

**FORESTVILLE WATER DISTRICT
AND
SEWER SERVICE ZONE**

Independent Auditor's Report
and
Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE

June 30, 2018

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Blomberg & Griffin Accountancy Corporation
Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Forestville Water District and Sewer Service Zone as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. The financial statements of the District for the year ended June 30, 2017 was audited by another auditor whose report dated May 17, 2018, expressed an unqualified opinion on those statements.

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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Forestville Water District and Sewer Service Zone, as of June 30, 2018 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-6) and schedule of CalPERS (omitted) 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 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.

Blomberg & Griffin A.C.

Blomberg & Griffin A.C.
Stockton, CA
December 06, 2018

**FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

This section of the Forestville Water District and Sewer Service Zone annual financial report presents an analysis of the District's financial performance during the fiscal year ended June 30, 2018. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2017-18

- The District's net position increased by \$276,423 or 5.18% from \$5,335,386 to \$5,611,751.
- Operating Revenues increased by \$71,779 or 3.83% from \$1,876,319 to \$1,948,098.
- Operating expenses decreased by \$131,802 or 6.81% from \$1,936,488 to \$1,804,686.
- District is currently receiving property tax revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following three parts: Management's Discussion and Analysis, Basic Financial Statements and Other Required Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statements of Net Position include information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statements of Revenues, Expenses and Changes in Net Position identify the District's revenues and expenses for the fiscal year ended June 30, 2018. This statement provides information on the District's operations over the past year and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statements of Cash Flows. This statement provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. From the Statements of Cash Flows, the reader can obtain information on the source and use of cash and the change in the cash and cash equivalents.

**FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position provide an indication of the District's financial condition and also indicate that the financial condition of the District improved during the last fiscal year. The District's net position reflects the difference between assets and liabilities. An increase in net position over time typically indicates an improvement in financial condition.

NET POSITION

A summary of the District's Statements of Net Position is presented below.

Table 1

Condensed Statements of Net Position

	<u>2018</u>	<u>2017</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	\$ 3,736,725	\$ 3,230,238	\$ 506,487	15.68%
Capital Assets, Net	4,908,123	5,114,145	(206,022)	-4.03%
Total Assets	<u>8,644,848</u>	<u>8,344,383</u>	<u>300,465</u>	<u>3.60%</u>
Long-term Debt	2,272,000	2,365,500	(93,500)	-3.95%
Other Liabilities	761,039	687,799	73,240	10.65%
Total Liabilities	<u>3,033,039</u>	<u>3,053,299</u>	<u>(20,260)</u>	<u>-0.66%</u>
Net Position Invested in Capital Assets, Net of Related Debt	2,548,975	2,648,226	(99,251)	-3.75%
Designated Net Position	1,400,465	1,384,429	16,036	1.16%
Undesignated Net Position	1,662,369	1,302,731	359,638	27.61%
Total Net Position	<u>\$ 5,611,809</u>	<u>\$ 5,335,386</u>	<u>\$ 276,423</u>	<u>5.18%</u>

As the above table indicates, total assets increased by \$300,465 from \$8,344,383 to \$8,644,848 during the fiscal year ended June 30, 2018. This is comprised of an increase of \$506,487 in current and other assets and a decrease of \$206,022 in capital assets. The decrease in capital assets, net is primarily due to depreciation expense.

Total liabilities reflect a decrease of \$20,260. This includes the loan balance decrease of \$93,500, a decrease of \$104,383 in accounts payable and accrued expenses, an increase of \$150,174 related to pension liability and a decrease of \$15,771 in accrued interest payable.

**FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

NET POSITION (Continued)

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

	2018	2017	Dollar Change	Percent Change
Operating Revenues	\$ 1,948,098	\$ 1,876,319	\$ 71,779	3.83%
Nonoperating Revenues	132,642	41,474	91,168	219.82%
Total Revenues	2,080,740	1,917,793	162,947	8.50%
Depreciation Expense	315,375	316,612	(1,237)	-0.39%
Other Operating Expenses	1,489,311	1,619,876	(130,565)	-8.06%
Total Expenses	1,804,686	1,936,488	(131,802)	-6.81%
Change in Net Position	276,054	(18,695)	294,749	-1576.62%
Beginning Net Position	5,335,386	5,354,081	(18,695)	-0.35%
Prior Period Adjustment	369	-	369	100.00%
Ending Net Position	\$ 5,611,809	\$ 5,335,386	\$ 276,423	5.18%

The Statements of Revenues, Expenses and Changes in Net Position identify the various revenue and expense items which affect the change in net position. As the information in Table 2 indicates, a net operating gain of \$143,412 coupled with net non-operating income of \$132,642 resulted in an increase of \$276,054 in net position for the year ended June 30, 2018.

