

CALAVERAS COUNTY WATER DISTRICT

AUDITED FINANCIAL STATEMENTS

June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Calaveras County Water District
San Andreas, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, each major fund and the fiduciary funds of the Calaveras County Water District (the District) as of and for the year ending June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, each major fund and the fiduciary funds of the District as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

To the Board of Directors
Calaveras County Water District

Other Matters

Report on Summarized Comparative Information

We have previously audited the District's 2016 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated October 20, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the proportionate share of the net pension liability, schedule of contributions to the pension plans and schedule of funding progress of the other postemployment benefits plan, as listed in the accompanying 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other 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 supplementary information 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 supplementary information is 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 6, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Richardson & Company, LLP

December 6, 2017

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the Calaveras County Water District's (“the District”) Audited Financial Statements provides management’s discussion and analysis of the District’s financial performance for the period ending June 30, 2017. Readers are encouraged to consider the information presented here as complementary to the information contained in the accompanying financial statements.

The Management’s Discussion and Analysis is presented under the following headings:

- Organization and Business
- Overview of the Basic Financial Statements
- Financial Analysis of the District
- Capital Assets and Debt Administration
- Economic Condition and Outlook
- Requests for Information

ORGANIZATION AND BUSINESS

The District has operated continuously since 1946 under the laws of the State of California as a county water district for the purpose of providing water and wastewater services to the residents and businesses of Calaveras County. The District is a political subdivision of the State of California and is not a part of, or under the control of, Calaveras County.

Under State law, the District has broad general powers over the use of the water within its boundaries, including the right of eminent domain, authority to acquire, control, distribute, store, spread, sink, treat, purify, reclaim, process and salvage any water for beneficial use, to provide sewer service, to sell treated or untreated water, to acquire or construct hydroelectric facilities and sell the power and energy produced to public agencies or public utilities engaged in the distribution of power, to contract with the United States, other political subdivisions, public utilities, or other persons, and, subject to Article XIII A of the California State Constitution, to levy taxes for improvements.

The District is located in the central Sierra Nevada foothills, approximately 100 miles east of San Francisco and 60 miles southeast of Sacramento. The District’s boundaries encompass approximately 1,037 square miles of land ranging from the San Joaquin Valley to the Sierra Nevada mountains. With elevations ranging from 200 feet in the west to over 8,000 feet in the east, the District’s facilities cover a diverse geographical range with numerous water, wastewater and hydroelectric projects.

The District currently provides water service to approximately 13,063 residential and commercial customer accounts in five water service areas. With the exception of the Wallace service area, the District uses surface water from the Mokelumne, Calaveras and Stanislaus rivers to service its customers. Wallace customers are served by groundwater pumped from wells owned and operated by the District. The District also operates and maintains five major wastewater service areas that provide sanitary sewer services to approximately 4,844 customers.

In addition to water and wastewater operations, the District owns hydroelectric facilities inclusive of major dams, reservoirs, tunnels and generation facilities which are governed and licensed by the Federal

Energy Regulatory Commission (“FERC”) and operated by other entities, and aside from augmenting revenues these assets are not addressed in this report.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The District is a proprietary entity and uses enterprise fund accounting to report its activities for financial statement purposes in accordance with the Government Accounting Standards Board (“GASB”). Proprietary funds are reported using the accrual basis of accounting and account for activities in a manner similar to private business enterprises. The intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed primarily through user rates, fees, and charges.

The Audited Financial Statements provide readers with a broad overview of the District’s finances, and include the following four sections: the Basic Financial Statements, the Required Supplementary Information, Other Supplementary Information, and the Compliance Report (see below for further details). Another key component of the Audit is this section, Management’s Discussion and Analysis.

REQUIRED FINANCIAL STATEMENTS

The required financial statements include the Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows, which when taken in its totality offer both short and long-term financial information about the District’s activities.

The *Balance Sheet* includes all of the District’s assets, deferred outflows, liabilities, and deferred inflows, which provide information about the nature, and amounts, of investments in assets and obligations to District creditors. The *Statement of Revenues, Expenses and Changes in Net Position* accounts for current year’s revenues and expenses and measures the District’s operations over the past year, and can be used to determine the extent to which the District has successfully recovered its costs through its rates, fees, facility capacity charges, and other charges.

The *Statement of Cash Flows* provides information about the District’s cash receipts and payments during the reporting period, as well as net changes in cash resulting from operations, investing, and financing activities, while excluding such non-cash accounting measures as the depreciation of assets. The statement explains where cash came from, where cash was used, and the change in the cash balance during the reporting period.

NOTES TO BASIC FINANCIAL STATEMENTS

The *Notes to the Basic Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The Notes to the Basic Financial Statements are an integral part of, and can be found immediately following, the financial statements.

OTHER INFORMATION

The Basic Financial Statements also present certain required supplemental information. This includes a *Schedule of the District’s Proportionate Share of the Net Pension Liability*, a *Schedule of Contributions to the Pension Plan*, a *Combining Statement of Fiduciary Net Position Assessment District Agency Fund*, and the *Debt Service Coverage Ratios for the Water and Sewer Funds*.

FINANCIAL ANALYSIS OF THE DISTRICT

The District analyzes changes in its major funds (water, sewer and public financing authority) “in total.” For the next reporting period, fiscal year 2017-18, the District will consider analyzing changes in each major fund as well as “in total.” Until that change occurs, the financial analysis of the funds are “in total.”

Below are some of the key financial highlights for the fiscal year ending June 30, 2017 and how they compare to the prior fiscal year (FY 2015-16). The source documents for the following condensed tables (A-1 through A-7) can be found in the *Basic Financial Statements*. A detailed analysis of the tables’ categories and year-to-year changes follows each table.

- The District’s Net Position, total assets and deferred outflows less total liabilities and deferred inflows, increased by \$4.1 million
- Operating Revenues increased by \$0.4 million
- Non-operating Revenues, led by higher property tax revenues, increased by \$0.5 million
- Operating Expenses increased by \$1.0 million
- Non-operating Expenses decreased by \$0.1 million
- Capital assets, net of depreciation, were \$109.6 million, a \$1.3 million increase
- Long-term liabilities, as reported in Note D, decreased 0.9%, or \$0.1 million

BALANCE SHEETS

The District’s condensed balance sheets are displayed below:

Table A-1
Condensed Balance Sheets
(in millions)

	As of June 30		Dollar Change	Percent Change
	2017	2016		
Current assets	\$ 13.4	\$ 13.0	\$ 0.4	3.08%
Noncurrent assets	24.3	21.8	2.5	11.47%
Other noncurrent and OPEB assets	1.2	0.7	0.5	71.43%
Capital assets, net of accumulated depreciation	109.6	108.3	1.3	1.20%
Deferred outflows of resources	3.0	1.3	1.7	130.77%
Total assets and deferred outflows of resources	151.5	145.1	6.4	4.41%
Current liabilities	4.1	4.6	(0.5)	-10.87%
Noncurrent liabilities	20.0	16.9	3.1	18.34%
Deferred inflows of resources	0.4	0.7	(0.3)	-42.86%
Net position	127.0	122.9	4.1	3.34%
Total liabilities, deferred inflows and net position	151.5	145.1	6.4	4.41%
Detail of net position				
Net investment in capital assets	100.7	99.2	1.5	1.51%
Restricted for expansion and construction	19.5	15.7	3.8	24.20%
Restricted for debt service	0.7	0.7	0.0	0.00%
Unrestricted	6.1	7.3	(1.2)	-16.44%
Total net position:	\$ 127.0	\$ 122.9	\$ 4.1	3.34%

Current Assets

Includes unrestricted cash and investments, receivables, inventory, and prepaid expenses.

As of June 30, 2017, current assets totaled \$13.4 million, \$0.4 million higher than the prior year.

Noncurrent Assets

Includes restricted cash and investments, and other receivables.

As of June 30, 2017, noncurrent assets totaled \$24.3 million, which is \$2.5 million higher than FY 2015-16. The two main categories, restricted cash and investments, experienced the largest increases as collections of restricted revenue outpaced spending.

Other Noncurrent and OPEB Assets

Includes Other Post-Employment Benefits (“OPEB”) assets.

