BELLA VISTA WATER DISTRICT

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
JUNE 30, 2017

D. H. SCOTT & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
A LIMITED LIABILITY PARTNERSHIP

David H. Scott, APC, CPA
Keith F. Hunting, CPA
Paul J. Catanese, APC, CPA/MBA

Vivian R. Piche', CPA
Gerald R. Tadina, CPA
Cheryl Hull, CPA
Christine M. Rojas, CPA
Ron Massey, CPA
Teri Lewallen, CPA
David S. Gilman, CPA
Brea Clayholt, CPA

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Bella Vista Water District
Redding, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Bella Vista Water District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's 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 as well as the accounting systems prescribed by the State Controller's Office and state regulations governing special districts; 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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, the standards applicable to financial audits contained in *Governmental Auditing Standards,* issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements and Reporting Guidelines for California Special Districts.* Those standards require that we plan and perform the audits 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 auditors' 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 District'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 District'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 financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District, as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of American require that the management's discussion and analysis and the required supplemental information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. We have applied certain limited procedures to the required supplemental 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

D.H. Scott & Company LLP

Redding, California
September 19, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Bella Vista Water District, we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for fiscal years ending June 30, 2017 and 2016. We also include a 3-year running comparison. The management discussion and analysis is designed to: 1) assist the reader in focusing on significant financial issues, 2) provide an overview of the District's financial activity, and 3) identify changes in the District's financial position. Please read and review it in conjunction with the District's financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- The net position of the District at the close of the fiscal years 2017 and 2016 total $23,337,478 and $23,927,956, respectively. Of this amount, $1,563,735 and $2,377,621, respectively (unrestricted net position) may be used or were used to meet the District's ongoing obligations. The decrease in this position is the result of a decrease in special assessment and capital improvement revenues, an increase in postretirement benefit expenses, and an increase in water purchases and other water costs.

- Total operating revenue reached $5,649,904 in fiscal year 2017 and $6,030,846 in fiscal year 2016. Total operating expenses were $6,769,588 in fiscal year 2017 and $6,108,723 in fiscal year 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's annual financial report is comprised of three components: 1) management's discussion and analysis (this section), 2) financial statements, and 3) notes to the financial statements.

The financial statements provide both long-term and short-term information about the District's overall financial status along with providing the readers with a broad overview in a manner similar to a private-sector business. The financial statements also include notes that are essential to fully understand the data provided in the financial statements. The notes to the financial statements can be found in this report and explain some of the information in the financial statements and provide more detailed data.

The District maintains an Enterprise Fund, which is used to account for its water funds. Various accounts are established within the Fund. These accounts are utilized as the accounting device for allocations.

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

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

Net Position

The following table summarizes the changes between June 30, 2017, 2016 and 2015:

	2017	2016	% Change	2015	% Change
Current assets	$ 7,625,812	$ 7,616,524	0.12%	$ 7,931,050	(3.97%)
Restricted assets	2,547,106	2,452,734	3.85%	1,413,110	73.57%
Capital assets	25,781,156	26,191,789	(1.57%)	26,159,162	0.12%
Other assets	132,269	143,663	(7.93%)	147,663	(2.71%)
Total assets	36,086,343	36,404,710	(0.87%)	35,650,985	(0.67%)
Deferred outflows of resources	391,831	118,527	(0.87%)	136,772	(13.34%)
Total assets and deferred outflows	$ 36,478,174	$ 36,523,237	0.01%	$ 35,787,757	2.06%

	2017	2016	% Change	2015	% Change
Current liabilities	$ 1,719,171	$ 1,440,195	19.37%	$ 1,049,120	(37.28%)
Long-term debt	6,057,575	6,558,413	(7.64%)	7,094,189	(7.55%)
Net other post employment benefits	3,322,363	2,886,222	15.11%	2,598,283	11.08%
Net pension liability	1,666,007	1,140,607	37.28%	1,330,145	(14.25)%
Total liabilities	12,765,116	12,025,437	(8.15)%	12,071,737	(0.38)%
Deferred inflows of resources	375,580	569,844	(34.09)%	446,990	27.84%
Net investment in capital assets	19,226,637	19,097,601	0.68%	18,739,578	1.91%
Restricted net position	2,547,106	2,452,734	3.85%	1,413,110	73.57%
Unrestricted net position	1,563,735	2,377,621	(34.23%)	3,116,342	(23.70%)
Total net position	23,337,478	23,927,956	(2.47%)	23,269,030	2.83%
Total liabilities, deferred inflows, and net position	$ 36,478,174	$ 36,523,237	0.01%	$ 35,787,757	2.06%

The net position decreased at June 30, 2017 in the amount of $590,478 or approximately 2.47% less than at June 30, 2016 as a result of a decrease in special assessment and capital improvement revenues, an increase in postretirement benefit expenses, and an increase in water purchases and other water costs. By far, the largest portion of the District's net assets (82.39%) reflects the District's investment in capital assets (e.g., land, building, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Changes in Net Position

The following table summarizes the changes between June 30, 2017, 2016 and 2015:

	2017	2016	% Change	2015	% Change
Operating revenues	$ 5,649,904	$ 6,030,846	(6.32%)	$ 5,416,784	11.34%
Operating costs and expenses:					
Operating expenses	5,756,975	5,116,433	10.37%	5,016,134	2.32%
Depreciation	1,012,613	992,290	2.05%	977,935	1.47%
Total operating expenses	6,769,588	6,108,723	10.82%	5,994,069	1.91%
Operating income (loss)	(1,119,684)	(77,877)	1,337.76%	(577,285)	21.30%
Net non-operating revenue (expenses)	529,206	542,965	(2.53%)	753,063	(27.90)%
Capital contributions	-	193,838	(100.00%)	202,605	(4.33)%
Change in net position	(590,478)	658,926	(160.19%)	378,383	74.14%
Total net position, beginning of year	23,927,956	23,269,030	(2.83%)	22,890,647	1.65%
Total net position, end of year	$ 23,337,478	$ 23,927,956	(2.37%)	$ 23,269,030	2.73%

At the end of the current fiscal year, the District is able to report a positive balance in its net position. As stated previously, the net position decreased at June 30, 2017 in the amount of $590,478 or approximately 2.47% less than at June 30, 2016, as a result of increase in expenses and decreases in operating revenue. Operating revenues decreased at June 30, 2017 by $380,942 or 6.32% less than at June 30, 2016. The major factors attributable to the decrease were the special assessment and capital improvement (meter sales) fees as Shasta College had purchased a large meter in excess of $300,000 the previous year.