Table 2, Condensed Statements of Revenues, Expenses and Changes in Net Position, indicates that the District's total revenues increased by \$162,947 or 8.50 percent to \$2,080,740 in the fiscal year ended June 30, 2018 from \$1,917,793 the prior year. The increase in revenue was due mainly to an increase in charges of services income of \$71,779, and non-operating income increase of \$91,168 primarily from property tax and decrease in interest expense. Total expenses decreased by \$131,802. This decrease is due mainly to decrease collection, treatment and disposal of \$144,790, increase in administrative expenses by \$25,913 and decrease in water transmission and distribution of \$66,176.

CAPITAL ASSETS

As of June 30, 2018, the District's investment in capital assets totaled \$4,908,123 which is a net decrease of \$206,022 or 4.03 percent over the capital asset balance of \$5,114,145 at June 30, 2018. The decrease is due to the depreciation expense. A comparison of the District's capital assets over the past two fiscal years is presented in Note D of the financial statements.

**FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018**

LONG-TERM DEBT

As of June 30, 2018, the District had \$2,321,200 in outstanding debt due to the USDA. The loan provided funding for an upgrade of its wastewater treatment plant. Refer to the Note F to financial statements for greater details.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Directors adopts the District's budget on an annual basis which provides funding for the District's operating, capital and debt service costs for upcoming fiscal year. The District's service charges rates are reviewed by staff and the Board of Directors on an as-needed basis. The District's primary source of revenue comes from supplying water and providing sanitation services to residential and commercial users.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information; please contact the Forestville Water District and Sewer Service Zone Office Manager at 6530 Mirabel Rd, Forestville, CA 95436. Contact number (707)887-1551.

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE
STATEMENT OF NET POSITION
ENTERPRISE FUNDS
JUNE 30, 2018

	<u>WATER FUND 2018</u>	<u>SEWER FUND 2018</u>	<u>TOTAL 2018</u>
Assets			
Current Assets			
Cash	\$ 637,351	\$ 786,006	\$ 1,423,357
Investment in Sonoma County pooled investment fund	705,344	187,823	893,167
Certificates of deposit	667,877	140,000	807,877
Trade receivable	172,679	28,896	201,575
Other receivable	3,772	55,907	59,679
Inventory	8,243	-	8,243
Prepaid Expenses	7,822	-	7,822
Total Current Assets	<u>2,203,088</u>	<u>1,198,632</u>	<u>3,401,720</u>
Noncurrent Assets			
Capital assets (net of accumulated depreciation)			
Land	46,880	5,900	52,780
Utility plant	592,151	4,226,795	4,818,946
Tools and service equipment	36,397	-	36,397
Total Noncurrent Assets	<u>675,428</u>	<u>4,232,695</u>	<u>4,908,123</u>
Deferred Outflows of Resources			
Deferred Outflows of Resources	335,005	-	335,005
Total Assets	<u>3,213,521</u>	<u>5,431,327</u>	<u>8,644,848</u>
Liabilities			
Current Liabilities			
Accounts payable and accrued expenses	44,707	21,813	66,520
Accrued interest payable to other governments	-	37,948	37,948
Due to other governments	-	49,200	49,200
Due to Sewer Fund	55,907	-	55,907
Total Current Liabilities	<u>100,614</u>	<u>108,961</u>	<u>209,575</u>
Noncurrent Liabilities			
Compensated absences	25,916	-	25,916
Due to other governments	-	2,272,000	2,272,000
Net Pension Liability	503,370	-	503,370
Total Noncurrent Liabilities	<u>529,286</u>	<u>2,272,000</u>	<u>2,801,286</u>
Deferred Inflows of Resources			
Deferred Inflows of Resources	22,178	-	22,178
Total Liabilities	<u>652,078</u>	<u>2,380,961</u>	<u>3,033,039</u>
Net Position			
Investment in capital assets, Net of related debt	675,428	1,873,547	2,548,975
Restricted for:			
Capital Outlay	287,602	-	287,602
Connection fees	685,581	427,282	1,112,863
Unrestricted	912,832	749,537	1,662,369
Total Net Position	<u>\$ 2,561,443</u>	<u>\$ 3,050,366</u>	<u>5,611,809</u>

