RIO ALTO WATER DISTRICT

BASIC FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2017

RIO ALTO WATER DISTRICT

Audited Basic Financial Statements
For the Year Ended June 30, 2017

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Independent Auditor's Report on Basic Financial Statements

The Honorable Board of Directors of the
Rio Alto Water District
Cottonwood, California

Report on the Financial Statements

We have audited the accompanying financial statements of Rio Alto 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 basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rio Alto Water District as of June 30, 2017, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the information presented in the required supplementary information section, referred to in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which may have 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.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Other Supplemental Information described in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. This opinion does not address whether the internal asset/liability reported between the water and sewer activities is fairly stated, because this internal asset/liability is eliminated in preparing the basic financial statements of the District as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, 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.

Collins Accountancy Company
Lincoln, California
May 15, 2018

RIO ALTO WATER DISTRICT

Statement of Net Position
June 30, 2017

Assets:	
Current Assets:	
Cash	$ 649,884
Accounts receivable	187,164
Less allowance for doubtful accounts	(2,550)
Grant receivable	--
Prepaid Expenses	11,672
Inventory	13,881
Total Current Assets	860,051
Non-current Assets:	
Investments designated for capital asset acquisition and retirement of OPEB liability	418,513
Restricted cash	1,223,105
Delinquent accounts receivable	128,537
Delinquent taxes receivable	109,790
Capital assets, non-depreciable	463,183
Capital assets, depreciable, net of accumulated depreciation	8,454,910
Total Non-current Assets	10,798,038
Total Assets	11,658,089
Deferred Outflows of Resources	
Deferred outflows related to pensions	282,045
Total Assets and Deferred Outflows of Resources	$ 11,940,134
Liabilities:	
Current Liabilities	
Accounts payable	$ 12,810
Interest payable	73,415
Long-term liabilities due within one year	140,015
Total Current Liabilities	226,240
Non-current Liabilities	
Long-term liabilities due beyond one year	7,095,673
Total Non-current Liabilities	7,095,673
Total Liabilities	7,321,913
Deferred Inflows of Resources	
Deferred inflows related to pensions	51,891
Net Position:	
Net investment in capital assets	2,849,683
Restricted	
for project construction, debt service, or debt reserve	1,095,908
for capacity expansion	154,554
Unrestricted	466,185
Total Net Position	4,566,330
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 11,940,134

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

RIO ALTO WATER DISTRICT

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

Operating Revenues:	
Utility services	$ 1,024,184
Hydrant charges	31,414
Other charges	29,003
Total Operating Revenues	1,084,601
Operating Expenses:	
Payroll	463,409
Payroll benefits	347,507
Utilities	145,037
Tools and supplies	45,394
Contracted services	11,300
Maintenance	33,770
Insurance	29,526
Directors' fees	7,440
Office expense	14,375
Legal and audit	11,925
Election expense	2,454
Regulatory fees	33,520
Wastewater permit testing	14,531
Other expense	20,509
Depreciation	320,169
Total Operating Expenses	1,500,866
Operating Income (Loss)	(416,265)
Non-Operating Revenues and Expenses:	
Grant revenue	18,489
Special Community Facilities District Tax	341,040
Property taxes	162,315
Connection and capacity expansion fees	95,562
Penalties from Tehama County	3,126
Lease income	16,800
Interest income	23,096
Interest expense	(157,989)
Loss on disposal of assets	- -
Consultants for non-operating activities	(17,977)
Total Non-operating Revenues and Expenses	484,462
Change in Net Position	68,197
Net Position - Beginning	4,498,133
Net Position - Ending	$ 4,566,330

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

RIO ALTO WATER DISTRICT

Statement of Cash Flows
For the Year Ended June 30, 2017

Cash Flows From Operating Activities:	
Cash received from customers	$ 1,007,552
Cash received from others	29,003
Cash payments to suppliers for goods and services	(374,510)
Cash payments to employees for services	(461,309)
Cash payments for payroll taxes and employee benefits	(336,893)
Net Cash Provided (Used) by Operating Activities	(136,157)
Cash Flows from Non-Capital Financing Activities:	
Cash received from ad valorem property taxes	162,315
Cash received from property tax penalties	3,126
Net Cash Provided (Used) by Non-Capital Financing Activities	165,441
Cash Flows from Capital and Related Financing Activities:	
Cash received from connection charges	95,562
Cash received from special taxes for sewer project	324,683
Capital grants received	49,442
Retirement of capital-related debt	(124,632)
Interest paid on capital debt	(157,218)
Cash paid for suppliers for non-operating activities	(17,939)
Cash paid for acquisition of capital assets	(108,242)
Net Cash Provided (Used) by Capital and Related Financing Activities	61,656
Cash Flows from Investing Activities:	
Lease payments received for use of property	16,800
Interest on Investments	23,096
Net Cash Provided (Used) by Investing Activities	39,896
Net Increase (Decrease) in Cash and Cash Equivalents	130,836
Cash and Cash Equivalents - Beginning of Year	2,160,666
Cash and Cash Equivalents - End of Year	$ 2,291,502

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

RIO ALTO WATER DISTRICT

Statement of Cash Flows
For the Year Ended June 30, 2017

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating loss	$ (416,265)
Adjustment to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	320,169
Change in allowance for doubtful accounts	(2,726)
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(37,825)
(Increase) decrease in prepaid expenses	(1,886)
(Increase) decrease in delinquent accounts receivable	(7,495)
(Increase) decrease in inventory	518
Increase (decrease) in other post-employment benefits (OPEB) liability	(2,703)
Increase (decrease) in accounts payable, accrued expenses and other current liabilities	(3,361)
Increase (decrease) in accrued compensated absences	2,100
Change in net pension liability and deferred outflows and inflows related to pensions	13,317
Net Cash Provided (Used) by Operating Activities	$ (136,157)
Cash and Cash Equivalents:	
Financial Statement Classification:	
Cash	$ 649,884
Investments designated for capital asset acquisition and retirement of OPEB liability	418,513
Restricted cash	1,223,105
Total Cash and Cash Equivalents - Reported on Balance Sheet	$ 2,291,502

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Description of Reporting Entity

The Rio Alto Water District (the "District"), a special district of the State of California, was organized to provide water to the residents of the Lake California area in Cottonwood, California. Shortly after its formation, the voters of the District approved a measure allowing the district to also engage in the collection, transmission, treatment, and disposal of wastewater generated within the District boundaries. The financial statements of the District include the financial activities of the Rio Alto Water District and Community Facilities District No. 2011-1.

