Agenda Item 5.14
Attachment 1

Solano Irrigation District

Annual Financial Report

December 31, 2017 and 2016

Solano Irrigation District

Board of Directors as of December 31, 2017

Name	Division	Title
John D. Kluge	1	Vice President
Lance Porter	2	Director
Glenn Grant	3	President
Guido Colla	4	Director
Mike German	5	Director

Solano Irrigation District
Cary Keaten, General Manager
810 Vaca Valley Parkway, Suite 201
Vacaville, California 95688
(707) 448-6847 – www.sidwater.org

Solano Irrigation District

Annual Financial Report

For the Years Ended December 31, 2017 and 2016

Solano Irrigation District
Annual Financial Report
For the Years Ended December 31, 2017 and 2016

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Financial Section

Independent Auditor's Report

Board of Directors
Solano Irrigation District
Vacaville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Solano Irrigation District (District), which comprises the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls 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 an opinion on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Solano Irrigation District as of December 31, 2017 and 2016, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the required supplementary schedules on pages 44 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated May 15, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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. This report can be found on pages 47 and 48.

Fedak & Brown LLP
Cypress, California
May 15, 2018

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Solano Irrigation District (District) provides an introduction to the financial statements of the District for the years ended December 31, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position increased 5.97% or $4,009,976 from $67,165,865 to $71,175,841, in 2017. The District's net position increased 8.41% or $5,211,762 from $61,954,103 to $67,165,865, in 2016.
- The District's operating revenues increased 17.65% or $2,279,160, due primarily to an increase of $2,022,491 in contracted reimbursement revenue. In 2016, the District's operating revenues decreased 1.10% or $139,983.
- The District's non-operating revenues decreased 0.05% or $4,194. In 2016, the District's non-operating revenues increased 3.61% or $313,404, due primarily to an increase of $478,319 in changes in investment in joint-powers authorities.
- The District's total expenses increased 18.22% or $3,295,829, due primarily to increases of $1,110,701 in salaries and wages, of which $889,947 was for work performed under contract and fully reimbursed to the District; and $2,130,895 in employee benefits, of which $1,850,382 was a non-cash transaction pertaining to the District's net pension liability. The net pension liability and related pension outflows and inflows are required and are fully disclosed in the District's financial statements. In 2016, the District's total expenses decreased 0.05% or $9,312.

Required Financial Statements

This annual report consists of a series of financial statements. The Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The Statements of Net Position include all of the District's investments in resources (assets), deferred outflows of resources, the obligations to creditors (liabilities), deferred inflows of resources, and net position. They also provide the basis for computing a rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District. All of the current and prior years' revenue and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position. These statements measure the success of the District's operations over the past years and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. These statements can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statements of Cash Flows, which provide information about the District's cash receipts and cash payments during the reporting periods. The Statements of Cash Flows report cash receipts, cash payments, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities, and provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's *net position* and changes in them. You can think of the District's net position – the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation, such as changes in Federal and State water quality standards.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 14 through 43.

Statements of Net Position

Condensed Statements of Net Position

	2017	2016	Change	2015	Change
Assets:					
Current assets	$ 19,870,206	20,539,344	(669,138)	19,841,232	698,112
Non-current assets	12,754,410	12,741,715	12,695	12,484,200	257,515
Capital assets, net	70,751,222	66,757,698	3,993,524	64,195,078	2,562,620
Total assets	103,375,838	100,038,757	3,337,081	96,520,510	3,518,247
Deferred outflows of resources:					
Deferred pension outflows	3,678,977	3,631,443	47,534	1,338,301	2,293,142
Total deferred outflow of resources	3,678,977	3,631,443	47,534	1,338,301	2,293,142
Liabilities:					
Current liabilities	6,803,787	6,624,817	178,970	6,639,568	(14,750)
Non-current liabilities	28,809,590	29,440,657	(631,067)	28,318,811	1,121,845
Total liabilities	35,613,377	36,065,474	(452,097)	34,958,379	1,107,095
Deferred inflows of resources:					
Deferred pension inflows	265,597	438,861	(173,264)	946,329	(507,468)
Total deferred inflow of resources	265,597	438,861	(173,264)	946,329	(507,468)
Net position:					
Net investment in capital assets	63,607,466	57,443,669	6,163,797	52,812,638	4,631,031
Restricted	2,223,423	3,779,208	(1,555,785)	5,108,230	(1,329,022)
Unrestricted	5,344,952	5,942,988	(598,036)	4,033,235	1,909,753
Total net position	$ 71,175,841	67,165,865	4,009,976	61,954,103	5,211,762

Statements of Net Position, continued

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $71,175,841 and $67,165,865 as of December 31, 2017 and 2016, respectively.

A portion of the District's net position, 89.37% and 85.53% as of December 31, 2017 and 2016, respectively, reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are *not* available for future spending.

At the end of years 2017 and 2016, the District showed a positive balance in its unrestricted net position of $5,344,952 and $5,942,988, respectively. The District has designated $750,000 and $500,000 of its unrestricted net position to fund its other post-employment benefit obligation (OPEB) at December 31, 2017 and 2016, respectively. See note 8 for further discussion.

Statements of Revenues, Expenses, and Changes in Net Position

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2017	2016	Change	2015	Change
Revenues:					
Operating revenues	$ 15,195,614	12,916,454	2,279,160	12,776,471	139,983
Non-operating revenues	8,992,723	8,996,917	(4,194)	8,683,513	313,404
Total revenues	24,188,337	21,913,371	2,274,966	21,459,984	453,387
Expenses:					
Operating expenses	18,073,494	14,777,599	3,295,895	14,570,731	206,868
Depreciation expense	2,817,486	2,709,475	108,011	2,579,527	129,948
Non-operating expenses	491,920	599,996	(108,076)	946,124	(346,128)
Total expenses	21,382,900	18,087,070	3,295,830	18,096,382	(9,312)
Net income before capital contributions	2,805,437	3,826,301	(1,020,864)	3,363,602	462,699
Capital contributions	1,204,539	1,385,461	(180,922)	-	1,385,461
Change in net position	4,009,976	5,211,762	(1,201,786)	3,363,602	1,848,160
Net position, beginning of year	67,165,865	61,954,103	5,211,762	58,590,501	3,363,602
Net position, end of year	$ 71,175,841	67,165,865	4,009,976	61,954,103	5,211,762

The statements of revenues, expenses, and changes in net position show how the District's net position changed during the years. In the case of the District, net position increased 5.97% or $4,009,976 from $67,165,865 to $71,175,841 as a result of ongoing operations for the year ended December 31, 2017. The District's net position increased 8.41% or $5,211,762 from $61,954,103 to $67,165,865 as a result of ongoing operations for the year ended December 31, 2016.

Statements of Revenues, Expenses, and Changes in Net Position, continued

A closer examination of the sources of changes in net position reveals that:

In 2017, the District's operating revenues increased 17.65% or $2,279,160, due primarily to an increase of $2,022,491 in contracted reimbursement revenue. In 2016, the District's operating revenues increased 1.10% or $139,983, due primarily to increases of $127,159 in water service revenues and $12,824 in contracted reimbursement revenue.

