TUOLUMNE UTILITIES DISTRICT

Annual Financial Report June 30, 2018

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Tuolumne Utilities District

Annual Financial Report

June 30, 2018

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Independent Auditor’s Report

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tuolumne Utilities District
Sonora, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Tuolumne Utilities District (the District), which comprise the statements of net position of the Water Fund and Sewer Fund as of June 30, 2018, and the related statements of revenues, expenses, changes in net position, and cash flows for the year then ended and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain 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 opinions.

To the Board of Directors
Tuolumne Utilities District

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District's Water Fund and Sewer Fund as of June 30, 2018 and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Changes in Accounting Principles

As discussed in Note 14 to the financial statements, in 2018 the District adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of Contributions to the Pension Plan, the Schedule of Changes in the Net OPEB Liability/(Asset) and Related Ratios and the Schedule of Employer Contributions to the OPEB Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Richardson & Company, LLP

September 19, 2018

Management’s Discussion and Analysis

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Introduction

In this discussion and analysis, management provides an overview of the Tuolumne Utilities District's ("the District") financial position at June 30, 2018 and its financial performance for the year then ended. Condensed financial information from 2017 is also presented for comparison only. Limited information is presented about conditions and events that may affect the District's future financial position and performance. The intent is to provide context for understanding the financial statements and the District's prospects, and assistance interpreting the financial statements. This discussion and analysis presents management's perspective and should be read in conjunction with the District's financial statements and accompanying notes which follow this discussion and analysis.

Financial Statements

The District's financial statements include a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These financial statements, together with the related footnotes, are known as the "basic financial statements" and comply with generally accepted accounting principles, which for all state and local governments including the District, are set forth in Governmental Accounting Standards Board (GASB) Statements. In many, but not all cases, GASB Statements incorporate the provisions of Financial Accounting Standards Board Statements which establish generally accepted accounting principles for nongovernmental entities. The District's activities are business type activities and are accounted for as an enterprise fund. The accounting principles for an enterprise fund more closely resemble those of a commercial entity than a government.

Statement of Net Position

The statement of net position provides information about assets, obligations (liabilities), and net position of the District at a specific point in time. All amounts (except for investments in marketable debt securities) are shown at cost. Therefore, the liabilities, and net position sections of this statement reveal the sources of the District's capital, and the assets section shows how the capital has been used. The net position section reveals the life to date results of operations. Current assets and current liabilities are shown separately from other assets and liabilities to enable the reader to evaluate the adequacy of the District's working capital. Working capital is the excess of current assets over current liabilities, and current assets and current liabilities are those which liquidate within one year.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses and changes in net position provides information regarding the District's financial performance during the year. The difference between revenues and expenses is the change in net position for the period. The total net position in the balance sheet represents the life to date accumulation of changes in net position.

Revenues earned, and expenses incurred during the year are presented in three categories: operating, nonoperating, and capital contributions. This allows the reader to evaluate the financial results of operating activities separately from other sources of income and expense.

The statement ends by showing how net income for the year, including capital contributions, accounts for the change in net position that occurred during the year.

Statement of Cash Flows

Because revenues and expenses are not identical to cash flows, generally accepted accounting principles require we provide the statement of cash flows. The statement of cash flows reports sources and uses of cash in four categories: operating activities, noncapital financing activities, capital financing activities, and investing activities. The statement also presents a reconciliation of the differences between net income from operations and net cash flows from operations.

Financial Highlights

Condensed Statements of Net Position
For the Years Ended June 30

	2018	2017	Dollar Change	Percentage Change
Current assets	$ 13,523,816	$ 9,243,259	$ 4,280,557	46%
Restricted and other noncurrent assets	10,410,819	10,863,338	(452,519)	-4%
Capital assets	68,385,835	68,221,937	163,898	0%
Deferred outflows of resources	5,656,275	3,634,044	2,022,231	56%
Total assets and deferred outflows of resources	$ 97,976,745	$ 91,962,578	$ 6,014,167	7%
Current liabilities	$ 1,812,853	$ 1,528,750	$ 284,103	19%
Noncurrent liabilities	27,552,409	20,535,792	7,016,617	34%
Deferred inflows of resources	609,409	630,836	(21,427)	-3%
Net position	68,002,074	69,267,200	(1,265,126)	-2%
Total liabilities, deferred inflows of resources, and net position	$ 97,976,745	$ 91,962,578	$ 6,014,167	7%

These condensed statements of net position exclude interfund advances.

2018 and 2017 Balance Sheets Compared

Current assets increased by $4.3 million during 2018. Within current assets, cash and investments unrestricted, accounts receivable, property taxes receivable, intergovernmental receivable, interest receivable, and inventory all increased from 2017, while miscellaneous receivable and prepaid expenses each decreased. Restricted and other noncurrent assets decreased by $453 thousand from 2017.

The District invested $3.5 million in infrastructure improvements which were offset by depreciation expense of $3 million for a net increase in the capital assets of $164 thousand.

Total current liabilities increased by $284 thousand. Accounts payable, payroll payable, and current portion of long-term debt all increased over 2017, while deposits, accrued interest payable and current portion of compensated absences decreased.

Long-term liabilities increased by $7.0 million. The noncurrent portion of compensated absences, net pension liability, and net OPEB liability increased over 2017, while the noncurrent portion of long-term debt decreased. The $5.9 million increase in the net OPEB liability is due to the implementation of a new accounting pronouncement that requires the full unfunded liability be recorded. Net position decreased by $1.3 million as a result of the net OPEB liability increasing. Deferred outflows and inflows of pension and OPEB resources increased by $2 million and decreased by $21 thousand respectively.

Condensed Statements of Revenues
For the Years Ended June 30

	2018	2017	Dollar Change	Percentage Change
Operating revenues				
Service charges	$ 18,561,921	$ 16,824,021	$ 1,737,900	10%
Other	470,987	458,560	12,427	3%
Total operating revenues	19,032,908	17,282,581	1,750,327	10%
Nonoperating revenues				
Property taxes	1,007,603	967,355	40,248	4%
Debt service recovery charges	287,580	314,022	(26,442)	-8%
Intergovernmental revenue	1,512,737	368,055	1,144,682	311%
Investment income	268,538	150,148	118,390	79%
Other income	77,562	94,189	(16,627)	-18%
Gain (loss) on disposal of property	(244,240)	16,517	(260,757)	-1579%
Total nonoperating revenues	2,909,780	1,910,286	999,494	52%
Capital contributions	1,507,266	2,603,633	(1,096,367)	-42%
Total revenues	$ 23,449,954	$ 21,796,500	$ 1,653,454	8%

2018 and 2017 Revenues Compared

The comparative statement of revenues shows changes from 2018 to 2017 in the District's revenues, classified into operating, nonoperating, and capital categories. Total revenues increased $1.65 million. Total operating revenues increased $1.7 million mainly due to scheduled annual rate increase. Nonoperating revenues increased $999 thousand due to intergovernmental revenue related to tree mortality. Capital contributions decreased by $1 million due to 2017 capital grant related to Quartz-Stent project.

Condensed Statements of Operating Expenses
For the Years Ended June 30

	2018	2017	Dollar Change	Percentage Change
Supply and pumping	$ 986,187	$ 855,596	$ 130,591	15%
Collection	775,089	778,045	(2,956)	0%
Treatment	2,928,716	3,095,862	(167,146)	-5%
Transmission and distribution	1,419,251	1,193,253	225,998	19%
Disposal	260,173	259,974	199	0%
Customer services	144,062	136,167	7,895	6%
Administration and general	9,925,409	7,618,549	2,306,860	30%
Depreciation	3,036,669	3,085,174	(48,505)	-2%
Total operating expenses	$ 19,475,556	$ 17,022,620	$ 2,452,936	14%

2018 and 2017 Operating Expenses Compared

The condensed statement of operating expenses, above, shows an increase of approximately $2.45 million for total operating expenses. Supply and pumping, transmission and distribution, disposal, customer services, and administration and general increased over 2017. The main reason for the increase in administration and general was due to the tree mortality project. Collection, treatment, and depreciation decreased from 2017.

2018 and 2016 Nonoperating Expense Compared

Nonoperating expense consists of interest expense which was $176 thousand and $208 thousand for 2018 and 2017, respectively, a decrease of approximately $32 thousand.