On January 11, 2012, the Board of Directors adopted Resolution 02-12 forming Community Facilities District No. 2011-1 for the purpose of funding necessary improvements to the wastewater treatment plant and to create a wetland in order to comply with the terms of the NPDES permit from the Regional Water Quality Control Board Central Valley Region. On April 17, 2012 the voters within the boundaries of the Community Services District No. 2011-1 approved Measure A levying a special tax on landowners within the District.

Rio Alto Water District was created under the State of California Water Code on December 30, 1968. The District's primary source of revenues are from charges to residential customers for sewer and water services primarily in the District's boundaries which encompass approximately 6,000 acres located in Northern Tehama County, California. The District's share in the Tehama County ad valorem tax for special districts, which is determined by the Tehama County Auditor based on State law. As well, the District receives interest income from investments.

The governing body of the District is a Board of Directors consisting of five members elected for four year terms. Management of the District is the responsibility of the General Manager as appointed by the Board of Directors. No legally separate entities meet the criteria specified in GASB 61 for treatment as component units of the District. Community Facilities District 2011-1 is not considered a separate legal entity as it does not have its own governing board, all decisions are made for it by the Board of Directors of Rio Alto Water District, and all property is owned by Rio Alto Water District. Its financial results are reported as part of the District. However, the

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the USDA Bond obligation is payable solely from the Community Facilities District special taxes and the assets pledged, and is not a general obligation of the District. More information on the District's debt can be found in Note 4. No separate financial statements are issued for Community Facilities District No. 2011-1.

(B) Basis of Presentation.

The accounts of the District are organized and operated on a fund basis. Each fund contains a separate, self-balancing set of accounts to account for its operations.

All activities of the District are accounted for within proprietary (enterprise) funds. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

(C) Basis of Accounting.

Proprietary funds are accounted for on a flow of economic resources measurement focus, which requires use of the accrual basis of accounting. On this basis, all assets and liabilities associated with operations are included on the statement of net position, revenues are recognized when earned, and expenses are recorded at the time the liabilities are incurred, regardless of the timing of the related cash flows.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The District's principal ongoing operations provide water and sewer services to residential customers. Accordingly, the principal operating revenues of the District are charges to residential customers for water and sewer and closely related services. Operating expenses include the costs of sales and services,

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

transmission and distribution, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting the definition of *operating* revenues or expenses above are reported as *non-operating* revenues and expenses. Revenues from property taxes, connection fees, penalties from Tehama County, capacity expansion fees, and interest income are considered non-operating revenues.

The proprietary funds are presented in accordance with the hierarchy of generally accepted accounting principles for state and local governments, as described in GASB Statement 76.

For purposes of the Statements of Cash Flows, the District defines cash and cash equivalents as bank account balances available on demand, cash on hand, and investment account balances that can be easily converted to cash within seven calendar days (such as the Local Agency Investment Fund). Cash flows from operating activities are presented using the direct method. All investments are reported at fair value, which is either the market price or amortized cost.

***Statement of Net Position* –** The statement of net position is designed to report the financial position of the District at the balance sheet date. The District's fund equity (net position) shown on this statement is separated into three categories defined as follows:

- ***Net Investment in Capital Assets* –** This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets. This category of net position is considered non-expendable.

- ***Restricted*** – This component of net position consists of net position that is subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments. It includes net position constrained by law, constitutional provisions or enabling legislation.

- ***Unrestricted*** – This component of net position consists of net position that does not meet the definition of "restricted" or "net investment in capital assets." The District's Board of Directors may designate portions of unrestricted net position for particular purposes.

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of Revenues, Expenses, and Changes in Net Position – The statement of revenues, expenses and changes in net position presents the results of operations of the proprietary funds for the current period. Revenues are reported by major source. Operating revenues and expenses are presented separately from non-operating items and an operating income subtotal is presented prior to adjustment for non-operating items.

(D) Revenue Policies – Utility Fees.

The District's principal sources of revenue are from water sales, water connection fees, sewer charges for collection, transmission, treatment and disposal of wastewater, and charges for the availability of utility services that are paid by owners of undeveloped lots. Water rates are established by the Board, but may only be increased in accordance with California's Proposition 218, which requires that notices of any proposed fee increases be mailed to all property owners, that a public hearing be held, and that the fee increase may not be implemented if written objections are received from a majority of property owners. However, the District's authority to set water rates is not subject to the oversight or approval of the California Public Utilities Commission or another regulatory agency. The District recognizes revenue for these charges when they are earned through the provision of services or the passage of time. In compliance with Prop 218, the District held a public hearing on May 19, 2016 and in the absence of a majority written protest, approved an increase to water rates, staged in over the subsequent five fiscal years, in response to rate study prepared by Bartle Wells Associates.

(E) Revenue Policies – Connection and Capacity Expansion Fees.

The District charges a Connection fee, and, for customers located in certain areas, a capacity expansion fee, for connecting to the District for the first time. The fee varies depending on the location of the new connection and whether the customer is connecting to both the water and sewer systems or the water system only. As these fees are intended primarily to finance capital costs, they are classified as non-operating revenue. The District recognizes revenue at the time the application is tendered for the new connection.

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(F) Delinquent Accounts and Taxes Receivable.

The District transfers delinquent accounts to the Tehama County Tax Collector once per year, and a majority of these accounts are eventually collected. The allowance for uncollectible accounts is increased annually to reflect 100% of the amounts due on water and sewer charges over 90 days delinquent, less the portion of this amount that has been transferred to the Tehama County Tax Collector for Collection. The portion of accounts receivable transferred to Tehama County for collection and delinquent special taxes receivable outstanding at year end are reflected as a noncurrent asset because the majority of these amount will not be collected within twelve months.

