DIABLO WATER DISTRICT
ANNUAL FINANCIAL REPORT
WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEARS ENDED
JUNE 30, 2018 AND 2017

MANN, URRUTIA, NELSON, CPAS & ASSOCIATES, LLP
1760 CREEKSIDE OAKS DRIVE, SUITE 160
SACRAMENTO, CALIFORNIA 95833

DIABLO WATER DISTRICT

For the Year Ended June 30, 2018

BOARD OF DIRECTORS

Edward Garcia	**President**
Kenneth L. Crockett	**Vice President**
Enrico Cinquini	**Director**
John H. de Fremery	**Director**
Howard Hobbs	**Director**
Mike Yeraka	**General Manager & Secretary**
Jeffery D. Polisner	**General Counsel**

DIABLO WATER DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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DIABLO WATER DISTRICT
Acronyms and Abbreviations Used in the Annual Financial Report
For the Years Ended June 30, 2018 and 2017

In order to facilitate the understanding of the audit report, the following list of acronyms and abbreviations are listed below.

a.k.a.	Also Known As
AB	Assembly Bill
ACWA/JPIA	Association of California Water Agencies/ Joint-Powers Insurance Authority
ARC	Annual Required Contribution
CalPERS	California Public Employee's Retirement System
CAMP	California Asset Management Program
CCCERA	Contra Costa County Employee's Retirement System
CCWA	Contra Costa Water Authority
CCWD	Contra Costa Water District
CERBT	California Employer's Retiree Benefit Trust
COLA	Cost of Living Adjustment
COPs	Certificates-of-Participation
DVP	Delivery - versus - Payment
EARSL	Employees Average Remaining Service Lifetime
FDIC	Federal Deposit Insurance Corporation
FNP	Fiduciary Net Position
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GASB	Government Accounting Standards Board
HMO	Health Maintenance Organization
IBNR	Incurred But Not Reported
LAIF	Local Agency Investment Fund
MD&A	Management's Discussion & Analysis
MERA	Main Extension Reimbursement Account
No.	Number
NOL	Net OPEB Liability
NPL	Net Pension Liability
OAD	Oakley Assessment District
OPEB	Other Post-Employment Benefits
PEPRA	Public Employee's Pension Reform Act
PERF C	Public Agency Cost-Sharing Multiple-Employer Plan
PERL	Public Employee's Retirement Law
PPO	Preferred Provider Organization
TPL	Total Pension Liability
U.S.	United States
UAAL	Unfunded Actuarial Accrued Liability

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Diablo Water District
Oakley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Diablo Water District (the "District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Prior Period Financial Statements

The financial statements of Diablo Water District as of June 30, 2017, were audited by other auditors whose report dated December 15, 2017, expressed an unmodified opinion on those statements.

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Emphasis of Matter

Change in Accounting Principles

As described in Note 1 to the financial statements, during the year ended June 30, 2018, the District adopted new accounting guidance, GASB Statement 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 the management's discussion and analysis on pages 3 through 6 and the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of Contributions to the Cost Sharing Defined Benefit Pension Plan, the Schedule of Changes in the Net OPEB Liability and Related Ratios, and the Schedule of Contributions to the OPEB Plan on pages 39 to 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Diablo Water District's basic financial statements. The Schedule of Cash and Investments Available for Operations and Schedule of Debt Service Net Revenues Coverage on pages 43 through 44, respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Cash and Investments Available for Operations and Schedule of Debt Service Net Revenue Coverage are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Cash and Investments Available for Operations and Schedule of Debt Service Net Revenue Coverag are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2018, on our consideration of Diablo Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Diablo Water District's internal control over financial reporting and compliance.

Mann Urrutia Nelson CPAs

Sacramento, California
December 3, 2018

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of Diablo Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2018 and 2017. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights for 2018

- In 2018, the District's net position decreased (1.36)% or $(691,741) from the prior year's net position of $51,008,373 to $50,316,632 as a result of this year's operations.

- In 2018, operating revenues increased by 15.64% or $1,252,121 from $8,005,653 to $9,257,774, from the prior year, primarily due to an increase in residential and business water sales of $1,130,808. This is due to an increase in water sales as the Governor of the State of California declared the California drought over on April 7, 2017 as well as a rate increase.

- In 2018, operating expenses before depreciation expense increased by 15.26% or $1,171,235 from $7,673,329 to $8,844,564, from the prior year, due to an increase in water purchases of $185,117, transmission and distribution expenses of $300,143 and administrative expenses of $355,239. The other primary reasons for the increase is due to an increase in capital expenses and the GASB 68 and 75 reporting requirements. This is the first year GASB 75 is required to be reported on the financial statements.

Required Financial Statements

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

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

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "*Is the District better off or worse off as a result of this year's activities*?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the District in a way that helps answer this question.

These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Condensed Balance Sheets

	June 30, 2018	June 30, 2017	Change	June 30, 2016	Change
Assets:					
Current assets	$ 6,114,496	$ 6,165,806	$ (51,310)	$ 5,719,021	$ 446,785
Non-current assets	3,678,108	4,322,370	(644,262)	5,531,121	(1,208,751)
Capital assets, net	58,577,354	60,511,014	(1,933,660)	46,554,500	13,956,514
Total assets	68,369,958	70,999,190	(2,629,232)	57,804,642	13,194,548
Deferred outflows of resources	1,000,114	899,244	100,870	558,845	340,399
Total assets and deferred outflows of resources	$ 69,370,072	$ 71,898,434	$ (2,528,362)	$ 58,363,487	$ 13,534,947
Liabilities:					
Current liabilities	$ 3,694,979	$ 3,793,102	$ (98,123)	3,264,838	528,264
Non-current liabilities	15,264,250	17,019,300	(1,755,050)	18,182,402	(1,163,102)
Total liabilities	18,959,229	20,812,402	(1,853,173)	21,447,240	(634,838)
Deferred inflows of resources	94,211	77,659	16,552	174,924	(97,265)
Net position:					
Net investment in capital assets	44,769,590	44,784,746	(15,156)	28,967,633	15,817,113
Restricted	3,676,818	4,322,370	(645,552)	5,128,763	(806,393)
Unrestricted	1,870,224	1,901,257	(31,033)	2,644,927	(743,670)
Total net position	50,316,632	51,008,373	(691,741)	36,741,323	14,267,050
Total liabilities, deferred outflow of resources and net position	$ 69,370,072	$ 71,898,434	$ (2,528,362)	$ 58,363,487	$ 13,534,947

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources by $50,316,632 and $51,008,373 as of June 30, 2018 and 2017, respectively.

By far the largest portion of the District's net position (86% as of June 30, 2018 and 84% as of June 30, 2017) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending.

At the end of fiscal years 2018 and 2017, the District showed a positive balance in its unrestricted net position of $1,870,224 and $1,901,257, respectively, which may be utilized in future years.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	June 30, 2018	June 30, 2017	Change	June 30, 2016	Change
Operating revenues	$ 9,257,774	$ 8,005,653	$ 1,252,121	$ 7,247,950	$ 757,703
Operating expenses	(8,844,564)	(7,673,329)	(1,171,235)	(6,906,409)	(766,920)
Operating income before depreciation	413,210	332,324	80,886	341,541	(9,217)
Depreciation expense	(2,650,825)	(2,479,981)	(170,844)	(2,445,664)	(34,317)
Operating income (loss)	(2,237,615)	(2,147,657)	(89,958)	(2,104,123)	(43,534)
Non-operating revenues (expenses)	(317,803)	(361,886)	44,083	(178,145)	(183,741)
Net loss before capital contributions	(2,555,418)	(2,509,543)	(45,875)	(2,282,268)	(227,275)
Capital contributions	1,863,677	1,549,332	314,345	1,549,444	(112)
Change in net position	(691,741)	(960,211)	268,470	(732,824)	(227,387)
Net position:					
Beginning of year (includes adjustment)	51,008,373	51,968,584	(960,211)	37,474,147	14,494,437
End of year	$ 50,316,632	$ 51,008,373	$ (691,741)	$ 36,741,323	$ 14,267,050

The statement of revenues, expenses and changes in net position shows how the District's net position changed during the fiscal years. In the case of the District, the District's net position decreased by $(960,211) and $(691,741) for the fiscal years ended June 30, 2018 and 2017, respectively.

