FORESTVILLE WATER DISTRICT
AND
SEWER SERVICE ZONE

Independent Auditor's Report
and Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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Independent Auditors' Report

To the Board of Directors
Forestville Water District and Sewer Service Zone
Forestville, California

We have audited the accompanying basic financial statements of the business-type activities of the **Forestville Water District and Sewer Service Zone** (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2017, and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report (continued)

Other Matters

Required Supplementary Information

Management has elected to omit the management's discussion and analysis section that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The accompanying information, listed as supplementary information in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District.

Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we do not express an opinion on it or provide any assurance on it.

Beers Soper LLP

May 17, 2018

Basic Financial Statements

Statement of Net Position

June 30, 2017

	Enterprise Funds		
	Water	**Sewer**	**Total**
Assets			
Current assets			
Cash	$ 537,558	693,275	$ 1,230,833
Investment in Sonoma County pooled investment fund	695,672	185,248	880,920
Certificates of deposit	657,132	140,000	797,132
Trade receivables	151,163	46,719	197,882
Other receivable	3,772	19,767	23,539
Inventory	8,243	-	8,243
Prepaid expenses	7,247	-	7,247
Total current assets	2,060,787	1,085,009	3,145,796
Noncurrent assets			
Capital assets (net of accumulated depreciation):			
Land	46,880	5,900	52,780
Utility plant	625,951	4,429,463	5,055,414
Tools and service equipment	5,951	-	5,951
Total capital assets	678,782	4,435,363	5,114,145
Deferred Outflows of Resources			
Deferred pensions	84,442	-	84,442
Total deferred outflows of resources	84,442	-	84,442
Total assets	$ 2,824,011	$ 5,520,372	$ 8,344,383

See accompanying Notes to Basic Financial Statements

June 30, 2017

	Enterprise Funds		
	Water	Sewer	Total
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	$ 79,738	$ 91,165	$ 170,903
Accrued interest payable to other governments		53,719	53,719
Due to other governments	-	46,700	46,700
Total current liabilities	79,738	191,584	271,322
Noncurrent liabilities			
Compensated absences	41,103	-	41,103
Net pension liability	292,766	-	292,766
Due to other governments	-	2,321,200	2,321,200
Total noncurrent liabilities	333,869	2,321,200	2,655,069
Total liabilities	413,607	2,512,784	2,926,391
Deferred Inflows of Resources			
Deferred pensions	82,608	-	82,608
Total deferred inflows of resources	82,608	-	82,608
Net Position			
Invested in capital assets, net of related debt	678,782	2,013,744	2,692,526
Restricted for:			
Capital outlay	274,086	-	274,086
Connection fees	683,061	427,282	1,110,343
Unrestricted	691,869	566,562	1,258,431
Total net position	$ 2,327,798	$ 3,007,588	$ 5,335,386

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2017

	Enterprise Funds		
	Water	Sewer	Total
Operating revenues			
Charges for services	$ 849,961	$ 1,012,918	$ 1,862,879
Connection fees	13,440	-	13,440
Total operating revenues	863,401	1,012,918	1,876,319
Operating expenses			
Sources of supply	283,555	-	283,555
Water transmission and distribution	313,703	-	313,703
Collection, treatment and disposal	-	726,593	726,593
Administrative and general	219,767	76,258	296,025
Depreciation and amortization	35,965	280,647	316,612
Total operating expenses	852,990	1,083,498	1,936,488
Operating income (loss)	10,411	(70,580)	(60,169)
Nonoperating revenues (expenses)			
Taxes and assessments	148,919	-	148,919
Investment earnings	10,502	1,146	11,648
Interest expense	-	(119,093)	(119,093)
Total nonoperating revenues (expenses)	159,421	(117,947)	41,474
Income (loss) before transfer of capital	169,832	(188,527)	(18,695)
Transfer of capital	-	-	-
Increase (decrease) in net position	169,832	(188,527)	(18,695)
Net position at beginning of year	2,157,966	3,196,115	5,354,081
Net position at end of year	$ 2,327,798	$ 3,007,588	$ 5,335,386