Other noncurrent and OPEB assets totaled \$1.2 million, a \$0.5 million increase from the prior year. For more information on OPEB see Note J of the *Notes to the Basic Financial Statements*.

Net Capital Assets

Includes property, plants, equipment, and construction in progress, net of accumulated depreciation.

As of June 30, 2017, net capital assets totaled \$109.6. This is \$1.3 million more than FY 2015-16, mainly due to the capital projects described on page 12, offset by depreciation.

Deferred Outflows of Resources

Deferred outflows of resources are classified as a consumption of net assets that are applicable to a future reporting period.

Deferred outflows of resources totaled \$3.0 million. The increase of \$1.7 million in deferred outflows is related to the CalPERS pension plan and is mainly due to lower investment earnings by the cost sharing pool in which the District participates. For more information on pension liability, see Note I of the *Notes to the Basic Financial Statements*.

Current Liabilities

Liabilities that are due within one year are considered current liabilities. They include accounts payable, accrued liabilities, and the current portion of long-term liabilities.

As of June 30, 2017, current liabilities totaled \$4.1 million, \$0.5 million lower than the prior year. This is due primarily to a decrease in the current portion of long-term liabilities and an interfund payable from the Water Fund to the Public Financing Authority to finance a short-term cash deficit.

Noncurrent Liabilities

Noncurrent liabilities are liabilities net of current portion. They include long-term debt and loans due after one year and net pension liability.

As of June 30, 2017, noncurrent liabilities totaled \$20.0 million, \$3.1 million higher than the prior year. Primary contributors include the 2016 USDA water revenue bond debt and an increase in net pension

liability of \$1.9 million, which was mostly the result of lower investment earnings of the cost sharing pool in which the District participates.

Deferred Inflows of Resources

An acquisition of resources that is applicable to a future reporting period, or deferred pension inflows.

Deferred inflows of resources totaled \$0.4 million, \$0.3 million less than FY 2015-16. For more information on the pension plan, see Note I of the *Notes to the Basic Financial Statements*.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The table below displays a condensed version of the Statement of Revenues, Expenses and Changes in Net Position for the year ending June 30, 2017. The District's Net Position in 2017 increased from \$122.9 million to \$127.0 million, or \$4.1 million.

Table A-2
Condensed Statement of Revenues, Expenses and Changes in Net Position
(in millions)

	As of June 30		Dollar Change	Percent Change
	2017	2016		
Operating revenues	\$ 12.2	\$ 11.8	\$ 0.4	3.39%
Nonoperating revenues	4.1	3.6	0.5	13.89%
Total revenues	<u>16.3</u>	<u>15.4</u>	<u>0.9</u>	<u>5.84%</u>
Operating expenses	14.7	13.7	1.0	7.30%
Depreciation	3.8	3.8	0.0	0.00%
Nonoperating expenses	0.3	0.4	(0.1)	-25.00%
Total expenses	<u>18.8</u>	<u>17.9</u>	<u>0.9</u>	<u>5.03%</u>
Net (Loss) income before capital contributions	<u>(2.5)</u>	<u>(2.5)</u>	<u>(0.0)</u>	<u>0.00%</u>
Expansion fees	0.7	1.4	(0.7)	-50.00%
Capital renovation and replacement (R&R) fees	4.4	4.3	0.1	2.33%
Other capital contributions	0.8	0.6	0.2	33.33%
Ebbetts Pass Reach 3a Pipeline (USDA) Grant	0.7	0.0	0.7	100.00%
Total capital contributions and transfers	<u>6.6</u>	<u>6.3</u>	<u>0.3</u>	<u>4.76%</u>
Change in net position	4.1	3.8	0.3	7.89%
Net position at beginning of year	<u>122.9</u>	<u>119.1</u>	<u>3.8</u>	<u>3.19%</u>
Net position at end of year	<u>\$ 127.0</u>	<u>\$ 122.9</u>	<u>\$ 4.1</u>	<u>3.34%</u>

Operating Revenues

Operating revenues account for approximately seventy-five percent (75%) of the District's revenues. The majority of the revenues come from water sales, including base rates and consumptive revenues.

Table A-3
Operating Revenues
(in millions)

	As of June 30		Dollar Change	Percent Change
	2017	2016		
Water sales and sewer charges	\$ 11.7	\$ 11.3	\$ 0.4	3.54%
Water and sewer fees	0.5	0.5	0.0	0.00%
Total operating revenues	<u>\$ 12.2</u>	<u>\$ 11.8</u>	<u>\$ 0.4</u>	<u>3.39%</u>

A growth in new accounts and increased customer water consumption in FY 2016-17 led to a \$0.4 million increase in operating revenues over the prior fiscal year.

Nonoperating Revenues

Nonoperating revenues include property taxes, hydroelectric power sales, and investment income.

Nonoperating revenues increased \$0.5 million, from \$3.6 million in FY 2015-16 to \$4.1 million in FY 2016-17. Increased hydroelectric generation, slightly higher interest rates, and property tax growth all contributed to the overall increase in nonoperating revenues.

Table A-4
Nonoperating Revenues
(in millions)

	As of June 30		Dollar Change	Percent Change
	2017	2016		
Property taxes and assessments	\$ 2.7	\$ 2.7	\$ -	0.00%
Investment income	0.3	0.2	0.1	50.00%
Power sales	0.8	0.5	0.3	60.00%
Other income	0.2	0.1	0.1	100.00%
Grant revenues	0.1	0.1	0.0	0.00%
Total operating expenses, excluding depreciation	<u>\$ 4.1</u>	<u>\$ 3.6</u>	<u>\$ 0.5</u>	<u>13.89%</u>

Operating Expenses, Excluding Depreciation

Approximately fifty-eight percent (58%) of the District's operating expenses are salaries and benefits, followed by utility services and professional services. Other significant operating expenses include other operating expenses and repairs and maintenance.

Table A-5
Operating Expenses, Excluding Depreciation
(in millions)

	As of June 30		Dollar Change	Percent Change
	2017	2016		
Salaries and benefits	\$ 8.6	\$ 7.8	\$ 0.8	10.26%
Repairs and maintenance	1.0	0.8	0.2	25.00%
Materials and supplies	0.8	0.7	0.1	14.29%
Utility services	1.3	1.0	0.3	30.00%
Professional services	1.2	0.9	0.3	33.33%
Vehicle and equipment	0.4	0.3	0.1	33.33%
Other operating expenses	1.1	1.3	(0.2)	-15.38%
Travel and training	0.1	0.1	0.0	0.00%
Director costs	0.1	0.1	0.0	0.00%
Postemployment benefits	0.1	0.7	(0.6)	-85.71%
Total operating expenses, excluding depreciation	<u>\$ 14.7</u>	<u>\$ 13.7</u>	<u>\$ 1.0</u>	<u>7.30%</u>

Total FY 2016-17 operating expenses, excluding depreciation, were \$14.7 million, \$1.0 million greater than the prior year. Benefit increases are due to higher PERS normal and unfunded liability costs, and increased retiree health contributions. Overtime costs incurred by the District in response to the severe winter storms of 2017, and MOU increases, resulted in higher salary costs. The District filed claims seeking reimbursement for storm related costs under three State and Federal major disaster declarations.

Nonoperating Expenses

Includes gain/(loss) on the sale of capital assets, debt service interest expense and bond issuance costs associated with the Series 2016 Water Enterprise Revenue Bonds.

Table A-6
Nonoperating Expenses
(in millions)

	As of June 30		Dollar Change	Percent Change
	2017	2016		
Gain (loss) on sale of capital assets	\$ -	\$ -	\$ -	0.00%
Interest expense	0.3	0.3	0.0	0.00%
Bond issuance costs and other	0.0	0.1	(0.1)	-100.00%
Total nonoperating expenses	<u>\$ 0.3</u>	<u>\$ 0.4</u>	<u>\$ (0.1)</u>	<u>-25.00%</u>

Nonoperating expenses were \$0.3 million, relatively unchanged from the prior year.

Net Operating Income (Loss), Excluding Depreciation and Amortization

An important measure of an organization's performance.