(G) Property Tax Revenue.

In accordance with Article XIII-A of the State Constitution, California property taxes are collected by the County Tax Collector, pooled, and then allocated to the local governments within the County. Property tax revenue is recognized when taxes are levied.

The property tax calendar is as follows:

Lien date:	January 1
Levy date:	July 1
Due date:	First installment – November 10
	Second installment – February 10
Delinquent date:	First installment – December 11
	Second installment – April 11

Under California law, property taxes are assessed and collected by the counties at up to 1% of assessed value, plus other increases approved by the voters. Property taxes collected are allocated to the District three times a year. The final distribution is made close to June 30 each year and reflects the property taxes collected from April 10 to approximately May 30.

The Board of Directors, acting as the Board of Community Facilities District 2011-1, levies a special tax each year up to $289 per equivalent dwelling unit to provide for the debt service on the debt incurred in connection with the sewer treatment plant improvement project. The taxes are collected by the Tehama County Tax Collector at the same time as the ad valorem taxes.

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(H) Designation of Investments for Capital Asset Acquisition and OPEB Liability Retirement.

Through the budgeting process, the District's Board of Directors has designated portions of its investment account balances for use in acquiring capital assets and retiring the District's OPEB liability. In accordance with GASB Statement 62, paragraph 31, the District considers these investment balances to be noncurrent assets, because their intended use is to acquire other noncurrent assets or to retire liabilities that are not due within one year.

(I) Inventories.

The District's inventories are valued at historical cost on a first-in, first-out basis. Expenditures are recorded when inventory items are used. The inventory consists of water meters and materials and supplies for maintenance of the District's water and sewer systems.

(J) Prepaid Expense.

The District's prepaid expense consists in all material respects of prepaid insurance.

(K) Capital Assets.

The District's capital assets include plant and equipment, which are recorded at historical cost. The original plant and improvements completed by the original developer of Lake California and three low pressure systems located outside the sewer district were contributed to the District and were recorded at their fair market value.

New developments of residential lots are accepted only when the construction of the utilities meet the standards set by the District and are capitalized at a cost approved by the district's engineers.

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The District's policy is to capitalize all assets with a useful life of more than a year which cost in excess of $1,000. The District uses the straight-line method of computing depreciation. Estimated useful lives of the District's assets are determined based on the length of time the asset class is expected to provide service to the District and are as follows:

Water Plant	60 years
Sewer Treatment Plant, including the low pressure sewer systems	50 years
Buildings	35 years
Equipment	5 to 10 years

Maintenance and repairs are expensed as incurred. Significant renewals or betterments are capitalized and depreciated over their estimated useful lives. Costs incurred prior to completion for major improvements or construction of capital assets are accumulated in construction in progress. Once they are ready for use, assets previously recorded in construction in progress are transferred to the appropriate capital asset category.

(L) Loan Payable

The District records outstanding obligations for loans payable at the time funds are disbursed by the lender to the District or for its benefit. In accordance with GASB 62, the District classifies the portion of loans payable due within one year from the balance sheet date as a current liability.

(M) Compensated Absences

The District's employees earn vacation in varying amounts depending on length of service. Employees also earn sick leave at the rate of one day to 1 - 5/12 days per month depending on job category. There is no maximum accrual of sick leave except that the General Manager cannot accrue sick leave in excess of 90 days. Vacation can be accumulated to a total of between 20 to 50 days depending upon length of service and job category. Employees and the General Manager are allowed to take payment in lieu of vacation up to one-half of an employee's yearly accrual each fiscal year. Upon separation from the District, employees are entitled to full payment for accrued vacation but not for sick leave. The District records its obligations for vacation when

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

earned by the employees based on current rates of pay at the time. The division of the compensated absences liability to current and long-term portions was based on experience.

(N) Restricted and Unrestricted Resources.

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, and then unrestricted resources as needed.

(O) Net Pension Liability and Deferred Outflows and Inflows Related to 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.

(P) Use of Estimates.

The preparation of basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

(Q) Effect of New Pronouncements

Beginning with its June 30, 2018 financial statements, the District will be required to measure its other post-employment benefits (OPEB) liability using the present value of projected benefits attributable to employee service performed as of the date of the financial statements, less an allowance for the plan assets available to finance those benefits. This is in contrast to the current guidance provided by GASB Statement 45, under which the District measures its OPEB liability based on the cumulative difference between the actuarially required annual contributions and the actual contributions made. The District anticipates a significant increase in long-term liabilities due to implementation of this standard.

Note 2. CASH AND INVESTMENTS

Cash and investments as of June 30, 2017 are reported in the accompanying financial statements in the classifications set forth below.

	June 30, 2017		
	Unrestricted	Restricted	Total
Cash:			
Cash on hand and in checking accounts	$ 90,823	$ 203,197	$ 294,020
Investments:			
Cash in interest bearing "LAIF" account	977,574	1,019,908	1,997,482
Total	$ 1,068,397	$ 1,223,105	$ 2,291,502

(A) Deposits.

At June 30, 2017, the recorded amount of the District's deposits is shown above. This bank balance is partially covered by the Federal Deposit Insurance Corporation (FDIC), which has a limit of $250,000. Amounts in excess of $250,000 are covered by the multiple financial institution collateral pool that insures public deposits in the State of California.

Various amounts of restricted cash are restricted for debt service, project construction, and capacity expansion.

(B) Investments.

Local Agency Investment Fund. The District maintains an investment in the State of California Local Agency Investment Fund (LAIF). LAIF is part of the Pooled Money Investment Account (PMIA), an investment pool consisting of funds held by the state in addition to those deposited in LAIF. All PMIA funds are managed by the Investment Division of the State Treasurer's Office. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California Government Code. Participants in the pool include voluntary and involuntary participants, such as special districts and school districts for which there are legal provisions regarding their investments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. LAIF is not rated by any major investment rating agency.

