/district* will be limited to the costs that fall within the guidelines.

Transportation³⁰

²⁶ See Cal. Gov't Code § 54952.2(a). That section reads as follows:

(a) As used in this chapter, "meeting" includes any congregation of a majority of the members of a legislative body at the same time and place to hear, discuss, or deliberate upon any item that is within the subject matter jurisdiction of the legislative body or the local agency to which it pertains.

Note that this is the test for meeting suggested by the Association for California Water Agencies in its sample policy on directors' compensation and expense reimbursement. See Cal. Gov't Code § 53232.1(a)(3).

²⁷ Check to make sure your district's enabling act includes authorization for payment of a daily stipend for non-meeting expenses.

²⁸ See footnote 19 above for examples.

²⁹ Some agencies have chosen (usually through a request for proposals process) to work with a single travel agency to promote cost control and accountability on airline flights and lodging. Another option is to limit the number of staff who can contact the travel agency to book or change travel plans.

³⁰ The sample policy reflects the requirement that local reimbursement policies either specify reasonable reimbursement rates or use IRS rates for travel, meals, lodging and other authorized expenses. See Cal.

The most economical mode and class of transportation reasonably consistent with scheduling needs and cargo space requirements must be used, using the most direct and time-efficient route. Charges for rental vehicles may be reimbursed under this provision if more than one *city/county/district* official is attending an out of town conference, and it is determined that sharing a rental vehicle is more economical than other forms of transportation. In making such determination, the cost of the rental vehicle, parking and gasoline will be compared to the combined cost of such other forms of transportation. Government and group rates must be used when available.³¹

Airfare. Airfares that are equal or less than those available through the Enhanced Local Government Airfare Program offered through the League of California Cities (www.cacities.org/travel), the California State Association of Counties (<http://www.csac.counties.org/default.asp?id=635>) and the State of California are presumed to be the most economical and reasonable for purposes of reimbursement under this policy.³²

Automobile. Automobile mileage is reimbursed at Internal Revenue Service rates presently in effect (*see* www.irs.gov). For 2006, the rate is 44.5 cents per mile. These rates are designed to compensate the driver for gasoline, insurance, maintenance, and other expenses associated with operating the vehicle.³³ This amount does not include

Gov't Code § 53232.2(c). This requirement, as well as the requirement that expenses be reimbursed after the fact based on receipts supports the view that vehicle allowances are not permitted. *See* Cal. Gov't Code § 53232.3. Nevertheless, a statute that permits a vehicle allowance still exists. *See* Cal. Gov't Code § 1223 (allowing an allowance or mileage rate for state, county, judicial district, or city officer's automobile owned, rented or used in performance of duties). Even if the validity of vehicle allowances was not in question, however, using the more typical Internal Revenue Service Code mileage rate for distance actually traveled avoids questions over the amount of any such allowance. *See Albright v. City of South San Francisco*, 44 Cal. App. 3d 866, 118 Cal. Rptr. 901 (1975) (successful challenge to a flat expense allowance for non-itemized expenses that was not supported by an ordinance or resolution finding such expenses were actual, necessary or beneficial to the public). The court found the allowance violated the law as an unlawful gift of public funds. *See* Cal. Const. art. XVI, § 6. Note that there is a special statutory reimbursement rate for special district directors traveling on legislative business. *See* Cal. Gov't Code § 53060.5 (cost of "attending" the Legislature and presenting information are proper charges against special districts; each special district board member is allowed \$.11 per mile for automobile travel and actual traveling expenses when traveling by public conveyance).

³¹ *See* Cal. Gov't Code § 53232.2(e) ("Members of the legislative body shall use government and group rates offered by a provider of transportation or lodging services for travel and lodging when available.").

³² Those rates can be accessed from the state's website without being a member of these programs by going to <http://www.catravelmart.com/default.htm> and clicking on "Discount Travel Fares for Official Business."

³³ The sample policy reflects the requirement that local reimbursement policies either specify reasonable reimbursement rates or use Internal Revenue Service rates for travel, meals, lodging and other authorized expenses. *See* Cal. Gov't Code § 53232.2(c). This requirement, as well as the requirement that expenses be reimbursed after the fact based on receipts supports the view that vehicle allowances are not permitted. *See* Cal. Gov't Code § 53232.3. Nevertheless, a statute that permits a vehicle allowance still exists. *See* Cal. Gov't Code § 1223 (allowing an allowance or mileage rate for state, county, judicial district, or city officer's automobile owned, rented or used in performance of duties). Even if the validity of vehicle

bridge and road tolls, which are also reimbursable. The Internal Revenue Service rates will not be paid for rental vehicles; only receipted fuel expenses will be reimbursed.

Car Rental. Rental rates that are equal or less than those available through the State of California's website (<http://www.catravelsmart.com/default.htm>) shall be considered the most economical and reasonable for purposes of reimbursement under this policy.

Taxis/Shuttles. Taxis or shuttles fares may be reimbursed, including a 15 percent gratuity per fare, when the cost of such fares is equal or less than the cost of car rentals, gasoline and parking combined, or when such transportation is necessary for time-efficiency.

Lodging³⁴

Lodging expenses will be reimbursed or paid for when travel on official *city/county/district* business reasonably requires an overnight stay.³⁵

Conferences/Meetings. If such lodging is in connection with a conference, lodging expenses must not exceed the group rate published by the conference sponsor for the meeting in question if such rates are available at the time of booking.³⁶ If the group rate is not available, see next section.

Other Lodging. Travelers must request government rates, when available.³⁷ A listing

allowances was not in question, however, using the more typical Internal Revenue Service Code mileage rate for distance actually traveled avoids questions over the amount of any such allowance. *See Albright v. City of South San Francisco*, 44 Cal. App. 3d 866, 118 Cal. Rptr. 901 (1975) (successful challenge to a flat expense allowance for non-itemized expenses that was not supported by an ordinance or resolution finding such expenses were actual, necessary or beneficial to the public). The court found the allowance violated the law as an unlawful gift of public funds. *See* Cal. Const. art. XVI, § 6. Note that there is a special statutory reimbursement rate for special district directors traveling on legislative business. *See* Cal. Gov't Code § 53060.5 (cost of "attending" the Legislature and presenting information are proper charges against special districts; each special district board member is allowed \$.11 per mile for automobile travel and actual traveling expenses when traveling by public conveyance).

³⁴ A local expense reimbursement policy may specify what constitutes reasonable rates for lodging. If the policy does not, then the reimbursable rates default to those specified in the Internal Revenue Service guidelines. *See* Cal. Gov't Code §53232.2(c). *See also* Publication 1542 at www.irs.gov or www.policyworks.gov/perdiem. An agency may want to provide guidance on what some circumstances reasonably requiring an overnight stay (for example, by distance or hours of travel from the agency's location).

³⁵ An agency may want to provide guidance on what some circumstances reasonably requiring an overnight stay (for example, by distance or hours of travel from the agency's location).

³⁶ *See* Cal. Gov't Code §53232.2(d). If those rates are not available at the time the lodging is booked, the lodging rates must be comparable to those allowed by the Internal Revenue Service or government rates. *Id.*

³⁷ Local agency officials must use group or government rates for non-conference-related lodging and transportation services. *See* Cal. Gov't Code §53232.2(e). The Internal Revenue Service establishes per

of hotels offering government rates in different areas is available at <http://www.catravelmart.com/lodguideframes.htm>. Lodging rates that are equal or less to government rates are presumed to be reasonable and hence reimbursable for purposes of this policy.

*Option #1 (Median Hotel Cost):*³⁸ In the event that government rates are not available at a given time or in a given area, lodging rates that do not exceed the median retail price for lodging for that area listed on websites like www.priceline.com or an equivalent service shall be considered reasonable and hence reimbursable.³⁹

Option #2 (Flat Cap). In the event that government rates are not available at a given time or in a given area, lodging rates that do not exceed \$150 per night⁴⁰ are presumed reasonable and hence reimbursable.

Option #3 (IRS Rates). In the event that government rates are not available at a given time or in a given area, lodging rates that do not exceed the IRS per diem rates for a given area are presumed reasonable and hence reimbursable.⁴¹

Meals

Reimbursable meal expenses and associated gratuities will not exceed the following rates per person:⁴²

diem thresholds for employees; any amounts in excess of the per diem for a given area is treated as additional wages for tax purposes. For example, for 2006, the standard per diem rate for lodging in the continental United States is \$60. However the rate for the San Francisco area (as defined) is \$130.

³⁸ Select the option that best works for your agency.

³⁹ With www.priceline.com, one has the option of specifying what quality of hotel (for example, “3 Star, Moderate—Upscale”); and agency’s policy could specify maximum quality thresholds to provide further guidance.

⁴⁰ Or any other threshold that meets community standards.