CAPITAL ASSET AND DEBT ADMINISTRATION

The following table summarizes the changes between June 30, 2017, 2016 and 2015:

	2017	2016	% Change	2015	% Change
Land	$ 95,064	$ 95,064	0.00%	$ 95,064	0.00%
Land improvements	356,796	369,104	(3.33%)	369,104	0.00%
Buildings	2,521,115	2,585,638	(2.50%)	2,364,915	9.33%
Water system	40,031,329	39,974,872	0.14%	39,261,590	3.50%
General plant equipment	1,610,581	1,677,494	(3.99%)	1,624,895	5.73%
Office furniture and equipment	80,958	156,135	(48.15%)	156,135	0.00%
Lease improvements	483,003	483,003	0.00%	483,003	0.00%
Construction in progress	652,838	157,463	314.60%	119,150	(55.33%)
Less accumulated depreciation	(20,050,528)	(19,306,984)	3.85%	(18,314,694)	11.36%
Total net capital assets	$ 25,781,156	$ 26,191,789	(1.57%)	$ 26,159,162	(1.88%)

The major Capital asset events that occurred during the current fiscal year were the replacement of several water lines, upgrade to our telemetry system and the purchase of a new vehicle. As of June 30, 2017, the District's investment in capital assets was $25,781,156 (net of accumulated depreciation). This amount represents a net decrease of $410,633 or 1.57% from June 30, 2017. The District removed many items from their fixed assets that had been removed from service over the years. More detailed information about the capital assets of the District is set forth in the Notes to Financial Statements.

Debt Administration

Long-term debt includes the repayment of the following obligations: United States Department of the Interior Repayment Contract, the 1915 Act Special Assessment Bonds (96-1 Assessment) and State of California Department of Water Resources SDWSRF loan repayment. More detailed information about the debt of the District is set forth in the Notes to Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The assessed valuation within the District increased $18,659,311 million or 4.18% in 2016-2017 fiscal year or in the current tax year (total assessed valuation for 2016-2017 was $464,903,884 and $446,244,573 for 2015-2016). In preparing the District's budget for the fiscal year 2017-2018, the District has taken into account the continued growth of their assessed valuation, along with inflationary trends, water sales, and the Shasta County employment rate. The District continues to maintain a budget using a 20-year Extraordinary Operations Maintenance and Replacement (EOMR) schedule that assists in planning for long term costs.

The costs for these projects continue to be a benchmark and the District estimates reserve placement for these costs annually by averaging the 20 year estimates from the EOMR schedule. The 2017-2018 fiscal year operating budget includes a total of $8,107,113 in revenue, which consists of water sales, county taxes and other funds available for use. The operating budget includes expenses in the amount of $8,107,113, an increase from 2016-2017 fiscal year budget (6,857,529) of $1,249,584 or approximately 18.22% as a result of a partially funded Grant, which the majority of that is for solar and meter replacement. The District continues to budget for all Capital Improvements under the General Operating Budget at this time. The District's 2017-2018 Debt Service Schedule was adopted in the amount of $639,755. The Water Treatment Improvement fees are collected bi-monthly on every active account in the amount of $14.00, which is used to repay the SDWSRF obligation created by the necessary and required Water Treatment Improvements. The District is now in the adoption phase of a new five year rate study to continue to stabilize the cash flow in relationship to operating expenses.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning any of the information provided in this report or questions for additional financial information should be addressed to the Office Manager, Connie M. Wade, Bella Vista Water District, 11368 E. Stillwater Way, Redding, California 96003 or by calling (530) 241-1085.

FINANCIAL STATEMENTS

ASSETS AND DEFERRED OUTFLOWS

Current assets	
Cash and cash equivalents	$ 6,806,772
Cash in Shasta County Treasury	61,026
Accounts receivable, net	527,885
1915 Act Special Assessment Bonds receivable – current	4,500
Inventories	95,600
Deposits and prepaid expenses	130,029
Total current assets	7,625,812
Restricted assets	
Cash and cash equivalents:	
Department of Interior note reserve	76,182
Capital improvement funds	1,567,433
Water treatment plant improvement funds	680,672
Palo Cedro special projects	175,002
1996 Redemption Fund	47,817
Total restricted assets	2,547,106
Capital assets	
Nondepreciable land and construction in progress	747,902
Depreciable capital assets, net	25,033,254
Total capital assets	25,781,156
Other assets	
1915 Act Special Assessment Bonds receivable – long-term portion	132,269
Total other assets	132,269
Total assets	36,086,343
Deferred outflows of resources	
Deferred outflows from pension	391,831
Total deferred outflows of resources	391,831

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

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

Current liabilities	
Accounts payable	595,137
Deposits held	172,002
Accrued wages	72,932
Accrued interest	71,219
Accrued benefits and compensated absences	310,937
Notes payable, due within one year	496,944
Total current liabilities	1,719,171
Long-term liabilities	
Notes payable, due in more than one year	6,057,575
Net other postemployment benefits obligation	3,322,363
Net pension liability	1,666,007
Total long-term liabilities	11,045,945
Total liabilities	12,765,116
Deferred inflows of resources	
Deferred inflows from pension	375,580
Total deferred inflows of resources	375,580
Net position	
Net investment in capital assets	19,226,637
Restricted	2,547,106
Unrestricted	1,563,735
Total net position	$ 23,337,478

