

**THERMALITO WATER AND SEWER DISTRICT**  
**OROVILLE, CALIFORNIA**  
**ANNUAL FINANCIAL REPORT**  
**WITH INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEARS ENDED**  
**JUNE 30, 2017**

**THERMALITO WATER AND SEWER DISTRICT**

Annual Financial Report  
For the Years Ended June 30, 2017

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**THERMALITO WATER AND SEWER DISTRICT**

Annual Financial Report  
For the Years Ended June 30, 2017

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**THERMALITO WATER AND SEWER DISTRICT**

Annual Financial Statements  
For the Year Ended June 30, 2017

**BOARD OF DIRECTORS**

**President:**

Brad Taggart  
Division 1

**Vice-President:**

Ernest L. Reynolds  
Division 5

**Directors:**

Trevor Hatley  
Division 2

Edgar C. Thompson  
Division 3

Brian Pulley  
Division 4

**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, 2017, 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 2016 financial statements and, in our report dated November 14, 2016, 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.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Thermalito Water and Sewer District as of June 30, 2017, 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 supplemental 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 Thermalito Water and Sewer District's financial statements. The accompanying supplemental 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 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 18, 2017, 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 18, 2017



# THERMALITO WATER AND SEWER DISTRICT

## Management's Discussion and Analysis For the Year Ended June 30, 2017

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, 2017. 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, 2017

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 2016/2017 was a stable year for Thermalito Water and Sewer District (the District). The construction of new homes is still moving slowly. The District sold fourteen water connections and ten sewer connections for the year.

### Financial Analysis of the District – Government-Wide

**Statement of Net Position:** The Thermalito Water and Sewer 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

	2017	2016	2015
Assets			
Current assets	\$4,860,989	\$6,173,774	\$5,101,277
Restricted assets	850,609	1,081,207	966,029
Capital assets, net of accumulated depreciation	14,646,845	14,818,226	13,902,912
Total Assets	20,358,443	22,073,207	19,970,218
CalPERS pension contributions	678,432	212,772	206,386
Total Deferred Outflows of Resources	678,432	212,772	206,386
<u>Liabilities</u>			
Other current liabilities	224,158	228,415	564,446
Long-term liabilities	4,371,512	6,612,975	5,124,721
Total Liabilities	4,595,670	6,841,390	5,689,167
CalPERS actuarial amounts	160,410	174,658	194,439
Total Deferred Inflows of Resources	160,410	174,658	194,439
Invested in capital assets, net of related debt	11,549,626	9,267,537	9,941,142
Restricted	850,609	1,081,207	966,029
Unrestricted	3,880,560	4,921,187	3,385,827
Total Net Position	\$16,280,795	\$15,269,931	\$14,292,998

## THERMALITO WATER AND SEWER DISTRICT

### Management's Discussion and Analysis For the Year Ended June 30, 2017

The total net position of the District's enterprise activities increased by \$1,010,864 from one year ago (2016 to 2017). The current assets of the District's governmental activities, including restricted cash, decreased \$1,543,383 from one year ago, and the capital assets, net of accumulated depreciation decreased by \$171,381. Long-term liabilities decreased by \$2,241,463 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, 2016, of \$4,921,187 compared to Unrestricted Net Position at June 30, 2017, of \$3,880,560, decreased by \$1,040,627.

**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			
	2017	2016	2015
Revenues:			
Charges for services	\$ 3,318,194	\$ 3,369,343	\$ 3,265,250
Other	27,217	17,460	28,620
Total Revenues	3,345,411	3,386,803	3,293,870
Expenses:			
Direct expenses	880,560	826,156	958,709
Administration	535,887	693,436	663,337
SCOR charges	382,278	339,397	280,515
Depreciation	602,443	535,431	536,907
Total Expenses	2,401,168	2,394,420	2,439,468
Operating income (loss)	944,243	992,383	854,402
Interest income	24,963	19,510	10,243
Capacity charges	26,214	64,849	28,561
Solar income	61,321	62,677	68,132
Donated assets	42,181	-	153,990
Interest expense	(88,058)	(162,486)	(129,098)
Effect of change in accounting Principle – GASB 68	-	-	(1,045,271)
Change in net position	\$ 1,010,864	\$ 976,933	\$ (59,041)

Charges for services decreased by \$51,149, as the District had fewer water and sewer connections.

The District's operating expenses increased by \$6,748 primarily due to repairs to the operating

# THERMALITO WATER AND SEWER DISTRICT

## Management's Discussion and Analysis For the Year Ended June 30, 2017

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, 2017, are: Water Services \$2,288,076, and Sewer Services \$1,592,484. For the fiscal year ended June 30, 2017, the Water Service total net position increased by \$843,677, and the Sewer Service total net position increased by \$167,187.