Note 2. CASH AND INVESTMENTS (continued)

At June 30, 2017, the District's investment position in LAIF was $1,997,482, which approximates fair value and is the same as value of the pool shares which is determined on an amortized cost basis. LAIF is the only investment reported on an amortized cost basis because the amount available for withdrawal is determined on this basis. The total amount invested by all public agencies in PMIA on that day was $77.5 billion. Of that amount, 2.25% is invested in structured notes and medium-term, asset-backed securities, and 0.64% is invested in short-term, asset-backed commercial paper, with the remaining 97.11% invested in other non-derivative financial products.

Under the California Government Code, the District may only invest its funds in the following investment types:

Investment	Maximum % of Portfolio
U.S. Treasury Obligations	None.
U.S. Agency Obligations	None.
State and Local Government Bonds	None.
Bankers' Acceptances	40%
Commercial Paper	25%
Negotiable Certificates of Deposit/CD Placement Service	30%
Repurchase Agreements	None.
Reverse Repurchase Agreements and Loans of Securities	20%
Medium-Term Notes	30%
Mutual Funds and Money Market Mutual Funds	20%
Collateralized Bank Deposits	None.
Mortgage Pass-Through Securities	20%
Bank Time Deposits	None.
County Pooled Investment Funds	None.
Joint Powers Authority Investment Pools	None.
Local Agency Investment Fund (LAIF)	None.
Supranational Obligations	30%

In addition, the District's Board of Directors must approve investments. At this time, the only investment approved by the Board is the California Local Agency Investment Fund. By limiting its investments to this fund managed in accordance with the California Government Code, the District minimizes its credit quality risk, custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Note 3. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017 is summarized below:

	Year ended June 30, 2016	Additions	Reductions	Transfer / Adjustment	Year ended June 30, 2017
Land	$ 463,183	$ -	$ -	$ -	$ 463,183
Water utility plant	2,914,064	20,478	-	-	2,934,542
Sewer utility plant	8,540,230	34,397	-	-	8,574,627
General plant/equipment	1,017,807	30,083	(23,554)	-	1,024,336
Software	-	21,750	-	-	21,750
TOTALS	12,935,284	106,708	(23,554)	-	13,018,438
Less accumulated depreciation	(3,803,730)	(320,169)	23,554	-	(4,100,345)
Total Capital Assets, Net	$ 9,131,554	$ (213,461)	$ -	$ -	$ 8,918,093

Note 4. LONG-TERM LIABILITIES

Long-term liabilities at June 30, 2017, consisted of the following:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Amounts Due Within One Year
Net pension obligation	$ 595,385	$ 358,886	$ (150,894)	$ 803,377	$ -
OPEB	341,573	82,355	(85,058)	338,870	-
SWRCB Installment Sale Agreement	1,214,897	48,145	(52,502)	1,210,540	53,500
USDA Bond	4,930,000	-	(72,130)	4,857,870	74,000
Compensated Absences	22,931	72,471	(70,371)	25,031	12,515
Total	$ 7,104,786	$ 561,857	$ (430,955)	$ 7,235,688	$ 140,015

Note 4. LONG-TERM LIABILITIES (continued)

On May 16, 2013, the California State Water Resources Control Board (SWRCB) executed a finance agreement with the District to provide up to $1,215,000 in debt financing from the State's Clean Water State Revolving Fund for the District's wastewater treatment plant improvement project. The proceeds of the financing are disbursed to the District only upon receipt of disbursement requests from the District that itemize project costs incurred. Annual installment payments on the debt are due to the SWRCB March 17 of each year, with annual interest accruing at the rate of 1.9%. Payments began March 17, 2017 and the final payment will be due March 17, 2036. The financing is structured as an installment sale agreement of the wastewater treatment plant improvement and constructed wetlands project. The agreement requires the District to maintain one year of debt service in a reserve fund for the entire term of the agreement. Special tax revenues levied for project purposes under the Community Facilities District are pledged for payment of this and any other debt related to the project and repayment is secured by a lien on these revenues. The District has covenanted to levy special taxes each year in a total amount of at least 1.1 times the total annual debt service. During the fiscal year ended June 30, 2017, the District's accrued interest for the construction period under the installment sale agreement was added to the final principal balance as noted in the "Additions" column in the table above. SWCRB reserves the right to require an audit of the District's disbursements reimbursed by the loan proceeds.

On August 15, 2014, the District issued a Special Tax Bond to the United States Department of Agriculture (USDA) to finance necessary improvements to the wastewater treatment plant and the constructed wetlands project. The total face amount of the bond is $5,000,000. The bond bears interest at the rate of 2.75%. The bond matures in annual installments and interest on the bond is payable in semi-annual installments over 40 years commencing on July 1, 2015. The bond is secured by a first lien and pledge of the special tax revenues levied by Community Facilities District 2011-1 for the project. USDA requires the District to set aside a reserve equal to the average annual debt service and a short-lived asset reserve to be funded with $15,730 annually. The bond is payable solely from the Community Facilities District 2011-1 special tax revenues and the assets pledged.

Note 4. LONG-TERM LIABILITIES (continued)

The below table represents estimated principal and interest payments to maturity on the USDA Special Tax Bond and the SWRCB Installment Sale Agreement.

Year Ending June 30,	Principal	Interest	Total
2018	127,500	155,574	283,074
2019	130,516	152,495	283,011
2020	133,552	149,342	282,894
2021	136,608	146,114	282,722
2022	140,683	142,797	283,480
2023-2027	754,278	661,236	1,415,514
2028-2032	849,403	564,987	1,414,390
2033-2037	880,000	456,265	1,336,265
2038-2042	674,000	355,557	1,029,557
2043-2047	771,000	256,406	1,027,406
2048-2052	883,000	142,831	1,025,831
2053-2057	587,870	24,439	612,309
Total	6,068,410	3,208,043	9,276,453

The District's total interest expense incurred is displayed as a non-operating expense on the Statement of Revenues, Expenses, and Changes in Net Position.