Condensed Statements of Net Position
For the Years Ended June 30

	2018	2017	Dollar Change	Percentage Change
Operating revenues	$ 19,032,908	$ 17,282,581	$ 1,750,327	10%
Nonoperating revenues	2,909,780	1,910,286	999,494	52%
Total revenues	21,942,688	19,192,867	2,749,821	14%
Operating expenses	19,475,556	17,022,620	2,452,936	14%
Nonoperating expenses	175,671	208,506	(32,835)	-16%
Total expenses	19,651,227	17,231,126	2,420,101	14%
Net income (loss) before capital contributions	2,291,461	1,961,741	329,720	17%
Capital contributions	1,507,266	2,603,633	(1,096,367)	-42%
Change in net position	3,798,727	4,565,374	(766,647)	-17%
Beginning net position	69,267,200	64,701,826	4,565,374	7%
Restatement	(5,063,853)	-	(5,063,853)	
Beginning net position as restated	64,203,347	64,701,826	(498,479)	-1%
Ending net position	$ 68,002,074	$ 69,267,200	$ (1,265,126)	-2%

Capital Assets and Debt Administration

Capital assets include the District's water and wastewater system infrastructure of treatment plants, ditches, wells, pipelines, pumps, other buildings, and equipment.

2018 and 2017 Capital Assets Compared

Net capital assets totaled $68 million at June 30, 2018 and increased $164 thousand from the previous year due to additions of approximately $3.5 million, net of depreciation of $3 million. See Note 3 to the basic financial statements.

2018 and 2017 LongTerm Debt Compared

At June 30, 2018 there was $4 million of long term debt outstanding which decreased by approximately $477 thousand from 2017 due to maturities of existing debt. See Note 4 to the basic financial statements.

Infrastructure Improvements 2018

QUARTZ-STENT WATER MAIN EXTENSION – The Quartz-Stent Water Main Extension Project entailed the installation of approximately 12,000 linear feet of water main and has the potential to connect over 100 properties. This project was funded by grant agreements with the Department of Water Resources and the State Water Resources Control Board.

COLUMBIA CLEARWELL REHABILITATION – The project involved constructing a new roof on the Columbia Clearwell and completely recoating the interior and exterior of the tank. Additionally, a forced air ventilation system was installed to slow the rate of future interior corrosion.

DAMIN LIFT STATION REPLACEMENT – Constructed a new sewer lift station to replace the old lift station. The new lift station also has a generator, backup pumps, and an overflow sump in the event of a mechanical failure.

CUESTA HEIGHTS TANK WATER MAIN – Constructed approximately 1,850 linear feet of 10-inch diameter water main to connect a water main in Sawmill Flat Road with the District's Pedro-Y Storage Tank. The project enables the District to circulate water in a different direction and fully utilize volume in the existing storage tank.

REGIONAL WASTEWATER TREATMENT PLANT IMPROVEMENTS PHASE 1 – Constructed improvements to the treatment processes at the Sonora Regional Wastewater Treatment Plant including improving ventilation at the trickling filters and improvements to the gearbox controlling the distributor arms of the trickling filters.

CURED-IN-PLACE PIPE SEWER REHABILITATION – This project involved rehabilitating 1,635 feet of sewer main using cured-in-place pipe. This method has proven to be a cost-effective alternative to traditional dig and replace methods. Each year, District staff identifies segments of pipe that would be good candidates for cured-in-place pipe and bids are solicited from contractors who specialize in this type of work.

Infrastructure Improvements Currently Under Construction 2018

PHOENIX LAKE PRESERVATION AND RESTORATION – The project involves dredging Phoenix Lake to restore up to 300 acre-feet of storage capacity, while improving water quality. The project has several phases with roughly 85% of the total cost being funded by grants from Proposition 84.

JAMESTOWN RESERVOIR IMPROVEMENTS – Funded by a Community Development Block Grant to construct a new 1 million gallon tank and to install 1,500 linear feet of 18-inch pipeline to replace a 14-inch asbestos cement pipe that is approximately 60 years old and serves as the sole source of water to the Jamestown service area.

SARATOGA SEWER LIFT STATION - Construct a new sewer lift station to replace the old lift station. The new lift station will have new primary and overflow sumps and new pump controls.

Other Future Considerations

The Board of Directors of Tuolumne Utilities District (TUD) adopted its biennial budget for Fiscal Year 2019 and Fiscal Year 2020 on May 22, 2018. The adopted budget and the operational, programmatic and capital costs identified therein are possible because of the November 2015, Proposition 218 process in which the Board proposed a 5-year program of incremental rate increases for District customers to evaluate. The proposed rate increase did not obtain the required number of protests by District customers and the Board approved the rate plan. The new rate structure was effective in January 2016 and is in full compliance with California statute and case law that regulates how rates are established, the rate structure itself, and how rates apply to users.

The District will undertake an aggressive capital improvement plan (CIP) during the budget term. The District's adoption of a 5-year, incremental rate increase was in part to address compelling infrastructure needs in the water and sewer system. Water system related CIP projects will total approximately $3.8 million in FY 19. Sewer related CIP projects will total $2.2 million in FY 19. The planned projects are consistent with the adopted CIP and in several cases are the beginning phases of what are multi-year projects to substantially improve infrastructure and provide for greater reliability for District customers.

The ability to address the important multi-year capital projects are a particular concern moving forward. Priorities are being placed on repairing and improving the District's sewer collection system and water distribution system infrastructure. In addition, upgrades will be required to the District's regional wastewater treatment plant and consolidation of the District's multiple water treatment plants. The goal of these projects is to ultimately reduce operational costs over the long-term, but implementation comes with significant capital costs. Despite the ability to obtain state and federal grant funding for some of these projects, operating and capital costs will continue to put pressure on existing revenues and will result in the need to increase customer rates at the conclusion of the current five-year phased increase.

California has suffered the effects of a sustained drought for the past five years, including Tuolumne County. The lack of adequate precipitation in winter months coupled with moderate temperatures has undermined tree health and given way to an explosive bark beetle infestation that has severely crippled the pine tree population in the Sierra Nevada including the District's service territory. The District developed a Hazard Tree Mitigation Plan that identifies five (5) separate tree mortality project areas for inspection.

In May the District began assessing the status of dead and dying trees adjacent to District facilities including 72 miles of ditch and flume system. Certified arborists have assessed TUD's main ditches, including the Eureka, Section 4, Soulsbyville, and Columbia and have identified approximately 3,700 trees that have been subsequently removed or are under contract to be removed due to the ongoing effects of drought, including bark beetle infestation. The District anticipates that as many as 300 more trees (an approximate total of 4,000) in proximity to District facilities may die. The projections noted here are based upon what is being observed in the field coupled with the expectations of experts assessing the Sierra Nevada generally. This portion of the discussion merely emphasizes the order of magnitude problem and associated costs the District may face. For these reasons the effects of pervasive tree mortality represent a difficult scenario for the District.

Funding for tree removal is likely to come from various sources, including the District. Currently, California Disaster Assistance Act (CDAA) funding has been allocated by the Governor's Office of Emergency Services to the District to pay for 75% of tree removal cost with the District responsible for the remaining 25%. With the District facing an estimated 4,000 dead trees, ultimate removal cost may eclipse an estimated $4 million (M). Though this may occur over the course of 2 to 3 fiscal years, the costs nonetheless remain staggering.

The fiscal impact of hazard tree mitigation may approach $1M+ over the next several years as weakened trees give way to disease, drought and beetle related mortality and represents the District's 25% contribution to California Disaster Assistance Act funding. The District has received approximately $180,000 in funding through Tuolumne County and is currently working with the CalOES to obtain other funding to reduce this potential cost downwards.

Requests for Information

This discussion is intended to provide management's perspective on the District's financial position and results of operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 18885 Nugget Blvd., Sonora CA 95370.

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Basic Financial Statements

Tuolumne Utilities District
Statements of Net Position - Proprietary Funds
June 30, 2018

