

THERMALITO WATER AND SEWER DISTRICT
OROVILLE, CALIFORNIA
ANNUAL FINANCIAL REPORT
WITH INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
JUNE 30, 2018

THERMALITO WATER AND SEWER DISTRICT

Annual Financial Report For the Year Ended June 30, 2018

Table of Contents

	<u>Page</u>
Board of Directors.....	1
Financial Section	
Independent Auditor’s Report.....	2-4
Management’s Discussion and Analysis.....	5-10
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Revenues, Expenses, and Changes in Net Position.....	12
Statement of Cash Flows	13-14
Fund Financial Statements:	
Statement of Net Position – Proprietary Funds	15
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	16
Statement of Cash Flows – Proprietary Funds	17-18
Notes to the Financial Statements.....	19-36
Required Supplementary Information	
Schedule of Proportionate Share of the Net Pension Liability	37
Schedule of Pension Contributions	38
Other Supplementary Information	
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual – Water.....	39
Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual – Sewer.....	40

THERMALITO WATER AND SEWER DISTRICT

Annual Financial Report
For the Year Ended June 30, 2018

Table of Contents

	<u>Page</u>
Other Independent Auditor's Reports	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	41-42
Independent Auditor's Report on Compliance Relating to the Sewerage Commission – Oroville Region.....	43

THERMALITO WATER AND SEWER DISTRICT

Annual Financial Statements
For the Year Ended June 30, 2018

BOARD OF DIRECTORS

President:

Brian Pulley
Division 4

Vice-President:

Trevor Hatley
Division 2

Directors:

Brad Taggart
Division 1

Susan Latulippe
Division 3

Ernie Reynolds
Division 5

District Manager:

Jayne Boucher

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Thermalito Water and Sewer District
Oroville, California 95965

We have audited the accompanying financial statements of the Thermalito Water and Sewer District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents. The prior year comparative information has been derived from the District's June 30, 2017 financial statements and, in our report dated October 22, 2018, we expressed an unmodified opinion on the 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatements 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 financial statement presentation.

Board of Directors
Thermalito Water and Sewer District
Oroville, California 95965

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2018, and the respective change in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 5 through 9 and other required supplementary information on pages 38 and 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The accompanying other supplementary information on pages 40 and 41 is presented for the purpose of additional analysis and is not a required part of the financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Board of Directors
Thermalito Water and Sewer District
Oroville, California 95965

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 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, 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 in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

Reports on Other Legal and Regulatory Requirements

Independent Auditor’s Report on Compliance relating to the Sewerage Commission – Oroville Region

The management of the District is responsible for the District’s compliance with various resolutions and policies of the Sewerage Commission – Oroville Region (SC-OR). We tested certain transactions and reviewed records to determine the District’s compliance with SC-OR’s resolutions and policies.

Fechter & Company,
Certified Public Accountants



Sacramento, California
October 22, 2018

THERMALITO WATER AND SEWER DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2018

This section of the annual financial report of the Thermalito Water and Sewer District (District) presents the Management Discussion and Analysis. The discussion and analysis provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's basic financial statements following this section.

BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of the District's finances.

The District's government-wide financial statements consist of:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows
- Notes to the Financial Statements

The ***Statement of Net Position*** includes all of the District's assets and liabilities, with the difference between the two reported as Net Position. Net Position is displayed in three categories:

- Net investment in capital assets
- Restricted
- Unrestricted

This statement provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility.

The ***Statement of Revenues, Expenses, and Changes in Net Position*** presents information which shows how the District's equity changed during each year. All of the year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses, and changes in net position measures the success of the District's operations during the year and determines whether the District has recovered its costs through monthly service fees and other charges.

The ***Statement of Cash Flows*** provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operating Activities
- Non-Capital Financing Activities
- Capital and Related Financing Activities
- Investing Activities

THERMALITO WATER AND SEWER DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2018

The *Notes to the Financial Statements* provides a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

Fund Financial Statements – The District maintains two proprietary funds that are classified as enterprise funds. The District uses the enterprise funds to account for its water and sewer services, both considered to be major funds of the District. The proprietary fund financial statements provide the same information as the government-wide financial statements, however, in greater detail.

Financial Highlights

Fiscal year 2017/2018 was a stable year for the District. The construction of new homes is still moving slowly. The District sold twenty water connections and six sewer connections for the year.

The District replaced a 24" water main which consisted of the installation of approximately 1,900 lineal feet of water main. This project replaced the existing 24" steel main which conveys treated water to our 2.5 million gallon tank. The project consisted of the crossing of Table Mountain Boulevard and the installation of the replacement pipe within an existing casing under the Union Pacific Railroad. The total cost for this project was \$397,834.

THERMALITO WATER AND SEWER DISTRICT

Management's Discussion and Analysis For the Year Ended June 30, 2018

Financial Analysis of the District – Government-Wide

Statement of Net Position: The District's net position increased from one year ago. Our analysis below focuses on the net position of the District's enterprise activities.

Thermalito Water and Sewer District Statement of Net Position

	2018	2017	2016
Assets			
Current assets	\$5,453,911	\$4,860,989	\$6,173,774
Restricted assets	886,450	850,609	1,081,207
Capital assets, net of accumulated depreciation	14,599,487	14,646,845	14,818,226
Total Assets	<u>20,939,848</u>	<u>20,358,443</u>	<u>22,073,207</u>
CalPERS pension contributions	571,612	678,432	212,772
Total Deferred Outflows of Resources	<u>571,612</u>	<u>678,432</u>	<u>212,772</u>
<u>Liabilities</u>			
Other current liabilities	275,427	224,158	228,415
Long-term liabilities	4,163,733	4,371,512	6,612,975
Total Liabilities	<u>4,439,160</u>	<u>4,595,670</u>	<u>6,841,390</u>
CalPERS actuarial amounts	74,154	160,410	174,658
Total Deferred Inflows of Resources	<u>74,154</u>	<u>160,410</u>	<u>174,658</u>
Invested in capital assets, net of related debt	11,783,359	11,549,626	9,267,537
Restricted	886,450	850,609	1,081,207
Unrestricted	4,328,337	3,880,560	4,921,187
Total Net Position	<u>\$16,998,146</u>	<u>\$16,280,795</u>	<u>\$15,269,931</u>

The total net position of the District's enterprise activities increased by \$717,351 from one year ago (2017 to 2018). The current assets of the District's governmental activities, including restricted cash, increased \$628,763 from one year ago, and the capital assets, net of accumulated depreciation decreased by \$47,358. Long-term liabilities decreased by \$207,779 from prior year. Unrestricted Net Position is the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements. The Unrestricted Net Position at June 30, 2017, of \$3,880,560 compared to Unrestricted Net Position at June 30, 2018, of \$4,328,337, increased by \$447,777.

THERMALITO WATER AND SEWER DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2018

Statement of Revenues, Expenses, and Changes in Net Position: Reflects changes in activities of the District.