Total Revenues

	June 30, 2018	June 30, 2017	Change	June 30, 2016	Change
Operating Revenues:					
Water sales - residential and business	$ 8,685,936	$ 7,555,128	$ 1,130,808	$ 6,862,573	$ 692,555
Water sales - other	241,732	146,033	95,699	113,035	32,998
Other charges for services	330,106	304,492	25,614	272,342	32,150
Total operating revenues	$ 9,257,774	$ 8,005,653	$ 1,252,121	$ 7,247,950	$ 757,703
Non-operating:					
Investment earnings	15,279	26,619	(11,340)	74,727	(48,108)
Rental revenue	109,722	106,940	2,782	92,342	14,598
Other non-operating revenues	64,908	57,628	7,280	46,268	11,360
Total non-operating revenues	189,909	191,187	(1,278)	213,337	(22,150)
Total revenues	$ 9,447,683	$ 8,196,840	$ 1,250,843	$ 7,461,287	$ 735,553

In 2018, operating revenues increased by 15.64% or $1,252,121 from $8,005,653 to $9,257,774, from the prior year, primarily due to an increase in residential and business water sales of $1,130,808. This is due to an increase in water sales as the Governor of the State of California declared the California drought over on April 7, 2017 as well as a rate increase. In 2017, operating revenues increased by 10.45% or $757,703 from $7,247,950 to $8,005,653, from the prior year, primarily due to an increase in residential and business water sales of $692,555.

Total Expenses

	June 30, 2018	June 30, 2017	Increase (Decrease)	June 30, 2016	Increase (Decrease)
Operating expenses:					
Source of supply - water purchases	$ 3,336,567	$ 3,151,450	$ 185,117	$ 2,609,542	$ 541,908
Water treatment - Randall-Bold water treatment	1,238,463	1,126,547	111,916	1,139,024	(12,477)
Well expenses	78,618	71,094	7,524	88,359	(17,265)
Maintenance	304,600	242,597	62,003	290,000	(47,403)
Transmission and distribution	1,788,812	1,488,669	300,143	1,085,586	403,083
Customer service	802,935	653,642	149,293	644,270	9,372
Administrative and general	1,294,569	939,330	355,239	1,049,592	(110,262)
Operating expenses before depreciation	8,844,564	7,673,329	1,171,235	6,906,373	766,956
Depreciation expense	2,650,825	2,479,981	170,844	2,445,664	34,317
Total operating expenses	11,495,389	10,153,310	1,342,079	9,352,037	801,273
Non-operating expenses:					
Interest and ammortization expense	507,712	553,073	(45,361)	391,482	161,591
Total non-operating	507,712	553,073	(45,361)	391,482	161,591
Total expenses	$ 12,003,101	$ 10,706,383	$ 1,296,718	$ 9,743,519	$ 962,864

In 2018, operating expenses before depreciation expense increased by 15.26% or $1,171,235 from $7,673,329 to $8,844,564, from the prior year, primarily due to increases in source of supply – water purchases of $185,117 and transmission and distribution of $300,143 and administrative expenses of $355,239. The other primary reasons for the increase is due to an increase in capital expenses and the GASB 68 and 75 reporting requirements. This is the first year GASB 75 is required to be reported on the financial statements.

In 2017, operating expenses before depreciation expense increased by 11.11% or $766,956 from $6,906,373 to $7,673,329, from the prior year, primarily due to increases in source of supply – water purchases of $541,908, and transmission and distribution of $403,083 as a result of the increase in water sales.

Capital Asset Administration

	Balance June 30, 2018	Balance June 30, 2017	Balance June 30, 2016
Capital assets:			
Non-depreciable assets	$ 3,047,331	$ 3,336,262	$ 2,900,069
Depreciable assets	85,980,406	84,974,312	84,974,312
Accumulated depreciation	(30,450,383)	(27,799,560)	(25,319,579)
Total capital assets, net	$ 58,577,354	$ 60,511,014	$ 62,554,802

At the end of fiscal year 2018 and 2017, the District's investment in capital assets amounted to $58,577,354 and $60,511,014 (net of accumulated depreciation), respectively. Major capital asset additions during the year amounted to $717,163 and $436,193 for various projects and equipment. See Note 3 and Note 16 for further information.

Debt Administration

The long-term debt position of the District is summarized below:

	Balance June 30, 2018	Balance June 30, 2017	Balance June 30, 2016
Long-term debt:			
Certificates-of-participation	$ 8,595,000	$ 9,180,000	$ 9,755,000
Loans payable	2,330,990	2,436,478	2,538,571
Revenue bonds payable	2,989,460	4,226,840	5,419,710
Total	$ 13,915,450	$ 15,843,318	$ 17,713,281

Structured long-term debt items decreased by $1,927,868 and $1,869,963 for the fiscal years ended June 30, 2018 and 2017, due to regular principal payments on the District's structured long-term debt items. See Note 5 for further information.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Economic Conditions

The economic condition of the District appears to be improving over 2017 and 2018 with the increase in new housing units proposed in the District's service area. Also, the Governor of the State of California declared the California drought over on April 7, 2017 which has allowed water sales to increase over the last year.

Requests for Information

This financial report is designed to provide the District's ratepayers and creditors with a general overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Diablo Water District, Finance Department, at P.O. Box 127, Oakley, CA 94561 or (925) 625-3798.

DIABLO WATER DISTRICT
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

	2018	2017 (Restated)
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$ 2,804,486	$ 3,215,598
Investments (Note 2)	2,437,556	1,931,483
Accrued interest receivable	24,966	15,831
Accounts receivable - customers	462,129	461,580
Other receivables	44,588	120,595
Prepaid expenses and other assets	340,771	420,719
Total current assets	6,114,496	6,165,806
Non-current assets		
Restricted - cash and cash equivalents (Note 2)	-	61,173
Restricted - investments (Note 2)	3,678,108	4,261,197
Capital assets - not being depreciated (Note 3)	3,047,331	3,336,262
Capital assets - being depreciated (net of accumulated depreciation) (Note 3)	55,530,023	57,174,752
Total non-current assets	62,255,462	64,833,384
TOTAL ASSETS	68,369,958	70,999,190
DEFERRED OUTFLOW OF RESOURCES		
Deferred loss on refunding of certificates of participation, net (Note 5)	107,686	117,050
Deferred amounts related to OPEB liability (Note 8)	45,435	3,844
Deferred amounts related to net pension liability (Note 7)	846,993	778,350
Total deferred outflow of resources	1,000,114	899,244
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 69,370,072	$ 71,898,434

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

DIABLO WATER DISTRICT
STATEMENTS OF NET POSITION (continued)
JUNE 30, 2018 AND 2017

LIABILITIES	**2018**	**2017 (Restated)**
Current liabilities		
Accounts payable and accrued expenses	$ 519,427	$ 498,251
Main extension reimbursement payable (Note 13)	114,061	86,937
Deposits and unearned revenue	968,470	1,151,383
Accrued interest payable	28,415	31,936
Current portion of long-term liabilities		
Compensated absences (Note 4)	21,664	20,014
Certificates-of-participation (Note 5)	595,000	585,000
Loans payable (Note 5)	108,999	105,488
Revenue bonds payable (Note 5)	1,244,275	1,219,425
County pension plan termination liability (Note 6)	94,668	94,668
Total current liabilities	3,694,979	3,793,102
Noncurrent liabilities		
Long-term liabilities - due in more than one year		
Compensated absences (Note 4)	13,276	60,043
Certificates-of-participation (Note 5)	8,000,000	8,595,000
Loans payable (Note 5)	2,221,991	2,330,990
Revenue bonds payable (Note 5)	1,745,185	3,007,415
County pension plan termination liability (Note 6)	560,426	655,094
Net pension liability (Note 7)	2,251,040	1,944,341
OPEB liability (Note 8)	472,332	426,417
Total noncurrent liabilities	15,264,250	17,019,300
TOTAL LIABILITIES	18,959,229	20,812,402
DEFERRED INFLOW OF RESOURCES		
Deferred amounts related to OPEB liability (Note 8)	27,402	-
Deferred amounts related to net pension liability (Note 7)	66,809	77,659
Total deferred inflow of resources	94,211	77,659
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	19,053,440	20,890,061
NET POSITION		
Net investment in capital assets (Note 9)	44,769,590	44,784,746
Restricted (Note 10)	3,676,818	4,322,370
Unrestricted	1,870,224	1,901,257
Total net position	50,316,632	51,008,373
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	$ 69,370,072	$ 71,898,434

