

# AGENDA

## MEETING OF THE R.E. BADGER WATER FACILITIES FINANCING AUTHORITY

Thursday, December 14, 2017

8:30 a.m.

Held at the Santa Fe Irrigation District  
5920 Linea del Cielo, Rancho Santa Fe, CA 92067

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### CALL MEETING TO ORDER

### PLEDGE OF ALLEGIANCE

### ITEMS TO BE ADDED TO AGENDA

### ORAL COMMUNICATIONS

*Opportunity for members of the public to address the Authority (Government Code Section 54954.3) Individuals may address the Authority regarding items not appearing on the posted agenda, which are within the subject matter jurisdiction of the Board, at any time. Comments and inquiries pertaining to items listed on the agenda will be received during the deliberation of the agenda item. Speakers are asked to state their name, address, and topic, and to observe a time limit of three (3) minutes each. Members of the public desiring to address the Authority are asked to complete a speaker's card, available at the table near the entrance and present it to the Board Secretary prior to the start of the meeting.*

### ACTION AND DISCUSSION ITEMS

1. Approval of February 17, 2017, Minutes (pages 2-4)
2. Adoption of Resolution No. FA 17-02, Electing Officers of the R. E. Badger Water Facilities Financing Authority Board of Directors (pages 5-6)
3. Presentation of FY 2016-2017 Financial Statements for the R.E. Badger Water Facilities Financing Authority (page 7 with Enclosure)

### REPORTS

4. Executive Director's Report (verbal)
5. Board of Directors' Comments (verbal)

### ADJOURN

The next meeting of the R.E. Badger Water Facilities Financing Authority is scheduled for Thursday, December 13, 2018, at 8:30 a.m.

*Assistance for the disabled: If you are disabled in any way and need accommodation to participate in the Board meeting, please call the Board Secretary at (858) 756-2424 for assistance at least three (3) working days prior to the meeting so the necessary arrangements can be made.*

**MINUTES**

**MEETING OF THE  
R.E. BADGER WATER FACILITIES  
FINANCING AUTHORITY**

February 17, 2017  
Held at the Santa Fe Irrigation District  
5920 Linea del Cielo, Rancho Santa Fe

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**PRESENT:** San Dieguito Water District Director Tasha Boemer Horvath, San Dieguito Water District Director Joe Mosca, Santa Fe Irrigation District Director Marlene King, Santa Fe Irrigation District Director David Petree, and Water Facilities Financing Authority Executive Director Michael Bardin were present.

**ALSO PRESENT:** SFID Administrative Services Manager Jeanne Deaver, SFID Executive Assistant Kim Johnson, San Dieguito Water District General Manager Bill O'Donnell, San Dieguito Water District Administrative Services Manager Jeff Umbrasas, Steve Martin, Best, Best & Krieger, and David Forman of White Nelson Diehl Evans, LLP were present.

**CALL MEETING TO ORDER**

Vice Chairperson King called the meeting to order at 8:32 a.m.

**PLEDGE OF ALLEGIANCE**

Vice Chairperson King led the pledge of allegiance.

**ITEMS TO BE ADDED TO AGENDA**

None.

**ORAL COMMUNICATIONS**

None.

**ACTION ITEMS**

Prior to consideration of the Action Items, Executive Director Bardin provided an overview of the Authority and the purpose of the annual meeting.

**1. APPROVAL OF FEBRUARY 11, 2016 MINUTES**

Upon a motion by Director Mosca and second by Vice Chairperson King, the Authority voted 4-0 to approve the minutes as presented.

