

Westborough Water District Annual Financial Report

**For the Fiscal Years Ended
June 30, 2017 and 2016**



Mission Statement

The mission of the Westborough Water District is to provide a stable supply of high quality safe drinking water at a fair price to all customers of the district. In addition, the district has the mission to provide reliable sewer service through the North San Mateo County Sanitation District. The Board, the staff and all employees of Westborough Water District are committed to providing its customers with high quality, cost-effective and environmentally sensitive customer service.

Board of Directors as of June 30, 2017

Name	Title	Elected/ Appointed	Current Term
Janet G. Medina	President	Elected	11/2015-11/2020
Tom Chambers	Vice President	Elected	11/2013-11/2018
Perry H. Bautista	Director	Elected	11/2013-11/2018
David J. Irwin	Director	Elected	11/2015-11/2020
Karema Al-Arabi	Director	Elected	06/2017-11/2018

**Darryl A. Barrow, General Manager
Westborough Water District
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So. San Francisco, California 94080
(650) 589-1435 – www.westboroughwater.com**

Westborough Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2017 and 2016

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Annual Financial Report
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Introductory Section

January 11, 2018

Board of Directors
Westborough Water District

Introduction

It is our pleasure to submit the Annual Financial Report for the Westborough Water District for the fiscal year ended June 30, 2017, following guidelines set forth by the Governmental Accounting Standards Board. District staff prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. The report is designed in a manner that we believe necessary to enhance your understanding of the District's financial position and activities.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately after the Independent Auditor's Report.

District Structure and Leadership

The Westborough Water District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The Westborough Water District has been providing services to the residents within the district's boundaries since 1961. The District is governed by a five-member Board of Directors, elected at-large from within the District's service area. The District General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The Westborough Water District employs a full-time staff of 5 employees. The District's Board of Directors meets on the second Thursday of each month. Meetings are publicly noticed and citizens are encouraged to attend.

The District provides water, sewer or a combination of both services to residents and businesses within its service area. The service area lies within the South San Francisco area. The District's boundaries comprise approximately one square mile. The District currently provides service to approximately 4,000 residential, commercial and irrigation connections.

Economic Condition and Outlook

The District's administrative offices are located in the City of South San Francisco in San Mateo County. The economic outlook for the region shows signs of economic growth.

California's water supply continues to be a concern due to projected population increases and a decrease in water-in-storage levels. This concern has increased interest in conservation and in irrigation methods and systems.

Economic Condition and Outlook, (continued)

Considering the District's ability to meet future water conservation requirements, particularly in the times of drought, the District approved Ordinance No. 69, prohibiting wasteful water use with the District's boundaries. In times of drought, wasteful water use practices constitute a potential threat to the District's ability to meet water conservation measures not only in times of drought, but at all times, is essential to ensure a reliable supply of water to meet current and future water supply needs.

Major Initiatives

The activities of the Board and staff of the District are driven by its Mission Statement: "The mission of the Westborough Water District is to provide a stable supply of high quality safe drinking water at a fair price to all customers of the district. In addition, the district has the mission to provide reliable sewer service through the North San Mateo County Sanitation District. The Board, the staff and all employees of Westborough Water District are committed to providing its customers with high quality, cost-effective and environmentally sensitive customer service."

1. To supply clean, wholesome water to the community and provide water for the future.
2. To plan, construct, operate, maintain and upgrade the water system facilities to adequately serve customer needs.
3. To utilize the District's financial resources in an effective, responsible, and prudent manner.
4. To provide quality customer service for District customers.
5. To inform, educate, and communicate with the community on District and water issues.
6. To review and maintain a plan to be proactive in preventative maintenance of the District's water and sewer systems.

All programs and operations of the District are developed and performed to provide the highest level of services to its customers.

Internal Control Structure

District management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the District are protected from loss, theft or misuse. The internal control structure also ensures that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

The District Board of Directors adopts an operating and capital budget every year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget and reporting treatment applied to the District is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, District ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity and yield.

Water and Sewer Rates and District Revenues

District policy direction ensures that all revenues from user charges and surcharges generated from District customers must support all District operations including capital project funding. Accordingly, water and sewer rates are reviewed periodically. Water rates are user charges imposed on customers for services and are the primary component of the District's revenue. Water rates are composed of a commodity (usage) charge and a fixed (readiness-to-serve) charge. Sewer rates are based on customer's water consumption during January/February each year.

Water Conservation Programs

The District has implemented conservation management practices. The District distributes materials to encourage water conservation. The District offers the following conservation programs:

- Free Water Conservation Items
- Low-Flow Toilet Retrofit Program
- Hi-Efficiency Washers Program
- Water Usage Audit Program

Audit and Financial Reporting

State Law requires the District to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Fedak & Brown, LLP has conducted the audit of the District's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.

Risk Management

The District participates in a joint powers agreement with the Association of California Water Agencies Joint Powers Insurance Authority (ACWA/JPIA). The District participates in the Liability, Property and Workers' Compensation programs. The Property program includes Fidelity Coverage and Boiler & Machinery Coverage.

Other References

More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

Acknowledgements

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the District. We would also like to thank the members of the Board of Directors and especially the Finance Committee members for their continued support in planning and implementation of the Westborough Water District's fiscal policies.

Respectfully submitted,

Darryl A. Barrow
General Manager

Patricia Mairena
Assistant General Manager

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Financial Section



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Independent Auditor's Report

Board of Directors
Westborough Water District
South San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Westborough Water District (District) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2017 and 2016, and the respective changes in financial position, and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, (continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 9, and the Required Supplementary Information on pages 36 through 38 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Introductory Section on pages 1 through 3, and the supplemental information on pages 39 through 44, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules of revenue, expenses and changes in net position are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 11, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance. This report can be found on pages 45 and 46.

Fedak & Brown LLP

Fedak & Brown, LLP

Cypress, California

January 11, 2018

Westborough Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017 and 2016

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Westborough Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- The District's net position increased 0.16%, or \$15,146 to \$9,461,608 in fiscal year 2017, which was due primarily to an increase from operations. In 2016, the District's net position increased 0.54%, or \$50,392 to \$9,446,462, which was due primarily to an increase from operations.
- The District's operating revenues increased 3.10% or \$145,355 in fiscal year 2017. In 2016, the District's operating revenues increased 7.27% or \$317,856.
- The District's operating expenses increased 5.06% or \$249,446 in fiscal year 2017. In 2016, the District's operating expenses increased 10.77% or \$479,911.

Required Financial Statements

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

The District's statements consist of two funds, the Water Fund and the Sewer Fund. The District's records are maintained on an enterprise basis, as it is the intent of the Board of Directors that the costs of providing water and sewer to the customers of the District are financed primarily through user charges.

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

Financial Analysis of the District

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

Westborough Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017 and 2016

Financial Analysis of the District, (continued)

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 14 through 35.