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

Operating revenues	
Sale of water	
Municipal and industrial	$ 2,838,575
Agriculture and aquaculture	189,889
New meters	7,500
New services	4,700
Cross connections	25,639
Special assessment	1,763,165
Capital and water treatment improvement fees	644,192
Grant revenue	36,687
Other charges	139,557
Total operating revenues	5,649,904
Operating expenses	
Wages and salaries	1,893,341
Depreciation	1,012,613
Payroll taxes and benefits	919,757
Repairs and maintenance	475,324
Water purchases and other water costs	817,108
Utilities and communications	331,117
Postretirement benefits	625,659
Legal and professional	199,633
General and administrative expenses	72,542
Chemicals and lab services	115,973
Insurance	71,122
Tools and supplies	51,556
Transportation	42,830
Office supplies	33,451
Memberships and dues	19,992
Grant expenses	55,669
Miscellaneous expenses	12,054
Education and training	8,219
Janitorial	6,432
Equipment rental	3,996
Directors' fees	1,200
Total operating expenses	6,769,588
Income (loss) from operations	(1,119,684)

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

Non-operating revenues (expense)	
County tax allocation	693,074
Interest income	63,484
Interest expense	(152,005)
Loss on disposal of fixed assets	(75,347)
Total non-operating revenues (expenses)	529,206
Income (loss) before capital contributions	(590,478)
Capital contributions	-
Change in net position	(590,478)
Net position, beginning of year	23,927,956
Net position, end of year	$ 23,337,478

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

Cash flows from operating activities	
Cash received from customers	$ 3,753,199
Cash received from special assessment	1,774,059
Cash received from grantors	36,687
Cash paid to suppliers	(3,535,577)
Cash paid to employees	(1,397,896)
Net cash provided by (used in) operating activities	630,472
Cash flows from noncapital financing activities	
Cash received from county tax allocation	693,074
Net cash provided by (used in) noncapital financing activities	693,074
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(677,327)
Principal payments on long-term debt	(539,670)
Interest paid on long-term debt	(163,859)
Net cash provided by (used in) capital and related financing activities	(1,380,856)
Cash flows from investing activities	
Interest received	63,484
Net cash provided by (used in) investing activities	63,484
Net change in cash and cash equivalents	6,174
Cash and cash equivalents, beginning of year	9,408,730
Cash and cash equivalents, end of year	$ 9,414,904

Cash and cash equivalents as presented on the Statement of Net Position

Cash and cash equivalents	$ 6,806,772
Cash in Shasta County Treasury	61,026
Restricted cash	2,547,106
Total cash and cash equivalents	$ 9,414,904

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

Reconciliation of operating loss to net cash provided by (used in) operating activities	
Income (loss) from operations	$ (1,119,684)
Adjustments to operating loss to net cash provided by (used in) operating activities	
Depreciation	1,012,613
Net amortization of deferred outflows/(inflows) from pension	160,834
Net changes in assets, deferred outflows, liabilities and deferred inflows	
Accounts receivable	(84,652)
1915 Act Special Assessment Bonds receivable	10,894
Inventories	(34,094)
Deposits and prepaid expenses	21,760
Deferred outflows from pension	(232,558)
Accounts payable	340,391
Deposits held	(12,201)
Accrued wages	4,285
Accrued benefits and compensated absences	(2,813)
Net pension liability	525,400
Net other postemployment benefits obligation	436,141
Deferred inflows from pension	(395,844)
Total adjustments	1,750,156
Net cash provided by (used in) operating activities	$ 630,472

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Bella Vista Water District (the District) was formed on June 17, 1957, and was organized as a water district under Division 13 of the *California Water Code*. The District's purposes are limited to "produce, store, and distribute water for irrigation, domestic, industrial, and municipal purposes and reclaim lands incidental thereto or connected therewith".

The District operates under an elected Board of Directors. The accounting methods and procedures adopted by the District conform to generally accepted accounting principles (GAAP) as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. These financial statements present the District and its component units, entities for which the government is considered to be financially accountable under the criteria described in the GASB Codification of Government Accounting and Financial Reporting Standards, Sections 2100 and 2600.

Reporting for component units on the District's financial statements can be blended or discreetly presented. Blended component units, although legally separate entities are, in substance, part of the District's operations. Blended component units are an extension of the District so data from these units are combined with data of the District. Discretely presented component units, on the other hand, are reported in a separate column in the financial statements to emphasize they are legally separate from the District.

The Bella Vista Capital Improvement Authority is governed by the District's Board of Directors, hence, the authority is presented by blending it with the District. There are no discretely presented component units of the District.

In accordance with generally accepted accounting principles, the financial statements of the District include the transactions of the 96-1 Special Assessment District.

Basis of Accounting

The District's activities are accounted for as an enterprise fund (a business-type activity) and the accounting records are maintained on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

Cash and Cash Equivalents

Cash includes amounts in demand deposits as well as short-term investments with a maturity date of three months to one year from the date acquired by the District.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents (continued)

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, and repurchase agreements.

The District reports its investments in external investment pools at market value and the related realized and unrealized gains and losses in the statement of revenues and expenses. Investments in certificates of deposits and investments with remaining maturities of 90 days or less at the date of the financial statements are reported at amortized cost. The fair market value of investments are determined based on quoted market values, or on fair value as provided by the investment trustee, except time deposits, repurchase agreements, reverse repurchase agreements and AB 55 and General Fund loans, which are valued at amortized cost.

