

**DEL PASO MANOR WATER DISTRICT**

**FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**DEL PASO MANOR WATER DISTRICT**

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# LARRY BAIN, CPA

An Accounting Corporation

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Del Paso Manor Water District  
Sacramento, California

We have audited the accompanying financial statements of the Del Paso Manor Water District as of and for the year ended June 30, 2017, which collectively comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial 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.

### **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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes 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 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 financial statement presentation.

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 Del Paso Manor Water District as of June 30, 2017, and the changes in financial position and the results of its cash flows 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 on pages 3–6 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.

The required supplementary information other than MD&A, as listed in the table of contents on pages 24 and 25, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

## **Other Information**

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Del Paso Manor Water District's financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Del Paso Manor Water District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

We have also issued our report dated November 23, 2017 on our consideration of the District's internal control over financial reporting. That report should be read in conjunction with this report in considering our audit.

*Larry Bain, CPA,*  
*An Accounting Corporation*  
November 23, 2017

**Del Paso Manor Water District  
Required Supplementary Information  
Management's Discussion and Analysis  
June 30, 2017**

This section of the Del Paso Manor Water District annual financial report presents an analysis of the District's financial performance during the fiscal year ending June 30, 2017. This information is presented in conjunction with the audited basic financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2016/17**

Financial Highlights:

- The District began upgrading one well in order to extend the life and meet fire flow requirements; the work should be completed in the next fiscal year.
- Installed an additional 345 feet of pipeline along Butano Drive at El Camino which included the installation of a new steamer hydrant with an isolation valve.
- Replaced one additional wharf hydrant with no isolation valve with a new steamer hydrant with an isolation valve.
- Completed an intertie evaluation with Carmichael Water District, including cost estimates, in order to further investigate the use of surface water within the District as described in the 2009 Mater Plan.
- The District has complied with the first part of the Sustainable Groundwater Management Act by participating in the formation of a Groundwater Sustainability Agency.

**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 including 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 Assets includes information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations the District creditors (liabilities). The Statements of Revenues, Expenses and Changes in Net Assets identify the District's revenues and expenses for the fiscal year ending June 30, 2017. This statement provided information on the District's operation over the past fiscal year and can be used to determine whether the District has recovered all if it's actual and projected costs through user fees and other charges. The third financial statement is the Statement 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 comparative information on the source and use of cash and the change in the cash and equivalents balance of the last fiscal year.

**Del Paso Manor Water District**  
**Required Supplementary Information**  
**Management's Discussion and Analysis**  
**June 30, 2017**

**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 including 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 includes information on the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations the District creditors (liabilities). The Statements of Revenues, Expenses and Changes in Net Position identify the District's revenues and expenses for the fiscal year ending June 30, 2017. This statement provided information on the District's operation over the past fiscal year and can be used to determine whether the District has recovered all if it's actual and projected costs through user fees and other charges. The third financial statement is the Statement 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 comparative information on the source and use of cash and the change in the cash and equivalents balance of the last fiscal year.

**Del Paso Manor Water District  
Required Supplementary Information  
Management's Discussion and Analysis  
June 30, 2017**

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 if the financial condition of the District has improved during the last fiscal year. The District's Net Position reflect the difference between assets and liabilities.

A summary of the District's Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position are presented below:

Condensed Statements of Net Position  
As of June 30 2017 and 2016

	2017	2016
Current & other assets:	\$ 2,057,440	\$ 2,082,999
Capital assets, net:	5,469,097	5,619,123
Total assets	7,526,537	7,702,122
Deferred outflows of resources	164,057	3,534
Current liabilities	172,347	158,774
Long-term liabilities	5,695,827	5,647,000
Total liabilities	5,868,174	5,805,774
Deferred inflows of resources	52,729	43,041
Net investment in capital assets,	414,097	464,123
Unrestricted net position:	1,355,596	1,392,718
Total net position	\$ 1,769,693	\$ 1,856,841

Condensed Statements of Revenue, Expenses and Changes in Net Position  
Fiscal Years Ended June 30, 2017 and 2016

	2017	2016
Operating Revenues	\$ 1,389,987	\$ 1,372,379
Non-operating Revenues/Capital Contributions	5,873	3,575
Total Revenues	1,395,860	1,375,954
Depreciation Expense	219,899	198,181
Operating Expense	996,396	879,782
Total Expense	1,216,295	1,077,963
Non-operating expense	(266,713)	(269,963)
Changes in Net Position	(87,148)	28,028
Beginning Net Position-Restated	1,856,841	1,828,813
Ending Net Position	\$ 1,769,693	\$ 1,856,841

**Del Paso Manor Water District  
Required Supplementary Information  
Management's Discussion and Analysis  
June 30, 2017**

**CAPITAL ASSETS**

As of June 30, 2017, the District's investments in capital assets, without factoring accumulated depreciation, totaled \$7,120,436 which was a \$48,411 increase over the capital asset balance at June 30, 2016 of \$7,072,025.