Table A-7
Net Operating Income, Excluding Depreciation
(in millions)

	As of June 30		Dollar Change	Percent Change
	2017	2016		
Operating revenues	\$ 12.2	\$ 11.8	\$ 0.4	3.39%
Operating expenditures	(14.7)	(13.7)	(1.0)	7.30%
Net operating income/(loss), excluding depreciation	\$ (2.5)	\$ (1.9)	\$ (0.6)	31.58%

In spite of increased water sales, the FY 2016-17 net operating loss, excluding depreciation, is \$0.6 million greater than FY 2015-16. The increase in operating expenditures are a result of increased salary and benefits expenses, including PERS and retiree health, and higher utility services costs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

Additions and deletions to capital assets encompass a broad range of infrastructure, including water and sewer plants, recycled water facilities, construction in progress, and other assets such as vehicles, equipment, office equipment, and furniture. All capital asset increases are consistent with the District's implementation of its capital improvement program. Details of the District's capital assets, net of accumulated depreciation, are listed in the following table:

Table A-8
Capital Assets, Net of Accumulated Depreciation
(in millions)

	As of June 30		Dollar Change	Percent Change
	2017	2016		
Capital assets, not being depreciated				
Land	\$ 13.6	\$ 13.7	\$ (0.1)	-0.73%
Construction in progress	6.2	3.0	3.2	106.67%
Total capital assets, not being depreciated	19.8	16.7	3.1	18.56%
Capital assets, being depreciated				
Buildings	8.3	8.7	(0.4)	-4.60%
Utility system - infrastructure	79.8	81.2	(1.4)	-1.72%
Machinery and equipment	1.7	1.7	0.0	0.00%
Total capital assets, being depreciated	89.8	91.6	(1.8)	-1.97%
Total capital assets, net	\$ 109.6	\$ 108.3	\$ 1.3	1.20%

Additional information about capital assets is presented in Note C of the *Notes to the Basic Financial Statements*.

Net capital assets totaled approximately \$109.6 million, \$1.3 million higher than the prior year. An increase of \$5.1 million in capital assets was offset by \$3.8 million in accumulated depreciation.

The major capital asset additions for fiscal year 2016-17 include:

- \$3.5 million for the Ebbetts Pass Reach 3a Water Transmission Line Replacement Project
- \$1.5 million for the Big Trees Redwood Water Storage Tank Replacement Project
- \$0.4 million for vehicle and equipment replacement

LONG-TERM DEBT AND LOANS

As of June 30, 2017, the District had \$9.7 million in long-term debt and loans outstanding, and a compensated absences balance of \$0.9 million. Even with the issuance of \$2.4 million in 2016 USDA water revenue bonds, total long-term liabilities decreased \$0.1 million, or -1.1% from FY 2015-16 as the District continued to make scheduled principal payments on its water and sewer revenue loans, the U.S. Bureau of Reclamation Note, and its PERS Side Fund Pension Loan.

A condensed summary of the District's long-term liabilities are as follows:

Table A-9
Condensed Long Term Liabilities
(in millions)

	As of June 30		Dollar Change	Percent Change
	2017	2016		
Water Fund:				
Water Revenue Loans	\$ 4.5	\$ 6.3	\$ (1.8)	-28.57%
U.S. Bureau of Reclamation Note	0.3	0.4	(0.1)	-25.00%
Pension Loan	0.4	0.5	(0.1)	-20.00%
Total Water Fund loans and notes	5.2	7.2	(2.0)	-27.78%
Compensated absences	0.6	0.5	0.1	20.00%
Total Water Fund liabilities	5.8	7.7	(1.9)	-24.68%
Sewer Fund:				
Sewer Revenue Loans	1.6	2.1	(0.5)	-23.81%
U.S. Bureau of Reclamation Note	0.1	0.1	0.0	0.00%
Pension Loan	0.2	0.3	(0.1)	-33.33%
Total Sewer Fund loans and notes	1.9	2.5	(0.6)	-24.00%
Compensated absences	0.3	0.3	0.0	0.00%
Total Sewer Fund liabilities	2.2	2.8	(0.6)	-21.43%
Public Financing Authority				
Water Revenue Bonds	2.6	0.2	2.4	1200.00%
Total long-term liabilities	\$ 10.6	\$ 10.7	\$ (0.1)	-0.93%

Additional information on the District's debt and loans can be found in Note D of the *Notes to the Basic Financial Statements*.

ECONOMIC CONDITION AND OUTLOOK

Calaveras County's employment picture continued to improve as the unemployment rate dropped from 5.6 percent (5.6%) in June 2016 to five percent (5.0%) in June 2017. The largest job gains were recorded in the wholesale and retail trades, followed by professional and business services. However, future job growth is not expected to exceed one percent (1.0%) as the county's population is projected to decline annually 0.3 percent (0.3%) from 2017 to 2022. As a result wage growth is expected to slow to 1.5 percent (1.5%) in 2017, followed by an average annual increase of 0.5 percent (0.5%) until 2022.

While the public sector remains the County's largest employer, accounting for approximately twenty-eight percent (28%) of all jobs, future job gains are expected to occur in the wholesale and retail trades, leisure and hospitality, and professional and business services. It is likely that a portion of these new jobs will be filled by non-county residents due to the aging of the county's current workforce and projected county population declines. With fewer people moving into the county, demand for construction of new housing units will likely remain low. Thus the number of new water and sewer service connections will also remain low, as will capacity fee revenues. On the other hand, slower growth does delay the need to expand the water and sewer systems to accommodate new connections.

The District, through its Capital Renovation and Replacement ("Capital R&R") water and sewer rates, continues its commitment to fund the renovation and replacement of its capital infrastructure – pipeline, lift stations, storage tanks, etc. Although the District eliminated the third and final scheduled rate increase in the 2013 Five-Year Rate Plan, the Capital R&R rate revenues, in conjunction with the water and sewer loans and grants, has provided the much needed funding for capital projects. The District's Board of Directors annually reviews and adopts the District's Five-Year Capital Improvement Program (CIP), which is the basis for the subsequent year's CIP budget.

Even though the declared drought recently came to an end, the state's mandated water conservation program initiated by Governor Brown continues to affect the District's water operations and sales. Consumptive water sales and revenues have been slow to rebound. And although the District has ample water supplies to meet customer demands, the District's customers have yet to return to pre-drought consumptive levels.

The ongoing reduction in water revenues has stretched the District resources. Operating and maintaining water and sewer systems on a 24/7 basis is costly, as much of the treatment and regulatory costs are fixed. Although the District remains vigilant in implementing cost-cutting and efficiency measures to reduce expenses, these measures cannot be allowed to compromise the District's ability to meet public health and safety requirements. As always, the District is committed to monitoring its fiscal condition as well as the state of the local economy. HDR Engineering, Inc. was hired in FY 2016-17 to perform a Financial Analysis and Cost of Service Study to review the adequacy of the District's water and wastewater rates. The study will be completed in FY 2017-18.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, customers, taxpayers, 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 any questions about this report or need any additional information, contact the District at (209) 754-3543 or via our website at www.ccwd.org.