Statements of Net Position

Condensed Statements of Net Position

	2017	2016	Change
Assets:			
Current assets	\$ 5,289,900	5,535,847	(245,947)
Capital assets, net	6,021,180	5,800,250	220,930
Total assets	11,311,080	11,336,097	(25,017)
Deferred outflows of resources	178,643	55,067	123,576
Liabilities:			
Current liabilities	1,408,793	1,450,639	(41,846)
Non-current liabilities	580,890	421,530	159,360
Total liabilities	1,989,683	1,872,169	117,514
Deferred inflows of resources	38,432	72,533	(34,101)
Net position:			
Net investment in capital assets	6,021,180	5,800,250	220,930
Restricted for capital projects	647,234	643,331	3,903
Unrestricted	2,793,194	3,002,881	(209,687)
Total net position	\$ 9,461,608	9,446,462	15,146

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$9,461,608 and \$9,446,462 as of June 30, 2017 and 2016, respectively.

By far the largest portion of the District's net position (64% and 61% as of June 30, 2017 and 2016, respectively) reflects the District's net investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District had no outstanding long-term debt at June 30, 2017 and 2016, respectively. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending. At the end of fiscal year 2017 and 2016, the District showed a positive balance in its unrestricted net position of \$2,793,194 and \$3,002,881, respectively. See note 8 to the basic financial statements for further information.

Westborough Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017 and 2016

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 4,832,620	4,687,265	145,355
Non-operating revenues	592,785	520,376	72,409
Total revenues	<u>5,425,405</u>	<u>5,207,641</u>	<u>217,764</u>
Expenses:			
Operating expenses	5,183,959	4,934,513	249,446
Depreciation	226,300	222,736	3,564
Total expenses	<u>5,410,259</u>	<u>5,157,249</u>	<u>253,010</u>
Change in net position	<u>15,146</u>	<u>50,392</u>	<u>(35,246)</u>
Net position, beginning of year	<u>9,446,462</u>	<u>9,396,070</u>	<u>50,392</u>
Net position, end of year	<u>\$ 9,461,608</u>	<u>9,446,462</u>	<u>15,146</u>

The statements of revenues, expenses and changes of net position show how the District's net position changed during the fiscal years. In the case of the District, net position in fiscal year 2017 increased 0.16%, or \$15,146 to \$9,461,608, which was due primarily to an increase from operations. In 2016, the District's net position increased 0.54%, or \$50,392 to \$9,446,462, which was due primarily to an increase from operations.

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

In 2017, the District's total revenues increased by \$217,764, primarily due to the net effect of increases in water consumption sales of \$220,423 and non-operating revenue of \$72,409, which was offset by a decrease in wastewater service revenue of \$76,464. Additionally, total expenses increased by \$253,010 primarily due to increases in water purchases of \$162,458, system maintenance of \$156,412 and general administrative of \$27,682, which was offset by a decrease in treatment and disposal of \$105,359.

In 2016, the District's total revenues increased by \$358,903, primarily due to the net effect of increases in water consumption sales of \$186,609, wastewater service revenue of \$131,741, and a decrease in other non-operating revenues of \$23,761. Additionally, total expenses increased by \$459,748 primarily due to increases in treatment and disposal of \$180,885, water purchases of \$168,149, general and administrative expenses of \$95,659, system maintenance of \$19,403, and utilities expense of \$16,847.

Capital Asset Administration

At the end of fiscal year 2017 and 2016, the District's investment in capital assets amounted to \$6,021,180 and \$5,800,250, respectively, (net of accumulated depreciation). This investment in capital assets includes land, transmission and distribution systems, reservoirs, tanks, pumps, buildings and structures, equipment, and vehicles, etc. Major capital assets additions during the year included upgrades to the District's buildings, water facilities, and sewer facilities.

Westborough Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2017 and 2016

Capital Asset Administration, (continued)

Changes in capital asset amounts for the year were as follows:

	<u>Balance 2016</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2017</u>
Capital assets:				
Non-depreciable assets	\$ 332,939	150,415	(58,477)	424,877
Depreciable assets	11,345,559	363,128	(417,468)	11,291,219
Accumulated depreciation	<u>(5,878,248)</u>	<u>(226,300)</u>	<u>409,632</u>	<u>(5,694,916)</u>
Total capital assets, net	<u>\$ 5,800,250</u>	<u>287,243</u>	<u>(66,313)</u>	<u>6,021,180</u>
	<u>Balance 2015</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Balance 2016</u>
Capital assets:				
Non-depreciable assets	\$ 225,028	123,526	(15,615)	332,939
Depreciable assets	11,245,724	99,835	-	11,345,559
Accumulated depreciation	<u>(5,655,512)</u>	<u>(222,736)</u>	<u>-</u>	<u>(5,878,248)</u>
Total capital assets, net	<u>\$ 5,815,240</u>	<u>625</u>	<u>(15,615)</u>	<u>5,800,250</u>

Conditions Affecting Current Financial Position

Management is unaware of any conditions that would have a significant impact on the District's financial position, net position, or operating results in terms of past, present and future.

Requests for Information

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Darryl A. Barrow, General Manager of Westborough Water District, 2263 Westborough Blvd., South San Francisco, CA 94083-2747.

Basic Financial Statements

Westborough Water District
Statements of Net Position
June 30, 2017 and 2016

	2017	2016
Current assets:		
Cash and cash equivalents (note 2)	\$ 4,068,383	4,346,691
Cash and cash equivalents – restricted (note 2)	646,004	641,933
Accrued interest receivable	7,743	4,672
Accrued interest receivable – restricted	1,230	1,398
Accounts receivable – water sales and services, net (note 3)	495,087	469,723
Property tax receivable	5,199	4,646
Materials and supplies inventory	53,477	54,374
Prepaid expenses and other deposits	12,777	12,410
Total current assets	5,289,900	5,535,847
Non-current assets:		
Capital assets – not being depreciated (note 4)	424,877	332,939
Capital assets – being depreciated, net (note 4)	5,596,303	5,467,311
Total non-current assets	6,021,180	5,800,250
Total assets	11,311,080	11,336,097
Deferred outflows of resources:		
Deferred pension outflows (note 7)	178,643	55,067
Current liabilities:		
Accounts payable and accrued expenses	189,355	158,224
Accrued sewer service charge	869,835	952,111
Deposits	322,171	314,168
Unearned revenue	13,269	13,674
Long-term liabilities – due within one year:		
Compensated absences (note 5)	14,163	12,462
Total current liabilities	1,408,793	1,450,639
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 5)	42,490	37,385
Net pension liability (note 7)	538,400	384,145
Total non-current liabilities	580,890	421,530
Total liabilities	1,989,683	1,872,169
Deferred inflows of resources:		
Deferred pension inflows (note 7)	38,432	72,533
Net position:		
Net investment in capital assets	6,021,180	5,800,250
Restricted for capital projects	647,234	643,331
Unrestricted (note 8)	2,793,194	3,002,881
Total net position	\$ 9,461,608	9,446,462