Thermalito Water and Sewer District Change in Net Position			
	2018	2017	2016
Revenues:			
Charges for services	\$ 3,454,878	\$ 3,318,194	\$ 3,369,343
Other	13,475	27,217	17,460
Total Revenues	3,468,353	3,345,411	3,386,803
Expenses:			
Direct expenses	974,185	880,560	826,156
Administration	801,343	535,887	693,436
SCOR charges	393,953	382,278	339,397
Depreciation	615,449	602,443	535,431
Total Expenses	2,784,930	2,401,168	2,394,420
Operating income (loss)	683,423	944,243	992,383
Interest income	55,206	24,963	19,510
Capacity charges	28,035	26,214	64,849
Solar income	16,606	61,321	62,677
Other non-operating income	-	42,181	-
Interest expense	(65,188)	(88,058)	(162,486)
Loss on disposal of assets	(731)	-	-
Change in net position	\$ 717,351	\$ 1,010,864	\$ 976,933

Charges for services increased by \$136,684, as there were more water and sewer connections sold throughout the year.

The District's operating expenses increased by \$383,762, primarily due to repairs to the operating system and connections.

Financial Analysis of the District – Proprietary Funds

The District's proprietary fund financial statements provide greater detail of the Water and Sewer Service funds that comprise the government-wide financial statements.

Unrestricted net position of the respective proprietary funds at June 30, 2018, are: Water Services \$2,695,713, and Sewer Services \$1,632,624. For the fiscal year ended June 30, 2018, the Water Services total net position increased by \$686,564, and the Sewer Service total net position increased by \$30,787.

THERMALITO WATER AND SEWER DISTRICT

Management’s Discussion and Analysis
For the Year Ended June 30, 2018

Capital Assets

The District’s investment in capital assets (net of accumulated depreciation) totals \$14,599,487, as of June 30, 2018. The following table provides a detailed breakdown of the capital assets:

Capital Assets Net of Accumulated Depreciation			
	2018	2017	2016
Water Services:			
Land	\$ 126,171	\$ 126,171	\$ 126,171
Concow easement	12,968	12,968	12,968
Source and supply	7,974,696	7,850,519	7,888,646
General plant and administration	242,905	280,329	298,604
Total Capital Assets, Water	8,356,740	8,269,987	8,326,389
Sewer Services:			
Sewer collection facilities	6,126,179	6,254,321	3,247,825
Automotive equipment	110,700	116,669	127,498
Construction in progress	5,868	5,868	3,116,514
Total Capital Assets, Sewer	6,242,747	6,376,858	6,491,837
Total Net Capital Assets	\$ 14,599,487	\$ 14,646,845	\$ 14,818,226

Capital Debt

As of June 30, 2018, the District had long-term debt of \$2,816,128, compared with \$3,097,219 at June 30, 2017. More detailed information about the District’s capital debt is presented in Note 5 of the financial statements.

Economic Factors and Next Year’s Budget

The District’s elected officials considered many factors when setting the Fiscal Year 2019 budget. Some of the economic factors taken into account for the budget include monthly service charges and connection fees.

The District budgeted in two major projects for the Fiscal Year 2019. The Ruddy Creek Mainline Project which consists of replacing the sewer pipeline between Feather Avenue and Biggs Avenue. The replacement will consist of approximately 1,500 lineal feet of sewer main and five manholes. The cost for this project is \$262,408. The District also plans on replacing the 1 Million Gallon Clearwell. This project will consist of the replacement of the existing steel welded clearwell tank with a steel-glass fused tank. The work will consist of the demolition of the existing tank, construction of a concrete foundation and installation of the new tank. The cost for this project is \$770,000.

THERMALITO WATER AND SEWER DISTRICT

Management's Discussion and Analysis
For the Year Ended June 30, 2018

District Financial Management

This financial report is designed to provide our customers, investors, and creditors with a general overview of the District's finances, and to demonstrate the District's accountability for the financial resources it manages and the stewardship of the facilities it maintains. If you have questions about this report or need additional financial information, contact the Thermalito Water and Sewer District, 410 Grand Avenue, Oroville, California 95965.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

THERMALITO WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018
(with comparative data for June 30, 2017)

	2018	2017
ASSETS		
Current Assets:		
Cash and investments	\$ 5,313,333	\$ 4,709,947
Accounts receivable	41,414	57,950
Interest receivable	19,719	7,741
Inventory	59,973	67,241
Prepaid items	19,472	18,110
Capital Assets, net	14,599,487	14,646,845
Restricted assets:		
Restricted cash and investments	886,450	850,609
Total Assets	20,939,848	20,358,443
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension outflows	571,612	678,432
LIABILITIES		
Current Liabilities:		
Accounts payable	85,004	39,372
Accounts payable - SC-OR	98,675	94,069
Salaries and wages payable	29,701	27,133
Customer advances	5,089	3,231
Interest payable	52,679	56,074
Retirement payable	1,779	1,779
Project advances	2,500	2,500
Current portion of notes payable	272,659	281,091
Total current liabilities	548,086	505,249
Non-Current liabilities:		
Compensated absences liability	301,957	271,898
Net pension liability	1,045,648	1,002,395
Notes payable, net of current portion	2,543,469	2,816,128
Total Non-Current liabilities	3,891,074	4,090,421
TOTAL LIABILITIES	4,439,160	4,595,670
DEFERRED INFLOWS OF RESOURCES		
Deferred pension inflows	74,154	160,410
NET POSITION		
Net investment in capital assets	11,783,359	11,549,626
Restricted:		
Debt service	317,555	317,555
Capacity fees	568,895	533,004
Monument fund	-	50
Total Restricted	4,328,337	3,880,560
TOTAL NET POSITION	\$ 16,998,146	\$ 16,280,795

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

THERMALITO WATER AND SEWER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018
(with comparative data for June 30, 2017)

	2018	2017
Operating Revenues:		
Water sales	\$ 2,090,949	\$ 2,026,280
Water services	193,778	149,155
Sewer use sales and services	1,170,151	1,142,759
Other income	13,475	27,217
	<u>3,468,353</u>	<u>3,345,411</u>
Operating Expenses:		
Wilnor water supply	40,833	24,510
Water treatment	365,417	317,997
Transmission and distribution	476,205	458,087
Administration and general	801,343	535,887
Depreciation	615,449	602,443
Sewerage collection	91,730	79,966
SC-OR charges	393,953	382,278
	<u>2,784,930</u>	<u>2,401,168</u>
Total Operating Expenses		
	<u>2,784,930</u>	<u>2,401,168</u>
Operating Income	<u>683,423</u>	<u>944,243</u>
Non-Operating Revenues (Expenses):		
Interest income	55,206	24,963
Capacity charges	28,035	26,214
Solar income	16,606	61,321
Other non-operating income	-	42,181
Interest expense	(65,188)	(88,058)
Loss on disposal of assets	(731)	-
	<u>(731)</u>	<u>-</u>
Total Non-Operating Income	<u>33,928</u>	<u>66,621</u>
Change in Net Position	<u>717,351</u>	<u>1,010,864</u>
Beginning Net Position	<u>16,280,795</u>	<u>15,269,931</u>
Ending Net Position	<u>\$ 16,998,146</u>	<u>\$ 16,280,795</u>