See accompanying Notes to Basic Financial Statements

Statement of Cash Flows

Year Ended June 30, 2017

	Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities			
Cash received from customers	$ 848,697	$ 992,899	$ 1,841,596
Cash payments to suppliers for goods and services	(349,456)	(653,707)	(1,003,163)
Cash payments to employees for services	(443,841)	(121,851)	(565,692)
Net cash provided by operating activities	55,400	217,341	272,741
Cash flows from noncapital financing activities			
Cash received from tax proceeds and assessments	144,316	-	144,316
Cash flows from capital and related financing activities			
Acquisitions of capital assets	(83,944)	(17,903)	(101,847)
Principal payments - other governments	-	(44,300)	(44,300)
Interest payments - other governments	-	(119,093)	(119,093)
Net cash used in capital and related financing activities	(83,944)	(181,296)	(265,240)
Cash flows from investing activities			
Interest received on investments	8,395	1,146	9,541
Net cash provided by investing activities	8,395	1,146	9,541
Net increase in cash and cash equivalents	124,167	37,191	161,358
Cash and cash equivalents at beginning of year	1,109,063	841,332	1,950,395
Cash and cash equivalents at end of year	$ 1,233,230	$ 878,523	$ 2,111,753
Cash and cash equivalents at end of year consists of:			
Cash	$ 537,558	$ 693,275	$ 1,230,833
Investment in Sonoma County pooled investment fund	695,672	185,248	880,920
	$ 1,233,230	$ 878,523	$ 2,111,753

See accompanying Notes to Basic Financial Statements

	Enterprise Funds		
	Water	Sewer	Total
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	$ 10,411	$ (70,580)	$ (60,169)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	35,965	280,647	316,612
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	(10,169)	(7,622)	(17,791)
Decrease (increase) in other receivables	-	(15,750)	(15,750)
(Decrease) increase in customer deposits	(4,535)	(12,397)	(16,932)
(Decrease) increase in accounts payable/accrued expenses	23,728	43,043	66,771
Net cash provided by operating activities	$ 55,400	$ 217,341	$ 272,741

Note A. Defining the Financial Reporting Entity

The Forestville Water District and Sewer Service Zone (the "District") was established to serve as a special district in the Forestville area of the County of Sonoma (the "County"). The District's original purpose was to supply water to residential and commercial users, and provide for connections to and the servicing of the delivery system.

Effective July 1, 2004, the District assumed the management responsibilities of the Forestville Sanitation District from the Sonoma County Water Agency (the "SCWA"). In connection therewith, the District became responsible for maintaining and operating the sanitation and collection system and treatment plant which provide sanitation services to residential and commercial users. The District also assists in providing for connections to the system.

Note B. Summary of Significant Accounting Policies

Measurement focus, basis of accounting, and financial statement presentation

The District applies the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncement.* The statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with GASB pronouncements: 1) Financial Accounting Standards Board ("FASB") Statements and Interpretations; 2) Accounting Principles Board ("APB") Opinions; and 3) Accounting Research Bulletins ("ARB") of the American Institute of Certified Public Accountants' ("AICPA") Committee on Accounting Procedure.

The District also applies GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* These statements establish standards for reporting deferred outflows of resources, deferred inflows of resources and net position for all state and local governments.

The District has adopted the financial reporting provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, but has elected not to present Management's Discussion and Analysis (MD&A) that GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The District uses a proprietary (enterprise) fund to account for its activities. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of net revenues.

Basis of accounting refers to the point at which revenues or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The District's activities are presented on the accrual basis of accounting.

Note B. Summary of Significant Accounting Policies (continued)

Measurement focus, basis of accounting, and financial statement presentation (continued)

Property taxes are reported in the period for which they are levied. Other nonexchange revenues, including intergovernmental revenues and grants, are reported when all eligibility requirements have been met. Fees and charges and other exchange revenues are recognized when earned and expenses are recognized when incurred.