In 2017, the District's non-operating revenues decreased 0.05% or $4,194. In 2016, the District's non-operating revenues increased 3.61% or $313,404, due primarily to an increase of $478,319 in changes in investment in joint-powers authorities.

In 2017, the District's total expenses increased 18.22% or $3,295,829, due primarily to increases of $1,110,701 in salaries and wages, of which $889,947 was for work performed under contract and fully reimbursed to the District; and $2,130,895 in employee benefits, of which $1,850,382 was a non-cash transaction pertaining to the District's net pension liability. The net pension liability and related pension outflows and inflows are required and are fully disclosed in the District's financial statements. In 2016, the District's total expenses decreased 0.05% or $9,312.

Capital Asset Administration

At the end of years 2017 and 2016, the District's investment in capital assets amounted to $70,751,222 and $66,757,698 (net of accumulated depreciation), respectively. This investment in capital assets includes land, land rights, water distribution and treatment plant, a power plant, buildings and structures, equipment, vehicles, and construction-in-process. See note 5 for further discussion.

Changes in capital asset amount for 2017 were as follows:

		Balance 2016	Additions	Transfers/ Deletions	Balance 2017
Capital assets:					
Non-depreciable assets	$	11,619,089	6,571,006	(1,435,598)	16,754,497
Depreciable assets		111,242,026	1,678,541	(111,399)	112,809,168
Accumulated depreciation		(56,103,417)	(2,817,486)	108,460	(58,812,443)
Total capital assets, net	$	66,757,698	5,432,061	(1,438,537)	70,751,222

Changes in capital asset amount for 2016 were as follows:

		Balance 2015	Additions	Transfers/ Deletions	Balance 2016
Capital assets:					
Non-depreciable assets	$	9,373,691	4,948,842	(2,703,444)	11,619,089
Depreciable assets		108,401,551	3,027,769	(187,294)	111,242,026
Accumulated depreciation		(53,580,164)	(2,709,475)	186,222	(56,103,417)
Total capital assets, net	$	64,195,078	5,267,136	(2,704,516)	66,757,698

Debt Administration

In 2017, long-term debt decreased by $3,091,828, due primarily to regular principal payments on the District's outstanding debts. In 2016, long-term debt decreased by $2,242,725, due to regular principal payments on the District's outstanding debts. See note 7 for further discussion.

Changes in long-term debt amounts for 2017, were as follows:

		Balance 2016	Additions/ Deletions	Principal Payments	Balance 2017
Long-term debt:					
Bonds payable	$	9,280,008	13,748	(2,150,000)	7,143,756
Loans payable		1,526,908	-	(955,576)	571,332
Total long-term debt	$	10,806,916	13,748	(3,105,576)	7,715,088

Changes in long-term debt amounts for 2016, were as follows:

		Balance 2015	Additions/ Deletions	Principal Payments	Balance 2016
Long-term debt:					
Bonds payable	$	11,316,263	13,745	(2,050,000)	9,280,008
Loans payable		1,733,378	-	(206,470)	1,526,908
Total long-term debt	$	13,049,641	13,745	(2,256,470)	10,806,916

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the District's Finance Manager at 801 Vaca Valley Parkway, Suite 201, Vacaville, CA 95688 or by phone (707) 448-6847.

Basic Financial Statements

Solano Irrigation District
Statements of Net Position
December 31, 2017 and 2016

		2017	2016
Current assets:			
Cash and cash equivalents (note 2)	$	11,091,131	10,568,059
Restricted – cash and cash equivalents (note 2)		5,456,565	7,850,758
Accrued interest receivable		31,841	20,101
Accounts receivable – water sales and services		471,443	185,780
Accounts receivable – other		988,106	483,236
Due from other government agencies		925,871	518,817
Materials and supplies inventory		637,304	672,261
Prepaid expenses and other deposits		267,945	240,332
Total current assets		19,870,206	20,539,344
Non-current assets:			
Investment in joint-powers authorities (note 4)		12,754,410	12,741,715
Capital assets – not being depreciated (note 5)		16,754,497	11,619,089
Capital assets – being depreciated, net (note 5)		53,996,725	55,138,609
Total non-current assets		83,505,632	79,499,413
Total assets		103,375,838	100,038,757
Deferred outflows of resources:			
Deferred pension outflows (note 9)		3,678,977	3,631,443
Total deferred outflows of resources	$	3,678,977	3,631,443

Continued on next page

See accompanying notes to the basic financial statements

Solano Irrigation District
Statements of Net Position, continued
December 31, 2017 and 2016

	2017	2016
Current liabilities:		
Accounts payable and accrued expenses	$ 762,637	601,676
Accrued payroll and employee benefits	290,121	213,021
PG&E – debt service reimbursement advancement	2,465,300	2,322,500
Deposits for work-orders	174,866	355,106
Unearned revenue	166,391	184,200
Accrued interest payable	196,510	256,163
Long-term liabilities – due in one year:		
Compensated absences (note 6)	450,285	419,452
Bond payable (note 7)	2,265,000	2,150,000
Loans payable (note 7)	32,677	122,699
Total current liabilities	6,803,787	6,624,817
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 6)	487,809	454,407
Bond payable, net of discount (note 7)	4,878,756	7,130,008
Loans payable (note 7)	538,655	1,404,209
Other post-employment benefits payable (note 8)	6,294,294	5,913,137
Net pension liability (note 9)	16,610,076	14,538,896
Total non-current liabilities	28,809,590	29,440,657
Total liabilities	35,613,377	36,065,474
Deferred inflows of resources:		
Deferred pension inflows (note 9)	265,597	438,861
Total deferred inflows of resources	265,597	438,861
Net position:		
Net investment in capital assets (note 10)	63,607,466	57,443,669
Restricted (note 11)	2,223,423	3,779,208
Unrestricted	5,344,952	5,942,988
Total net position	$ 71,175,841	67,165,865

See accompanying notes to the basic financial statements

Solano Irrigation District
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2017 and 2016

		2017	2016
Operating revenues:			
Water sales and service charges:			
Agriculture water sales	$	3,356,749	3,535,153
Municipal, industrial and other water sales		1,098,810	723,442
City water transfers		777,567	736,410
Standby charges		1,071,039	1,054,562
Capital replacement charge		320,657	263,019
Other water service charges		38,669	94,236
Total water service charges		6,663,491	6,406,822
Contracted reimbursement revenue:			
Suisun-Solano Water Authority		3,924,000	3,067,396
Suisun Valley Water System		94,884	84,622
Rural North Vacaville Water District		254,334	153,457
U.S. Bureau of Reclamation		668,381	538,285
Putah South Canal		1,811,487	1,311,690
Monticello Power Plant		1,135,548	835,028
Grants		168,636	129,978
Work completed for others		474,853	389,176
Total contracted reimbursement revenue		8,532,123	6,509,632
Total operating revenues		15,195,614	12,916,454
Operating expenses:			
Salaries and wages		7,372,816	6,262,115
Employee benefits		5,391,429	3,260,534
Materials and services		5,309,249	5,254,950
Total operating expenses		18,073,494	14,777,599
Operating loss before depreciation expense		(2,877,880)	(1,861,145)
Depreciation expense		(2,817,486)	(2,709,475)
Operating loss	$	(5,695,366)	(4,570,620)