Note 5. RISK MANAGEMENT/INSURANCE JOINT VENTURE

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, natural disasters, delivery of water, and treatment and disposal of wastewater. These risks are addressed through the District's membership in the Association of California Water Agencies - Joint Powers Insurance Authority (JPIA). The purpose of the JPIA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance, or reinsurance, and to arrange for group-purchased insurance for property and other coverages. The JPIA's members have pooled funds in order to be self-insured for general liability, property, pollution liability and workers' compensation. Each Member district pays a premium commensurate with the level of coverage requested, and shares surpluses and deficit proportionate to their participation.

The District has had no settlements that exceeded its insurance coverage in any of the last three years. Complete audited financial statements of the JPIA can be obtained online at www.acwajpia.com.

Note 6. PENSION PLAN.

(A) Plan Description

The District contributes to the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined benefit pension plan. The District's plan is part of the "Miscellaneous 2% at 60 Risk Pool" within the CalPERS system. All full-time District employees who have been employed for over six months are eligible to participate in CalPERS. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employee's Retirement Law. The District selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through the approval of the District's Board of Directors. Benefits include a periodic pension payment upon retirement, as well as death and survivor benefits. Annual cost of living adjustments are included. Disability retirement is permitted subject to certain requirements. CalPERS makes reports available to the public that provide a detailed description of the pension plan's benefit provisions, actuarial assumptions, membership information, and fiduciary net position. These reports can be found on the CalPERS website at http://www.calpers.ca.gov/

Note 6. PENSION PLAN (continued)

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

	Miscellaneous	
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age (no disability)	50+	52+
Monthly benefits, as a % of eligible compensation	1.092% -2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	7.612% + $51,537	6.555% + $5

(B) Funding Policy

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 both 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 actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

Active plan members who were members prior to January 1, 2013 are required to contribute 7 percent of their annual covered salary by state statute; however, the District pays this 7 percent on behalf of employees as a fringe benefit negotiated in past years' pay packages. Active plan members whose membership began on or after January 1, 2013 are required to contribute 6.25%; for these members the District does not contribute the employee's 6.25% on his or her behalf and makes only the contribution required of the employer.

Note 6. PENSION PLAN (continued)

For the year ended June 30, 2017, the employer contributions recognized as deferred outflows of resources were $87,908.

(C) Annual Pension Cost and Net Pension Obligation

Beginning with the fiscal year ended June 30, 2015, the District's net pension liability for each Plan is measured as the proportionate share of the total net pension liability for all employers in the plan. The net pension liability of each of the Plans is 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 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 of the plan as of June 30, 2017 was approximately 0.0231262%.

For the year ended June 30, 2017, the District recognized pension expense of $125,119. 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 of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 87,908	$ --
Changes in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	53,963	25,374
Changes in assumptions	--	26,517
Difference between projected and actual experience	2,161	--
Net differences between projected and actual earnings on plan investments	138,013	--
Total	$ 282,045	$ 51,891

Note 6. PENSION PLAN (continued)

$87,908 is reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30		
2018		(17,029)
2019		(21,951)
2020		(67,518)
2021		(35,748)
2022		
Thereafter		

The total pension liabilities in the June 30, 2015 actuarial valuations that were used to determine the June 30, 2017 net pension liability shown in these financial statements were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry age normal cost method
Actuarial Assumptions	
Discount Rate	7.65%*
Investment Rate of Return	7.65% (includes inflation)**
Projected Salary Increases	Varies by Entry Age and Service
Inflation	2.75%
Mortality Rate Table	Based on CalPERS membership data for all funds***
Payroll Growth	3.00%
Post Retirement Benefit Increases	Cost of Living Adjustments per contract up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applied, 2.75% thereafter

*The **discount rate** used to measure the total pension liability was 7.65% for each Plan.

Note 6. PENSION PLAN (continued)

Expectations about future cash flows used in the development of the discount rate assume that both members and employers will make all required contributions on time and as scheduled in all future years. 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) and all periods of projected benefits. The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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) 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.

Note 6. PENSION PLAN (continued)

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 geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
Total	100.0%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

***The underlying **mortality assumptions** and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Note 6. PENSION PLAN (continued)

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 estimated amounts for 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:

Discount Rate	6.65%	7.65%	8.65%
Net Pension Liability	1,251,640	803,377	432,910

Note 7. OTHER POST-EMPLOYMENT BENEFITS.

(A) Plan Description

The District makes medical insurance coverage available to eligible retired employees and their dependents through a single-employer plan governed by the Public Employees' Medical & Hospital Care Act (PEMHCA) and administered by the District. Employees are generally eligible for this benefit after 20 years of service to the District. This benefit was provided to two retired District employees at June 30, 2017. Benefits are provided by the Association of California Water Agencies in exchange for premiums paid by the District. The plan does not issue a stand-alone report. The plan is offered per District policy and benefit provisions may be amended at the District's option.

(B) Funding Policy

During fiscal year 2013-2014, the District enrolled in a qualified OPEB trust and made a contribution with available funds into the OPEB trust in addition to making payments for current retiree benefits due (pay-as-you-go basis). Actual contributions to the plan are determined by District policy and may be changed at the election of the Board of Directors. The contributions were set during the budget process based on an analysis of funding priorities. No contribution is currently required of plan members.

Note 7. OTHER POST-EMPLOYMENT BENEFITS (continued)

(C) Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost 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 over a period not to exceed 30 years.

The District's annual OPEB cost for the current and preceding two fiscal years and net OPEB obligation as of June 30, 2017, 2016, and 2015 is presented below.

	2016-2017	2015-2016	2014-2015
Annual required contribution	63,568	$ 63,569	$ 93,551
Interest on OPEB obligation	18,787	16,741	13,899
Adjustment to annual required contribution	(11,788)	(10,504)	(8,721)
Annual OPEB cost	70,567	69,806	98,729
Contributions made	(73,270)	(32,602)	(47,084)
Increase in net OPEB obligation (asset)	(2,703)	37,204	51,645
Net OPEB obligation (asset), beginning of year	341,573	304,369	252,724
Net OPEB obligation (asset), end of year	$ 338,870	$ 341,573	$ 304,369
% of Annual OPEB Cost Contributed	104%	47%	48%

Having less than 100 employees, the District has obtained an OPEB valuation based on the Alternative Measurement Method permitted by GASB 45 as of a valuation date of July 1, 2015. The required contribution was based on this valuation, using the entry-age-normal actuarial cost method with contributions determined as a level percent of pay.