The District has elected under Government Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* to apply all applicable GASB pronouncements as well as any applicable pronouncement of the Financial Accounting Standards Board or any Accounting Research Bulletins issued on or before November 20, 1989, unless those pronouncements conflict with or contradict GASB pronouncement. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes generally accepted accounting principles (GAAP) for governmental units.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges for water sales and sanitation service. Operating expenses for the District include expenses related to the purchase and transmission of water; collection, treatment and disposal of waste; administrative expenses; and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted net assets are available, restricted resources are used only when agreed to by a majority vote of the Board of Directors.

Cash and investments

The District applies the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools,* which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the statement of net position and recognize the corresponding change in the fair value of investments in the year in which the change occurred. For the purposes of the statement of cash flows, the District considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Trade receivables

Trade receivables consist primarily of uncollected fees for services and flat charges which are established annually and billed through the County of Sonoma's property tax system. Trade receivables are reported at the amount management expects to collect from outstanding balances. The District has established an allowance for doubtful trade receivables based upon factors pertaining to credit risk of specific customers, historical trends, and other information. Delinquent accounts are written off when it is determined that the amounts are uncollectible. As of June 30, 2017, the allowance for doubtful trade receivables amounted to $2,071.

Note B. **Summary of Significant Accounting Policies** (continued)

Inventory

Inventory consists of materials and supplies and is stated at the lower of cost or market determined by the first-in, first-out method.

Restricted assets

Restricted assets represent cash and investments maintained in accordance with bond resolutions or by agreement, for the purpose of funding certain debt service payments and improvements and extensions to the water distribution system and the wastewater treatment system.

Capital assets

Capital assets are stated at cost or estimated historical cost. Costs incurred in construction and installation of capital assets, which benefit future periods, are capitalized. Depreciation is charged as an expense of operations and is based on the estimated useful lives of the assets using the straight-line method as follows:

Utility plant	5 - 50 years
Office equipment	5 - 10 years
Tools and service equipment	10 years
Transportation equipment	5 - 10 years

The costs of normal maintenance and repairs that do not add value to the asset or materially extend the asset's useful life are expensed as incurred.

Compensated absences

The District's employees are entitled to certain compensated absences based on their length of employment. Employees may accumulate earned vacation benefits that can be accrued up to a maximum of 160 to 400 hours per employee based on years of service. Terminated employees are entitled to full payment of unused vacation benefits. Employees may also accumulate sick leave with a maximum accumulated time of 960 hours. The District does not reimburse employees for unused sick leave upon termination; however, sick leave may be utilized towards an employee's longevity factor under his or her retirement, pursuant the requirements of the California Public Employees Retirement System ("PERS").

A liability is calculated for all of the costs of compensated absences based upon benefits earned by employees in the current period for which there is a probability of payment at termination. The salary rates and related payroll costs are those in effect at June 30, 2017. Compensated absences are recorded as an expense when the benefit is earned and the liability is recorded.

Note B. Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expenses) until then

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenues) until that time.

The District's employee retirement plan qualifies for reporting in this category. Refer to Note G for additional information on deferred inflows and outflows of resources.

Net position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted through external restrictions imposed by creditors, grantors, laws or regulation of other governments or restrictions imposed by the Board of Directors.

Restricted assets represent cash, investments and receivables maintained in accordance with resolutions and formal actions of the Board of Directors for the purpose of funding certain improvements, repairs, and extensions of the water and sewer systems and funding debt service payments.

Budget and budgetary accounting

The Board of Directors adopts a budget annually to be effective July 1st for the ensuing fiscal year. The general manager of the District is authorized to transfer budgeted amounts within the District except for transfers between major expense classes or transfers between capital assets and operating expenses. Such transfers require approval by the Board of Directors

Property taxes

Property taxes, including tax rates, are regulated by the State of California and are administered locally by the County. The County is responsible for assessing, collecting and distributing property taxes in accordance with state law. The County is responsible for the allocation of property taxes to the District.

Note B. Summary of Significant Accounting Policies (continued)

The County has adopted the Teeter Alternative Method of Property Tax Allocation known as the "Teeter Plan". The State Revenue and Taxation Code allows counties to distribute secured real property and supplemental property taxes on an accrual basis resulting in full payment to the District each fiscal year. Any subsequent delinquent payments and related penalties and interest revert to Sonoma County.

Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available.

Sonoma County assesses properties and collects secured property taxes as follows:

Lien date	January 1	
Assessment date	July 1	
Due dates	November 1	(50%)
	February 1	(50%)
Delinquent dates	December 10	
	April 10	

Real property taxes are reported as "nonoperating" revenue under governmental accounting and financial reporting principles since they are not directly related to the sale of water. However, the property taxes collected by the District are designed to assist the District in recovering operating costs associated with fire protection and the provision of readily available water service to the entire District. Those costs are included in the operating expenses.

Charges for sewer service are levied and collected through Sonoma County property tax rolls. The amounts collected are reported as "charges for services" revenue under the governmental accounting and financial reporting principles since they are directly related to the collection, treatment and disposal of waste.

Use of estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, 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.

Note C. Cash and Investments

In accordance with California Governmental Code Section 53630, the District's investment policy authorizes investments only in savings accounts or certificates of deposit with federally insured financial institutions, or through the Sonoma County pooled investment fund (the "Pool").

Pooled Investment Guidelines

The District's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the County Board of Supervisors. The objectives of the policy are, in order of priority: 1) safety of capital, 2) liquidity and 3) maximum rate of return. The policy addresses the soundness of financial institutions in which the Treasurer will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Permitted investments include the following:

- U.S. Treasury and federal agency securities
- Bonds issued by local agencies
- Registered State warrants and municipal notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Medium-term corporate notes
- Local agency investment fund (State pool) demand deposits
- Repurchase agreements
- Reverse repurchase agreements
- Shares of a mutual fund average life
- Collateralized mortgage obligations

A copy of the County investment policy is available upon request from the County Treasurer at 585 Fiscal Drive, Room 100F, Santa Rosa, California, 95403.

Statement of Net Position

A reconciliation of cash and investments shown on the accompanying statement of net position is as follows:

Cash	$ 1,230,833
Investment in Sonoma County pooled investment fund	880,920
Certificates of deposit	797,132
	$ 2,908,885

Note C. Cash and Investments (continued)

Statement of Net Position (continued)

As of June 30, 2017, the District's investments consisted of $880,920 in the Pool managed by the County Treasurer, which carry a weighted average maturity of approximately one year.

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 that 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.

As of June 30, 2017, all certificates of deposit have a remaining maturity date of 12 months or less.

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 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 District's investments at June 30, 2017, are categorized to give an indication of the level of risk assumed by the District. Category 1 includes investments that are insured or registered, or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's' trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agency but not in the District's name. Investments in pools managed by other governments or in mutual funds are not required to be categorized.

At June 30, 2017, all of the District's investments are in pools managed by other governments and are therefore not subject to categorization.

Cash and certificates of deposit with fiscal agents are collateralized by securities held by the financial institutions acting as fiscal agent. Such securities are typically held in a pool for the purpose of providing collateral and are not held in the name of the District. Funds are available for their designated purpose on short notice.

Note C. **Cash and Investments** (continued)

Concentration of Credit Risk
At various times during the year ended June 30, 2017, the District had on deposit with financial institutions amounts in excess of the $250,000 Federal Deposit Insurance Corporation limit ("FDIC"). As of June 30, 2017 the District had amounts on hand in financial institutions in excess of the FDIC limit which are fully collateralized by agreement with the financial institution.

Note D. **Capital Assets**

Capital assets at June 30, 2017, consist of the following:

	Balance July 1, 2016	Increase	Decrease	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	$ 52,780	$ -	$ -	$ 52,780
Capital assets, being depreciated:				
Utility plant	10,998,467	101,847	-	11,100,314
Office equipment	43,470	-	-	43,470
Tools and service equipment	43,446	-	-	43,446
Transportation equipment	52,584	-	-	52,584
Total capital assets being depreciated	11,137,967	101,847	-	11,239,814
Less accumulated depreciation for:				
Utility plant	5,728,290	316,612	-	6,044,902
Office equipment	43,470	-	-	43,470
Tools and service equipment	37,495	-	-	37,495
Transportation equipment	52,582	-	-	52,582
Total accumulated depreciation	5,861,837	-	-	6,178,449
Total capital assets, being depreciated, net	5,276,130	(214,765)	-	5,061,365
Total capital assets, net	$ 5,328,910	$ (214,765)	$ -	$ 5,114,145

Depreciation and amortization expense amounted to $316,612 for the year.