Continued on next page

See accompanying notes to the basic financial statements

Solano Irrigation District
Statements of Revenues, Expenses, and Changes in Net Position, continued
For the Years Ended December 31, 2017 and 2016

		2017	2016
Non-operating revenue(expense):			
Property taxes – ad valorum	$	1,466,057	1,094,556
PG&E – debt service reimbursement		2,924,908	2,945,607
Rehabilitation and betterment assessment		3,063,455	2,988,285
Other special assessments		420,554	508,654
Power plant revenue		537,600	346,392
Investment earnings		118,161	213,168
Change in investment in joint-powers authorities		12,695	257,515
Interest expense – long-term debt		(437,214)	(571,473)
County administrative fees		(54,706)	(28,523)
Gain from sale of capital assets		37,965	196,703
Detachment, easement/title, and annexation fees		299,514	212,153
Other non-operating revenues(expense), net		111,814	233,884
Total non-operating revenues(expense), net		8,500,803	8,396,921
Net income before capital contributions		2,805,437	3,826,301
Capital contributions:			
Contributed capital - Federal		673,120	58,580
Contributed capital - State		531,419	1,326,881
Total capital contributions		1,204,539	1,385,461
Changes in net position		4,009,976	5,211,762
Net position, beginning of year		67,165,865	61,954,103
Net position, end of year	$	71,175,841	67,165,865

See accompanying notes to the basic financial statements

Solano Irrigation District
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Cash receipts from customers for water sales and services	$	6,179,779	6,341,745
Cash receipts from contracted reimbursement services		8,125,069	6,591,491
Cash receipts from others		332,244	1,163,657
Cash paid to vendors and suppliers for materials and services		(8,243,726)	(7,924,773)
Cash paid to employees for salaries and wages		(7,231,481)	(6,114,069)
Net cash provided by operating activities		(838,115)	58,051
Cash flows from non-capital financing activities:			
Proceeds from property taxes – ad valorum		1,466,057	1,094,556
Proceeds from rehabilitation and betterment assessment		3,063,455	2,988,285
Proceeds from other special assessments		420,554	508,654
Net cash provided by non-capital financing activities		4,950,066	4,591,495
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(6,813,949)	(5,273,167)
Proceeds from capital contributions		1,204,539	1,385,461
Proceeds from the sale of capital assets		40,904	197,775
PG&E – debt service reimbursement		3,067,708	3,065,007
Proceeds from contracts and debt service contracts receivable		-	231,901
Principal paid on long-term debt		(3,091,828)	(2,242,725)
Interest paid on long-term debt		(496,867)	(626,499)
Net cash used in capital and related financing activities		(6,089,493)	(3,262,247)
Cash flows from investing activities:			
Interest and investment earnings		106,421	202,814
Net cash provided by investing activities		106,421	202,814
Net increase(decrease) in cash and cash equivalents		(1,871,121)	1,590,113
Cash and cash equivalents, beginning of year		18,418,817	16,828,704
Cash and cash equivalents, end of year	$	16,547,696	18,418,817

Reconciliation of cash and cash equivalents to statements of net position:

		2017	2016
Cash and cash equivalents	$	11,091,131	10,568,059
Restricted – cash and cash equivalents		5,456,565	7,850,758
Total cash and cash equivalents	$	16,547,696	18,418,817

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See accompanying notes to the basic financial statements

Solano Irrigation District
Statements of Cash Flows, continued
For the Years Ended December 31, 2017 and 2016

		2017	2016
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(5,695,366)	(4,570,620)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation expense		2,817,486	2,709,475
Power plant revenue		537,600	346,392
County administrative fees		(54,706)	(28,523)
Detachment, easement/title, and annexation fees		299,514	212,153
Other non-operating revenues		111,814	233,884
Change in assets, deferred outflows, liabilities, and deferred inflows:			
(Increase)Decrease in assets:			
Accounts receivable – water sales and services, net		(285,663)	50,626
Accounts receivable – other		(911,924)	686,971
Materials and supplies inventory		34,957	(194,888)
Prepaid expenses and other deposits		(27,613)	127,745
Increase in deferred outflows of resources:			
Deferred pension outflows		(47,534)	(2,293,142)
Increase(Decrease) in liabilities:			
Accounts payable and accrued expenses		160,961	(171,585)
Accrued payroll and employee benefits		77,100	63,926
Deposits for work-orders		(180,240)	(149,070)
Unearned revenue		(17,809)	33,367
Compensated absences		64,235	84,120
Other post-employment benefits payable		381,157	361,814
Net pension liability		2,071,180	3,062,874
Decrease in deferred inflows of resources:			
Deferred pension inflows		(173,264)	(507,468)
Total adjustments		4,857,251	4,628,671
Net cash provided by operating activities	$	(838,115)	58,051

See accompanying notes to the basic financial statements

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Solano Irrigation District (District) was organized in 1948 under the provisions of the California Irrigation District Law, now codified as Division II of the water code of the State of California. It encompasses some 72,768 acres in Solano County midway between the San Francisco Bay Area and the City of Sacramento. The District provides water for agricultural, commercial, and residential purposes, as well as operates and maintains the Monticello Dam and other water distribution systems. The District is governed by a five-member board of directors elected by division within the District's service area.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Statements No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

B. Basis of Accounting and Measurement Focus

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants, and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

C. Financial Reporting

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

C. Financial Reporting, continued

The District has adopted the following GASB pronouncements in the current year:

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57 – *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25 – *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50 – *Pension Disclosures*.

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14.* The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

In March 2016, the GASB issued Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.* This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position

1. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

2. Cash and Cash Equivalents

Substantially all of the District's cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

3. Investments and Investment Policy

The District has adopted an investment policy directing management to deposit funds in financial institutions.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Fair Value Measurement

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity, and other assumptions that are internally generated and cannot be observed in the market.

5. Accounts Receivable and Allowance for Uncollectible Accounts

The District extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the District uses the allowance method for the reservation and write-off of those accounts.

6. Property Taxes and Assessments

The County of Solano Assessor's Office assesses all real and personal property within the County each year. The County of Solano Tax Collector's Office bills and collects the District's share of property taxes and assessments. The County of Solano Treasurer's Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

6. Property Taxes and Assessments

Property taxes receivable at year-end are related to property taxes collected by the County of Solano, which have not been credited to the District's cash balance as of December 31. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

7. Materials and Supplies

Materials and supplies consist primarily of water pipe and pipefittings for construction and repair to the District's water treatment and distribution system. Materials and supplies are valued at cost using a weighted average method. Material and supply items are charged to expense at the time the items are consumed.

8. Restricted Assets

Certain assets of the District are restricted for use by ordinance or debt covenant and, accordingly, are shown as restricted assets on the accompanying statements of net position. The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

9. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Water distribution plant	25-40 years
Monticello power plant	50 years
Water treatment plant	40 years
Buildings and structures	10-40 years
Machinery and equipment	4-20 years

10. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources applicable to future periods.

11. Unearned Revenue

Unearned revenue consists of customer and developer deposits held at year-end.

12. Compensated Absences

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and sick leave are recorded when benefits are earned. Cash payment of unused vacation and sick is available to those qualified employees when retired or terminated.