The District completed an intertie evaluation with Carmichael Water District to further investigate bringing in surface water within the District's boundaries as described in the 2009 Master Plan. The District also installed an additional 345 linear feet of main and replaced two wharf hydrants with no isolation valves with two steamer hydrants with isolation valves. Improvements to one well began in order to extend its life and meet district fire flow requirement began in this fiscal year; it is expected to be completed and back in service in the next fiscal year.

**LONG – TERM DEBT**

As of June 30, 2017, the District had \$5,055,000 in outstanding business-type long-term debt as reported in the notes to the financial statements and in the statement of net position. The District's debt decreased by principal payments made during the fiscal year. The outstanding debt represents one certificate of participation, proceeds of which were used for the construction of various water system improvements (Phase I Improvement Project), to fund a Reserve Fund for the Certificates and to pay costs of executing and delivering the Certificates.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

With the aging infrastructure, anticipated future capital costs, and new long term conservation requirements set by the State make it prudent for the District to review the rates and fees and adjust them on a regular basis; this will also give the District a favorable rating showing financial stability which will result in better financing options. Standard and Poor's Rating Service has given the District a rating of "A+". The District's debt service requirements were met this year along with the bond covenants. The District will need to remain cognitive of these requirements when establishing budgets as well as setting rates. In addition, the District is staying engaged with legislative and regulatory requirements that may require fees and/or costs to the District, thus potentially affecting consumer rates. The District is currently having a Cost of Service Analysis performed to reflect what customer rates need to be to meet the basic operations, including debt service, bond covenants and unfunded liabilities of the District. The District will look at updating the Master Plan in the near future in order to develop a plan to continue to replace the aging infrastructure. Currently, Del Paso Manor Water District's rates continue to remain competitive with other water purveyors in the region.

**ADDITIONAL FINANCIAL INFORMATION**

The financial report is designed to provide the District's customers 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 to request additional financial information, please contact the Del Paso Manor Water District's General Manager at 1817 Maryal Drive, Suite 300, Sacramento, CA 95864.



**DEL PASO MANOR WATER DISTRICT**  
**COMBINED STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

**Assets and Deferred Outflow of Resources**

Current Assets:

Cash	\$ 658,786
Investments	635,805
Accounts receivable	129,624
Interest receivable	1,464
Prepaid expense	21,683
Restricted cash	610,078
Total current assets	2,057,440

Noncurrent Assets:

Capital assets:

Nondepreciable capital assets:

Land	8,505
Construction in progress	31,171

Depreciable capital assets:

Source of supply	2,459,603
Pumping equipment	1,036,177
Transmission and distribution	2,312,578
General	1,272,402
Less accumulated depreciation	(1,651,339)

Total depreciable capital assets	5,429,421
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Total capital assets (net of accumulated depreciation)	5,469,097
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Total noncurrent assets	5,469,097
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Total assets	7,526,537
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Deferred Outflow of Resources:

Deferred outflow-pension	164,057
Total deferred outflows of resources	164,057
Total assets and deferred outflow of resources	\$ 7,690,594

**Liabilities Deferred Inflows of Resources and Net Position:**

Current Liabilities:

Accounts payable	\$ 16,789
Customer advance payments	22,200
Accrued interest	133,356
Total current liabilities	172,345

Noncurrent Liabilities:

Due within one year	117,497
Due in more than one year	5,578,330
Total long-term liabilities	5,695,827
Total liabilities	5,868,172

Deferred Inflows of Resources

Deferred inflow-pension	52,729
Total deferred inflows of resources	52,729

Net Position

Net investment in capital assets	414,097
Restricted for debt service	610,078
Unrestricted	745,518
Total net position	1,769,693
Total liabilities, deferred inflows of resources and net position	\$ 7,690,594

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

**DEL PASO MANOR WATER DISTRICT**

**COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Operating revenue	
Water sales	\$ 1,389,987
Total operating revenues	<u>1,389,987</u>
Operating expenses	
Source of supply	
Water purchases	5,332
Pumping	98,273
Water treatment	5,250
Transmission and distribution	297,616
Administration and general	589,925
Depreciation	219,899
Total operating expenses	<u>1,216,295</u>
Operating income (loss)	<u>173,692</u>
Nonoperating revenue (expenses)	
Interest income	4,762
Gain on sale of assets	1,111
Interest expense	(266,713)
Nonoperating revenues (expenses)	<u>(260,840)</u>
Increase (Decrease) in net position	(87,148)
Net position, July 1	<u>1,856,841</u>
Net position, June 30	<u><u>\$ 1,769,693</u></u>