Note E. Line of Credit

On September 11, 2012, the Board of Directors authorized a line of credit of up to $250,000 from the water system reserves to fund the sewer system's contract for removal of bio solids from the holding pond. The line of credit bears interest 2.5% per annum and is due in equal monthly installments over 10 years, commencing on the date of first draw of funds. As of June 30, 2017 there were no funds disbursed.

Note F. Due to Other Governments

During the fiscal year ended June 30, 2002, the District received a loan from the United States Department of Agriculture ("USDA") to help fund an upgrade of its wastewater treatment plant. This upgrade was necessary to comply with the North Coast Regional Water Quality Control Board's Basin Plan for the Russian River. As of June 30, 2017, the District had received $2,838,300 from the USDA and has a remaining payable of $2,531,700. The loan currently calls for semiannual payments of approximately $81,500. The expected term is 40 years at annual interest rates ranging from 4.75% to 5.00% with the last payment scheduled for February 2042.

Annual debt service requirements for the next five years and in the aggregate for amounts due to other governments are as follows:

	Principal	Interest
Year ending June 30,		
2017		
2018	$ 46,700	$ 117,989
2019	49,200	115,639
2020	51,900	113,212
2021	54,800	110,626
Thereafter	57,700	107,154
	2,107,600	1,285,139
	$ 2,367,900	$ 1,849,759

Note G. Deferred Outflows and Inflows of Resources

In accordance with GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities* the District recognizes deferred outflows and inflows of resources in the statement of net position. Deferred outflows of resources are a consumption of net position that is applicable to a future reporting period while deferred inflows of resources are an acquisition of net position that is applicable to a future reporting period.

The District reported one item as a deferred outflows of resources and one items as a deferred inflow of resources, both of which are related to pensions and explained further in Note H.

Note H. Employees' Retirement Plan

Plan Description

The District contributes to PERS, an agent multiple-employer public employee defined benefit pension plan. 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 entities within the state of California. Benefit provisions and all other requirements are established by state statute and District ordinance. Copies of PERS' annual financial report may be obtained from its executive office: 400 Q Street, Sacramento, California 95811.

In September 2012, Governor Brown signed the Public Employee Pension Reform Act of 2013 ("PERPA"). PERPA went into effect on January 1, 2013. The impact of PERPA on the District retirement benefits is that all new employees are mandated into a new tier of PERS retirement benefits titled 2.0% at age 62. The 2.0% at age 62 is a lesser benefit than the 2.0% at age 55, unless an employee works past the age of 66. As of June 30, 2017, there were 4 covered employees under the 2.7% at 55 plan.

Funding policy

Employees are not required to contribute. The District makes all contributions required of employees on their behalf. Generally, the District is required to contribute at an actuarially determined rate of annual covered payroll. The actuarial determined contribution rate for the year ended June 30, 2017, was 11.008%, plus a flat contribution in the amount of $21,134 for the employer's payment of the unfunded liability. PERS determined that the District's required contribution rate for the year ending June 30, 2018, will be 11.00%, plus a flat contribution in the amount of $25,133 for the employer's payment of the unfunded liability. The contribution requirements of plan members and the District are established and may be amended by PERS.

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the District reported a liability of $292,766 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. As of the June 30, 2016 actuarial valuation, the District's proportion of the pooled liability was 0.001212%.

Note H. Employees' Retirement Plan

Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

For the year ended June 30, 2017, the District recognized pension expense of $96,365 in the statement of revenues, expenses and changes in net position. 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 methods, and plan benefits. At June 30, 2017, the District reported deferred outflows of resources in the amount of $84,442 related to contributions subsequent to the measurement date and deferred inflows of resources in the amount of $82,608 related to differences between the expected and actual experience of the plan.