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

THERMALITO WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018
(with comparative data for June 30, 2017)

	2018	2017
Cash flows from operating activities:		
Cash received from customers	\$ 3,494,521	\$ 3,329,768
Cash paid to suppliers	(898,430)	(848,277)
Cash paid for employee salaries and benefits	(1,126,237)	(1,185,637)
	1,469,854	1,295,854
Cash flows from capital and related financing activities:		
Purchase of capital assets	(573,322)	(431,062)
Proceeds from capacity charges	28,035	26,214
Proceeds from solar electric generation	16,606	61,321
Proceeds from sale of assets	4,500	-
Refunds on projects	-	42,181
Principal paid on loans	(281,091)	(2,453,470)
Interest paid on loans	(68,583)	(110,991)
	(873,855)	(2,865,807)
Cash flows from investing activities:		
Investment income received	43,228	23,857
	43,228	23,857
Net increase (decrease) in cash and cash equivalents	639,227	(1,546,096)
Cash and cash equivalents, beginning of year	5,560,556	7,106,652
Cash and cash equivalents, end of year	\$ 6,199,783	\$ 5,560,556
Reconciliation of Cash and Cash Equivalents:		
Cash and cash equivalents	\$ 5,313,333	\$ 4,709,947
Restricted cash and cash equivalents	886,450	850,609
Total Cash and Cash Equivalents	\$ 6,199,783	\$ 5,560,556

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

**THERMALITO WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018**

	2018	2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 683,423	\$ 944,243
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	615,449	602,443
Changes in assets and liabilities:		
Accounts receivable	16,536	(3,924)
Inventory	7,268	2,873
Prepaid expenses	(1,362)	(556)
Accounts payable	45,632	7,823
Accounts payable - SC-OR	4,606	8,795
Customer advances	1,858	2,500
Project advances	-	2,500
Accrued salaries and wages	2,568	(2,096)
Retirement payable	-	(846)
Compensated absences liability	30,059	15,699
Net pension liability	63,817	(283,600)
	<u>\$ 1,469,854</u>	<u>\$ 1,295,854</u>
Net cash provided by operating activities		

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

FUND FINANCIAL STATEMENTS

THERMALITO WATER AND SEWER DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

	Water Services	Sewer Services	Total
ASSETS			
Current Assets:			
Cash and investments	\$ 3,275,248	\$ 2,038,085	\$ 5,313,333
Accounts receivable	12,395	29,019	41,414
Interest receivable	15,775	3,944	19,719
Due from other funds	153,162	81,140	234,302
Inventory	58,063	1,910	59,973
Prepaid items	19,472	-	19,472
Total Current Assets	<u>3,534,115</u>	<u>2,154,098</u>	<u>5,688,213</u>
Restricted and Noncurrent assets:			
Restricted cash and investments	454,609	431,841	886,450
Capital assets, net	8,356,740	6,242,747	14,599,487
Total Assets	<u>12,345,464</u>	<u>8,828,686</u>	<u>21,174,150</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred pension outflows	463,006	108,606	571,612
LIABILITIES			
Current Liabilities:			
Accounts payable	40,773	44,231	85,004
Salaries and wages payable	22,088	7,613	29,701
Accounts payable - SC-OR	-	98,675	98,675
Due to other funds	81,140	153,162	234,302
Customer advances	5,089	-	5,089
Interest payable	1,933	50,746	52,679
Retirement payable	1,779	-	1,779
Project advances	-	2,500	2,500
Current portion of notes payable	155,938	116,721	272,659
Total Current Liabilities	<u>308,740</u>	<u>473,648</u>	<u>782,388</u>
Long-Term Liabilities:			
Compensated absences liability	241,566	60,391	301,957
Net pension liability	846,975	198,673	1,045,648
Notes payable, net of current portion	138,669	2,404,800	2,543,469
TOTAL LIABILITIES	<u>1,535,950</u>	<u>3,137,512</u>	<u>4,673,462</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred pension inflows	60,065	14,089	74,154
NET POSITION			
Net investment in capital assets	8,062,133	3,721,226	11,783,359
Restricted:			
Debt service	147,882	169,673	317,555
Capacity fees	306,727	262,168	568,895
Unrestricted	2,695,713	1,632,624	4,328,337
TOTAL NET POSITION	<u>\$ 11,212,455</u>	<u>\$ 5,785,691</u>	<u>\$ 16,998,146</u>

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

THERMALITO WATER AND SEWER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Water Services	Sewer Services	Total
Operating Revenues:			
Water sales	\$ 2,090,949	\$ -	\$ 2,090,949
Water services	193,778	-	193,778
Sewer use sales and services	-	1,170,151	1,170,151
Other income	13,475	-	13,475
	<u>2,298,202</u>	<u>1,170,151</u>	<u>3,468,353</u>
Operating Expenses:			
Wilenor water supply	40,833	-	40,833
Water treatment	365,417	-	365,417
Transmission and distribution	430,175	46,030	476,205
Administration and general	460,379	340,964	801,343
Depreciation	386,446	229,003	615,449
Sewerage collection	-	91,730	91,730
SC-OR charges	-	393,953	393,953
	<u>1,683,250</u>	<u>1,101,680</u>	<u>2,784,930</u>
Operating Income	<u>614,952</u>	<u>68,471</u>	<u>683,423</u>
Non-Operating Revenues (Expenses):			
Interest income	44,165	11,041	55,206
Capacity charges	21,218	6,817	28,035
Solar income	16,606	-	16,606
Interest expense	(12,135)	(53,053)	(65,188)
Gain (loss) on disposal of assets	1,758	(2,489)	(731)
	<u>71,612</u>	<u>(37,684)</u>	<u>33,928</u>
Change in Net Position	686,564	30,787	717,351
Beginning Net Position	<u>10,525,891</u>	<u>5,754,904</u>	<u>16,280,795</u>
Ending Net Position	<u>\$ 11,212,455</u>	<u>\$ 5,785,691</u>	<u>\$ 16,998,146</u>

