

**BODEGA BAY PUBLIC UTILITY
DISTRICT**

BODEGA BAY, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Bodega Bay Public Utility District
Bodega Bay, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the major fund of Bodega Bay Public Utility District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Bodega Bay Public Utility District's basic financial statements as listed in the table of contents. The prior year summarized information has been derived from Bodega Bay Public Utility District's June 30, 2015 financial statements and, in our report dated January 7, 2015, we expressed an unmodified opinion on those financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 our 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, we consider internal control relevant to Bodega Bay Public Utility District'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 Bodega Bay Public Utility District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major fund of Bodega Bay Public Utility District, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America, and the State Controller's Minimum Audit Requirements for California Special Districts.

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 3-6, as listed in the table of contents, 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.

R. J. Ricciardi, Inc.

R. J Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
February 6, 2017

Bodega Bay Public Utility District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

This section of Bodega Bay Public Utility District's (the District's) annual financial report presents our analysis of the District's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the financial statements which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of two components: Financial Statements and the Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

The District operates as a utility enterprise, which means that it relies mainly on water and sewer rates and charges to fund its operation. The Financial Statements of the District report information about the District using the full accrual basis of accounting. These statements offer short and long-term financial information about the District's activities.

The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District's creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues 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 the District's credit worthiness and whether the District has successfully recovered all its costs through user fees and other charges.

The final financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the year. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, financing and investments. It also provides answers to questions such as: where did cash come from, what was cash used for, and what was the change in cash balance during the year.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about an entity's finances is "As a whole, are we better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that helps answer this question. These two statements report the net position of the District and changes in net position.

The following condensed financial information provides an overview of the District's financial activities for the fiscal years ended June 30, 2016 and June 30, 2015.

NET POSITION

Net position, (the difference between assets and liabilities) is one way to measure financial health or 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, you will need to consider other factors such as desired reserve levels, changes in economic conditions, population growth, housing trends and government legislation.

Bodega Bay Public Utility District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2016

The largest portion of the District's net position reflects its investment in capital assets (e.g. land, buildings, water supply and distribution system, sewer collection system and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position represents resources that are subject to external restrictions on how they may be used. The remaining balance: unrestricted net position may be used to meet the District's ongoing obligations to citizens and creditors.

At the end of fiscal years June 30, 2016 and June 30, 2015, the District was able to report positive balances in all three categories of net position.

The following table summarizes the District's net position as of June 30:

<u>Table 1</u>		<u>2016</u>	<u>2015</u>
<u>Net Position</u>			
Assets:			
Current and other assets		\$ 3,368,994	\$ 3,474,341
Capital assets, net of accumulated depreciation		<u>9,266,708</u>	<u>8,953,357</u>
Total assets		<u>12,635,702</u>	<u>12,427,698</u>
Liabilities:			
Other liabilities		328,380	542,893
Long-term debt outstanding		<u>3,815,647</u>	<u>3,955,062</u>
Total liabilities		<u>4,144,027</u>	<u>4,497,955</u>
Net Position:			
Invested in capital assets, net of related debt		5,451,061	4,998,295
Restricted		3,185,618	3,319,587
Unrestricted		<u>(145,004)</u>	<u>(388,139)</u>
Total net position		<u>\$ 8,491,675</u>	<u>\$ 7,929,743</u>

REVENUES, EXPENSES AND CHANGES IN NET POSITION

While the Statement of Net Position shows the change in financial position from one year to the next, the Statement of Revenues, Expenses and Changes in Net Position provides information concerning the nature and source of these changes.

Revenue – Total operating revenue increased by \$62,447 in 2016 as compared to 2015. Other Non-Operating Revenue increased due to an increase in cash on deposit.

Expenses – Operating expenses decreased by \$196,272. Non-operating expenses increased by \$91,143.