Accounts Receivable

Receivables represent revenues earned but not collected. Receivables are uncollateralized and are valued at cost. Any losses on uncollectible accounts receivable are recognized when such losses become known or indicated. All receivables are adjusted to net realizable value when they are determined to be delinquent based on historical experience.

The allowance for doubtful accounts totaled $5,000 at June 30, 2017. The allowance is estimated based on the analysis of specific customers, taking into consideration the amount of past due accounts and an assessment of the customers' ability to pay.

Inventories

Inventories are valued at cost, which approximates market, using the average cost method. The District's inventories of meters are valued under a pooled average basis.

Deposits and Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the fiscal year-end are recorded as prepaid assets.

Restricted Assets

Certain loan proceeds as well as certain resources set aside for their repayment are classified as restricted assets because their use is limited by applicable loan covenants. In addition, funds have been reserved for capital improvements, repairs, and maintenance.

Capital Assets

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related assets, as applicable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets (continued)

Interest expense that relates to the cost of acquiring or constructing capital assets is capitalized. Interest expense incurred in connection with construction of capital assets has been reduced by interest earned on the investment of funds borrowed for construction in accordance with FASB Statement No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants.* The District did not capitalize any interest expense during the year ended June 30, 2017.

All purchased capital assets with an initial cost of $5,000 or more and an estimated useful life in excess of one year are valued at cost based upon purchasing records, when available, and at an estimated historical cost where no historical records exist. Donated capital assets are valued at estimated fair market value on the date received.

Accumulated depreciation is reported on the accompanying statements of net position. Depreciation has been provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows at June 30, 2017:

Buildings	40 years
Land and improvements	10 years
Water system – constructed	50 years
Water system – contributed	50 years
Office furniture and equipment	10 years
Plant equipment	15 years

Compensated Absences

Vested or accumulated sick leave, comp time and floater holiday pay, and vacation pay is recorded as an expense and liability as the benefits accrue to employees. In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences,* no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes 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 a future period which will only be recognized as an outflow of resources (expense) in the future.

In addition to liabilities, the statement of net position includes 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 a future period and would only be recognized as an inflow of resources (revenue) at that time. See Note 6 for a listing of the components of deferred outflows and inflows.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Pension Liability
For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement system (CalPERS) plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position
Net position represents the difference between assets and liabilities. The District's net position is classified as follows:

***Net Investment in Capital Assets**:* Net investment in capital assets represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

***Restricted Net Position**:* Restricted net position represents resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.

***Unrestricted Net Position**:* Unrestricted net position represents resources available for transactions relating to the general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

Operating Revenue and Expense
The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Tax Revenues
The County of Shasta (the County) assesses, bills, and collects property taxes for the District.

The County property tax is levied each year on November 1 on the assessed valuation of land located in the County as of the preceding lien date (March 1). Taxes are receivable in two equal installments, which become delinquent the first working day after December 10 and April 10.

The County adopted the alternative method of tax apportionment ("Teeter Plan"). The District determined they would participate in this plan. Under the plan, the County remits all property taxes and special assessments due to the District without regard to their current or delinquent status.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Water System Special Assessment

Section 37203 of the *California code,* upon a vote of the affected property owners, allows a California Water District to compel the county in which it is located to levy and collect ad valorem assessments on all lands located within the District, sufficient to raise monies to provide for the operations and debt service of the District. The assessment was authorized by the voters in March 1964.

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.

Budget

The District's budget is adopted on a modified accrual basis, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The annual appropriations lapse at fiscal year-end.

NOTE 2 - CASH AND CASH EQUIVALENTS

Deposits

All of the District's deposits in financial institutions are entirely insured or collateralized. The *California Government Code* requires California banks and savings and loan associations to secure local agency deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of a local agency's deposits.

Custodial Credit Risk

The District's deposits were as follows at June 30, 2017:

Carrying amount	$ 8,893,330
Bank balance	8,897,311
Amount covered by federal depository insurance	(250,000)
Amount covered by collateral held by agents of pledging bank	$ 8,647,311

NOTE 2 - CASH AND CASH EQUIVALENTS (continued)

Collateral was not held in the District's name. (There is no government code requirement that collateral be held in the District's name.)

Equity in Pooled Cash and Investments

The District also maintains cash equivalents in pools managed by others. The pooled investment funds are both unrated.

Pooled investment funds	
Cash in Shasta County Treasury	$ 61,026
Local Agency Investment Fund (LAIF)	458,979
Total pooled investment funds	$ 520,005

The District invests funds in the State Treasurer's Pooled Money Investment Account (PMIA) through the LAIF, a voluntary program created by statute in 1977. The PMIA has regulatory oversight from the Pooled Money Investment board and an in-house Investment Committee. The Local Agency Investment Advisory Board has oversight of LAIF. The fair value of the District's position in the pool is materially equivalent to the value of pool shares.

In accordance with authorized investment laws, the State Treasurer's Investment Pool (LAIF) invests in various structured notes and mortgage-backed securities, such as collateralized mortgage obligations. As of June 30, 2017, 0.88% of LAIF's investment portfolio was invested in structured notes and other asset-backed securities. Copies can be obtained from the Local Agency Investment Fund, P. O. Box 942809, Sacramento, CA 94209.

The District also invests funds with the County Treasurer's Pooled Money Investment Account.

The *California Government Code* and investment policy of the County authorize the County to invest in obligations, participations, or other investments of the U.S. Government or its agencies, state and municipal bonds, commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by Standard & Poor's Corporation or Moody's Investor Service, Inc., bankers' acceptances, repurchase agreements, and the State Treasurer's Investment Pool (LAIF). The 2017 audited financial statements of the County are not yet available. Copies can be obtained from the County of Shasta, 1450 Court Street, Redding, CA 96001. As provided in the 2016 audited financial statements for the County, cost and fair value are materially equivalent. Accordingly, the District has reported its position in the County Treasury at cost, which approximates fair value as of June 30, 2017

The pooled treasury has oversight from the County Treasury Oversight Committee in accordance with *California Government Code* requirements.