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

**THERMALITO WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	Water Services	Sewer Services	Total
Cash flows from operating activities:			
Cash received from customers	\$ 2,326,422	\$ 1,168,099	\$ 3,494,521
Cash paid to suppliers	(358,027)	(540,403)	(898,430)
Cash paid for employee salaries and benefits	(875,870)	(250,367)	(1,126,237)
Net cash provided by operating activities	<u>1,092,525</u>	<u>377,329</u>	<u>1,469,854</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(475,941)	(97,381)	(573,322)
Proceeds from capacity charges	21,218	6,817	28,035
Proceeds from solar electric generation	16,606	-	16,606
Proceeds from sale of assets	4,500	-	4,500
Principal paid on loans	(166,770)	(114,321)	(281,091)
Interest paid on loans	(13,230)	(55,353)	(68,583)
Net cash used by capital and related financing activities	<u>(613,617)</u>	<u>(260,238)</u>	<u>(873,855)</u>
Cash flows from investing activities:			
Investment income received	<u>34,583</u>	<u>8,645</u>	<u>43,228</u>
Net cash provided by investing activities	<u>34,583</u>	<u>8,645</u>	<u>43,228</u>
Net increase in cash and cash equivalents	513,491	125,736	639,227
Cash and cash equivalents, beginning of year	<u>3,216,366</u>	<u>2,344,190</u>	<u>5,560,556</u>
Cash and cash equivalents, end of year	<u>\$ 3,729,857</u>	<u>\$ 2,469,926</u>	<u>\$ 6,199,783</u>
Reconciliation of Cash and Cash Equivalents:			
Cash and cash equivalents	\$ 3,275,248	\$ 2,038,085	\$ 5,313,333
Restricted cash and cash equivalents	<u>454,609</u>	<u>431,841</u>	<u>886,450</u>
Total cash and cash equivalents	<u>\$ 3,729,857</u>	<u>\$ 2,469,926</u>	<u>\$ 6,199,783</u>

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

THERMALITO WATER AND SEWER DISTRICT
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Water Services	Sewer Services	Total
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 614,952	\$ 68,471	\$ 683,423
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	386,446	229,003	615,449
Changes in assets and liabilities:			
Accounts receivable	15,028	1,508	16,536
Due from other funds	11,334	(3,560)	7,774
Inventory	7,916	(648)	7,268
Prepaid expenses	(1,362)	-	(1,362)
Accounts payable	12,910	32,722	45,632
Accounts payable - SC-OR	-	4,606	4,606
Customer advances	1,858	-	1,858
Project advances	-	-	-
Accrued salaries and wages	2,894	(326)	2,568
Due to other funds	3,560	(11,334)	(7,774)
Retirement payable	-	-	-
Compensated absences liability	24,048	6,011	30,059
Net pension liability	12,941	50,876	63,817
	\$ 1,092,525	\$ 377,329	\$ 1,469,854

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

NOTES TO THE FINANCIAL STATEMENTS

THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies

Thermalito Water and Sewer District (District) is a public agency formed and existing under the laws of the State of California, and as such is a non-profit, tax-exempt district. It exists pursuant to Section 20700 of the California Water Code. The District supplies water and sewer services to customers in the Oroville area.

Reporting Entity

The District's financial statements include all transactions of the District for which the District is financially accountable. Financial accountability is defined as appointment of a majority of a component unit's board and either the ability to impose the will of the District or the possibility that the component unit will provide financial benefit to or impose a financial burden on the District. Based on these criteria, the District has determined that there are no component units which come under the criteria for inclusion. The District is not a component unit of any other government entity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District's financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows.

The activities of the District are accounted for using two proprietary (enterprise) funds. Enterprise funds are used to account for activities similar to those found in private business enterprises, where the determination of net income is necessary or useful for sound financial management and services are provided to outside parties.

The District distinguishes *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Principal operating revenues of the District are charges to customers for water and sewer services. Operating expenses for the District include salaries and benefits, supplies and other services, insurance premiums, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies - continued

Budget Basis of Accounting

The budgets of the District are adopted on a basis consistent with generally accepted accounting principles (GAAP) with the following exceptions:

- a) Depreciation is not budgeted as an expense,
- b) Capital outlays are budgeted as a current expense, and
- c) Certain non-operating revenues and expenses are not budgeted.

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 and liabilities and disclosures of contingent assets and liabilities 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.

Cash and Investments

For purposes of the statement of cash flows, the District's cash and cash equivalents include restricted and unrestricted cash on hand or on deposit, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The District has adopted a formal investment policy as required by Section 53600 et seq., of the California Government Code. The District's treasurer has responsibility for selecting depositories and investing idle funds in accordance with the adopted investment policy. See Note 2 for additional information on the District's cash and investments.

Accounts Receivable

Accounts receivable consist primarily of amounts due on water and sewer services. Delinquent accounts for water or sewer services are treated pursuant to Water Code 10, Chapter 3, Article 1, Section 25806, 25807, and 25650, also named *Resolution Adding Unpaid Charges to the Annual Assessment*. In process, the District compiles their outstanding accounts receivable and submits them to the County of Butte. The County attaches these amounts due to the balance of the property tax bill. By doing this, the District is assured by the County of Butte of receiving the unpaid amounts within twelve months of the date of submission and, therefore, no doubtful account allowances were deemed necessary at June 30, 2018 and 2017.

THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies - continued

Inventory of Materials and Supplies

Inventory of materials and supplies consists primarily of water meters, pipes, and pipe fittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at lower of cost or market using a first-in, first-out (FIFO) basis. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

Prepaid Expenses

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

Compensated Absences

The District maintains a Memorandum of Understanding (MOU) with its employees for unused vacation and sick leave. The two major items contained in the MOU are: (1) that, upon termination of employment, each employee shall be paid an amount in salary equal to his/her unused accumulated vacation pay, and (2) that, upon retirement, death, or disability, each employee shall be paid an amount equal to 50% of his/her accumulated unused sick pay with a maximum payout of 1000 hours. The District did not have any other post-employment benefit obligations (OPEB) for the fiscal years ended June 30, 2018 and 2017.

Capital Contributions

Capital contributions represent capital asset additions contributed to the District by property owners or real estate developers desiring services that require capital expenditures or capacity commitment.

Property, Plant, and Equipment

Capital assets acquired and/or constructed are capitalized at historical cost. 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. The District provides for depreciation under the straight-line method with useful lives of 3 to 10 years on automotive, furniture, fixtures, and machinery and equipment. All other assets are depreciated under the straight-line method with useful lives ranging from 10 to 50 years, with the exception of Wilenor Dam Storage System, which is 100 years.

THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies - continued

Property, Plant, and Equipment - continued

The District capitalizes interest relating to certain long-term construction projects. Capitalized interest is charged to property and equipment and amortized over the life of the related assets in order to properly match expenses with revenues resulting from the facilities. No interest was capitalized for the fiscal year ended June 30, 2018 or 2017.

Net Position

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

- Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction, or improvement of those assets.
- Restricted Net Position – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of net positions that do not meet the definition of *restricted* or *net investment in capital assets*.

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 California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements
June 30, 2018

Note 2: Cash and Cash Equivalents

Cash and investments as of June 30, 2018 and 2017, are classified in the accompanying financial statements as follows:

	2018	2017
Current Assets:		
Cash and cash equivalents	\$ 5,313,333	\$ 4,709,947
Restricted Assets:		
Cash and cash equivalents	886,450	850,609
Total Cash and Cash Equivalents	\$ 6,199,783	\$ 5,560,556
Cash on hand	\$ 600	\$ 600
Deposits held with financial institutions	1,916,471	2,055,472
Deposits held with LAIF	4,282,712	3,504,484
Total Cash and Cash Equivalents	\$ 6,199,783	\$ 5,560,556

Authorized Deposits and Investments

The District is generally authorized under state statute and local resolutions to invest in demand deposits with financial institutions, savings accounts, certificates of deposit, U.S. Treasury securities, federal agency securities, State of California notes or bonds, notes or bonds of agencies within the State of California, obligations guaranteed by the Small Business Administration, bankers' acceptances, commercial paper, and the Local Agency Investment Fund (LAIF).