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

DIABLO WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017 (Restated)
OPERATING REVENUE		
Water sales - residential and business	$ 8,685,936	$ 7,555,128
Water sales - other	241,732	146,033
Other charges for services and miscellaneous operating revenues	330,106	304,492
Total operating revenue	9,257,774	8,005,653
OPERATING EXPENSES		
Source of supply - water purchases	3,336,567	3,151,450
Water treatment - Randall-Bold water treatment plant	1,238,463	1,126,547
Well expenses	78,618	71,094
Maintenance	304,600	242,597
Transmission and distribution	1,788,812	1,488,669
Customer service	802,935	653,642
Administrative, capital, OPEB, and general	1,294,569	939,330
Total operating expenses	8,844,564	7,673,329
Operating income before depreciation expense	413,210	332,324
Depreciation expense	(2,650,825)	(2,479,981)
OPERATING LOSS	(2,237,615)	(2,147,657)
NON-OPERATING REVENUES (EXPENSES)		
Investment earnings	15,279	26,619
Rental income	109,722	106,940
Interest expense	(498,348)	(543,709)
Other non-operating revenues	64,908	57,628
Amortization expense	(9,364)	(9,364)
Total non-operating revenues (expenses)	(317,803)	(361,886)
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(2,555,418)	(2,509,543)
CAPITAL CONTRIBUTIONS		
Developer and connection fees	1,638,677	1,549,332
Developer capital contributions - non-cash	225,000	-
TOTAL CAPITAL CONTRIBUTIONS	1,863,677	1,549,332
CHANGE IN NET POSITION	(691,741)	(960,211)
TOTAL NET POSITION, BEGINNING OF YEAR	51,008,373	36,741,323
PRIOR PERIOD ADJUSTMENT (NOTE 16)	-	15,227,261
TOTAL NET POSITION, BEGINNING OF YEAR - RESTATED	51,008,373	51,968,584
TOTAL NET POSITION, END OF YEAR	$ 50,316,632	$ 51,008,373

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

DIABLO WATER DISTRICT
STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 9,324,406	$ 8,643,564
Payments to employees for salaries and wages	(2,171,984)	(1,402,588)
Payments to suppliers for goods and services	(6,424,734)	(6,291,835)
NET CASH PROVIDED BY OPERATING ACTIVITIES	727,688	949,141
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from developer and connection fees	1,638,677	1,549,332
Acquisition and construction of capital assets	(492,165)	(436,193)
Principal paid on long-term debt	(1,927,869)	(1,882,318)
Interest paid on long-term debt	(501,869)	(546,723)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(1,283,226)	(1,315,902)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	6,143	20,865
Proceeds on sale of investments	77,110	710,950
NET CASH PROVIDED BY INVESTING ACTIVITIES	83,253	731,815
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(472,285)	365,054
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,276,771	2,911,717
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,804,486	$ 3,276,771
Reconciliation of cash and cash equivalents to the Statement of Net Position		
Cash and cash equivalents	$ 2,804,486	$ 3,215,598
Restricted cash and cash equivalents	-	61,173
Total cash and cash equivalents	$ 2,804,486	$ 3,276,771

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

DIABLO WATER DISTRICT
STATEMENT OF CASH FLOW (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017 (Restated)
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Operating Income (Loss)	$ (2,237,615)	$ (2,147,657)
Adjustments to reconcile operating income (loss) to net cash provided by (used) for operating activities:		
Depreciation	2,650,825	2,479,981
Rental income	109,722	106,940
Other non-operating revenue	64,908	69,983
(Increase) decrease in assets:		
Accounts receivable - customers	(549)	(82,231)
Other receivables	76,004	371,806
Prepaid expenses	79,947	(270,107)
(Increase) decrease in deferred outflows of resources:		
Deferred amounts related to OPEB liability	(41,591)	(3,844)
Deferred amounts related to net pension liability	(68,643)	(345,919)
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	21,628	397,248
Main extension reimbursement payable	27,124	(5,514)
Deposits and unearned revenue	(183,453)	171,415
Compensated absences	(45,117)	(291)
County pension plan termination liability	(94,668)	(169,340)
OPEB liability	45,915	55,732
Net pension liability	306,699	418,204
Increase (decrease) in deferred inflows of resources:		
Deferred amounts related to net pension liability	16,552	(97,265)
TOTAL ADJUSTMENTS	2,965,303	3,096,798
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 727,688	$ 949,141
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Developer capital contributions	$ 225,000	$ -
Amortization of deferred loss on refunding of certificates-of-participation	9,364	9,364
Change in fair-value of investments	(2,510)	(5,278)
Total non-cash investing, capital, and financing activities	$ 234,364	$ 9,364

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Diablo Water District (District) was formed and exists under, and by virtue of, the County Water District Law of the State of California, Division 12 of the Water Code (§§30000-33901). The District is governed by a Board of Directors consisting of five members, one of whom is annually elected President. The General Manager – Secretary is appointed by the Board pursuant to §30540 of the Water Code. Diablo Water District changed its name from Oakley Water District on May 1, 1993. The District's revenue is generated by direct collection of water usage charges from approximately 11,900 households and businesses located within the District's service area.

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

B. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

C. Basis of Presentation

Diablo Water District's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the accepted standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

Government-wide Financial Statements

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position displays information about the reporting district as a whole. It includes the activities of the overall District. Eliminations have been made to minimize the double counting of internal activities. The District's net position is reported in three parts - net investment in capital assets; restricted net position; and unrestricted net position. The District first utilizes restricted resources to finance qualifying activities. Business-type activities are generally financed in whole or in part by fees charged to external parties for goods or services.

The District consists of one proprietary fund. The fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses.

D. Measurement of Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

Measurement Focus

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position, are presented using the economic resources measurement focus as defined below.

All proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) associated with the operation of these funds are reported. Proprietary fund equity is classified as net position.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

In the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position, business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or the economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal operations. The principal operating revenue of the District's funds is charges to customers for water charges. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of 90 days or less and are carried at cost, which approximates fair value.

F. Investments

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

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the Statement of Net Position, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

> **Level 1** – Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
>
> **Level 2** – Inputs, other than quoted prices included in Level 1 that are observable for the assets or liabilities through corroboration with market data at the measurement date.
>
> **Level 3** – Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the assets or liabilities at the measurement date.

G. Restricted Assets

Restricted assets are cash and cash equivalents and investments whose use is limited by legal and debt covenant requirements such as debt payment, reserve balance maintenance and developer impact fees.

H. Receivables

Receivables consist of all revenues earned at year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts if applicable. Customer accounts receivable consist of amounts owed by private individuals and organizations for services rendered in the regular course of business operations. The District reports water charges as their major receivables.

The District utilizes the allowance method with respect to its accounts receivable. As of June 30, 2018 and 2017, there was no allowance for uncollectible accounts.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

J. Capital Assets

Capital assets are valued at historical cost, or estimated historical cost, if actual historical cost is not available. Donated capital assets are valued at their estimated acquisition value on the date donated. The District policy has set the capitalization threshold for reporting capital assets at $5,000, all of which must have an estimated useful life in excess of three years. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Randall-Bold water treatment plant	25 to 75 years
Infrastructure	25 to 75 years
Transmission and distribution system	5 to 50 years
General plant	5 to 50 years
Office equipment	3 to 5 years

Major outlays for capital assets are capitalized as construction in progress, once constructed, and repairs and maintenance costs are expensed.

K. Compensated Absences

The District's personnel policies provide for accumulation of vacation leave and compensatory time off. Liabilities for vacation leave and compensatory time off are recorded when benefits are earned. Full cash payment for all unused vacation leave is available to employees upon retirement or termination. Although accrued and unused sick leave may be carried over to, and used during, subsequent years, as discussed above, sick pay does not vest which means no payment shall be made for unused sick leave on termination of employment. However, upon retirement, employees may convert unused sick leave to credited service time in accordance with the provisions of the District's retirement plan with the California Public Employee Retirement System (CalPERS).

L. Deferred Inflows/Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

M. Pensions

For the purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Diablo Water District's California Public Employees' Retirement System (CalPERS) plan (the Plan) 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.

CalPERS	June 30, 2018	June 30, 2017
Valuation date	June 30, 2016	June 30, 2015
Measurement date	June 30, 2017	June 30, 2016
Measurement period	July 1, 2016 to June 30, 2017	July 1, 2015 to June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

N. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Generally accepted accounting principles required that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

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

O. Net Position

Net position represents the difference between all other elements in the statement of net position and is displayed in the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

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

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

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

P. Contributed Capital

Capital contributions represent cash and capital asset additions contributed to the District by outside parties.