2. ADOPTION OF RESOLUTION NO. FA 17-01, ELECTING OFFICERS OF THE R. E. BADGER WATER FACILITIES FINANCING AUTHORITY BOARD OF DIRECTORS

Upon a motion by Vice Chairperson King and second by Director Horvath, the Authority voted 4-0 to adopt Resolution No. 17-01:

**RESOLUTION FA 17- 01**

**RESOLUTION OF THE R.E. BADGER WATER FACILITIES  
FINANCING AUTHORITY ELECTING OFFICERS**

Chair: Marlene King  
Vice Chair: Tasha Boerner Horvath  
Secretary/Treasurer: Joe Mosca  
Executive Director: Michael J. Bardin

Vote was taken by Roll Call:

**AYES:** Horvath, King, Mosca, and Petree  
**NOES:** None  
**ABSTAIN:** None  
**ABSENT:** None

3. PRESENTATION OF FY 2015-2016 FINANCIAL STATEMENTS FOR THE R.E. BADGER WATER FACILITIES FINANCING AUTHORITY

SFID Administrative Services Manager Deaver introduced the item and Mr. David Forman of White Nelson Diehl Evans, LLP, who utilized a PowerPoint presentation to review the financial statement.

After discussion, a motion was made by Director Petree and second by Director Mosca, the Authority voted 4-0 to accept the FY 2015-2016 Financial Statement for the R.E. Badger Water Facilities Financing Authority.

**REPORTS**

4. EXECUTIVE DIRECTOR'S REPORT

No report

5. BOARD OF DIRECTORS' COMMENTS

No comments.

**ADJOURN**

Chairperson King adjourned the meeting at 9:05 a.m.

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Chairperson Marlene King

The next meeting of the R.E. Badger Water Facilities Financing Authority is scheduled for Thursday, December 7, 2017, at 8:30 a.m.

**DATE:** December 14, 2017  
**TO:** Board of Directors of the R.E. Badger Water Facilities Financing Authority  
**FROM:** Executive Director Michael Bardin  
**SUBJECT: Adoption of Resolution No. FA 17-02, Electing Officers of the R.E. Badger Water Facilities Financing Authority Board of Directors**

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**RECOMMENDATION:**

It is the Staff recommendation that the Board of Directors of the R. E. Badger Water Facilities Financing Authority:

1. Consider the election of the officers of the Board of Directors of the R.E. Badger Water Facilities Financing Authority for the period January 1, 2018, through December 31, 2018; and
2. Adopt Resolution No. FA 17-02 electing the officers of the Board of Directors of the R.E. Badger Water Facilities Financing Authority for the Period January 1, 2018 through December 31, 2018; and
3. Discuss and take other action as appropriate.

**DISCUSSION:**

Pursuant to Article III, Section 2 of the R.E. Badger Water Facilities Financing Authority (Authority) By-Laws, the Chair, Vice Chair and Secretary shall be chosen at every annual meeting of the Board of Directors. In addition, the Board may appoint or authorize the appointment of other officers as the business of the Authority may require. In the past, the Board has chosen to combine the office of Secretary with that of Treasurer.

The 2017 Board of Directors officers were as follows:

Chair:	Marlene King
Vice Chair:	Tasha Boerner Horvath
Secretary/Treasurer:	Joe Mosca
Executive Director:	Michael J. Bardin

It is necessary and appropriate for the Board of Directors to discuss and consider the election of its officers and appointment of a Secretary/Treasurer and Executive Director.

Attachment A: Resolution FA 17-02

Prepared by: Kim Johnson, Executive Assistant, SFID  
Approved by: Michael J. Bardin, Executive Director

ATTACHMENT "A"

**RESOLUTION FA 17-02**

**RESOLUTION OF THE R.E. BADGER WATER FACILITIES  
FINANCING AUTHORITY ELECTING OFFICERS**

**RESOLVED**, by the Board of Directors of the R.E. Badger Water Facilities Financing Authority that the following persons be elected to the offices set opposite their names below, as officers of the Authority to serve until the election and qualification of their successors:

Chair:

Vice Chair:

Secretary/Treasurer:

Executive Director:

**PASSED, APPROVED AND ADOPTED** at a regular meeting of the R.E. Badger Water Facilities Financing Authority, held on the 14<sup>th</sup> day of December 2017, by the following vote.