Bodega Bay Public Utility District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2016

The following table summarizes the District's change in net position for the year ended June 30:

Table 2
Changes in Net Position

	2016	2015	Change
Operating revenues	\$ 2,203,436	\$ 2,140,989	\$ 62,447
Operating expenses	2,052,151	2,248,423	196,272
Net operating income (loss)	<u>\$ 151,285</u>	<u>\$ (107,434)</u>	<u>\$ 258,719</u>
Investment and other income	\$ 410,647	\$ 384,906	\$ 25,741
Interest and other expenses	-	(91,143)	91,143
Non-operating net income	<u>\$ 410,647</u>	<u>\$ 293,763</u>	<u>\$ 116,884</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Table 3
Capital Assets at Year End

	2016	2015
Land	\$ 1,047,638	\$ 1,047,638
Pumping, treatment and supply	1,730,845	1,757,471
Transmission and distribution	2,710,731	2,711,268
Sewer collection system	2,161,218	2,119,897
Sewage treatment and disposal	8,476,890	8,458,230
General plant	1,221,290	1,316,109
Construction in progress	<u>1,816,238</u>	<u>1,242,879</u>
Subtotal	19,164,850	18,653,492
Accumulated depreciation	<u>(9,898,142)</u>	<u>(9,700,135)</u>
Net capital assets	<u>\$ 9,266,708</u>	<u>\$ 8,953,357</u>

Capital Assets - At June 30, 2016, the District had \$9,266,708 (net of accumulated depreciation) invested in its water distribution and storage system, wells, sewage collection system, construction in progress, land, buildings, vehicles and equipment.

Additional information regarding the District's capital assets can be found in Note 2, Section B of the Financial Statements.

Long-Term Debt - At year end, the District had \$3,986,850 in long term obligations. More detailed information regarding the District's long term liabilities can be found in Note 2, Section C of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's Board of Directors and management considered many factors when adopting the fiscal year 2015/2016 budget. The Board assessed the available reserves, the operating and capital needs of the District, potential customer growth, and potential regulatory impacts.

Financial planning is based on specific assumptions from recent trends, State of California economic forecasts and historical growth patterns in the communities served by the District.

Bodega Bay Public Utility District
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

The economic condition of the District as it appears on the balance sheet reflects financial stability. The District will continue to maintain a watchful eye over expenditures and remains committed to sound fiscal management practices to deliver the highest quality service to the citizens of the area.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Finance Director or General Manager at Bodega Bay Public Utility District, 265 Doran Park Road, Bodega Bay, California 94923.

Bodega Bay Public Utility District
STATEMENT OF NET POSITION
For the Year Ended June 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and investments	\$ 21,270	\$ 5,087
Restricted cash and investments:		
Debt service	144,338	206,500
Customer deposits	23,600	22,300
Capital projects	<u>3,017,680</u>	<u>3,085,700</u>
Total cash and investments	<u>3,206,888</u>	<u>3,319,587</u>
Accounts receivable	<u>162,106</u>	<u>154,754</u>
Total current assets	<u>3,368,994</u>	<u>3,474,341</u>
Capital assets:		
Non-depreciable assets	2,863,876	2,290,517
Depreciable assets (net of depreciation)	<u>6,402,832</u>	<u>6,662,840</u>
Total assets	<u>12,635,702</u>	<u>12,427,698</u>
 <u>LIABILITIES AND NET POSITION</u>		
Current liabilities:		
Accounts payable	80,600	105,485
Compensated absences	48,442	94,238
Customer deposits	23,600	22,300
Accrued expenses	<u>175,738</u>	<u>320,870</u>
Total current liabilities	<u>328,380</u>	<u>542,893</u>
Long-term liabilities:		
Due within one year	144,338	206,500
Due in more than one year	<u>3,671,309</u>	<u>3,748,562</u>
Total long-term liabilities	<u>3,815,647</u>	<u>3,955,062</u>
Total liabilities	<u>4,144,027</u>	<u>4,497,955</u>
Net position:		
Invested in capital assets, net of related debt	5,451,061	4,998,295
Restricted	3,185,618	3,319,587
Unrestricted	<u>(145,004)</u>	<u>(388,139)</u>
Total net position	<u>\$ 8,491,675</u>	<u>\$ 7,929,743</u>