	Water	Sewer	Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
CURRENT ASSETS			
Cash and investments unrestricted	$ 1,486,864	$ 7,040,429	$ 8,527,293
Accounts receivable	2,444,355	546,762	2,991,117
Property taxes receivable	50,623	28,254	78,877
Intergovernmental receivable	1,199,216	128,261	1,327,477
Miscellaneous receivable	7,815	307	8,122
Interest receivable	-	80,559	80,559
Deposits	5,320	2,280	7,600
Prepaid expenses	152,955	65,552	218,507
Inventory	198,985	85,279	284,264
Total Current Assets	5,546,133	7,977,683	13,523,816
NONCURRENT ASSETS			
Restricted and Other Noncurrent Assets			
Cash and investments restricted	1,066,029	9,012,501	10,078,530
Assessments receivable	-	332,289	332,289
Advances to water fund	-	1,355,963	1,355,963
Total Restricted and Other Noncurrent Assets	1,066,029	10,700,753	11,766,782
Capital Assets			
Non-depreciable	4,218,528	2,518,448	6,736,976
Depreciable, net of accumulated depreciation	42,321,423	19,327,436	61,648,859
Total Capital Assets	46,539,951	21,845,884	68,385,835
Total Noncurrent Assets	47,605,980	32,546,637	80,152,617
TOTAL ASSETS	53,152,113	40,524,320	93,676,433
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	3,142,326	1,366,949	4,509,275
OPEB	802,900	344,100	1,147,000
Total Deferred Outlflows of Resources	3,945,226	1,711,049	5,656,275
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 57,097,339	$ 42,235,369	$ 99,332,708
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
CURRENT LIABILITIES			
Accounts payable & accrued expenses	$ 490,682	$ 216,235	$ 706,917
Payroll payable	141,389	63,756	205,145
Deposits	183,410	61,412	244,822
Accrued interest payable	16,298	9,161	25,459
Current portion of compensated absences	176,348	75,578	251,926
Current portion of long-term debt	280,150	98,434	378,584
Total Current Liabilities	1,288,277	524,576	1,812,853
NONCURRENT LIABILITIES			
Advances from sewer fund	1,355,963	-	1,355,963
Long-term debt	3,092,606	510,223	3,602,829
Compensated absences	611,208	261,946	873,154
Net pension liability	9,105,928	3,956,498	13,062,426
Net OPEB liability	7,009,800	3,004,200	10,014,000
Total Noncurrent Liabilities	21,175,505	7,732,867	28,908,372
TOTAL LIABILITIES	22,463,782	8,257,443	30,721,225
DEFERRED INFLOWS OF RESOURCES			
Pensions	312,488	133,921	446,409
OPEB	114,100	48,900	163,000
Total Deferred Inflows of Resources	426,588	182,821	609,409
NET POSITION			
Net investment in capital assets	43,167,195	21,237,227	64,404,422
Restricted for capital	679,503	8,894,783	9,574,286
Restricted for debt service	386,526	117,718	504,244
Unrestricted	(10,026,255)	3,545,377	(6,480,878)
TOTAL NET POSITION	34,206,969	33,795,105	68,002,074
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$ 57,097,339	$ 42,235,369	$ 99,332,708

The accompanying notes to the financial statements are an integral part of this statement.

Tuolumne Utilities District
Statements of Revenues, Expenses, and Changes in Financial Position
For the Year Ended June 30, 2018

	Water	Sewer	Total
OPERATING REVENUES			
Service charges	$ 13,155,335	$ 5,406,586	$ 18,561,921
Other revenue	50,569	420,418	470,987
Total Operating Revenues	13,205,904	5,827,004	19,032,908
OPERATING EXPENSES			
Supply and pumping	986,187	-	986,187
Collection	-	775,089	775,089
Treatment	1,894,252	1,034,464	2,928,716
Transmission and distribution	1,419,251	-	1,419,251
Disposal	-	260,173	260,173
Customer services	111,281	32,781	144,062
Administration and general	7,424,053	2,501,356	9,925,409
Depreciation	2,122,202	914,467	3,036,669
Total Operating Expenses	13,957,226	5,518,330	19,475,556
Net Income From Operations	(751,322)	308,674	(442,648)
NONOPERATING REVENUES (EXPENSES)			
Property taxes	762,306	245,297	1,007,603
Debt service recovery charges	287,580	-	287,580
Intergovernmental revenue	1,512,737	-	1,512,737
Investment income	-	268,538	268,538
Other income	74,901	2,661	77,562
Gain (loss) on property and equipment	(179,297)	(64,943)	(244,240)
Interest expense	(136,478)	(39,193)	(175,671)
Total Nonoperating Revenues (Expenses)	2,321,749	412,360	2,734,109
Net Income Before Capital Contributions	1,570,427	721,034	2,291,461
CAPITAL CONTRIBUTIONS			
Capital grants	643,491	214,972	858,463
Contributed capital	277,551	66,965	344,516
Facilities capital charges	202,352	101,935	304,287
Total Capital Contributions	1,123,394	383,872	1,507,266
Change in Net Position	2,693,821	1,104,906	3,798,727
Net Position, Beginning of Year	35,057,845	34,209,355	69,267,200
Restatement	(3,544,697)	(1,519,156)	(5,063,853)
Net Position, Beginning of Year as Restated	31,513,148	32,690,199	64,203,347
Net Position, End of Year	$ 34,206,969	$ 33,795,105	$ 68,002,074

The accompanying notes to the financial statements are an integral part of this statement.

Tuolumne Utilities District
Statement of Cash Flows
For the Year Ended June 30, 2018

	Water	Sewer	Total
OPERATING ACTIVITIES			
Receipts from customers and users	$ 12,903,218	$ 5,776,999	$ 18,680,217
Payments to employees and benefit providers	(6,878,185)	(2,873,739)	(9,751,924)
Payments to suppliers for goods and services	(4,490,881)	(1,505,914)	(5,996,795)
Cash Provided (Used) by Operating Activities	1,534,152	1,397,346	2,931,498
NONCAPITAL FINANCING ACTIVITIES			
Property taxes and assessments received	723,303	279,202	1,002,505
Receipts from customers for debt recovery	287,580	-	287,580
Other income	74,901	2,661	77,562
Cash received from (paid to) other funds	(1,608,574)	1,608,574	-
Receipts from other governments	682,948	116,823	799,771
Cash Provided (Used) by Noncapital Financing Activities	160,158	2,007,260	2,167,418
CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(2,169,009)	(980,923)	(3,149,932)
Proceeds from disposal of capital assets	22,147	10,107	32,254
Principal paid on long term debt	(331,715)	(144,848)	(476,563)
Receipts from other governments - capital grants	1,378,839	86,711	1,465,550
Receipts from developers - contributed capital	11,622	5,765	17,387
Receipts from customers and users - facility fees	202,352	101,935	304,287
Interest paid on long-term debt	(138,661)	(41,223)	(179,884)
Cash Provided (Used) by Capital and Related Financing Activities	(1,024,425)	(962,476)	(1,986,901)
INVESTING ACTIVITIES			
Investment interest (expense) earnings	-	219,108	219,108
Cash Provided (Used) by Investing Activities	-	219,108	219,108
Net Increase (Decrease) in Cash and Investments	669,885	2,661,238	3,331,123
Cash and Investments, Beginning of Year	1,883,008	13,391,692	15,274,700
Cash and Investments, End of Year	$ 2,552,893	$ 16,052,930	$ 18,605,823
RECONCILIATION OF CASH TO STATEMENT OF NET POSITION			
Cash and investments unrestricted	$ 1,486,864	$ 7,040,429	$ 8,527,293
Cash and investments restricted	1,066,029	9,012,501	10,078,530
Total cash and investments	$ 2,552,893	$ 16,052,930	$ 18,605,823
RECONCILIATION OF NET INCOME (LOSS) FROM OPERATIONS TO CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Net Income (Loss) From Operations	$ (751,322)	$ 308,674	$ (442,648)
Depreciation	2,122,202	914,467	3,036,669
Change in deferred outflows	(1,415,562)	(606,669)	(2,022,231)
Change in net pension liability	1,053,299	451,414	1,504,713
Change in net OPEB liability	592,200	253,800	846,000
Change in deferred inflows	(14,999)	(6,428)	(21,427)
(Increase) decrease in operating assets			
Accounts receivable	(254,993)	(51,315)	(306,308)
Miscellaneous receivables	4,915	183	5,098
Prepaid expenses	3,622	1,553	5,175
Inventory	(28,331)	(12,142)	(40,473)
Increase (decrease) in operating liabilities			
Accounts payable & accrued expenses	252,134	114,080	366,214
Payroll payable	3,137	19,833	22,970
Deposits payable	(52,608)	1,127	(51,481)
Compensated absences	20,458	8,769	29,227
Net Cash Provided (Used) by Operating Activities	$ 1,534,152	$ 1,397,346	$ 2,931,498
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Donated infrastructure	$ 265,929	$ 61,200	$ 327,129

The accompanying notes to the financial statements are an integral part of this statement.

Notes to the Basic Financial Statements

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Notes to the Basic Financial Statements

NOTE 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The Tuolumne Utilities District (District) was organized in 1992 as a result of combining the Tuolumne Regional Water District and the County Water Department under Division 12 of the California Water Code. The District is governed by an elected five member Board of Directors. This District's Board is elected at large and has the authority to develop and operate water facilities for consumption and hydroelectric power generation, and sewer facilities for collection treatment and disposal of sewage. The Board of Directors has the authority to fix rates and charges for the District's commodities and services. The District may also incur indebtedness, including issuing bonds, and is exempt from federal and state income taxes. The District has no component units.

B. Basis of Accounting

These financial statements are prepared in conformity with accounting principles generally accepted ("GAAP") in the United States of America. The Governmental Accounting Standards Board ("GASB") is the acknowledged standard setting body for accounting and financial reporting standards followed by government entities in the United States of America. The District is presented as two enterprise funds for water and sewer, respectively. A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific government activity. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business where activities are financed in whole or in substantial part by fees charged in exchange for goods and service provided by the District. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange like transactions are recognized when the exchange takes place, so revenues are recognized when earned rather than when received, and expenses are recorded when incurred rather than when paid.