⁴¹ See Publication 1542 at www.irs.gov or www.policyworks.gov/perdiem). The site also has references to hotels that have government rates at or below Internal Revenue Service per diem limits. For example, for 2006, the standard per diem rate for lodging in the continental United States is \$60. However the rate for the San Francisco area (as defined) is \$130.

⁴² AB1234 allows a local expense reimbursement policy to specify what constitutes reasonable rates for meals. If the policy does not, then the reimbursable rates default to those specified in the Internal Revenue Service guidelines. See Cal. Gov’t Code §53232.2(c). See also Publication 1542 at www.irs.gov or www.policyworks.gov/perdiem. The Internal Revenue Service establishes per diem thresholds for employees; any amounts in excess of the per diem for a given area is treated as additional wages for tax purposes. For example, for 2006, the standard per diem rate for meals and incidental expenses in the continental United States is \$39. However the rate for Los Angeles, San Francisco, and San Diego areas (as defined) is \$64.

The issue of how high or low to set per meal rates is strictly a matter of community standards. For example, state senators and staff are reimbursed according to the General Services Administration rates: by

Breakfast \$ ____

Lunch \$ ____

Dinner \$ ____⁴³

[The city/county/district will not pay for alcohol/personal bar expenses.]⁴⁴

[For group meal events organized by others (for example, conferences and other types of activities that fall within the list of "authorized expenditures" above), the city/county/district recognizes that the per person cost may exceed these maximums.]

Telephone/Fax/Cellular⁴⁵

Officials will be reimbursed for actual telephone and fax expenses incurred on *city/county/district* business. Telephone bills should identify which calls were made on *city/county/district* business. For cellular calls when the official has a particular number of minutes included in the official's plan, the official can identify the percentage of calls made on public business.

geographic area; the web address for these rates is:

http://www.gsa.gov/Portal/gsa/ep/contentView.do?queryYear=2006&contentType=GSA_BASIC&contentId=17943&queryState=California&noc=T.

⁴³ The policy can also provide that such amounts can be annually adjusted to reflect changes in the cost of living in accordance with statistics published by the United States Department of Labor, Bureau of Labor Statistics Consumer Price Index, all urban consumers for the _____ Metropolitan Area.

⁴⁴ Alcohol-related expenses should or should not be reimbursed according to community standards. An alternative to an all or nothing policy on alcoholic beverages is to give specified management-level employees authority to engage in "third policy hosting expenses" for alcoholic beverages.

⁴⁵ Note that it may be an effective cost control measure to provide elected officials with access to agency telephones and faxes for official business and not to reimburse for calls and faxes made on personal equipment.

Internet

Officials will be reimbursed for Internet access connection and/or usage fees away from home, not to exceed \$15.00 per day, if Internet access is necessary for *city/county/district*-related business.

Airport Parking

Long-term parking must be used for travel exceeding 24-hours.⁴⁶

Other

Baggage handling fees of up to \$1 per bag and gratuities of up to 15 percent will be reimbursed. Expenses for which *city/county/district* officials receive reimbursement from another agency are not reimbursable.

Cash Advance Policy

From time to time, it may be necessary for an official⁴⁷ to request a cash advance to cover anticipated expenses while traveling or doing business on the *city/county/district's* behalf. Such request for an advance should be submitted to the *[indicate whom]*⁴⁸ _____ days prior to the need for the advance with the following information:

1. The purpose of the expenditure(s);
2. The benefits of such expenditure to the residents of *city/county/district*;
3. The anticipated amount of the expenditure(s) (for example, hotel rates, meal costs, and transportation expenses); and
4. The dates of the expenditure(s).

Any unused advance must be returned to the *city/county/district* treasury within two⁴⁹

⁴⁶ The point has been made that long-term parking at some airports can involve extensive waits for shuttle buses, etc. Again, the agency has discretion to set parameters that meet local practicalities and community standards.

⁴⁷ Some agencies limit cash advances. One approach is to make cash advances only available for line (less well compensated) staff and elected and appointed officials in the amount of the recommended Internal Revenue Service per diem for the area being traveled to. Another is to offer partial cash advances.

⁴⁸ For example, agency manager for elected officials and supervising department heads for staff.

⁴⁹ Other time thresholds may be appropriate.

business days⁵⁰ of the official's return, along with an expense report and receipts documenting how the advance was used in compliance with this expense policy.

In the event [*indicate who will be processing such requests*] _____ is uncertain as to whether a request complies with this policy, such individual must seek resolution from the *city/county/district* governing board.

Credit Card Use Policy

City/county/district does not issue credit cards to individual office holders but does have an agency credit card for selected *city/county/district* expenses.⁵¹ *City/county/district* office holders may use the *city/county/ district's* credit card for such purposes as airline tickets and hotel reservations by following the same procedures for cash advances. Receipts documenting expenses incurred on the *city/county/district* credit card and compliance with this policy must be submitted within five business days of use.⁵²

City/County/District credit cards may not be used for personal expenses, even if the official subsequently reimburses the *city/county/district*.⁵³

⁵⁰ Choose a time period that is practical, but also is mindful of legal restrictions that exist with respect to having extended access to agency cash. This issue is analogous to the "float" issue when officials use agency credit cards for personal purposes. See Cal. Penal Code § 424.

⁵¹ The decision on whether to issue agency credit cards to individuals is a policy determination. Many experienced administrators advise against issuing agency credit cards to either elected officials or staff because of the potential for inadvertent use for personal purposes and the legal questions about whether one can be protected from civil and criminal liability by reimbursing the agency. (See footnote 3). An alternative used by some public agencies is the Cal-Card program, which provides for specific dollar limits per card holder and can be restricted for use with certain kinds of vendors. The Cal-Card provides a clear audit/documentation trail. The program is administered through a master contract with the State of California. For more information, see www.documents.dgs.ca.gov/pd/calcard/calcardreq.pdf. Potential alternative language if an agency does issue credit cards is as follows:

City/County/District officials with *city/county/district* credit cards may only use those cards for official agency business consistent with this expense policy. Credit card expenses will be periodically reviewed by the governing body or its designee. Each credit card holder will, as a part of that individual's expense report, document compliance with this expense policy.

⁵² Choose a time period that is practical, but enables agency financial staff to verify charges on the credit card monthly bill.

⁵³ Note that this provision can be useful even if an agency does not issue credit cards to individuals because it establishes that using a central credit card for personal purposes is impermissible.

Expense Report Content and Submission Deadline

All cash advance expenditures, *[credit card expenses]* and expense reimbursement requests must be submitted on an expense report form provided by the *city/county/district*. *[This form shall include the following advisory:*

All expenses reported on this form must comply with the city/county/ district's policies relating to expenses and use of public resources. The information submitted on this form is a public record. Penalties for misusing public resources and violating the city/county/ district's policies include loss of reimbursement privileges, restitution, civil and criminal penalties as well as additional income tax liability.]

Expense reports must document that the expense in question met the requirements of this policy.⁵⁴ For example, if the meeting is with a legislator, the local agency official should explain whose meals were purchased, what issues were discussed and how those relate to the *city/county/ district's* adopted legislative positions and priorities.

Officials must submit their expense reports within 30 days of an expense being incurred, accompanied by receipts documenting each expense.⁵⁵ Restaurant receipts, in addition to any credit card receipts, are also part of the necessary documentation.

Inability to provide such documentation in a timely fashion may result in the expense being borne by the official.

Audits of Expense Reports

⁵⁴ Local agencies must use expense report forms. *See* Cal. Gov't Code §53232.3(a). All expenses must be documented with receipts. *See* Cal. Gov't Code §53232.3(c). These documents are, of course, public records subject to disclosure. *See* Cal. Gov't Code §53232.3(e).

⁵⁵ An expense reimbursement policy must specify what constitutes a "reasonable time" within which requests for reimbursement must be submitted. *See* Cal. Gov't Code §53232.3(c). If the deadline for expense reimbursement requests is too long or non-existent, it may be difficult to remember why certain expenses were incurred. Moreover, there may be audit issues in terms of recognizing the expense in the proper year.

Finally, the Internal Revenue Service requires that expenses that are reimbursed after 60 days be reported as income to reimburse. Under an "accountable plan," expense reimbursements are not taxable to the employee; however, if the employee does not submit their substantiated claim for reimbursement within 60 days of the expenditure, then the reimbursement is taxable to the employee and reported in Box 1 of Form W-2. See discussion beginning on page 10 http://www.irs.gov/pub/irs-pdf/p15_05.pdf, discussion beginning on page 27 <http://www.irs.gov/pub/irs-pdf/p463.pdf>, and discussion beginning on page 48 <http://www.irs.gov/pub/irs-pdf/p535.pdf>.

All expenses are subject to verification that they comply with this policy.