Note 7. OTHER POST-EMPLOYMENT BENEFITS (continued)

A summary of the principal assumptions and methods used to determine the required OPEB contributions is as follows:

Valuation Date		July 1, 2015
Discount Rate		5.5%
Ultimate Trend Rate		5%
HealthCare Trend Rates	2015	8%
	2016	7%
	2017	6%
	2018-2024	5%
Dental, Vision, and Other		4%
Age-adjustment Factor		3%
Cap inflator (full inflation)		-1%
Percent of Retirees with Spouses		60%

The assumptions used are subject to change as new information becomes available.

(D) Funded Status and Funding Progress

The funded status of the plan at the July 1, 2015 valuation date, the last date for which a valuation was performed, was as follows:

Actuarial accrued liability (AAL)	$ 551,131
Actuarial value of plan assets	(76,527)
Unfunded actuarial accrued liability (UAAL)	474,604
Funded ratio (actuarial value of plan assets / AAL)	14%
Covered payroll (active plan members)	434,496
UAAL as a percent of covered payroll	109%

Actuarial valuations of the ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and are continually revised as actual results are evaluated in light of previous expectations and new expectations are set. Examples include assumptions about future employment, mortality, and the healthcare cost trend. The schedule of funding progress, presented as RSI following the notes to basic financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The calculations are based on the substantive plan as it is in place at the time of each valuation.

Note 8. RESTRICTED AND UNRESTRICTED NET ASSETS.

The District's net position that is not invested in capital assets is divided between restricted and unrestricted portions. Restricted net position consists of the water and sewer expansion fees received and the interest earned thereon, which can only be used towards costs to expand the facilities. When restricted funds are used for construction of eligible fixed assets, the restricted and unrestricted portions of net position are adjusted accordingly. The total amount of net position restricted by enabling legislation as of June 30, 2017 was $154,555.

Note 9. GANN/PROPOSITION 4 APPROPRIATIONS LIMIT

Article XIII-B of the California Constitution establishes a limit on the amount that may be appropriated for spending out of the proceeds of taxes for any given fiscal year. The limit for each year is calculated by applying a cost-of-living and population change factor to the previous year's limit. Government Code Section 7910 requires adoption of the limit by the Board of Directors.

As the District's revenues include charges or services and other revenue that is not from the proceeds of taxes, only the amount appropriated from the proceeds of taxes is subject to the limit.

The calculation of the District's Gann/Proposition 4 appropriations limit for the year ended June 30, 2017 and the preceding fiscal year is as follows:

Fiscal Year	Previous Year Limit	Cost of Living Factor	Population Change Factor	Overall Change	Limit Amount
Water					
2015-2016	$ 180,358	1.0382	1.0032	1.0415	$ 187,847
2016-2017	187,847	1.0537	1.0034	1.0573	198,607
Sewer					
2015-2016	69,804	1.0382	1.0032	1.0415	72,702
2016-2017	72,702	1.0537	1.0034	1.0573	76,867
Community Facilities District 2011-1					
2015-2016	953,746	1.0382	1.0032	1.0415	993,348
2016-2017	993,348	1.0537	1.0034	1.0573	1,050,250

Note 9. GANN/PROPOSITION 4 APPROPRIATIONS LIMIT (continued)

The limits calculated above exceed the proceeds of taxes for both fiscal years presented.

Note 10. DEFERRED COMPENSATION AND SAVINGS PLANS.

The District adopted a “Cafeteria Plan” for their employees, which allows them to use pre-taxes salary for their share of medical coverage, and other benefits. This plan is administered by a third party.

The District offers eligible employees the option of contributing a portion of their salary to a deferred compensation plan established in accordance with Section 457 of the Internal Revenue Code. Employee contributions made to this plan are generally held until the termination, retirement, or death of the employee and are usually not taxable to the employee until they are paid or made available to the employee. The plan is administered by a third party.

The District has no liability for any losses sustained by employees through these plans.

REQUIRED SUPPLEMENTARY INFORMATION

RIO ALTO WATER DISTRICT

Required Supplementary Information--Unaudited
For the Year Ended June 30, 2017

Schedule of the District's Proportionate Share of the Net Pension Liability

Year Ended June 30,	Proportion of net pension liability	Proportionate share of net pension liability	Covered payroll	Proportionate share of the net pension liability as a % of covered employee payroll	Plan fiduciary net position as a % of the total pension liability
2014	0.01113%	$ 692,801	$ 372,321	186.08%	80.14%
2015	0.02170%	$ 595,385	$ 444,747	133.87%	79.89%
2016	0.02313%	$ 803,377	$ 451,828	177.81%	75.87%

Although GAAP require a 10-year history of the above information, the data is available only for periods since the implementation of GASB 68. As the years progress, the data will be accumulated until the full 10 years are presented.

Schedule of Contributions

Year Ended June 30,	Contractually required contribution (actuarially determined)	Contributions in relation to the actuarially determined contributions	Contribution deficiency (excess)	Covered payroll	Contributions as a % of covered payroll	Valuation Date
2014	$ 58,142	$ (58,142)	$ -	$ 372,321	15.62%	6/30/2012
2015	$ 63,772	$ (63,772)	$ -	$ 444,747	14.34%	6/30/2013
2016	$ 77,672	$ (77,672)	$ -	$ 451,828	17.19%	6/30/2014

Although GAAP require a 10-year history of the above information, the data is available only for periods since the implementation of GASB 68. As the years progress, the data will be accumulated until the full 10 years are presented.

A summary of the principal assumptions and methods used to determine the contribution rates presented above for the relevant valuation date is below:

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry age normal cost method
Amortization Method	Level percent of payroll
Actuarial Assumptions	
Investment Rate of Return	7.5% (net of administrative expenses)
Projected Salary Increases	3.20% to 12.20% depending on age, service and type of employment
Inflation	2.75%
Payroll Growth	3.00%

Required Supplementary Information--Unaudited
For the Year Ended June 30, 2017

Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

Schedule of Funding Progress for Other Postemployment Benefits

The table below provides the funded status of the District's OPEB obligation. The information reflects the most recent actuarial valuations.