The District applies all applicable GASB pronouncements in its accounting and reporting. Private sector standards of accounting and financial reporting issued by the Financial Accounting Standard Board ("FASB") are followed in the District's financial statements to the extent that those standards do not conflict with or contradict GASB statements.

The District classifies as operating revenues those charges for goods and services which constitute the primary business activities of the District. Operating expenses are those required to provide the primary goods and services of the District and to earn the operating revenues. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses, which includes nonexchange transactions and ancillary activities.

C. Cash and Cash Equivalents

GAAP allows a financial statement issuer to choose the focus of the statement of cash flows as either cash or "cash and cash equivalents". The District reports restricted and unrestricted cash, including bank deposits and the District's investment in the State of California Local Agency Investment Fund (LAIF), as well as cash equivalents in the statement of cash flows. The District defines cash equivalents as certain highly liquid investments with an original maturity of three months or less, including only money market mutual funds.

D. Restricted Assets

The use of some assets can be restricted to certain purposes by law, by grantors of the assets, by legislative acts of the Board of Directors, or by contracts to which the District is a party. When the District has a choice to use either restricted or unrestricted funds the District's policy is normally to use restricted funds first.

E. Receivables

Trade and property tax receivables are not shown net of an allowance for uncollectible amounts because the amounts estimated by management to be uncollectible are immaterial. The funds include a year-end accrual for services through the end of the fiscal year which have not yet been billed. Property taxes are levied as of January 1 on property values assessed as of the same date. State statutes provide that the property tax rate is limited generally to one percent of assessed value, and can be levied by only the county, and shared by applicable jurisdictions within the county. The County of Tuolumne collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter approved debt. Property taxes are due to the county on November 1 and February 1, and become delinquent after December 10 and April 10. The District recognizes property tax revenues in the year for which they are levied. Intergovernmental receivables include receivables due from other governments for State pass-through grants and other reimbursements.

Assessments receivable represents amounts due from property owners as a result of the special assessment district formed August 28, 1983 to provide funding for the design and construction of four wastewater collection facilities. The Tuolumne County Treasurer forwards capital contributions from the special assessment district to Tuolumne Utilities District as the proceeds are received.

F. Inventory

Inventories are valued at cost based upon physical determinations made at the end of each year. Inventories are assumed to be consumed on the "last in, first out" basis.

G. Prepaid expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements.

H. Capital Assets

Property, plant, equipment and infrastructure are reported at historical cost. If the individual cost is less than $5,000 or the estimated useful life is less than three years, then the cost is reported as an expense rather than as a capital asset. The District capitalizes as part of the asset cost, any significant interest incurred during the construction phase of the asset. Donated property and assets constructed by developers are recorded at estimated fair market value at the date of donation. Depreciation is provided using the straight-line method for assets other than land. Estimated useful lives as are follows:

Assets	Years
Utility systems and buildings	10-50
Transportation and other equipment	5-20
Office furniture and equipment	5-15

I. Compensated Absences

The total amount of liability for compensated absences is reflected in the basic financial statements. It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is liability for a portion of unpaid accumulated sick leave since the District does have a collective bargaining agreement with or on behalf of its employees which provides payments up to 100 percent of the accumulated and unused portion of sick leave amounts when employees separate from service with the District either at retirement or other termination of employment.

J. Use of Estimates

The preparation of financial statements in conformity with the accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

K. Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net position by the government that is applicable to a future reporting period. *Deferred inflows of resources* represent an acquisition of net position that is applicable to a future reporting period. These amounts will not be recognized as an outflow of resources (expense) or an inflow of resources (revenue) until the earnings process is complete. Deferred outflows and inflows of resources include amounts deferred related to the District's pension plans under GASB 68 as described in Note 6 and other postemployment benefits under GASB 75 in Note 8.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the District's Retiree Health Benefits Plan ("OPEB Plan") and additions to/deductions from the OPEB Plan been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. The following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

NOTE 2 – Cash and Investments

A. Classification

The District pools all of its cash and investments except those funds required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash is allocated to the various funds on average cash balances. Interest income from cash and investments held with fiscal agents is credited directly to the related funds.

Cash and investments are reported in the financial statements as follows:

Statement of Net Position	
Cash and investments	$ 8,527,293
Restricted cash and investments	10,078,530
Total cash and investments	$ 18,605,823

Cash and investments as of June 30, 2018 consist of the following:

Cash on hand	$ 425
Deposits with financial institutions	603,028
Local Agency Investment Fund (LAIF)	17,774,607
Held by bond trustee:	
Deposits with financial institutions	153,728
Money Market mutual funds	74,035
Total cash and investments	$ 18,605,823

B. Investment Policy

California statutes authorize districts to invest idle, surplus or reserve funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 – Financial Affairs. The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by the bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

As specified in Government Code Section 53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling or managing the District's funds, the primary objectives, in priority order, of the District's investment activities and of the District's investment policy shall be (1) safety, (2) liquidity, and (3) yield. It is the policy of the District to invest public funds in a manner to obtain the highest return obtainable with the maximum security while meeting the daily cash flow demands of the District as long as investments meet the criteria established by this policy for safety and liquidity and conform to all laws governing the investment of District funds.

The District is provided a broad spectrum of eligible investments under California Government Code Sections 53600–53609 (authorized investments), 53630–53686 (deposits and collateral), and 16429.1 (Local Agency Investment Fund). The District may choose to restrict its permitted investments to a smaller list of securities that more closely fits the District's cash flow needs and requirements for liquidity.

Investment Type	Maximum Maturity	Maximum Limit (%)*	Minimum Rating
Local Agency Bonds	5 years	50%	AA
U.S. Treasury Obligations	5 years	100%	n/a
State Obligations – CA	5 years	100%	A
State Obligations – Other	5 years	20%	AA
CA Local Agency Oblig.	5 years	50%	AA
U.S. Agency Obligations	5 years	100%	AAA
Bankers' Acceptances	180 days	40%	A
Commercial Paper	270 days	25%	A1/P1/F1
Certificates of Deposit	5 years	30%/40%	n/a
Repurchase Agreements	1 year	20%	None
Reverse Repurchase	92 days	20%	A
Medium-Term Notes	5 years	30%	A
Mutual and Money Market Mutual Funds	n/a	20%	Multiple
Joint Powers Authority	n/a	20%	Multiple
Collateralized Bank Dep.	5 years	20%	AA
County Pooled Investment	n/a	30%	None
Local Agency Invest Fund	n/a	None	n/a

*Excluding amounts held by the bond trustee that are not subject to California Government Code restrictions.

The District complied with the provisions of the California Government Code (or the District's investment policy, where more restrictive) pertaining to the types of investments held, the institutions in which deposits were made and the security requirements. The District will continue to monitor compliance with applicable statutes pertaining to public deposits and investments.

C. Investments Authorized by Debt Agreements

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy.

D. Interest Rate Risk and Credit Risk

Interest rate risk is the risk that increases in market interest rates will decrease the market value of an investment. Normally, the longer the remaining maturity of an investment, the greater is the sensitivity of its market value to changes in the market interest rates. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Investment Type	12 months or less	Total
Money market funds	$ 74,035	$ 74,035
Local Agency Investment Fund	17,774,607	$ 17,774,607
Total investments	$ 17,848,642	17,848,642
Cash in bank and on hand		757,181
Total cash and investments		$ 18,605,823

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating by Standard & Poor's required by the California Government Code or the District's investment policy and the actual rating as of June 30, 2018 for each investment type:

Investment Type	Minimum Rating	Ratings as of Year End AAA	Not Rated	Total
Local Agency Investment Fund	N/A	$ -	$ 17,774,607	$ 17,774,607
Held by bond trustee:				
Money market mutual fund	AAA	74,035	-	74,035
Total investments		$ 74,035	$ 17,774,607	$ 17,848,642

Concentration of Credit Risk

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

E. 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 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. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2018, the carrying amounts of the District's deposits were $756,756 and the balances in financial institutions were $1,078,649. Of the balance in financial institutions, $403,728 was covered by federal depository insurance and $674,921 was collateralized as required by State law (Government Code Section 53630), by the pledging financial institution with assets held in a common pool for the District and other governmental agencies, but not in the name of the District.

F. California Local Agency Investment Fund

LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total fair value amount invested by all public agencies in LAIF is $88,798,232,977 managed by the State Treasurer. Of that amount, 2.67% is invested in structured notes and asset-back securities. No amounts were invested in derivative financial products. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. 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. There are no restrictions or limitations on withdrawals from LAIF.