See accompanying notes to the basic financial statements

Westborough Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenues:		
Water consumption sales	\$ 2,522,103	2,301,680
Wastewater service	2,286,381	2,362,845
Other charges and services	24,136	22,740
Total operating revenues	4,832,620	4,687,265
Operating expenses:		
Salaries and benefits	242,295	253,277
Employee benefits	76,001	59,070
Payroll taxes	19,198	19,998
Water purchases	1,590,306	1,427,848
Utilities	171,171	178,784
System maintenance	200,260	43,848
Supplies and small tools	10,067	9,511
Special services	46,854	42,678
Technical communications	7,043	5,746
Vehicles	22,555	17,867
Treatment and disposal	1,818,876	1,924,235
General and administrative	979,333	951,651
Total operating expenses	5,183,959	4,934,513
Operating loss before depreciation	(351,339)	(247,248)
Depreciation	(226,300)	(222,736)
Operating loss	(577,639)	(469,984)
Non-operating revenue		
Property taxes	421,085	405,822
Interest and investment earnings	24,384	21,273
Other non-operating revenue	147,316	93,281
Total non-operating revenues, net	592,785	520,376
Change in net position	15,146	50,392
Net position, beginning of year	9,446,462	9,396,070
Net position, end of year	\$ 9,461,608	9,446,462

See accompanying notes to the basic financial statements

Westborough Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash receipts from customers for sales and services	\$ 4,807,256	4,648,626
Cash paid to vendors and suppliers for materials and services	(4,384,384)	(4,186,546)
Cash paid to employees for salaries and wages	<u>(692,445)</u>	<u>(678,985)</u>
Net cash used in operating activities	<u>(269,573)</u>	<u>(216,905)</u>
Cash flows from non-capital financing activities:		
Proceeds from property taxes	<u>420,532</u>	<u>402,409</u>
Net cash provided by non-capital financing activities	<u>420,532</u>	<u>402,409</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	<u>(452,483)</u>	<u>(210,327)</u>
Net cash used in capital and related financing activities	<u>(452,483)</u>	<u>(210,327)</u>
Cash flows from investing activities:		
Interest and investment earnings	<u>27,287</u>	<u>24,270</u>
Net cash provided by investing activities	<u>27,287</u>	<u>24,270</u>
Net decrease in cash and cash equivalents	(274,237)	(553)
Cash and cash equivalents, beginning of year	<u>4,988,624</u>	<u>4,989,177</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,714,387</u></u>	<u><u>4,988,624</u></u>
Reconciliation of cash and cash equivalents to statement of financial position:		
Cash and cash equivalents	\$ 4,068,383	4,346,691
Cash and cash equivalents – restricted	<u>646,004</u>	<u>641,933</u>
Total cash and cash equivalents	<u><u>\$ 4,714,387</u></u>	<u><u>4,988,624</u></u>

Continued on next page

See accompanying notes to the basic financial statements

Westborough Water District
Statements of Cash Flows, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ <u>(577,639)</u>	<u>(469,984)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	226,300	222,736
Other non-operating, net	147,316	93,281
Change in assets – (increase) decrease:		
Accounts receivable – sales and services, net	(25,364)	(38,639)
Property tax receivable	(553)	(164)
Materials and supplies inventory	897	2,338
Prepaid expenses and other deposits	(367)	(98)
Changes in deferred outflows – (increase) decrease:	(123,576)	5,403
Change in liabilities – increase (decrease):		
Accounts payable and accrued expenses	(51,145)	23,168
Deposits	8,003	(13,790)
Unearned revenue	(405)	4,074
Compensated absences	6,806	1,096
Net pension liability	154,255	13,530
Changes in deferred inflows – (decrease):	<u>(34,101)</u>	<u>(59,856)</u>
Total adjustments	<u>308,066</u>	<u>253,079</u>
Net cash used in operating activities	\$ <u><u>(269,573)</u></u>	<u><u>(216,905)</u></u>
Non-cash investing, capital and financing transactions:		
Change in fair-market value of funds deposited with LAIF	\$ <u><u>(4,453)</u></u>	<u><u>2,952</u></u>

See accompanying notes to the basic financial statements

Westborough Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Westborough Water District is an independent special district, which operates under the authority of Division 12 of the California Water Code. The Westborough Water District has been providing water and sewer service to the residents of the South San Francisco area since 1961. The District is governed by a five-member Board of Directors who serve overlapping four-year terms.

Basis of Accounting and Measurement Focus

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

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

The District recognizes revenue from water and sewer service charges based on cycle billings performed every month. The District accrues revenues with respect to water and sewer service sold but not billed at the end of a fiscal period.

Financial Reporting

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

The financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting.

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

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

Westborough Water District
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies, (continued)

Financial Reporting, (continued)

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

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. There currently is no impact of the implementation of this Statement to the District's financial statements at this time.

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development.

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria.

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

In March 2016, the GASB issued Statement No. 82 – *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No.73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for financial statements for periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District's financial statements.

Prior Year Financial Data Presentation

In 2017, the District has presented the annual financial statements with prior year data for comparative purposes.

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies, (continued)

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.

Cash and Cash Equivalents

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

Investments and Investment Policy

The District has adopted an investment policy directing the General Manager to deposit funds in financial institutions. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Fair Value Measurements

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

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

Accounts Receivable and Allowance for Uncollectible Accounts

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

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies, (continued)

Property Taxes and Assessments

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

Property taxes receivable at year-end are related to property taxes collected by the County of San Mateo, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

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

Prepays

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

Inventory

Inventory consists primarily of materials used in construction and maintenance of the water and sewer system and is stated at cost using the average-cost method.

Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at \$500. Contributed assets are recorded at estimated fair market value at the date of contribution. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Sewer facilities	40 to 50 years
Water facilities	50 years
Buildings	5 to 10 years
Joint-use-facilities	50 years
Meters	5 to 15 years
Office equipment	5 to 15 years
Maintenance facilities	30 to 40 years

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies, (continued)

Deferred Outflows of Resources

The statement of net position reports a separate section for deferred outflows of resources. This financial statement element, *deferred outflows of resources*, represents a consumption of resources applicable to future periods and therefore will *not* be recognized as an outflow of resources (expenditure) until that time. Included is a deferred outflow related to pensions equal to the employer contributions made after the measurement date of the net pension liability. This amount will be amortized-in-full against the net pension liability in the next fiscal year. Deferred outflows related to pensions for the differences between expected and actual experience and net changes in proportions will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of the measurement date June 30, 2016 and 2015, which are a 3.7 and 3.8 year period, respectively. Additionally, a deferred outflow related to pensions for the net difference in projected and actual earnings on investments of the pension plans fiduciary net position will be amortized over a 5 year period.

Compensated Absences

The District’s policy is to permit employees to accumulate earned vacation and sick leave according to the number of years of service with the District. The liability for vested vacation and sick leave is recorded as an expense when earned.

Upon separation from the District as a result of retirement, disability or death, permanent employees are entitled to receive compensation at their current base salary for all unused vacation leave, up to a maximum of 120 days except for those employees that have not completed the probationary period or separated from the District upon termination.