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

**DEL PASO MANOR WATER DISTRICT**  
**COMBINED STATEMENT OF CASH FLOWS**  
**JUNE 30, 2017**

Cash flows from operating activities:	
Cash receipts from customers	\$ 1,377,489
Cash payments to suppliers for goods and services	(468,821)
Cash payments to employees for services	(540,639)
Net cash provided by operating activities	368,029
Cash flows from capital and related financing activities:	
Principal payment for debt	(100,000)
Interest paid on debt	(268,338)
Sale of assets	3,000
Additions to capital assets	(71,761)
Net cash used by capital and related financing activities	(437,099)
Cash flows from investing activities:	
Interest received on investments	4,155
Net decrease in cash and cash equivalents	
	(64,915)
Cash and cash equivalents, beginning of year	
	1,969,584
Cash and cash equivalents, end of year	
	\$ 1,904,669
<b>Reconciliation of cash and cash equivalents to the balance sheet:</b>	
Cash	\$ 658,786
Investments	635,805
Restrict cash	610,078
<b>Cash and cash equivalents, June 30</b>	
	<b>\$ 1,904,669</b>
Reconciliation of operating income (loss) to	
net cash provided by operating activities	
Operating Income (Loss)	\$ 173,692
Adjustments to reconcile operating income (loss) to	
net cash provided by operating activities:	
Depreciation	219,899
Changes in assets and liabilities:	
Accounts receivable	(34,698)
Prepaid expenses	(4,053)
Accounts payables	(7,002)
Customer deposits	22,200
GASB 68-pension adjustments	(3,929)
Compensated absences	1,920
Net Cash Provided By Operating Activities	\$ 368,029

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

**DEL PASO MANOR WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

Note 1: Summary of Significant Accounting Policies

The Del Paso Manor Water District was established in 1956. The District operates under the California Water Code, Division 12, Section 30,000 et. Seq. The District is a separate legal reporting entity operating in Sacramento County. The district provides urban water to approximately 1,800 connection using groundwater pumped from 8 wells. The district has contractual rights to water from the City of Sacramento. The District's governing body is a Board of Directors comprised of 5 members with 4 year staggered terms.

A. Reporting Entity

The District has defined its reporting entity in accordance with generally accepted accounting principles, which provides guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The primary criterion for including a potential component unit within the reporting entity is the governing body's financial accountability. A primary governmental entity is financially accountable if it appoints a voting majority of a component unit's governing body and it is able to impose its will on the component unit, or if there is a potential for the component unit to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable if a component unit is fiscally dependent on the primary governmental entity regardless of whether the component unit has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

No operations of other entities met the aforementioned oversight criteria for inclusion or exclusion from the accompanying financial statements in accordance with Governmental Accounting Standards Board Statement No. 61.

B. Fund Accounting

The accounting records of the District are organized on the generally accepted basis of accounting for an enterprise fund.

Enterprise Fund – An Enterprise fund is used to account for the District's water operations that is financed and operated in a manner similar to a private business enterprise, where the intent of the Board of Directors is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Accounting

The accompanying financial statements have been prepared on the full accrual basis of accounting. This is a basis of accounting that conforms to accounting principles generally accepted in the United States of America.

U.S. generally accepted accounting principles require all proprietary funds to use the accrual basis of accounting. The revenues are recognized when they are earned. Expenses are recognized under the accrual basis of accounting when the related fund liability is incurred.

**DEL PASO MANOR WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

Note 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

Operating revenues in the proprietary funds are those revenues that are generated from the primary operation of the fund. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as nonoperating expenses.

D. Prepaid Expenses

Accounts for prepaid insurance, dues and other expenses.

E. Fixed Assets

Acquisitions of fixed assets are capitalized at cost and the related accumulated depreciation is recorded. Depreciation is provided for using the straight line method over the estimated useful lives as indicated in the District's capital asset policy. The District has adopted a capital asset policy in accordance with GASB 34.

F. Cash Equivalents

For purpose of the statement of cash flows, the District considers cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. This includes bank accounts and deposits with the State of California Local Agency Investment Fund (LAIF).

G. Accrued Unbilled Revenue

During the year, metered water connections are read and bills rendered after the period usage for Revenue for water distributed but not yet billed is accrued at fiscal year-end to match revenues with related expenses.

H. Budgetary Reporting

The District prepares an annual operating and capital budget, which is approved and adopted by the Board of Directors. The budget serves as an approved plan to facilitate financial control and operational evaluation. California State law does not require formal adoption of appropriated budgets for enterprise funds.

**DEL PASO MANOR WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

Note 1: Summary of Significant Accounting Policies (Continued)

I. Use of Estimates in the Preparation of Financial Statements:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Capital Contributions:

Transmission and distribution system assets contributed to the District by installers are capitalized at the installers cost, which approximates fair value at the time of the District's acquisition, and recorded as capital contributions when received.

K. Estimated Insurance Liabilities:

The District maintains a commercial package policy that provides limits of liability of \$5,000,000 per occurrence annually.

L. Net Position:

Net position comprise the various net earnings from operating income, non-operating revenues and expenses and capital contributions. Net position is classified in the following three components:

*Invested in capital assets, net of related debt*-This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*Restricted*-This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position*-This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

M. Pensions

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) plans (Plans) and additions to/deductions from the Plans' 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.