**AYES:**

**NOES:**

**ABSTAIN:**

**ABSENT:**

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Chair of the R.E. Badger  
Water Facilities Financing Authority

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Secretary/Treasurer of the R.E. Badger  
Water Facilities Financing Authority

**DATE:** December 14, 2017  
**TO:** Board of Directors of the R.E. Badger Water Facilities Financing Authority  
**FROM:** Executive Director Michael J. Bardin  
**SUBJECT: Presentation of FY 2016-2017 Financial Statements for the R.E. Badger Water Facilities Financing Authority**

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**RECOMMENDATION:**

It is the Staff recommendation that the Board of Directors of the R. E. Badger Water Facilities Financing Authority:

1. Accept the FY 2016-17 Financial Statements of the R. E. Badger Water Facilities Financing Authority (Financing Authority); and
2. Discuss and take other action as appropriate.

**DISCUSSION:**

White Nelson Diehl Evans LLP, the R. E. Badger Water Facilities Financing Authority's (Financing Authority) Certified Public Accountants, have completed their independent audit of the Financing Authority's financial statements for the fiscal year ended June 30, 2017. White Nelson Diehl Evans LLP provided the Financing Authority with an unqualified opinion on the financial statements and further stated that there are no material weaknesses or reportable conditions.

The financial statements for the Financing Authority are enclosed for your review. The financial statements include the Independent Auditor's Report, Management's Discussion and Analysis of the financial statements, the annual financial statements and footnotes, and a schedule of changes in net assets.

David Forman, Partner of White Nelson Diehl Evans LLP, will attend the meeting to provide a brief overview of the audit and answer questions as necessary.

**FISCAL IMPACT:**

None.

Prepared by: Jeanne Deaver, Administrative Services Manager, SFID  
Approved by: Michael J. Bardin, Executive Director

Enclosure: FY17 R. E. Badger Water Facilities Financing Authority Financial Statements

ENCLOSURE

**R. E. BADGER WATER FACILITIES  
FINANCING AUTHORITY  
FINANCIAL STATEMENTS**

**WITH REPORT ON AUDIT  
BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
JUNE 30, 2017 AND 2016**



**JUNE 30, 2017 and 2016**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
R.E. Badger Water Facilities Financing Authority  
Rancho Santa Fe, California

We have audited the accompanying financial statements of R.E. Badger Water Facilities Financing Authority as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority'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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Authority'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 Authority'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 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 financial position of the R.E. Badger Water Facilities Financing Authority as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **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 - 5 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 Authority's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Changes in Net Position by District is the responsibility of management and was derived from and relates 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 Changes in Net Position by District is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Carlsbad, California  
November XX, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the R. E. Badger Water Facilities Financing Authority's (Authority) annual financial report presents our analysis of the Authority's financial performance during the fiscal year ending June 30, 2017. Please read it in conjunction with the financial statements following this section.

### *Overview of the Financial Statements*

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These statements report information about the Authority using accounting methods to report assets held in a fiduciary capacity. The statements present information about both short and long-term activities. The Statements of Net Position present the Authority's financial position at fiscal year end in terms of investment in resources (assets) and obligations to creditors (liabilities) as well as the excess of such resources over the obligations (net position). It also forms the basis for evaluating the Authority's liquidity or financial flexibility and its capital structure. The Statements of Revenues, Expenses and Changes in Net Position account for the Authority's activities during the year and provide the basis for measuring its relative success in recovering its operational costs. The purpose of the Statements of Cash Flows is to report the Authority's cash receipts and disbursements during the period, separated into operating, financing, and investing categories.

### *Condensed Financial Information*

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#### *Net Position*

The Authority accounts for assets held in a custodial capacity for its members, the Santa Fe Irrigation District (SFID) and the San Dieguito Water District (SDWD). All of the assets and liabilities of the Authority shown in Table 1 relate to the 2007 Water Revenue Refunding Bonds, which consist of securities with maturities through the year 2024. Each of the districts has pledged net revenues for payment of the bond obligations under the installment purchase agreements. On June 30, 2017, sufficient assets existed to repay the debt.