Reports to Governing Board

At the following *city/county/district* governing body meeting, each official shall briefly report on any Brown Act meetings attended at *city/county/district* expense⁵⁶ [*as well as any conferences, educational seminars or meetings with legislators or other governmental officials*].⁵⁷

If multiple officials attended, a joint report may be made.⁵⁸ The report may be made orally or in writing.

⁵⁶ AB 1234 requires members of a legislative body to report on “meetings” attended at public expense at the next meeting of the legislative body. Cal. Gov’t Code § 53232.3(d). “Meetings” for purpose of this section are tied to the Brown Act meaning of the term, Cal. Gov’t Code § 53232.3(d): any congregation of a majority of the members of a legislative body at the same time and place to hear, discuss, or deliberate upon any item that is within the subject matter jurisdiction of the legislative body or the local agency to which it pertains. *See* Cal. Gov’t Code § 54952.2.

An example would be when a city council member or supervisor represents his or her agency on a joint powers agency board and pays for the official’s expenses in serving in that representative capacity.

The report must be made at the next meeting of the legislative body that paid for its member to attend the meeting. Cal. Gov’t Code § 53232.3(d).

The report should be agendized in some manner, both to remind the official of the obligation to report and to comply with Brown Act requirements.

⁵⁷ Some public agencies have also voluntarily adopted requirements that any time an official attends a conference or similar gathering at public expense that a report be provided back to the body. Again, the report typically can be written or oral.

⁵⁸ In making a joint report, officials should be mindful about open meeting laws governing communications among members of a legislative body. There is a conference exception to the Brown Act, as long as a majority of the members of a legislative body does not discuss among themselves business that is within the subject matter jurisdiction of the local agency (other than as part of the scheduled program). *See* Cal. Gov’t Code § 54952.2(c)(2). Officials should not discuss among themselves the content of a joint report in advance of a public meeting. Simply asking one official to be the lead on the report during the public meeting and then asking others if anything was omitted should avoid Brown Act issues.

Compliance with Laws

City/County/District officials should keep in mind that some expenditures may be subject to reporting under the Political Reform Act and other laws.⁵⁹ All agency expenditures are public records subject to disclosure under the Public Records Act [*and other laws*]⁶⁰

Violation of This Policy

Under state law, use of public resources or falsifying expense reports in violation of this policy may result in any or all of the following: 1) loss of reimbursement privileges, 2) a demand for restitution to the *city/county/district*, 3) the agency's reporting the expenses as income to the elected official to state and federal tax authorities, 4) civil penalties of up to \$1,000 per day and three times the value of the resources used, and 5) prosecution for misuse of public resources.⁶¹

⁵⁹ For example, meals are considered "gifts" to legislators that must be reported by them if the total value of gifts given from the agency exceeds \$50 in a year; there also is an annual gift limit. In 2003-2004, this limit is \$340. *See* Cal. Gov't Code § 87103(3). Registered lobbyists, by contrast, are limited to gifts of \$10 per month. *See* Cal. Gov't Code §§ 86201-86204.

⁶⁰ *See generally* Cal. Gov't Code §§ 6250 et seq. (California Public Records Act). Special districts have an additional obligation to prepare and annual summary of expense reimbursements over \$100 and make those available for public disclosure. Cal. Gov't Code § 53065.5.

⁶¹ *See* Cal. Gov't Code § 53232.4.



Finance/Administration Committee

Agenda Item: 5

Date: November 13, 2018

Subject: Request from Residential Customer for Credits for Oversized Meter

Staff Contact: Timothy R. Shaw, General Manager

Recommended Committee Action:

Review the request received from a residential customer for credit associated with several years of service charges for 1.5-inch meter installed on a ¾-inch service.

Current Background and Justification:

I received a face-to-face visit and a follow up e-mail request from a property owner who was encouraged by a Board Member to see me regarding an apparent overcharge configuration that has existed for several years, i.e. since the dwelling unit was constructed. The dwelling unit in question has a 1.5-inch meter and has been billed for a 1.5-inch service. However, the 1.5-inch meter is connected to a ¾-inch pipe on the customer's side of the connection. The customer feels the District had an obligation to inform him that he'd been overpaying for the service relative to the maximum volume he could receive through the ¾-inch pipe on his side of the connection.

The plumbing configuration is quite unique, and it should be considered in the context of construction era and the role of other service providers at the time of construction, i.e. Sacramento County and Sac Metro Fire. The dwelling unit in question was part of four units constructed in an area with insufficient fire flows. The County/Sac Metro allowed construction with mitigation stipulated to be in the form of automatic fire sprinkler systems. This occurred prior to the 2011 building code change that made residential fire sprinkler systems mandatory. 1.5-inch services (meter and service lines) were required for three of the four dwelling units, the fourth (the service in question) was constructed with the 1.5-inch service even though it was not required, nor built with a fire sprinkler system.

The property owner/account holder believes that RLECWD staff should have apprised him of the incongruence commensurate with a 1.5-inch meter connected to a ¾-inch pipe on the customer's side. I have explained that his expectation may be unreasonable considering the uniqueness of the circumstances and our having no way to know what his future plans for service changes on the customer side of the connection entailed. In the meantime, the customer has

requested his meter and billing rate be changed to a ¾-inch service. I have advised the Customer the District will promptly oblige his request.

Staff recommendation:

I believe the request to issue a credit for the alleged overcharge is unreasonable. Therefore, I do not recommend the item be forwarded to the Board for consideration. However, I advised the customer that his request will be considered at committee (instead of unilaterally decided by me), then processed accordingly.

Tim Shaw

Subject: FW: 609 Lara Lane Rio Linda Ca.

From: Paul Cantrell <paul.cantrell@sPMC.com>

Sent: Wednesday, October 24, 2018 4:11 PM

To: Tim Shaw <GM@rlecwd.com>

Subject: 609 Lara Lane Rio Linda Ca.

Tim, Thanks for your help on the water meter information . I would like to request that the District, Change the meter from 1.5 inch to a 3/4 inch, and adjust the water rate accordingly. Since, the house has a 3/4 inlet pipe going into the home. Also, could you see if a water credit would be due to me on this property, over the last few years. Thanks Paul Cantrell owner.



Finance/Administration Committee

Agenda Item: 6

Date: November 13, 2018

Subject: Draft Policy for Opting Out of Inactive Service Fees

Staff Contact: Timothy R. Shaw, General Manager

Recommended Committee Action:

Review the draft policy for opting out of inactive service fees submitted by Legal Counsel
Discuss this and other options, then direct staff accordingly.

Current Background and Justification:

At the October 15th Board meeting, I was directed to draft a policy to provide for opting out of the inactive service fee established in Resolution 2013-08, and further directed to bring the draft policy to the November Finance/Admin Committee for review and discussion.

Subsequently, and without discussion, Legal Counsel emailed the draft opt out policy included with the committee packets. Upon receipt of the draft policy, I corresponded with Legal Counsel to clarify the divergence from Board direction, and to confirm some omissions from the draft policy which were also directed at the October 15th meeting, e.g. the minimum 2-acre parcel stipulation for consistency with County objective PF-5.

Legal Counsel recommended I bring the draft Ordinance she prepared to the Finance/Admin Committee with her apologies for the divergence. Legal Counsel further recommended the Finance/Admin Committee discuss other options for moving forward, including repealing Resolution 2013-08 and adopting an Ordinance to comprehensively provide for both the fee and the opt out process.

Staff recommendation:

Subject to review and concurrence from Legal Counsel (and/or policy requirements for Ordinance adoption), I recommend the Finance/Admin Committee review and discuss the draft Ordinance and the options described above. I further recommend the draft Ordinance be revised to address the 2-acre minimum parcel stipulation, and the Finance/Admin Committee support adoption of the revised Ordinance at the November 19th Board Meeting.

Rio Linda/Elverta Community Water District

Ordinance No. 2018-_____

AN ORDINANCE OF THE BOARD OF DIRECTORS OF THE RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT TO ESTABLISH PERMANENT DISCONNECTION FEES AND POLICY FOR PERMANENT DISCONNECTION

WHEREAS, the Rio Linda/Elverta Community Water District (the “District”) adopted Resolution 2013-08, implementing a minimum bimonthly water service fee (“inactive service fee”) for inactive customers on parcels which still have water immediately available to them; and

WHEREAS, the inactive service fee does not apply to parcels which do not have water immediately available to them; and

WHEREAS, permanently disconnected parcels do not have water immediately available to them; and

WHEREAS, the District finds that clarity is required for District water customers who desire to permanently disconnect from the District’s water system; and

WHEREAS, California Government Code section 66016 authorizes the District to adopt a resolution or ordinance to establish and impose a permanent disconnection fee; and

WHEREAS, the District published notice of the initial public hearing, including a general explanation of the matter to be considered, at least ten (10) days before the hearing as required by California Government Code section 6062a and 66018; and

WHEREAS, at least ten (10) days before the public hearing, the District made data publicly available that indicates the estimated cost required to permanently disconnect a parcel from the District’s water system; and

WHEREAS, the above-described data sets forth reasonable cost estimates for permanent disconnection for parcels and establishes that the proceeds generated by the permanent disconnection fee do not exceed the total of the estimated costs.