Q. Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual budgets are adopted by the Board of Directors for the general budget, which includes operations, maintenance and administration, and construction.

R. Comparative Data and Reclassifications

Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Implementation of Government Accounting Standards Board Statements

Effective July 1, 2017, the District implemented the following accounting and financial reporting standards:

<u>Government Accounting Standards Board Statement No. 75</u>

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB, and replaces Statements No. 45 and 57. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to OPEB. See footnotes 8 and 16 for the prior period restatement recorded as a result of implementing this standard.

<u>Government Accounting Standards Board Statement No. 85</u>

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Adoption of this standard did not have a significant impact on the District's financial position.

T. Future Government Accounting Standards Board Statements

These statements are not effective until July 1, 2018 or later and may be applicable for the District. However, the District has not determined the effects, if any, on the financial statements.

<u>Government Accounting Standards Board Statement No. 86</u>

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishments Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The District has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the District's fiscal year ending June 30, 2019.

<u>Government Accounting Standards Board Statement No. 87</u>

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Application of this statement is effective for the District's fiscal year ending June 30, 2021. The District has not determined what impact, if any, this pronouncement will have on the financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government Accounting Standards Board Statement No. 88

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this statement is to clarify which liabilities governments should include in their note disclosures related to debt. GASB is requiring debt borrowings and direct placements to be presented separately because they may expose a government to risks that are different from, or in addition to, risks related to other types of debt. The new standard also requires the disclosure of additional essential debt-related information for all types of debt, including amounts of unused lines of credit and assets pledged as collateral for debt. Also required to be disclosed are terms specified in debt agreements related to: (1) significant events of default with finance-related consequences, (2) significant termination events with finance-related consequences, (3) significant subjective acceleration clauses. The District has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the District's fiscal year ending June 30, 2020.

Government Accounting Standards Board Statement No. 89

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This statement requires interest costs incurred before the end of a construction period to be recorded as an expenditure in the applicable period. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The District has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the District's fiscal year ending June 30, 2021.

Government Accounting Standards Board Statement No. 90

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*. The purpose of this statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The new standard clarifies the differences between a majority equity interests reported as an investment and majority equity interest reported as a component unit of the governmental entity. The District has not determined what impact, if any, this pronouncement will have on the financial statements. Application of this statement is effective for the District's fiscal year ending June 30, 2020.

NOTE 2: CASH AND INVESTMENTS

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

Description	2018	2017
Cash and cash equivalents	$ 2,804,486	$ 3,215,598
Investments	2,437,556	1,931,483
Restricted - cash and cash equivalents	-	61,173
Restricted - investments	3,678,108	4,261,197
Total	$ 8,920,150	$ 9,469,451

Cash and investments were carried at fair value as of June 30, 2018 and 2017 and consisted of the following:

Description	2018	2017
Petty Cash	$ 2,675	$ 2,675
Deposits held with financial institutions	2,801,811	3,274,096
Investments	6,115,664	6,192,680
Total cash and investments	$ 8,920,150	$ 9,469,451

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

A. Demand Deposits

At June 30, 2018 and 2017, the carrying amount of the District's demand deposits was $2,801,811 and $3,274,096, respectively, and the financial institution balance was $3,688,275 and $4,177,096, respectively. The $886,464 and $903,000 respective net difference as of June 30, 2018 and 2017 represents outstanding checks, deposits-in-transit and/or other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The entity's Treasurer may waive the collateral requirement for deposits which are fully insured up to $250,000 by the FDIC.

The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an agent of depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an agent of depositor has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California agents of depository are considered to be held for, and in the name of, the local government.

B. Custodial Credit Risk

The custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District’s investment policy requires that collateral be held by an independent third party with whom the District has a current custodial agreement.

The custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District’s investment policy requires that all security transactions are conducted on a delivery-versus-payment (DVP) method and that all securities are held by a qualified, third-party custodian, as evidenced by safekeeping receipts. The trust department of the District’s bank may act as third-party custodian, provided that the custodian agreement is separate from the banking agreement. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government’s indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

As of June 30, 2018 and 2017, none of the District’s deposits and investments was exposed to disclosable custodial credit risk.

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

C. Investments

The District's investments as of June 30, 2018 were as follows:

Investment Type	Measurement Focus*	Credit Rating	June 30, 2018 Fair Value	Remaining Maturity 1 year or less	Remaining Maturity 1-5 years
Non-negotiable certificates of deposit	Level 2	N/A	$ 2,047,896	$ 196,682	$ 1,851,214
Government sponsored agency securities	Level 2	AAA	386,828	-	386,828
Local agency investment fund (LAIF)	Uncategorized	N/A	2,906,412	2,906,412	-
Held by bank or trustee:					
Non-negotiable certificates of deposit	Level 2	N/A	758,611	-	758,611
Money market mutual funds	Level 2	N/A	15,917	15,917	-
Total			$ 6,115,664	$ 3,119,011	$ 2,996,653

The District's investments as of June 30, 2017 were as follows::

Investment Type	Measurement Focus*	Credit Rating	June 30, 2017 Fair Value	Remaining Maturity 1 year or less	Remaining Maturity 1-5 years
Non-negotiable certificates of deposit	Level 2	N/A	$ 1,737,888	$ 200,200	$ 1,537,688
Government sponsored agency securities	Level 2	AA+	890,051	391,036	499,015
Local agency investment fund (LAIF)	Uncategorized	N/A	2,776,281	2,776,281	-
Money market mutual funds	N/A	AAA	3,768	3,768	-
Held by bank or trustee:					
Non-negotiable certificates of deposit	Level 2	N/A	784,692	-	784,692
Money market mutual funds	Level 2	AAA	-	-	-
Total			$ 6,192,680	$ 3,371,285	$ 2,821,395

*Refer to page 13 for framework for measuring fair value and fair value hierarchy.

D. Investment in State Investment Pool

The District is a voluntary participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The District had $2,906,412 and $2,776,281 invested in LAIF as of June 30, 2018 and June 30, 2017, respectively. The LAIF fair value factor of 0.998126869 and 0.998940671 was used to calculate the fair value of the investments in LAIF as of June 30, 2018 and 2017, respectively.

E. Fair Value Measurement Input

The District categorizes its fair value measurement inputs within the fair value hierarchy established by generally accepted accounting principles. The District has presented its measurement inputs as noted in the table above.

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

F. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2018 and 2017, the District's investment in the LAIF was not rated as noted in the table above.

G. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the fair values of investments with longer maturities have greater sensitivity to changes in market interest rates. The District's investment policy follows the California Government Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. The District has elected to use the segmented time distribution method of disclosure for the maturities of its investments as related to interest rate risk as noted in the table above.

H. Concentration of Credit Risk

The District's investment policy contains no limitations on the amount that can be invested in any one governmental agency or non-governmental issuer beyond that stipulated by the California Government Code. There were no investments in any one governmental or non-governmental issuer that represented 5% or more of the District's total investments except for those in LAIF or non-negotiable certificates-of-deposit.

I. Investments Authorized by Debt Agreements

The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended debt proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District resolutions, bond indentures or State statute. These investments have been made in accordance with the District's investment policy. As of June 30, 2018 and 2017 the District had $774,528 and $784,692 respectively, invested with its bond trustee.

