

FLORIN COUNTY WATER DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2017

FLORIN COUNTY WATER DISTRICT

TABLE OF CONTENTS

Independent Auditor's Report.....	1
Financial Statements	
Statement of Net Position.....	3
Statement of Revenues, Expenses and Changes in Net Position.....	4
Statement of Cash Flow.....	5
Notes to the Financial Statements.....	6
Required Supplementary Information:	
Schedule of the Plan's Proportionate Share of the Net Pension Liability.....	17
Schedule of District Contributions.....	18

LARRY BAIN, CPA

An Accounting Corporation

2148 Frascati Drive, El Dorado Hills, CA 95762 / 916.601-8894

lpbain@sbcglobal.net

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Florin County Water District
Sacramento, California

We have audited the accompanying financial statements of Florin County Water District as of and for the fiscal year ended June 30, 2017, and the related notes to the 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 the 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.

Basis for Qualified Opinion

The District did not have an actuary perform the GASB 45 valuation for its other (than pension) post-employment benefits (OPEB). Because the District did not have an actuary report prepared and a policy establishing funding levels, trustee and other items as required by U.S. generally accepted accounting principles, the liability was not known as of the date of this report and no liability was recorded in these financial statements. The required note disclosure is also omitted from the notes to the financial statements.

Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects the financial position of Florin County 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

The Florin County District has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The required supplementary information other than MD&A, as listed in the table of contents on pages 17 and 18, 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.

A handwritten signature in black ink, appearing to read "Larry Bain".

**Larry Bain, CPA,
An Accounting Corporation
July 5, 2018**

FLORIN WATER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

Assets and Deferred Outflows of Resources

Current Assets	
Cash	\$ 143,216
Investments	505,284
Accounts receivable	250,563
Interest receivable	989
Total current assets	<u>900,052</u>
Noncurrent Assets	
Capital assets	
Nondepreciable capital assets	
Land	18,319
Construction in progress	<u>155,988</u>
Depreciable capital assets	
Source of supply	1,396,073
Pumping equipment	114,901
Transmission and distribution	2,226,138
General	491,203
Less accumulated depreciation	<u>(2,064,854)</u>
Total depreciable capital assets	<u>2,163,461</u>
Total capital assets (net of accumulated depreciation)	<u>2,337,768</u>
Total noncurrent assets	<u>2,337,768</u>
Total assets	<u>3,237,820</u>
Deferred Outflows of Resources	
Deferred outflows-pensions	<u>137,350</u>

Liabilities Deferred Inflows of Resources and Net Position

Current Liabilities	
Accounts payable	91,165
Customer advance payments	42,225
Customer deposits	14,700
Total current liabilities	<u>148,090</u>
Long-Term Liabilities	
Net pension liability	283,289
Compensated absences	23,823
Total long-term liabilities	<u>307,112</u>
Total liabilities	<u>455,202</u>
Deferred Inflows of Resources	
Deferred inflows-pensions	<u>9,351</u>
Net Position	
Net investment in capital assets	2,337,768
Unrestricted	572,849
Total net position	<u>\$ 2,910,617</u>

The accompanying notes are an integral part of these financial statements

FLORIN WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION JUNE 30, 2017

Operating revenue	
Water sales	\$ 1,584,709
Hydrant fees	65,932
Other operating revenue	<u>44,565</u>
Total operating revenues	<u>1,695,206</u>
Operating expenses	
Source of supply	
Pumping	180,386
Water treatment	16,681
Transmission and distribution	196,077
Administration and general	805,306
Depreciation	<u>103,682</u>
Total operating expenses	<u>1,302,132</u>
Operating income (loss)	<u>393,074</u>
Nonoperating revenue (expenses)	
Interest income	<u>3,156</u>
Nonoperating revenues (expenses)	<u>3,156</u>
Increase in net position	396,230
Net position, July 1	<u>2,514,387</u>
Net position, June 30	<u><u>\$ 2,910,617</u></u>

The accompanying notes are an integral part of these financial statements

FLORIN WATER DISTRICT

STATEMENT OF CASH FLOWS

JUNE 30, 2017

Cash flows from operating activities:

Cash receipts from customers	\$ 1,664,972
Cash payments to suppliers for goods and services	(588,601)
Cash payments to employees for services	(661,913)
Net cash provided by (used) in operating activities	<u>414,458</u>

Cash flows from capital and related financing activities:

Additions to capital assets	<u>(312,323)</u>
Net cash provided by (used) in capital and related financing activities	<u>(312,323)</u>

Cash flows from investing activities:

Interest received on investments	<u>2,860</u>
----------------------------------	--------------

Net decrease in cash and cash equivalents	104,995
Cash and cash equivalents, beginning of year	<u>543,505</u>
Cash and cash equivalents, end of year	<u><u>\$ 648,500</u></u>

Reconciliation of cash and cash equivalents to the balance sheet:

Cash	\$ 143,216
Investments	<u>505,284</u>
Cash and cash equivalents, June 30	<u><u>\$ 648,500</u></u>

Reconciliation of operating income (loss) to

net cash provided by operating activities	
Operating Income (Loss)	\$ 393,074

Adjustments to reconcile operating income (loss) to
net cash provided by operating activities:

Depreciation	103,682
Changes in assets and liabilities:	
Accounts receivable	(47,586)
Accounts payables	(55,786)
Customer advance payments	4,752
Pension liability	5,655
Customer deposits	12,600
Compensated absences	(1,933)
Net cash provided by (used) in operating activities	<u><u>\$ 414,458</u></u>

The accompanying notes are an integral part of these financial statements

FLORIN COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1: Summary of Significant Accounting Policies

The Florin County Water District was established in 1959. 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 2,213 connections using groundwater pumped from 10 wells. The District's governing body is a Board of Directors comprised of five members with four 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 the Governmental Accounting Standards Board.

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.

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.

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.

FLORIN COUNTY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

D. 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.

E. 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).

F. Accrued Unbilled Revenue

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

G. 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.

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

The preparation of financial statements in conformity with 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.

I. 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 acquisition, and recorded as capital assets when received.

J. Insurance:

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

FLORIN COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

K. Net Position:

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

Net investment in capital assets-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 "net investment in capital assets."

Note 2: Cash and Investments

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

Cash	\$	143,216
Investments		505,284
Total cash	\$	648,500
General checking	\$	143,216
Local Agency Investment Fund		505,284
Total cash	\$	648,500

FLORIN COUNTY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 2: Cash and Investments (Continued)

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 Florin County 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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local agency bonds	5 years	None	None
U.S. treasury obligations	5 years	None	None
State of California obligations	5 years	None	None
U.S. agency securities	5 years	None	None
Banker's acceptances	180 days	40%	30%
Commercial paper	270 days	40%	10%
Negotiable CDs	5 years	30%	None
Repurchase agreements	1 years	None	None
Reverse repurchase agreements	92 days	20%	None
Medium term notes	5 years	30%	None
Mutual/money market funds	5 years *	20%	10%
Collateralized bank deposits	5 years	None	None
Mortgage pass-through securities	5 years	20%	15%
Time deposits	5 Years	None	None
Local Agency Investment Fund (LAIF)	5 years *	None	None

* The five year maximum maturity can be extended by the Board of Directors. Also, the maximum maturity can be extended if the funds are reserved for bond, COP or note payments to coincide with the required repayments.

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 an 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:

FLORIN COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 2: Cash and Investments (Continued)

B. Disclosures Relating to Interest Rate Risk (Continued)

Investment Type	Totals	Remaining Maturity (in Months)	
		12 Months or Less	13-48 Months
State Investment Pool*	\$ 505,284	\$ 505,284	\$ -
Totals	\$ 505,284	\$ 505,284	\$ -

*Not subject to categorization

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 deposit balance was \$153,150 and the carrying amount was \$143,216. The difference between the bank balance and the carrying amount was due to normal outstanding checks and deposits in transit. Of the bank balance, all was covered by the Federal Depository Insurance and none 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.

FLORIN COUNTY 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 June 30, 2016	Adjustments and additions	Adjustments and retirements	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	\$ 18,319	\$ -	\$ -	\$ 18,319
Construction in progress	132,381	312,323	(288,716)	155,988
Capital assets being depreciated:				
Source of supply	1,396,073	-		1,396,073
Pumping plant	114,901			114,901
Transmission and distribution	1,937,422	288,716		2,226,138
General	491,203			491,203
Total capital assets being depreciated	3,939,599	288,716		4,228,315
Less accumulated depreciation:	(1,961,172)	(103,682)		(2,064,854)
Total capital assets being depreciated, net	1,978,427	185,034		2,163,461
Total capital assets, net	\$ 2,129,127	\$ 497,357	\$ -	\$ 2,337,768

Note 4: 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 Miscellaneous Classic and Miscellaneous PEPRAs 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 55 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. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

FLORIN COUNTY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

Note 4: Defined Benefit Pension Cost-Sharing Employer Plan (Continued)

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

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date	2.0% @ 60	2% @ 62
Benefit formula	5 years service	5 years service
Benefit vesting schedule	monthly for life	monthly for life
Benefit payments	50-55	52 - 67
Retirement age	1.5% to 2%	1.0% to 2%
Monthly benefits , as a % of eligible compensation	7%	6.25%
Required employee contribution rates	7.16%	6.53%
Required employer contribution rates		

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	\$	46,162
------------------------	----	--------

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:

	Proportionate share of Net pension liability	
Miscellaneous Plan	\$	283,289

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. 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.