**DEL PASO MANOR WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

Note 2: Cash and Investments

Cash and investments are reported on the balance sheet as follows:

Cash	\$ 658,786
Investments	635,805
Restricted investments	610,078
Total cash and investments	\$ 1,904,669

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

General checking	\$ 658,486
Petty cash/change fund	300
LAIF	635,805
Restricted investments	610,078
Total cash and investments	\$ 1,904,669

A. Investments Authorized by the California Government Code and the Entity's Investment Policy

The table below identifies the **investment types** that are authorized for the Del Paso Manor Water District (District) by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address **interest rate risk**, **credit risk** and **concentration of credit risk**. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Percentage of Portfolio</u>	<u>Investment in One Issuer</u>
Investment pools authorized under CA			
Statutes governed by Government Code	N/A	None	\$40 million
U.S. Treasury Obligations	5 years	None	None
Bank Savings Accounts	N/A	25%	None
Federal Agencies	5 years	75%	None
Commercial Paper	180 days	20%	None
Negotiable Certificates of Deposit	180 days	20%	None
Re-Purchase Agreements	180 days	20%	None
Corporate Debt	5 years	25%	None

B. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of and investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investment by maturity:

**DEL PASO MANOR WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

Note 2: Cash and Investments (Continued)

<u>Investment Type</u>	<u>Totals</u>	<u>Remaining Maturity (in Months)</u>	
		<u>12 Months or Less</u>	<u>13-48 Months</u>
State Investment Pool*	\$ 635,805	\$ 635,805	\$ -
Bank of New York Cash Reserve**	610,078	610,078	-
Totals	<u>\$ 1,245,883</u>	<u>\$ 1,245,883</u>	<u>\$ -</u>

\*Not subject to categorization

\*\*Category 1- insured or registered, with securities held by District or its agent in the District's name.

C. Concentrations of Credit Risk

The investment policy of the District contains limitations on the amount that can be invested in any one issuer. There are no investments to one issuer exceeding those limits.

D. 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 deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment of collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits; The California Government Code requires that a financial institution secured deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the District's deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2017, the District's deposits balance was \$663,957 and the carrying amount was \$658,486. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance, \$250,000 was covered by the FDIC insurance and the remainder was covered by collateral held in the pledging bank's trust department in the District's name.

E. Investment in State Investment Pool

LAIF is included in the State's Pooled Money Investment Account. The total amount invested by all public agencies in the State's Pooled Money Investment Account approximates \$77.56 billion. Of the \$77.56 billion managed by the State Treasurer, 100% is invested in non-derivative financial products and 2.89% is invested in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute.

Investments are accounted for in accordance with the provisions of GASB Statement No. 31, which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in fair value of investments in the year in which the change occurred. The District reports its investments at fair value based on quoted market information obtained from fiscal agents or other sources if the change is material to the financial statements.



**DEL PASO MANOR WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

Note 3: Capital Assets

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

	Balance 7/1/2016	Additions	Adjustments/ Retirements	Balance 6/30/2017
Capital assets not being depreciated				
Land	\$ 8,505	\$ -	\$ -	\$ 8,505
Construction in progress	-	31,171		31,171
Total capital assets, not being depreciated	<u>8,505</u>	<u>31,171</u>	<u>-</u>	<u>39,676</u>
Capital assets, being depreciated				
Source of supply	2,459,603			2,459,603
Pumping plant	1,036,177			1,036,177
Transmission and distribution	2,271,987	40,590		2,312,577
General plant & administration	1,295,753		(23,351)	1,272,402
Total capital assets, being depreciated	<u>7,063,520</u>	<u>40,590</u>	<u>(23,351)</u>	<u>7,080,759</u>
Less accumulated depreciation:	<u>(1,452,902)</u>	<u>(219,899)</u>	<u>21,462</u>	<u>(1,651,339)</u>
Total capital assets, being depreciated, net	<u>5,610,618</u>	<u>(179,309)</u>	<u>(1,889)</u>	<u>5,429,420</u>
Total capital assets, net	<u>\$ 5,619,123</u>	<u>\$ (148,138)</u>	<u>\$ (1,889)</u>	<u>\$ 5,469,096</u>

Note 4: Long-Term Liabilities

The following is a summary of changes in the business-type activities long-term liabilities for the fiscal year ended June 30, 2017:

	Balance 7/1/2016	Additions	Retirements	Balance 6/30/2017	Due Within One Year
Compensated absences	\$ 51,040	\$ 26,914	\$ (24,994)	\$ 52,960	\$ 12,497
Net pension liability	440,960	146,907		587,867	
Certificates of participation	5,155,000		(100,000)	5,055,000	105,000
Total	<u>\$ 5,497,308</u>	<u>\$ 173,821</u>	<u>\$ (124,994)</u>	<u>\$ 5,695,827</u>	<u>\$ 117,497</u>

Business-type activities long-term obligations consisted of the following:

Compensated Absences

District employees accumulate earned but unused vacation benefits that can be converted to cash at termination or retirement from employment. For employees hired prior to January 1, 2005, there is no limit on the amount of accrued vacation benefits that can be carried over each year. For employees hired after January 1, 2005 the vacation cap is 50 days.