The following vacation accrual schedule as of June 30, 2017:

<u>Years of service completed</u>	<u>Days of vacation earned annually</u>
1 to 4	10 (two weeks)
5 to 9	15 (three weeks)
10 to 14	20 (four weeks)
15 to 19	25 (five weeks)
20 to 24	30 (six weeks)

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

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

- Valuation Date: June 30, 2015 and 2014
- Measurement Date: June 30, 2016 and 2015
- Measurement Period: July 1, 2015 to June 30, 2016 and July 1, 2014 to June 30, 2015

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies, (continued)

Deferred Inflows of Resources

The statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This financial statement element, *deferred inflows of resources*, represents an acquisition of resources applicable to future periods and therefore will *not* be recognized as an inflow of resources (revenue) until that time. Deferred inflows related to pensions for the changes in assumptions and differences between the actual employer contributions and the proportionate share of contributions are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plans determined as of the measurement date June 30, 2016 and 2015 which are a 3.7 and 3.8 year period, respectively.

Deposit Connection Fees

Connection fees are collected by the District to cover the cost of service connections within the District. Funds in excess of connection costs are refunded to the customer.

Water and Sewer Sales

The District recognizes water and sewer services charges based on cycle billings rendered to the customers each month.

Capital Contributions

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

Net Position

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

- *Net Investment in Capital Assets* – Investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – Restricted consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- *Unrestricted* – Unrestricted consists of any remaining balance of the District’s net position that do not meet the definition of “restricted” or “net investment in capital assets”.

Budgetary Policies

The District adopts a one year non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

Reclassification

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

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 2 – Cash and Investments

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

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 4,068,383	4,346,691
Cash and cash equivalents – restricted	646,004	641,933
Total cash and cash equivalents	<u>\$ 4,714,387</u>	<u>4,988,624</u>

Cash and investments as of June 30, consist of the following:

	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 600	600
Deposits with financial institutions	373,646	89,859
Deposits held with California Local Agency Investment Fund (LAIF)	<u>4,340,141</u>	<u>4,898,165</u>
Total cash and investments	<u>\$ 4,714,387</u>	<u>4,988,624</u>

As of June 30, the District's authorized deposits had the following maturities:

	<u>2017</u>	<u>2016</u>
Deposits held with California Local Agency Investment Fund (LAIF)	194 days	167 days

Custodial Credit Risk

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

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by 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. Of the bank balances, up to \$250,000 is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 2 – Cash and Investments, (continued)

Investment in State Investment Pool

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

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

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

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Fair Value Measurements

At June 30, 2017 and 2016 the District did not hold any investments which require measurement at fair value on a recurring and non-recurring basis.

Note 3 – Accounts Receivable – Water Sales and Services, Net

The balance at June 30, consists of the following:

	2017	2016
Accounts receivable – water sales and services \$	496,087	470,723
Allowance for uncollectible accounts	(1,000)	(1,000)
Accounts receivable – water sales, net \$	495,087	469,723

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 4 – Capital Assets

Changes in capital assets for the year were as follows:

	<u>Balance 2016</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2017</u>
Non-depreciable assets:				
Land	\$ 182,632	-	-	182,632
Construction in progress	150,307	150,415	(58,477)	242,245
Total non-depreciable assets	<u>332,939</u>	<u>150,415</u>	<u>(58,477)</u>	<u>424,877</u>
Depreciable assets:				
Buildings	984,220	62,165	(45,364)	1,001,021
Water facilities	5,809,027	19,523	-	5,828,550
Sewer facilities	2,942,505	189,499	-	3,132,004
Joint use facilities	136,695	1,096	(5,116)	132,675
Maintenance facilities	452,012	67,021	(82,137)	436,896
Water meters	647,301	21,623	(109,185)	559,739
Furniture and equipment	373,799	2,201	(175,666)	200,334
Total depreciable assets	<u>11,345,559</u>	<u>363,128</u>	<u>(417,468)</u>	<u>11,291,219</u>
Accumulated depreciation:				
Buildings	(557,447)	(30,403)	52,441	(535,409)
Water facilities	(2,559,919)	(106,084)	-	(2,666,003)
Sewer facilities	(1,328,404)	(58,504)	-	(1,386,908)
Joint use facilities	(111,591)	(2,165)	1,279	(112,477)
Maintenance facilities	(410,676)	(10,507)	71,061	(350,122)
Water meters	(569,167)	(10,822)	109,185	(470,804)
Furniture and equipment	(341,044)	(7,815)	175,666	(173,193)
Total accumulated depreciation	<u>(5,878,248)</u>	<u>(226,300)</u>	<u>409,632</u>	<u>(5,694,916)</u>
Total depreciable assets, net	<u>5,467,311</u>	<u>136,828</u>	<u>(7,836)</u>	<u>5,596,303</u>
Total capital assets, net	<u>\$ 5,800,250</u>	<u>287,243</u>	<u>(66,313)</u>	<u>6,021,180</u>

Changes to capital assets in 2017 consisted primarily of additions of \$189,499 in upgrades to sewer facilities, \$67,021 in upgrades to the maintenance facilities, \$62,165 in upgrades to buildings, \$21,623 in additions to water meters, \$19,523 in additions to water facilities, \$2,201 in additions to furniture and equipment, and \$1,096 in additions to joint use facilities. Deletions included \$175,666 in furniture and equipment, \$109,185 in water meters, \$82,137 in maintenance facilities, \$45,364 in buildings, and \$5,116 in joint use facilities.

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 4 – Capital Assets, (continued)

Changes in capital assets for the year were as follows:

	<u>Balance 2015</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance 2016</u>
Non-depreciable assets:				
Land	\$ 182,632	-	-	182,632
Construction in progress	42,396	123,526	(15,615)	150,307
Total non-depreciable assets	<u>225,028</u>	<u>123,526</u>	<u>(15,615)</u>	<u>332,939</u>
Depreciable assets:				
Buildings	978,020	6,200	-	984,220
Water facilities	5,772,326	36,701	-	5,809,027
Sewer facilities	2,902,738	39,767	-	2,942,505
Joint use facilities	131,295	5,400	-	136,695
Maintenance facilities	452,012	-	-	452,012
Water meters	635,534	11,767	-	647,301
Furniture and equipment	373,799	-	-	373,799
Total depreciable assets	<u>11,245,724</u>	<u>99,835</u>	<u>-</u>	<u>11,345,559</u>
Accumulated depreciation:				
Buildings	(527,240)	(30,207)	-	(557,447)
Water facilities	(2,456,392)	(103,527)	-	(2,559,919)
Sewer facilities	(1,272,329)	(56,075)	-	(1,328,404)
Joint use facilities	(108,949)	(2,642)	-	(111,591)
Maintenance facilities	(403,552)	(7,124)	-	(410,676)
Water meters	(554,701)	(14,466)	-	(569,167)
Furniture and equipment	(332,349)	(8,695)	-	(341,044)
Total accumulated depreciation	<u>(5,655,512)</u>	<u>(222,736)</u>	<u>-</u>	<u>(5,878,248)</u>
Total depreciable assets, net	<u>5,590,212</u>	<u>(122,901)</u>	<u>-</u>	<u>5,467,311</u>
Total capital assets, net	<u>\$ 5,815,240</u>	<u>625</u>	<u>(15,615)</u>	<u>5,800,250</u>

Changes to capital assets in 2016 consisted primarily of \$39,767 in upgrades to sewer facilities, \$36,701 in upgrades to the water facilities, \$11,767 in additions to water meters, \$6,200 in upgrades to buildings, \$5,400 in additions to joint use facilities.