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

Bodega Bay Public Utility District
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
For the Year Ended June 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Water sales	\$ 823,473	\$ 815,493
Sewer Service Charges	1,258,587	1,268,629
Other operating	<u>121,376</u>	<u>56,867</u>
Total operating revenues	<u>2,203,436</u>	<u>2,140,989</u>
Operating expenses:		
Salaries and benefits	1,004,351	1,007,324
Fuel	10,519	11,635
Insurance	40,523	62,968
Office Expense	69,731	56,611
Operating Supplies	27,213	32,532
Professional Fees	103,661	180,743
Repairs and maintenance	157,651	286,031
Research and monitoring	24,737	24,359
Utilities	160,771	161,812
Other expenses	15,599	-
Depreciation	<u>437,395</u>	<u>424,408</u>
Total operating expenses	<u>2,052,151</u>	<u>2,248,423</u>
Operating income (loss)	<u>151,285</u>	<u>(107,434)</u>
Non-operating revenues (expenses):		
Interest and rent revenue	33,177	25,491
Interest expense	-	(91,143)
Taxes and assessments	<u>377,470</u>	<u>359,415</u>
Total non-operating revenues (expenses)	<u>410,647</u>	<u>293,763</u>
Changes in net position	561,932	186,329
Net position, beginning of period	<u>7,929,743</u>	<u>7,743,414</u>
Net position, end of period	<u>\$ 8,491,675</u>	<u>\$ 7,929,743</u>

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

Bodega Bay Public Utility District
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	2016	2015
Cash flows from operating activities:		
Receipts from customers	\$ 2,196,084	\$ 2,125,978
Payments to suppliers	(633,990)	(742,146)
Payments to employees	(1,195,279)	(963,128)
Net cash provided (used) by operating activities	366,815	420,704
Cash flows from non-capital financing activities:		
Taxes and assessments	377,470	359,415
Net cash provided (used) by non-capital financing activities	377,470	359,415
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(750,746)	(173,321)
Interest expense	-	(91,143)
Payment on current portion of bonds	(139,416)	1,362,919
Net cash provided (used) by capital and related financing activities	(890,162)	1,098,455
Cash flows from investing activities:		
Interest earned	33,177	25,491
Net cash provided by investing activities	33,177	25,491
Net increase (decrease) in cash and cash equivalents	(112,700)	1,904,065
Cash and cash equivalents - beginning of period	3,319,588	1,415,522
Cash and cash equivalents - end of period	\$ 3,206,888	\$ 3,319,587
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:		
Operating income (loss)	\$ 151,285	\$ (107,434)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	437,395	424,408
Changes in certain assets and liabilities:		
Accounts receivable	(7,352)	(15,011)
Accounts payable	(24,885)	74,845
Accrued expenses	(145,132)	44,196
Compensated absences	(45,796)	-
Customer deposits	1,300	(300)
Net cash provided (used) by operating activities	\$ 366,815	\$ 420,704

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

Bodega Bay Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Bodega Bay Public Utility District (the District) was incorporated in 1948 under the statutes of the State of California for the purpose of furnishing potable water within the District. In 1975, the District acquired the wastewater treatment plant and treats effluent to secondary/tertiary standards. The District is located in the western coastal portion of Sonoma County and serves the unincorporated community of Bodega Bay. The District currently has 1,053 water connections and 1,006 sewer connections, serving a population of approximately 2,625. The District currently employs 10 persons and is governed by a publicly elected five member Board of Directors.

The major activities include the production of groundwater and the delivery of water to domestic and commercial accounts. The District operates water treatment facilities and maintains over 21 miles of water mains. The other major activities include the collection, storage, treatment, and disposal of wastewater. The District operates the wastewater treatment facility, holding ponds, 8 lift stations, maintains over 15 miles of effluent lines, and provides secondary/tertiary wastewater for irrigation to the Bodega Harbor golf course and on the North Disposal Site owned by the District.