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. As of June 30, 2018 and 2017, the District's investments had no significant exposure to interest rate risk.

THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements
June 30, 2018

Note 2: Cash and Cash Equivalents - continued

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 risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization. The District does not hold direct investments; therefore, there is no concentration of credit risk.

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 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, 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 the 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.

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. 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 investments. 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 District's carrying amounts with financial institutions were \$1,916,471 and \$2,055,472, and the balances in financial institutions were \$1,916,435 and \$2,046,999, respectively, for 2018 and 2017. Of the balances with financial institutions, \$250,000 was covered by federal depository insurance, and the remaining amounts \$1,666,435 and \$1,796,999 for 2018 and 2017, respectively, were collateralized as described above.

THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements
June 30, 2018

Note 2: Cash and Cash Equivalents - continued

Investment in State Investment Pool

The District is a voluntary participant in LAIF. LAIF is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the entity's investment in this pool is reported in the accompanying financial statements at amounts based upon the entity'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 balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Investments for the District are reported at fair value. The Local Agency Investment Fund (LAIF) is a special fund of the California State Treasury through which local governments may pool investments. The District may invest up to \$50,000,000 in the fund. Investments in LAIF are highly liquid as deposits can be converted to cash within 24 hours without loss of interest. Funds deposited in LAIF are invested in accordance with California Government Code Sections 16430 and 16480. Oversight of LAIF is provided by the Pooled Money Investment Board whose members are the California State Treasurer, California Director of Finance, and the California State Controller. For the purpose of these financial statements, the fair value of amounts in LAIF is equivalent to dollars held.

Note 3: Property Tax

Property taxes attach as an enforceable lien on property as of January 1st and are payable in two installments, on December 10 and April 10. The District relies on the competency of the County of Butte for the billing, collection, and distribution of its share of property tax revenues.

THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements
June 30, 2018

Note 4: Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deletions/ Transfers	Balance June 30, 2018
Water Services				
Nondepreciable Capital Assets:				
Land	\$ 126,171	\$ -	\$ -	\$ 126,171
Concow easement	12,968	-	-	12,968
Total Nondepreciable Capital Assets	<u>139,139</u>	<u>-</u>	<u>-</u>	<u>139,139</u>
Capital Assets Being Depreciated:				
Source and supply	14,638,453	448,336	(19,880)	15,066,909
General plant and administration	1,222,075	27,605	(31,601)	1,218,079
Total Capital Assets Being Depreciated	<u>15,860,528</u>	<u>475,941</u>	<u>(51,481)</u>	<u>16,284,988</u>
Less: Accumulated Depreciation:				
Source and supply	(6,787,934)	(324,159)	19,880	(7,092,213)
General plant and administration	(941,746)	(62,287)	28,859	(975,174)
Total Accumulated Depreciation	<u>(7,729,680)</u>	<u>(386,446)</u>	<u>48,739</u>	<u>(8,067,387)</u>
Depreciable Capital Assets, Net	<u>8,130,848</u>	<u>89,495</u>	<u>(2,742)</u>	<u>8,217,601</u>
Total Capital Assets, Water Services	<u>8,269,987</u>	<u>89,495</u>	<u>(2,742)</u>	<u>8,356,740</u>
Sewer Services				
Nondepreciable Capital Assets:				
Construction in progress	5,868	-	-	5,868
Total Nondepreciable Capital Assets	<u>5,868</u>	<u>-</u>	<u>-</u>	<u>5,868</u>
Capital Assets Being Depreciated:				
Sewer collection facilities	9,846,232	69,776	-	9,916,008
Equipment	509,139	27,606	(7,654)	529,091
Total Capital Assets Being Depreciated	<u>10,355,371</u>	<u>97,382</u>	<u>(7,654)</u>	<u>10,445,099</u>
Less: Accumulated Depreciation:				
Sewer collection facilities	(3,591,911)	(197,918)	-	(3,789,829)
Equipment	(392,470)	(31,085)	5,164	(418,391)
Total Accumulated Depreciation	<u>(3,984,381)</u>	<u>(229,003)</u>	<u>5,164</u>	<u>(4,208,220)</u>
Depreciable Capital Assets, Net	<u>6,370,990</u>	<u>(131,621)</u>	<u>(2,490)</u>	<u>6,236,879</u>
Total Capital Assets, Sewer Services	<u>6,376,858</u>	<u>(131,621)</u>	<u>(2,490)</u>	<u>6,242,747</u>
Total Capital Assets, Net	<u>\$ 14,646,845</u>	<u>\$ (42,126)</u>	<u>\$ (5,232)</u>	<u>\$ 14,599,487</u>

THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements
June 30, 2018

Note 4: Capital Assets - continued

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

	Balance July 1, 2016	Additions	Deletions/ Transfers	Balance June 30, 2017
Water Services				
Nondepreciable Capital Assets:				
Land	\$ 126,171	\$ -	\$ -	\$ 126,171
Concow easement	12,968	-	-	12,968
Total Nondepreciable Capital Assets	<u>139,139</u>	<u>-</u>	<u>-</u>	<u>139,139</u>
Capital Assets Being Depreciated:				
Source and supply	14,361,784	276,669	-	14,638,453
General plant and administration	1,194,595	45,688	(18,208)	1,222,075
Total Capital Assets Being Depreciated	<u>15,556,379</u>	<u>322,357</u>	<u>(18,208)</u>	<u>15,860,528</u>
Less: Accumulated Depreciation:				
Source and supply	(6,473,138)	(314,796)	-	(6,787,934)
General plant and administration	(895,991)	(63,963)	18,208	(941,746)
Total Accumulated Depreciation	<u>(7,369,129)</u>	<u>(378,759)</u>	<u>18,208</u>	<u>(7,729,680)</u>
Depreciable Capital Assets, Net	<u>8,187,250</u>	<u>(56,402)</u>	<u>-</u>	<u>8,130,848</u>
Total Capital Assets, Water Services	<u>8,326,389</u>	<u>(56,402)</u>	<u>-</u>	<u>8,269,987</u>
Sewer Services				
Nondepreciable Capital Assets:				
Construction in progress	3,116,514	410	(3,111,056)	5,868
Total Nondepreciable Capital Assets	<u>3,116,514</u>	<u>410</u>	<u>(3,111,056)</u>	<u>5,868</u>
Capital Assets Being Depreciated:				
Sewer collection facilities	6,643,740	91,436	3,111,056	9,846,232
Equipment	492,280	16,859	-	509,139
Total Capital Assets Being Depreciated	<u>7,136,020</u>	<u>108,295</u>	<u>3,111,056</u>	<u>10,355,371</u>
Less: Accumulated Depreciation:				
Sewer collection facilities	(3,395,915)	(195,996)	-	(3,591,911)
Equipment	(364,782)	(27,688)	-	(392,470)
Total Accumulated Depreciation	<u>(3,760,697)</u>	<u>(223,684)</u>	<u>-</u>	<u>(3,984,381)</u>
Depreciable Capital Assets, Net	<u>3,375,323</u>	<u>(115,389)</u>	<u>3,111,056</u>	<u>6,370,990</u>
Total Capital Assets, Sewer Services	<u>6,491,837</u>	<u>(114,979)</u>	<u>-</u>	<u>6,376,858</u>
Total Capital Assets, Net	<u>\$ 14,818,226</u>	<u>\$ (171,381)</u>	<u>\$ -</u>	<u>\$ 14,646,845</u>

THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements
June 30, 2018

Note 5: Long-Term Liabilities

The District's long-term liabilities for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Long-Term Debt:					
Water Services					
2012 City National Bank Loan	\$ 461,377	\$ -	\$ 166,770	\$ 294,607	\$ 155,938
Subtotal	461,377	-	166,770	294,607	155,938
Sewer Services					
2014 CA Water Resources	2,635,842	-	114,321	2,521,521	116,721
Total Long-Term Debt	<u>\$ 3,097,219</u>	<u>\$ -</u>	<u>\$ 114,321</u>	<u>\$ 2,521,521</u>	<u>\$ 116,721</u>
Accrued Compensation:					
Water	\$ 217,518	\$ 76,489	\$ 52,441	\$ 241,566	
Sewer	54,380	19,121	13,110	60,391	
Total Accrued Compensation	<u>\$ 271,898</u>	<u>\$ 95,610</u>	<u>\$ 65,551</u>	<u>\$ 301,957</u>	
Net Pension Liability:					
Water	\$ 892,132	\$ -	\$ 45,157	\$ 846,975	
Sewer	110,263	88,410	-	198,673	
Total Net Pension Liability	<u>\$ 1,002,395</u>	<u>\$ 88,410</u>	<u>\$ 45,157</u>	<u>\$ 1,045,648</u>	

The District's long-term liabilities for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Long-Term Debt:					
Water Services					
2012 City National Bank Loan	\$ 671,858	\$ -	\$ 210,481	\$ 461,377	\$ 166,770
2005 City National Bank Loan	2,120,000	-	2,120,000	-	-
Subtotal	2,791,858	-	2,330,481	461,377	166,770
Sewer Services					
2014 CA Water Resources	2,758,831	-	122,989	2,635,842	114,321
Total Long-Term Debt	<u>\$ 5,550,689</u>	<u>\$ -</u>	<u>\$ 2,453,470</u>	<u>\$ 3,097,219</u>	<u>\$ 281,091</u>
Accrued Compensation:					
Water	\$ 204,959	\$ 73,165	\$ 60,606	\$ 217,518	
Sewer	51,240	18,291	15,151	54,380	
Total Accrued Compensation	<u>\$ 256,199</u>	<u>\$ 91,456</u>	<u>\$ 75,757</u>	<u>\$ 271,898</u>	
Net Pension Liability:					
Water	\$ 717,417	\$ 174,715	\$ -	\$ 892,132	
Sewer	88,670	21,593	-	110,263	
Total Net Pension Liability	<u>\$ 806,087</u>	<u>\$ 196,308</u>	<u>\$ -</u>	<u>\$ 1,002,395</u>	

THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements
June 30, 2018

Note 5: Long-Term Liabilities - continued

Bonds and notes payable consist of the following as of June 30, 2018:

2014 Installment Sale Agreement/California State Water Resources Control Board: On May 1, 2014, the District entered into an installment Sale Agreement with California State Water Resources Control Board to finance the East Trunk Line Replacement Project. The project was completed during the fiscal year. The current loan balance at June 30, 2018, is \$2,521,521. Interest on the loan is 2.1% and payable in annual installments over twenty years. The annual principal payments range from \$122,989 to \$166,183. The first payment was due on July 17, 2016. The City of Oroville has entered into an agreement to fund 75% of the reserve account requirement and to pay 75% of all the debt service payments.

2012 Installment Sale Agreement/City National Note Payable: On April 13, 2012, the District entered into an Installment Sale Agreement (later referred to as Note) with Municipal Finance Corporation (seller) and City National Bank (assignee/trustee) in order to finance the office and treatment plant solar power projects. The Note is secured by a pledge of and lien on the net revenues of the Water System on parity with the pledge and lien that secures the 2005 Bonds initially financed for the 2005 Water System Project. The original principal amount of the Note related to Thermalito Water and Sewer District was \$1,478,817. The current loan balance at June 30, 2018, is \$294,607. Interest on the Note is 3.15% and payable semiannually on each April 13 and October 13, beginning October 13, 2012. The semiannual principal payments range from \$96,709 to \$69,853.

The following is a schedule of long-term debt payments:

<u>Water Services</u>			
<u>For the Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 155,938	\$ 8,062	\$ 164,000
2020	138,669	3,284	141,953
Total	<u>\$ 294,607</u>	<u>\$ 11,346</u>	<u>\$ 305,953</u>

<u>Sewer Services</u>			
<u>For the Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 116,721	\$ 52,952	\$ 169,673
2020	119,172	50,501	169,673
2021	121,675	47,998	169,673
2022	124,230	45,443	169,673
2023	126,839	42,834	169,673
2024-2028	675,286	173,080	848,366
2029-2033	749,232	99,134	848,366
2034-2036	488,366	20,654	509,020
Total	<u>\$ 2,521,521</u>	<u>\$ 532,596</u>	<u>\$ 3,054,117</u>

THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements
June 30, 2018

Note 6: Defined Benefit Pension Plan

A. General Information about the Pension Plans

Plan Description

The District approved a contract with the Board of Administration, California Public Employees’ Retirement System (CalPERS) on March 16, 2004, to provide pensions for staff, which began May 1, 2004. The District is required to make a monthly contribution to CalPERS to include actuarial valuations of prior and future years of service of each employee. All eligible District employees participate in CalPERS. The District is required to participate in a CalPERS cost-sharing, multiple-employer defined benefit retirement plan, since the District had less than 100 active members. CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the state.

All qualified permanent and probationary employees are eligible to participate in the District’s cost-sharing multiple-employer defined benefit pension plan (Plan) which is administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and local government 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.

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.