Actuarial Valuation Date	Accrued Liability	Actuarial Asset Value	Unfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded Acturial Liability as Percentage of Covered Payroll
7/1/2009	$ 638,233	--	$ 638,233	0.0%	$ 493,703	129.3%
7/1/2012	755,822	--	755,822	0.0%	415,617	181.9%
7/1/2013	728,512	--	728,512	0.0%	426,648	170.8%
7/1/2015	551,131	76,527	474,604	13.9%	434,496	109.2%

OTHER SUPPLEMENTARY INFORMATION

RIO ALTO WATER DISTRICT

Supplemental Statement of Net Position by Activity

June 30, 2017

	Water	Sewer	Project	Community Facilities	Total
Assets and Deferred Outflows:					
Current Assets:					
Cash	$ 649,884	$ --	$ --	$ --	$ 649,884
Accounts receivable	108,416	78,748	--	--	187,164
Less allowance for doubtful accounts	(1,254)	(1,296)	--	--	(2,550)
Grants receivable	--	--	--	--	0
Prepaid Expenses	11,672	--	--	--	11,672
Inventory	13,442	439	--	--	13,881
Total Current Assets	782,160	77,891	--	--	860,051
Non-current Assets:					
Investments designated for capital asset acquisition and retirement of OPEB liability	299,663	118,850	--	--	418,513
Restricted cash	15,979	138,575	--	1,068,551	1,223,105
Delinquent accounts receivable	72,948	55,589	--	--	128,537
Delinquent taxes receivable	--	--	--	109,790	109,790
Advance to other activity	808,423	--	--	--	808,423
Capital assets, non-depreciable	2,062	25,535	--	435,586	463,183
Capital assets, depreciable,	1,284,586	679,813	--	6,490,511	8,454,910
Total Non-current Assets	2,483,661	1,018,362	--	8,104,438	11,606,461
Deferred outflows of resources	169,227	112,818	--	--	282,045
Total Assets & Def. Outflows	$3,435,048	$1,209,071	$ --	$ 8,104,438	$12,748,557
Liabilities and Deferred Inflows:					
Current Liabilities					
Accounts payable	$ 12,772	$ --	$ --	$ 38	12,810
Other current liabilities	--	--	--	--	0
Interest payable	--	--	--	73,415	73,415
Long-term liabilities due within one year	12,515		-	127,500	140,015
Total Current Liabilities	$ 25,287	$ --	$ --	$ 200,953	$ 226,240
Non-current Liabilities					
Long-term liabilities due beyond one year	630,064	524,699	--	5,940,910	7,095,673
Advance from other activity	--	799,443	--	8,980	808,423
Total Non-current Liabilities	630,064	1,324,142	--	5,949,890	7,904,096
Deferred inflows of resources	31,135	20,756	--	--	51,891
Total Liabilities & Def. Inflows	686,486	1,344,898	--	6,150,843	8,182,227
Net Position:					
Net investment in capital	1,286,648	705,348	--	857,687	2,849,683
Restricted	15,979	138,575	--	1,095,908	1,250,462
Unrestricted	1,445,935	(979,750)	--	--	466,185
Total Net Position	2,748,562	(135,827)	--	1,953,595	4,566,330
Total Liabilities, Deferred Outflows and Net Position	$3,435,048	$1,209,071	$ --	$ 8,104,438	$12,748,557

See accompanying Auditor's Report.

RIO ALTO WATER DISTRICT

Supplemental Statement of Revenues, Expenses and
Changes in Net Position by Activity
For the Year Ended June 30, 2017

	Water	Sewer	Project	Community Facilities Dist.	Total
Operating Revenues:					
Utility services	$ 511,826	$ 512,358	$ --	$ --	$ 1,024,184
Hydrant charges	31,414	--	--	--	31,414
Other Operating revenues	15,977	13,026	--	--	29,003
Total Operating Revenues	559,217	525,384			1,084,601
Operating Expenses:					
Payroll and benefits	415,891	395,025	--	--	810,916
Other operating expenses	175,875	191,014	2,377	515	369,781
Depreciation	107,894	60,012	--	152,263	320,169
Total Operating Expenses	699,660	646,051	2,377	152,778	1,500,866
Operating Income (Loss)	(140,443)	(120,667)	(2,377)	(152,778)	(416,265)
Non-Operating Revenues and Expenses:					
Special tax	--	--	--	341,040	341,040
Property taxes	110,155	52,160	--	--	162,315
Connection and capacity expansion fees	54,368	41,194	--	--	95,562
Other nonoperating revenue	24,866	5,823	18,498	12,324	61,511
Interest expense	--	--	--	(157,989)	(157,989)
Other nonoperating expense	--	--	--	(17,977)	(17,977)
Total Non-operating Revenues and Expenses	189,389	99,177	18,498	177,398	484,462
Change in Net Assets Before Transfers	48,946	(21,490)	16,121	24,620	68,197
Transfers					
Transfer in	--	--	--	16,203	16,203
Transfer out	--	--	(16,203)	--	(16,203)
Total Transfers	--	--	(16,203)	16,203	--
Change in Net Assets	48,946	(21,490)	(82)	40,823	68,197
Net Position - Beginning	2,699,616	(114,337)	82	1,912,772	4,498,133
Net Position - Ending	$ 2,748,562	$ (135,827)	$ --	$ 1,953,595	$ 4,566,330

See accompanying Auditor's Report.