**DEL PASO MANOR WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

Note 4: Long-Term Liabilities (Continued)

Revenue Certificates of Participation

The Del Paso Manor Water District issued \$5,615,000 in revenue certificates of participation on August 5, 2012 to provide funds for the construction of various water system improvements (Phase I Improvement Project), to fund a Reserve Fund for the Certificates and to pay costs of executing and delivering the Certificates.

The payment of the installment payments is secured by a pledge of the net revenues of the district's water system as provided in the installment purchase contract. The interest rates vary from 3% to 5.5%. The original issue discount, cost of issuance and underwriters discount totaling \$236,935 are being amortized over the life of the loan.

Future annual requirements to amortize the long-term debt outstanding as of June 30, 2017 are as follows:

Fiscal Year Ending	Principal	Interest	Total
June 30,			
2018	\$ 105,000	\$ 264,875	\$ 371,463
2019	110,000	260,975	368,337
2020	110,000	256,712	366,712
2021	115,000	252,213	367,213
2022	120,000	246,762	366,762
2023-2027	720,000	1,127,500	1,847,500
2028-2032	930,000	911,470	1,841,470
2033-2037	1,230,000	620,773	1,850,773
2038-2042	1,615,000	231,689	1,846,689
Totals	<u>\$ 5,055,000</u>	<u>\$ 4,172,969</u>	<u>\$ 9,226,919</u>

Note 5: Defined Benefit Pension Cost-Sharing Employer Plan

**A. General Information about the Pension Plans**

**Plan Descriptions** – All qualified permanent and probationary employees are eligible to participate in the District's separate Safety (police and fire) and Miscellaneous (all other) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**Benefits Provided** – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit.

**DEL PASO MANOR WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

Note 5: Defined Benefit Pension Cost-Sharing Employer Plan (Continued)

The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<b>Miscellaneous</b>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.0% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-55	52 - 67
Monthly benefits, as a % of eligible	1.5% to 2%	1.0% to 2%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	9.05%	6.25%

**Contributions** – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017, the contributions recognized as part of pension expense for each Plan were as follows:

Contributions-employer	\$	51,598
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***B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions***

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	<b>Proportionate share of Net pension liability</b>
Miscellaneous Plan	\$ 587,867

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability the Plans are measured as of June 30, 2016 and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial

**DEL PASO MANOR WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

Note 5: Defined Benefit Pension Cost-Sharing Employer Plan (Continued):

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 plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability as of June 30, 2015 and 2016 was as follows:

Proportion - June 30, 2015	0.01607%
Proportion - June 30, 2016	0.01692%
Change - Increase (Decrease)	0.00085%

For the year ended June 30, 2017, the District recognized pension expense of \$47,669. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,581	\$ -
Changes of assumptions		(19,404)
Net difference between projected and actual earnings on pension plan investments	100,990	
Changes in proportion and differences between District contributions and proportionate share of contributions	9,889	(33,326)
District contributions subsequent to the measurement date	51,598	
Total	<u>\$ 164,058</u>	<u>\$ (52,730)</u>

\$51,598 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, 2018.

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

<b>Measurement Period</b>	
<u>Ended June 30:</u>	
2018	\$ (12,417)
2019	152
2020	45,837
2021	26,158
2022	
Thereafter	

**DEL PASO MANOR WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

Note 5: Defined Benefit Pension Cost-Sharing Employer Plan (Continued):

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

	<b>Miscellaneous</b>
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%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of a 2010 actuarial experience study for the period 1997 to 2007. Further details of the Experience Study can found on the CalPERS website.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.65% for each Plan. 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 result 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 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from 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 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology.

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, CalPERS 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 the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years)

**DEL PASO MANOR WATER DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017**

Note 5: Defined Benefit Pension Cost-Sharing Employer Plan (Continued):

and the long-term (11-60 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.

The table below reflects the 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 rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10 (1)</u>	<u>Real Return Years 11+ (2)</u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19%	0.99%	2.43
Inflation Sensitive	6%	0.45%	3.36
Private Equity	10%	6.83%	6.95
Real Estate	10%	4.50%	5.13
Infrastructure and Forestland	2%	4.50%	5.09
Liquidity	2%	-0.55%	(1.05)

(1) An expected inflation of 2.5% used for this period

(2) An expected inflation of 3.0% used for this period

***Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** – The following presents the District’s proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Discount Rate -1%</u> <u>(6.65%)</u>	<u>Current Discount</u> <u>Rate (7.65%)</u>	<u>Discount Rate +1%</u> <u>(8.65%)</u>
Miscellaneous	\$ 915,881	\$ 587,867	\$ 316,779

Note 6: Post-Retirement Health Benefits

On June 1, 2005 the Board of Directors passed a resolution to establish health benefit vesting requirements for future retirees under public employees’ medical and hospital care act, whereas an employee who is with Del Paso Manor Water District for 5 years or longer and who has met other vesting requirements as defined by Government Code 20079, shall receive up to a maximum 100% of the health benefit for the employee premium plus 90% of the additional premium required for enrollment of family members in selected plans. The total District expense on the pay as you go basis for postretirement health benefits in the 2016-17 fiscal year was \$7,742. As of June 30, 2017, one retired employee was receiving postretirement health benefits.