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE RIO LINDA/ELVERTA COMMUNITY WATER DISTRICT HEREBY DETERMINES AND ORDAINS AS FOLLOWS:

Section 1. Recitals. The above recitals are true and correct and incorporated herein.

Section 2. Disconnection Fee. The District hereby adopts the Permanent Disconnection Fee set forth in Exhibit 1 attached hereto, to reflect the costs of permanently disconnecting a parcel from its water system.

Section 3. Declaration of Policy. This Permanent Disconnection Policy is established to clarify procedures that District customers should take if they desire to permanently disconnect their parcel from the District’s water system.

Section 4. Definitions. The following definitions apply to this Permanent Disconnection Policy, unless specified otherwise:

- (a) “Customer” means the individual requesting permanent disconnection from the District’s water system.
- (b) “District” means the Rio Linda/Elverta Community Water District.
- (c) “Policy” means the Permanent Disconnection Policy.
- (d) “Manager” or “General Manager” means the General Manager of the Rio Linda/Elverta Community Water District.

Section 5. Disconnection Procedures.

5.01 Written Request Required. Customers desiring permanent disconnection from the District’s water system shall submit a written request to permanently disconnect to the District’s General Manager. The written request shall include the Customer’s full name, phone number, e-mail, address, and APN number of the parcel to be permanently disconnected, and the date that permanent disconnection is requested.

5.01.01 Payment of Permanent Disconnection Fee. The Customer shall include a permanent disconnection fee of \$ _____ with the written request. The disconnection fee includes material, labor, and equipment hours to perform the disconnection.

5.01.02 Additional Information. The Customer shall be required to furnish such additional information as requested by the General Manager to permanently disconnect the parcel from the District’s water system.

5.02 Reconnecting to the District’s Water System. If the Customer or the owner of the parcel desires to reconnect to the District’s water system, the Customer or owner of the parcel shall follow the procedures for new service described in Chapter 4.07 of the District’s Policy Manual. The Customer shall pay the water service connection charges provided in Ordinance No. 2016-01.

5.03 Permanently Disconnected Parcels Not Subject to Inactive Water Service Fee.

5.03.01 Finding. The District finds that the District incurs no cost for providing water service to permanently disconnected parcels, as water service is not immediately available to those parcels.

5.03.02 Inactive Service Fee. Parcels which do not have water immediately available to them from the District’s water system are not subject to the inactive water service fee established pursuant to Resolution 2013-08.

Section 6. California Environmental Quality Act Compliance. Pursuant to California Public Resources Code section 21080(b)(8), the requirements of the California Environmental Quality Act do not apply to water disconnection fees, as the fee caused by this Ordinance is to

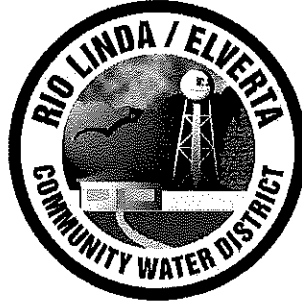
meet operating expenses for permanently disconnecting a parcel from the District's water system.

Section 7. Ordinance Effective Date. This Ordinance shall be effective thirty (30) days after the date of its second reading and adoption. A summary shall be published once, with names of members voting for and against the same in a newspaper of general circulation published in the County of Sacramento. A certified copy of the full text of this Ordinance shall be posted at the office of the Clerk of the District Board of Directors, 730 L Street, Rio Linda, CA 95673, with the names of those Board members voting for and against the Ordinance.

APPROVED AND ADOPTED by the Board of Directors of the Rio Linda/Elverta Community Water District on this 19th day of November, 2018.

AYES:
NOES:
ABSTAIN:
ABSENT:

DRAFT



Finance/Administration Committee

Agenda Item: 7

Date: November 13, 2018

Subject: Contract with WageWorks for Administering Employee Healthcare Flexible Spending Accounts (FSAs)

Staff Contact: Timothy R. Shaw, General Manager

Recommended Committee Action:

Review the de facto contract terms with WageWorks for administration of the employee healthcare costs FSAs and recommend approval by the Board at the November 19th meeting.

Current Background and Justification:

During the recent open enrollment process, where the status quo medical insurance entailed a 12.5% increase over last years coverage, the insurance broker provided additional insurance options with lower premiums and relatively higher employee out of pocket expenses. To mitigate the out of pocket expenses, the District explored the feasibility of flexible spending accounts or FSAs (see datasheet included with your committee packets). FSA's use employee funding of pre-tax dollars to comply with IRS regulations. However, participation entails using an administrator. Employees were advised of the need for a minimum enrollment to justify the admin process. There was no need to go further if there wasn't enough interest by the employees.

Once the minimum participation threshold was met, the next step was the enrollment forms, which incorporate online Terms and Conditions by reference. The Terms and Conditions include clauses for indemnification and other classic terms which make the enrollment a de facto contract and should be reviewed by Legal Counsel. Ultimately, WageWorks is a major provider of FSA administration services. WageWorks provides this service to many public agencies. They are not likely to amend or revise the standard Terms and Conditions for an employer as small as RLECWD. Accordingly, Legal Counsel has been provided a copy of this staff report and the de facto contract for review.

Staff recommendation:

Subject to concurrence from Legal Counsel, I recommend the Finance/Admin Committee recommend approval of the de facto contract with WageWorks at the November 19th Board meeting.

NOTE: Legal Counsel reviewed the contract and indicated having no comments via e-mail on 11/7/2018

The following Terms and Conditions are posted on the WageWorks website, accessed 11-6-2018:<https://www.wageworks.com/employers/terms-and-conditions/>

General Terms and Conditions of Service

These General Terms and Conditions of Service govern WageWorks' provision of services to you, the client, and shall be read in conjunction with each Order Form, which identifies the services ("Services") purchased by you, as well as each Funding Agreement (if applicable). Some of these terms and conditions may not be applicable to you or the purchased Services.

1. Plan Administrator; Fiduciary

You acknowledge and agree that you are the "plan administrator" and "fiduciary" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (to the extent such law applies) of any and all employee benefit plans or programs (each a "Plan" or, collectively, the "Plans") sponsored by you, and that WageWorks is an independent contractor engaged to perform the agreed upon Services.

2. Term

The term of the provision of each Service is set forth on the applicable Order Form. These General Terms and Conditions of Service shall remain in effect for so long as WageWorks provides Services pursuant to any Order Form. The term of each Service shall automatically renew for successive one (1) year periods, unless earlier terminated by either party as set forth below.

3. Fees; Payment

You shall pay WageWorks the fees ("Fees") listed in the relevant Order Form pursuant to the payment method set forth therein (unless otherwise specified). All undisputed Fees shall be paid net thirty (30) days from the invoice date (unless otherwise specified). You must submit written notice to WageWorks and provide supporting documentation as to any Fees you dispute within thirty (30) days from the date of the invoice. WageWorks shall provide a written response within thirty (30) days of receipt of the notice. Upon resolution, you shall pay any and all outstanding amounts due and owing within five (5) business days of such resolution. WageWorks shall have the right to increase Fees after the first year of Service on an annual basis by three percent (3%) . The new Fees shall take effect on the first day of second year of Service and each annual date thereafter. All services not set forth in the Order Form may be subject to additional fees (e.g. additional services required as a result of legislative changes, correction services, customization, etc.).

Any payments received that do not include the information necessary to identify the invoice to which the payment is to be applied will be applied at WageWorks' discretion. WageWorks is not responsible for reconciling such payments against information you may be maintaining separately.

The Fees described herein represent only those fees charged by WageWorks to you. They do not include or cover fees and/or charges that a third party service provider, including a

Health Savings Account ("HSA") custodian bank, may directly charge your employee participants for services they receive from such third parties. Any and all such fees and charges that may be charged to an individual, including deductions made from an individual's account (e.g., an HSA) or otherwise, by such third party service provider are detailed in the individual agreement(s) entered into by and between the third party service provider, including an HSA custodian bank, and each individual employee participant, which may include but are not limited to Accountholder Agreements, Participant Terms and Conditions and other ancillary agreements.

4. Taxes; Regulatory Fees.

You shall be responsible for, and shall promptly pay or reimburse WageWorks for any taxes, as well as any benefit or plan-related charge, surcharge or assessment, imposed as a result of the provision of Services by WageWorks.

5. Benefit Claims Funding

You shall timely provide to WageWorks all benefit claims funding amounts ("Funding"). You acknowledge and agree that any Funding submitted by you to WageWorks: (i) shall be comprised of general assets; (ii) does not consist of Plan assets or participant/employee contributions, whether made by salary reduction or otherwise, within the meaning of ERISA, without regard to whether ERISA applies, and is not otherwise subject to any restrictions; and (iii) shall not be segregated or set aside in a trust or escrow account by WageWorks. You agree to pay WageWorks the entire amount delivered, or deliverable, to participants in any Plan, regardless of whether you collect sufficient payroll deductions from your participants.