RIO ALTO WATER DISTRICT

Supplemental Statement of Cash Flows by Activity
For the Year Ended June 30, 2017

	Water	Sewer	Project	Community Facilities	Total
Cash Flows From Operating Activities:					
Cash received from customers	499,826	507,726	-	-	1,007,552
Cash received from others	15,977	13,026	-	-	29,003
Cash payments to suppliers for goods and services	(180,508)	(191,110)	(2,377)	(515)	(374,510)
Cash payments to employees for services	(236,629)	(224,680)	-	-	(461,309)
Cash payments for payroll taxes and employee benefits	(175,172)	(161,721)	-	-	(336,893)
Net Cash Provided (Used) by Operating Activities	(76,506)	(56,759)	(2,377)	(515)	(136,157)
Cash Flows from Non-Capital Financing Activities:					
Cash received from ad valorem property taxes	110,155	52,160	-	-	162,315
Cash received from property tax penalties	1,719	1,407	-	-	3,126
Transfer from (to) internal enti	-	-	-	-	-
Internal advance received (paid)	59,040	(10,783)	(56,175)	7,918	-
Net Cash Provided (Used) by Non-Capital Financing Activities	170,914	42,784	(56,175)	7,918	165,441
Cash Flows from Capital and Related Financing Activities:					
Cash received for connection charges	54,368	41,194	-	-	95,562
Cash received from special taxes for sewer project	-	-	-	324,683	324,683
Proceeds of capital-related deb	-	-	-	-	-
Capital grants received			49,442		49,442
Retirement of capital-related debt	-	-	-	(124,632)	(124,632)
Interest paid on capital debt			-	(157,218)	(157,218)
Cash paid for suppliers for non-operating activities	-	-	-	(17,939)	(17,939)
Cash paid for acquisition of capital assets	(51,513)	(38,995)	(17,734)	-	(108,242)
Net Cash Provided (Used) by Capital and Related Financing Activities	2,855	2,199	31,708	24,894	61,656

(continued next page)

RIO ALTO WATER DISTRICT

Supplemental Statement of Cash Flows by Activity
For the Year Ended June 30, 2017

(continued from previous page)

	Water	Sewer	Project	Community Facilities	Total
Cash Flows from Investing Activities:					
Lease payments received for use of property	16,800	-	-		16,800
Interest income received	6,347	4,416	9	12,324	23,096
Net Cash Provided (Used) by Investing Activities	23,147	4,416	9	12,324	39,896
Net Increase (Decrease)	120,410	(7,360)	(26,835)	44,621	130,836
Cash and Cash Equivalents - Beginning of Year	845,116	264,785	26,835	1,023,930	2,160,666
Cash and Cash Equivalents - End of Year	965,526	257,425	-	1,068,551	2,291,502

Advances To/From Other Activity

The accompanying Supplemental Statement of Net Position by Activity displays an internal advance between the water and sewer activities that was determined based on the cumulative total amount by which the reported expenses of the sewer activity exceeded the revenues of that activity since its inception. Prior to the 2015-2016 fiscal year, employee benefit expenses and other indirect costs had been allocated between the water and sewer activities based on a fixed allocation formula of 60% to Water and 40% to Sewer which was not adjusted for changes in the employee or administrative effort devoted to the activities. The methodology by which indirect costs are allocated between the activities has a material impact in determining the ultimate ending balance of the internal asset/liability.

Although the District began accumulating the liability at the inception of sewer service in the 1970s, the District was under an obligation pursuant to the terms of a legal settlement to provide sewer services even though it was not feasible for the sewer to be self-sustaining at that point with the very small number of sewer customers then connected to the system. Since the Proposition 218 requirements for rates that do not exceed the reasonable cost of providing services did not go into effect until 1997, the extent to which the accumulated balance should represent a current obligation of the sewer activity is currently being examined.

GOVERNMENT AUDITING STANDARDS REPORT

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Independent Auditor's 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*

The Honorable Board of Directors of the
Rio Alto Water District
Cottonwood, 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, the financial statements of the Rio Alto Water District (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated May 15, 2018.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2017-001 to be a material weakness.

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.

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.*

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Collins Accountancy Company

Collins Accountancy Company
Lincoln, California
May 15, 2018

SCHEDULE OF FINDINGS AND RESPONSES

Schedule of Findings and Responses
For the Year Ended June 30, 2017

Finding 2017-001: Accounting for Long-term Debt and Accrued Interest

Criteria
Generally accepted accounting principles require that interest which has accrued during the fiscal year on outstanding debt balances but will not be paid to the creditor until the subsequent year be recorded as a liability and expense during the fiscal year in which the interest was accrued. When debt payments are actually made, the portion of the payment related to interest should be booked either to interest expense or to reverse the accrued interest liability from the prior fiscal year.

Condition
During the year, the interest component of the debt service payments made on the District's two long-term debt agreements was recorded as a reduction to the interest liability rather than as interest expense. At year end, the District correctly posted an entry to reflect the liability for interest payable on the USDA bond in July 2017, but because a similar entry was not made for the SRF Installment Sale Agreement and also due to the fact that interest expense was recorded as a liability reduction during the year, the ending balances of interest payable and interest expense were lower than the actual liabilities and expenses were at June 30, 2017. An adjusting entry was proposed and incorporated into these financial statements to correct these balances.

Cause
The accounting for long-term debt was unusually complicated this year because this was the first year in which payments on the SRF Installment Sale Agreement were required and because the SRF added interest that had previously accumulated during the construction period to the principal amount of the liability. This was also only the second year a payment was made to USDA.

Perspective
We do not believe any further information would assist in providing proper perspective.

Recommendation
We recommend the District prepare a reconciliation at the end of each fiscal year calculating the balance of interest payable and compare that reconciliation to the ending balance on the General Ledger. We also recommend the District compare the ending balances on its long-term debt instruments to the amortization schedules at the end of each year.

Finding 2017-001: Accounting for Long-term Debt and Accrued Interest (continued)

Views of Responsible Officials and Planned Corrective Actions

The General Manager and the Bookkeeper have already prepared a schedule based on this finding so that we may be able to reconcile each June 30th with the SRF liability on the books. This will consist of a Journal entry accruing only the interest receivable from March 18th to the end of the fiscal year which will be reversed on July 1 of the next fiscal year. The payment to SRF will reduce the total liability to the loan as the SRF has combined the accrued interest with the principal on the loan. The net interest expense should then be correct annually. The bookkeeper will confirm the long-term loan per the SRF schedule is in balance with our books as of June 30th of every year.