In November of 2007, the 2007 Water Revenue Refunding Bonds were issued and the proceeds were used to defease the remainder of the 1999 Water Revenue Bonds. As a result, the Authority lowered its aggregate debt service payments by \$2.23 million, and obtained an economic gain of \$1.45 million. These savings were passed through to the districts. During fiscal 2017, \$1.62 million of the 2007 Water Revenue Refunding Bonds were retired, which is included in the change in total liabilities.

Table 1 is a summary of the Authority's net position.

**Table 1**

<b>Condensed Statements of Net Position</b>			
	Fiscal Year Ended June 30		
	2017	2016	2015
Current assets	\$ 1,757,924	\$ 1,714,073	\$ 1,664,573
Noncurrent assets	8,264,901	9,914,934	11,505,369
Total assets	<u>10,022,825</u>	<u>11,629,007</u>	<u>13,169,942</u>
Deferred Outflows of Resources	<u>132,216</u>	<u>149,779</u>	<u>167,343</u>
Current liabilities	1,757,924	1,714,073	1,664,573
Noncurrent liabilities	8,397,117	10,064,713	11,672,712
Total liabilities	<u>10,155,041</u>	<u>11,778,786</u>	<u>13,337,285</u>
Net Position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

***Changes in Net Position***

There is no change in net position for the Authority because it serves as an accounting vehicle to represent what is due from and due to the districts for the current and noncurrent portions of the 2007 Water Revenue Refunding Bonds, including the reserve accounts. Interest received on the reserve accounts is used to repay the debt.

SFID's reserves are invested in a Certificate of Deposit Account Registry Service (CDARS) with maturities in March 2018 and a yield of 1.0%; prior year reserves were invested in a CDARS account with a return of 0.360%. SDWD's reserves are invested in Federated Investors Prime Cash Obligations Fund which was rated AAA and had a market yield of 0.000% on June 30, 2017; prior year reserves were also invested in this fund and had a market yield of 0.000%.

Expenses decreased by \$93,731 or 21.2% from the prior year, as shown in Table 2. This was due to a reduction in interest payments.

**Table 2**

	Fiscal Year Ended June 30		
	2017	2016	2015
Total revenues	\$ 377,626	\$ 441,575	\$ 502,975
Total expenses	(377,626)	(441,575)	(502,975)
Nonoperating income	-	-	-
Changes in net position	-	-	-
Beginning net position	-	-	-
Ending net position	\$ -	\$ -	\$ -

***Contacting the Authority's Financial Management***

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If you have questions about this report or need additional information, please contact the Santa Fe Irrigation District's Administrative Department at PO Box 409, Rancho Santa Fe, California 92067.

**R.E. BADGER WATER FACILITIES FINANCING AUTHORITY****STATEMENTS OF NET POSITION**

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current Assets:		
Due from Districts:		
Santa Fe Irrigation District	\$ 1,220,000	\$ 1,175,000
San Dieguito Water District	455,000	440,000
Accrued interest receivable:		
Santa Fe Irrigation District	37,338	49,037
San Dieguito Water District	45,586	50,036
Total Current Assets	<u>1,757,924</u>	<u>1,714,073</u>
NonCurrent Assets:		
Restricted cash and cash equivalents	640,726	640,309
Restricted investments	1,379,001	1,376,996
Due from Districts, net of current portion:		
Santa Fe Irrigation District	2,476,471	3,680,726
San Dieguito Water District	3,741,571	4,186,153
Bond prepaid insurance costs	27,132	30,750
Total Noncurrent Assets	<u>8,264,901</u>	<u>9,914,934</u>
Total Assets	<u>10,022,825</u>	<u>11,629,007</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amount on refunding	<u>132,216</u>	<u>149,779</u>
Total Deferred Outflows of Resources	<u>132,216</u>	<u>149,779</u>

(Continued)