### Capital Assets

The District's investment in capital assets (net of accumulated depreciation) totals \$14,646,845, as of June 30, 2017. The following table provides a detailed breakdown of the capital assets:

	Capital Assets Net of Accumulated Depreciation		
	2017	2016	2015
Water Services:			
Land	\$ 126,171	\$ 126,171	\$ 126,171
Concow easement	12,968	12,968	12,968
Source and supply	7,850,519	7,888,646	7,897,106
General plant and administration	280,329	298,604	335,657
Total Capital Assets, Water	<u>8,269,987</u>	<u>8,326,389</u>	<u>8,371,902</u>
Sewer Services:			
Sewer collection facilities	6,254,321	3,247,825	3,381,687
Automotive equipment	116,669	127,498	156,044
Construction in progress	5,868	3,116,514	1,993,279
Total Capital Assets, Sewer	<u>6,376,858</u>	<u>6,491,837</u>	<u>5,531,010</u>
Total Net Capital Assets	<u>\$ 14,646,845</u>	<u>\$ 14,818,226</u>	<u>\$ 13,902,912</u>

### Capital Debt

In August 2016, the District paid off the 2005 Water and Wastewater Revenue Bonds of \$2,120,000. More detailed information about the District's capital debt is presented in Note 5 of the financial statements.

# **THERMALITO WATER AND SEWER DISTRICT**

Management's Discussion and Analysis  
For the Year Ended June 30, 2017

## **Economic Factors and Next Year's Budget**

The District's elected officials considered many factors when setting the Fiscal Year 2017 budget. Some of the economic factors taken into account for the budget include: monthly service charges and connection fees. Expense factors will include the possible purchase of water distribution and sewer collection improvements and filtration plant upgrades.

## **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, 2017**  
(with comparative data for June 30, 2016)

	2017	2016
<b>ASSETS</b>		
Current Assets:		
Cash and investments	\$ 4,709,947	\$ 6,025,445
Accounts receivable	57,950	54,026
Interest receivable	7,741	6,635
Inventory	67,241	70,114
Prepaid items	18,110	17,554
Restricted assets:		
Restricted cash and investments	850,609	1,081,207
Capital Assets, net	14,646,845	14,818,226
Total Assets	20,358,443	22,073,207
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred pension outflows	678,432	212,772
Total Deferred Outflows of Resources	678,432	212,772
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	39,372	31,549
Accounts payable - SC-OR	94,069	85,274
Salaries and wages payable	27,133	29,229
Customer advances	3,231	731
Interest payable	56,074	79,007
Retirement payable	1,779	2,625
Project advances	2,500	-
Current portion of notes payable	281,091	508,470
Total current liabilities	505,249	736,885
Non-Current liabilities:		
Compensated absences liability	271,898	256,199
Net pension liability	1,002,395	806,087
Notes payable, net of current portion	2,816,128	5,042,219
Total Non-Current liabilities	4,090,421	6,104,505
<b>TOTAL LIABILITIES</b>	4,595,670	6,841,390
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred pension inflows	160,410	174,658
Total Deferred Inflows of Resources	160,410	174,658
<b>NET POSITION</b>		
Net investment in capital assets	11,549,626	9,267,537
Restricted:		
Debt service	317,555	578,544
Capacity fees	533,004	502,613
Monument fund	50	50
Unrestricted	3,880,560	4,921,187
<b>TOTAL NET POSITION</b>	\$ 16,280,795	\$ 15,269,931

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, 2017**  
**(with comparative data for June 30, 2016)**

	2017	2016
<b>Operating Revenues:</b>		
Water sales	\$ 2,026,280	\$ 1,958,278
Water services	149,155	261,231
Sewer use sales and services	1,142,759	1,149,834
Other income	27,217	17,460
	<u>3,345,411</u>	<u>3,386,803</u>
<b>Operating Expenses:</b>		
Wilenor water supply	24,510	29,023
Water treatment	317,997	313,607
Transmission and distribution	458,087	440,209
Administration and general	535,887	693,436
Depreciation	602,443	535,431
Sewerage collection	79,966	43,317
SC-OR charges	382,278	339,397
	<u>2,401,168</u>	<u>2,394,420</u>
Total Operating Expenses	<u>2,401,168</u>	<u>2,394,420</u>
Operating Income	<u>944,243</u>	<u>992,383</u>
<b>Non-Operating Revenues (Expenses):</b>		
Interest income	24,963	19,510
Capacity charges	26,214	64,849
Solar income	61,321	62,677
Other non-operating income	42,181	-
Interest expense	(88,058)	(162,486)
	<u>(88,058)</u>	<u>(162,486)</u>
Total Non-Operating (Loss) Income	<u>66,621</u>	<u>(15,450)</u>
Change in Net Position	<u>1,010,864</u>	<u>976,933</u>
Beginning Net Position	<u>15,269,931</u>	<u>14,292,998</u>
Ending Net Position	<u>\$ 16,280,795</u>	<u>\$ 15,269,931</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, 2017**  
**(with comparative data for June 30, 2016)**