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE
STATEMENT OF REVENUES EXPENSES AND CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	<u>WATER FUND</u> <u>2018</u>	<u>SEWER FUND</u> <u>2018</u>	<u>TOTAL</u> <u>2018</u>
Operating Revenues			
Charges for services	\$ 907,928	\$ 1,037,650	\$ 1,945,578
Connection fees	2,520	-	2,520
Total Operating Revenues	<u>910,448</u>	<u>1,037,650</u>	<u>1,948,098</u>
Operating Expenses			
Source of supply	338,043	-	338,043
Collection, treatment and disposal	-	581,803	581,803
Water transmission and distribution	247,527	-	247,527
Administrative and general	244,835	77,103	321,938
Depreciation and Amortization	36,965	278,410	315,375
Total Program Expenses	<u>867,370</u>	<u>937,316</u>	<u>1,804,686</u>
Operating income (loss)	<u>43,078</u>	<u>100,334</u>	<u>143,412</u>
Nonoperating revenues (expense)			
Taxes and assessments	169,423	-	169,423
Grants	-	40,519	40,519
Interest expense	-	(101,056)	(101,056)
Investment earnings	20,775	2,981	23,756
Total Nonoperating revenues (expense)	<u>190,198</u>	<u>(57,556)</u>	<u>132,642</u>
Income (loss) before transfer of capital	233,276	42,778	276,054
Net Position - Beginning of Year	2,327,798	3,007,588	5,335,386
Prior Period Adjustment	<u>369</u>	<u>-</u>	<u>369</u>
Net Position - End of Year	<u>\$ 2,561,443</u>	<u>\$ 3,050,366</u>	<u>5,611,809</u>

The notes to the financial statements are an integral part of this statement

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE
STATEMENT OF CASH FLOW
For the Years Ended December 31, 2018

	WATER FUND 2018	SEWER FUND 2018	TOTAL 2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Receipts from Customers	\$ 915,828	\$ 1,019,333	\$ 1,935,161
Cash payments to suppliers for goods and services	(397,639)	(565,172)	(962,811)
Cash Payments to employees for services	(544,594)	(163,086)	(707,680)
Net Cash Provided (Used) by Operating Activities	(26,405)	291,075	264,670
CASH FLOWS FROM NON-CAPITAL ACTIVITIES:			
Grants received	-	40,519	40,519
Cash received from tax proceeds and assessments	159,782	-	159,782
Net Cash Provided (Used) by Non-Capital Activities	159,782	40,519	200,301
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisitions of capital assets	(33,610)	(75,742)	(109,352)
Principal payments - other governments	-	(46,700)	(46,700)
Interest payments - other governments	-	(116,827)	(116,827)
Net Cash Provided (Used) by Capital and Related Financing Activities	(33,610)	(239,269)	(272,879)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	9,672	2,981	12,653
Net Cash Provided (Used) by Investing Activities	9,672	2,981	12,653
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	109,439	95,306	204,745
CASH - BEGINNING OF YEAR	1,233,256	878,523	2,111,779
CASH - END OF YEAR	\$ 1,342,695	\$ 973,829	\$ 2,316,524
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net Operating Income	\$ 43,078	\$ 100,334	\$ 143,412
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:			
Depreciation	36,965	278,410	315,375
Change in Assets and Liabilities:			
Decrease (Increase) in trade receivables	(11,875)	17,823	5,948
Decrease (Increase) in other receivables	-	(36,140)	(36,140)
(Increase) Decrease in prepaid insurance	(575)	-	(575)
(Decrease) Increase in customer deposits	6,121	-	6,121
(Decrease) Increase in accounts payable/accrued expenses	(60,003)	(69,352)	(129,355)
(Decrease) Increase in due to sewer funds	59,923	-	59,923
(Decrease) Increase in net pension liability	(100,039)	-	(100,039)
Net Cash Provided by (used for) Operating Activities	\$ (26,405)	\$ 291,075	\$ 264,670