The Plan’s provisions and benefits in effect at June 30, 2018, are summarized as follows:

Hire date	<u>Prior to January 1, 2014</u>	<u>On or After January 1, 2014</u>
Benefit formula	3.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefits payments	Monthly for life	Monthly for life
Retirement age	55 - 60	62 - 67
Monthly benefits as % of eligible compensation	3.0%	1.0% to 2.5%
Required employee contributions	8%	6.25%
Required employer contribution rates	12.036%	6.533%

THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements
June 30, 2018

Note 6: Defined Benefit Pension Plan - continued

A. General Information about the Pension Plans - continued

Plan Description - continued

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2018, the contributions for the Plan were as follows:

Contributions – employer	\$168,179
Contributions – employee (paid by employer)	53,657

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported net pension liability of \$1,045,648 for its share of the net pension liability of the Plan. The District’s net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, 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 as of June 30, 2017 and 2018, was as follows:

Proportion - June 30, 2017	0.02886%
Proportion - June 30, 2018	0.02653%
Change - Increase (Decrease)	(0.00233)%

For the fiscal year ended June 30, 2018, the District recognized pension expense of \$231,996 in its financial statements. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements
June 30, 2018

Note 6: Defined Benefit Pension Plan - continued

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions - continued

Actuarial Assumptions - The total pension liabilities in the June 30, 2017, actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount rate	7.15%
Inflation	2.75%
Payroll growth	3.00%
Projected salary increase ⁽¹⁾	Varies by Entry Age and Service
Investment rate of return ⁽²⁾	7.15%
Mortality ⁽³⁾	CalPERS Table

⁽¹⁾ Depending on age, service and type of employment

⁽²⁾ Net of pension plan investment expenses, including inflation

⁽³⁾ 20 years of mortality improvement – Society of Actuaries Scale AA

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 2014 experience study report.

The long-term expected rate of return on pension plan investments (7.15%) was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	47.0%	5.38%
Global Fixed Income	19.0%	2.27%
Inflation Sensitive	6.0%	1.39%
Private Equity	12.0%	6.63%
Real Estate	11.0%	5.21%
Infrastructure and Forestland	3.0%	5.36%
Liquidity	2.0%	(0.90)%

THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements
June 30, 2018

Note 6: Defined Benefit Pension Plan - continued

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions - continued

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension fund’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the pension fund’s fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investments, and was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.15%) or 1 percentage point higher (8.15%) than the current rate:

	1% Decrease 6.15%	Discount Rate 7.15%	1% Increase 8.15%
District’s proportionate share of the net pension plan liability	\$ 1,645,532	\$ 1,045,648	\$ 548,813

Detailed information about the pension fund’s fiduciary net position is available in the separately issued CalPERS comprehensive annual financial report which may be obtained by contacting CalPERS.

Deferred Inflows and Outflows

As of June 30, 2018, the District reported \$571,612 as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date. This amount will be recognized as a reduction of the net pension liability in the year-end June 30, 2018.

The District also recognized deferral inflows of resources on the Statement of Net Position. This is an acquisition of net position by the District that is applicable to a future reporting period. The District had one item related to pensions that is captured as a deferred inflow of resources. The sum total at June 30, 2018, was \$74,154.

THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements
June 30, 2018

Note 6: Defined Benefit Pension Plan - continued

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions – continued

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

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

<u>Year Ending June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2019	\$ 155,005
2020	152,901
2021	103,155
2022	(24,436)
Total	<u>\$ 386,625</u>

Note 7: Deferred Compensation Plan

Prior to contracting with CalPERS, the District maintained a Public Employees Deferred Compensation Plan for substantially all of its employees with Mass Mutual and John Hancock Life Insurance Company. There were no contributions made to these plans during the fiscal years ended June 30, 2018 and 2017. The value of the total assets of the plans as of June 30, 2018 and 2017, was \$423,856 and \$370,837, respectively.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributed to those amounts, property, or rights are held in trust for the exclusive benefit of the plan participants and their beneficiaries. As required by GASB No. 32, the District does not meet the criteria for inclusion of plan assets within its financial statements and has, therefore, excluded the plan assets from the accompanying financial statements.

THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements
June 30, 2018

Note 8: Joint Powers Agreement

On March 29, 1973, the District, the City of Oroville, and Lake Oroville Area Public Utility District entered into a Joint Exercise of Powers Agreement that reorganized its governing board and created an independent agency known as the Sewerage Commission – Oroville Region (SC-OR). SC-OR was created to operate a sewerage treatment plant for the mutual advantage of the member entities. Two members (only one with voting powers) of SC-OR’s Board of Commissioners are appointed by each member entity. SC-OR’s operating and capital budget are funded by user charges for sewerage treatment services provided to the residents of each member entity. Each member entity is responsible for billing, collecting, and remitting SC-OR’s user charges applicable to their separate residents. At June 30, 2018 and 2017, the District held \$98,675 and \$94,069, respectively, in unremitted SC-OR service charges that have been reported as a liability on the accompanying balance sheet.

SC-OR’s separate financial statements may be obtained by contacting its administrative offices at:

P.O. Box 1350
Oroville, CA 95965

Noted below is a condensed audited balance sheet and income statement of SC-OR as of June 30, 2018 and 2017:

	June 30, 2018	June 30, 2017
Cash	\$ 10,215,785	\$ 9,540,840
Other assets	9,329,626	10,135,385
Deferred outflows of resources	729,141	529,386
Total Assets and Deferred Outflows of Resources	\$ 20,274,552	\$ 20,205,611
Liabilities	2,522,803	\$ 2,187,389
Deferred inflows of resources	39,298	74,889
Net position	17,712,451	17,943,333
Total Assets and Deferred Inflows of Resources	\$ 20,274,552	\$ 20,205,611
Total revenues	\$ 3,483,954	\$ 3,383,303
Total expenses	(3,662,535)	(2,623,660)
Change in Net Position	\$ (178,581)	\$ 759,643

THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements
June 30, 2018

Note 9: Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the District's policy to transfer the risks that may arise from these and other events through the purchase of commercial insurance through the ACWA/JPIA. Over the past three years, no loss settlements have exceeded insurance coverage amounts.

Note 10: Interfund Balances

Transactions between funds of the District are recorded as inter-fund transfers in the individual fund financial statements but are eliminated and not reported on the government wide financial statements. The unpaid balances at year end, as a result of such transactions, are shown as due to and due from other funds on the statement of net position.

The balance in the individual fund financial statements of \$153,162 due to the Water fund from the Sewer fund and \$81,140 due to the Sewer from the Water fund resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Note 11: California Solar Initiative Program

The District installed a solar roof mounted system at the District office and a ground mounted solar system at the District water treatment plant facility. Under the California Solar Initiative Program the office project received in October 2012, a \$11,554 rebate, and the Treatment Plant Project will receive 60 monthly payments, which are estimated to be in total \$312,314. Total revenue earned in fiscal years ended June 30, 2018 and 2017, was \$16,606 and \$61,321, respectively. The total project cost for the District office was \$60,087, and the cost of the treatment plant project was \$1,430,108.

Note 12: Medical Expense Reimbursement Plan

The District, on January 1, 2013, terminated their Health Insurance Plan with CalPERS and went to a high deductible plan and established a medical expense reimbursement plan. The Plan is on a calendar year basis, and each employee may submit medical costs for reimbursement up to \$3,000 per calendar year, with no carry over provisions if the employee does not use the \$3,000. The total exposure to the District if all employees were to submit reimbursements up to the maximum amount would be \$33,000 per calendar year.