***Plan Description.*** Del Paso Manor’s (DPM) Post-Retirement Healthcare Plan is a single employer defined benefit healthcare plan administered by CalPERS. CalPERS provides medical insurance benefits only to eligible retirees and their eligible dependents. The District approved post-retirement health

**DEL PASO MANOR WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

Note 6: Post-Retirement Health Care Benefits (Continued)

insurance benefits for all of its employees based on employees as of March, 2008 under the Public Employees' Medical and Hospital Care Act (PEMHCA). The retiree benefits for employees hired prior to August 1, 2005 are entitled to receive the same benefits as active employees noted above. Those hired after August 1, 2005 are entitled to receive medical only lifetime benefits with required service of 20 year and the plan paying 50% of premiums after 10 years of service and an additional 5% for each additional year of service with a maximum district contribution of 100%. The minimum age for receiving benefits is 50 and there is no District cap. The plan also provides coverage for dependents. For employees who are eligible to participate in the plan the District will contribute the health benefit cost for the retiree and family members up to 100% of the greater of the CalPERS family rate for PERS Choice or the CalPERS family rate for the highest cost HMO. A retiree with less than the required years of service with the District will receive no benefit, unless they have previous employment qualifying them for CalPERS retirement, in which case they are eligible to receive the CalPERS minimum at the time of retirement. The CalPERS minimum is set by law. The retiree is on the same medical plan as the District's active employees, however monthly rates for coverage of covered active and retired employees are computed separately.

*Funding Policy.* The contribution requirement of plan members is established by the District's Board of Directors. As of June 30, 2017 the District's Board of Directors established a funding policy and agreed to prefund the post-retirement health benefit with CalPERS CERBT. The 2016-17 fiscal year actuarial determined contribution was calculated on amortized funding over a 30 year period using entry age normal cost. For the fiscal year ending June 30, 2017 the District contributed \$7,054 to towards the unfunded actuarial accrued liability (UAAL) and \$16,058 towards the normal cost. The District made the net contribution for fiscal year end June 30, 2017 directly to health insurance providers totaling \$7,742. Plan members receiving benefits contributed \$0 of the total premiums.

*Annual OPEB Cost and Net OPEB Obligation.* The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty 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 Healthcare Plan:

Premium payment made to plan provider	\$ (7,742)
Net contribution to OPEB trust	(23,112)
Distributions from OPEB trust	7,742
ARC for current fiscal year	23,112
Increase in net OPEB obligation (asset)	-
Net OPEB obligation (asset) - beginning of year	(426)
Net OPEB obligation (asset) - end of year	<u>\$ (426)</u>

**DEL PASO MANOR WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

Note 6: Post-Retirement Health Care Benefits (Continued)

The following is the three year disclosure of the District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation at the end of the fiscal years:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage Annual OPEB Cost Contributed</u>	<u>Net OPEB (Obligation) Asset</u>
June 30, 2015	\$ 15,486	100%	\$ 426
June 30, 2016	22,493	100%	426
June 30, 2017	23,112	100%	426

*Funded Status and Funding Progress.* As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability (AAL) was \$483,514 and the residual unfunded actuarial accrued liability (UAAL) for benefits was \$105,719. As of June 30, 2017, the District’s annual required contribution was fully funded. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress indicates whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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. In the July 1, 2015, actuarial valuation, the entry age normal cost asset valuation method is used. The actuarial assumptions include an investment/discount rate of 7% based on building block method as described in ASOP 27 Paragraph 3.6.2.. The valuation assumes that 100% of all eligible retirees will actually participate in the retiree medical benefit. The annual healthcare premiums will increase an average of 4% per year. The OPEB plan does not issue a standalone report.

Note 8: Revenue Limitations Imposed by California Proposition 218

Proposition 218, which was approved by the voters in November 1996, regulates the District’s ability to impose, increase, and extend taxes and assessments. Any new increase or extended taxes and assessments subject to the provisions of Proposition 218, requires voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes and assessments are subject to voter initiative and may be rescinded in the future years by the voters.

Note 9: Economic Dependency

The District serves one customer, with seven accounts, that provided the District with \$99,994 in operating revenue during the 2016-17 fiscal year. The amount of revenue generated by this one customer represents approximately 7.20% of total operating revenue. In the event of losing this customer the District could have insufficient resources to pay all of its obligations.