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.

Actuarial Assumptions

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the entry age actuarial cost method. The actuarial assumptions included (a) 7.65% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by age, service, and type of employment, (c) 2.75% for inflation adjustments, and (d) 2.75% payroll growth. Additional financial and actuarial information required for GASB Statement No. 68 disclosures is located in CalPERS' CAFR for the fiscal year ended June 30, 2016, and the CalPERS' GASB 68 Accounting Valuation Reports for public agency miscellaneous and safety risk pools, which can be found on CalPERS' website at https://www.calpers.ca.gov/docs/forms-publications/gasb-68.

Note I. Commitments and Contingencies

Mirabel Heights Special Assessment District – Water

The annexation and formation of the Mirabel Heights special assessment district was completed September 1, 1979. The District received a grant of $346,700 from the Farmers Home Administration for the construction of new facilities for this area, and special assessment bonds in the amount of $125,500 were issued by the District to pay the remainder of these costs. Interest is payable semi-annually at the rate of 5% per annum on the bonds which mature serially through 2019. These bonds are paid by the individual property owners through special assessments and are therefore, not reported as liabilities of the District. The County of Sonoma, through the Treasurer's office, collects the assessments and services the debt. The District is contingently liable in the event that individual property assessments are not collected. The principal balance due on the special assessment bonds at June 30, 2017, amounted to $14,000. As of June 30, 2017, certain individual property owners were delinquent in paying their respective assessments under the terms of the bond repayment in amounts totaling $210, including interest and penalties.

Note I. Commitments and Contingencies (continued)

Mirabel Heights Special Assessment District – Sewer

Bonded indebtedness of $1,762,400 was incurred in 1999 for the construction of the Mirabel Heights Water Pollution Control Project (the "Project"). The Project consists of a collection system allowing for the delivery of wastewater for treatment and disposal. Interest is payable semi-annually at a rate of 4.75% per annum on the bonds which mature serially through 2038. These bonds are paid by the individual property owners through special assessments and are therefore, not reported as liabilities of the District. The County of Sonoma, through the Treasurer's office, collects the assessments and services the debt. The District is contingently liable in the event that individual property assessments are not collected. The principal balance due on the special assessment bonds at June 30, 2017, amounted to $1,228,900. As of June 30, 2017, certain individual property owners were delinquent in paying their respective assessments under the terms of the bond repayment in amounts totaling $11,404, including interest and penalties.

Civil Liability Complaint

During the year ended June 30, 2015, the District was made aware of one civil liability complaint with a potential liability levied by the North Coast Regional Water Quality Control Board ("NCRWQCB"). The basis of the complaint is the assertion that the District's water quality on a number of occasions had trace levels of chemicals above the test limit for tertiary treated water. The amount of the claim is approximately $210,000.

During the year ended June 30, 2016, the District and their legal counsel were advised by the NCRWQCB that the total amount of the claim may be spent by the District to improve the District's systems and structure to remediate the claim. Therefore, no liability was recorded as of June 30, 2016.

As of June 30, 2017, the District has expended $169,528 in connection with the NCRWQCB improvement plan and expects to expend the remaining amount of $40,472 during the year ended June 30, 2018 to maintain their compliance

Note J. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has released the following new standards:

GASB Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans other than Pension Plans Effective for fiscal years beginning after June 15, 2016*, this Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with post employment benefits other than pensions (OPEB) as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

Note J. New Accounting Pronouncements (continued)

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefit Plans other than Pensions Effective for fiscal years beginning after June 15, 2017*, this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

GASB Statement No. 83 – *Certain Asset Retirement Obligations*, this Statement addresses accounting and financial reporting for certain asset retirement obligations ("ARO's"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement is effective for financial reporting periods beginning after June 15, 2018.

The impact on the basic financial statements of the District of these pronouncements which have not yet been adopted is unknown at this time.

Note K. Subsequent Events

In accordance with FASB Accounting Standards Codification Topic 855, *Subsequent Events*, the District has evaluated subsequent events through May 17, 2018, the date these financial statements were available to be issued and have determined that there are no subsequent events that require disclosure.