Notes to the Basic Financial Statements

NOTE 3 – Capital Assets

Changes in capital assets accounts for the year ended June 30, 2018 are summarized below:

	Balance July 1, 2017	Additions	Disposals	Transfers	Balance June 30, 2018
Capital assets, not being depreciated:					
Land	$ 5,060,955	$ -	$ -	$ -	$ 5,060,955
Construction in progress	1,968,161	3,149,932	-	(3,442,072)	1,676,021
Total capital assets, not being depreciated	7,029,116	3,149,932	-	(3,442,072)	6,736,976
Capital assets, being depreciated					
Water utility system - infrastructure	69,760,135	265,929	(1,465,274)	1,950,038	70,510,828
Sewer utility system - infrastructure	39,607,281	61,200	(150,467)	632,250	40,150,264
Buildings - administration	3,780,106	-	(16,435)	39,260	3,802,931
Equipment and machinery	6,986,657	-	(357,299)	820,524	7,449,882
Total capital assets, being depreciated	120,134,179	327,129	(1,989,475)	3,442,072	121,913,905
Accumulated depreciation					
Water utility system - infrastructure	(30,514,689)	(1,848,166)	1,268,697	-	(31,094,158)
Sewer utility system - infrastructure	(21,539,769)	(780,893)	77,503	-	(22,243,159)
Buildings - administration	(1,646,439)	(85,788)	9,482	-	(1,722,745)
Equipment and machinery	(5,240,461)	(321,822)	357,299	-	(5,204,984)
Total accumulated depreciation	(58,941,358)	(3,036,669)	1,712,981	-	(60,265,046)
Capital assets, being depreciated, net	61,192,821	(2,709,540)	(276,494)	3,442,072	61,648,859
Total capital assets, net	$ 68,221,937	$ 440,392	$ (276,494)	$ -	$ 68,385,835

NOTE 4 – Long-Term Debt

The District generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt. The District's debt issues and transactions are summarized on the following page.

A. Required disclosure of long-term debt activity

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Current Portion
Special Assessment Bonds					
1984 Clean Water Assessment District	$ 236,097	$ -	$ (51,000)	$ 185,097	$ -
Certificates of Participation					
1991 COP	684,000	-	(33,000)	651,000	34,000
Loans Payable					
2007 LaSalle	517,407	-	(93,847)	423,560	98,434
2005 LaSalle	337,850	-	(107,373)	230,477	112,534
2005 SDWSRF	18,380	-	(2,451)	15,929	1,225
1996 SDWR	20,114	-	(5,503)	14,611	5,695
1991 SDWR	30,623	-	(7,276)	23,346	7,524
1987 SDWR	4,373	-	(2,886)	1,487	1,488
2008 SDWSRF	367,732	-	(16,715)	351,017	8,358
2011 SDWSRF	902,261	-	(49,028)	853,233	24,940
2012 SDWSRF -	1,089,298	-	(49,461)	1,039,837	25,159
2017 Wells Fargo	249,841	-	(58,022)	191,819	59,229
Total Long-Term Debt	$ 4,457,975	$ -	$ (476,562)	$ 3,981,413	$ 378,584

B. Description of individual long-term debt issues outstanding

1984 Clean Water Assessment Bonds

A special assessment district was formed August 28, 1983 to provide funding for the design and construction of four wastewater collection facilities in the communities of Willow Springs, Mono Vista, Crystal Falls Unit #1, and Ranchos Poquitos that experienced chronic failures of on-site septic systems. The Tuolumne County Treasury forwards capital contributions from special assessment districts to the District as the proceeds are received. A loan agreement with the United States Department of Agriculture, Rural Development was also obtained in August 1983, payable in installments of interest semi-annually and principal annually through July 2, 2022, including interest at 5%. The original amount of the debt was $1,230,000.

1991 Certificates of Participation (COP)

On March 1, 1991 the District issued $1,100,000 of 1991 net revenue Certificates of Participation. The issue was used to provide funds to design and construct a new water treatment plant (Columbia Water Project) with a capacity of 1 million gallons per day and one storage tank with a capacity of 150,000 gallons. These Certificates are held by the United States Department of Agriculture, Rural Development, and mature through March 1, 2031. The Certificates are not subject to prepayment and interest is paid semi-annually on February 15 and August 15 and principal is paid annually on February 15 and have a stated interest rate of 6%. The Certificates require that a reserve be maintained in an amount equal to 100% of the maximum annual debt service. An invested deposit in the amount of $74,035 is held on behalf of the District by the Trustee.

2007 LaSalle Loan

On January 18, 2007, the District entered into an Installment Sale Agreement with LaSalle Bank National Association for the purchase of land. The agreement is secured by a first lien against all water revenues, “at Parity” with the 1996 Installment Sale Agreement. The District covenants that it shall prescribe, revise and collect such charges for the services and facilities of the wastewater system which shall produce wastewater revenues sufficient in each fiscal year to provide net wastewater revenues equal to at least 1.25 times debt service coming due and payable during such fiscal year. The loan is paid semi-annually in installments of $58,859 which includes interest at 4.83% for a period of 15 years, maturing on January 18, 2022.

2005 LaSalle Loan

On March 23, 2005, the District entered into an Installment Sale Agreement with LaSalle Bank National Association for the design and construction of two water storage tanks in the Crystal Falls (1.5 MG) and Sonora (1 MG) water systems. The agreement is secured by a first lien against all water revenues, “at Parity” with the 1991 COP’s and the 1994 and 1996 Installment Sale Agreements. The District covenants that it shall prescribe, revise and collect such charges for the services and facilities of the water system which shall produce water revenues sufficient in each fiscal year to provide net water revenues equal to at least 1.25 times debt service coming due and payable during such fiscal year. The loan is paid semi-annually in installments of $61,080 which includes interest at 4.75% for a period of 15 years, maturing on March 23, 2020.

2005 SDWSRF Loan

In 2005, the District entered into a Revolving Fund Agreement with the California State Department of Water Resources, State Revolving Fund for the design and construction of a treated water distribution system including remote read meters to approximately 50 rural residences along an untreated raw water conveyance. The Agreement pledged water fund revenues. The zero-interest rate loan is paid semi-annually in principal installments of $1,225 for a period of 20 years, maturing on January 1, 2025.

1996 SDWR Loan

In 1996, the District entered into a Loan Agreement with the California State Department of Water Resources for the design and construction of a treated water distribution system. The Agreement is secured by real and personal property. The loan is paid semi-annually in installments of $3,076 which includes interest at 3.46%, maturing on October 1, 2020.

1991 SDWR Loan

In 1991, the District entered into a Loan Agreement with the California State Department of Water Resources for the design and construction of water distribution improvements to the Columbia water system. The Agreement is secured by real and personal property. The loan is paid semi-annually in installments of $4,123 which includes interest at 3.37%, maturing on April 21, 2021.

1987 SDWR Loan

In 1987, the District entered into a Loan Agreement with the California State Department of Water Resources for the design and construction of an interconnecting pipeline. The Agreement is secured by real and personal property. The loan is paid semi-annually in installments of $1,519 which includes interest at 4.14%, maturing on October 1, 2018.

2008 SDWSRF Loan

In 2008, the District entered into a Revolving Fund Agreement with the California State Department of Water Resources, State Revolving Fund for the design and construction of a water treatment plant. The Agreement includes a covenant to establish rates and changes in amounts sufficient to generate net income equal to 1.1 times that of debt service on all obligations until the loan is repaid in full. The Agreement pledged water fund revenues. The zero-interest rate loan is paid semi-annually in principal installments of $8,358 for a period of 30 years, maturing on July 1, 2039.

2011 SDWSRF Loan

In 2011, the District entered into a Revolving Fund Agreement with the California State Department of Public Health, Safe Drinking Water State Revolving Fund for Monte Grande water improvements. The Agreement pledged water fund revenues. The loan is paid semi-annually in installments of $34,788 which includes interest at 2.3086% for a period of 20 years, maturing on January 1, 2033.

2012 SDWSRF Loan

In 2012, the District entered into a Revolving Fund Agreement with the California State Department of Public Health, Safe Drinking Water State Revolving Fund for Crystal Falls/Willow Springs water improvements. The Agreement includes a covenant to establish rates and changes in amounts sufficient to generate net income equal to 1.2 times that of debt service on all obligations until the loan is repaid in full. The Agreement pledged water fund revenues. The loan is paid semi-annually in installments of $37,135 which includes interest at 2.3035% for a period of 20 years, maturing on July 1, 2035.

2017 Wells Fargo Lease

In 2016, the District entered into a Lease-Purchase Agreement with Wells Fargo Equipment Finance for the purchase of a Vac-Con truck. The agreement is secured with the Equipment. The cost on the truck is $424,187. The accumulated depreciation at June 30, 2018 is $28,358. The lease is paid monthly in installments of $5,218.65 which includes interest at 2.06% for a period of 5 years, maturing on October 12, 2021.