	2017	2016
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 3,329,768	\$ 3,414,492
Cash paid to suppliers	(848,277)	(1,228,546)
Cash paid for employee salaries and benefits	(1,185,637)	(1,150,945)
Net cash provided by operating activities	1,295,854	1,035,001
<b>Cash flows from capital and related financing activities:</b>		
Purchase of capital assets	(431,062)	(1,450,745)
Proceeds from capacity charges	26,214	64,849
Proceeds from solar electric generation	61,321	62,677
Proceeds from loan	-	1,972,692
Refunds on projects	42,181	
Principal paid on loans	(2,453,470)	(383,773)
Interest paid on loans	(110,991)	(129,174)
Net cash provided (used) by capital and related financing activities	(2,865,807)	136,526
<b>Cash flows from investing activities:</b>		
Investment income received	23,857	15,803
Net cash provided by investing activities	23,857	15,803
Net increase in cash and cash equivalents	(1,546,096)	1,187,330
Cash and cash equivalents, beginning of year	7,106,652	5,919,322
Cash and cash equivalents, end of year	\$ 5,560,556	\$ 7,106,652
<b>Reconciliation of Cash and Cash Equivalents:</b>		
Cash and cash equivalents	\$ 4,709,947	\$ 6,025,445
Restricted cash and cash equivalents	850,609	1,081,207
Total Cash and Cash Equivalents	\$ 5,560,556	\$ 7,106,652

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, 2017**

	2017	2016
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 944,243	\$ 992,383
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	602,443	535,431
Changes in assets and liabilities:		
Accounts receivable	(3,924)	1,137
Inventory	2,873	2,318
Prepaid expenses	(556)	(93)
Accounts payable	7,823	(231,411)
Accounts payable - SC-OR	8,795	14,934
Customer advances	2,500	-
Project advances	2,500	(161,130)
Accrued salaries and wages	(2,096)	8,270
Retirement payable	(846)	(6)
Compensated absences liability	15,699	46,313
Net pension liability	(283,600)	(173,145)
	<b>\$ 1,295,854</b>	<b>\$ 1,035,001</b>

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, 2017**

	Water Services	Sewer Services	Current Year Totals
<b>ASSETS</b>			
Current Assets:			
Cash and investments	\$ 2,787,161	\$ 1,922,786	\$ 4,709,947
Accounts receivable	27,423	30,527	57,950
Interest receivable	6,193	1,548	7,741
Due from other funds	164,496	77,580	242,076
Inventory	65,979	1,262	67,241
Prepaid items	18,110	-	18,110
Total Current Assets	<u>3,069,362</u>	<u>2,033,703</u>	<u>5,103,065</u>
Restricted and Noncurrent assets:			
Restricted cash and investments	429,205	421,404	850,609
Capital assets, net	8,269,987	6,376,858	14,646,845
Total Assets	<u>11,768,554</u>	<u>8,831,965</u>	<u>20,600,519</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred pension outflows	603,804	74,628	678,432
Total Deferred Outflows of Resources	<u>603,804</u>	<u>74,628</u>	<u>678,432</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	27,863	11,509	39,372
Salaries and wages payable	19,194	7,939	27,133
Accounts payable - SC-OR	-	94,069	94,069
Due to other funds	77,580	164,496	242,076
Customer advances	3,231	-	3,231
Interest payable	3,028	53,046	56,074
Retirement payable	1,779	-	1,779
Project advances	-	2,500	2,500
Current portion of notes payable	166,770	114,321	281,091
Total Current Liabilities	<u>299,445</u>	<u>447,880</u>	<u>747,325</u>
Long-Term Liabilities:			
Compensated absences liability	217,518	54,380	271,898
Net pension liability	892,132	110,263	1,002,395
Notes payable, net of current portion	294,607	2,521,521	2,816,128
<b>TOTAL LIABILITIES</b>	<u>1,703,702</u>	<u>3,134,044</u>	<u>4,837,746</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred pension inflows	142,765	17,645	160,410
Total Deferred Inflows of Resources	<u>142,765</u>	<u>17,645</u>	<u>160,410</u>
<b>NET POSITION</b>			
Net investment in capital assets	7,808,610	3,741,016	11,549,626
Restricted:			
Debt service	147,882	169,673	317,555
Capacity fees	281,273	251,731	533,004
Monument fund	50	-	50
Unrestricted	2,288,076	1,592,484	3,880,560
<b>TOTAL NET POSITION</b>	<u>\$ 10,525,891</u>	<u>\$ 5,754,904</u>	<u>\$ 16,280,795</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, 2017**