6. Maintenance

WageWorks reserves the right to perform routine system (both web and IVR) maintenance during off-hours (normally between 9 PM and 5 AM ET). Any longer maintenance period will be posted on WageWorks' website.

7. Termination

- a. Termination for Convenience. Either party may terminate a Service without cause after completion of the first year of the initial term of that Service upon at least thirty (30) days' prior written notice to the other party.
- b. Termination for Material Breach. Either party may terminate a Service with cause upon thirty (30) days' prior written notice to the defaulting party if such material breach is not cured within that period, if curable.
- c. Termination for Bankruptcy, Insolvency, or Business Wind Down. Either party may terminate a Service immediately if either party (i) voluntarily files for bankruptcy; (ii) declares insolvency; (iii) takes action to commence winding down its business; or (iv) is named as a defendant in any involuntary bankruptcy or insolvency proceeding.
- d. Termination Due to Legislative and/or Regulatory Changes. Either party shall have the right to terminate a Service if a material change to such Service is required as a result of a legislative and/or regulatory change. Upon receipt of written notice of such change, the parties shall meet and confer in good faith. If the parties do not reach agreement on any such modification of the Service, then either party shall have the right to terminate the Service thereafter upon thirty (30) days' prior written notice to the other party.

- e. Effect of Termination. Upon termination of a Service, all rights and licenses granted to you with respect to that Service shall immediately terminate. You shall be responsible to pay all amounts due and owing upon termination. You shall have the ability to access and download your records and reports via WageWorks' website up through the date of termination.

8. Intellectual Property

- a. Ownership. WageWorks owns and shall retain all right, title and interest (including, without limitation, all intellectual property rights) in and to all software, web pages, documents, processes, and other information, equipment and materials used in connection with the provision of Services hereunder, including, without limitation, those developed by WageWorks for use by you, participants and beneficiaries (the "WageWorks System").
- b. Grant of License. WageWorks grants you, as well as the participants and beneficiaries, a limited, non-exclusive, non-transferable license to access and use the WageWorks System during the applicable term, solely and exclusively: (i) in accordance with these General Terms and Conditions of Service and any instructions, user guides, and policies made available by WageWorks; and (ii) for the purpose of receiving the Services provided by WageWorks. Without limiting the generality of the foregoing, you shall not, (i) without WageWorks' prior written consent, disclose or provide access to the WageWorks System to any unauthorized third parties, or (ii) duplicate the WageWorks System (or any associated materials) or use the same in connection with any other benefits program (including your programs).
- c. Exclusion. All other rights, license and title in and to the WageWorks System not expressly granted hereunder shall remain the property of WageWorks.

9. Exclusive Warranty

WageWorks warrants that the Services will be performed in accordance with generally accepted industry practices and with reasonable skill and care. THE WAGEWORKS SYSTEM AND SERVICES ARE PROVIDED "AS IS" WITHOUT ANY FURTHER WARRANTY OF ANY KIND (EXPRESS OR IMPLIED) INCLUDING, WITHOUT LIMITATION, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, WHICH WARRANTIES ARE HEREBY EXPRESSLY DISCLAIMED.

10. Indemnification

Each party shall indemnify, defend and hold harmless the other party and its officers, directors, shareholders, employees and agents ("Indemnified Parties") from and against claims and proceedings for actual damages or losses (including legal fees and expenses) arising out of any actual or alleged: (i) breach by such party of its obligations hereunder; (ii) negligence or willful misconduct of such party or its employees, officers or agents; (iii) failure of such party to comply with applicable law (except, with respect to WageWorks, if such act or omission taken by WageWorks is pursuant to your instructions); or (iv) claims in which one party is named or joined with the other party when such party has not engaged in any wrongful acts. In addition, you shall indemnify, defend and hold harmless WageWorks Indemnified Parties for any act or omission taken by WageWorks pursuant to your instructions. The Indemnified Parties will promptly notify the indemnifying party of any claim. The indemnifying party shall assume and

have sole control of the defense of such claim; provided, however, that neither party may settle any claim without the prior written consent of the other party if such settlement exposes the other party to any liability.

11. Limitation of Liability

IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER FOR ANY INCIDENTAL, CONSEQUENTIAL, SPECIAL, OR PUNITIVE DAMAGES (INCLUDING, WITHOUT LIMITATION, LOST PROFITS, LOST BUSINESS, LOSS OF DATA OR COST OF SUBSTITUTE SERVICES) ARISING OUT OF OR IN CONNECTION WITH ANY AGREEMENT BETWEEN THE PARTIES, THE WAGWORKS SYSTEM OR THE SERVICES PERFORMED THEREUNDER UNDER ANY THEORY OF LIABILITY (WHETHER IN CONTRACT, TORT, STRICT LIABILITY OR OTHERWISE). IN ADDITION, EXCEPT FOR BREACHES OF CONFIDENTIALITY OR PRIVACY, WAGWORKS SHALL ONLY BE LIABLE TO YOU FOR ANY DIRECT DAMAGES IN AMOUNT EQUAL TO (A) ACTUAL DAMAGES OR (B) THE FEES PAYABLE TO WAGWORKS FOR THE SERVICE(S) GIVING RISE TO THE CLAIM DURING THE PLAN YEAR IN WHICH THE EVENT OCCURS, WHICHEVER IS LESS.

12. Confidentiality

- a. Confidential Information. Each party acknowledges that performance of Services may involve access to and disclosure of Confidential Information that belongs to the other party. "Confidential Information" means any non-public confidential or proprietary information, including, without limitation, business and financial information; policies and procedures; operations; customer and potential customer names; suppliers and vendor names; trade secrets; trade dress; patent applications; inventions disclosures; and, with respect to Plan participants and beneficiaries, personal identification information. Confidential Information does not, however, include any information that: (i) was publicly available or released to the public domain at any time prior to disclosure by one party, (ii) becomes publicly known or generally available after disclosure by one party through no wrongful action or inaction of the other party, (iii) information that is in the party's possession or known by the party at any time prior to the time of disclosure; (iv) is rightfully disclosed to the party by a third party that is not subject to any restrictions; or (v) a party can demonstrate was independently developed by that party without use of the other party's Confidential Information.
- b. Restricted Use. No Confidential Information shall be disclosed to any third party other than representatives of such party who have a "need to know" such Confidential Information, provided that such representatives are informed of the confidentiality provisions hereof and agree to abide by them.
- c. Disclosure. In the event a party is required by law to disclose Confidential Information, the disclosing party shall immediately notify the other party in writing, describing the circumstances of and extent of the disclosure.
- d. Return or Destruction. Upon termination of all Order Forms, each party, upon the request of the other, will return or destroy all copies of all of the other's Confidential Information in its possession or control (unless impracticable), except to the extent such Confidential Information must be retained pursuant to applicable law or a party's document retention policy.

- e. Remedies. The parties acknowledge that compliance with the provisions of the foregoing paragraphs are necessary to protect their businesses and goodwill and that any actual or prospective breach will irreparably cause damage to them, for which money damages may not be adequate. Therefore, the parties agree that if one of them breaches, or attempts to breach, the confidentiality obligations set forth herein, the other party shall be entitled to obtain temporary, preliminary and/or permanent equitable relief, without bond, to restrain such breach, together with any and all other legal and equitable remedies available under applicable law or as set forth herein.

13. Privacy

In addition to any confidentiality obligations set forth herein, any personally identifiable information (e.g., name, address, age, and social security number) collected or obtained by WageWorks in the course of performing Services (the "Privacy Restricted Data") will be collected, stored, maintained, accessed, used and disclosed in accordance with any applicable federal, state and local privacy laws that govern the collection, storage, maintenance, access, use or disclosure of such Privacy Restricted Data (the "Privacy Laws"). WageWorks shall, at all times, perform Services so as not to cause you to be in violation of the Privacy Laws. WageWorks shall be fully responsible for any collection, access, use and disclosure of Privacy Restricted Data that is based on its actions or inactions that are in violation of any Privacy Laws. WageWorks shall notify you as soon as administratively practicable of any breaches of security that may result or may have resulted in the unauthorized collection, access, use or disclosure of Privacy Restricted Data that is, or may be, in violation of any Privacy Laws. WageWorks shall make all reasonable efforts to assist you in relation to the investigation and remedy of any such breach of security and any resulting claim, allegation, action, suit, proceeding or litigation with respect to WageWorks' unauthorized collection, access, use or disclosure of Privacy Restricted Data that is in violation of any Privacy Laws. WageWorks shall be responsible for the cost of its violation of any Privacy Laws with respect to the Privacy Restricted Data, including, without limitation, remedial activity, notification of Plan participants and beneficiaries, and fines and/or penalties.