**DEL PASO MANOR WATER DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

Note 10: Commitments and Contingent Liabilities

**Contingent Liabilities**

In the normal course of business, the District is subject to various lawsuits. Defense of lawsuits is typically handled by the District's insurance carrier and losses, if any, are expected to be covered by insurance.

**Commitments**

The District had open construction contracts and engineering professional service commitments as of June 30, 2017.

**DEL PASO MANOR WATER DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PLAN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
JUNE 30, 2017**

<u>Actuarial Valuation Date</u>	District's proportion of the net pension liability (asset)	District's proportionate share of the net pension liability (asset)	District's covered-employee payroll	District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
<u>CalPERS-Miscellaneous Plan</u>					
6/30/2014	0.01719%	\$420,396	\$283,523	148.28%	82.11%
6/30/2015	0.01607%	\$440,960	\$305,920	144.14%	84.93%
6/30/2016	0.01692%	\$587,867	\$317,245	185.30%	81.02%

\* The amounts presented for each fiscal year were determined as of the fiscal year-end

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is presented.

**DEL PASO MANOR WATER DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT CONTRIBUTIONS LIABILITY  
JUNE 30, 2017**

<u>Actuarial Valuation Date</u>	<u>Contractually required contribution</u>	<u>Contributions in relation to the contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered employee payroll</u>	<u>Contribution as a percentage of covered-employee payroll</u>
<u>CalPERS-Miscellaneous Plan</u>					
6/30/2014	\$34,573	(\$34,573)	\$0	\$283,523	12.19%
6/30/2015	\$45,607	(\$45,607)	\$0	\$305,920	14.91%
6/30/2016	\$51,598	(\$51,598)	\$0	\$317,245	16.26%

\* The amounts presented for each fiscal year were determined as of the fiscal year-end

The schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, only information for those years for which information is available is presented.

**DEL PASO MANOR WATER DISTRICT**  
**COMBINING STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

<u>Assets</u>	Operating Fund	Maintenance Fund	Total
Current Assets			
Cash	\$ 658,786	\$ -	\$ 658,786
Investments	635,805		635,805
Accounts receivable*	79,402	50,222	129,624
Interest receivable	1,464		1,464
Prepaid expense	21,683		21,683
Due from other fund		763,277	763,277
Restricted cash	610,078		610,078
Total current assets	<u>2,007,218</u>	<u>813,499</u>	<u>2,820,717</u>
Noncurrent Assets:			
Capital assets:			
Nondepreciable capital assets:			
Land	8,505		8,505
Construction in progress	31,171		31,171
Depreciable capital assets:			
Source of supply	2,459,603		2,459,603
Pumping equipment	1,036,177		1,036,177
Transmission and distribution	2,312,578		2,312,578
General	1,272,402		1,272,402
Less accumulated depreciation	(1,651,339)		(1,651,339)
Total depreciable capital assets	<u>5,429,421</u>		<u>5,429,421</u>
Total capital assets (net of accumulated depreciation)	<u>5,469,097</u>		<u>5,469,097</u>
Total noncurrent assets	<u>5,469,097</u>		<u>5,469,097</u>
Total assets	<u>7,476,315</u>	<u>813,499</u>	<u>8,289,814</u>
Deferred Outflow of Resources:			
Deferred outflow-pension	164,057		164,057
Total deferred outflows of resources	<u>164,057</u>		<u>164,057</u>
Total assets and deferred outflow of resources	<u>\$ 7,640,372</u>	<u>\$ 813,499</u>	<u>\$ 8,453,871</u>
<b>Liabilities Deferred Inflows of Resources and Net Position:</b>			
Current Liabilities:			
Accounts payable	\$ 16,789	\$ -	\$ 16,789
Customer advance payments*	11,100	11,100	22,200
Due to other fund	763,277		763,277
Accrued interest	133,356		133,356
Total current liabilities	<u>924,522</u>	<u>11,100</u>	<u>935,622</u>
Noncurrent Liabilities:			
Due within one year	117,497		117,497
Due in more than one year	5,578,330		5,578,330
Total long-term liabilities	<u>5,695,827</u>		<u>5,695,827</u>
Total liabilities	<u>6,620,349</u>	<u>11,100</u>	<u>6,631,449</u>
Deferred Inflows of Resources			
Deferred inflow-pension	52,729		52,729
Total deferred inflows of resources	<u>52,729</u>		<u>52,729</u>
Net Position			
Net investment in capital assets	414,097		414,097
Restricted for debt service	610,078		610,078
Unrestricted	(56,881)	802,399	745,518
Total net position	<u>967,294</u>	<u>802,399</u>	<u>1,769,693</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 7,640,372</u>	<u>\$ 813,499</u>	<u>\$ 8,453,871</u>