A. Debt service requirements to maturity

The annual requirements to amortize principal and interest on the above long-term debt at June 30, 2018 are as follows:

Years ending June 30,	Principal	Interest	Total
2019	$ 378,584	$ 126,753	$ 505,337
2020	504,423	107,902	612,325
2021	407,956	89,684	497,640
2022	335,472	75,731	411,203
2023	197,457	64,648	262,105
2024-2028	933,633	238,093	1,171,726
2029-2033	935,812	83,143	1,018,955
2034-2038	263,003	4,179	267,182
2039-2042	25,073	-	25,073
	$ 3,981,413	$ 790,133	$ 4,771,546

B. Reserve Requirements, Pledged Revenues, and Rate Covenants

Debt covenants for the installment sale agreements to LaSalle Bank National Association, the loan agreements to the California State Department of Public Health, the United States Department of Agriculture, and the Certificates of Participation include reserve requirements be maintained by the District equal to the annual debt service payments. The District is in compliance with those covenants as of June 30, 2018.

As noted above in the individual debt issues outstanding, the District has pledged future water and sewer system revenues, net of specified operating expenses, to repay debt in the original amount of $5,390,661. Proceeds of these issues were used to refund certain debt issuances as described above and to fund improvements to the District's water and sewer systems. The debts are payable solely from water and sewer system revenues and are payable through July 1, 2039 and January 18, 2022, respectively. Annual principal and interest payments on the debts are expected to require approximately 8% of net revenues for water systems and 8% net revenues for sewer systems. Total principal and interest remaining to be paid on the debts was $3,398,949 at June 30, 2018.

Cash basis debt service paid during the year ended June 30, 2018 total $470,376 and $186,071 for water and sewer systems, respectively. Total water and sewer system net revenues calculated in accordance with the covenants were $3,829,107 and $1,674,694, respectively, at June 30, 2018.

NOTE 5 – Net Position

Net Position is the excess of all the District's assets outflows over all its liabilities. Net Position is divided into three categories as follows:

Net Investment in Capital Assets describes the portion of net position which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter, or is restricted by enabling legislation. These principally include facility capacity fees received for use on capital projects, fees charged for the provision of future water resources and debt service reserve funds. The debt service reserve is established under the terms of the various debt agreements to be used in the event of inadequate funds to pay debt service.

Unrestricted describes the portion of net position which is not restricted as to use. Included within the unrestricted category are *Designations*. Designations of unrestricted net position may be imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action. On November 17, 2015 the Board adopted the Rate Study FYE16-FYE20 which included establishing designated reserves for the water and sewer funds. The unrestricted net position in the water fund is negative, so no amounts are available for designation in that fund. The following is a summary of designated net position balances at June 30, 2018:

	Water	Sewer	Total
Operating Reserve – includes establishing a fund of 25% (90-days of FYE 2018 anticipated costs) of operating expenses for purposes of smoothing out cash flow and having funds to address major unanticipated costs	$1,389,468	$512,588	$1,902,056
Contingency Fund – includes establishing funding in the annual budget consisting of 2% of operating expenses to address unanticipated costs during the budget year	$97,396	$41,008	$138,404
Total designated net position	$1,486,864	$553,596	$2,040,460

Notes to the Basic Financial Statements

NOTE 6 – Pension Plans

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the District's following separate cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS).

- Miscellaneous First Level Plan
- Miscellaneous Second Level Plan
- PEPRA Miscellaneous Plan

CalPERS acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website, www.calpers.ca.gov.

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 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1959 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	Miscellaneous		
	First Level	Second Level	PEPRA
Hire date	Prior to November 16, 2012	November 16, 2012 to January 1, 2013	On or after January 1, 2013
Benefit formula	2.7% @ 55	2% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	11.675%	8.92%	6.533%

In addition to the contribution rates above, the District was also required to make a payment of $855,789 toward its unfunded actuarial liability during the year ended June 30, 2018.

All plans except the PEPRA plan are closed to new members that are not already CalPERS participants.

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS's annual actuarial valuation process. For public agency cost-sharing plans covered by either the Miscellaneous or Safety risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2018, the contributions recognized as part of pension expense were as follows:

	Miscellaneous			
	First Level	Second Level	PEPRA	Total
Contributions - employer	$1,291,227	$ 21,683	$91,830	$1,404,740

B. Net Pension Liability

As of June 30, 2018, the District reported a net pension liability for its proportionate share of the net pension liability of the Plans in the amount of $13,062,426.

The District's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2017 and 2018 was as follows:

Proportion - June 30, 2017	0.33270%
Proportion - June 30, 2018	0.33136%
Change - (Decrease)	-0.00134%

Actuarial Assumptions – The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions for all Plans:

	Miscellaneous
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return	7.15% (1)

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

The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. The underlying mortality assumptions were based on the April 2014 CalPERS Experience Study and Review of Actuarial Assumptions report. Other significant actuarial assumptions used in the June 30, 2016 valuation were based on the results of the actuarial experience study for the period 1997 to 2011. The Experience Study can be obtained at the CalPERS' website under Forms and Publications.

Discount Rate – The discount rate used to measure the total pension liability was 7.15% and reflects the long-term expected rate of return for each Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of a discount rate for public agency plans, the amortization and smoothing periods adopted by the CalPERS' Board in 2013 were used. The crossover test was performed for a miscellaneous agent rate plan and a safety agent rate 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, the tests revealed the assets would not run out. Therefore, the long term expected rate of return on pension investments was applied to all periods of projected benefit payments to determine the total pension liability. The crossover test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at the CalPERS' website under the GASB 68 section.

During the June 30, 2017 valuation report, the financial reporting discount rate for the Plan was lowered from 7.65 percent to 7.15 percent. Deferred outflows of resources for changes of assumptions represent the unamortized portion of this assumption change.

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

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

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

Asset Class	Assumed Asset Allocation	Real Return Years 1-10[1]	Real Return Years 11+[2]
Global Equity	47.0%	4.90%	5.38%
Fixed Income	19.0%	0.80%	2.27%
Inflation Assets	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%

[1] An expected inflation of 2.5% used for this period.

[2] An expected inflation of 3.0% used for this period.

C. Net Pension Liability

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability for each plan as of the measurement date, calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.15%) or 1-percentage point higher (8.15%) than the current rate:

Discount Rate - 1% (6.15%)

Net Pension Liability $19,578,978

Current Discount Rate (7.15%)

Net Pension Liability $13,062,426

Discount Rate + 1% (8.15%)

Net Pension Liability $ 7,665,301

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

D. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the District recorded pension expense of $1,768,773 for all cost sharing Plans combined. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 1,404,740	$ -
Differences between expected and actual experience	15,933	(228,273)
Change of assumptions	1,976,938	(150,743)
Net difference between projected and actual earnings on pension plan investments	447,102	-
Adjustments due to differences in proportions	573,273	(67,393)
Difference between actual and allocated contribution	91,289	-
Total	$ 4,509,275	$ (446,409)

The $1,404,740 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as future pension expense as follows:

Fiscal Year Ended June 30	
2019	$ 936,332
2020	1,226,560
2021	760,687
2022	(265,453)
2023	-
Thereafter	-
	$ 2,658,126

E. Payables to the Pensions Plans

At June 30, 2018, the District had no outstanding contributions to the pension plan.

NOTE 7 – Compensation Absences

It is the District policy to permit employees to accumulate earned but unused vacation, sick leave pay and compensatory time off (CTO) benefits. All vacation, sick pay and CTO is recorded as an expense and a liability at the time the benefit is earned.

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018	Current Portion
Vacation	$ 439,697	$ 131,753	$ (145,223)	$ 426,227	$ 145,223
Sick leave	641,419	136,047	(92,657)	684,809	92,659
Comp time	14,737	24,560	(25,253)	14,044	14,044
	$ 1,095,853	$ 292,360	$ (263,133)	$ 1,125,080	$ 251,926

Vacation Pay

Vacation pay is accrued and credited to regular full time employees after three months of service, and are entitled to take up to one week accrued vacation with pay after 1,040 hours of actual continuous service. Employees are limited to a maximum vacation credit accrual of 360 hours. Once an employee has accrued 360 hours of vacation pay, no further accrual is allowed. Vacation credit is accumulated as follows:

Years of Service	Equivalent Days per Annum
0 – 2 years	10
3 – 9 years	15
10 – 20 years	20
Over 20 years	25

Sick Leave Pay

Regular full-time employees receive 3.692 hours of sick leave credit for each pay period worked. There is no limit on the maximum amount of sick leave hours accrued. Employees terminating District service in good standing shall be compensated for accrued sick leave as follows. The rate of compensation paid at termination is the employee's current base rate of pay for the first 240 hours and 50% for all additional hours accrued. An employee retiring from the District with five or more years of service may elect to convert accumulated sick leave hours to additional PERS retirement service at the rate of .004 year of service credit for each day of unused sick leave per Government Code Section 20862.8.