**R.E. BADGER WATER FACILITIES FINANCING AUTHORITY**

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STATEMENTS OF NET POSITION (Continued)  
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accrued interest payable	\$ 82,924	\$ 99,073
Current portion of revenue bonds payable	1,675,000	1,615,000
Total Current Liabilities	<u>1,757,924</u>	<u>1,714,073</u>
Noncurrent Liabilities:		
Due to Districts	2,046,859	2,048,055
Revenue bonds, net of current portion	6,350,258	8,016,658
Total Noncurrent Liabilities	<u>8,397,117</u>	<u>10,064,713</u>
Total Liabilities	<u>10,155,041</u>	<u>11,778,786</u>
<b>NET POSITION</b>	-	-
Total Net Position	<u>\$ -</u>	<u>\$ -</u>



**R.E. BADGER WATER FACILITIES FINANCING AUTHORITY**

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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	\$ 377,626	\$ 441,575
Amortization expense	(29,782)	(29,782)
Interest expense	(347,844)	(411,793)
Total nonoperating revenues (expenses)	<u>-</u>	<u>-</u>
Change in net position	-	-
TOTAL NET POSITION AT BEGINNING OF YEAR	<u>-</u>	<u>-</u>
TOTAL NET POSITION AT END OF YEAR	<u>\$ -</u>	<u>\$ -</u>

**R.E. BADGER WATER FACILITIES FINANCING AUTHORITY**

STATEMENTS OF CASH FLOWS  
For the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>(As Restated) 2016</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Interest paid	\$ (363,993)	\$ (458,294)
Payment on revenue bonds	(1,615,000)	(1,550,000)
Net Cash and Cash Equivalents Provided (Used) by Capital and Related Financing Activities	<u>(1,978,993)</u>	<u>(2,008,294)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received on investments	364,410	458,894
Due to/from District, net	1,615,000	1,550,000
Net Cash and Cash Equivalents Provided (Used) by Investing Activities	<u>1,979,410</u>	<u>2,008,894</u>
Net Increase (Decrease) in Cash and Cash Equivalents	417	600
Cash and Cash Equivalents, Beginning of Year	<u>640,309</u>	<u>639,709</u>
Cash and Cash Equivalents, End of Year	<u>\$ 640,726</u>	<u>\$ 640,309</u>
<b>Reconciliation of operating income to net cash flows provided (used) by operating activities:</b>		
Operating Income		
Net Cash and Cash Equivalents Provided (Used) by Operating Activities	<u>\$ -</u>	<u>\$ -</u>
<b>Supplemental Schedule of Noncash Investing and Financing Activities:</b>		
Noncash Capital and Related Financing Activities:		
Amortization of bond discount, bond prepaid insurance costs, and deferred amount on refunding	<u>\$ 29,782</u>	<u>\$ 29,782</u>

JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Under a joint exercise of powers agreement dated September 22, 1999, Santa Fe Irrigation District (SFID) and San Dieguito Water District (SDWD) created the R. E. Badger Water Facilities Financing Authority (the "Authority"). The Authority was formed to provide financing in connection with the acquisition, construction and improvement of public capital improvements. For the purpose of providing the working capital required for the improvements, the Authority is authorized by Installment Purchase Agreements to issue water revenue bonds.

In November 1999, the Authority issued the 1999 Water Revenue Bonds. SFID was responsible for 65.53% of the net costs of the 1999 Water Revenue Bonds and SDWD was responsible for 34.47%.

In December 2007, the Authority issued the 2007 Water Revenue Refunding Bonds to refund the 1999 Water Revenue Bonds. SFID is responsible for 60.18% of the net cost of the 2007 Water Revenue Refunding Bonds and SDWD is responsible for 39.82%.

Costs of public capital improvements are shared based on each District's ownership interest in the improvements. These ownership interests vary by project ranging from: SFID 61.00% and SDWD 39.00% to SFID 55.00% and SDWD 45.00%.