B. Financial Statements

The basic financial statements (i.e., the statement of net position, the statement of revenues, expenses and changes in fund net position and statement of cash flows) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The District accounts for its water and sewer departments in one single enterprise fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Property taxes, water service charges, water sales, wastewater fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The District is engaged primarily in business-type activities and the District's basic financial statements consist of only the financial statements required for enterprise funds. These include management's discussion and analysis, a statement of net position, a statement of revenues, expenses, and changes in fund net position, a statement of cash flows, and these notes to the basic financial statements.

Proprietary enterprise funds distinguish *operating* revenues and expenses with *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operation revenues of the District are charges to customers for sales and services. 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.

Bodega Bay Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Position

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The District's investment policy has been to invest idle cash in demand deposits, time deposits and the Local Agency Investment Fund (LAIF). Investments are reported at fair value.

LAIF is part of the Pooled Money Investment Account managed by the California State Treasurer and funds are invested in accordance with Government Code Sections 16430 and 16480. Participants in LAIF have the right to withdraw their funds with one day's notice. At June 30, 2016, the fair value of LAIF's assets was approximately equal to the District's share as reported above. Restriction of cash is required by Board resolution or District ordinance to equal required reserves.

Receivables and Property Taxes

All trade receivables are not shown net of an allowance for uncollectibles.

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Sonoma collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1, and become delinquent on December 10 and April 10. The District receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the District. The District recognizes property tax revenues in the fiscal year in which they are due to the District and accrues as receivable such taxes.

Inventories and Prepaid Items

All inventories are valued at cost based upon physical determinations made at the end of each year.

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

Restricted Cash Equivalents and Investments

Cash equivalents and investments restricted for use in only capital projects or debt service are reported as noncurrent assets. The District follows the practice of reporting in this category the funds received from the issuance of the Installment Purchase Agreements for the purpose of financing the design, construction, replacement and improvement of District facilities. Special assessments receivable are restricted for the repayment of the Loan Payable to the State of California and are therefore also reported as restricted assets.

Bodega Bay Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities, and Net Position (continued)

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (mainly the existing water distribution and wastewater collection system), are reported in the financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets and assets constructed by developers are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed, net of construction period interest revenues earned during such periods.

Property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water treatment plant	30-40
Wastewater collection system	30-40
Buildings and improvements	30-40
Vehicles, trucks and equipment	5-10

Compensated Absences, Sick Leave, Other Post-Employment Benefits, Other Than Pensions and Claims

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The liability for unpaid vacation and sick leave is recorded in the financial statements when the liability is incurred and vacation is reported as the current portion of such compensated absences. The total amount of compensated absences payable at June 30, 2016 was \$48,442.

The District's compensated absences policy permits employees to accumulate earned but unused sick benefits up to 240 hours and vacation benefits up to 320 hours.

Any excess accumulation of sick leave is converted to vacation benefits at the rate of one-half hour for every one hour of sick leave. Any excess accumulated vacation is forfeited. Upon termination, retirement, or death of an employee, the District pays any accrued vacation in a lump-sum payment to the employee or beneficiary.

The District accounts for other post-employment benefits (OPEB), using actuarial information and by accruing as a liability the difference each year between the District's annual required contribution (ARC) and actual contributions made to the Plan for retiree medical benefits.

Bodega Bay Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

D. Assets, Liabilities, and Net Position (concluded)

The District obtains insurance coverage for property and equipment, fidelity bonds, automobile liability and general liability, and workers compensation insurance through its membership in the Association of California Water Agencies Joint Powers Insurance Authority (the Authority). The risk of loss is transferred from the District to the Authority in exchange for the District's payment of annual premiums. Incurred and unbilled claims, if any, are accrued as a liability when it is probable that an asset has been impaired, the amount of the obligation can be reasonably estimated, and the claim is not covered by insurance.

Long-term Obligations

In enterprise fund-type financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Discounts associated with the issuance of long-term debt obligations are reported as a reduction of the carrying value of the related debt obligation, and are amortized to interest expense over the life of the debt instrument. Costs associated with the issuance of the debt are capitalized as other non-current assets and are amortized to expense over the life of the debt obligation.