BASIC FINANCIAL STATEMENTS

CALAVERAS COUNTY WATER DISTRICT

BALANCE SHEET - PROPRIETARY FUNDS

June 30, 2017

(With Prior Year Data for Comparative Purposes Only)

	Business-type Activities - Enterprise Funds			Totals for Comparative Purposes Only	
	Water	Sewer	Public Financing Authority	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES					
CURRENT ASSETS					
Cash and cash equivalents	\$ 7,519,203			\$ 7,519,203	\$ 7,909,500
Investments	1,180,468	\$ 11,446		1,191,914	1,084,683
Accounts receivable	1,859,260	820,289		2,679,549	2,712,093
Taxes receivable	173,298	60,889		234,187	142,972
Grants receivable	462,835	45,218	\$ 748,205	1,256,258	541,580
Bond proceeds receivable					162,215
Interest receivable	28,177	4,140		32,317	35,317
Prepaid expenses and other assets	74,625	26,220		100,845	149,029
Due from other funds	346,633			346,633	257,798
TOTAL CURRENT ASSETS	<u>11,644,499</u>	<u>968,202</u>	<u>748,205</u>	<u>13,360,906</u>	<u>12,995,187</u>
NONCURRENT ASSETS					
Restricted Assets:					
Cash and cash equivalents	13,501,408	4,390,120	2,692	17,894,220	17,340,248
Investments	2,119,638	1,146,797		3,266,435	1,987,552
Interest receivable	19,870	7,070		26,940	30,997
Due from other funds	716,110			716,110	192,014
Interfund loans		2,362,011		2,362,011	2,339,106
Total Restricted Assets	<u>16,357,026</u>	<u>7,905,998</u>	<u>2,692</u>	<u>24,265,716</u>	<u>21,889,917</u>
Other noncurrent assets	26,465	9,299		35,764	37,229
Notes receivable	7,949	2,793		10,742	10,741
Other postemployment benefits asset	821,665	288,693		1,110,358	701,604
Capital assets:					
Nondepreciable	6,664,351	9,803,018	3,337,419	19,804,788	16,741,272
Depreciable, net	58,046,546	31,743,944		89,790,490	91,512,720
Total Capital Assets, Net	<u>64,710,897</u>	<u>41,546,962</u>	<u>3,337,419</u>	<u>109,595,278</u>	<u>108,253,992</u>
TOTAL NONCURRENT ASSETS	<u>81,924,002</u>	<u>49,753,745</u>	<u>3,340,111</u>	<u>135,017,858</u>	<u>130,893,483</u>
TOTAL ASSETS	<u>93,568,501</u>	<u>50,721,947</u>	<u>4,088,316</u>	<u>148,378,764</u>	<u>143,888,670</u>
DEFERRED OUTFLOWS OF RESOURCES					
Pension plan	2,249,369	790,318		3,039,687	1,259,574
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 95,817,870</u>	<u>\$ 51,512,265</u>	<u>\$ 4,088,316</u>	<u>\$ 151,418,451</u>	<u>\$ 145,148,244</u>

CALAVERAS COUNTY WATER DISTRICT

BALANCE SHEET - PROPRIETARY FUNDS (Continued)

June 30, 2017

(With Prior Year Data for Comparative Purposes Only)

	Business-type Activities - Enterprise Funds			Totals for Comparative Purposes Only	
	Water	Sewer	Public Financing Authority	2017	2016
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION					
CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 366,387	\$ 247,814	\$ 216,752	\$ 830,953	\$ 946,538
Deposits payable	63,878	21,076		84,954	76,561
Accrued interest payable	36,071	12,811	19,097	67,979	66,386
Due to other funds			346,633	346,633	257,798
Current portion of long-term liabilities	1,802,583	853,780	42,700	2,699,063	3,239,881
TOTAL CURRENT LIABILITIES	<u>2,268,919</u>	<u>1,135,481</u>	<u>625,182</u>	<u>4,029,582</u>	<u>4,587,164</u>
NONCURRENT LIABILITIES					
Due to other funds		716,110		716,110	192,014
Interfund loans	2,362,011			2,362,011	2,339,106
Noncurrent portion of long-term liabilities	3,939,431	1,392,059	2,579,300	7,910,790	7,486,847
Retention payable			182,034	182,034	
Net pension liability	6,510,030	2,287,308		8,797,338	6,909,619
TOTAL NONCURRENT LIABILITIES	<u>12,811,472</u>	<u>4,395,477</u>	<u>2,761,334</u>	<u>19,968,283</u>	<u>16,927,586</u>
TOTAL LIABILITIES	<u>15,080,391</u>	<u>5,530,958</u>	<u>3,386,516</u>	<u>23,997,865</u>	<u>21,514,750</u>
DEFERRED INFLOWS OF RESOURCES					
Pension plan	284,962	100,123		385,085	691,145
NET POSITION					
Net investment in capital assets	59,883,947	40,031,200	745,419	100,660,566	99,239,365
Restricted for expansion and construction	12,537,374	7,016,658		19,554,032	15,702,252
Restricted for debt service	527,593	185,371		712,964	712,964
Unrestricted	7,503,603	(1,352,045)	(43,619)	6,107,939	7,287,768
TOTAL NET POSITION	<u>80,452,517</u>	<u>45,881,184</u>	<u>701,800</u>	<u>127,035,501</u>	<u>122,942,349</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 95,817,870</u>	<u>\$ 51,512,265</u>	<u>\$ 4,088,316</u>	<u>\$ 151,418,451</u>	<u>\$ 145,148,244</u>

The accompanying notes are an integral part of these financial statements

CALAVERAS COUNTY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - PROPRIETARY FUNDS

For the Year Ended June 30, 2017
(With Prior Year Data for Comparative Purposes Only)

	Business-type Activities - Enterprise Funds			Totals for Comparative Purposes Only	
	Water	Sewer	Public Financing Authority	2017	2016
OPERATING REVENUE					
Water sales and sewer charges	\$ 7,476,634	\$ 4,222,476		\$ 11,699,110	\$ 11,348,473
Water and sewer fees	356,495	101,887		458,382	472,594
TOTAL OPERATING REVENUE	7,833,129	4,324,363		12,157,492	11,821,067
OPERATING EXPENSES					
Salaries and benefits	5,587,968	2,970,471		8,558,439	7,763,727
Repairs and maintenance	635,047	335,902		970,949	796,706
Materials and supplies	454,379	338,715		793,094	730,046
Utility services	771,628	536,115		1,307,743	1,036,153
Professional services	798,794	448,020		1,246,814	863,088
Vehicle and equipment	190,553	161,994		352,547	341,923
Other operating expenses	707,960	413,861		1,121,821	1,237,969
Travel and training	46,701	25,718		72,419	55,168
Director costs	76,917	27,025		103,942	110,604
Postemployment benefits	103,217	36,265		139,482	720,211
Depreciation	2,606,062	1,220,860		3,826,922	3,839,711
TOTAL OPERATING EXPENSES	11,979,226	6,514,946		18,494,172	17,495,306
NET LOSS FROM OPERATIONS	(4,146,097)	(2,190,583)		(6,336,680)	(5,674,239)
NONOPERATING REVENUES (EXPENSES)					
Property taxes and assessments	2,028,441	712,695		2,741,136	2,687,879
Investment income	173,643	107,864		281,507	222,289
Power sales	569,956	199,532		769,488	572,563
Other income	146,804	56,170		202,974	65,797
Grant revenues	81,672	28,696		110,368	82,505
Gain/(loss) on sale of capital assets	(23,202)	(8,152)		(31,354)	(22,996)
Interest expense	(184,503)	(70,933)	\$ (35,285)	(290,721)	(309,177)
Bond issuance costs					(27,295)
TOTAL NONOPERATING REVENUES (EXPENSES)	2,792,811	1,025,872	(35,285)	3,783,398	3,271,565
NET (LOSS) INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(1,353,286)	(1,164,711)	(35,285)	(2,553,282)	(2,402,674)
CAPITAL CONTRIBUTIONS AND TRANSFERS					
Expansion fees	541,297	161,572		702,869	1,420,903
Capital renovation and replacement (R & R) fees	3,216,530	1,172,164		4,388,694	4,284,144
Other capital contributions	790,546	16,120		806,666	583,223
Ebbetts Pass Reach 3A Pipeline (USDA) grant			748,205	748,205	
Transfers in	2,718		16,188	18,906	211,624
Transfers (out)	(16,188)		(2,718)	(18,906)	(211,624)
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	4,534,903	1,349,856	761,675	6,646,434	6,288,270
CHANGE IN NET POSITION	3,181,617	185,145	726,390	4,093,152	3,885,596
Net position at beginning of year	77,270,900	45,696,039	(24,590)	122,942,349	119,056,753
NET POSITION AT END OF YEAR	\$ 80,452,517	\$ 45,881,184	\$ 701,800	\$ 127,035,501	\$ 122,942,349

The accompanying notes are an integral part of these financial statements

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the Year Ended June 30, 2017
(With Prior Year Data for Comparative Purposes Only)