The criteria used in determining the scope of the reporting entity are based on the provisions of GASB Cod. Sec. 2100, "Defining the Financial Reporting Entity". The Authority is the primary government unit. Component units are those entities which are financially accountable to the primary government, either because the Authority appoints a voting majority of the component unit's board, or because the component unit will provide a financial benefit or impose a financial burden on the Authority. The Authority has no component units.

The accounts and records of the Authority are maintained by SFID.

B. Basis of Accounting

A summary of the Authority's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Method of Accounting

The Authority prepares its financial statements using the economic resources measurement focus and the accrual basis of accounting, under which revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The Authority has not elected to apply the option allowed in GASB Cod. Sec. P80.103, "Proprietary Fund Accounting and Financial Reporting", and as a consequence will continue to apply GASB statements and interpretations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Estimates

The preparation of 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 reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Investments

Investments are stated at fair value which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

E. Allowance for Doubtful Accounts

Management believes that all amounts due from Districts are fully collectible; therefore, no allowance for doubtful accounts was recorded as of June 30, 2017 and 2016.

F. Amortization

Bond prepaid insurance costs, bond discounts and the deferred amount of refunding are being amortized on the straight- line method over periods not to exceed the debt maturities. Bond prepaid insurance costs totaled \$27,132 and \$30,750, net of accumulated amortization at June 30, 2017 and 2016, respectively. Amortization of bond prepaid insurance costs totaled \$3,618 for the years ended June 30, 2017 and 2016, respectively.

Bond discounts totaled \$64,741 and \$73,342, net of accumulated amortization at June 30, 2017 and 2016, respectively. Amortization of bond discounts totaled \$8,600 for the years ended June 30, 2017 and 2016, respectively.

The deferred amount on refunding totaled \$132,216 and \$149,779, net of accumulated amortization at June 30, 2017 and 2016, respectively. Amortization of the deferred amount on refunding totaled \$17,564 for the years ended June 30, 2017 and 2016, respectively.

G. Classification of Liabilities

Certain liabilities which are currently payable have been classified as noncurrent because they will be funded from restricted assets.

H. Economic Dependence

The Authority receives approximately 99% of its interest income from its two member agencies. Interruption of this source would negatively impact the Authority.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

I. Cash and Cash Equivalents

For purposes of the statements of cash flows the Authority considers all investment instruments purchased with a maturity of three months or less to be cash equivalents.

J. Subsequent Events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through **November XX, 2017**, the date the financial statements were available to be issued.

2. CASH AND INVESTMENTS:

Cash and cash investments held by the Authority were comprised of the following at June 30:

	<u>1 Year or Less</u>	<u>2017 Total</u>	<u>2016 Total</u>
Certificates of deposit	\$ 1,379,001	\$ 1,379,001	\$ 1,376,996
Open ended money market mutual funds	<u>640,726</u>	<u>640,726</u>	<u>640,309</u>
Total Cash and Investments	<u>\$ 2,019,727</u>	<u>\$ 2,019,727</u>	<u>\$ 2,017,305</u>
Financial Statement Classification:			
Restricted cash and cash equivalents	\$ 640,726	\$ 640,726	\$ 640,309
Restricted investments	<u>1,379,001</u>	<u>1,379,001</u>	<u>1,376,996</u>
Total Cash and Investments	<u>\$ 2,019,727</u>	<u>\$ 2,019,727</u>	<u>\$ 2,017,305</u>

The statements of cash flows have been prepared by considering the following to be cash and cash equivalents.

	<u>2017</u>	<u>2016</u>
Open ended money market mutual funds	<u>\$ 640,726</u>	<u>\$ 640,309</u>

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
Federal Agencies	5 years	None	GNMA (only)
Federal Instrumentalities	5 years	None	FHLB, FNMA, FFCB FHLMC (only)
State and Local Agencies			
District's own Bonds	5 years	10%	None
State Instruments	5 years	10%	None
Other Local Agency (within CA only)	5 years	10%	None
Repurchase Agreements	1 year	20%	None
Prime Commercial Paper	270 Days	25%	10%
Bankers' Acceptances	180 Days	15%	30%
Medium-Term Notes	5 years	20%	None
Local Agency Investment Fund (LAIF)	N/A	\$65 Million	N/A
San Diego County Treasurer's Pooled Money Fund	N/A	20% or \$5 Million	N/A
California Asset Management Program	N/A	20% or \$5 Million	N/A
Money Market Funds	5 years	20%	10%

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by timing cash flows from SFID and SDWD so that a portion of the amounts due is maturing over time as necessary to provide the cash flows and liquidity needed.