FLORIN COUNTY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 4: Defined Benefit Pension Cost-Sharing Employer Plan (Continued):

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

Miscellaneous

Proportion - June 30, 2015	0.00736%
Proportion - June 30, 2016	0.00815%
Change - Increase (Decrease)	0.00079%

For the year ended June 30, 2017, the District recognized pension expense of \$53,116. 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
Differences between expected and actual experience	\$ 762	\$ -
Changes of assumptions		(9,351)
Net difference between projected and actual earnings on pension plan investments	48,667	
Changes in proportion and differences between District contributions and proportionate share of contributions	41,759	-
District contributions subsequent to the measurement date	46,162	-
Total	<u>\$ 137,350</u>	<u>\$ (9,351)</u>

\$46,162 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:

Measurement Period

Ended June 30:

2018	\$	(21,392)
2019	\$	(18,966)
2020	\$	(28,874)
2021	\$	(12,605)
2022	\$	-
Thereafter	\$	-

FLORIN COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 4: 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:

Actuarial Assumptions

	Miscellaneous
Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost
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)

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) 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.

FLORIN COUNTY WATER DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 4: Defined Benefit Pension Cost-Sharing Employer 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 rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10 (1)	Real Return Years 11+ (2)
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:

	Discount Rate -1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate +1% (8.65%)
Misc Plan	\$ 441,357	\$ 283,289	\$ 152,654

Note 5: Post Employment Health Benefits

The District provides health insurance benefits for all retirees. For District employees to be eligible for these benefits, the employee must retire from the District with a minimum of five years in the PERS retirement system. Benefit costs are recorded on a pay-as-you-go basis. For the fiscal year ended June 30, 2017 the District paid, on behalf of four retirees, \$21,051.

Note 6: 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.

FLORIN COUNTY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 7: Economic-Dependency

The District provides water service for the Pepsi Bottling Group. Pepsi is billed a flat rate and for metered usage. For fiscal year 2016-2017, Pepsi paid \$209,472 for service charges. The District's total 2016-2017 operating revenue was \$1,584,709. Pepsi service charges represent 13.22% of the District total service charges.

The District also provides water service for Mission Linen Supply. Mission is billed a flat rate and for metered usage. For fiscal year 2016-2017, Mission Linen Supply paid \$124,682 for service charges. The District's total 2016-2017 revenue for all customer service charges was \$1,584,709. Mission Linen Supply service charges represent 7.87% of the District total service charges.

Because Pepsi and Mission Linen Supply account for a significant portion of the District's revenue the loss of these users would result in a substantial reduction in revenues and the District may not have sufficient resources to pay all of its obligations.

Note 8: Contingent Liabilities

In the normal course of business, the District is subject to various lawsuits. The District has been named as a defendant in an action filed by the County of Sacramento where the County claims the District owes monetary damages related to the County roadway project. The District disputes the County's allegations, contends it fully performed its obligations and disputes that it must pay any money to the County. A trial is currently scheduled for January 2019, and the District intends to vigorously defend the propriety of its actions. No accrual has been recorded in these financial statements for this claim.

The District and its Board members and general manager in their official capacities, have also been named as respondents in an action filed by the petitioner who owns an apartment complex within the District boundaries. The petitioner is challenging the increase in water rates approved by the Board of Directors in December 2016 asserting that the District failed to comply with applicable California Constitution provisions in enacting the increase, seek to nullify the increase and seek a return of any rate overpayments. The District has responded to the petition by expressly denying the substantive allegations and raising several affirmative defenses. A trial is scheduled in July 2018 and the District intends to vigorously defend the propriety of its actions. No accrual has been recorded in these financial statements for this claim.

Note 9: Subsequent Events

In December, 2016 the District Board of Directors approved increasing water rates. The flat residential rate will go from the current \$30 per month to \$40 per month as of July 1, 2017, to \$50 per month as of July 1, 2018 and to \$60 per month as of July 1, 2019. Other classifications will increase by an equal percentage.

FLORIN COUNTY WATER DISTRICT

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

<u>Actuarial Valuation Date</u>	<u>District's proportion of the net pension liability (asset)</u>	<u>District's proportionate share of the net pension liability (asset)</u>	<u>District's covered-employee payroll</u>	<u>Proportionate share of the net pension liability (asset) as a % of covered-employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
<u>Miscellaneous Plan</u>					
6/30/2014	0.00966%	\$238,716	\$314,979	75.79%	82.05%
6/30/2015	0.00736%	\$201,974	\$487,021	41.47%	87.34%
6/30/2016	0.00815%	\$283,289	\$537,851	52.67%	83.01%

* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year

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.

**FLORIN COUNTY WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS**

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>Miscellaneous Plan</u>					
6/30/2014	\$37,223	(\$37,223)	\$0	\$314,979	11.82%
6/30/2015	\$42,760	(\$42,760)	\$0	\$487,021	8.78%
6/30/2016	\$46,162	(\$46,162)	\$0	\$537,851	8.58%

* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year

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.