	Business-type Activities - Enterprise Funds			Totals for Comparative Purposes Only	
	Water	Sewer	Public Financing Authority	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customers	\$ 7,811,539	\$ 4,388,355		\$ 12,199,894	\$ 11,850,354
Cash paid to suppliers for goods and services	(3,803,215)	(2,128,677)		(5,931,892)	(4,862,818)
Cash paid to employees for services	(6,401,604)	(3,180,868)		(9,582,472)	(9,078,666)
NET CASH USED FOR OPERATING ACTIVITIES	<u>(2,393,280)</u>	<u>(921,190)</u>		<u>(3,314,470)</u>	<u>(2,091,130)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Property taxes and assessments	1,960,942	688,979		2,649,921	2,709,158
Power sales	569,956	199,532		769,488	572,563
Other income	146,803	56,170		202,973	107,706
Operating grants from outside agencies	53,347	(16,120)		37,227	82,103
Interfund transfers	(435,407)	435,407			
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>2,295,641</u>	<u>1,363,968</u>		<u>3,659,609</u>	<u>3,471,530</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital contributions received	4,655,041	1,349,856		6,004,897	5,771,627
Acquisition of capital assets	(1,810,703)	(307,110)	\$ (2,743,914)	(4,861,727)	(3,642,281)
Proceeds from disposals of capital assets	45,104	15,847		60,951	
Interfund capital transfers	(168,089)		168,089		
Long-term liability issuance costs					(27,295)
Proceeds from long-term liabilities			2,592,000	2,592,000	30,000
Principal paid on long-term liabilities	(2,015,059)	(575,848)		(2,590,907)	(2,460,428)
Interest payments on long-term liabilities	(197,549)	(75,391)	(16,188)	(289,128)	(322,492)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>508,745</u>	<u>407,354</u>	<u>(13)</u>	<u>916,086</u>	<u>(650,869)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Maturities of investments	1,524,975	463,998		1,988,973	11,223,423
Purchases of investments	(2,317,770)	(814,352)		(3,132,122)	-
Interest received	260	45,339		45,599	214,845
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>(792,535)</u>	<u>(305,015)</u>		<u>(1,097,550)</u>	<u>11,438,268</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
	<u>(381,429)</u>	<u>545,117</u>	<u>(13)</u>	<u>163,675</u>	<u>12,167,799</u>
Cash and cash equivalents at beginning of year	21,402,040	3,845,003	2,705	25,249,748	13,081,949
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 21,020,611</u>	<u>\$ 4,390,120</u>	<u>\$ 2,692</u>	<u>\$ 25,413,423</u>	<u>\$ 25,249,748</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE COMBINING BALANCE SHEET					
Cash and cash equivalents	\$ 7,519,203			\$ 7,519,203	\$ 7,909,500
Restricted cash and cash equivalents	13,501,408	\$ 4,390,120	\$ 2,692	17,894,220	17,340,248
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 21,020,611</u>	<u>\$ 4,390,120</u>	<u>\$ 2,692</u>	<u>\$ 25,413,423</u>	<u>\$ 25,249,748</u>

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Continued)

For the Year Ended June 30, 2017
(With Prior Year Data for Comparative Purposes Only)

	Business-type Activities - Enterprise Funds			Totals for Comparative Purposes Only	
	Water	Sewer	Public Financing Authority	2017	2016
RECONCILIATION OF NET LOSS FROM OPERATIONS TO NET CASH USED FOR OPERATING ACTIVITIES:					
Net loss from operations	\$ (4,146,097)	\$ (2,190,583)		\$ (6,336,680)	\$ (5,674,239)
Adjustments to reconcile net loss from operations to net cash used for operating activities:					
Depreciation	2,606,062	1,220,860		3,826,922	3,839,711
Changes in operating assets, deferred outflows of resources, liabilities and deferred inflows of resources:					
Accounts receivable	(28,834)	61,378		32,544	34,791
Prepaid expenses and other assets	35,657	12,527		48,184	3,068
Deferred charges	1,085	380		1,465	(18,216)
Other postemployment benefits asset	(302,478)	(106,276)		(408,754)	(400,355)
Net pension liability and related deferred inflows and outflows of resources	(146,857)	(51,597)		(198,454)	(112,832)
Accounts payable and accrued expenses	(444,817)	112,480		(332,337)	175,097
Deposits payable	6,159	2,234		8,393	12,712
Compensated absences	26,840	17,407		44,247	49,133
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (2,393,280)</u>	<u>\$ (921,190)</u>	<u>\$ -</u>	<u>\$ (3,314,470)</u>	<u>\$ (2,091,130)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:					
Change in unrealized gain/loss on investments	\$ (179,794)	\$ (63,171)		\$ (242,965)	\$ (155,065)
Change in bond proceeds receivable			\$ 162,215	\$ 162,215	\$ (162,215)
Capital asset purchases payable			\$ (398,786)		

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

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
ASSESSMENT DISTRICT AGENCY FUND

June 30, 2017

(With Prior Year Data for Comparative Purposes Only)

	<u>Agency Funds</u>	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 1,093,452	\$ 1,093,033
Interest receivable	1,419	781
Tax proceeds receivable	12,938	
Due from County of Calaveras	15,357	21,262
Restricted assets:		
Cash and cash equivalents with fiscal agents	<u>521,862</u>	<u>519,719</u>
TOTAL ASSETS	<u><u>\$ 1,645,028</u></u>	<u><u>\$ 1,634,795</u></u>
LIABILITIES		
Accounts payable	\$ 4,966	\$ 1,141
Notes payable	10,742	10,741
Due to other governments	198,419	247,794
Due to bond holders	<u>1,430,901</u>	<u>1,375,119</u>
TOTAL LIABILITIES	<u><u>\$ 1,645,028</u></u>	<u><u>\$ 1,634,795</u></u>

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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2017

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The Calaveras County Water District (the District) was formed on September 6, 1946 under the County Water District Law (California Water Code Sections 30000-33901) for the purpose of assisting residents of Calaveras County in establishing and protecting their water resources. The District's boundaries are the same as the boundary lines of the County of Calaveras, which encompasses approximately 640,000 acres. The District provides retail water services to approximately 13,000 municipal, residential and commercial customers; retail sewer services to approximately 4,800 customers; and provides wholesale treated water to two independent retail water service providers. Water and sewer services are provided to five major operational areas and three smaller service areas within the boundaries of the District. The District is also engaged in the development of hydroelectric power for financial support and for the development of water supply. The District has 76,300 acre-feet of post-1914 water rights on the North Fork of the Stanislaus River, 1,830 acre feet of water rights on the Bear Creek tributary to the Middle Fork of the Mokelumne River, a contractual allocation of 31,278 acre feet of the U.S. Bureau of Reclamation's water rights in New Hogan Reservoir on the Calaveras River and water rights from various other sources. The District's facilities consist of five water treatment plants, twenty-eight treated water storage facilities and thirteen sewer treatment facilities.

The District has two power generating facilities operated by other governmental agencies under contracts where the District receives a contractual monthly payment and the other agencies receive the rights to power generated and are responsible for the operating costs of the hydroelectric power generating facilities. The Northern California Power Agency is responsible for the power generating facility on the North Fork of the Stanislaus River. The other power generating facility is at the New Hogan Reservoir, which is operated by the Modesto Irrigation District. However, in the case of the New Hogan Reservoir, the District and the Stockton East Water District reimburse the Army Corps of Engineers proportional shares of the operating and maintenance costs of the reservoir's dam, water storage and recreational facilities.

The District's Federal Energy Regulatory Commission (FERC) license for both of these facilities expires in 2032 and the District has begun the relicensing process. The FERC relicensing costs will be reported as part of construction in progress and will result in an intangible asset being reported when the license is issued that will be amortized over the license period.

The financial statements include the financial activities of the Calaveras County Water District Public Financing Authority (the Authority), which was formed under a joint exercise of power agreement between the District and the Independent Cities Finance Authority (ICFA). The Authority was established on April 4, 2016 to provide assistance to the District in the issuance of debt (see Note D). The Authority is a component unit of the District because the District's Board of Directors serves as the Board of Directors of the Authority and the District is financially accountable for the Authority. The JPA agreement provides that the liabilities of the Authority do not constitute liabilities of the District or ICFA, but requires the District and Authority to indemnify the ICFA for any and all costs and liabilities arising directly or indirectly from the Authority's activities. The District has a residual interest in any property held by the Authority upon its dissolution. The activity of the Authority is reported as the Public Financing Authority Enterprise Fund due to the separate reporting requirements under the joint exercise of powers agreement. The Authority does not issue separate financial statements.