J. Authorized Deposits and Investments

The District's investment policy identifies other investment types that are authorized for the District to invest in under the California Government Code as follows:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
State and local agency bonds	5-years	None	None
U.S. treasury obligations	5-years	None	None
Government sponsored agency securities	5-years	None	None
Banker's acceptances	270 days	40%	30%
Prime commercial paper	180 days	30%	10%
Non-negotiable certificates of deposit	5-years	30%	None
Medium-term notes	5-years	30%	None
Mortgage pass-through securities	5-years	20%	None
Mutual funds	5-years	20%	10%
Money market mutual funds	5-years	20%	20%
Collateralized bank deposits	None	None	None
County pooled investment funds	None	None	None
California Local Agency Investment Fund (LAIF)	None	None	None

NOTE 3: CAPITAL ASSETS

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

	July 1, 2017	Additions	Deletions/ Transfers	June 30, 2018
Capital assets not being depreciated				
Land	$ 2,900,069	$ -	$ -	$ 2,900,069
Work in progress	436,193	159,893	(448,824)	147,262
Total capital assets not being depreciated	3,336,262	159,893	(448,824)	3,047,331
Capital assets being depreciated				
Randall-Bold water treatment plant	23,605,536	116,829	171,943	23,894,308
Infrastructure	51,043,167	301,180	46,168	51,390,515
Buildings and structures	2,394,420	-	-	2,394,420
Transmission and distribution system	5,530,145	-	167,463	5,697,608
General plant	2,401,044	139,261	63,250	2,603,555
Total capital assets being depreciated	84,974,312	557,270	448,824	85,980,406
Less: accumulated depreciation				
Randall-Bold water treatment plant	(11,463,513)	(547,393)	-	(12,010,906)
Infrastructure	(12,223,012)	(1,843,858)	-	(14,066,870)
Buildings and structures	(99,768)	(47,888)	-	(147,656)
Transmission and distribution system	(2,581,412)	(138,011)	-	(2,719,423)
General plant	(1,431,855)	(73,673)	-	(1,505,528)
Total accumulated depreciation	(27,799,560)	(2,650,823)	-	(30,450,383)
Capital assets, net of accumulated depreciation	$ 60,511,014	$ (1,933,660)	$ -	$ 58,577,354

NOTE 3: CAPITAL ASSETS (CONTINUED)

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

	July 1, 2016	Additions	Retirements/ Transfers	June 30, 2017
Capital assets not being depreciated				
Land	$ 2,900,069	$ -	$ -	$ 2,900,069
Work in progress	-	436,193	-	436,193
Total capital assets not being depreciated	2,900,069	436,193	-	3,336,262
Capital assets being depreciated				
Randall-Bold water treatment plant	23,605,536	-	-	23,605,536
Infrastructure	51,043,167	-	-	51,043,167
Buildings and structures	2,394,420	-	-	2,394,420
Transmission and distribution system	5,530,145	-	-	5,530,145
General plant	2,401,044	-	-	2,401,044
Total capital assets being depreciated	84,974,312	-	-	84,974,312
Less: accumulated depreciation				
Randall-Bold water treatment plant	(10,913,264)	(550,249)	-	(11,463,513)
Infrastructure	(10,773,981)	(1,449,031)	-	(12,223,012)
Buildings and structures	(66,638)	(33,130)	-	(99,768)
Transmission and distribution system	(2,388,841)	(192,571)	-	(2,581,412)
General plant	(1,176,855)	(255,000)	-	(1,431,855)
Total accumulated depreciation	(25,319,579)	(2,479,981)	-	(27,799,560)
Capital assets, net of accumulated depreciation	$ 62,554,802	$ (2,043,788)	$ -	$ 60,511,014

Depreciation expense for the years ended June 30, 2018 and 2017 totaled $2,650,825 and $2,479,981, respectively.

NOTE 4: COMPENSATED ABSENCES

Summary changes to compensated absences balances for the year ended June 30, 2018, were as follows:

	Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018	Current Portion	Noncurrent Portion
Compensated Absences	$ 80,057	$ 50,753	$ (95,870)	$ 34,940	$ 21,664	$ 13,276

Summary changes to compensated absences balances for the year ended June 30, 2017, were as follows:

	Balance at July 1, 2016	Additions	Reductions	Balance at June 30, 2017	Current Portion	Noncurrent Portion
Compensated Absences	$ 80,348	$ 82,104	$ (82,395)	$ 80,057	$ 20,014	$ 60,043

NOTE 5: LONG-TERM DEBT

The District has incurred long-term debt to finance projects or purchase assets, which have useful lives equal to or greater than the related debt.

Summary changes to long-term debt balances for the year ended June 30, 2018, were as follows:

Long-Term Debt	Balance at July 1, 2017	Additions/ Adjustments	Payments/ Reductions	Balance at June 30, 2018	Current Portion
Certificates-of-participation – 2010	$ 3,375,000	$ -	$ (130,000)	$ 3,245,000	$ 135,000
Certificates-of-participation – 2013	5,805,000	-	(455,000)	5,350,000	460,000
Loans payable – 2014	2,436,478	-	(105,488)	2,330,990	108,999
Revenue bonds payable – 2012 series A	4,226,840	(17,955)	(1,219,425)	2,989,460	1,244,275
Total long-term debt	$ 15,843,318	$ (17,955)	$ (1,909,913)	$ 13,915,450	$ 1,948,274

Summary changes to long-term debt balances for the year ended June 30, 2017, were as follows:

	Balance at July 1, 2016	Additions/ Adjustments	Reductions	Balance at June 30, 2017	Current Portion
Certificates-of-participation – 2010	$ 3,500,000	$ -	$ (125,000)	$ 3,375,000	$ 130,000
Certificates-of-participation – 2013	6,255,000	-	(450,000)	5,805,000	455,000
Loans payable – 2014	2,538,571	-	(102,093)	2,436,478	105,488
Revenue bonds payable – 2012 series A	5,419,710	12,355	(1,205,225)	4,226,840	1,219,425
Total long-term debt	$ 17,713,281	$ 12,355	$ (1,882,318)	$ 15,843,318	$ 1,909,913

NOTE 5: LONG-TERM DEBT (CONTINUED)

Certificates-of-Participation - 2010

During fiscal year 2010, the District issued $4,200,000 of 2010 Water Revenue Certificates-of-Participation (2010 COPs). The 2010 COPs were used to finance a new well system (Stonecreek). Interest is payable semiannually on January 1 and July 1 and principal payments are due annually on January 1 through 2035. Annual remaining debt service repayments are as follows:

Fiscal Year	Principal	Interest	Total
2019	$ 135,000	$ 146,719	$ 281,719
2020	140,000	141,319	281,319
2021	145,000	135,719	280,719
2022	150,000	129,919	279,919
2023	155,000	123,920	278,920
2024-2028	890,000	516,292	1,406,292
2029-2033	1,105,000	298,278	1,403,278
2034-2035	525,000	39,750	564,750
Total	$ 3,245,000	$ 1,531,916	$ 4,776,916

Certificates-of-Participation – 2013

During fiscal year 2005, the District issued $7,500,000 of Series 2005 Water Revenue Certificates-of-Participation (2005 COPs) to finance improvements to the District's water system, including the Glen Park well system and blending facility. In April 2013, the 2005 COPs were refunded from proceeds of the issuance of the 2013 Water Revenue Certificates-of-Participation (2013 COPs), which included costs associated with the relocation of a 24-inch water line as a result of BNSF Railway installing a second track that would be located over the water line. Interest is payable semiannually on January 1 and July 1 and principal payments are due annually on January 1 through 2030. Annual remaining debt service repayments are as follows:

Fiscal Year	Principal	Interest	Total
2019	$ 460,000	$ 155,103	$ 615,103
2020	465,000	145,903	610,903
2021	480,000	136,603	616,603
2022	390,000	125,803	515,803
2023	400,000	116,054	516,054
2024-2028	2,180,000	395,368	2,575,368
2029-2030	975,000	53,432	1,028,432
Total	$ 5,350,000	$ 1,128,266	$ 6,478,266

Loans Payable – 2014

During fiscal year 2014, the District entered into a loan agreement with Holman Capital Corporation to finance the construction of a new administration building and the interior recoating of reservoir No. 1. The loan bears an interest rate of 3.3% per annum. Principal and interest payments on the loan are due semiannually on each June 30 and December 30 commencing on December 30, 2014 through 2021. Annual remaining debt service repayments are as follows:

Fiscal Year	Principal	Interest	Total
2019	$ 108,999	$ 76,031	$ 185,030
2020	112,626	72,404	185,030
2021	116,373	68,657	185,030
2022	1,992,992	32,884	2,025,876
Total	$ 2,330,990	$ 249,976	$ 2,580,966

NOTE 5: LONG-TERM DEBT (CONTINUED)

Revenue Bonds Payable – 2012 Series A

On May 24, 1989, the District signed a Joint Exercise of Power Agreement with the Contra Costa Water District (CCWD) to form the Contra Costa Water Authority (CCWA) for the purpose of financing, constructing, owning and operating a joint water treatment plant. The CCWA is governed by a five-member Board of Directors that is comprised of Directors of the CCWD. The District's share of the capital costs of the plant, which was completed on July 7, 1992, was $16,454,516, plus construction period interest of $2,106,570. The District's 35.5% share of the construction cost will be paid in semiannual payments over a period of 30 years to the CCWD, which will pay the principal and interest on revenue bonds issued by the CCWA to finance the project. The original bond issue was called and reissued in 1993. The revenue bonds financing the cost of the treatment plant were sold at competitive bid on July 18, 2012 and refinanced with the issuance of the Water Treatment Revenue Refunding Bonds, 2012 Series A.