	Water Services	Sewer Services	Current Year Totals
<b>Operating Revenues:</b>			
Water sales	\$ 2,026,280	\$ -	\$ 2,026,280
Water services	149,155	-	149,155
Sewer use sales and services	-	1,142,759	1,142,759
Other income	27,217	-	27,217
	<hr/>	<hr/>	<hr/>
Total Operating Revenues	2,202,652	1,142,759	3,345,411
	<hr/>	<hr/>	<hr/>
<b>Operating Expenses:</b>			
Wilenor water supply	24,510	-	24,510
Water treatment	317,997	-	317,997
Transmission and distribution	414,593	43,494	458,087
Administration and general	286,193	249,694	535,887
Depreciation	378,759	223,684	602,443
Sewerage collection	-	79,966	79,966
SC-OR charges	-	382,278	382,278
	<hr/>	<hr/>	<hr/>
Total Operating Expenses	1,422,052	979,116	2,401,168
	<hr/>	<hr/>	<hr/>
Operating Income	780,600	163,643	944,243
	<hr/>	<hr/>	<hr/>
Non-Operating Revenues (Expenses):			
Interest income	19,970	4,993	24,963
Capacity charges	14,853	11,361	26,214
Solar income	61,321	-	61,321
Other non-operating income	-	42,181	42,181
Interest expense	(33,067)	(54,991)	(88,058)
	<hr/>	<hr/>	<hr/>
Total Non-Operating Loss	63,077	3,544	66,621
	<hr/>	<hr/>	<hr/>
Change in Net Position	843,677	167,187	1,010,864
	<hr/>	<hr/>	<hr/>
Beginning Net Position	9,682,214	5,587,717	15,269,931
	<hr/>	<hr/>	<hr/>
Ending Net Position	<u>\$ 10,525,891</u>	<u>\$ 5,754,904</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  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017**

	Water Services	Sewer Services	Total
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ 2,193,949	\$ 1,135,819	\$ 3,329,768
Cash paid to suppliers	(326,675)	(521,602)	(848,277)
Cash paid for employee salaries and benefits	(956,638)	(228,999)	(1,185,637)
Net cash provided by operating activities	<u>910,636</u>	<u>385,218</u>	<u>1,295,854</u>
<b>Cash flows from capital and related financing activities:</b>			
Purchase of capital assets	(322,357)	(108,705)	(431,062)
Proceeds from capacity charges	14,853	11,361	26,214
Proceeds from solar electric generation	61,321	-	61,321
Refunds on projects	-	42,181	42,181
Principal paid on loans	(2,330,481)	(122,989)	(2,453,470)
Interest paid on loans	(64,307)	(46,684)	(110,991)
Net cash used by capital and related financing activities	<u>(2,640,971)</u>	<u>(224,836)</u>	<u>(2,865,807)</u>
<b>Cash flows from investing activities:</b>			
Investment income received	<u>19,085</u>	<u>4,772</u>	<u>23,857</u>
Net cash provided by investing activities	<u>19,085</u>	<u>4,772</u>	<u>23,857</u>
Net increase in cash and cash equivalents	(1,711,250)	165,154	(1,546,096)
Cash and cash equivalents, beginning of year	<u>4,927,616</u>	<u>2,179,036</u>	<u>7,106,652</u>
Cash and cash equivalents, end of year	<u>\$ 3,216,366</u>	<u>\$ 2,344,190</u>	<u>\$ 5,560,556</u>
<b>Reconciliation of Cash and Cash Equivalents:</b>			
Cash and cash equivalents	\$ 2,787,161	\$ 1,922,786	\$ 4,709,947
Restricted cash and cash equivalents	<u>429,205</u>	<u>421,404</u>	<u>850,609</u>
Total cash and cash equivalents	<u>\$ 3,216,366</u>	<u>\$ 2,344,190</u>	<u>\$ 5,560,556</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, 2017**

	Water Services	Sewer Services	Total
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 780,600	\$ 163,643	\$ 944,243
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	378,759	223,684	602,443
Changes in assets and liabilities:			
Accounts receivable	(2,667)	(1,257)	(3,924)
Due from other funds	(8,536)	(5,683)	(14,219)
Inventory	1,883	990	2,873
Prepaid expenses	(556)	-	(556)
Accounts payable	(3,661)	11,484	7,823
Accounts payable - SC-OR	-	8,795	8,795
Customer advances	2,500	-	2,500
Project advances	-	2,500	2,500
Accrued salaries and wages	(2,679)	583	(2,096)
Due to other funds	5,683	8,536	14,219
Retirement payable	(846)	-	(846)
Compensated absences liability	12,559	3,140	15,699
Net pension liability	(252,403)	(31,197)	(283,600)
	<b>\$ 910,636</b>	<b>\$ 385,218</b>	<b>\$ 1,295,854</b>
<b>Net cash provided by operating activities</b>	<b>\$ 910,636</b>	<b>\$ 385,218</b>	<b>\$ 1,295,854</b>