The District is unable to determine whether the County has invested directly or indirectly in any derivative instruments.

NOTE 2 - CASH AND CASH EQUIVALENTS (continued)

Interest Rate Risk
In accordance with its investment policy, the District manages its exposure to declines in fair value by limiting all debt securities to a final maturity of no more than five years.

Credit Risk
The District has a formal investment policy on managing credit risk; the District's policy and the *California Government Code* authorize the District to invest in obligations, participations, or other investments of the U.S. Government or its agencies, state and municipal bonds, commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by Standard & Poor's Corporation or Moody's Investment Service, Inc., bankers' acceptances, repurchase agreements, and the State Treasurer's Investment Pool (LAIF).

Concentration of Credit Risk
The District's policy limits the amount that may be invested in any one permissible investment type.

NOTE 3 - CAPITAL ASSETS

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

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Non-depreciable capital assets				
Land	$ 95,064	$ -	$ -	$ 95,064
Construction in progress	157,463	582,783	(87,408)	652,838
Total non-depreciable capital assets	252,527	582,783	(87,408)	747,902
Depreciable capital assets				
Building	2,585,638	-	(64,523)	2,521,115
Land improvements	369,104	-	(12,308)	356,796
Water system	39,974,872	94,514	(38,057)	40,031,329
Equipment	1,677,494	87,438	(154,351)	1,610,581
Office furniture and equipment	156,135	-	(75,177)	80,958
Filter plant improvements	483,003	-	-	483,003
Total depreciable capital assets	45,246,246	181,952	(344,416)	45,083,782
Less accumulated depreciation	(19,306,984)	(1,012,613)	269,069	(20,050,528)
Depreciable capital assets, net	25,939,262	(830,661)	75,347	25,033,254
Capital assets, net	$ 26,191,789	$ (247,878)	$ (162,755)	$ 25,781,156

NOTE 4 - ACCRUED BENEFITS AND COMPENSATED ABSENCES

Accrued benefits and compensated absences consist of the following at June 30, 2017:

Vacation	$ 112,209
Sick leave	170,152
Comp time and floater holidays	28,576
Total accrued benefits and compensated absences	$ 310,937

NOTE 5 - NOTES PAYABLE

Notes payable consist of the following at June 30, 2017:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017
Note payable – U.S. Department of the Interior	$ 47,656	$ -	$ (47,656)	$ -
1915 Act Special Assessment Bonds	147,663	-	(10,894)	136,769
State of California Department of Water Resources	6,898,870	-	(481,120)	6,417,750
Total notes payable	$ 7,094,189	$ -	$ (539,670)	6,554,519
Less amounts due within one year				(496,944)
Amounts due in more than one year				$ 6,057,575

U.S. Department of the Interior

This note was secured by the distribution system of the District. Interest at 3.046% was payable only on the portion of the unpaid balance of the loan allocated to municipal, industrial, and domestic water supply (M & I) for the prior calendar year. Interest calculations through the year 2017 are based on an estimated M & I usage. The note was paid in full during the year ended June 30, 2017.

NOTE 5 - NOTES PAYABLE (continued)

1915 Act Special Assessment Bonds
The District issued Limited Obligation Improvement Bonds (1915 Act), Series A, for $201,470 on August 7, 1997, in order to provide the matching funding required to complete the Logan Road Water Project. The bonds call for semi-annual interest payments at 5% on March 2 and September 2 of each year. Principal payments are due on September 2 of each year through the year 2036, and the principal payment amount ranges from $3,000 to $10,200. The bonds are secured by special assessment taxes to be collected by the County of Shasta.

State of California Department of Water Resources
On September 16, 2004, the District entered into a funding agreement with the State of California Department of Water Resources for a construction loan under the Safe Drinking Water State Revolving Fund Law of 1997 to upgrade the District's water treatment plant. The amount of the loan was not to exceed $10,399,538. Interest is charged at a rate of 2.34% annually. Interest during the construction period was due semi-annually. Principal payments commenced one year from the project completion date. The project was completed in August 2008 and the first semi-annual principal payment for this loan was due July 1, 2009. The entire amount of the loan plus interest is due and payable within 20 years from the date of the first payment. The loan is collateralized by the revenues from the water treatment plant improvement fees.

The annual debt service requirements to amortize all long-term debt, including interest are as follows for the years ending June 30,:

	1915 Act Special Assessment Bond (96-1 Logan Road)	Loan Fund (SDWSTR)	Total
2017-2018	$ 11,101	$ 639,755	$ 650,856
2018-2019	10,883	639,755	650,638
2019-2020	11,151	639,755	650,906
2020-2021	10,907	639,755	650,662
2021-2022	11,151	639,755	650,906
2022-2027	55,395	2,559,023	2,614,418
2027-2032	55,084	1,595,689	1,650,773
2032-2037	47,487	-	47,483
Total	213,159	7,353,487	7,566,646
Less interest	(76,390)	(935,737)	(1,012,127)
Net principal	$ 136,769	$ 6,417,750	$ 6,554,519

NOTE 6 - PENSION OBLIGATION INCLUDING GASB STATEMENT NO. 68

Qualified employees are covered under a cost-sharing, multiple-employer defined benefit pension plan maintained by the California Public Employees' Retirement System (CalPERS).

Plan Descriptions and Provisions

All full-time employees participate in CalPERS, a cost-sharing, multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The District is part of a "cost-sharing" pool within CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. The California Public Employees' Pension Reform Act (PEPRA) took effect January 1, 2013 and changed the way CalPERS retirement and health benefits are applied and placed limits on member compensation. For employees hired before PEPRA, at age 60, the employee is entitled to a monthly benefit of 2.0% of the highest three years of compensation for each year of service. For employees hired after PEPRA, at age 62, the employee is entitled to a monthly benefit of 2.0% of the highest three years of compensation for each year of service.