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk (continued)

Information about the sensitivity of the fair values of the Authority's investments held by the bond trustee to market interest rate fluctuations is provided in a previous table that shows the distribution of the Authority's investments by maturity as of June 30, 2017 and 2016.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of the year end for each investment type.

<u>Investment</u>	Ratings as of Year End <u>Standard &amp; Poor's</u>
Held by Bond Trustee:	
Open Ended Money Market Mutal Funds	AAA

Disclosures Relating to Concentration of Credit Risk

Concentration of credit is the risk of loss attributed to the magnitude of the Authority's investment in a single issue. The Authority has no investments subject to concentration of credit risk at June 30, 2017 or 2016.

Disclosures Relating to Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counter-party (e.g., broker-dealer) the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulatory under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2017, none of the Authority's deposits with financial institutions were in excess of federal depository insurance limits. As of June 30, 2017, no Authority investments were held by the same broker- dealer (counterparty) that was used by the Authority to buy the securities.

3. RESTRICTED ASSETS:

Restricted assets were provided by, and are to be used for, the following at June 30:

<u>Funding Source</u>	<u>Use</u>	<u>2017</u>	<u>2016</u>
Revenue bond proceeds and interest earned	Reserve Fund	\$2,019,727	\$2,017,305
		<u>\$2,019,727</u>	<u>\$2,017,305</u>

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

4. DUE FROM DISTRICTS:

Due from Districts consists of monies due by agreement from the related Districts and represents their respective liabilities for the revenue bonds issued by the Authority that they have yet to fund. In November 2007, the Authority issued the 2007 Water Revenue Refunding Bonds to refund the 1999 Water Revenue Bonds (See Note 5).

	<u>2017</u>	<u>2016</u>
Installment Purchase Agreements from Santa Fe Irrigation District dated November 1, 2007, with interest ranging from 3.372% to 4.634%, principal amounts ranging from \$895,000 to \$1,325,000 due annually to October 2019. Accrued interest receivable totaled \$37,338 and \$49,037 at June 30, 2017 and 2016, respectively. The installment purchase agreement is secured by the net revenues of the District.	\$3,696,471	\$4,855,726
Less: Current portion	<u>(1,220,000)</u>	<u>(1,175,000)</u>
Due from Santa Fe Irrigation District, net of current portion	<u>\$2,476,471</u>	<u>\$3,680,726</u>

Installment Purchase Agreements from San Dieguito Water District dated November 1, 2007, with interest ranging from 3.580% to 4.918%, principal amounts ranging from \$335,000 to \$620,000 due annually to October 2024. Accrued interest receivable totaled \$45,586 and \$50,036 at June 30, 2017 and 2016, respectively. The installment purchase agreement is secured by the net revenues of the District.	\$4,196,571	\$4,626,153
Less: Current portion	<u>(455,000)</u>	<u>(440,000)</u>
Due from San Dieguito Water District, net of current portion	<u>\$3,741,571</u>	<u>\$4,186,153</u>



5. REVENUE BONDS:

In November 1999, the Authority issued the 1999 Water Revenue Bonds. Interest payments were due semi-annually with rates ranging from 4.5% to 5.75%. Principal amounts were due annually with payments ranging from \$530,000 to \$1,895,000. In November 2007, the Authority issued the 2007 Water Revenue Refunding Bonds to refund the 1999 Water Revenue Bonds, fund a reserve fund, and pay the costs of issuance.