Note 5 – Compensated Absences

Compensated absences comprise unpaid vacation leave, sick leave and compensating time off which is accrued as earned. The District's liability for compensated absences is determined annually.

The changes to compensated absences balances at June 30, were as follows:

	<u>Balance 2016</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2017</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$	49,846	65,142	(58,335)	56,653	14,163	42,490
	<u>Balance 2015</u>	<u>Earned</u>	<u>Taken</u>	<u>Balance 2016</u>	<u>Current Portion</u>	<u>Long-term Portion</u>
\$	48,751	59,951	(58,856)	49,846	12,462	37,385

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 6 – Other Post-Employment Benefits

The District provides other post-employment benefits (OPEB) to qualified employees who retire from the District and meet the District’s vesting requirements. The District participates in CalPERS California Employer’s Retiree Benefit Trust Program (CERBT), a Prefunding Plan trust fund intended to perform an essential government function within the meaning of Section 115 of the Internal Revenue Code. Copies of CalPERS CERBT audited financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA 95814. The new reporting requirements for these benefit programs as they pertain to the District are set forth below.

Plan Description – Eligibility

The following requirements must be satisfied in order to be eligible for post-employment medical benefits:

- Employees hired before May 1, 2011, who retire from the District after attainment of age 55 and with 15 years of service.
- Employees hired on or after January 1, 2013, who retire from the District after attainment of age 60 and with 15 years of service.

Membership in the OPEB plan consisted of the following members as of June 30:

	2017	2016	2015
Active plan members	5	5	5
Retirees and beneficiaries receiving benefits	-	-	-
Separated plan members entitled to but not yet receiving benefits	-	-	-
	5	5	5

Plan Description – Benefits

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

Funding Policy

The District is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The fiscal year 2017 ARC rate is 6.43% of the annual covered payroll.

In June 2013, the District partially pre-funded the cost of the post-employment benefit plan and maintains reserves (and records an asset (liability)) for the difference between the funded amount and the actuarially determined ARC cost.

Annual Cost

For the year ended June 30, 2017, the District’s ARC cost is \$47,726. The District’s net OPEB payable obligation amounted to \$0 for the year ended June 30, 2017. The District contributed \$44,500 in age adjusted contributions and premiums for current retiree OPEB premiums for the year ended June 30, 2017.

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 6 – Other Post-Employment Benefits, (continued)

The balance at June 30, consists of the following:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 47,726	46,225	41,935
Interest on net OPEB obligation	(3,226)	(3,125)	(2,835)
Adjustment to annual required contribution	-	-	-
Total annual OPEB expense	44,500	43,100	39,100
Change in net OPEB payable obligation:			
Age adjusted contributions made	(44,500)	(43,100)	(39,100)
Total change in net OPEB payable obligation	-	-	-
OPEB payable – beginning of year	-	-	-
OPEB payable – end of year	\$ -	-	-

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

<i>Three-Year History of Net OPEB Obligation</i>				
<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Interest On Net OPEB</u>	<u>Age Adjusted Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>
2017	\$ 47,726	(3,226)	44,500	100.00%
2016	46,225	(3,125)	43,100	100.00%
2015	41,935	(2,835)	39,100	100.00%

Funded Status and Funding Progress of the Plan

The most recent valuation (dated June 30, 2015, includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$85,685. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2017 was estimated at \$678,985. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 58.88%.

See the Schedule of Funding Status of the District's Other Post-Employment Benefits Obligation in the Required Supplementary Information Section on page 38.

Actuarial Methods and Assumptions

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

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 6 – Other Post-Employment Benefits, (continued)

Actuarial Methods and Assumptions, continued

The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll
Remaining amortization period	26 year fixed (closed) period
Asset valuation method	30 year smoothed market
Actuarial assumptions:	
Discount rate	7.25%
Inflation–discount rate	3.00%

Note 7 – Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District’s separate Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees’ Retirement System (CalPERS). Benefit provisions under the Plan is 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 or may be obtained from their executive office: 400 P Street, Sacramento, CA, 95814.

Benefits Provided

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

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District’s CalPERS 2.0% at 55 Risk Pool Retirement Plan to new employee entrants, not previously employed by an agency under CalPERS, effective December 31, 2013. All employees hired after January 1, 2013 are eligible for the District’s CalPERS 2.0% at 62 Retirement Plan under PEPRA.

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 7 – Defined Benefit Pension Plan, (continued)

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

	Miscellaneous Plan	
	Tier 1	Tier 2
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.37%
Required employer contribution rates	8.377%	6.37%

Contributions

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

As of the fiscal year ended June 30, the contributions for the Plan were as follows:

	Miscellaneous Plan	
	2017	2016
Contributions – employer	\$ 67,156	51,191
Contributions – employee (paid by employer)	5,936	5,686
Total employer paid contributions	<u>\$ 73,092</u>	<u>56,877</u>

Net Pension Liability

As of the fiscal year ended June 30, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan was as follows:

	Proportionate Share of Net Pension Liability	
	2017	2016
Miscellaneous Plan	\$ 538,400	384,145

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, 2016 and 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 and 2014, rolled forward to June 30, 2016 and 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.

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 7 – Defined Benefit Pension Plan, (continued)

Net Pension Liability, (continued)

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

	Miscellaneous Plan
Proportion – June 30, 2015	0.00560%
Proportion – June 30, 2016	0.00622%
Change – Increase (Decrease)	0.00063%

The District's proportionate share of the pension liability for the District's Plan as of the June 30, 2014 and 2015, was as follows:

	Miscellaneous Plan
Proportion – June 30, 2014	0.00596%
Proportion – June 30, 2015	0.00560%
Change – Increase (Decrease)	-0.00036%

Deferred Pension Outflows (Inflows) of Resources

As of June 30, 2017 and 2016, the District recognized pension expense of \$63,734 and \$10,268, respectively.