(1) Reporting Entity and Summary of Significant Accounting Policies, continued

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

13. 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 addition to/deduction 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.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2016 and 2015
- Measurement Date: June 30, 2017 and 2016
- Measurement Period: July 1, 2016 to June 30, 2017 and July 1, 2015 to June 30, 2016

14. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources applicable to future periods.

15. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- **Net investment in capital assets component of net position** – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

- **Restricted component of net position** – This component of net position consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets.

- **Unrestricted component of net position –** This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position.

16. Reclassification

The District has reclassified certain prior year information to conform with current year presentation.

(2) Cash and Cash Equivalents

Cash and cash equivalents as of December 31 are classified in the accompanying financial statements as follows:

		2017	2016
Cash and cash equivalents	$	11,091,131	10,568,059
Restricted – cash and cash equivalents		5,456,565	7,850,758
Total	$	16,547,696	18,418,817

Cash and cash equivalents as of December 31 consist of the following:

		2017	2016
Cash on hand	$	550	550
Deposits with financial institutions		3,489,223	4,074,225
Investments		13,057,923	14,344,042
Total	$	16,547,696	18,418,817

Investments Authorized by the California Government Code and the District's Investment Policy

The following table identifies the investment types that are authorized by the District in accordance with 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, the table addresses the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (LAIF)	Upon Demand	None	None	$50 M
Interest Bearing Checking Accounts	N/A	None	None	100%
U.S. Treasuery Money-Market Fund	N/A	None	None	10%
Certificates of Deposit	5 years	IUQCI* of 85	None	$100,000
U.S. Treasuery Bills and Notes	5 years	None	None	100%
U.S. Government Sponsored Entities	5 years	None	None	100%
Banker's Acceptances	180 days	Moody's A	40%	30%
Commercial Paper	270 days	Moody's A	15%	10%
Repurchase Agreements	30 days	None	20%	100%
Medium Term Notes	5 years	Moody's AA	30%	10%
Negotiable Certificates of Deposit	2 years	Moody's A+	30%	10%

*Irwin Union Quality Code Index

Investments Authorized by Debt Agreements

Under the terms of the indentures of trust issued pursuant to the 2006 Monticello Power Project Refunding Hydroelectric Revenue Bonds (see note 7), a fiscal agent is holding funds for debt service reserves. The funds are to be used in the event the District lease payments are insufficient to pay debt service due on the bonds. As of December 31, 2017 and 2016, the balance with the fiscal agent had been invested in the First American Treasury Obligation Class D Money Market Fund.

(2) Cash and Cash Equivalents, continued

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

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 secure 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 governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of December 31, 2017 and 2016, bank balances are federally insured up to $250,000. The remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Investment in State Investment Pool

The District is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The fair value factor for LAIF is reported on a quarterly basis. The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on an amortized cost basis.

The District's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of $5,000, in increments of $1,000.
- Withdrawals of $10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

(2) Cash and Cash Equivalents, continued

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide requirements for cash flow and liquidity needed for operations. 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 investments by maturity date:

Investment maturities as of December 31, 2017, were as follows:

			Remaining Maturity (in Months)		
Investment Type		**Amount**	**12 Months Or Less**	**13 to 24 Months**	**25-60 Months**
Local Agency Investment Fund (LAIF)	$	9,776,264	9,776,264	-	-
First American Treasury obligation		3,281,659	3,281,659	-	-
Total	$	13,057,923	13,057,923	-	-

Investment maturities as of December 31, 2016, were as follows:

			Remaining Maturity (in Months)		
Investment Type		**Amount**	**12 Months Or Less**	**13 to 24 Months**	**25-60 Months**
Local Agency Investment Fund (LAIF)	$	11,325,779	11,325,779	-	-
First American Treasury obligation		3,018,263	3,018,263	-	-
Total	$	14,344,042	14,344,042	-	-

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the years ended for each investment type.

Credit ratings as of December 31, 2017, were as follows:

					Rating as of year-end	
Investment Type		**Amount**	**Minimum Legal Rating**		**Moody's Aaa**	**Not Rated**
Local Agency Investment Fund (LAIF)	$	9,776,264	N/A	$	-	9,776,264
First American Treasury obligation		3,281,659	Aaa		3,281,659	-
Total	$	13,057,923		$	3,281,659	9,776,264

(2) Cash and Cash Equivalents, continued

Credit Risk, continued

Credit ratings as of December 31, 2016, were as follows:

Investment Type		Amount	Minimum Legal Rating		Rating as of year-end: Moody's Aaa	Not Rated
Local Agency Investment Fund (LAIF)	$	11,325,779	N/A	$	-	11,325,779
First American Treasury obligation		3,018,263	Aaa		3,018,263	-
Total	$	14,344,042		$	3,018,263	11,325,779

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

(3) Investment at Fair Value Hierarchy

Assets measured at fair value on a recurring basis, based on their fair value hierarchy at December 31, 2017, are as follows:

			Fair Value Measurement at Reporting Date using:		
Description		**December 31, 2017**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
First American Treasury obligation	$	3,281,659	-	3,281,659	-

Assets measured at fair value on a recurring basis, based on their fair value hierarchy at December 31, 2016, are as follows:

			Fair Value Measurement at Reporting Date using:		
Description		**December 31, 2016**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
First American Treasury obligation	$	3,018,263	-	3,018,263	-

(4) Investment in Joint-Powers Authorities

Jointly governed organizations are legal entities or other organizations that result from a contractual arrangement and that are owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility as permitted by the California Government Code. As of December 31, the District's participation in these jointly governed organizations consists of the following balance:

		2017	2016
Suisun-Solano Water Authority	$	12,700,162	12,687,467
Solano Water Authority		54,248	54,248
Total investment in joint powers authorities	$	12,754,410	12,741,715

The District has recorded its interest in the joint-powers authorities under the equity method of accounting whereby, the District's equity in the joint-powers authorities is equal to the original cost of assets contributed plus their pro rata share of the net position of the joint-powers authorities.

Suisun-Solano Water Authority

On May 17, 1976, the District and the City of Suisun City entered into a joint exercise powers agreement for the construction and operation of a domestic water system in the Tolenas and joint service area; and on May 1990, the District and the City of Suisun City entered into a joint powers agreement. Under the terms of the agreement, the District is responsible for the operation and maintenance of all water facilities. The City of Suisun City is responsible for all of the billing of water service and the collection and investment of all monies.

Pursuant to the agreement, a Joint Executive Committee has been established consisting of one member of the City Council, the City Administrator, the Secretary-Manager, and one member of the Board from the District. On July 1, 1982, the day-to-day water service function was taken over by the District. The City is the treasurer of the joint authority and has the responsibility of billing the water customers. The cost of the water treatment plant is recorded as an asset of the District under property, plant, and equipment. Audited financial statements are available from the City of Suisun City at 701 Civic Center Boulevard, Suisun City, CA 94585.

Solano Water Authority

On September 22, 1987, the District entered into a joint powers agreement with various cities and other entities to form the Solano Water Authority (Authority). The joint powers was formed to acquire, construct, operate, and maintain any project for the purpose of providing water resources or water treatment for public or private uses and to enter into project agreements to provide security for the repayment of any revenue bonds issued to finance such project, subject to the conditions and restrictions contained in the project agreement. Audited financial statements are available from the Authority at 810 Vaca Valley Parkway, Suite 203, Vacaville, CA 95687.