\* Maintenance fund based on estimated 50% of base charge receivables/advances

**DEL PASO MANOR WATER DISTRICT**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Operating Fund	Maintenance Fund	Total
Operating revenue			
Water sales	\$ 795,272	\$ -	\$ 795,272
Planned water system maintenance charges	-	594,715	594,715
Total operating revenues	795,272	594,715	1,389,987
Operating expenses			
Source of supply			
Water purchases	5,332		5,332
Pumping	98,273		98,273
Water treatment	5,250		5,250
Transmission and distribution	297,616		297,616
Administration and general	589,925		589,925
Depreciation	219,899		219,899
Total operating expenses	1,216,295	-	1,216,295
Operating income (loss)	(421,023)	594,715	173,692
Nonoperating revenue (expenses)			
Interest income	4,762		4,762
Gain on sale of assets	1,111		1,111
Interest expense	(266,713)		(266,713)
Nonoperating revenues (expenses)	(260,840)	-	(260,840)
Net income before operating transfers	(681,863)	594,715	(87,148)
Transfers in (1)	438,473		438,473
Transfers out (1)		(438,473)	(438,473)
Total operating transfers	438,473	(438,473)	-
Increase (Decrease) in net position	(243,390)	156,242	(87,148)
Net position, July 1 as restated	1,210,684	646,157	1,856,841
Net position, June 30	\$ 967,294	\$ 802,399	\$ 1,769,693

(1) Transfer \$366,712 for debt service and \$71,761 for PSM capital expense. Does not include salary expense.

**DEL PASO MANOR WATER DISTRICT**  
**COMBINING STATEMENT OF CASH FLOWS**  
**JUNE 30, 2017**

	Operating Fund	Maintenance Fund	Total
Cash flows from operating activities:			
Cash receipts from customers	\$ 782,774	\$ 594,715	\$ 1,377,489
Cash payments to suppliers for goods and services	(468,821)		(468,821)
Cash payments to employees for services	(540,639)		(540,639)
Net cash provided by operating activities	(226,686)	594,715	368,029
Cash flows from capital and related financing activities:			
Principal payment for debt	(100,000)		(100,000)
Interest paid on debt	(268,338)		(268,338)
Sale of assets	3,000		3,000
Operating transfers in (out)	438,473	(438,473)	-
Intergovernmental receivables/payables	156,242	(156,242)	-
Additions to capital assets	(71,761)		(71,761)
Net cash used by capital and related financing activities	157,616	(594,715)	(437,099)
Cash flows from investing activities:			
Interest received on investments	4,155		4,155
Net decrease in cash and cash equivalents	(64,915)		(64,915)
Cash and cash equivalents, beginning of year	1,969,584		1,969,584
Cash and cash equivalents, end of year	\$ 1,904,669	\$ -	\$ 1,904,669
<b>Reconciliation of cash and cash equivalents to the balance sheet:</b>			
Cash	\$ 658,786	\$ -	
Investments	635,805		
Restrict cash	610,078		
<b>Cash and cash equivalents, June 30</b>	<b>\$ 1,904,669</b>	<b>\$ -</b>	
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating Income (Loss)	\$ (421,023)	\$ 594,715	\$ 173,692
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	219,899		219,899
Changes in assets and liabilities:			
Accounts receivable	(34,698)		(34,698)
Prepaid expenses	(4,053)		(4,053)
Accounts payables	(7,002)		(7,002)
Customer deposits	22,200		22,200
GASB 68-pension adjustments	(3,929)		(3,929)
Compensated absences	1,920		1,920
Net Cash Provided By Operating Activities	\$ (226,686)	\$ 594,715	\$ 368,029

# LARRY BAIN, CPA

An Accounting Corporation

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## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Board of Directors,

We have audited the financial statements of the Del Paso Manor Water District as of and for the fiscal year ended June 30, 2017, and have issued our report thereon dated November 23, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or 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. We consider findings 17-1 in the schedule of findings following this report to be a significant deficiency in the District's internal control.

### **Del Paso Manor Water District's Response to Findings**

The Del Paso Manor Water District's separate written response to the significant deficiencies identified in our audit and any follow up for subsequent year corrections has not been subjected to the audit procedures applied in the audit of the financial statements and accordingly, we do not express an opinion on the responses.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal controls over financial reporting and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America in considering the District's internal control over financial reporting accordingly this report is not suitable for any other purpose.

This communication is intended solely for the information and use of the Board of Directors, management, the Sacramento County Auditor Controller's Office and the Controller's Office of the State of California and is not intended to be and should not be used by anyone other than these specified parties.

Larry Bain, CPA  
An Accounting Corporation  
November 23, 2017



**DEL PASO MANOR WATER DISTRICT**  
**SCHEDULE OF FINDINGS**  
**FOR THE FISCAL YEAR EDED JUNE 30, 2017**

**FS 17-1: Segregation of Duties**

We noted, due to the small size of the District and limited number of personnel involved in the accounting function, the District had a lack of segregation of duties, as one person is capable of handling all aspects of processing transactions from beginning to end. A lack of segregation of duties increases the risk of potential errors or irregularities; however, due to a limited number of personnel an adequate segregation of duties is not possible without incurring additional costs. We have also noted this comment in previous audits.