As of June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	\$ 67,156	-
Differences between actual and expected experience	1,654	-
Changes in assumptions	-	(20,295)
Net differences between projected and actual earnings on plan investments	105,630	-
Differences between actual contribution and proportionate share of contribution	-	(18,137)
Net adjustment due to differences in proportions of net pension liability	4,203	-
Total	\$ 178,643	(38,432)

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 7 – Defined Benefit Pension Plan, (continued)

Deferred Pension Outflows (Inflows) of Resources, (continued)

As of June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to the measurement date	\$ 51,191	-
Differences between actual and expected experience	3,876	-
Changes in assumptions	-	(36,668)
Net differences between projected and actual earnings on plan investments	-	(18,382)
Differences between actual contribution and proportionate share of contribution	-	(7,381)
Net adjustment due to differences in proportions of net pension liability	-	(10,102)
Total	<u>\$ 55,067</u>	<u>(72,533)</u>

As of June 30 2017 and 2016, employer pension contributions of \$67,156 and \$51,191, respectively, reported as deferred outflows of resources related to contributions subsequent to the measurement date were and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018 and 2017, respectively.

As of June 30, 2017, the District recognized other amounts reported by the Plan actuarial as deferred outflows of resources and deferred inflows of resources related to the pension liability. Pension related amounts will be recognized as pension expense as follows.

<u>Fiscal Year Ending June 30:</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2018	\$ (3,332)
2019	2,139
2020	46,430
2021	27,908
2022	-
Thereafter	-

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 7 – Defined Benefit Pension Plan, (continued)

Actuarial Assumptions

The total pension liability in the June 30, 2016 and 2015, actuarial valuation reports were determined using the following actuarial assumptions:

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2015 and 2014
Measurement Date	June 30, 2016 and 2015
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 7 – Defined Benefit Pension Plan, (continued)

Discount Rate, (continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1–10*</u>	<u>Real Return Year 11+**</u>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	1.0	(0.55)	(1.05)
Total	<u>100.0%</u>		

* An expected inflation of 2.5% used for this period

** An expected inflation of 3.0% used for this period

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following tables present the District’s proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the District’s proportional share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

At June 30, 2017, the discount rate comparison was the following:

	<u>Discount Rate - 1% 6.65%</u>	<u>Current Discount Rate 7.65%</u>	<u>Discount Rate + 1% 8.65%</u>
District's Net Pension Liability \$	<u>819,152</u>	<u>538,400</u>	<u>307,262</u>

At June 30, 2016, the discount rate comparison was the following:

	<u>Discount Rate - 1% 6.65%</u>	<u>Prior Discount Rate 7.65%</u>	<u>Discount Rate + 1% 8.65%</u>
District's Net Pension Liability \$	<u>627,236</u>	<u>384,145</u>	<u>184,229</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in separately issued CalPERS financial reports. See pages 36 through 37 for the Required Supplementary Schedules.

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 7 – Defined Benefit Pension Plan, (continued)

Payable to the Pension Plan

At June 30, 2017 and 2016, the District reported no payables for the outstanding amount of contribution to the pension plan.

Note 8 – Unrestricted Net Position

Unrestricted net position is comprised of the following:

	2017	2016
Non-spendable net position:		
Materials and supplies inventory	\$ 53,477	54,374
Prepaid expenses	12,777	12,410
Total non-spendable net assets	66,254	66,784
Spendable net position are designated as follows:		
Reserved for operations	2,726,940	2,936,097
Unrestricted	2,726,940	2,936,097
Total spendable net position	2,726,940	2,936,097
Total unrestricted net position	\$ 2,793,194	3,002,881

Note 9 – Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California water agencies. The purpose of the ACWA/JPIA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2017, the District participates in the ACWA/JPIA pooled programs for liability, property, and workers' compensation programs as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of \$5,000,000 per occurrence. The ACWA/JPIA purchased additional excess coverage layers: \$55 million for general, auto and public officials liability, which increases the limits on the insurance coverage noted above.

In addition to the coverage on the previous page, the District also has the following insurance coverage:

- Crime coverage up to \$100,000 per loss includes public employee dishonesty, depositor's forgery or alteration, theft, computer and funds transfer fraud coverage's, subject to \$1,000 deductible per loss.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis, to a combined total of \$150 million per loss, subject to a \$2,500 deductible per loss. Mobile equipment and vehicles, on file, are paid on actual cost value basis at time of loss and subject to \$1,000 deductible per loss.
- Boiler and machinery coverage for the replacement cost up to \$150 million per occurrence, subject to various deductibles depending on the type of equipment, on file.
- Workers' compensation coverage up to California statutory limits for all work related injuries/illnesses covered by California law; a pooled self-insured limit of \$2,000,000.

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 9 – Risk Management, (continued)

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2017, 2016 and 2015. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2017, 2016, and 2015, respectively.

Note 10 – Governmental Accounting Standards Board Statements Issued, Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2017, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 75

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

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

Governmental Accounting Standards Board Statement No. 81

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

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

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Governmental Accounting Standards Board Statement No. 83

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

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 10 – Governmental Accounting Standards Board Statements Issued, Not Yet Effective

Governmental Accounting Standards Board Statement No. 83, continued

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

Governmental Accounting Standards Board Statement No. 84

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

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

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

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

Governmental Accounting Standards Board Statement No. 85

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

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

Governmental Accounting Standards Board Statement No. 86

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

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

Westborough Water District
Notes to the Basic Financial Statements, (continued)
For the Fiscal Years Ended June 30, 2017 and 2016

Note 10 – Governmental Accounting Standards Board Statements Issued, Not Yet Effective

Governmental Accounting Standards Board Statement No. 87

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

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

Note 11 – Commitments and Contingencies

Litigation

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

Note 12 – Subsequent Event

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of January 11, 2018, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

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Required Supplementary Information

Westborough Water District
Schedules of the District's Proportionate Share of the Net Pension Liability
As of June 30, 2017
Last Ten Years*

<u>Description</u>	<u>Measurement Date</u>		
	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
District's Proportion of the Net Pension Liability	0.00622%	0.00560%	0.00596%
District's Proportionate Share of the Net Pension Liability	\$ 538,400	384,145	370,615
District's Covered-Employee Payroll	\$ 564,574	546,648	518,567
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	95.36%	70.27%	71.47%
District's Fiduciary Net Position as a Percentage of the District's Total Pension Liability	79.63%	84.06%	83.03%

Notes:

Changes in Benefit Terms – For the measurement date June 30, 2016, there were no changes in the benefit terms.

Changes of Assumptions – For the measurement date June 30, 2016, there were no changes in the assumptions.

* Historical information presented above follows the measurement periods for which GASB 68 & 71 were applicable. The fiscal year ended June 30, 2015 was the first year of implementation required by GASB 68 & 71, therefore only three years are shown.

Westborough Water District
Schedules of Pension Plan Contributions
As of June 30, 2017
Last Ten Years*

<u>Schedule of Pension Plan Contributions:</u>	Fiscal Year			
	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
Actuarially Determined Contribution	\$ 67,046	59,092	55,655	54,569
Contributions in Relation to the Actuarially Determined Contribution	<u>(67,156)</u>	<u>(51,191)</u>	<u>(60,470)</u>	<u>(54,569)</u>
Contribution Deficiency (Excess)	\$ <u>(110)</u>	<u>7,901</u>	<u>(4,815)</u>	<u>-</u>
Covered Payroll	\$ <u>585,652</u>	<u>564,574</u>	<u>546,648</u>	<u>518,567</u>
Contribution's as a percentage of Covered-employee Payroll	<u>11.45%</u>	<u>10.47%</u>	<u>10.18%</u>	<u>10.52%</u>

Notes:

- * Historical information presented above follows the measurement periods for which GASB 68 & 71 were applicable. The fiscal year ended June 30, 2015 was the first year of implementation required by GASB 68 & 71, therefore only four years are shown.