The District's original total debt service liability of $8,143,700 is partially offset by the application of a reserve account held by the CCWA which will be applied to the last payment due in fiscal year 2021. The balance in the reserve account increased $17,955 during fiscal year 2018 which resulted in a decrease in the District's outstanding liability. The ending balance of the reserve account at June 30, 2018 was $862,290.

Interest is payable semiannually on April 1 and October 1 and principal payments are due annually on October 1 through 2020. A portion of the repayment of the liability will come from the District's developer impact fees revenues/reserves and the remaining balance will come from operating funds.

Annual remaining debt service repayments are as follows:

Fiscal Year	Principal	Interest	Total
2019	$ 1,244,275	$ 121,650	$ 1,365,925
2020	1,285,100	58,948	1,344,048
2021	1,322,375	19,836	1,342,211
Reserve	(862,290)	-	(862,290)
Total	$ 2,989,460	$ 200,434	$ 3,189,894

Deferred Loss on Refunding of Revenue Bonds

Changes in deferred loss on refunding of revenue bonds, net for the year ended June 30, 2018 was as follows:

Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018
$ 117,050	$ -	$ (9,364)	$ 107,686

Changes in deferred loss on refunding of revenue bonds, net for the year ended June 30, 2017 was as follows:

Balance at July 1, 2016	Additions	Reductions	Balance at June 30, 2017
$ 126,414	$ -	$ (9,364)	$ 117,050

NOTE 6: COUNTY PENSION PLAN TERMINATION LIABILITY

The District terminated its participation in the Contra Costa County Employees Retirement Association (CCCERA) effective September 30, 2005. Pursuant to its funding obligation upon termination, the District entered into a termination agreement with CCCERA under which the District agreed to pay the costs associated with its share of any unfunded actuarial liability that is attributable to the officers and employees of the District that either were retired or will retire under CCCERA. The District's initial termination funding obligation was $3,985,036 as of September 30, 2005, but it is subject to periodic re-computation and adjustment no less than every three years. The most recent computation as of June 30, 2016 (reported for June 30, 2017) indicated a remaining net termination liability of $749,742 as of that date. As of June 30, 2018, the remaining obligation net termination liability is $655,094. The obligation is being amortized over approximately 7 years with annual installment payments. The final settlement date for the obligation will occur when CCCERA's actuary determines that the remaining termination liability is below 20% of the value of the initial termination funding obligation. The estimated annual remaining liability payments are as follows:

Fiscal Year	Principal
2019	$ 94,668
2020	94,668
2021	94,668
2022	94,668
2023	94,668
2024	94,668
2025	87,086
Total	655,094
Less: current portion	(94,668)
Non-Current	$ 560,426

NOTE 7: PENSION PLAN

General Information about the Plan

All qualified permanent full and part-time District employees working at least 1,000 hours per year are eligible to participate in the District's cost-sharing multiple-employer defined benefit pension plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool (police and fire) and a miscellaneous risk pool (all other). Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. The District sponsors two rate plans (both miscellaneous). Benefit provisions under the Plan 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.

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. Active members belonging to the Classic Plan are required to contribute 7.0% of their annual covered salary. Active members belonging to the PEPRA plan are required to contribute 6.25% of their annual covered salary. The Agency makes the contributions required of the Classic employees on their behalf and for their account.

The Plan's provisions and benefits in effect during the year ended June 30, 2018 are summarized as follows:

Hire Date	Classic Prior to January 1, 2013	PEPRA On or after January 1, 2013
Benefit Formula	2.7% at 55	2.0% at 62
Social Security Coverage	No	No
Full/Modified	Full	Full
Benefit Vesting Schedule	Five Years Schedule	Five Years Schedule
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	55	62
Monthly Benefits, as a % of Eligible Compensation	2.0% to 2.7%	1.0% to 2.5%
Required Employee Contribution Rates	7.0%	6.25%
*Required Employer Contribution Rates - FY 2017	17.857	6.5
*Required Employer Contribution Rates - FY 2018	23.01%	6.7%

*Employer Contribution rates include the employer normal cost rate and the unfunded accrued liability contribution.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The District's contributions to the Plan for the years ended June 30, 2018 and 2017 were $267,797 and $237,345, respectively.

NOTE 7: PENSION PLAN (CONTINUED)

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

As of June 30, 2018 and 2017, the District reported a net pension liability of $2,251,040 and $1,944,341 for its proportionate share of the net pension liability of the Plan, respectively.

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

Proportion - June 30, 2016	0.022470 %
Proportion - June 30, 2017	0.022698 %
Change - Increase (Decrease)	0.000228 %

For the years ended June 30, 2018 and 2017, the District recognized pension expense of $428,904 and $149,577, respectively. At June 30, 2018 and 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$ 267,797	$ -	$ 237,345	$ -
Difference between actual contributions made by the employer and the employer's proportionate share of the risk pool's total contribution	6,248	77	5,452	173
Changes in assumptions	348,069	26,541	-	71,503
Differences between expected and actual experience	2,805	40,191	-	-
Adjustment due to differences in proportions	143,355	-	157,573	5,983
Net differences between projected and actual earnings on plan investments	78,719	-	377,980	-
Total	$ 846,993	$ 66,809	$ 778,350	$ 77,659

$267,797 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 of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	
2019	$ 180,271
2020	235,512
2021	143,342
2022	(46,738)
Total	$ 512,387

NOTE 7: PENSION PLAN (CONTINUED)

Actuarial Assumptions

The total pension liabilities in the June 30, 2016 and 2015 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous	Miscellaneous
Valuation Date	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2017	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.15%	7.65%
Inflation	2.75%	2.75%
Salary Increases	Varies by entry age and service	Varies by entry age and service
Investment Rate of Return	7.15%% net of pension plan investment expenses; includes inflation	7.65% net of pension plan investment expenses; includes inflation
Mortality (1)	Derived using CalPERS membership data for all funds	Derived using CalPERS membership data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 201 Experience Study Report.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 and 2015 valuations were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Changes in Assumptions

For the measurement period ended June 30, 2017, the financial reporting discount rate for the Plan was lowered from 7.65% to 7.15%. There were no changes of assumptions during the measurement period ended June 30, 2016. Deferred inflows of resources for changes in assumptions presented in the deferred outflows/inflows table above represents the portion of the changes of assumptions related to prior measurement periods.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent for the June 30, 2017 measurement period. To determine whether the municipal bond rate should be used in the calculation of the discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS website under the GASB 68 section.

NOTE 7: PENSION PLAN (CONTINUED)

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

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2016.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%

(a) An expected inflation of 2.50% used for this period.
(b) An expected inflation of 3.00% used for this period.

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

The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Measurement Period 2017	Measurement Period 2016
1% Decrease	6.15 %	6.65 %
Net Pension Liability	$ 3,398,376	$ 2,961,578
Current Discount Rate	7.15 %	7.65 %
Net Pension Liability	$ 2,251,040	$ 1,944,341
1% Increase	8.15 %	8.65 %
Net Pension Liability	$ 1,300,795	$ 1,103,645

NOTE 7: PENSION PLAN (CONTINUED)

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports on the CalPERS website.

NOTE 8: OTHER POST EMPLOYMENT BENEFITS (OPEB)

The District provides postemployment healthcare benefits for retired employees in accordance with their published employee handbook.

Description of the Plan

Full-time employees who retire from the District after at least 10 years of service are eligible to receive health care benefits covering themselves and any qualified family members. The District pays 100% of the premiums for both retiree and eligible family members for all retirees until the retiree reaches age 65. Once the retiree reaches age 65, a percentage of the health care benefits for said retirees is covered based on years of service for either the Anthem Blue Cross Classic PPO with Medicare, Anthem Blue Cross HMO with Medicare, or the Kaiser Senior Advantage Plan, and eligible family members are offered health benefits at the retired employee's expense. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

Employees Covered

As of the June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the plan:

	Number of Covered Participants
Inactives currently receiving benefits	6
Active employees	13
Total	19

Contributions

The contribution requirements of plan members and the District are based on current year retiree premiums because the plan was overfunded based on the actuarial valuation dated July 1, 2016. For the year ended June 30, 2018 the District paid $45,435 on behalf of its retirees. This amount was reimbursed by the District's CalPERS California Employer's Retiree Benefit Trust (CERBT). The District did not make a contribution for the year ended June 30, 2017.