The District is also a member of the following joint power authorities/agencies (JPAs) where the District is not responsible for the liabilities of the JPAs under the JPA agreements and only has a residual interest in any assets held by the JPAs upon termination of the agreements: Association of California Water Agencies (ACWA) and ACWA Joint Powers Insurance Authority, Calaveras-Amador Mokelumne River Authority, Calaveras Public Power Agency, Tuolumne-Stanislaus Integrated Regional Water Management Joint Powers Authority, Upper Mokelumne River Watershed Authority, and Eastern San Joaquin Groundwater Authority.

Basis of Presentation – Fund Accounting: The District's resources are allocated to and accounted for in these basic financial statements using the enterprise fund type of the proprietary fund group. A fund is a self-balancing set of accounts. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

primarily through user charges. Net position for the enterprise fund represents the amount available for future operations.

The District reports the following major proprietary funds:

Water Fund — This fund accounts for the activities of providing water to rate payers of the District.

Sewer Fund — This fund accounts for the activities of providing sewer management to rate payers of the District.

Public Financing Authority Fund— This fund accounts for the activities of the Calaveras County Water District Public Financing Authority. The Authority was established to assist the District in the issuance of certain debt used for a water pipeline project, as discussed in Note D.

The District also reports the following fiduciary fund:

Agency Fund — This fund is used to account for assets held by the District as an agent for nine special assessment districts within its boundaries used to finance improvements within the special assessment districts, including improvements financed with special assessment bonds.

Basis of Accounting: The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise funds are accounted for on the flow of economic resources measurement focus and agency funds have no measurement focus. Under the flow of economic resources measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the fund are included on the balance sheet. Net position is segregated into the net investment in capital assets, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. Enterprise funds and agency funds use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Operating revenues and expenses consists of those revenues and expenses that result from the ongoing principal operations of the District, including providing water service, water supply development and planning, wastewater treatment and disposal and recycling. Operating revenues consist primarily of water sales, sewer charges and related fees. Operating expenses consist of the cost of sales and services, administration and depreciation on capital assets. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities. Cost reimbursement grant revenues are recognized as revenue when the reimbursable costs are incurred under the accrual basis of accounting.

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.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the District considers all highly liquid investments with original maturity of three months or less, including restricted assets, to be cash equivalents, which includes investments in the California Local Agency Investment Fund (LAIF), money market mutual funds and certificates of deposit.

Accounts Receivable: Billed, but unpaid, services provided to individuals or non-governmental entities are recorded as accounts receivable. Receivables include a year-end accrual for water and sewer utility services provided through the end of the fiscal year that were not billed at year-end. Accounts receivable are reported net of an allowance for uncollectible accounts of \$33,975 and \$16,765 for the Water and Sewer Funds, respectively.

Restricted Assets: Restricted assets consist of unspent expansion and capital renovation and replacement (R & R) fees that are restricted to certain expansion and construction projects. Restricted Sewer Fund assets also include the interfund loan made to the Water Fund described below. Restricted Public Financing Authority Fund assets include

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

unspent U.S. Department of Agriculture bond proceeds that are restricted to future bond payments. Fiscal agent cash and cash equivalents in the Agency Funds represents amounts required to be held for future debt payments by the related bond indenture. Amounts payable from restricted assets in the Water and Sewer Funds at June 30, 2017 totaled \$4,121,352 and \$1,548,417, respectively, including accounts payable and principal and accrued interest payable on the Umpqua Bank 2014 Water and Sewer Revenue Loans as described in Note D.

Interfund Transactions: During the course of operations, numerous transactions occur between individual enterprise funds that may result in an amount owed between funds. “Due to and from other funds” represents short-term interfund receivables and payables. Interfund loans represent the noncurrent portion of interfund borrowings. The interfund loan outstanding at year-end represents Sewer Fund expansion fees authorized by the Board of Directors to be used on the District’s headquarters project, which is reported in the Water Fund. Repayment terms are discussed in Note E.

Capital Assets: Capital assets are recorded at historical cost. Donated capital assets are recorded at the acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation and amortization are calculated using the straight-line method over the following estimated useful lives.

	<u>Years</u>
Buildings	50
Improvements other than buildings	15 - 50
Machinery and equipment	4 - 10
Vehicles	8 - 10
Computer equipment and software	3 - 4

It is the District’s policy to capitalize assets with a cost of \$5,000 or more with useful lives in excess of one year. The cost of assets sold or retired (and the related amounts of accumulated depreciation) is eliminated from the balance sheet in the year of sale or retirement, and the resulting gain or loss is recognized in operations.

Deferred Inflows and Outflows of Resources: In addition to assets and liabilities, the balance sheet will sometimes report separate sections for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position by the government that is applicable to a future reporting period. Deferred inflows of resources represent an acquisition of net position that is applicable to a future reporting period. These amounts will not be recognized as an outflow of resources (expense) or an inflow of resources (revenue) until the earnings process is complete. Deferred outflows and inflows of resources include amounts deferred related to the District’s pension plans under GASB Statement No. 68 as described in Note I.

Compensated Absences: A total of 22 to 32 days of Personal Time Off (PTO) leave per year may be accumulated by each employee. Compensation time and holiday hours are also accrued as compensated absences. Employees are paid 100% of their PTO leave hours upon death, termination or retirement. The liability for compensated absences is recorded as a liability in the statement of net position. The current portion of this liability is estimated based on historical trends. The cost of compensated absences is recorded in the period it is incurred and is liquidated in the Water and Sewer Funds.

Pensions: For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the District’s CalPERS plan (Plan) and additions to/deductions from the Plan’s 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. Plan investments are reported at fair value.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Principles: The Board of Directors does not operate under any legal budgeting constraints. Budget integration is employed as a management control device. Budgets are formally adopted by the Board and take effect on each July 1.

Use of 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. The District allocates general and administrative expenses 74% to the Water Fund and 26% to the Sewer Fund according to the relative number of water and sewer accounts.

Property Taxes: Secured and unsecured property taxes are levied on July 1 by the County of Calaveras. Secured property taxes are due in two installments, the first installment is due on November 1 and delinquent with penalties after December 10; the second installment is due February 1 and delinquent with penalties after April 10th, on property taxes assessed on July 1. Unsecured property taxes are payable in one installment on or before August 31. Property tax revenues are recognized in the fiscal year in which they are levied.

Comparative Totals: The financial statements include certain prior-year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2016 from which the summarized information was derived.

Reclassifications: Certain 2016 expense balances have been reclassified to conform to the 2017 financial statement presentation. These reclassifications had no effect on total assets, liabilities, net position or change in net position.