Westborough Water District
Schedules of Funding Status – Other Post-Employment Benefits Obligation
For the Fiscal Year Ended June 30, 2017 and 2016

Funded Status and Funding Progress of the Plan

Required Supplemental Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-c)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2015	\$ 193,500	593,300	85,685	32.61%	\$ 678,985	58.88%
6/30/2013	39,100	485,300	116,566	8.06%	601,866	74.14%

Funding progress is presented for the year that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2019 based on the year ending June 30, 2018.

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Supplemental Information

**Westborough Water District
Combining Schedule of Net Position
For the Fiscal Years Ended June 30, 2017**

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Current assets:			
Cash and cash equivalents	\$ 1,875,605	2,192,778	4,068,383
Cash and cash equivalents – restricted	646,004	-	646,004
Accrued interest receivable	7,743	-	7,743
Accrued interest receivable – restricted	1,230	-	1,230
Accounts receivable – water sales and services, net	439,869	55,218	495,087
Property tax receivable	5,199	-	5,199
Materials and supplies inventory	53,477	-	53,477
Prepaid expenses and other deposits	12,777	-	12,777
Total current assets	<u>3,041,904</u>	<u>2,247,996</u>	<u>5,289,900</u>
Non-current assets:			
Capital assets – not being depreciated	424,877	-	424,877
Capital assets – being depreciated, net	3,851,208	1,745,095	5,596,303
Total non-current assets	<u>4,276,085</u>	<u>1,745,095</u>	<u>6,021,180</u>
Total assets	<u>7,317,989</u>	<u>3,993,091</u>	<u>11,311,080</u>
Deferred outflows of resources			
Deferred pension outflows	178,643	-	178,643
Current liabilities:			
Accounts payable and accrued expenses	189,355	-	189,355
Accrued sewer service charge	-	869,835	869,835
Deposits and	322,171	-	322,171
Unearned revenue	13,269	-	13,269
Long-term liabilities – due within one year:			
Compensated absences	14,163	-	14,163
Total current liabilities	<u>538,958</u>	<u>869,835</u>	<u>1,408,793</u>
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences	42,490	-	42,490
Net pension liability	538,400	-	538,400
Total non-current liabilities	<u>580,890</u>	<u>-</u>	<u>580,890</u>
Total liabilities	<u>1,119,848</u>	<u>869,835</u>	<u>1,989,683</u>
Deferred inflows of resources			
Deferred pension inflows	38,432	-	38,432
Net position:			
Net investment in capital assets	4,276,085	1,745,095	6,021,180
Restricted for future capital facilities	647,234	-	647,234
Unrestricted	1,415,033	1,378,161	2,793,194
Total net position	<u>\$ 6,338,352</u>	<u>3,123,256</u>	<u>9,461,608</u>

See accompanying notes to the basic financial statements

**Westborough Water District
Combining Schedule of Net Position
For the Fiscal Years Ended June 30, 2016**

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Current assets:			
Cash and cash equivalents	\$ 2,145,466	2,201,225	4,346,691
Cash and cash equivalents – restricted	641,933	-	641,933
Accrued interest receivable	4,672	-	4,672
Accrued interest receivable – restricted	1,398	-	1,398
Accounts receivable – water sales and services, net	392,405	77,318	469,723
Property tax receivable	4,646	-	4,646
Materials and supplies inventory	54,374	-	54,374
Prepaid expenses and other deposits	12,410	-	12,410
Total current assets	<u>3,257,304</u>	<u>2,278,543</u>	<u>5,535,847</u>
Non-current assets:			
Capital assets – not being depreciated	332,939	-	332,939
Capital assets – being depreciated, net	3,853,211	1,614,100	5,467,311
Total non-current assets	<u>4,186,150</u>	<u>1,614,100</u>	<u>5,800,250</u>
Total assets	<u>7,443,454</u>	<u>3,892,643</u>	<u>11,336,097</u>
Deferred outflows of resources			
Deferred pension outflows	55,067	-	55,067
Current liabilities:			
Accounts payable and accrued expenses	158,224	-	158,224
Accrued sewer service charge	-	952,111	952,111
Deposits	314,168	-	314,168
Unearned revenue	13,674	-	13,674
Long-term liabilities – due within one year:			
Compensated absences	12,462	-	12,462
Total current liabilities	<u>498,528</u>	<u>952,111</u>	<u>1,450,639</u>
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences	37,385	-	37,385
Net pension liability	384,145	-	384,145
Total non-current liabilities	<u>421,530</u>	<u>-</u>	<u>421,530</u>
Total liabilities	<u>920,058</u>	<u>952,111</u>	<u>1,872,169</u>
Deferred inflows of resources			
Deferred pension inflows	72,533	-	72,533
Net position:			
Net investment in capital assets	4,186,150	1,614,100	5,800,250
Restricted for future capital facilities	643,331	-	643,331
Unrestricted	1,676,449	1,326,432	3,002,881
Total net position	<u>\$ 6,505,930</u>	<u>2,940,532</u>	<u>9,446,462</u>

See accompanying notes to the basic financial statements

Westborough Water District
Combining Schedule of Revenues, Expenses and Changes in Fund Net Position
For the Fiscal Year Ended June 30, 2017

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Operating revenues:			
Water consumption sales	\$ 2,522,103	-	2,522,103
Wastewater service	-	2,286,381	2,286,381
Other charges and services	24,136	-	24,136
Total operating revenues	<u>2,546,239</u>	<u>2,286,381</u>	<u>4,832,620</u>
Operating expenses:			
Salaries and benefits	242,295	-	242,295
Employee benefits	76,001	-	76,001
Payroll taxes	19,198	-	19,198
Water purchases	1,590,306	-	1,590,306
Utilities	89,761	81,410	171,171
System maintenance	62,961	137,299	200,260
Supplies and small tools	10,067	-	10,067
Special services	46,854	-	46,854
Technical communications	7,043	-	7,043
Vehicles	22,555	-	22,555
Treatment and disposal	-	1,818,876	1,818,876
General and administrative	971,765	7,568	979,333
Total operating expenses	<u>3,138,806</u>	<u>2,045,153</u>	<u>5,183,959</u>
Operating income(loss) before depreciation	(592,567)	241,228	(351,339)
Depreciation	<u>(167,796)</u>	<u>(58,504)</u>	<u>(226,300)</u>
Operating income(loss)	<u>(760,363)</u>	<u>182,724</u>	<u>(577,639)</u>
Non-operating revenue			
Property taxes	421,085	-	421,085
Interest and investment earnings	24,384	-	24,384
Other non-operating revenue	147,316	-	147,316
Total non-operating revenues, net	<u>592,785</u>	<u>-</u>	<u>592,785</u>
Change in net position	<u>(167,578)</u>	<u>182,724</u>	<u>15,146</u>
Net position, beginning of year	<u>6,505,930</u>	<u>2,940,532</u>	<u>9,446,462</u>
Net position, end of year	<u>\$ 6,338,352</u>	<u>3,123,256</u>	<u>9,461,608</u>