(5) Capital Assets

Changes in capital assets for 2017 were as follows:

	Balance 2016	Additions/ Transfers	Deletions/ Transfers	Balance 2017
Non-depreciable assets:				
Land and land rights	$ 3,619,706	-	-	3,619,706
Construction-in-process	7,999,383	6,571,006	(1,435,598)	13,134,791
Total non-depreciable assets	11,619,089	6,571,006	(1,435,598)	16,754,497
Depreciable assets:				
Water distribution plant	71,876,142	1,402,174	-	73,278,316
Monticello power plant	15,527,224	-	-	15,527,224
Water treatment plant	4,665,948	33,424	-	4,699,372
Buildings and structures	12,862,167	-	-	12,862,167
Machinery and equipment	6,310,545	242,943	(111,399)	6,442,089
Total depreciable assets	111,242,026	1,678,541	(111,399)	112,809,168
Accumulated depreciation:				
Water distribution plant	(35,851,795)	(1,617,615)	-	(37,469,410)
Monticello power plant	(10,093,490)	(310,551)	-	(10,404,041)
Water treatment plant	(2,808,257)	(116,695)	(821,771)	(3,746,723)
Buildings and structures	(2,106,011)	(329,176)	-	(2,435,187)
Machinery and equipment	(5,243,864)	(443,449)	930,231	(4,757,082)
Total accumulated depreciation	(56,103,417)	(2,817,486)	108,460	(58,812,443)
Total depreciable assets, net	55,138,609	(1,138,945)	(2,939)	53,996,725
Total capital assets, net	$ 66,757,698	5,432,061	(1,438,537)	70,751,222

(5) Capital Assets, continued

Changes in capital assets for 2016 were as follows:

	Balance 2015	Additions/ Transfers	Deletions/ Transfers	Balance 2016
Non-depreciable assets:				
Land and land rights	$ 3,619,706	-	-	3,619,706
Construction-in-process	5,753,985	4,948,842	(2,703,444)	7,999,383
Total non-depreciable assets	9,373,691	4,948,842	(2,703,444)	11,619,089
Depreciable assets:				
Water distribution plant	69,177,674	2,698,468	-	71,876,142
Monticello power plant	15,527,224	-	-	15,527,224
Water treatment plant	4,665,948	-	-	4,665,948
Buildings and structures	12,862,167	-	-	12,862,167
Machinery and equipment	6,168,538	329,301	(187,294)	6,310,545
Total depreciable assets	108,401,551	3,027,769	(187,294)	111,242,026
Accumulated depreciation:				
Water distribution plant	(34,334,292)	(1,517,503)	-	(35,851,795)
Monticello power plant	(9,782,937)	(310,553)	-	(10,093,490)
Water treatment plant	(2,755,570)	(52,687)	-	(2,808,257)
Buildings and structures	(1,777,002)	(329,009)	-	(2,106,011)
Machinery and equipment	(4,930,363)	(499,723)	186,222	(5,243,864)
Total accumulated depreciation	(53,580,164)	(2,709,475)	186,222	(56,103,417)
Total depreciable assets, net	54,821,387	318,294	(1,072)	55,138,609
Total capital assets, net	$ 64,195,078	5,267,136	(2,704,516)	66,757,698

(6) Compensated Absences

Changes in compensated absences for 2017 were as follows:

Balance 2016	Earned	Taken	Balance 2017	Current Portion	Long-term Portion
$ 873,859	506,004	(441,769)	938,094	450,285	487,809

Changes in compensated absences for 2016 were as follows:

Balance 2015	Earned	Taken	Balance 2016	Current Portion	Long-term Portion
$ 789,739	512,155	(428,035)	873,859	419,452	454,407

(7) Long-term Debt

Changes in long-term debt for 2017 were as follows:

	Balance 2016	Additions/ Deletions	Principal Payments	Balance 2017
Long-term debt:				
Bonds payable:				
2006 – Revenue refunding bonds – MPP	$ 9,335,000	-	(2,150,000)	7,185,000
Less: Unamortized bond discount	(54,992)	13,748	-	(41,244)
Total bonds payable	9,280,008	13,748	(2,150,000)	7,143,756
Loans payable:				
1988 Economic Development Administration	34,021	-	(34,021)	-
2000 DWR – Gibson Canyon Improv. District	857,328	-	(857,328)	-
2004 DWR – Blue Ridge Improvement District	439,561	-	(44,420)	395,141
2004 DWR – Peabody Improvement District	195,998	-	(19,807)	176,191
Total loans payable	1,526,908	-	(955,576)	571,332
Total long-term debt	10,806,916	13,748	(3,105,576)	7,715,088
Less: current portion	(2,272,699)			(2,297,677)
Total non-current portion	$ 8,534,217			5,417,411

Changes in long-term debt for 2016 were as follows:

	Balance 2015	Additions/ Deletions	Principal Payments	Balance 2016
Long-term debt:				
Bonds payable:				
2006 – Revenue refunding bonds – MPP	$ 11,385,000	-	(2,050,000)	9,335,000
Less: Unamortized bond discount	(68,737)	13,745	-	(54,992)
Total bonds payable	11,316,263	13,745	(2,050,000)	9,280,008
Loans payable:				
1988 Economic Development Administration	66,177	-	(32,156)	34,021
2000 DWR – Gibson Canyon Improv. District	968,892	-	(111,564)	857,328
2004 DWR – Blue Ridge Improvement District	482,960	-	(43,399)	439,561
2004 DWR – Peabody Improvement District	215,349	-	(19,351)	195,998
Total loans payable	1,733,378	-	(206,470)	1,526,908
Total long-term debt	13,049,641	13,745	(2,256,470)	10,806,916
Less: current portion	(2,168,839)			(2,272,699)
Total non-current portion	$ 10,880,802			8,534,217

(7) Long-Term Debt, continued

2006 Bonds Payable – Monticello Power Project 2006 Refunding Hydroelectric Revenue Bonds

In February 6, 2006, the District issued $19,015,000 in bonds with an average interest rate of 5.39% to advance refund $15,185,000 of outstanding Monticello Power Project 1986 Refunding Hydroelectric Revenue Bonds with an average interest rate of 9.18%. The net proceeds of $18,263,595 (after payment of $751,405 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the future debt service payments on the 1986 series bonds. As a result, a portion ($15,185,000) of the 1986 Series bonds are considered to be defeased and the liability for those bonds has been removed from the District's long-term debt.

The District has pledged future revenue to be received from PG&E to repay the Refunding Hydroelectric Revenue Bonds through 2020. Projected revenue from PG&E is expected to provide coverage over debt service of 1.15 over the life of the bonds. Principal payments are due annually on January 1st and interest payments are due semi-annually on January 1st and July 1st. Bond payments are due through January 1, 2020.