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, 2017

## **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, 2017

## **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, 2017 and 2016.

# THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements  
June 30, 2017

## **Note 1: Summary of Significant Accounting Policies - continued**

### **Inventory of Materials and Supplies**

Inventory of materials and supplies consists primarily of water meters, pipe 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, 2017 and 2016.

### **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, 2017

## 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, 2017 or 2016.

### 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, 2017

**Note 2: Cash and Cash Equivalents**

Cash and investments as of June 30, 2017 and 2016, are classified in the accompanying financial statements as follows:

	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash and cash equivalents	\$ 4,709,947	\$ 6,025,445
Restricted Assets:		
Cash and cash equivalents	<u>850,609</u>	<u>1,081,207</u>
Total Cash and Cash Equivalents	<u>\$ 5,560,556</u>	<u>\$ 7,106,652</u>
Cash on hand	\$ 600	\$ 600
Deposits held with financial institutions	2,055,472	2,120,424
Deposits held with LAIF	<u>3,504,484</u>	<u>4,985,628</u>
Total Cash and Cash Equivalents	<u>\$ 5,560,556</u>	<u>\$ 7,106,652</u>

**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, 2017 and 2016, the District's investments had no significant exposure to interest rate risk.

# THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements  
June 30, 2017

## **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 was \$2,055,472 and \$2,120,424, and the balances in financial institutions were \$2,046,999 and \$2,109,027, respectively, for 2017 and 2016. Of the balances with financial institutions, \$250,000 was covered by federal depository insurance, and the remaining amounts \$1,796,999 and \$1,859,027 for 2017 and 2016, respectively, were collateralized as described above.

# THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements  
June 30, 2017

## **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, 2017

**Note 4: Capital Assets**

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

	Balance July 1, 2016	Additions	Deletions/ Transfers	Balance June 30, 2017
<b>Water Services</b>				
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>
<b>Sewer Services</b>				
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, 2017

**Note 4: Capital Assets - continued**

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
<b>Water Services</b>				
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	14,062,697	299,087	-	14,361,784
General plant and administration	1,180,194	19,877	(5,476)	1,194,595
Total Capital Assets Being Depreciated	<u>15,242,891</u>	<u>318,964</u>	<u>(5,476)</u>	<u>15,556,379</u>
Less: Accumulated Depreciation:				
Source and supply	(6,165,591)	(307,547)	-	(6,473,138)
General plant and administration	(844,537)	(56,930)	5,476	(895,991)
Total Accumulated Depreciation	<u>(7,010,128)</u>	<u>(364,477)</u>	<u>5,476</u>	<u>(7,369,129)</u>
Depreciable Capital Assets, Net	<u>8,232,763</u>	<u>(45,513)</u>	<u>-</u>	<u>8,187,250</u>
Total Capital Assets, Water Services	<u>8,371,902</u>	<u>(45,513)</u>	<u>-</u>	<u>8,326,389</u>
<b>Sewer Services</b>				
Nondepreciable Capital Assets:				
Construction in progress	1,993,279	1,123,235	-	3,116,514
Total Nondepreciable Capital Assets	<u>1,993,279</u>	<u>1,123,235</u>	<u>-</u>	<u>3,116,514</u>
Capital Assets Being Depreciated:				
Sewer collection facilities	6,643,740	-	-	6,643,740
Equipment	483,734	8,546	-	492,280
Total Capital Assets Being Depreciated	<u>7,127,474</u>	<u>8,546</u>	<u>-</u>	<u>7,136,020</u>
Less: Accumulated Depreciation:				
Sewer collection facilities	(3,262,053)	(133,862)	-	(3,395,915)
Equipment	(327,690)	(37,092)	-	(364,782)
Total Accumulated Depreciation	<u>(3,589,743)</u>	<u>(170,954)</u>	<u>-</u>	<u>(3,760,697)</u>
Depreciable Capital Assets, Net	<u>3,537,731</u>	<u>(162,408)</u>	<u>-</u>	<u>3,375,323</u>
Total Capital Assets, Sewer Services	<u>5,531,010</u>	<u>960,827</u>	<u>-</u>	<u>6,491,837</u>
Total Capital Assets, Net	<u>\$ 13,902,912</u>	<u>\$ 915,314</u>	<u>\$ -</u>	<u>\$ 14,818,226</u>