The notes to the financial statements are an integral part of this statement

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE
WATER FUND
STATEMENT OF NET POSITION
ENTERPRISE FUNDS
JUNE 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash	\$ 637,351	\$ 537,558
Investment in Sonoma County pooled investment fund	705,344	695,672
Certificates of deposit	667,877	657,132
Trade receivable	172,679	151,163
Other receivable	3,772	3,772
Inventory	8,243	8,243
Prepaid Expenses	7,822	7,247
Total Current Assets	2,203,088	2,060,787
Noncurrent Assets		
Capital assets (net of accumulated depreciation)		
Land	46,880	46,880
Utility plant	592,151	625,951
Tools and service equipment	36,397	5,951
Total Noncurrent Assets	675,428	678,782
Deferred Outflows of Resources		
Deferred Outflows of Resources	335,005	84,442
Total Assets	3,213,521	2,824,011
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	44,707	79,738
Due to Sewer Fund	55,907	-
Total Current Liabilities	100,614	79,738
Noncurrent Liabilities		
Compensated absences	25,916	41,103
Net Pension Liability	503,370	292,766
Total Noncurrent Liabilities	529,286	333,869
Deferred Inflows of Resources		
Deferred Inflows of Resources	22,178	82,608
Total Liabilities	652,078	496,215
Net Position		
Investment in capital assets, Net of related debt	675,428	678,782
Restricted for:		
Capital Outlay	287,602	274,086
Connection fees	685,581	683,061
Unrestricted	912,832	691,869
Total Net Position	\$ 2,561,443	\$ 2,327,798

The notes to the financial statements are an integral part of this statement

**FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE
WATER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018 and 2017**

	2018	2017
Operating Revenues		
Charges for services	\$ 907,928	\$ 849,961
Connection fees	2,520	13,440
Total Operating Revenues	910,448	863,401
Operating Expenses		
Source of supply	338,043	283,555
Water transmission and distribution	247,527	313,703
Administrative general	244,835	219,767
Depreciation and Amortization	36,965	35,965
Total Program Expenses	867,370	852,990
Operating income (loss)	43,078	10,411
Nonoperating revenues (expense)		
Taxes and assessments	169,423	148,919
Investment earnings	20,775	10,502
Total Nonoperating revenues (expense)	190,198	159,421
Income (loss) before transfer of capital	233,276	169,832
Net Position - Beginning of Year	2,327,798	2,157,966
Prior Period Adjustment	369	-
Net Position - End of Year	\$ 2,561,443	\$ 2,327,798

The notes to the financial statements are an integral part of this statement

**FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE
WATER FUND**

Statement of Cash Flow

For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Receipts from Customers	\$ 915,828	\$ 848,697
Cash payments to suppliers for goods and services	(397,639)	\$ (349,456)
Cash Payments to employees for services	(544,594)	(443,841)
	(26,405)	55,400
CASH FLOWS FROM NON-CAPITAL ACTIVITIES:		
Cash received from tax proceeds and assessments	159,782	144,316
	159,782	144,316
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisitions of capital assets	(33,610)	(83,944)
	(33,610)	(83,944)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	9,672	8,395
	9,672	8,395
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	109,439	124,167
CASH - BEGINNING OF YEAR	1,233,256	1,109,089
CASH - END OF YEAR	\$ 1,342,695	\$ 1,233,256
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Operating Income	\$ 43,078	\$ 10,411
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	36,965	35,965
Change in Assets and Liabilities:		
Decrease (Increase) in trade receivables	(11,875)	(10,169)
Increase in prepaid insurance	(575)	-
(Decrease) Increase in customer deposits	6,121	(4,535)
(Decrease) Increase in accounts payable/accrued expenses	(60,003)	23,728
(Decrease) Increase in due to sewer funds	59,923	-
(Decrease) Increase in net pension liability	(100,039)	-
	(100,039)	-
Net Cash Provided by (used for) Operating Activities	\$ (26,405)	\$ 55,400