New Pronouncements: In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. This Statement replaces the requirements of GASB Statement No. 45 and requires governments responsible for OPEB liabilities related to their own employees to report a net OPEB liability on the face of the financial statements. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan. Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees. This Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. This Statement is effective for periods beginning after June 15, 2017.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. This Statement amends the blending requirements for component units to add an additional criterion that requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member per the articles of incorporation or by-laws and the component unit is included in the financial reporting entity pursuant to provisions in paragraphs 21-37 of Statement 14, as amended. The requirements of this Statement are effective for the years beginning after June 15, 2016.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, this Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

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

NOTE B – CASH AND INVESTMENTS

Cash and investments were reported in the financial statements as follows at June 30, 2017:

	Proprietary Funds	Fiduciary Funds	Total
Cash and cash equivalents	\$ 7,519,203	\$ 1,093,452	\$ 8,612,655
Investments	1,191,914		1,191,914
Restricted cash and cash equivalents	17,894,220		17,894,220
Restricted cash and cash equivalents with fiscal agents		521,862	521,862
Restricted investments	3,266,435		3,266,435
	<u>3,266,435</u>	<u>521,862</u>	<u>3,266,435</u>
Total cash and investments	<u>\$ 29,871,772</u>	<u>\$ 1,615,314</u>	<u>\$ 31,487,086</u>

Cash and investments were classified according to GASB Statement No. 40 as follows at June 30, 2017:

	Proprietary Funds	Fiduciary Funds	Total
Cash on hand	\$ 600		\$ 600
Bank deposits	4,844,340	\$ 658,843	5,503,183
Total cash and deposits	<u>4,844,940</u>	<u>658,843</u>	<u>5,503,783</u>
Medium term corporate notes	93,338		93,338
Local Agency Investment Fund (LAIF)	20,568,483	434,609	21,003,092
Non-negotiable certificates of deposit	4,365,011		4,365,011
Investments with fiscal agents:			
Money market mutual funds		205,624	205,624
Local Agency Investment Fund (LAIF)		316,238	316,238
Total investments	<u>25,026,832</u>	<u>956,471</u>	<u>25,983,303</u>
Total cash and investments	<u>\$ 29,871,772</u>	<u>\$ 1,615,314</u>	<u>\$ 31,487,086</u>

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE B – CASH AND INVESTMENTS (Continued)

Investment policy: California statutes authorize governments to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 – Financial Affairs. The table below identifies the investment types that are authorized by the California Government Code (or the District’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. The District’s permissible investments included the following instruments:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Minimum Credit Quality
Local district bonds	5 years	50%	AA
U.S. Treasury obligations	5 years	100%	N/A
State of California obligations	5 years	100%	A
Other state obligations	5 years	20%	AA
California local district obligations	5 years	50%	AA
U.S. agency securities	5 years	100%	AAA
Bankers acceptances	180 days	40%	A
Commercial paper	270 days	25%	AA
Negotiable certificates of deposit	5 years	30%	N/A
Repurchase agreements	1 year	20%	None
Reverse repurchase agreements	92 days	20% of base	A
Medium term corporate notes	5 years	30%	A
Money market mutual funds	N/A	20%	(1)
Joint Powers Authority	N/A	20%	None
Collateralized bank deposits	5 years	20%	AA
Time deposits	2 years	20%	N/A
Local Agency Investment Fund (LAIF)	N/A	No limit	N/A
County pooled investment funds	N/A	30%	None
Non-negotiable certificates of deposit	2 years	40%	None

(1) Must be the highest rating by 2 of the 3 nationally recognized rating agencies.

The District complied with the provisions of the California Government Code pertaining to the types of investments held, the institutions in which deposits were made and the security requirements.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE B – CASH AND INVESTMENTS (Continued)

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 agreements. These funds are unexpended bond 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 statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Minimum Credit Quality
Local district bonds	5 years	None	None
U.S. Treasury obligations	5 years	None	None
State of California obligations	5 years	100%	None
Other state obligations	5 years	None	None
California local district obligations	5 years	None	None
U.S. agency securities	5 years	None	None
Bankers acceptances	180 days	40%/30%	None
Commercial paper	270 days	25% or 10%	A1/P1/F1
Negotiable certificates of deposit	5 years	30%	None
Repurchase agreements	1 year	None	Various
Reverse repurchase agreements	92 days	20% of base	A
Medium term corporate notes	5 years	30%	A or >
Money market mutual funds	N/A	20%	(1)
Joint Powers Authority	N/A	None	None
Collateralized bank deposits	5 years	None	AA
Time deposits	5 years	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
County pooled investment funds	N/A	None	None
Non-negotiable certificates of deposit	5 years	100%	None

(1) Must be highest rating by 2 of 3 of the nationally recognized rating agencies.

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.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided in the following table that shows the distribution of the District's investments by maturity at June 30, 2017:

Investment Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months
Medium term corporate notes	\$ 93,338	\$ 93,338		
LAIF	21,003,092	21,003,092		
Non-negotiable certificates of deposit	4,365,011	2,069,761	\$ 322,270	\$ 1,972,980
Investments with fiscal agent:				
Money market mutual funds	205,624	205,624		
LAIF	316,238	316,238		
Total Investments	\$ 25,983,303	\$ 23,688,053	\$ 322,270	\$ 1,972,980

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE B – CASH AND INVESTMENTS (Continued)

California Local Agency Investment Fund: The District is a voluntary participant in the Local Agency Investment Fund (LAIF), which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The District reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills and corporate securities. The carrying value of LAIF approximates fair value.

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. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type at June 30, 2017.

Investment Type	Total	Minimum Rating	Ratings as of Year End Not Rated
Medium term corporate notes ⁽¹⁾	\$ 93,338	A	\$ 93,338
LAIF	21,003,092	N/A	21,003,092
Non-negotiable certificates of deposit	4,365,011	None	4,365,011
Investments with fiscal agent:			
Money market mutual funds	205,624	N/A	205,624
LAIF	316,238	N/A	316,238
Total Investments	<u>\$ 25,983,303</u>		<u>\$ 25,983,303</u>

(1) Investment in Lehman Brothers note. Corporation filed for bankruptcy in 2008 and rating was withdrawn.

Concentration of Credit Risk: The investment policy of the District limits the amount that can be invested in any one issuer by the California Government Code. The California Government Code limits the amount that may be invested in any one issuer, as disclosed in the preceding table. GASB Statement No. 40 requires disclosure of investments with one issuer exceeding 5% of total investments, with the exception of U.S. Treasury obligations, mutual funds and external investment pools.

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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE B – CASH AND INVESTMENTS (Continued)

At June 30, 2017, the carrying amount of the District's deposits, including Agency Fund deposits and certificates of deposit, was \$9,868,194 and the balance in financial institutions was \$10,043,145. Of the balance in financial institutions, \$2,256,500 was covered by federal depository insurance and the remaining amount of \$7,786,645 was secured by a pledge of securities by the financial institution, but not in the name of the District. The California local district obligations, medium term corporate notes and money market mutual funds are held by the same broker-dealers (counterparty) used by the District to buy the securities.

On September 15, 2008, Lehman Brothers Holdings Inc. declared bankruptcy, which has had a direct and negative impact on the District's investment holdings. After consultation with the District's investment broker, the District decided to permanently write-down the carrying amount of the securities to the estimated recoverable market value and hold the securities through the bankruptcy proceedings. There is a market for selling the security and the District is able to determine a fair value. As of June 30, 2017, the District carried the Lehman securities at the estimated recoverable fair value provided by the investment broker of \$93,338. The amount ultimately recovered may differ from this estimate. The District recovered \$43,242 on the securities during the year-ended June 30, 2017.

Investment in LAIF: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The total fair value of amounts invested on June 30, 2017 by all public agencies in LAIF was \$77,539,216,146 which is managed by the State Treasurer. Of that amount, .64% is invested in non-derivative financial products and 2.25% in structured notes and asset-backed financial instruments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Fair Value Measurements: The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2017:

- Medium term corporate notes of \$93,338 are valued based on the estimated recoverable value based on information learned during the Lehman Brothers Holdings Inc. bankruptcy, which includes unobservable inputs (Level 3 inputs).