Note 13: Subsequent Events

Management has evaluated subsequent events through October 22, 2018, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

THERMALITO WATER AND SEWER DISTRICT
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Measurement Date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the net pension liability	0.0265300%	0.0288600%	0.0330000%	0.0400000%
Proportionate share of the net pension liability	\$ 1,045,648	\$ 1,002,395	\$ 806,087	\$ 953,065
Covered-employee payroll	\$ 655,266	\$ 710,862	\$ 613,551	\$ 619,918
Proportionate share of the net pension liability as a percentage of covered-employee payroll	159.58%	141.01%	131.38%	153.74%
Plan's fiduciary net position	\$ 3,315,658	\$ 2,884,890	\$ 2,617,555	\$ 2,456,620
Plan's fiduciary net position as a percentage of the total pension liability	76.02%	74.21%	74.30%	72.05%

Note: Fiscal year 2015 was the first year of implementation, therefore only four years are shown.

**THERMALITO WATER AND SEWER DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS**

Measurement Date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Contractually required contributions (actuarially determined)	\$ 219,357	\$ 212,772	\$ 206,386	\$ 188,168
Contributions in relation to the actuarially determined contributions	<u>(219,357)</u>	<u>(212,772)</u>	<u>(206,386)</u>	<u>(188,168)</u>
	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Covered-employee payroll	\$ 655,266	\$ 710,862	\$ 613,551	\$ 619,918
Contributions as a percentage of covered-employee payroll	33.48%	29.93%	33.64%	30.35%
Valuation date	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013

Note: Fiscal year 2015 was the first year of implementation, therefore only four years are shown.

OTHER SUPPLEMENTARY INFORMATION

**THERMALITO WATER AND SEWER DISTRICT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
BUDGET AND ACTUAL - WATER
FOR THE YEAR ENDED JUNE 30, 2018**

WATER SERVICES

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
Water sales	\$ 2,115,300	\$ 2,090,949	\$ (24,351)
Water services	115,800	193,778	77,978
Other income	6,500	13,475	6,975
	<u>2,237,600</u>	<u>2,298,202</u>	<u>60,602</u>
Operating Expenses:			
Wilenor water supply	41,053	40,833	220
Water treatment	432,552	365,417	67,135
Transmission and distribution	497,059	430,175	66,884
Administration and general	497,373	460,379	36,994
	<u>1,468,037</u>	<u>1,296,804</u>	<u>171,233</u>
Total Operating Expenses			
	<u>1,468,037</u>	<u>1,296,804</u>	<u>171,233</u>
Operating Income	<u>769,563</u>	<u>1,001,398</u>	<u>231,835</u>
Non-Operating Revenues (Expenses):			
Interest income	20,000	44,165	24,165
Capacity charges	9,700	21,218	11,518
Solar income	20,000	16,606	(3,394)
Gain on disposal of assets	-	1,758	1,758
Interest expense	(13,231)	(12,135)	1,096
	<u>(13,231)</u>	<u>(12,135)</u>	<u>1,096</u>
Total Non-Operating Income	<u>36,469</u>	<u>71,612</u>	<u>35,143</u>
Other Budgeted Items			
Principal payments on notes	(166,770)	(166,770)	-
Capital expenditures	(590,002)	(475,941)	114,061
Solar income account	(20,000)	-	20,000
Total Other Budgeted Items	<u>(776,772)</u>	<u>(642,711)</u>	<u>134,061</u>
Net Income - Budget Basis	<u>\$ 29,260</u>	<u>430,299</u>	<u>\$ 401,039</u>
Beginning Net Position		10,525,891	
Reconcile Budget to GAAP Basis:			
Capital expenditures		475,941	
Principal payments on notes		166,770	
Depreciation (not budgeted)		(386,446)	
		<u>\$ 11,212,455</u>	

**THERMALITO WATER AND SEWER DISTRICT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
BUDGET AND ACTUAL - SEWER
FOR THE YEAR ENDED JUNE 30, 2018**

SEWER SERVICES

	Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
Sewer use sales and services	\$ 1,194,545	\$ 1,170,151	\$ (24,394)
Total Operating Revenues	1,194,545	1,170,151	(24,394)
Operating Expenses:			
Transmission and distribution	43,900	46,030	(2,130)
Administration and general	356,567	340,964	15,603
Sewerage collection	108,895	91,730	17,165
SC-OR charges	392,472	393,953	(1,481)
Total Operating Expenses	901,834	872,677	29,157
Operating Income	292,711	297,474	4,763
Non-Operating Revenues (Expenses):			
Interest income	5,200	11,041	5,841
Capacity charges	-	6,817	6,817
Loss on disposal of assets	-	(2,489)	(2,489)
Interest expense	(55,353)	(53,053)	2,300
Total Non-Operating Loss	(50,153)	(37,684)	12,469
Other Budgeted Items			
Principal payments on notes	(114,321)	(114,321)	-
Capital expenditures	(124,002)	(97,381)	26,621
Total Other Budgeted Items	(238,323)	(211,702)	26,621
Net Income - Budget Basis	\$ 4,235	48,088	\$ 43,853
Beginning Net Position		5,754,904	
Reconcile Budget to GAAP Basis:			
Capital expenditures		97,381	
Principal payments on notes		114,321	
Depreciation (not budgeted)		(229,003)	
		\$ 5,785,691	

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Thermalito Water and Sewer District
Oroville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of Thermalito Water and Sewer District (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2018.

Internal Control Over Financial Reporting

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

Board of Directors
Thermalito Water and Sewer District
Oroville, California

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. The report is an integral part of the 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.

Fechter & Company,
Certified Public Accountants

A handwritten signature in cursive script that reads "Fechter & Company, CPAs".

Sacramento, California
October 22, 2018

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE RELATING TO THE
SEWERAGE COMMISSION – OROVILLE REGION**

Board of Directors
Thermalito Water and Sewer District
Oroville, California 95966

We have audited the basic financial statements of the Thermalito Water and Sewer District (District) for the year ended June 30, 2018, and we have issued our report thereon dated October 22, 2018. Our audit of such basic financial statements was made in accordance with auditing standards generally accepted in the United States of America and, accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

The management of the District is responsible for the District's compliance with various resolutions and policies of the Sewerage Commission – Oroville Region (SC-OR) pertaining to the sewer regional facility charges and monthly sewer service charges. In connection with our audit referred to above, we selected and tested transactions and records applicable to new sewer connections and monthly sewer service charges to determine the District's compliance with SC-OR's resolutions and policies.

The results of our tests indicate that, with respect to the items tested, the District complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the District had not complied, in all material respects, with those provisions.

This report is intended solely for the information and use of the Board of Directors, management, and the Sewerage Commission – Oroville Region and is not intended to be and should not be used by anyone other than these specified parties.

Fechter & Company,
Certified Public Accountants



Sacramento, California
October 22, 2018