The notes to the financial statements are an integral part of this statement

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE
SEWER FUND
STATEMENT OF NET POSITION
ENTERPRISE FUNDS
JUNE 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash	\$ 786,006	\$ 693,275
Investment in Sonoma County pooled investment fund	187,823	185,248
Certificates of deposit	140,000	140,000
Trade receivable	28,896	46,719
Other receivable	55,907	19,767
Total Current Assets	<u>1,198,632</u>	<u>1,085,009</u>
Noncurrent Assets		
Capital assets (net of accumulated depreciation)		
Land	5,900	5,900
Utility plant	4,226,795	4,429,463
Total Noncurrent Assets	<u>4,232,695</u>	<u>4,435,363</u>
Total Assets	<u>5,431,327</u>	<u>5,520,372</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	21,813	91,165
Accrued interest payable to other governments	37,948	53,719
Due to other governments	49,200	46,700
Total Current Liabilities	<u>108,961</u>	<u>191,584</u>
Noncurrent Liabilities		
Due to other governments	2,272,000	2,321,200
Total Noncurrent Liabilities	<u>2,272,000</u>	<u>2,321,200</u>
Total Liabilities	<u>2,380,961</u>	<u>2,512,784</u>
Net Position		
Investment in capital assets, Net of related debt	1,873,547	2,013,744
Restricted for:		
Connection fees	427,282	427,282
Unrestricted	749,537	566,562
Total Net Position	<u>\$ 3,050,366</u>	<u>\$ 3,007,588</u>

The notes to the financial statements are an integral part of this statement

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE
SEWER FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Charges for services	\$ 1,037,650	\$ 1,012,918
	<u>1,037,650</u>	<u>1,012,918</u>
Operating Expenses		
Collection, treatment and disposal	581,803	726,593
Administrative general	77,103	76,258
Depreciation and Amortization	278,410	280,647
	<u>937,316</u>	<u>1,083,498</u>
	<u>100,334</u>	<u>(70,580)</u>
Nonoperating revenues (expense)		
Grants	40,519	-
Investment earnings	2,981	1,146
Interest expense	(101,056)	(119,093)
	<u>(57,556)</u>	<u>(117,947)</u>
Income (loss) before transfer of capital	42,778	(188,527)
Net Position - Beginning of Year	<u>3,007,588</u>	<u>3,196,115</u>
Net Position - End of Year	<u>\$ 3,050,366</u>	<u>\$ 3,007,588</u>

**FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE
SEWER FUND**

Statement of Cash Flow
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Receipts from Customers	\$ 1,019,333	\$ 992,899
Cash payments to suppliers for goods and services	(565,172)	(653,707)
Cash Payments to employees for services	(163,086)	(121,851)
	<u>291,075</u>	<u>217,341</u>
CASH FLOWS FROM NON-CAPITAL ACTIVITIES:		
Grants Received	40,519	-
	<u>40,519</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisitions of capital assets	(75,742)	(17,903)
Principal payments - other governments	(46,700)	(44,300)
Interest payments - other governments	(116,827)	(119,093)
	<u>(239,269)</u>	<u>(181,296)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received on investments	2,981	1,146
	<u>2,981</u>	<u>1,146</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	95,306	37,191
CASH - BEGINNING OF YEAR	<u>878,523</u>	<u>841,332</u>
CASH - END OF YEAR	<u>\$ 973,829</u>	<u>\$ 878,523</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Operating Income	\$ 100,334	\$ (70,580)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	278,410	280,647
Change in Assets and Liabilities:		
Decrease (Increase) in trade receivables	17,823	(7,622)
Decrease (Increase) in other receivables	(36,140)	(15,750)
(Decrease) Increase in customer deposits	-	(12,397)
(Decrease) Increase in accounts payable/accrued expenses	(69,352)	43,043
	<u>\$ 291,075</u>	<u>\$ 217,341</u>

The notes to the financial statements are an integral part of this statement

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE

NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDING JUNE 30, 2018

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 Pronouncements. 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 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.