Annual debt service requirements for the 2006 bonds payable are as follows:

Year	Principal	Interest	Total
2018	$ 2,265,000	331,072	2,596,072
2019	2,395,000	203,621	2,598,621
2020	2,525,000	69,059	2,594,059
Total	7,185,000	603,752	7,788,752
Discount	(41,247)		
Current	(2,265,000)		
Non-current	$ 4,878,753		

1988 Economic Development Administration Loan

In December 1988, the District entered into an agreement to borrow funds from the Economic Development Administration, in the amount of $613,100. The funds are being used for the acquisition, construction and completion of improvements to the District's water system. Principal and interest payments are due annually on July 1st with an interest rate of 5.00%. The District paid the loan in full on July 1, 2017.

2000 Department of Water Resources Gibson Canyon Improvement District Loan

In June 2000, the District entered into a contract to borrow funds from the Department of Water Resources. The loan totaled $2,127,300, bearing an interest rate of 2.32%, with a 20 year term. The funds were used to finance the construction of a project to improve water quality. Principal payments and interest payments are due semi-annually on January 1st and July 1st. Loan payments were due through January 1, 2024; however, the District paid the loan in full during 2017.

(7) Long-Term Debt, continued

2004 Department of Water Resources Blue Ridge Improvement District Loan

In January 2004, the District entered into a contract to borrow funds from the Department of Water Resources. The loan totaled $866,000 bearing an interest rate of 2.34%, with a 20 year term. The funds were used to finance the construction of a project to improve water quality. Principal payments and interest payments are due semi-annually on January 1st and July 1st. Loan payments are due through January 1, 2026. Annual debt service requirements for the loan payable are as follows:

Year	Principal	Interest	Total
2018	$ 22,600	4,623	27,223
2019	45,998	8,450	54,448
2020	47,080	7,367	54,447
2021	48,188	6,259	54,447
2022	49,323	5,125	54,448
2023-2026	181,952	8,615	190,567
Total	395,141	40,439	435,580
Current	(22,600)		
Non-current	$ 372,541		

2004 Department of Water Resources Peabody Improvement District Loan

In January 2004, the District entered into a contract to borrow funds from the Department of Water Resources. The loan totaled $386,000 bearing an interest rate of 2.34%, with a 20 year term. The funds were used to finance construction of a project to improve water quality. Principal payments and interest payments are due semi-annually on January 1st and July 1st. Loan payments are due through January 1, 2026. Annual debt service requirements for the loan payable are as follows:

Year	Principal	Interest	Total
2018	$ 10,077	2,061	12,138
2019	20,510	3,768	24,278
2020	20,993	3,285	24,278
2021	21,487	2,791	24,278
2022	21,993	2,285	24,278
2023-2026	81,131	3,841	84,972
Total	176,191	18,031	194,222
Current	(10,077)		
Non-current	$ 166,114		

(8) Other Post-Employment Benefits Payable

Plan Description – Eligibility

The District administers its post-employment benefit plan, a single-employer defined benefit plan (Plan). The following requirements must be satisfied in order to be eligible for post-employment medical, dental and vision benefits: (1) Attainment of age 55, and 20 years of full-time service, and (2) Retirement from the District (the District must be the last employer prior to retirement).

Plan Description – Benefits

The District offers post-employment medical, dental, and vision benefits to retired employees who satisfy the eligibility rules. Spouses and surviving spouses are also eligible to receive benefits. Retirees may enroll in any plan available through the ACWA-JPIA medical, dental, and vision programs. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate (annual required contribution / covered payroll) is 11.64% for 2017 and 10.40% for 2016, of the annual covered payroll.

The District will pay 100% of the cost of the post-employment benefit plan. The District funds the plan on a pay-as-you-go basis and maintains reserves (and records a liability) for the difference between pay-as-you-go and the actuarially determined ARC cost.

Annual Cost

For the years ended December 31, 2017 and 2016, the District's ARC cost was $781,825 and $726,430, respectively. The District's net OPEB payable obligation amounted to $6,294,294 and $5,913,137 for the years ended December 31, 2017 and 2016, respectively. The District contributed $391,678 and $366,054 in age adjusted contributions for current retiree OPEB premiums for the years ended December 31, 2017 and 2016, respectively.

The balance at December 31 consists of the following:

		2017	2016	2015
Annual OPEB expense:				
Annual required contribution (ARC)	$	781,825	726,430	1,092,191
Interest on net OPEB obligation		212,873	222,053	220,800
Adjustment to annual required contribution		(221,863)	(220,615)	(202,399)
Total annual OPEB expense		772,835	727,868	1,110,592
Change in net OPEB payable obligation:				
Age adjusted contributions made		(391,678)	(366,054)	(465,927)
Total change in net OPEB payable obligation		381,157	361,814	644,665
OPEB payable – beginning of year		5,913,137	5,551,323	4,906,658
OPEB payable – end of year	$	6,294,294	5,913,137	5,551,323

(8) Other Post-Employment Benefits Payable, continued

Annual Cost, continued

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2017, and the two preceding years are as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2017	$ 772,835	391,678	50.68%	$ 6,294,294
2016	727,868	366,054	50.29%	5,913,137
2015	1,110,592	465,927	41.95%	5,551,323

Funded Status and Funding Progress of the Plan

The most recent valuation (dated December 31, 2017) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $10,544,736. The District funds on a pay-as-you-go basis and has determined to fund the total annual OPEB expense through age adjusted contributions and additions to internal reserves. At December 31, 2017, the District's annual required OPEB expense was $772,835. Of this amount, the District made age adjusted contributions of $391,678 and increased OPEB reserves in the amount of $250,000. Total OPEB reserves at December 31, 2017, were $750,000. At December 31, 2016, the District's annual required OPEB expense was $727,868. Of this amount, the District made age adjusted contributions of $366,054 and increased OPEB reserves in the amount of $300,000. Total OPEB reserves at December 31, 2016, were $500,000.

The covered payroll (annual payroll of active employees covered by the plan) for the year ended December 31, 2017, was $6,776,766. The ratio of the unfunded actuarial accrued liability to annual covered payroll was 155.60% as of December 31, 2017. See page 46 for the Schedule of Funding Status.

(8) Other Post-Employment Benefits Payable, continued

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, methods, and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits. The following is a summary of the actuarial assumptions and methods:

Valuation date	December 31, 2017
Actuarial cost method	Projected unit credit with linear proration to decrement
Amortization method	Level % of pay over 30 years based on an open group
Actuarial assumptions:	
Investment rate of return	3.60%
Inflation - discount rate	2.75% per year
Individual salary growth	3.00% per year
Health Care Trend Rates	Annual trend rates by benefit are as shown below:

FYE	Non-Kaiser	Kaiser
2018	Actual	Actual
2019	6.50%	6.25%
2020	6.00%	5.75%
2021	5.50%	5.25%
2022+	5.00%	5.00%

(9) Defined Benefit Pension Plan

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Pension Plan (Plan or PERF C) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of a miscellaneous risk pool and a safety risk pool, which are comprised of individual employer miscellaneous and safety plans, respectively. Benefit provisions under the Plan are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website or may be obtained from their executive office at 400 P Street, Sacramento, California 95814.