NOTE 8: OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Net OPEB Liability

The District's net OPEB liability ("NOL") 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 Valuation Date	June 30, 2017
Discount Rate	6.75% at June 30, 2017 6.75% at June 30, 2016
Expected Long-Term Rate of Return on Investments	6.75%
General Inflation	2.75% per annum
Mortality, Retirement, Disability, Termination	CalPERS 1997-2011 experience study
Mortality Improvement	Mortality projected fully generational with Scale MP-2017
Salary Increases	Aggregate - 3.00%
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	100%
Municipal Bond Rate	N/A - Plan assets projected to be sufficient to pay all benefits from trust

The long-term expected rate of return on OPEB plan investments 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 weighing the expected future real rates of return by the target asset allocation percentages 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:

	Target Allocation * CERBT - Strategy 1	Expected Real Rate of Return**
Asset Class Component		
Global Equity	57%	4.82%
Fixed Income	27%	1.47%
TIPS	5%	1.29%
Commodities	3%	0.84%
REITs	8%	3.76%
General Inflation		2.75% per annum
Expected Long-term Net Rate of Return, Rounded		6.75%
Discount Rate		
June 30, 2017		6.75%
June 30, 2016		6.75%

*Provided by CalPERS' Strategic Asset Allocation Analysis Overview in August 2014
**Actuarial Assumption

NOTE 8: OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Discount Rate

The discount rate used to measure the total OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that the District will continue to pay retiree benefit payments outside of the trust (no additional contributions).

Changes in the net OPEB Liability

The changes in the net OPEB liability for the health care plan are as follows:

	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2017 (Valuation Date of June 30, 2016)	$ 1,263,481	$ 837,064	$ 426,417
Changes recognized for the measurement period:			
Service cost	51,422	-	51,422
Interest	87,254	-	87,254
Assumption changes	-	-	-
Contributions - employer	-	3,844	(3,844)
Net investment income	-	89,368	(89,368)
Benefit payments	(44,508)	(44,508)	-
Administrative expenses	-	(451)	451
Net changes	94,168	48,253	45,915
Balance at June 30, 2018 (Valuation Date of June 30, 2017)	$ 1,357,649	$ 885,317	$ 472,332

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

The following table 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 the measurement period ended June 30, 2017:

	Discount Rate -1% (5.75%)	Current Discount Rate (6.75%)	Discount Rate +1% (7.75%)
Net OPEB Liability	$ 651,954	$ 472,332	$ 322,539

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

	1% Decrease	Current Trend	1% Increase
Net OPEB Liability	$ 299,132	$ 472,332	$ 686,523

OPEB Plan Fiduciary Net Position

CERBT issues a publicly available financial report that may be obtained from the California Public Employees' Retirement System at 400 Q Street, Sacramento, CA 95811.

NOTE 8: OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in the 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

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 $3,274,096. As of fiscal year ended June 30, 2018, the District reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to the measurement date	$ 45,435	$ -
Changes in assumptions	-	-
Net differences between projected and actual earnings on plan investments	-	27,402
Total	$ 45,435	$ 27,402

$45,435 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability during the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as expense as follows:

Year Ended June 30,	
2019	$ (6,851)
2020	(6,851)
2021	(6,851)
2022	(6,849)

NOTE 9: NET INVESTMENT IN CAPITAL ASSETS

Net investment in capital assets consisted of the following as of June 30:

Description	June 30, 2018	June 30, 2017
Net investment in capital assets:		
Capital assets - not being depreciated	$ 3,047,331	$ 3,336,262
Capital assets, net - being depreciated	55,530,023	57,174,752
Deferred loss of refunding of revenue bonds, net	107,686	117,050
Certificates-of-participation - current	(595,000)	(585,000)
Loans payable - current	(108,999)	(105,488)
Revenue bonds payable - current	(1,244,275)	(1,219,425)
Certificates-of-participation - non-current	(8,000,000)	(8,595,000)
Loans payable - non-current	(2,221,991)	(2,330,990)
Revenue bond payable - non-current	(1,745,185)	(3,007,415)
Total net investment in capital assets	$ 44,769,590	$ 44,784,746

NOTE 10: RESTRICTED NET POSITION

Restricted net position consisted of the following as of June 30:

Description	June 30, 2018	June 30, 2017
Restricted net position		
Restricted for debt service	$ 774,528	$ 845,867
Restricted for AB-1600 requirements - developer fees	2,902,290	3,476,503
Total restricted net position	$ 3,676,818	$ 4,322,370

NOTE 11: DEFERRED COMPENSATION SAVINGS PLAN

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

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

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

NOTE 12: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has purchased the commercial insurance coverage for risks of loss except workers' compensation through East County Insurance Agency, the Districts' selected insurance broker/consultant.

NOTE 12: RISK MANAGEMENT (CONTINUED)

The District is a member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA), a public entity risk pool, for workers' compensation coverage. The purpose of ACWA/JPIA is to provide a cost-effective form of risk management to public entities, allowing them to bypass the high cost of workers' compensation insurance.

The following types of loss risks are covered by commercial insurance policies and ACWA/JPIA as follows:

Type of Coverage (Deductible)		Coverage Limit
Liability ($0)		$ 1,000,000
Excess liability		$ 10,000,000
Property ($1,000)	Replacement cost up to an aggregate of	$ 17,352,764
Inland marine tools and equipment ($500) (Total Limit $48,625)	Per item	$ 10,000
Auto liability ($500)	Each accident	$ 1,000,000
Public officials & management liability ($0) (Limit to $3.0 million)	Each occurrence	$ 1,000,000
Crime coverage ($250)	With various sublimits to	$ 250,000
Cyber liability ($2,500)		$ 1,000,000
Workers' compensation ($2,500)		Statutory Limit
Workers' compensation - employer's liability		$ 2,000,000

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the District's insurance coverage during the years ending June 30, 2018, 2017 and 2016. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2018, 2017 and 2016.

NOTE 13: COMMITMENTS

Main Extension Reimbursement Payable

Regulation No. 3 of the District sets forth the connection charges and reimbursements for certain main extensions. In general terms, this Regulation requires the applicant to pay to the District a developer impact charge and a main extension reimbursement assessment, and to advance to the District its costs of materials, labor, engineering and administration.

The District reimburses eligible applicants over a 10-year period without interest for extensions and enlargements of the District's pipeline facilities. The reimbursement is paid in July of each year following acceptance of the facilities by the District. The maximum amount of reimbursement cannot exceed 10% of the originally established potential reimbursement amount. If the 10% liability is under $5,000, then $5,000 will be paid annually until the liability is paid-off. This policy is subject to the availability of sufficient funds in the District's Main Extension Reimbursement Assessment (MERA) account.

Delta Mutual Agreement

Effective October 15, 1999, the District entered into a service agreement with Delta Mutual Water Company (Company). The agreement provides for the performance of services by the District required to continue the operation and maintenance of the Company's water treatment and distribution system. The District bills approximately 120 customers of the Company semiannually. Upon receipt of payment, the District transmits the proceeds to the Company. In addition to handling collection, the District bills the Company monthly for repairs, maintenance, testing, inspection and actual costs, including materials, contractor payments, personnel and vehicle costs and overhead in accordance with the Hour Rates Schedule contained in the agreement.

Sandhill Project

The State of California Department of Health declared water wells in the Sandhill area (approximately 56) contaminated and hazardous to health for human consumption. As a Safe Drinking Water emergency project, the District annexed the area. A twelve inch water main from Laurel Road south to Bolton Road, including Ray Avenue, Malicoat Avenue, Douglas Road and Hill Avenue, was constructed to provide domestic water supply and eliminate the use of the existing nitrate impacted private wells.

NOTE 13: COMMITMENTS (CONTINUED)

The District entered into a contract between the State of California Department of Water Resources for a loan of $275,500, payable over 35 years, to finance the construction of the pipeline. An assessment on each parcel for construction costs and connection fees was assessed through the Contra Costa County property tax roll via the Sandhill Oakley Assessment District (OAD).

On June 1, 2005, the District paid the remaining loan balance of $199,772. This enabled the District to get a better Bond Rating which gave the District a lower interest rate for the financing of the Glen Park Well System. The remaining balance due from the property owners as of June 30, 2018 was $28,362.

Substandard Street Deposit Liability

Developers are required to deposit with the District the estimated cost of relocating pipelines in substandard streets. If the costs exceed the amount on deposit, the developer will be required to reimburse the District. If the costs are less than the amount on deposit, the District will refund the excess to the developer. The amount on deposit, together with accrued interest, was $216,000 as of June 30, 2018.