Compensatory Time Off (CTO)

An hourly employee may elect to accrue CTO in lieu of receiving overtime pay. Employees with accrued CTO credit may take up to a maximum of five days at any one time. Any unused CTO credits will be paid out by November 30 of each year.

NOTE 8 – Other Postemployment Benefits (OPEB)

Plan Description

The District has established a Retiree Health Benefits Plan ("OPEB Plan") and participates in an agent multiple-employer defined benefit retiree healthcare plan. The OPEB Plan provides eligible employees who retire directly from the District, up to 100% contribution of the monthly CalPERS health insurance premiums for retiree medical coverage dependent on hire date and years of service. At the time of retirement eligible employees must be age 50 (52 for PEPRA members) with 5 years CalPERS service or disability. Surviving spouses are also eligible for this benefit based on annuity election. When the retiree and/or spouse turn 65, benefits are reduced to include coverage provided by Medicare. This District covered retiree health benefits are as follows:

- Employees hired before March 1, 2006 (Union) and December 1, 2005 (Non-Union), their spouse or registered domestic partner and disabled dependent(s), are eligible for an amount equal to the cost of the Other Northern California PERS Choice Non-Medicare premium up to the Employee plus one rate.

- Employees hired on or after March 1, 2006 (Union) and December 1, 2005 (Non-Union) but before May 1, 2013, their spouse or registered domestic partner and disabled dependent(s), are eligible for an amount up to the cost of the Other Northern California PERS Choice Non-Medicare premium up to the Employee plus one rate based on the following vesting schedule:

Credited Years of Service	% of Contribution
10	50%
11	55%
12	60%
13	65%
14	70%
15	75%
16	80%
17	85%
18	90%
19	95%
20 or more	100%

- Employees hired on or after May 1, 2013 are eligible for an amount up to the maximum of the minimum employer contributions per month as prescribed in Section 22892(b) (1) of the Government Code, currently $133.00 per month for 2018.

Employees Covered

As of the June 30, 2017 measurement date, the following current and former employees were covered by the benefit terms under the OPEB Plan:

Active employees	58
Inactive employees or beneficiaries currently receiving benefits	68
Inactive employees entitiled to but not yet receiving benefits	-
Total	126

Contributions

On July 28, 2009 the District passed a resolution to participate in the California Employers' Retiree Benefit Trust (CERBT) Fund, an irrevocable trust to fund OPEB. CERBT is administered by CalPERS and is managed by an appointment board not under the control of the District's Board of Directors. This Trust is not considered a component unit by the District and has been excluded from these financial statements. Separately issued financial statements for CERBT may be obtained from CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

The contribution requirements of the plan members and the District are established and may be amended by the Board of Directors. The District's Board of Directors adopted an annual prefunding contribution policy for a 10-year phase in to full Actuarially Determined Contribution (ADC), based on a percentage of the ADC, starting with 10% in fiscal year 2015 and increasing in 10% increments annually until 100% is achieved. The annual contribution for the fiscal year ended June 30, 2018 is based on 40% of the ARC with $311,407 in cash contributions to the trust, $684,975 in direct benefit payments to retirees, and an implied subsidy of $151,000 for a total of $1,147,382. Plan members did not make any contributions to the OPEB Plan.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017 based on the following actuarial methods and assumptions:

Actuarial Assumptions:	
Contribution Policy	10-year phase-in to Full Actuarially Determined Contribution (ADC): Pay Go, plus Percentage x (ADC- Pay Go) Percentage: 10% in 14/15, increasing by 10% annually, until reaching 100% in 23/24 forward
Discount Rate	6.75% at June 30, 2017; 6.75% at June 30, 2016
Expected Long-Term Investment Rate of Return	Same as discount rate - expected District contributions projected to keep sufficient plan assets to pay all benefits from trust
General Inflation	2.75% per annum
Mortality, Reitrement Termination, and Disability	6/30/16 CalPERS valuation assumptions
Mortality Improvement [1]	Mortality projected fully generational with Scale MP-16
Salary Increases	Aggregate - 3.00% Merit - 6/30/16 CalPERS assumptions
Medical Trend	Non-Medicare - 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 and later years Medicare - 6.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 and later years
Healthcare participation for future retirees	100%
Cap Increases	Cap: Healthcare trend PEMHCA minimum: 4.5%

Notes:

[1] Retirement mortality information was derived from data collected during 1997 to 2011 CalPERS experience Study dated January 2014. The Experience Study Report may be accessed on the CalPERS website www.calpers.ca.gov under Forms and Publications.

The long-term expected rate of return on OPEB plan investments of 6.75 percent was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Public Equity	57%	4.82%
Fixed Income	27%	1.47%
TIPS	5%	1.29%
Commodities	3%	0.84%
REITs	8%	3.76%
Total	100%	

Discount Rate

The discount rate used to measure the total OPEB liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that the District's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB Plan's fiduciary net position is projected to be sufficient to make projected OPEB benefit payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

Net OPEB Liability/(Asset)		
Discount Rate - 1% 5.75%	Current Discount Rate 6.75%	Discount Rate + 1% 7.75%
$ 12,140,000	$ 10,014,000	$ 8,269,000

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the District if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

Net OPEB Liability/(Asset)		
1% Decrease (Non-Medicare 6.5% decreasing to 3.0%; Medicare 5.5% decreasing to 3.0%)	Current Healthcare Trend (Non-Medicare 7.5% decreasing to 4.0%; Medicare 6.5% decreasing to 4.0%)	1% Increase (Non-Medicare 8.5% decreasing to 5.0%; Medicare 7.5% decreasing to 5.0%)
$ 8,126,000	$ 10,014,000	$ 12,341,000

Changes in the OPEB Liability

The changes in the net OPEB liability for the OPEB Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at June 30, 2016	$ 15,229,000	$ 5,048,000	$ 10,181,000
Changes Recognized for the Measurement Period			
Service Cost	369,000	-	369,000
Interest	1,027,000	-	1,027,000
Difference Between Actual and Expected Experience	-	-	-
Assumption Changes	-	-	-
Contributions - Employer	-	1,013,000	(1,013,000)
Contributions - Employee	-	-	-
Net Investment Income	-	553,000	(553,000)
Benefit Payments and Refunds	(780,000)	(780,000)	-
Administrative Expenses	-	(3,000)	3,000
Net Changes	$ 616,000	$ 783,000	$ (167,000)
Balance as of June 30, 2017	$ 15,845,000	$ 5,831,000	$ 10,014,000

OPEB Plan Fiduciary Net Position

CERBT issues a publicly available financial that may be obtained from CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The recognition period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5 years
All other amounts	Expected average remaining service Lifetime (EARSL) (Amount not determined in 2018, but will be in the future)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the District recognized OPEB expense of $1,009,000. As of fiscal year ended June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on plan investments	-	(163,000)
Employer contributions made subsequent to the measurement date	1,147,000	-
Total	$ 1,147,000	$ (163,000)

The $1,147,000 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30	Deferred Outflows/ (Inflows) of Resources
2019	$ (41,000)
2020	(41,000)
2021	(41,000)
2022	(40,000)
Thereafter	-
Total	$ (163,000)

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 for which the District participates in the Special District Risk Management Authority (SDRMA) Property and Liability Insurance Program for risk of loss. The program provides general liability, property, commercial auto, boiler and machinery, employment practices, employee dishonesty coverage, employment benefits liability, public official errors and omissions and public official personal liability insurance coverage.

SDRMA is composed of California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500 et seq. The purpose of SDRMA is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance and administrative services.

The District paid no material uninsured losses during the last three fiscal years and had no significant reductions in coverage during the year. Liabilities of the District are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. The District considers claims incurred and reported, as well as claims incurred but not reported, to be immaterial and has not accrued an estimate of such claims payable.

The District's maximum coverage as of June 30, 2018 consisted of $10 million for general liability, public officials and employees' errors, employment practices liability and auto liability. In addition, the District has property coverage of $1 billion and boiler and machinery coverage of $100 million.

NOTE 10 – Tuolumne Stanislaus Integrated Regional Water Management Authority

The Tuolumne Stanislaus Integrated Regional Water Management Authority (RWMA) was created on March 11, 2014, by a Joint Exercise of Powers Agreement by and between the following public agencies: Chicken Ranch Rancheria of Me-Wuk Indians, City of Angels Camp, Groveland Community Services District, Murphys Sanitary District, Tuolumne County, Tuolumne Utilities District, and Twain Harte Community Services District. Each of the parties to this Agreement share a common interest in maximizing the beneficial use of water within the Tuolumne-Stanislaus Region and find that it would be to their mutual advantage and the public's benefit to coordinate the implementation and funding of the Tuolumne-Stanislaus Integrated Regional Water Management Plan (Plan). The RWMA will be the decision-making body of the Plan going forward. The RWMA will also set the annual budget for the Plan as it will be funded solely by the members.