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE

NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDING JUNE 30, 2018

Note B. Summary of Significant Accounting Policies (continued)

Measurement focus, basis of accounting, and financial statement presentation

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.

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.

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE

NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDING JUNE 30, 2018

Note B. Summary of Significant Accounting Policies (continued)

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, 2018, the allowance for doubtful trade receivables amounted to \$2,282.

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.

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE

NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDING JUNE 30, 2018

Note B. Summary of Significant Accounting Policies (continued)

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 to 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, 2018. Compensated absences are recorded as an expense when the benefit is earned, and the liability is recorded.

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.

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE

NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDING JUNE 30, 2018

Note B. Summary of Significant Accounting Policies (continued)

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. 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.

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE

NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDING JUNE 30, 2018

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:

	<u>2018</u>	<u>2017</u>
Cash	\$ 1,423,357	\$ 1,230,833
Investment in Sonoma County pooled investment fund	893,167	880,920
Certificate of deposits	<u>807,877</u>	<u>797,132</u>
Total	<u>\$ 3,124,401</u>	<u>\$ 2,908,885</u>

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE

NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDING JUNE 30, 2018

Note C. Cash and Investments (continued)

Statement of Net Position (continued)

As of June 30, 2018, the District's investments consisted of \$893,167 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, 2018, 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, 2018, 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, 2018, all 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.

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2018**

Note C. Cash and Investments (continued)

Concentration of Credit Risk

At various times during the year ended June 30, 2018, 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, 2018, 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, 2018, consist of the following:

	<u>Beginning Balance July 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance June 30, 2018</u>
Capital assets, not being depreciated:				
Land	\$ 52,780	\$ -	\$ -	\$ 52,780
Total capital assets, not being depreciated	<u>52,780</u>	<u>-</u>	<u>-</u>	<u>52,780</u>
Capital assets, being depreciated:				
Utility plant	11,100,314	109,352	-	11,209,666
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	<u>11,239,814</u>	<u>109,352</u>	<u>-</u>	<u>11,349,166</u>
Less accumulated depreciation for:				
Utility plant	6,044,902	315,375	-	6,360,277
Office equipment	43,470	-	-	43,470
Tools and service equipment	37,495	-	-	37,495
Transportation equipment	52,582	-	-	52,582
Total accumulated depreciation	<u>6,178,449</u>	<u>315,375</u>	<u>-</u>	<u>6,493,824</u>
Total capital assets, being depreciated, net	<u>5,061,365</u>	<u>(206,023)</u>	<u>-</u>	<u>4,855,342</u>
Capital assets, net	<u>\$ 5,114,145</u>	<u>\$ (206,023)</u>	<u>\$ -</u>	<u>\$ 4,908,122</u>

Depreciation and amortization expense amounted to \$315,375 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, 2018, there were no funds disbursed.

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2018**

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, 2018, the District had received \$2,838,300 from the USDA and has a remaining payable of \$2,321,200. 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:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>
2018	\$ 49,200	\$ 115,639
2019	51,900	113,212
2020	54,800	110,626
2021	57,700	107,154
Thereafter	<u>2,107,600</u>	<u>1,285,139</u>
	<u>\$ 2,321,200</u>	<u>\$ 1,731,770</u>

Note G. 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 ("PEPRA"). PEPRA went into effect on January 1, 2013. The impact of PEPRA 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, 2018, there were 3 covered employees under the 2.7% at 55 plans.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability. Both the June 30, 2016 total pension liability and the June 30, 2017 total pension liability were based on the following actuarial methods and assumptions.

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2018**

Note G. Employees' Retirement Plan (Continued)

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, 2018, was 11.049%, 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, 2018, the District reported a liability of \$503,370 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, actuarially determined. As of the June 30, 2016 actuarial valuation, the District's proportion of the pooled liability was 0.001372%.

For the year ended June 30, 2018, the District recognized pension expense of \$91,894 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, 2018, the District reported deferred outflows of resources in the amount of \$335,005 related to contributions subsequent to the measurement date and deferred inflows of resources in the amount of \$22,178 related to differences between the expected and actual experience of the plan.

Actuarial Cost Method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.50% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies 2.75% thereafter.