Retirement after age 60 will increase the percentage rate to a maximum of 2.418% at age 63. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from CalPERS, members' accumulated contributions are refundable with interest credited through the date of separation.

The Public Employees' Retirement Law (Part 3 of the *California Government Code,* Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplemental information. Copies of the CalPERS annual financial report may be obtained from CalPERS, 400 Q Street, Sacramento, CA 95811.

Funding Policy

For employees hired before PEPRA, active plan members are required to contribute 7.0% of their salary (7.0% of monthly salary over $133.33 if the member participates in Social Security), which is currently paid by the District. For employees hired after PEPRA, active plan members are required to contribute 6.25% of their salary (6.25% of monthly salary over $133.33 if the member participates in Social Security), which is currently paid by the District. Also, the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. For employees hired before PEPRA, the required employer contribution rate for the fiscal year ended June 30, 2017, was 7.159% of annual payroll. For employees hired after PEPRA, the required employer contribution rate for the fiscal year ended June 30, 2017, was 6.556% of annual payroll. The District's contributions to CalPERS for the fiscal years ended June 30, 2017, 2016 and 2015 were $243,345, $222,338, and $245,243, respectively, and equaled 100% of the required contribution for each year.

Employees Covered

The following employees were covered by the benefit terms of the plan for the year ended June 30, 2017:

Inactive employees or beneficiaries currently receiving benefits	12
Active employees	26
Total	38

NOTE 6 - PENSION OBLIGATION INCLUDING GASB STATEMENT NO. 68 (continued)

Pension Liabilities, Pension Expense (Credit), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the District reported a net pension liability of $1,666,007 for its proportionate share of the net pension liability. The net pension liability is 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 June 30, 2015, rolled forward to June 30, 2016, using standard update procedures. 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 participating districts and the State, actuarially determined. At June 30, 2016, the District's proportion was 0.0480%.

Pension Expense (Credit) and Deferred Outflows/Inflows of Resources Related to Pensions

For the year Ended June 30, 2017, the District recognized a pension expense of $57,832. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Resources	Deferred Inflows Resources
Changes of assumptions	$ -	$ 50,578
Differences between expected and actual experience	4,121	-
Difference in actual contributions and proportionate share of contributions	-	166,590
Net difference due to difference in proportions	-	158,412
Net difference between projected and actual earnings on pension plan investments	263,241	-
Contributions subsequent to the measurement date	124,469	-
Total	$ 391,831	$ 375,580

An amount of $124,469 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Additionally, the net difference due to differences in proportion, reported as a component of deferred inflows, changed by $90,554 over the prior year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as a reduction of pension expense as follows for the year ending June 30:

2018	$(161,218)
2019	(125,053)
2020	109,869
2021	68,184
2022	-
Thereafter	-
Total	$ 108,218

NOTE 6 - PENSION OBLIGATION INCLUDING GASB STATEMENT NO. 68 (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. The amortization and smoothing periods recently adopted by the Board were utilized to determine whether the municipal bond rate should be used in the calculation of a discount rate. A projection of expected benefit payments and contributions was performed to determine if the assets would run out. The test revealed the asset would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The stress test results are presented in a detailed report entitled “GASB Crossover Testing Report” that can be obtained on the CalPERS’ website.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statement No. 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in the calculation until the methodology is changed.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds’ asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11 to 60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

NOTE 6 - PENSION OBLIGATION INCLUDING GASB STATEMENT NO. 68 (continued)

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:

	Current Target Allocation	Real Return Years 1-10*	Real Return Years 11+**
Asset class:			
Global equity	51.0%	5.25%	5.71%
Global fixed income	19.0%	0.99%	2.43%
Inflation sensitive	6.0%	0.45%	3.36%
Private equity	10.0%	6.83%	6.95%
Real estate	10.0%	4.50%	5.13%
Infrastructure and forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	(0.55)%	(1.05)%

* An expected inflation of 2.5% used for this period.
** An expected inflation of 3.0% used for this period.

Sensitivity of the Net Pension Liability to the Changes in the Discount Rate
The following presents the net pension liability of the Plan, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65%) or one percentage point higher (8.65%) than the current rate:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Plan's net pension liability	$ 2,595,595	$ 1,666,007	$ 897,749

Pension Plan Fiduciary Net Position
Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial report.

NOTE 6 - PENSION OBLIGATION INCLUDING GASB STATEMENT NO. 68 (continued)

Actuarial Assumptions – The total pension liability in the June 30, 2015, actuarial valuation for CalPERS was determined using the following actuarial assumptions, applied to all periods included in the measurement, for the year ended June 30, 2017:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Actuarial cost method	Entry age normal
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

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience study for the period July 1, 1997 through June 30, 2011.

NOTE 7 - DEFERRRED COMPENSATION

The District also offers its employees a deferred compensation plan created in accordance with *Internal Revenue Code,* Section 457. The plan, available to all District employees, permits them to defer a portion of their salary up to the legal limit until future years. Participation in the plan is optional. The District currently has two options employees can voluntarily defer to: VALIC or CalPERS. They can defer to both, one or none. The deferred compensation balance is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are held in trust for the “exclusive benefit of governmental plan participants.” Consistent with this, the District has no rights to these monies and, therefore, plan assets and liabilities are not reported on the District’s financial statements.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description

The District contracts for healthcare for its active and retired employees under the Public Employees' Medical and Hospital Care Act (PEMHCA) (the Plan). The Plan provides lifetime healthcare insurance for eligible employees and their eligible family members through the District's group insurance plan, which covers both active and retired members. Benefit provisions are established and may be amended by the District's Board of Directors as authorized by bylaws. The Plan provides for the District to contribute 100% of the cost of health insurance premiums for retirees and their eligible family members. The Plan does not issue a publicly available report.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan for the years ended June 30:

	2017	2016
Annual required contribution	$ 611,269	$ 462,362
Interest on net OPEB obligation	144,311	129,914
Adjustment to annual required contribution	(187,753)	(169,022)
Annual OPEB cost	567,827	423,254
Contributions made	131,686	135,315
Increase in net OPEB obligation	436,141	287,939
Net OPEB obligation, beginning of year	2,886,222	2,598,283
Net OPEB obligation, end of year	$ 3,322,363	$ 2,886,222

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS PLAN (continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the OPEB obligation were as follows:

	Annual OPEB Cost	Percentage of Annual OPEB Contributed	OPEB Obligation
2015	$ 437,261	28.28%	$ 2,598,283
2016	423,254	31.97%	2,886,222
2017	567,827	23.19%	3,322,363

Funding Policy, Funded Status, and Funding Progress

The District contributes 100% of the cost of current-year premiums for eligible retired plan members and their eligible family members depending on the date of hire. For the fiscal years ended June 30, 2017 and 2016, the District contributed $131,686 and $135,315, respectively, to the Plan.

As of June 30, 2016, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was $5,074,326, and the actuarial value of assets was $-0-, resulting in an unfunded actuarial accrued liability of $5,074,326. The covered payroll (annual payroll of active employees covered by the plan) was $1,795,062, and the ratio of the overfunded actuarial accrued liability to the covered payroll was 282.68%.

The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of future events far into the future. Amounts determined regarding the funded status of a plan and the employer's annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following simplify assumptions were made:

> *Assumptions About Employees and Members:* Based on the historical average retirement age of the covered group, active plan members were assumed to retire at age 60 or the first year thereafter in which the member would qualify for benefits. Marital status as of the calculation date was assumed to continue throughout retirement. Life expectancy was based on mortality tables published by the National Center for Health Statistics. The probability of remaining employed until the assumed retirement age and employees' expected future working lifetimes were developed using non-group-specific, age-based turnover data from GASB Statement No. 45.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS PLAN (continued)

Assumptions About Healthcare Costs: The 2016 health insurance premiums for retirees were used to calculate the present value of total benefits to be paid. The expected rate of increase in health insurance premiums initially used a select rate of 9%, with reduction to the ultimate rate of 5% after four years.

Other Assumptions and Methods: The inflation rate was assumed to be 2%. A simplified version of the entry age actuarial cost method was used in the actuarial valuation. The UAAL is amortized over the remaining 30-year period as a level percent of projected payroll on an open basis. Payroll was assumed to grow over the long-term at the same rate as inflation.

NOTE 9 - SPECIAL ASSESSMENT BONDS

Special assessment bonds are used for the provision and financing of public improvements, which primarily benefit the particular taxpayers against whose properties special assessments are levied. Property owners are given the option of paying their special assessments in a lump sum or in interest-bearing annual installments over a number of years. Special assessment bonds issued to finance initial construction costs are secured by liens on the property of those taxpayers electing to pay their assessments in annual installments.

The GASB issued Statement No. 6, *Accounting and Financial Reporting for Special Assessments,* in January 1989. Reporting requirements for governments vary under this statement, dependent on whether or not the government is obligated in some manner for special assessment debt.

In accordance with legal requirements pertaining to the sale of 1915 Act Special Assessment Bonds, a reserve fund was established out of the proceeds of the bond sale and is utilized to cover delinquencies by property owners.

Delinquencies, if any, at June 30, 2017, are immaterial and are covered by the Teeter Plan.

The liability for the payment of the outstanding 1915 Act Special Assessment Bonds are reported and disclosed in Note 5.

NOTE 10 - SELF-INSURANCE

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The JPIA provides joint protection coverage for losses in excess of the District's self-insurance retention levels. Claims in excess of specified levels are covered by excess insurance policies purchased from commercial insurance carriers. There has been no significant reduction in coverage over the last three years.

NOTE 10 - SELF-INSURANCE (continued)

The District has an agreement with the JPIA to provide auto and general liability insurance and property insurance. Under the agreement, the District has no self-insured retention for auto and general liability insurance and excess insurance coverage to $40,000,000. The property insurance fund provides for a self-insured retention of $10,000, except for $2,500 for auto and for mobile equipment, and excess insurance coverage to $50,000,000.

The District has an agreement with the JPIA to provide error and omissions insurance of $1,000,000 per incident with a $100,000 deductible.

The District also participates in the JPIA workers' compensation insurance program. Under the agreement, the District has no self-insured retention and insurance coverage to statutory limits.

The premiums billed by the JPIA to member districts are planned to match the expenses of the self-insurance as well as the cost of providing the excess layer coverage and the cost of administering the plans.

NOTE 11 - RESTRICTED NET POSITION

Restricted net position consists of the following at June 30, 2017:

Department of Interior Note Reserve – The purpose of these funds is to ensure that the District maintains adequate financial capability to meet unusual and unforeseen extraordinary operation and maintenance costs as per the Bureau contracts.	$ 76,182
Capital Improvement Fund – This fund was established to deposit capital improvement fees charged for use towards the construction and improvement of District facilities and to maintain adequate facilities as growth in the District occurs.	1,567,433
Water Treatment Plant Improvements – This fund was established to deposit fees charged for the water treatment plan improvements required by the California State Water Resources Control Board, Division of Drinking Water, and to service the debt established.	680,672

NOTE 11 - RESTRICTED NET POSITION (continued)