Net Position

In the financial statements, fund net position is reported in three categories as follows:

- Invested in capital assets, net of related debt - This category of net position reports the net book value of capital assets used in District operations including construction in progress all net of related accumulated depreciation, and reduced by the carrying value of related long-term debt issued to finance the acquisition of such assets.
- Restricted for debt service and capital projects - This category of net position reports all unspent proceeds from the issuance of long-term debt restricted for capital asset improvement, replacement, or construction net of the related long-term debt. It also includes funds restricted for debt service payment and reserve requirements.
- Unrestricted - Unrestricted net position represent all other assets net of related liabilities available for use by the District.

Bodega Bay Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 2 - DETAILED NOTES

A. Cash Equivalents and Investments

Cash equivalents and investments consisted of the following at June 30:

	2016	2015
Cash:		
Demand accounts at Bank of America	\$ 21,270	\$ 5,087
Total cash	\$ 21,270	\$ 5,087
	2016	2015
Restricted cash:		
State Treasurers pool (LAIF)	\$ 3,185,618	\$ 3,314,500
Total restricted cash	\$ 3,185,618	\$ 3,314,500

At June 30, 2016, the District maintained the majority of its cash in the Bank of America and the State of California LAIF pooled investment funds. Balances in Bank of America are insured by the Federal Deposit Insurance Corporation up to \$250,000, are collateralized by securities at 110% of the balance, and consist of checking and savings accounts.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law this collateral is held in the District's name and places the District ahead of general creditors of the institution. The District has waived collateral requirements for the portion of deposits covered by federal depository insurance.

The LAIF funds invest deposits of the District, counties, various schools and other special districts primarily in cash equivalents, as prescribed by the California Government Code. Balances are stated at cost, which is approximately market value. Each participating agency is allocated realized investment gains, losses, and interest based on average daily balances invested. Copies of financial statements for LAIF may be obtained from the California State Treasurer at <http://www.treasurer.ca.gov/pmia-laif/reports.asp>.

Bodega Bay Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 2 - DETAILED NOTES (continued)

B. Capital Assets

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

<u>Governmental Activities</u>	<u>Balance</u> <u>6/30/15</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>6/30/16</u>
Capital assets, not being depreciated:				
Land	\$ 1,047,638	\$ -	\$ -	\$ 1,047,638
Construction in progress	<u>1,242,879</u>	<u>667,467</u>	<u>94,108</u>	<u>1,816,238</u>
Total capital assets, not being depreciated	<u>2,290,517</u>	<u>667,467</u>	<u>94,108</u>	<u>2,863,876</u>
Capital assets, being depreciated:				
Pumping, treatment and supply	1,757,471	-	26,626	1,730,845
Transmission and distribution	2,711,268	6,690	7,227	2,710,731
Sewer collection system	2,119,897	52,736	11,415	2,161,218
Sewage treatment and disposal	8,458,230	114,862	96,202	8,476,890
General plant	<u>1,316,109</u>	<u>37,120</u>	<u>131,939</u>	<u>1,221,290</u>
Total capital assets, being depreciated	<u>16,362,975</u>	<u>211,408</u>	<u>273,409</u>	<u>16,300,974</u>
Total accumulated depreciation	<u>(9,700,135)</u>	<u>(437,395)</u>	<u>239,388</u>	<u>(9,898,142)</u>
Total capital assets being depreciated – net	<u>6,662,840</u>	<u>(225,987)</u>	<u>34,021</u>	<u>6,402,832</u>
Capital assets – net	<u>\$ 8,953,357</u>	<u>\$ 441,480</u>	<u>\$ 128,129</u>	<u>\$ 9,266,708</u>

C. Long-Term Debt

Long-term debt activity for the year ended June 30, 2016 was as follows:

<u>Business-Type Activity</u>	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balance</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
State Water Resource Control Bd	\$ -	\$ -	\$ -	\$ -	\$ -
Municipal Finance Corporation	-	-	-	-	-
Municipal Finance Corporation	2,432,435	-	85,743	2,346,692	88,770
Municipal Finance Corporation	1,522,627	-	53,672	1,468,955	55,567
Other Postemployment benefits	<u>259,412</u>	<u>-</u>	<u>124,209</u>	<u>135,203</u>	<u>-</u>
Total	<u>\$ 4,214,474</u>	<u>\$ -</u>	<u>\$ 263,624</u>	<u>\$ 3,950,850</u>	<u>\$ 144,337</u>

Bodega Bay Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 2 - DETAILED NOTES (continued)

C. Long-Term Debt (continued)

Municipal Finance Corporation: Note payable to Municipal Finance Corporation, due April 2035, with interest at 3.5 percent and semi-annual principal and interest payments.

<u>Year End June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 88,770	\$ 81,364	\$ 170,135
2018	91,905	78,230	170,135
2019	95,149	74,985	170,135
2020	98,509	71,626	170,135
2021	101,987	68,148	170,135
2022	105,588	64,547	170,135
2023	109,315	60,819	170,135
2024	113,175	56,960	170,135
2025	117,171	52,964	170,135
2026	121,308	48,827	170,135
2027	125,591	44,544	170,135
2028	130,025	40,110	170,135
2029	134,615	35,519	170,135
2030	139,368	30,767	170,135
2031	144,289	25,846	170,135
2032	149,383	20,752	170,135
2033	154,657	15,478	170,135
2034	160,118	10,017	170,135
2035	<u>165,771</u>	<u>4,364</u>	<u>170,135</u>
Total	<u>\$ 2,346,692</u>	<u>\$ 885,867</u>	<u>\$ 3,232,559</u>

Bodega Bay Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 2 - DETAILED NOTES (concluded)

C. Long-Term Debt (concluded)

Municipal Finance Corporation: Note payable to Municipal Finance Corporation, due April 2035, with interest at 3.5 percent and semi-annual principal and interest payments.

Year End June 30	Principal	Interest	Total
2017	\$ 55,567	\$ 50,931	\$ 106,499
2018	57,529	48,970	106,499
2019	59,561	46,938	106,499
2020	61,663	44,836	106,499
2021	63,840	42,658	106,499
2022	66,094	40,404	106,499
2023	68,428	38,071	106,499
2024	70,844	35,655	106,499
2025	73,345	33,154	106,499
2026	75,935	30,564	106,499
2027	78,616	27,883	106,499
2028	81,391	25,108	106,499
2029	84,265	22,234	106,499
2030	87,240	19,259	106,499
2031	90,320	16,179	106,499
2032	93,509	12,990	106,499
2033	96,810	9,688	106,499
2034	100,228	6,270	106,499
2035	<u>103,767</u>	<u>2,732</u>	<u>106,499</u>
Total	<u>\$ 1,468,954</u>	<u>\$ 554,525</u>	<u>\$ 2,023,479</u>

NOTE 3 - OTHER INFORMATION

A. Risk Management

The District obtains general liability, property, automobile, and workers compensation insurance through its membership in the Association of California Water Agencies Joint Powers Insurance Authority (the Authority). The Authority is responsible for the first \$2 million per claim under its liability coverage program, and members are covered up to \$50 million for liability claims under the Authority's purchased excess insurance policies with a \$60 million aggregate limit on \$20 million excess layer, and \$30 million aggregate on each of the next \$5 million excess layers. Members are covered for \$100 million in regard to property and equipment through the Authority's purchased excess coverage. Workers compensation coverage is provided to the District equal to statutory limits. The Authority also provides automobile liability coverage and errors and omissions coverage up to \$50 million, and employee fidelity coverage up to \$100,000. There were no significant changes in coverage in fiscal year 2016 as regards the aggregate limits on excess coverage.

Bodega Bay Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 3 - OTHER INFORMATION (continued)

A. Risk Management (concluded)

The District paid no material uninsured losses during the last three fiscal years.