**THERMALITO WATER AND SEWER DISTRICT**

Notes to the Financial Statements  
June 30, 2017

**Note 5: Long-Term Liabilities**

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

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

The District's long-term liabilities for the year ended June 30, 2016, was as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
<b>Long-Term Debt:</b>					
Water Services					
2012 City National Bank Loan	\$ 885,631	\$ -	\$ 213,773	\$ 671,858	\$ 210,481
2005 City National Bank Loan	<u>2,290,000</u>	<u>-</u>	<u>170,000</u>	<u>2,120,000</u>	<u>175,000</u>
Subtotal	3,175,631	-	383,773	2,791,858	385,481
Sewer Services					
2014 CA Water Resources	<u>786,139</u>	<u>1,972,692</u>	<u>-</u>	<u>2,758,831</u>	<u>122,989</u>
Total Long-Term Debt	<u>\$ 3,961,770</u>	<u>\$ 1,972,692</u>	<u>\$ -</u>	<u>\$ 5,550,689</u>	<u>\$ 508,470</u>
<b>Accrued Compensation:</b>					
Water	\$ 167,909	\$ 83,709	\$ 46,659	\$ 204,959	
Sewer	<u>41,977</u>	<u>20,928</u>	<u>11,665</u>	<u>51,240</u>	
Total Accrued Compensation	<u>\$ 209,886</u>	<u>\$ 104,637</u>	<u>\$ 58,324</u>	<u>\$ 256,199</u>	
<b>Net Pension Liability:</b>					
Water	\$ 714,237	\$ 3,180	\$ -	\$ 717,417	
Sewer	<u>238,828</u>	<u>-</u>	<u>(150,158)</u>	<u>88,670</u>	
Total Net Pension Liability	<u>\$ 953,065</u>	<u>\$ 3,180</u>	<u>\$ (150,158)</u>	<u>\$ 806,087</u>	

# THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements  
June 30, 2017

## Note 5: Long-Term Liabilities - continued

Bonds and notes payable consist of the following as of June 30, 2017:

**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, 2017, is \$2,635,842. 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, 2017, is \$461,377. 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.

**2005 Water and Wastewater Revenue Bonds, Series A (Bonds):** On September 1, 2005, the Association of Bay Area Governments (Authority) issued Bonds to provide moneys to finance the acquisition and construction of capital improvements to water and/or wastewater systems of the City of Ukiah and the Thermalito Water and Sewer District. These Bonds were issued under the Bond Law and an Indenture of Trust with Wells Fargo Bank, National Association and are special obligations of the Authority payable from, and secured by, a pledge of installment payments to be made by the City of Ukiah and Thermalito Water and Sewer District. The original principal amount of the Bonds related to Thermalito Water and Sewer District was \$3,545,000. Interest on the Bonds was 4% and was payable semiannually on each March 1 and September 1, beginning March 1, 2006. The annual principal payment ranged from \$125,000 to \$255,000. The balance of this bond including the interest due to date was paid off on August 25, 2016.

**THERMALITO WATER AND SEWER DISTRICT**

Notes to the Financial Statements  
June 30, 2017

**Note 5: Long-Term Liabilities - continued**

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

For the Year Ending June 30,	<u>Water Services</u>		
	Principal	Interest	Total
2018	\$ 166,770	\$ 13,230	\$ 180,000
2019	155,938	8,062	164,000
2020	138,669	3,284	141,953
Total	<u>\$ 461,377</u>	<u>\$ 24,576</u>	<u>\$ 485,953</u>

For the Year Ending June 30,	<u>Sewer Services</u>		
	Principal	Interest	Total
2018	\$ 114,321	\$ 55,352	\$ 169,673
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
2023-2027	661,396	186,969	848,365
2028-2032	733,822	114,544	848,366
2033-2036	644,505	34,188	678,693
Total	<u>\$ 2,635,842</u>	<u>\$ 587,947</u>	<u>\$ 3,223,789</u>

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

**THERMALITO WATER AND SEWER DISTRICT**

Notes to the Financial Statements  
June 30, 2017

**Note 6: Defined Benefit Pension Plan - continued**

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

**Plan Description - continued**

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, 2017, are summarized as follows:

Hire date	Prior to January 1, 2014	On or After January 1, 2014
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	35.55%	6.25%

**THERMALITO WATER AND SEWER DISTRICT**

Notes to the Financial Statements  
June 30, 2017

**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, 2017, the contributions for the Plan were as follows:

Contributions – employer	\$219,537
Contributions – employee (paid by employer)	47,333