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2018**

Note G. Employees' Retirement Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely results in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate, and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10</u>	<u>Real Return Years 11 +</u>
Global Equity	47.0%	4.9	5.38%
Global Fixed Income	19.0	0.8	2.27
Inflation Sensitive	6.0	0.6	1.39
Private Equity	12.0	6.6	6.63
Real Estate	11.0	2.8	5.21
Infrastructure and Forestland	3.0	3.9	5.36
Liquidity	2.0	(0.40)	0.90

The following presents the net pension liability/(assets) of the Plan as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability/(asset) would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	<u>Discount Rate - 1% (6.15%)</u>	<u>Current Discount Rate (7.15%)</u>	<u>Discount Rate + 1% (8.15%)</u>
Plan's Net Pension Liability/(Asset)	\$ 748,739	\$ 503,370	\$ 300,151

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2018**

Note G. Employees' Retirement Plan (Continued)

For the fiscal year ended June 30, 2018 and 2017, pension expense recognized is as follows:

	<u>2018</u>	<u>2017</u>
Service Costs	\$ 71,322	\$ 69,061
Interest on TPL	263,373	250,987
Changes of Benefits Terms	78	-
Changes of Assumptions	(16,554)	(62,715)
Difference between Expected & Actual Experience	(373)	(13,636)
Net Plan to Plan Resource Movement	234	118
Contributions- Employer	(133,592)	(91,601)
Contributions- Employee	(26,868)	(25,035)
Net Investment Income	20,667	(59,208)
Administrative Expenses	1,641	3,024
Projected Earnings on PPI	<u>(203,987)</u>	<u>-</u>
 Total Pension Expense (Income)	 <u>\$ (24,059)</u>	 <u>\$ 70,997</u>

For the measurement period ended June 30, 2017 (the measurement date), the Forestville Water District and Sewer Service Zone incurred a pension expense/ (income) of \$91,894 for the Plan (the pension expense for risk pool for the measurement period is \$719,747,608.

As of June 30, 2018, the Forestville Water District and Sewer Service Zone reports other amounts for the Plan as deferred outflows and deferred inflows of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between Expected and Actual Experience	\$ 600	\$ 8,595
Changes of Assumptions	74,438	5,676
Net Difference between Projected and Actual Earnings on Pension Plan Investments	16,835	-
Difference between Employer's Contribution and Proportionate Share of Contribution	32,801	-
Pension Contributions made Subsequent to Measurement Date	95,586	-
Changes in Employees Proportion	<u>114,745</u>	<u>7,907</u>
 Total	 <u>\$ 335,005</u>	 <u>\$ 22,178</u>

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2018**

Note G. Employees' Retirement Plan (Continued)

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

<u>Measurement Period Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2018	30,708
2019	(28,161)
2020	20,583
2021	24,083
2022	0
Thereafter	0

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) 7.15% 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 H. 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, 2018, 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.

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE

NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDING JUNE 30, 2018

Note H. 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, 2018, amounted to \$1,228,900. As of June 30, 2018, 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, 2018, the District has expended \$210,000 in connection with the NCRWQCB improvement plan.

Note I. New Accounting Pronouncements

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

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

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE

NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDING JUNE 30, 2018

Note I. New Accounting Pronouncements (Continued)

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 J. Subsequent Events

In accordance with FASB Accounting Standards Codification Topic 855, Subsequent Events, the District has evaluated subsequent events through December 24, 2018, the date these financial statements were available to be issued and have determined that there are no subsequent events that require disclosure.

FORESTVILLE WATER DISTRICT AND SEWER SERVICE ZONE
Roster of Board Members

		<u>4-Year Term Expires</u>
1	Steven Bandettini - Chair 7350 Hidden Lake Road Forestville, California 887-2109	December 2021
2	Richard Benyo 7050 Giusti Road Forestville California 887-0320	December 2019
3	Matthew McDermott 7700 Mirabel Road Forestville California 820-1596	December 2021
4	Terry Morgan 8205 Spring Drive Forestville California 310-497-6221	December 2021
5	Don Reha 5810 Orchard Lane Forestville California 887-2204	December 2019

The audit of the Forestville Water District and Sewer Service Zone as of and for the year ended June 30, 2018, was authorized by the Board of Directors of the District.