(9) Defined Benefit Pension Plan, continued

Benefits Provided

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

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 60 Risk Pool Retirement Plan to new employee entrants effective December 31, 2012. All employees hired after January 1, 2013, are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The District participates in the Plan's miscellaneous risk pool. The provisions and benefits for the Plan's miscellaneous pool in effect at December 31, 2017, are summarized as follows:

	Classic	New Classic	PEPRA
Hire date	Prior to January 1, 2011	On or after January 1, 2011 - December 31, 2012	On or after January 1, 2013
Benefit formula	2.7% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule		5 years of service	
Benefit payments		monthly for life	
Retirement age	50 - 55	60 - 65	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.1% to 2.4%	1.0% to 2.5%
Required employee contribution rates	8.00%	7.00%	6.25%
Required employer contribution rates	11.05%	7.20%	6.53%

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 July 1, following notice of a change in the rate. Funding contributions for the Plan 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.

(9) Defined Benefit Pension Plan, continued

Contributions, continued

For the years ended December 31, 2017 and 2016, the contributions recognized as part of pension expense for the Plan were as follows:

		2017	2016
Contributions – employer	$	1,055,907	1,298,072

Net Pension Liability

As of December 31, 2017 and 2016, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

		2017	2016
Proportionate share of net pension liability	$	16,610,076	14,538,896

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability for the miscellaneous risk pool. As of December 31, 2017 and 2016, the net pension liability of the Plan is measured as of June 30, 2017 and 2016 (the measurement dates), respectively. The total pension liability for the Plan's miscellaneous risk pool used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 and 2015 (the valuation dates), rolled forward to June 30, 2017 and 2016, respectively, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan's miscellaneous risk pool as of the measurement dates June 30, 2017 and 2016, was as follows:

	Proportionate Share	
Proportion – June 30, 2015	0.41830	%
Decrease in proportion	(0.25028)	
Proportion – June 30, 2016	0.16802	
Decrease in proportion	(0.00053)	
Proportion – June 30, 2017	0.16749	%

(9) Defined Benefit Pension Plan, continued

Deferred Outflows(Inflows) of Resources Related to Pensions

For the years ended December 31, 2017 and 2016, the District recognized pension expense of $2,991,831 and $1,618,439, respectively.

As of December 31, 2017 and 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
Description	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Pension contributions subsequent to measurement date	$ 793,738	-	708,196	-
Differences between actual and expected experience	-	(265,597)	35,759	-
Changes in assumptions	2,284,224	-	-	(438,861)
Net differences between projected and actual earnings on plan investments	559,241	-	2,284,122	-
Adjustment due to changes in porportions and difference in employer contributions	41,774	-	603,366	-
Total	$ 3,678,977	(265,597)	3,631,443	(438,861)

As of December 31, 2017 and 2016, the District reported $793,738 and $708,196, respectively, 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 for the years ended December 31, 2018 and 2017, respectively.

As of December 31, 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:

Fiscal Year Ending December 31,	Deferred Net Outflows(Inflows of Resources
2018	$ 751,830
2019	1,406,700
2020	793,143
2021	(332,031)

(9) Defined Benefit Pension Plan, continued

Actuarial Assumptions

The total pension liabilities in the June 30, 2016, actuarial valuations were determined using the following actuarial assumptions and methods:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Mortality table*	Derived using CalPERS membership data
Period upon which actuarial experience survey assumptions were based	1997 - 2011
Post-retirement benefit increase	Contract COLA up to 2.75% until PPPA floor on purchasing power applies; 2.75% thereafter

* The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the April 2014, experience study report (based on CalPERS demographic data from 1997 to 2011) available online.

Discount Rate

The discount rates used in the actuarial valuations to measure the total pension liability as of June 30, 2017, reflect the long-term expected rates of return. The discount rates used to measure the total pension liability as of June 30, 2017, was 7.15%. These differ from the discount rates used as of June 30, 2016, which was 7.65%, due to a decrease in the long- term expected rate of return. The financial reporting discount rates are not adjusted for administrative expenses and are consistent with the funding discount rates at the end of the three-year funding discount rate phase-in period.

To determine whether the municipal bond rate should be used in the calculation of the discount rate, the amortization and smoothing periods adopted by CalPERS in 2013 were used. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the PERF C.

(9) Defined Benefit Pension Plan, continued

Discount Rate, continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 of the funds' asset classes, expected compound (geometric) returns were calculated over the short term (first 10 years) and the long term (11+ 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 rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The tables below reflect long-term expected real rates of return by asset class. The rates of return were calculated using the capital market assumptions applied to determine the discount rate.

As of December 31, 2017, the target allocation and the long-term expected real rate of return by asset class were as follows:

Asset Class	Target Allocation	Real Return Years 1-10	Real Return Years 11+
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 Asset	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 %		

As of December 31, 2016, the target allocation and the long-term expected real rate of return by asset class were as follows:

Asset Class	Target Allocation	Real Return Years 1-10	Real Return Years 11+
Global Equity	51.0 %	5.25 %	5.71 %
Global Fixed Income	20.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Asset	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	1.0	(0.55)	(1.05)
Total	100.0 %		

(9) Defined Benefit 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 the Plan, calculated using the discount rate for the 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 one-percentage point lower or one-percentage point higher than the current rate.

As of December 31, 2017, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
District's Net Pension Liability	$ 24,761,053	16,610,076	9,859,289

As of December 31, 2016, the District's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

	Discount Rate - 1% 6.65%	Current Discount Rate 7.65%	Discount Rate + 1% 8.65%
District's Net Pension Liability	$ 22,651,218	14,538,896	7,834,464

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports. See pages 44 and 45 for the Required Supplementary Information.

(10) Net Investment in Capital Assets

The balance at December 31, consists of the following:

	2017	2016
Capital assets – not being depreciated	$ 16,754,497	11,619,089
Capital assets – being depreciated, net	53,996,725	55,138,609
Bonds payable	(7,185,000)	(9,335,000)
Bonds payable – discount	41,244	54,992
Loan payable – EDA loan	-	(34,021)
Net investment in capital assets	$ 63,607,466	57,443,669

(11) Restricted Net Position

The balance at December 31 consists of the following:

		2017	2016
Restricted – cash and cash equivalents	$	5,456,565	7,850,758
PG&E – debt service reimbursement advancement		(2,465,300)	(2,322,500)
Accrued interest payable		(196,510)	(256,163)
Loans payable – Improvement Districts		(571,332)	(1,492,887)
Total restricted net position	$	2,223,423	3,779,208

(12) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death, or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors.

The District has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statements of net position.

(13) Risk Management

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; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase the appropriate amount of insurance coverage. At December 31, 2017, the District participated in the liability and property programs of the ACWA/JPIA as follows:

- General and auto liability: The District has a zero deductible for general and auto liability. General and auto coverage are pooled for the first $2 million with additional excess coverage for up to $6 million.

(13) Risk Management, continued

In addition to the above, the District also has the following insurance coverage:

- Employee dishonesty coverage up to $100,000 per loss includes public employee dishonesty, forgery or alteration, and computer fraud coverages.
- Property loss is paid based on the replacement cost or actual cash value for the property on file. If the property is replaced within two years after the loss or otherwise paid on an actual cash value basis to a combined total of $100 million per occurrence, it is subject to a $1,000 deductible per occurrence for vehicles and $10,000 deductible per occurrence for other covered properties.
- Boiler and machinery coverage for the replacement cost up to $100 million per occurrence, subject to various deductibles depending on the type of equipment.
- Workers' compensation insurance provides coverage with a self-insured retention limit of $2 million for all work related injuries/illnesses covered by California law. The ACWA/JPIA has purchased an excess insurance policy for an additional $2 million to statutory limits.