NOTE 11 – Advances to Water Fund from Sewer Fund

Advances from the Sewer Fund to the Water Fund represent negative cash in the Water Fund as a result of cash outflow exceeding cash inflow, as a result of deficits in the Water Fund over several years. The balance due will be repaid as funds are available. However, it is not expected that the amount will be repaid within one year. Interest has been charged to the Water Fund for its negative cash balance at the LAIF interest rates.

Since 2011 the District has significantly reduced its annual capital expenditures as well as some operational expenses. This, combined with rate increases, has reduced the negative water fund cash balance in four of the last five years, with a current balance of $1,355,963. Management is continuing its process of implementing the proposed strategy to repay the balance due as soon as possible.

NOTE 12 – Commitments and Contingencies

Contract Commitments

On May 22, 2018, the District awarded a contract for the 2018 Districtwide HMA Trench Paving Project in the amount of $150,000. The project is expected to be completed within the 2019 fiscal year.

On June 12, 2018, the District awarded a contract for the 2018 Hazard Tree Removal Project – Columbia Ditch in the amount of $112,000. The project is expected to be completed within the 2019 fiscal year. Tuolumne Utilities District was approved in February 2016 for funding to address this hazard through the California Disaster Assistance Act program for damages. (75% of the expenses for tree removal are reimbursable under this funding source.)

On August 28, 2018, the District awarded a contract for the Bourbon Street Water Main Replacement Project in the amount of $340,000. The project is expected to be completed within the 2019 fiscal year.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

There are various claims and legal actions pending against the District for which no provision has been made in the financial statements. In the opinion of the District Attorney and District Management, liabilities arising from these claims and legal actions, if any, will not be material to these financial statements.

NOTE 13 – New Accounting Standards

In November 2016, the GASB issued Statement No. 83, Certain Asset Retirement Obligations. This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO's), which is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The timing and pattern of recognition of the liability and corresponding deferred outflow of resources recorded is defined in this Statement. This Statement is effective for periods beginning after June 15, 2018.

In March 2018, the GASB issued Statement No. 85, Omnibus 2018. This Statement addresses practice issues that have been identified during implementation and application of certain GASB statements, including issues related to blending component units, goodwill, fair value measurements and application, pensions and other postemployment benefits. This Statement is effective for periods beginning after June 15, 2018.

In May 2018, the GASB issued Statement No. 86, Certain Debt Extinguishment Issues. 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 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. This Statement is effective for periods beginning after June 15, 2018.

The District will analyze the impact of these new Statements prior to the effective dates listed above.

NOTE 14 – Changes in Accounting Principles

During the year ended June 30, 2018, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement required the District to recognize in its accrual basis financial statements the net OPEB liability, deferred outflows of resources and deferred inflows of resources for the District's OPEB plan. This Statement also required contributions made after the June 30, 2017 measurement date used in the actuarial valuation for the OPEB plan to be reported as deferred outflows of resources.

Due to the implementation of this statement, an additional OPEB liability of $4,253,797 and deferred outflows of resources of $709,100 were recorded in the District's Water Fund as of June 30, 2018; and an additional OPEB liability of $1,823,056 and deferred outflows of resources of $303,900 were recorded in the District's Sewer Fund as of June 30, 2018. Total net position as of July 1, 2017 was restated compared to the amounts reported in the June 30, 2017 financial statements, resulting in a decrease in net position of $3,544,697 in the Water Fund and $1,519,156 in the Sewer Fund.

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Required Supplementary Information

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Tuolumne Utilities District
Required Supplementary Information
For the Year Ended June 30, 2018

Schedule of the Proportionate Share of the Net Pension Liability

Last 10 Years [(1)]

	2018	2017	2016	2015
Proportion of the net pension liability	0.33136%	0.33270%	0.34498%	0.31728%
Proportionate share of the net pension liability	$13,062,426	$11,557,713	$ 9,464,307	$ 7,841,471
Covered-employee payroll - measurement period	$ 5,434,973	$ 5,135,879	$ 4,820,795	$ 4,610,405
Proportionate share of the net pension liability as percentage of covered-employee payroll	240.34%	225.04%	196.32%	170.08%
Plan fiduciary net position as a percentage of the total pension liability	72.43%	74.06%	78.40%	79.82%

Notes to Schedule:

(1) Omitted Years: GASB 68 was implemented during 2014. No information was available prior to this date.

(2) Change in Benefit Terms: The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 2016 valuation date as no plan changes have occurred.

(3) Changes in Assumptions: In 2017, the accounting discount rate reduced from 7.65% to 7.15%

Tuolumne Utilities District
Required Supplementary Information
For the Year Ended June 30, 2018

Schedule of Contributions to the Pension Plan

Last 10 Years [1]

	2018	2017	2016	2015
Actuarially determined contributions	$ 1,404,740	$ 1,323,718	$ 1,217,505	$ 1,177,724
Contributions in relation to the actuarially determined contributions	$ (1,404,740)	$ (1,323,718)	$ (1,217,505)	$ (1,177,724)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered-employee payroll - fiscal year	$ 5,392,242	$ 5,434,973	$ 5,135,879	$ 4,820,795
Contributions as a percentage of covered-employee payroll	26.05%	24.36%	23.71%	24.43%
Methods and assumptions used to determine contribution rates:				
Valuation date	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012
Actuarial cost method	Entry age normal cost method			
Amortization method	Level percent of payroll			
Asset valuation method	Market value			
Discount rate	7.5% [2]	7.5% [2]	7.5% [2]	7.5% [2]
Projected salary increases	Varies by entry age and service			
Inflation	2.75%	2.75%	2.75%	2.75%
Payroll growth	3.00%	3.00%	3.00%	3.00%
Retirement age and mortailty	[4]	[3]	[3]	[3]

Notes to Schedule:

(1) Omitted Years: GASB 68 was implemented during 2014. No information was available prior to this date.

(2) Net of pension plan investment expenses, includes inflation.

(3) Probabilities of retirement and mortality are based on CalPERS' 2010 Experience Study for the period from 1997 to 2007.

(4) Probabilities of retirement and mortality are based on CalPERS' 2014 Experience Study for the period from 1997 to 2011.

Required Supplementary Information

Schedule of Changes in Net OPEB Liabiliy/(Assets) and Related Ratios

For the Fiscal Year Ended June 30, 2018

Measurement Period	2016/2017
Total OPEB Liability	
Service Cost	$ 369,000
Interest	1,027,000
Difference Between Actual and Expected Experience	-
Assumption Changes	-
Benefit Payments Including Refunds	(780,000)
Changes of Benefit Terms	-
Net Changes	**616,000**
Total OPEB Liability (beginning of year)	**15,229,000**
Total OPEB Liability (end of year)	**$ 15,845,000**
Plan Fiduciary Net Position	
Contributions - Employer	$ 1,013,000
Contributions - Employee	-
Net Investment Income	553,000
Benefit Payments and Refunds	(780,000)
Administrative Expenses	(3,000)
Other Changes	-
Net Changes	**783,000**
Plan Fiduciary Net Position (beginning of year)	**5,048,000**
Plan Fiduciary Net Position (end of year)	**$ 5,831,000**
Net OPEB Liability/(Asset)	10,014,000
Fiduciary Net Position as a percentage of the Total OPEB Liability	36.80%
Covered Employee Payroll - fiscal year end	5,883,257
Net OPEB Liability as a percentage of Covered Employee Payroll	170.21%

Notes to Schedule:

Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

Required Supplementary Information

Schedule of Employer Contributions to the OPEB Plan
For the Fiscal Year Ended June 30, 2018

	2017/2018
Actuarially Determined Contribution (ADC)	$ 1,463,000
Contributions in Relation to the ADC	1,147,000
Contribution Deficiency/(Excess)	$ 316,000
Covered Employee Payroll - measurement period	5,860,003
Contributions as a percentage of Covered Employee Payroll	20%

Notes to Schedule:

*Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018 were from the June, 30 2015 actuarial valuation.

Methods and Assumptions to Determine Contributions:

Actuarial Cost Method	Entry Age Normal, level percentage of payroll
Amortization Method	Level percentage of payroll
Remaining Amortization Period	Approximately 15 years remaining as of June 30, 2017
Asset Valuation Method	Investment gains and losses spread over 5-year rolling period
Discount Rate	7.25%
General Inflation	3.00%
Medical Trend	Non-Medicare - 7.0% for 2017, decreasing to an ultimate rate of 5.0% in 2021 and later years
	Medicare - 7.2% for 2017, decreasing to an ultimate rate of 5.0% in 2021 and later years
Mortality Improvement	Mortality projected fully generational with Scale MP-14 converging to ultimate rates in 2022

Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.