See accompanying notes to the basic financial statements

Westborough Water District
Combining Schedule of Revenues, Expenses and Changes in Fund Net Position
For the Fiscal Year Ended June 30, 2016

	Enterprise Funds		Total
	Water Fund	Sewer Fund	
Operating revenues:			
Water consumption sales	\$ 2,301,680	-	2,301,680
Wastewater service	-	2,362,845	2,362,845
Other charges and services	22,740	-	22,740
Total operating revenues	<u>2,324,420</u>	<u>2,362,845</u>	<u>4,687,265</u>
Operating expenses:			
Salaries and benefits	253,277	-	253,277
Employee benefits	59,070	-	59,070
Payroll taxes	19,998	-	19,998
Water purchases	1,427,848	-	1,427,848
Utilities	92,394	86,390	178,784
System maintenance	24,976	18,872	43,848
Supplies and small tools	9,511	-	9,511
Special services	42,678	-	42,678
Technical communications	5,746	-	5,746
Vehicles	17,867	-	17,867
Treatment and disposal	-	1,924,235	1,924,235
General and administrative	895,420	56,231	951,651
Total operating expenses	<u>2,848,785</u>	<u>2,085,728</u>	<u>4,934,513</u>
Operating income(loss) before depreciation	(524,365)	277,117	(247,248)
Depreciation	(166,660)	(56,076)	(222,736)
Operating income(loss)	<u>(691,025)</u>	<u>221,041</u>	<u>(469,984)</u>
Non-operating revenue			
Property taxes	405,822	-	405,822
Interest and investment earnings	21,273	-	21,273
Other non-operating revenue	93,281	-	93,281
Total non-operating revenues, net	<u>520,376</u>	<u>-</u>	<u>520,376</u>
Change in net position	<u>(170,649)</u>	<u>221,041</u>	<u>50,392</u>
Net position, beginning of year	<u>6,676,579</u>	<u>2,719,491</u>	<u>9,396,070</u>
Net position, end of year	<u>\$ 6,505,930</u>	<u>2,940,532</u>	<u>9,446,462</u>

See accompanying notes to the basic financial statements

**Westborough Water District
Budgetary Comparison Schedule
For the Year Ended June 30, 2017**

	Adopted Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Operating revenues:				
Water consumption sales	\$ 2,581,580	2,581,580	2,522,103	(59,477)
Wastewater service	2,301,531	2,301,531	2,286,381	(15,150)
Other charges and services	-	-	24,136	24,136
Total operating revenues	<u>4,883,111</u>	<u>4,883,111</u>	<u>4,832,620</u>	<u>(50,491)</u>
Operating expenses:				
Salaries and benefits	251,643	251,643	242,295	9,348
Employee benefits	83,804	83,804	76,001	7,803
Payroll taxes	19,827	19,827	19,198	629
Water purchases	1,718,568	1,718,568	1,590,306	128,262
Utilities	175,150	175,150	171,171	3,979
System maintenance	35,000	35,000	200,260	(165,260)
Supplies and small tools	8,000	8,000	10,067	(2,067)
Special services	27,450	27,450	46,854	(19,404)
Technical communications	7,175	7,175	7,043	132
Vehicles	20,000	20,000	22,555	(2,555)
Treatment and disposal	1,926,945	1,926,945	1,818,876	108,069
General and administrative	893,338	893,338	979,333	(85,995)
Total operating expenses	<u>5,166,900</u>	<u>5,166,900</u>	<u>5,183,959</u>	<u>(17,059)</u>
Operating loss before depreciation and amortization	(283,789)	(283,789)	(351,339)	(67,550)
Depreciation and amortization	<u>(247,129)</u>	<u>(247,129)</u>	<u>(226,300)</u>	<u>20,829</u>
Operating loss	<u>(530,918)</u>	<u>(530,918)</u>	<u>(577,639)</u>	<u>(46,721)</u>
Non-operating revenue				
Property taxes	370,000	370,000	421,085	51,085
Interest and investment earnings	18,490	18,490	24,384	5,894
Other non-operating revenue	199,364	199,364	147,316	(52,048)
Total non-operating revenues, net	<u>587,854</u>	<u>587,854</u>	<u>592,785</u>	<u>4,931</u>
Change in net position	<u>\$ 56,936</u>	<u>56,936</u>	<u>15,146</u>	<u>(41,790)</u>
Net position, beginning of year			<u>9,446,462</u>	
Net position, end of year			<u>\$ 9,461,608</u>	

**Westborough Water District
Schedule of Capacity Charges
For the Year Ended June 30, 2017**

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Beginning balance as of July 1, 2016	\$ 613,882	167,642	781,524
Capacity fees received for the fiscal year ended June 30, 2017			
Storage and transmission fees	<u>100,138</u>	<u>6,641</u>	<u>106,779</u>
Total capacity charges	<u>\$ 714,020</u>	<u>174,283</u>	<u>888,303</u>

Public improvement expenditures for the fiscal year ended June 30, 2017, are as follows:

<u>Public improvement projects</u>	<u>Project expenditures</u>			<u>Percentage complete</u>	<u>Project expenditures funded with the above fees</u>	
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>		<u>Amount</u>	<u>Percentage</u>
Skyline Storage Building Modification	\$ 18,314	-	18,314	10%	\$ 18,314	100%
Hazard Mitigation Plan	1,507	-	1,507	100%	1,507	100%
Skyline Tanks Structural Analysis/Coating Inspection & Paint	52,618	-	52,618	100%	52,618	100%
Distribution System Analysis	32,439	-	32,439	100%	32,439	100%
Capital Improvement Program - Zone 3 and 2	5,415	-	5,415	60%	5,415	100%
CCTV Sewer Line Analysis	-	120,279	120,279	100%	120,279	100%
Seafood Market	-	<u>1,087</u>	<u>1,087</u>	100%	1,087	100%
Total expenditures	<u>110,293</u>	<u>121,366</u>	<u>231,659</u>			
Excess fees over expenditures	<u>603,727</u>	<u>52,917</u>	<u>656,644</u>			
Ending balance as of June 30, 2017	<u>\$ 603,727</u>	<u>52,917</u>	<u>656,644</u>			

See accompanying notes to the schedule of capacity charges

Report on Internal Controls and Compliance



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

Board of Directors
Westborough Water District
South San Francisco, 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 Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Westborough Water District (District), as of and for the years June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated January 11, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our 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.

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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Independent Auditor's Report on Internal Controls Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards, (continued)**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the district's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

Fedak & Brown, LLP
Cypress, California
January 11, 2018