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

As of June 30, 2017, the District reported net pension liability of \$806,807 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 Plans is measured as of June 30, 2015, 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, 2014, rolled forward to June 30, 2015, 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, 2014 and 2015, was as follows:

Proportion - June 30, 2015	0.03300%
Proportion - June 30, 2016	0.02886%
Change - Increase (Decrease)	(0.00414)%

For the fiscal year ended June 30, 2017, the District recognized pension expense of \$268,007 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, 2017

**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, 2016, actuarial valuations were determined using the following actuarial assumptions:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Actuarial cost method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount rate	7.65%
Inflation	2.75%
Payroll growth	3.00%
Projected salary increase <sup>(1)</sup>	Varies by Entry Age and Service
Investment rate of return <sup>(2)</sup>	7.50%
Mortality <sup>(3)</sup>	CalPERS Table

<sup>(1)</sup> Depending on age, service and type of employment

<sup>(2)</sup> Net of pension plan investment expenses, including inflation

<sup>(3)</sup> 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.

**THERMALITO WATER AND SEWER DISTRICT**

Notes to the Financial Statements  
June 30, 2017

**Note 6: Defined Benefit Pension Plan - continued**

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

The long-term expected rate of return on pension plan investments (7.65%) 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%	5.71%
Global Fixed Income	19.0%	2.43%
Inflation Sensitive	6.0%	3.36%
Private Equity	12.0%	6.95%
Real Estate	11.0%	5.13%
Infrastructure and Forestland	3.0%	5.09%
Liquidity	2.0%	(1.05)%

The discount rate used to measure the total pension liability was 7.65%. 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.



**THERMALITO WATER AND SEWER DISTRICT**

Notes to the Financial Statements  
June 30, 2017

**Note 6: Defined Benefit Pension Plan - continued**

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

*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 (6.65%) or 1 percentage point higher (8.65%) than the current rate:

	1% Decrease 6.65%	Discount Rate 7.65%	1% Increase 8.65%
District’s proportionate share of the net pension plan liability	\$ 1,525,745	\$ 1,002,395	\$ 569,873

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, 2017, the District reported \$678,432 as deferred outflows of resources related to pension 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, 2017.

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, 2017, was \$160,410.

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:

Year Ending June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ 14,338
2019	21,486
2020	165,681
2021	96,979
Total	\$ 298,484

# THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements  
June 30, 2017

## **Note 7: Deferred Compensation Plan**

Prior to contracting with PERS, the District maintained a Public Employees Deferred Compensation Plan for substantially all of its employees with ING Life Insurance and Annuity Company, The Hartford, and John Hancock Life Insurance Company. There were no contributions made to these plans during the fiscal years ended June 30, 2017 and 2016. The value of the total assets of the plans as of June 30, 2017 and 2016, was \$370,837 and \$318,406, 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.

## **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, 2017 and 2016, the District held \$94,069 and \$85,274, 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

**THERMALITO WATER AND SEWER DISTRICT**

Notes to the Financial Statements  
June 30, 2017

**Note 8: Joint Powers Agreement - continued**

Noted below is a condensed audited balance sheet and income statement of SC-OR as of June 30, 2017 and 2016:

	June 30, 2017	June 30, 2016
Cash	\$ 9,540,840	\$ 8,391,367
Other assets	10,135,385	10,559,255
Deferred Outflows of Resources	529,386	196,361
Total Assets and Deferred Outflows of Resources	\$ 20,205,611	\$ 19,146,983
Liabilities	2,187,389	\$ 1,840,942
Deferred Inflows of Resources	74,889	122,351
Net position	17,943,333	17,183,690
Total Assets and Deferred Inflows of Resources	\$ 20,205,611	\$ 19,146,983
Total revenues	\$ 3,383,303	\$ 2,857,323
Total expenses	(2,623,660)	(2,428,415)
Change in Net Position	\$ 759,643	\$ 428,908

**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 \$164,496 due to the Water fund from the Sewer fund and \$77,580 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.

# THERMALITO WATER AND SEWER DISTRICT

Notes to the Financial Statements  
June 30, 2017

**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, 2017 and 2016, was \$61,321 and \$62,677, 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 PERS 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 \$30,000 per calendar year.

**Note 13: Subsequent Events**

Management has evaluated subsequent events through October 18, 2017, the date on which the financial statements were available to be issued.