14. Miscellaneous

- a. Publicity. With your prior consent, WageWorks shall be permitted to use your name and logo in sales presentations and in any filings with the Securities and Exchange Commission, and shall be permitted to reference your name in any of its earnings calls.
- b. Subcontractors. WageWorks utilizes subcontractors to perform certain Services. WageWorks shall be liable for the acts or omissions of its subcontractors. For clarification, HSA custodian banks and/or trustees are not subcontractors of WageWorks and any agreement(s), including an Accountholder Agreement, entered into between the custodian bank and each individual HSA accountholder controls the terms under which the HSA is maintained by the custodian bank, including the rights of the custodian bank to charge fees or other amounts to individual HSA accountholders for services.
- c. Massachusetts Data Security Regulations (201 CMR 17.00). WageWorks certifies that it has in place and shall maintain during the provision of Services, a written comprehensive security program that is in compliance with the provisions of 201

CMR 17.00, et seq., at

<http://www.mass.gov/ocabr/docs/idtheft/201cmr1700reg.pdf>.

- d. Tennessee Insurance Code, Sections 56-6-403 through 56-6-409. WageWorks certifies that it shall provide Services in compliance with the provisions of Sections 56-6-403 through 56-6-409 of the Tennessee Insurance Code at <http://www.lexisnexis.com/hottopics/tncode/>, as applicable.
- e. Third Party Sender. As a Third Party Sender under National Automated Clearing House Association ("NACHA") rules and regulations, you acknowledge and agree that WageWorks must perform a certain level of due diligence on you and that part of such diligence requires that you make certain representations and warranties in order for WageWorks to be able to originate ACH transactions on your behalf. Accordingly, you (i) authorize WageWorks to originate transactions on your behalf, (ii) agree to be bound by applicable NACHA rules, (iii) agree not to originate transactions that violate U.S. laws, and (iv) agree to provide written notice to WageWorks if there are any restrictions on the type of transactions that may be originated and, if there are, to describe such restrictions. You further acknowledge and agree that in addition to other termination rights outlined herein, that WageWorks has the right to terminate or suspend the Services if you violate any applicable NACHA rules. You additionally acknowledge and agree that WageWorks and the originating depository financial institution have the right to audit your compliance with the NACHA Rules and the terms of this provision with reasonable notice, during normal business hours.
- f. Records Maintenance and Disposition. WageWorks shall keep and archive records of information and data regarding you and your Plan(s) that it obtains in connection with the provision of Services hereunder (collectively "Service Records") for the longer of seven (7) years or the period required by applicable law.
- g. Escheatment. You shall be solely responsible for compliance with all escheatment obligations.
- h. Assignment. Neither of us may assign any of our rights and obligations in connection with the provision of Services without the prior written consent of the other, which consent shall not be unreasonably withheld. These General Terms and Conditions of Service shall be binding upon and shall inure to the benefit of a party's authorized successors and assigns.
- i. Notices. All notices shall be made in writing and delivered (i) in person, (ii) by certified mail, return receipt requested, (iii) by traceable overnight delivery or (iv) by electronically confirmed facsimile or electronic mail, followed immediately by U.S. Mail to WageWorks at 1100 Park Place, 4th Floor, San Mateo, CA 94403, Attn: General Counsel, or to you at the address listed on the Order Form. A signed receipt shall be obtained where a notice is delivered in person. Notice will be effective upon delivery.
- j. Force Majeure. Neither party shall be liable in any way for any delay or any failure of performance of a Service, or for any loss or damage related thereto, due to any cause beyond its reasonable control, including, without limitation, acts of nature, terrorism, civil unrest, war (whether declared or not) or the Government, earthquakes, fire, floods, degradation or disruption of any communication service

not under a party's control, loss of electrical power, congestion, failure or other inability to access the Internet or disruption in the financial markets or the banking system.

- k. Amendments. These General Terms and Conditions, as well as any Order Form or Funding Agreement, may only be amended in a writing signed by both parties. Notwithstanding the foregoing, WageWorks may make non-material change to these General Terms and Conditions of Service at any time by posting revised General Terms and Conditions of Service at https://www.wageworks.com/employer/terms_conditions.htm. A non-material change is any modification that does not have an adverse impact on you or the Services provided hereunder. You are responsible for regularly reviewing this site to obtain timely notice of such amendments. You shall be deemed to accept the amended General Terms and Conditions of Service by your continued receipt of Services if you do not notify WageWorks of your good faith objection within thirty (30) days after such amended terms and conditions have been posted. If WageWorks does not agree to waive the amended terms and conditions to which you object, either party shall have the right to immediately terminate Services without penalty.
- l. Waiver. Any waiver of any provision set forth herein, or any Order Form and/or Funding Agreement, shall be effective only if in writing and signed by both parties. Failure of either party to insist on performance of any term or condition, or to exercise any right or privilege, shall not be construed as a continuing or future waiver of such term, condition, right or privilege.
- m. Governing Law. Any claims arising under or related to the provision of Services shall be governed by the laws of the State of California, without regard to its conflicts of laws principles.
- n. Severability. If any provision in these General Terms and Conditions of Service, an Order Form and/or Funding Agreement is held to be invalid or unenforceable, such provision shall be deemed deleted and the remaining provisions shall continue in full force and effect.
- o. Entire Agreement. These General Terms and Conditions of Service and any related Order Form and/or Funding Agreement (if applicable) constitute the full and complete understanding and agreement of the parties relating to the subject matter hereof and supersede all prior understandings and agreements relating to such subject matter. In case of a conflict between these General Terms and Conditions of Service and an Order Form or Funding Agreement, the Order Form or Funding Agreement shall prevail. Any conflict between an Order Form and a Funding Agreement, the Funding Agreement shall prevail. In addition to the foregoing, these General Terms and Conditions of Service, and any Order Form and/or Funding Agreement, shall prevail over any additional or different provisions in any purchase order, acceptance notice, or other similar document issued by you, which provisions shall be of no force or effect.
- p. Survival. The following Sections shall survive the termination of all Order Forms: Effect of Termination, Intellectual Property, Warranty, Indemnification, Limitation of Liability, Confidentiality, Privacy, Records Maintenance and

Disposition, Escheatment, Notices, Governing Law, Disputes, Entire Agreement and Survival.

[V. 1/15/18]

Business Associate Agreement

This Business Associate Agreement ("Agreement") is made and entered into by and between you, as our client, and WageWorks, Inc. (and its subsidiaries), as your service provider, pursuant to the Service Agreement entered into by and between us on even date herewith. This Agreement is incorporated by reference into the Service Agreement, supersedes any prior Business Associate Agreement we have been party to and reflects the Omnibus HITECH Act Final Regulations as of January 25, 2013.

1. Definitions

Unless otherwise defined, terms used in this Agreement have the same meaning as those terms in the Standards for Privacy of Individually Identifiable Health Information or the HIPAA Security Standards ("HIPAA Privacy & Security Rules"), found at 45 CFR Parts 160-164.

- a. "Agreement" means this Business Associate Agreement.
- b. "Business Associate" means WageWorks, Inc. and its subsidiaries.
- c. "Covered Entity" means you.
- d. "HITECH Act" means the HITECH Act of the American Recovery and Reinvestment Act of 2009 (Title XIII, Subtitle D of P.L. 111-5), enacted February 17, 2009 (codified at 42 USC § 17921 et seq.).
- e. "Service Agreement" means the Order Form(s) and General Terms and Conditions of Service.

2. Obligations and Activities of Business Associate

- a. Use or Disclosure of Protected Health Information. Business Associate agrees not to use or disclose Protected Health Information, other than as permitted or required by this Agreement or as required by Law. All data transmissions shall be encrypted.
- b. Safeguards. Business Associate agrees to use appropriate safeguards to prevent use or disclosure of the Protected Health Information other than as provided for by this Agreement.
- c. Duty to Mitigate. Business Associate agrees to mitigate, to the extent practicable, any harmful effect that is known to Business Associate of a use or disclosure of Protected Health Information by Business Associate in violation of the requirements of this Agreement.
- d. Duty to Report Violations. Business Associate agrees to report to Covered Entity any use or disclosure of the Protected Health Information not provided for by this Agreement of which it becomes aware, including, where there is a breach of Protected Health Information, the identities of any individual whose Protected Health Information was breached and the data elements disclosed.