Brentwood Pump Station

The District entered into an agreement with the City of Brentwood (City) on September 18, 1996 for the construction of a water main on Empire Avenue connecting the City's distribution system to the District's. The purpose of the agreement was to enable the District to wheel water treated for potability at the Randall-Bold Water Treatment Plant to the City of Brentwood.

Construction costs were borne by the City and the project was completed in October of 1997. The District reads the meter on the last working day of each month and delivers a copy of the reading to the City.

Under the terms of the original agreement, the District is not obligated to transport water after November 30, 2003. Commencing the same date, the District was obligated to pay 90% of Brentwood's constructions costs up to a maximum of $585,000 in ten equal annual installments without interest. The agreement was amended on October 25, 2000. The service areas located south of Neroly Road and Delta Road (overlap areas) will be serviced by the City. The ten annual installments were reduced to six with payments starting in 2008 through 2013, and the District made the final payment in fiscal year 2013. For connections in the overlap areas, the City pays a connection fee subject to annual increases per the Construction Cost Index.

NOTE 14: CONTINGENCIES

Grant Awards

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

Litigation

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

NOTE 15: SUBSEQUENT EVENT

Subsequent events have been evaluated through December 3, 2018, which is the date the financial statements were issued.

NOTE 16: PRIOR PERIOD ADJUSTMENT

During the fiscal year ending June 30, 2018, the District performed a full review of their capital asset module and updated the capital asset data which resulted an increase in the cost basis of the capital asset of $13,186,656, a decrease in accumulated depreciation of $2,842,212 for the fiscal year ending June 30, 2017, and a increase of $16,028,868 in beginning unrestricted net assets as of July 1, 2016.

As a result of implementing GASB Statement No. 75, the District decreased its beginning net assets by $805,448.

The effect of the restatement on the change in unrestricted net assets and financial position as of and for the year ended June 30, 2017 is as follows.

	As previously reported	Restated	Change
Capital assets - not being depreciated	$ 3,307,699	$ 3,336,262	$ 28,563
Capital assets - being depreciated, net	41,174,450	57,174,752	16,000,302
Deferred amounts related to OPEB liability	-	3,844	3,844
OPEB asset	379,031	-	(379,031)
OPEB liability	-	426,417	(426,417)
Change			$ 15,227,261

REQUIRED SUPPLEMENTARY INFORMATION

DIABLO WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2018
LAST 10 YEARS*

	Measurement Period			
	2017	2016	2015	2014
Proportion of the net pension liability	0.02270 %	0.02247 %	0.02223 %	0.01886 %
Proportionate share of the net pension liability	$ 2,251,040	$ 1,944,341	$ 1,526,137	$ 1,173,398
Covered - employee payroll	$ 1,341,221	$ 1,251,800	$ 1,044,488	$ 1,014,066
Proportionate share of the net pension liability as a percentage of covered - employee payroll	167.84 %	155.32 %	146.11 %	115.71 %
Plan fiduciary net position as a percentage of the total pension liability	73.31 %	74.06 %	78.40 %	79.82 %

Notes to Schedule:

Changes in assumptions - In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

* Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

DIABLO WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS TO THE COST SHARING DEFINED BENEFIT PENSION PLAN
AS OF JUNE 30, 2018
LAST 10 YEARS*

	Fiscal Year-End			
	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	$ 267,797	$ 237,345	$ 211,486	$ 192,153
Contributions in relation to the actuarially determined contributions	(267,797)	(237,345)	(211,486)	(192,153)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered - employee payroll	$ 1,493,450	$ 1,341,221	$ 1,251,800	$ 1,044,488
Contributions as a percentage of covered - employee payroll	17.93 %	17.70 %	16.89 %	18.40 %

* Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

DIABLO WATER DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
AS OF JUNE 30, 2018
LAST 10 YEARS *

	Measurement Period 2017
Changes in the Total OPEB Liability	
Service Cost	$ 51,422
Interest	87,254
Assumption Changes	-
Benefit Payments	(44,508)
Net Changes	94,168
Total OPEB Liability (beginning of year)	1,263,481
Total OPEB Liability (end of year)	$ 1,357,649
Changes in Plan Fiduciary Net Position	
Contributions - employer	$ 3,844
Net investment income	89,368
Benefit payments	(44,508)
Administrative expenses	(451)
Net Changes	48,253
Plan Fiduciary Net Position (beginning of year)	837,064
Plan Fiduciary Net Position (end of year)	$ 885,317
Net OPEB Liability	$ 472,332
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	65.2 %
Covered employee payroll	$ 1,489,595
Net OPEB Liability as a Percentage of Covered-Employee Payroll	31.7 %

Notes to Schedule:

Changes in assumptions. There were no changes in assumption for the fiscal year ending June 30, 2018.

* Fiscal year 2018 was the first year of implementation, therefore only one year is shown.

SUPPLEMENTARY INFORMATION

DIABLO WATER DISTRICT
SCHEDULES OF CASH AND INVESTMENTS AVAILABLE FOR OPERATIONS
JUNE 30, 2018 and 2017

	2018	2017
Cash Accounts:		
General checking	$ 2,384,311	$ 2,805,864
Other checking	-	50,732
Maintenance bonds	417,500	417,500
Cash on hand	2,575	2,575
Payroll tax deposits	100	100
Total cash accounts	2,804,486	3,276,771
Investment Accounts		
Local agency investment fund	2,906,412	2,776,281
Government sponsored agency securities	386,828	890,051
Money market accounts - held with bond trustee	15,917	-
Money market accounts - investment accounts	-	3,768
Non-negotiable certificates-of-deposit	2,047,896	1,737,888
Non-negotiable certificates-of-deposit - held with bond trustee	758,611	784,692
Total investment accounts	6,115,664	6,192,680
Total cash and investments	$ 8,920,150	$ 9,469,451
Restricted net position:		
Certificates-of-participation - 2013 - reserve account	$ 496,891	$ 512,718
Certificates-of-participation - 2010 - reserve account	277,637	282,417
Loans payable - 2014 loan proceeds remaining for debt service - project complete	-	50,732
Restricted for debt service	774,528	845,867
Facilities reserve	2,902,290	3,476,503
Restricted for AB-1600 requirements - developer and connection fees	2,902,290	3,476,503
Total restricted net position	3,676,818	4,322,370
Designated funds:		
Rate stabilization fund	1,000,000	1,000,000
Customer deposits/developer-admin deposits	331,987	515,489
Maintenance bonds	417,500	417,500
Main extension reimbursement payable	114,061	86,937
Substandard street deposits	216,000	216,000
South Park well system	241,079	218,373
Willow Park Marina well system	65,779	150,182
Rock Island well system	124,688	123,367
Beacon well system	39,554	89,496
Payroll tax deposit	100	100
Knightsen well system	2,436	(10,006)
Total designated funds	2,553,184	2,807,438
Total assigned cash and investments	6,230,002	7,129,808
Cash and investments available for operations	2,690,148	2,339,643
Total cash and investments	$ 8,920,150	$ 9,469,451
Reconciliation to balance sheet		
Cash and cash equivalents	$ 2,804,486	$ 3,215,598
Investments	2,437,556	1,931,483
Restricted - cash and cash equivalents	-	61,173
Restricted - investments	3,678,108	4,261,197
Total cash and investments	$ 8,920,150	$ 9,469,451

DIABLO WATER DISTRICT
SCHEDULES OF DEBT SERVICE NET REVENUE COVERAGE
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
TOTAL REVENUES:		
Operating revenues	$ 9,257,774	$ 8,005,653
Non-operating revenues	189,909	191,187
Capital contributions - developer and connections fees	1,638,677	1,549,332
TOTAL REVENUES	11,086,360	9,746,172
TOTAL EXPENSES		
Operating Expenses	8,844,564	7,673,329
Non-operating expenses	507,712	553,073
LESS DEBT SERVICE ITEMS		
Interest expense - long-term debt	(498,348)	(543,709)
TOTAL EXPENSES	8,853,928	7,682,693
NET REVENUES AVAILABLE FOR DEBT SERVICE	$ 2,232,432	$ 2,063,479
DEBT SERVICE FOR THE FISCAL YEAR	$ 2,408,261	$ 2,429,041
DEBT SERVICE NET REVENUE COVERAGE RATIO	93 %	85 %

MUN CPAs

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

To the Board of Directors of
Diablo Water District
Oakley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Diablo Water District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Diablo Water District's basic financial statements and have issued our report thereon dated December 3, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Mann Urrutia Nelson CPAs

Sacramento, California
December 3, 2018

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