The Authority extinguished the remaining \$20,380,000 of the 1999 Water Revenue Bonds through a refunding resulting in a defeasance of debt. The net proceeds of approximately \$20,820,271 (after payment of issuance costs) were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1999 Water Revenue Bond issue. As a result, this debt is considered to be defeased and the liability for the debt has been removed from the Authority's financial statements. The escrow agent has paid the outstanding balance of the defeased Water Revenue Bonds.

The 2007 Water Revenue Refunding Bonds are obligations of the Authority payable solely from payments received from the Districts pursuant to the Installment Purchase Agreement, dated as of November 1, 2007, by and between the Districts and the Authority. The obligation of the Districts to make installment payments is payable solely from net revenues of the Districts' water systems and certain funds and accounts created under the Installment Purchase Agreements. The Installment Purchase Agreements will require the districts to agree to fix, prescribe, and collect rates and charges for its water service which will be at least sufficient each fiscal year to yield net revenue equal to 115% of the installment payments and of obligations of the District payable on parity therewith.

The 2007 Water Revenue Refunding Bonds have interest rates from 3.449% to 4.500% with maturities through the fiscal year ending June 30, 2025. The 2007 Water Revenue Refunding Bonds outstanding totaled \$8,090,000 and \$9,705,000 at June 30, 2017 and 2016, respectively.

The revenue bonds of the Authority as of June 30, 2017 and 2016, and the changes in the accounts for the years then ended are as follows:

	Original Amount Issued	Balance June 30, 2016	2017		Current Portion
			Additions (Deletions)	Balance June 30, 2017	
2007 Water Revenue Refunding Bonds	\$ 20,685,000	\$ 9,705,000	\$(1,615,000)	\$ 8,090,000	\$ 1,675,000
Less: Unamortized Discount				(64,742)	
Subtotal				8,025,258	
Less: Current Portion				(1,675,000)	
Revenue Bonds, Net of Current Portion				\$ 6,350,258	

5. REVENUE BONDS (CONTINUED):

	2016				
	Original Amount Issued	Balance June 30, 2015	Additions (Deletions)	Balance June 30, 2016	Current Portion
2007 Water Revenue Refunding Bonds	\$ 20,685,000	\$ 11,255,000	\$ (1,550,000)	\$ 9,705,000	\$ 1,615,000
Less: Unamortized Discount				(73,342)	
Subtotal				9,631,658	
Less: Current Portion				(1,615,000)	
Revenue Bonds, Net of Current Portion				<u>\$ 8,016,658</u>	

Debt services requirements on the revenue bonds are as follows:

Years Ended				
	June 30	Principal	Interest	Total
2018	\$ 1,675,000	\$ 298,194	\$ 1,973,194	
2019	1,745,000	229,794	1,974,794	
2020	1,815,000	158,594	1,973,594	
2021	525,000	111,466	636,466	
2022	545,000	89,397	634,397	
2023-2025	1,785,000	120,910	1,905,910	
Total	<u>\$ 8,090,000</u>	<u>\$ 1,008,355</u>	<u>\$ 9,098,355</u>	

**SUPPLEMENTARY INFORMATION  
YEARS ENDED JUNE 30, 2017 AND 2016**

**R.E. BADGER WATER FACILITIES FINANCING AUTHORITY**

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SCHEDULE OF CHANGES IN NET POSITION BY DISTRICT  
June 30, 2017 and 2016

	<u>Santa Fe Irrigation District</u>	<u>San Dieguito Water District</u>	<u>Total</u>
Net Position at June 30, 2015	\$ -	\$ -	\$ -
Interest Income	224,073	217,502	441,575
Interest Expense	(206,150)	(205,643)	(411,793)
Amortization Expense	<u>(17,923)</u>	<u>(11,859)</u>	<u>(29,782)</u>
Net Position at June 30, 2016	-	-	-
Interest Income	178,973	198,653	377,626
Interest Expense	(161,050)	(186,794)	(347,844)
Amortization Expense	<u>(17,923)</u>	<u>(11,859)</u>	<u>(29,782)</u>
Net Position at June 30, 2017	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>