- e. Agents. In accordance with 45 CFR 164.502(e)(1)(ii) and 164.308(b)(2), Business Associate agrees to ensure that any subcontractors that create, receive, maintain, or transmit Protected Health Information on behalf of Business Associate agree to the same restrictions, conditions, and requirements that apply to Business Associate with respect to such information.
- f. Access to Secretary. Business Associate agrees to make internal practices, books, and records, including policies and procedures and Protected Health Information, relating to the use and disclosure of Protected Health Information received from, or created or received by Business Associate on behalf of, Covered Entity available to the Secretary of Health and Human Services, for purposes of the Secretary determining Covered Entity's compliance with the HIPAA Privacy & Security Rules.
- g. Access to Individuals. Business Associate agrees to provide individuals with access to their Protected Health Information, as held in a Designated Record Set by Business Associate, in order to meet the requirements under 45 CFR 164.524.
- h. Amendment of Protected Health Information. Business Associate agrees to make any amendment(s) to Protected Health Information it holds in a Designated Record Set, as directed by the Covered Entity pursuant to 45 CFR 164.526.
- i. Accounting of Disclosures. Business Associate agrees to document and provide a description of any disclosures of Protected Health Information and information related to such disclosures as would be required for Covered Entity to respond to a request by an Individual for an accounting of disclosures of Protected Health Information in accordance with 45 CFR 164.528. Business Associate agrees to provide such information to Covered Entity, or to an Individual at the direction of the Covered Entity, in order for Covered Entity to comply with the accounting requirements in 45 CFR 164.528.
- j. Covered Entity's Right to Restrict. Business Associate agrees to comply, upon communication by Covered Entity, with any restrictions to the use or disclosure of Protected Health Information that Covered Entity has agreed to in accordance with 45 CFR 164.522.
- k. HIPAA Security Standards.
 - i. Business Associate agrees to comply with the HIPAA Privacy & Security Rules with respect to any Electronic Protected Health Information that Business Associate holds on behalf of the Plan.
 - ii. Business Associate agrees to use appropriate safeguards and comply with Subpart C of 45 CFR Part 164 with respect to Electronic Protected Health Information to prevent use or disclosure of Protected Health Information other than as provided for by the Agreement.
 - iii. Business Associate agrees to implement administrative, physical, and technical safeguards that reasonably and appropriately protect the confidentiality, integrity, and availability of the Electronic Protected Health Information that it creates, receives, maintains, or transmits on behalf of Covered Entity, as required in the HIPAA Privacy & Security Rules.
 - iv. Business Associate agrees to ensure that any agent, including a subcontractor, to whom it provides Electronic Protected Health

Information agrees to implement reasonable and appropriate safeguards to protect such information.

- v. Business Associate agrees to report to Covered Entity any security incident under the HIPAA Privacy & Security Rules of which it becomes aware, including the identities of any individual whose Electronic Protected Health Information was breached.

3. Responsibilities If Security Breach

Business Associate shall notify Covered Entity immediately if there is a breach by either Business Associate or one of its agents of unsecured protected health information, as defined in, and consistent with, the HITECH Act and any regulations or guidance issued thereunder, including 45 CFR Part 164, Subpart D. Such notification shall:

- a. Be made in writing to the Covered Entity's Privacy Officer.
- b. Be made within ten (10) days of discovery.
- c. Include the names of the individuals whose information was breached, the circumstances surrounding the breach, the date of the breach and date of discovery, the information breached, any steps the individuals should take to protect themselves, the steps Business Associate (or its agent) is taking to investigate the breach, mitigate losses, and protect against future breaches, and a contact person for more information.

If requested by Business Associate, Covered Entity shall allow Business Associate to approve the content of any notification in advance.

If requested by Covered Entity, Business Associate shall notify the individuals involved, or the media or the US Department of Health and Human Services, as applicable, in accordance with the HITECH Act, and regulations or guidance issued thereunder, including 45 CFR Part 164, Subpart D. For purposes of this provision, Business Associate is considered an independent contractor of Covered Entity.

4. Permitted Uses and Disclosures by Business Associate

- a. Disclosures Generally. Except as otherwise provided in this Agreement, Business Associate may use or disclose Protected Health Information to perform functions, activities, or services for, or on behalf of, Covered Entity as specified in the Service Agreement, provided that such use or disclosure would not violate the HIPAA Privacy & Security Rules if done by Covered Entity or the minimum necessary policies and procedures of the Covered Entity.
- b. To Carry Out Covered Entity Obligations. To the extent Business Associate is to carry out one or more of Covered Entity's obligations under Subpart E of 45 CFR Part 164, Business Associate agrees to comply with the requirements of Subpart E that apply to the Covered Entity in the performance of such obligations.
- c. Management & Administration.
 - i. Business Associate may use Protected Health Information for the proper management and administration of Business Associate or to carry out the legal responsibilities of Business Associate.

- ii. Business Associate may disclose Protected Health Information for the proper management and administration of Business Associate, provided that disclosures are: (a) required by law or (b) Business Associate obtains reasonable assurances from the person to whom the information is disclosed that it will remain confidential and used or further disclosed only as required by law or for the purpose for which it is disclosed to the person, and the person notifies Business Associate of any instances of which it is aware in which the confidentiality of the information has been breached.
 - d. Data Aggregation & De-Identification. Except as otherwise limited in this Agreement, Business Associate may use Protected Health Information to provide Data Aggregation services to Covered Entity or to de-identify Protected Health Information. Once information is de-identified this Business Associate Agreement shall not apply.
 - e. Required By Law. Business Associate may use or disclose Protected Health Information as required by law.
5. Term and Termination
- a. Term. This Agreement shall remain in effect for the term of the applicable Service Agreement. Upon termination of the Service Agreement, Business Associate will retain no copies of the Protected Health Information and will return or destroy the same. If such return or destruction is not feasible, Business Associate will continue to extend the protections afforded to Protected Health Information hereunder. This provision also applies to Protected Health Information that is in the possession of subcontractors or agents of Business Associate.
 - b. Termination for Cause. Upon Covered Entity's knowledge of a material breach of this Agreement by Business Associate, Covered Entity is authorized to terminate this Agreement and the Service Agreement.
 - c. Survival. The rights and obligations of Business Associate under this Agreement will survive the termination of this Agreement.
6. Miscellaneous
- a. Compliance with Laws and Regulations. The HITECH Act requires federal agencies to establish rules and regulations regarding the privacy and security of Protected Health Information. Business Associate will ensure that its privacy and security procedures are compliant with the HITECH Act and any rules and regulations issued thereunder with respect to Covered Entity's Protected Health Information. The parties agree to amend this Agreement to comply with applicable requirements of the HITECH Act, where necessary.
 - b. Relationship of Parties. The parties intend that Business Associate is an independent contractor and not an agent of Covered Entity.

[BAA –V. 06/23/15]

I. Client's Responsibilities

You are the plan administrator and the claims fiduciary as described under ERISA and the Internal Revenue Code. As such, only you have the power to waive, alter, breach or modify any of the terms and conditions of the flexible spending account plan ("Plan"),

and you exercise all discretion, control or authority with respect to the disposition of the available benefits. As such, you shall:

- a. Ensure that the summary plan descriptions, plan documents and any other documentation relating to the Plan are appropriately completed, are in compliance with FSA requirements and all applicable law, and are appropriately and timely adopted.
- b. Provide us with a complete copy of all summary plan descriptions and plan documents for our reference in connection with the provision of Services.
- c. Distribute summary plan descriptions, summaries of material modifications and any other plan documentation to participants on a timely basis.
- d. Determine which individuals are eligible to participate in your Plan and provide us with accurate and complete initial enrollment and eligibility data in the prescribed electronic data file format.
- e. Provide accurate and timely changes to participant enrollment and eligibility data, including, but not limited to, information that modifies a participant's eligibility, status or election under the Plan, leaves of absence and terminations, in the prescribed electronic data file format.
- f. Ensure that your medical plan carriers and/or payroll data processor provide timely, accurate and complete data files in the prescribed electronic data file format and method specified by us.
- g. Correct all errors in any data, files or other materials provided to us by you or on your behalf by your third party service providers (e.g., carriers). We do not audit data, files or other information provided by you or your third party service providers.
- h. Execute a Funding Agreement and provide all funding required to cover all payments (e.g., FSA claim reimbursements, payment requests and card transactions) made under the Plan in accordance with the Funding Agreement. We shall not be obligated to issue any payments in the absence of an executed Funding Agreement. You have the sole responsibility and obligation to provide us with all required funding.
- i. Timely pay all service fees.
- j. Provide participants with any required information if you elect to offer Grace Period under your Plan. "Grace Period" is the amount of time (but no more than 2-1/2 months) following the close of a Plan year during which a participant may incur eligible expenses that may be applied against any balance that remains in the participant's account for the immediately preceding Plan year before any expenses are applied to the participant's account for the current Plan year (i.e., the Plan year in which the expense is incurred), if the participant has enrolled for the current Plan year.
- k. Provide participants with any required information if you elect to offer Carryover under your Plan.
- l. Provide participants with any required information if you elect to offer Run-Out under your Plan. "Run-Out" is the period after the close of a Plan year during which a participant may submit claims for eligible expenses incurred during the immediately preceding Plan year.