**REQUIRED SUPPLEMENTAL INFORMATION**

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

<b>Measurement Date</b>	<b><u>June 30, 2016</u></b>	<b><u>June 30, 2015</u></b>	<b><u>June 30, 2014</u></b>
Proportion of the net pension liability	0.0002700%	0.0002583%	0.0004000%
Proportionate share of the net pension liability	\$ 1,002,395	\$ 806,087	\$ 806,087
Covered-employee payroll	\$ 767,129	\$ 718,978	\$ 619,918
Proportionate share of the net pension liability as a percentage of covered-employee payroll	130.67%	112.12%	130.03%
Plan's fiduciary net position	\$ 2,884,890	\$ 2,617,555	\$ 2,456,620
Plan's fiduciary net position as a percentage of the total pension liability	74.21%	74.30%	72.05%

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

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

<b>Measurement Date</b>	<b><u>June 30, 2016</u></b>	<b><u>June 30, 2015</u></b>	<b><u>June 30, 2014</u></b>
Contractually required contributions (actuarially determined)	\$ 212,772	\$ 206,386	\$ 188,168
Contributions in relation to the actuarially determined contributions	<u>(212,772)</u>	<u>(206,386)</u>	<u>(188,168)</u>
	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Covered-employee payroll	\$ 767,129	\$ 718,978	\$ 619,918
Contributions as a percentage of covered-employee payroll	27.74%	28.71%	30.35%
Valuation date	June 30, 2015	June 30, 2014	June 30, 2013

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

**SUPPLEMENTAL 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, 2017**

**WATER SERVICES**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating Revenues:</b>			
Water sales	\$ 2,115,300	\$ 2,026,280	\$ (89,020)
Water services	98,100	149,155	51,055
Other income	6,500	27,217	20,717
	<u>2,219,900</u>	<u>2,202,652</u>	<u>(17,248)</u>
<b>Operating Expenses:</b>			
Wilenor water supply	43,505	24,510	18,995
Water treatment	353,864	317,997	35,867
Transmission and distribution	480,518	414,593	65,925
Administration and general	624,178	286,193	337,985
	<u>1,502,065</u>	<u>1,043,293</u>	<u>458,772</u>
<b>Operating Income</b>	<u>717,835</u>	<u>1,159,359</u>	<u>441,524</u>
<b>Non-Operating Revenues (Expenses):</b>			
Interest income	11,000	19,970	8,970
Capacity charges	9,700	14,853	5,153
Solar income	58,000	61,321	3,321
Interest expense	(19,519)	(33,067)	(13,548)
	<u>59,181</u>	<u>63,077</u>	<u>3,896</u>
<b>Other Budgeted Items</b>			
Principal payments on notes	(385,481)	(2,453,470)	(2,067,989)
Capital expenditures	(331,100)	(322,357)	8,743
<b>Total Other Budgeted Items</b>	<u>(716,581)</u>	<u>(2,775,827)</u>	<u>(2,059,246)</u>
<b>Net Income - Budget Basis</b>	<u>\$ 60,435</u>	<u>(1,553,391)</u>	<u>\$ (1,613,826)</u>
<b>Beginning Net Position</b>		9,682,214	
<b>Reconcile Budget to GAAP Basis:</b>			
Capital expenditures		322,357	
Principal payments on notes		2,453,470	
Depreciation (not budgeted)		(378,759)	
		<u>\$ 10,525,891</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, 2017**

**SEWER SERVICES**

	Budget	Actual	Variance Favorable (Unfavorable)
<b>Operating Revenues:</b>			
Sewer use sales and services	\$ 1,141,260	\$ 1,142,759	\$ 1,499
Total Operating Revenues	1,141,260	1,142,759	1,499
<b>Operating Expenses:</b>			
Transmission and distribution	39,600	43,494	(3,894)
Administration and general	325,109	249,694	75,415
Sewerage collection	103,688	79,966	23,722
SC-OR charges	374,278	382,278	(8,000)
Total Operating Expenses	842,675	755,432	87,243
Operating Income	298,585	387,327	88,742
<b>Non-Operating Revenues (Expenses):</b>			
Interest income	4,100	4,993	893
Capacity charges	10,225	11,361	1,136
Miscellaneous other income	2,000	42,181	40,181
Interest expense	(8,806)	(54,991)	(46,185)
Total Non-Operating Income	7,519	3,544	(3,975)
<b>Other Budgeted Items</b>			
Principal payments on notes	(24,584)	(122,989)	(98,405)
Capital expenditures	(98,500)	(108,705)	(10,205)
Total Other Budgeted Items	(123,084)	(231,694)	(108,610)
Net Income (Loss) - Budget Basis	\$ 183,020	159,177	\$ (23,843)
Beginning Net Position		5,587,717	
<b>Reconcile Budget to GAAP Basis:</b>			
Capital expenditures		108,705	
Principal payments on notes		122,989	
Depreciation (not budgeted)		(223,684)	
		\$ 5,754,904	

**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, 2017, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2017.

**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



Sacramento, California  
October 18, 2017

**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, 2017, and we have issued our report thereon dated October 18, 2017. 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 18, 2017