Palo Cedro Special Projects – Pursuant to Resolution 87-38, the purpose of this reservation was to reduce the initial construction cost of the Palo Cedro South Project. Agreement by the property owners was made whereby a capital facilities charge would be levied upon property owners at such time as they choose to connect to the system. The funds are specifically allocated to the construction of improvements at such time as it becomes necessary.	175,002
1996 Redemption Fund – This fund was established to deposit the revenues collected by the County of Shasta for the 96-1 Assessments and repay the obligation with the USDA.	47,817
Total	$ 2,547,106

NOTE 12 - DESIGNATED UNRESTRICTED NET POSITION

Designated unrestricted net position consists of the following at June 30, 2017:

Contingency Fund – This fund was established as an appropriation and interfund transfer account, as needed, for cash flow purposes.	$ 2,727,518
Municipal and Industrial Deficit – This fund was established to fund current year M&I operating deficit charged by the U.S. Bureau of Reclamation, Department of the Interior.	1,011,950
Extraordinary Operations Maintenance Replacement – This fund was established to assist the District in long-term planning and budgeting for extraordinary major maintenance and replacement costs the District is going to be faced with for its aging facilities and infrastructure. In addition, a separate allocation under this fund was created to assist the District in the purchase of vehicles and large equipment items. It is the goal of the District to smooth the impact of these significant costs over many years rather than significant impact to any one year.	1,583,416
Total	$ 5,322,884

NOTE 12 - DESIGNATED UNRESTRICTED NET POSITION

The above amount of designated unrestricted net position exceeds the unrestricted net position balance in the Statement of Net Position on page 10 due to a difference in accounting method between the two statements. The District designates net assets using the modified accrual account method which is the accounting method used for internal budgeting purposes. This account method does not take into account the net investment in capital assets as a component of net position. Therefore, it results in the District designating more unrestricted net position than is reported in the statement of net position. The full amounts of designated net position have been included in the table above to reflect the actual amounts approved by the District's board of directors as designated, however, only $1,563,735 is actually available to be designated.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Proposition 218

Proposition 218, which was approved by the voters in November 1996, and amended Article 13 of the State Constitution, regulates the District's ability to impose, increase, and extend taxes, assessments, and fees. New, increased, or extended taxes, assessments, and fees are subject to the provisions of Proposition 218. This decision was upheld and broadly interpreted to include water rates and charges in the court decision of *Bighorn-Desert View Water Agency vs. Virjil* which states "an agency may not adopt a rate increase if written protests against the proposed fee or charge are presented by a majority" of the affected property owners. In addition, Proposition 218 states that these rates will be fair, equitable, and cost based. Therefore, the District's ability to finance the services for which the taxes, assessments, and fees are imposed in the future may be impaired. However, management believes it will be able to maintain the current level of revenue it now receives. Subsequent legislation (AB1260 CABELLERO) clarifies the process required to revise fees and rates.

REQUIRED SUPPLEMENTAL INFORMATION

For the year ended June 30, 2017:

District's proportion of the net pension liability (asset)	0.0480%
District's proportionate share of the net pension liability (asset)	$ 1,666,007
District's covered-employee payroll	$ 1,757,845
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	94.78%
Plan fiduciary net position as a percentage of the total pension liability	80.70%

See the accompanying notes to the required supplementary information.

For the year ended June 30, 2017:

Contractually required contribution	$ 124,469
Contributions in relation to the contractually required contribution	(124,469)
Contribution deficiency (excess)	$ -
District's covered-employee payroll	$ 1,757,845
Contributions as a percentage of covered-employee payroll	7.08%

See the accompanying notes to the required supplementary information.

Actuarial Valuation Dates	2017	2016	2015
Actuarial accrued liability (AAL)	$ 6,659,741	$ 5,074,326	$ 5,090,374
Actuarial value of plan assets	-	-	-
Unfunded actuarial accrued liability (UAAL)	$ 6,659,741	$ 5,074,326	$ 5,090,374
Funded ratio (actuarial value of plan assets /AAL)	0.00%	0.00%	0.00%
Covered payroll (active members)	$ 1,893,341	$ 1,795,062	$ 1,734,301
UAAL as a percentage of covered payroll	351.75%	282.68%	234.41%

See the accompanying notes to the required supplementary information.

NOTE 1 - CHANGES OF BENEFIT TERMS

Public agencies who participate in CalPERS can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for a specific plan can be found in the plan's annual valuation report.

NOTE 2 - CHANGES OF ASSUMPTIONS

In February 2014, the CalPERS Board adopted new actuarial assumptions. The most significant change to the actuarial assumptions that the board adopted was the inclusion of future mortality improvement. The actuarial assumptions adopted by the Board are designed to ensure greater sustainability and soundness of the defined benefit pension plans, and will be better at predicting future experience resulting in more secure retirement benefits in the decades to come. The current experience study was based on demographic CalPERS data for years 1997 to 2011. The study focused on recent patterns of termination, death, disability, retirement, and salary increases. These new assumptions were reflected in the total pension liabilities as of June 30, 2013 and were reflected in Actuarily Determined Contributions starting in 2015.

OTHER REPORT

D. H. SCOTT & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
A LIMITED LIABILITY PARTNERSHIP

David H. Scott, APC, CPA
Keith F. Hunting, CPA
Paul J. Catanese, APC, CPA/MBA

Vivian R. Piche', CPA
Gerald R. Tadina, CPA
Cheryl Hull, CPA
Christine M. Rojas, CPA
Ron Massey, CPA
Teri Lewallen, CPA
David S. Gilman, CPA
Brea Clayholt, CPA

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* AND *THE STATE CONTROLLER'S MINIMUM AUDIT REQUIREMENTS FOR CALIFORNIA SPECIAL DISTRICTS*

To the Board of Directors
Bella Vista Water District
Redding, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and *The State Controller's Minimum Audit Requirements for California Special Districts*, the financial statements of the business-type activities of Bella Vista Water District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 19, 2017.

Internal control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

D.H. Scott & Company LLP

Redding, California
September 19, 2017