- m. As claims fiduciary, process the second level and/or any final appeal of any claim for benefits.
- n. Manage access to the employer portal of our website by your personnel based upon your internal confidentiality and HIPAA privacy policies and procedures.
- o. Comply with all applicable laws (e.g., HIPAA, COBRA and ERISA) with respect to your Plan and make any required filings with the appropriate governmental agencies, including the DOL and the IRS.

II. Wageworks' Responsibilities

We have been engaged by you to provide certain administration services in connection with your Plan(s). Accordingly, you have authorized us to use our standard procedures for the provision of services that have been designed to ensure that the administration of your Plan is in compliance with ERISA and all other applicable regulations. We shall provide our services in accordance with the framework of policies, interpretations, rules, practices and procedures as set forth in the Plan documents, and as otherwise mutually agreed upon or as directed by you. We shall:

- a. If applicable, provide template summary plan descriptions and plan documents for your review, completion and adoption.
- b. Provide you with a set of electronic file specifications for the delivery of data to us.
- c. Process initial and ongoing enrollment and eligibility data files submitted by you in the prescribed electronic data file format.
- d. Process enrollment data and benefit elections submitted by participants directly through proper methods (e.g., our website)
- e. Process data files received from your medical plan carriers and/or payroll data processor in the format and method specified by us.
- f. Administer all funding provided you pursuant to the terms of the Funding Agreement.
- g. Process claims received from participants.
- h. Process the first appeal of a claim.
- i. Issue payments via the following methods:
 1. Bill Payments Services - We issue payments for FSA-eligible expenses on behalf of a participant through either check or other electronic fund transfer directly to the health care or dependent care provider.
 2. Reimbursement Services - We issue a reimbursement payment for FSA-eligible expenses through either check or direct deposit to the participant.
 3. Card Payment Processing – We process debit card transactions and authorize payments made directly to approved payees (e.g., health care providers, drugstores or qualifying merchants) via the debit card.
- j. Administer Grace Period, if applicable, subject to ongoing payment of service fees.
- k. Administer Carryover, if applicable, subject to ongoing payment of service fees.
 - l. Administer Run-Out, if applicable, subject to ongoing payment of service fees.
- m. Provide you with access to our website where you may:

1. View and download standard reports (e.g., summary of expenditures claimed by participants, the total number of participants in the Plan, the total amount of benefits paid or reimbursed for each FSA)
 2. View individual participant FSA transactions
 3. Access to our online communications gateway and download standard electronic communication material at no additional charge. Customized items may be provided for an additional fee, plus charges for applicable bulk sales, taxes, shipping and handling.
- n. Provide you with a client services representative to answer phone or email inquiries by your staff regarding any service matters during the period of 8:00 a.m. (ET) to 8:00 p.m. (ET), Monday through Friday, excluding holidays and other non-business days.
 - o. Provide customer service representatives who are available to answer participant phone calls during the period of 8:00 AM ET to 8:00 PM ET, Monday through Friday, excluding holidays and other non-business days.
 - p. Provide participants with 24/7 access (excluding scheduled maintenance) to our website and our interactive voice response phone system, where participants can access information regarding their FSAs.
 - q. Participate in enrollment meetings and benefits fairs for an additional charge.
 - r. Add your logo and/or name on the participant website upon request.

(V 10/23/15)

DATASHEET

WageWorks Healthcare Flexible Spending Account

Help Employees Help Themselves to Better Health

A WageWorks® Healthcare Flexible Spending Account (FSA) is a smart way to help your employees save money on healthcare expenses like medical, dental, and vision products and services, copayments, and health plan deductibles.

Once enrolled in a WageWorks Healthcare FSA, your employees can use tax-free funds to pay for eligible healthcare expenses for themselves and their families. WageWorks does this by moving payroll funds to an FSA before taxes are deducted, reducing the taxes your employees have to pay.

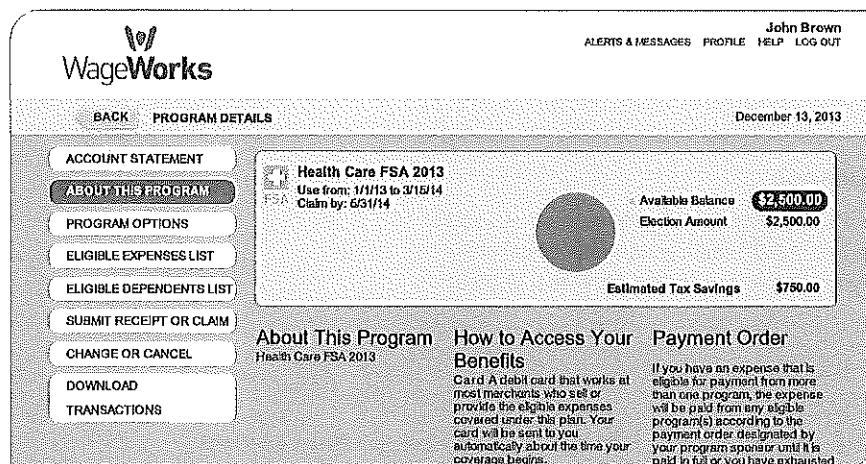
A WageWorks Healthcare FSA can save your company money. By transferring dollars from employees' pay to a pre-tax account, your company can reduce its payroll taxes for every person in the program.

The more employees participate in the WageWorks Healthcare FSA program, the more your company saves. When your employees see how easy it is to use—and how easy it is to save—they'll talk about it with their coworkers, driving up enrollment.

With dedicated relationship management to guide and advise you through every stage in your WageWorks experience, and outstanding employee outreach, education, and direct customer service to increase employee enrollment, WageWorks helps your company get greater return on its benefit investment.

Key Benefits

- Innovative technology platform to simplify benefits management
- Many easy-to-use payment options to drive engagement
- Variety of flexible administrative options to meet your company's needs
- Flexibility to choose and change your health plan



With a WageWorks Healthcare FSA, your employees can use tax-free funds to pay for eligible out-of-pocket medical, dental, and vision care expenses for themselves and their families.

Key Features and Benefits

Easy-to-Use Payment Options

A WageWorks Healthcare FSA makes it quick and easy for your employees to pay and be reimbursed for eligible healthcare expenses.

- **Pay By Card.** Employees can use the WageWorks Healthcare Card to pay for recurring healthcare expenses, copayments, and deductibles.
- **Pay By App.** Employees can use the WageWorks EZ Receipts® mobile app to snap a photo of receipts and instantly submit them for reimbursement.
- **Pay Me Back.** Employees can be reimbursed for eligible out-of-pocket expenses directly—either by direct deposit or check.
- **Pay My Provider.** Employees can fill out a simple online form and have providers paid directly.
- **Pay By Carrier File.** WageWorks uses carrier data to substantiate card transactions so that employees can be reimbursed directly.
- **Pick and Process.** Employees may review claims received from their health plans and tell WageWorks how they'd like these claims to be paid. Employees may also pay their providers directly with claim data that WageWorks receives, or they may use a claim in place of a receipt for a card transaction that requires verification.

Flexible Administration Options

A variety of WageWorks Healthcare FSA administrative options are available.

- **Grace period.** Employees may use WageWorks Healthcare FSA funds to pay for both the previous and current year expenses for up to 2.5 months after the plan year ends.
- **Run-out periods.** Employees may submit claims and be reimbursed for expenses incurred during the previous plan year, for up to three months into the new plan year.
- **Carryover.** Employees may carry over up to \$500 of their unused WageWorks Healthcare FSA balance remaining at the end of a plan year. This option may not be combined with a grace period.
- **Traditional.** All expenses and claims must take place within the plan year. If your company follows the calendar year, all expenses and claims must take place prior to December 31.

Flexibility to Choose and Change Your Health Plan

A WageWorks Healthcare FSA works with any medical insurance plan, so you have the flexibility to negotiate benefits and health insurance plans separately. You can select the plan that's right for your business, or change plans, without impact to your FSA program.



Corporate Headquarters: 1100 Park Place, 4th Floor, San Mateo, CA 94403
888.990.5099 | www.wageworks.com | www.linkedin.com/company/wageworks
www.facebook.com/WageWorks | twitter.com/WageWorks | twitter.com/WageWorksCares

Learn More

Talk to an expert. Your WageWorks sales representative can provide you with more information.

Or visit www.wageworks.com.

About WageWorks

WageWorks (NYSE: WAGE) is a leading provider of Consumer-Directed Benefits (CDBs) in the United States. WageWorks administers and operates a broad array of CDBs, including pre-tax spending accounts, such as healthcare and dependent care Flexible Spending Accounts (FSAs), as well as Commuter Benefit Services, including transit and parking programs, Health Savings Accounts (HSAs), Health Reimbursement Arrangements (HRAs), and other employee benefits.