Liabilities of the District are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. There were no material uninsured claim liabilities at June 30, 2016.

B. Contingencies and Commitments

Litigation: In the opinion of the District's general counsel, there is no pending or threatened litigation which would have a material adverse impact on the accompanying financial statements.

C. Retirement System

The District sponsors a 401(k) Plan. The District's contributions under this Plan are at the Board's discretion and are based upon total compensation of each participant. Eligibility requires the employee to have performed services for the District for twelve months immediately preceding the plan year for which the contribution is made. Elective contributions are permitted by the Plan. District contributions to the Plan totaled \$30,709 in 2016.

D. Other Post-Employment Benefits (OPEB)

Plan Description: The District administers its retired employees' healthcare plan, a single employer defined benefit health care plan. The Plan provides medical benefits to eligible retired employees and their beneficiaries. District resolutions and agreements assign the authority to establish and amend benefit provisions to the District. A separate OPEB trust fund has been established by the District.

Funding Policy: The Plan members' and the District's contribution requirements are established and may be amended by the District. The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the Board of Directors. For the fiscal year ending June 30, 2016, there were 5 retirees receiving health care benefits.

Annual OPEB Costs and the Net OPEB Obligation: The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement Number 45. The ARC represents a level of funding, which if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded liabilities over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amounts actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan.

Bodega Bay Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2016

NOTE 3 - OTHER INFORMATION (continued)

D. Other Post-Employment Benefits (continued)

	2016
Annual required contribution	\$ 109,847
Interest on OPEB obligation	14,771
Adjustment to annual required contribution	(14,587)
Annual OPEB Cost (expense)	110,031
Contributions made	(234,240)
Increase (decrease) in net OPEB obligation	(124,209)
Net OPEB obligation - beginning of year	295,412
Net OPEB obligation - end of year	\$ 171,203

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2016 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
June 30, 2012	\$ 42,600	0%	\$218,500
June 30, 2013	\$ 32,700	0%	\$251,200
June 30, 2014	\$ 32,700	0%	\$251,200
June 30, 2015	\$105,121	58%	\$295,412
June 30, 2016	\$110,031	213%	\$171,203

Funding Status and Funding Progress: As of July 1, 2014, the most recent actuarial valuation date, the plan was zero funded. The actuarial accrued liability for benefits was \$1,619,863, and the actuarial value of plan assets was zero resulting in an unfunded actuarial accrued liability (UAAL) of \$1,619,863. The covered payroll (annual payroll of active employees covered by the plan) was \$672,313 and the ratio of the UAAL to the covered payroll was 241 percent.

Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality and health care trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplemental information, following the notes to these financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to actuarial liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the District and plan members at that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. In the September 3, 2013 actuarial valuation, the entry age actuarial cost method was used.

Bodega Bay Public Utility District
NOTES TO BASIC FINANCIAL STATEMENTS
 For the Year Ended June 30, 2016

NOTE 3 - OTHER INFORMATION (concluded)

D. Other Post-Employment Benefits (concluded)

The actuarial assumptions included (a) 5.0% long-term rate of return (b) an annual healthcare cost trend rate of 4.0% a year for the next ten years (c) general inflation rate of 3.0%, which leads to a healthcare level off at 1.5% over general inflation. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at June 30, 2016 was twenty-eight years.

The Schedule of Funding Progress table below presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Valuation Date	Accrued Liabilities (AL)	Actuarial Value of Assets (AVA)	Unfunded Liabilities (UL)	Funded Ratio (AVA/AL)	Annual Covered Payroll	UL as a % of Payroll
6/30/11	\$677,700	\$ -	\$677,700	0.00%	\$561,272	83%
6/30/12	\$677,700	\$ -	\$677,700	0.00%	\$657,875	97%
6/30/13	\$1,290,900	\$ -	\$1,290,900	0.00%	\$641,040	50%
7/01/14	\$1,619,863	\$ -	\$1,619,863	0.00%	\$693,506	43%

NOTE 4 - SUBSEQUENT EVENTS

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.