In addition, the District maintains a separate policy from ACWA/JPIA with underwriters at Lloyd's for commercial earthquake/business income interruption insurance. This insurance was purchased to safeguard the District in case of a major earthquake until disaster relief funds are made available by state and federal agencies. This policy has the followings provisions:

- The loss limit is $1,000,000 per occurrence and in annual aggregate.
- Deductible is 5% of values per unit of insurance subject to $75,000 minimum per occurrence.
- Coverage for 2029 East Avenue Q location is $2,780,625 building limit and $378,000 contents, including $6,000,000 business income.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ended December 31, 2017 and 2016. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of December 31, 2017 and 2016.

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the report date, that have effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 75

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2017. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations.* This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 85

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017.* The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 86

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 88

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.* The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

(14) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued

Governmental Accounting Standards Board Statement No. 88, continued

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

(15) Commitments and Contingencies

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and advances for construction.

Other Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. Nevertheless, after consultation with legal counsel, the District believes that these actions, when finally concluded and determined, are not likely to have a material adverse effect on the District's financial position, results of operations, or cash flows.

Putah Creek

The District, in prior years, was involved in litigation known as ***Putah Creek Council v. Solano Irrigation District, et al.,*** Sacramento County Superior Court Case No. 515766. This matter was coordinated with the matter of ***Solano Irrigation District, et al. v. All Interested Appropriative Water Rights Holders in Upper Basin, et al.,*** Solano County Superior Court Case No. 108552. The Trial Court rendered judgment in favor of requiring additional amounts of water to be released down the Putah Creek and awarded attorneys' fees of approximately $2,000,000, against the Solano interests including the District. A settlement was then entered into under which the participants agreed that the amounts of attorney fees ordered will finally be payable by the Solano County Water Agency, which the District landowners contribute to through taxes and water charges.

The Settlement Agreement terms permit the lawsuit's reopening under certain conditions. Substantial reduction in water yields in the Solano Project will be encountered due to the settlement and substantial costs of enforcement and compliance of the Settlement Agreement terms. The District receives in excess of 70% of its water from the Solano Project and, therefore, would suffer a loss of revenues and its landowners will be less able to financially support the District. This may have a potential detrimental financial impact to the District and the significance and the possibility of a reopening most likely would relate to a claim that further amounts of water should be released for flooding areas for fish habitat, thus further reducing reliable future water yields to the District and others.

(15) Commitments and Contingencies, continued

Taxing Authority

Proposition 13, Proposition 4, and Proposition 218, each provide limitations upon the use of funds acquired from property-related assessments, shares of property tax and limitations upon charges and rates for service or the like for the operation, maintenance, and rehabilitation of the District's facilities. At the time the Solano Project was built, which facilities provide water service with the District, it was anticipated that substantial rehabilitation would be required from year 30 to year 50, and it is now in the latter portion of that period of time. The availability of funds to provide for that rehabilitation is essential to the continued financial viability of the District. Court decisions regarding Proposition 13 limits voter-approved initiatives, such as Proposition 218, relating to standby charges, property tax, levies, and benefit assessments regarding powers to charge the District occur from time to time, resulting in new legal interpretations and principles applicable as a result of these voter initiatives.

These Court decisions often alter or constrain the ability of the District to obtain the funds necessary to rehabilitate or operate the water distribution system and may require that monies be reimbursed. As a result, the District is unable at this time to assure that it will have the funds necessary to provide for operation, reconstruction, and rehabilitation of these aging facilities which are deteriorating rapidly. Rehabilitation and reconstruction of aging water conveyance, storage, measurement, and operation facilities are essential for the continued viability of the District.

(16) Subsequent Events

Events occurring after December 31, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of May 15, 2018, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

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Required Supplementary Information

Solano Irrigation District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of December 31, 2017
Last Ten Years*

Description		Measurement Dates 6/30/2017	6/30/2016	6/30/2015	6/30/2014
District's proportion of the net pension liability		0.16749%	0.16802%	0.41830%	0.37694%
District's proportionate share of the net pension liability	$	16,610,076	14,538,896	11,476,022	9,315,995
District's covered-employee payroll	$	6,282,178	6,310,270	5,985,527	5,775,666
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll		264.40%	230.40%	191.73%	161.30%
Plan's fiduciary net position as a percentage of the total pension liability		73.31%	74.06%	78.40%	79.82%

Notes to the Schedules of the District's Proportionate Share of the Net Pension Liability

Changes in Benefit Terms – The District can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for the District's plan can be found in the plan's annual valuation report.

Changes of Assumptions – In fiscal year 2017, the financial reporting discount rate was lowered from 7.65% to 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used from 7.50% to 7.00%, which is to be phased-in over a three-year period (7.50% to 7.375%, 7.375% to 7.25%, and 7.25% to 7.00%) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

In fiscal year 2015, the financial reporting discount rate was increased from 7.50% to 7.65% resulting from eliminating the 15 basis-point reduction for administrative expenses. The funding discount rate remained at 7.50% during this period, and remained adjusted for administrative expenses.

***** The District has presented information for those years for which information is available until a full 10-year trend is compiled.

Solano Irrigation District
Schedules of Pension Plan Contributions
As of December 31, 2017
Last Ten Years*

Description		Measurement Dates 6/30/2017	6/30/2016	6/30/2015	6/30/2014
Actuarially determined contribution	$	1,436,959	1,307,732	1,039,516	961,166
Contributions in relation to the actuarially determined contribution		(1,436,959)	(1,307,732)	(1,039,516)	(961,166)
Contribution deficiency (excess)	$	-	-	-	-
District's covered payroll	$	6,282,178	6,310,270	5,985,527	5,775,666
Contribution's as a percentage of covered-employee payroll		22.87%	20.72%	17.37%	16.64%

Notes to the Schedules of Pension Plan Contributions

***** The District has presented information for those years for which information is available until a full 10-year trend is compiled.

Solano Irrigation District
Schedules of Funding Status
As of December 31, 2017 and 2016

Other Post-Employment Benefits Payable

Schedule of Funding Progress								
Actuarial Valuation Date		**Actuarial Value of Plan Assets (a)**	**Actuarial Accrued Liability (b)**	**Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)**	**Funded Ratio (a/b)**		**Covered Payroll (c)**	**UAAL as a Percentage of Covered Payroll ((b-a)/c)**
12/31/2017	$	-	10,544,736	10,544,736	0.00%	$	6,776,766	155.60%
12/31/2016		-	9,702,081	9,702,081	0.00%		6,984,767	138.90%
12/31/2015		-	13,373,666	13,373,666	0.00%		7,328,722	182.48%

Funding progress is presented for the past three years that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed annually. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in 2018 based on the year ending December 31, 2017.

Report on Internal Controls and Compliance

Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on the Audits of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Solano Irrigation District
Vacaville, 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 Solano Irrigation District (District), which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon date May 15, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contract 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 audits, 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*.

Independent Auditor's Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on the Audits of Financial Statements Performed in Accordance with *Government Auditing Standards, continued*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls 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.

Fedak & Brown LLP
Cypress, California
May 15, 2018