The District's investment in LAIF, non-negotiable certificates of deposit and money market mutual funds are not subject to fair value measurements or are measured at the net asset value of the underlying investments.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE C – CAPITAL ASSETS

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

	Balance at July 1, 2016	Additions	Retirements	Transfers and Adjustments	Balance at June 30, 2017
Capital assets, not being depreciated:					
Land	\$ 13,702,378		\$ (92,305)		\$ 13,610,073
Construction in progress	3,038,894	\$ 4,818,692		\$ (1,662,871)	6,194,715
Total capital assets, not being depreciated	<u>16,741,272</u>	<u>4,818,692</u>	<u>(92,305)</u>	<u>(1,662,871)</u>	<u>19,804,788</u>
Capital assets, being depreciated:					
Buildings	18,603,518				18,603,518
Utility system - infrastructure	153,152,237	43,500		1,662,871	154,858,608
Machinery and equipment	17,530,666	398,321			17,928,987
Total capital assets, being depreciated	<u>189,286,421</u>	<u>441,821</u>		<u>1,662,871</u>	<u>191,391,113</u>
Less accumulated depreciation for:					
Buildings	(9,915,816)	(357,141)			(10,272,957)
Utility system - infrastructure	(72,042,099)	(3,086,945)			(75,129,044)
Machinery and equipment	(15,815,786)	(382,836)			(16,198,622)
Total accumulated depreciation	<u>(97,773,701)</u>	<u>(3,826,922)</u>			<u>(101,600,623)</u>
Total capital assets, being depreciated, net	<u>91,512,720</u>	<u>(3,385,101)</u>		<u>1,662,871</u>	<u>89,790,490</u>
Total capital assets, net	<u>\$ 108,253,992</u>	<u>\$ 1,433,591</u>	<u>\$ (92,305)</u>	<u>\$ -</u>	<u>\$ 109,595,278</u>

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE D – LONG-TERM LIABILITIES

The activity of the District’s long-term liabilities during the year ended June 30, 2017 was as follows:

	Balance at July 1, 2016	Additions	Retirements	Balance at June 30, 2017	Current Portion
Water Fund:					
Series 2013 Refunding Water Revenue Loan	\$ 2,165,370		\$ (1,722,644)	\$ 442,726	\$ 442,726
Umpqua Bank 2014 Water Revenue Loan	4,061,933			4,061,933	650,340
Wallace WestAmerica Loan	70,049		(70,049)		
U.S. Bureau of Reclamation Note - Hogan	363,169		(40,878)	322,291	40,464
Umpqua Bank Pension Loan	538,064		(181,488)	356,576	192,153
Total Water Fund loans and notes	7,198,585		(2,015,059)	5,183,526	1,325,683
Compensated absences	531,648	\$ 478,741	(451,901)	558,488	476,900
Total Water Fund liabilities	7,730,233	478,741	(2,466,960)	5,742,014	1,802,583
Sewer Fund:					
Series 2013 Refunding Sewer Revenue Loan	93,518		(74,398)	19,120	19,120
Umpqua Bank 2014 Sewer Revenue Loan	1,779,728		(284,936)	1,494,792	347,418
Vac-Con Truck Loan	136,433		(67,494)	68,939	68,939
Wallace WestAmerica Loan	24,612		(24,612)		
U.S. Bureau of Reclamation Note - Hogan	127,600		(14,363)	113,237	14,217
Umpqua Bank Pension Loan	310,618		(110,045)	200,573	108,086
Total Sewer Fund loans and notes	2,472,509		(575,848)	1,896,661	557,780
Compensated absences	331,771	299,412	(282,005)	349,178	296,000
Total Sewer Fund liabilities	2,804,280	299,412	(857,853)	2,245,839	853,780
Public Financing Authority Fund:					
Series 2016 Water Enterprise Revenue Bonds	192,215	2,429,785		2,622,000	42,700
Total long-term liabilities	\$ 10,726,728	\$ 3,207,938	\$ (3,324,813)	\$ 10,609,853	\$ 2,699,063

Description of Water Fund Loans and Notes:

Series 2013 Refunding Water Revenue Loan: On February 1, 2013, the District obtained a loan from Compass Mortgage Corporation in the amount of \$7,188,541 to refund the 2004 Revenue Bonds. The loan is payable from a pledge on the District’s net water revenues as defined in the agreement and the District must collect rates, fees and charges during the term of the loan that are at least equal to 125% of the debt service payments on this loan and all other parity debt. Annual principal payments are due each September 1 with one remaining principal payment of \$442,726 and one remaining semi-annual interest payment of \$3,498, at 1.58% through September 1, 2017.

Umpqua Bank 2014 Water Revenue Loan: In April 2014, the District obtained a loan from Umpqua Bank for \$4,061,933 to fund various water improvement projects. The loan is payable from a pledge on the District’s net water revenue as defined in the agreement and the District must collect rates, fees and charges during the term of the loan that are at least equal to 125% of the debt service payments on this loan and all other parity debt. Semi-annual principal and interest payments ranging from \$365,000 to \$593,471 are due beginning in September 1, 2017 through March 1, 2021. The interest rate on the loan is 2.12%.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE D – LONG-TERM LIABILITIES (Continued)

Description of Sewer Fund Loans and Notes:

Series 2013 Refunding Sewer Revenue Loan: On February 1, 2013, the District obtained a loan from Compass Mortgage Corporation in the amount of \$310,459 to refund the 2004 Revenue Bonds. The loan is payable from a pledge on the District's net wastewater revenue as defined in the agreement and the District must collect rates, fees and charges that are at least equal to 125% of the debt service payments on this loan and all other parity debt. Annual principal payments are due each September 1 with one remaining principal payment of \$19,120 and one remaining semi-annual interest payment of \$151 at 1.58% through September 1, 2017.

Umpqua Bank 2014 Sewer Revenue Loan: In April 2014, the District obtained a loan from Umpqua Bank for \$2,337,528 to fund various wastewater improvement projects. The loan is payable from a pledge on the District's net wastewater revenue as defined in the agreement and the District must collect rates, fees and charges during the term of the loan that are at least equal to 125% of the debt service payments on this loan and all other parity debt. Semi-annual principal and interest payments ranging from \$189,928 to \$199,605 are due each September 1 and March 1 at 2.12% through September 1, 2021.

Vac-Con Truck Loan: On April 25, 2013, the District obtained a loan from Umpqua Bank in the amount of \$328,623 for the purchase of a Vac-Con truck. The loan is payable from a pledge on the District's net wastewater revenue as defined in the agreement and the District must collect rates, fees and charges that are at least equal to 140% of the debt service payments on the loan. The loan is paid quarterly in installments of \$17,628 which includes interest at 2.675%. The loan matures April 2018.

Description of Shared Water Fund and Sewer Fund Loans and Notes:

Wallace WestAmerica Loan: The District assumed a loan from Wallace Community Services District to WestAmerica Bank in the amount of \$120,934 to take ownership of a wastewater treatment plant equalization tank owned by the Wallace Community Services District. The loan is payable from a pledge on the District's net water and wastewater revenue as defined in the agreement and the District must collect rates, fees and charges that are at least equal to 115% of the debt service payments on the loan and all other parity debt. The loan is paid annually in installments of \$14,944 due each August 29. The loan includes interest at 5.5% and was paid off as of June 30, 2017.

U.S. Bureau of Reclamation Note: Under the terms of a contract dated August 25, 1970, between the United States of America, the Stockton-East Water District and Calaveras County Water District, the two districts agreed to repay the United States of America 36.2% of the construction cost of the New Hogan Dam, excluding recreation features. Under the terms of a side agreement, the payment of all obligations under the Bureau contract is split between the two districts, whereby Stockton-East Water District is responsible for 43.5% of the repayments and Calaveras County Water District is responsible for 56.5% of the payments. The agreement required the Calaveras County Water District to make annual payments based on a variable computation to Stockton-East Water District through 2010 with no interest. The unpaid balance at September 2010 began to bear interest at 4.5%. Annual principal payments range from \$54,279 to \$54,680 and annual interest payments range from \$2,443 to \$17,206 through June 30, 2024. The remaining balance on the contract at June 30, 2017, is \$435,528.

The contract also requires the District to make payments to Stockton-East Water District for the Calaveras County Water District's share of expenses for operations, maintenance, replacements and contract administration. These costs are expensed as incurred.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE D – LONG-TERM LIABILITIES (Continued)

Umpqua Bank Pension Loan: On March 28, 2012, the District obtained a loan from Umpqua Bank for \$1,974,792 in order to pay off its side-fund with CalPERS in the same amount. The side fund represented the District’s unfunded pension liability when the District joined a CalPERS cost-sharing pension plan. The loan is paid in monthly payments of \$26,051 including interest at 2.9%, maturing on April 1, 2019. The loan is secured by a pledge of two certificates of deposit in the amount of \$635,532 at June 30, 2017, maturing by 2018 and 2019.

Description of Public Financing Authority Fund Debt:

U.S. Department of Agriculture Bonds: On June 16, 2016, the Calaveras County Water District Public Financing Authority issued Series 2016 Water Enterprise Revenue Bonds with a borrowing limit of \$2,622,000 to assist in the funding of the Ebbetts Pass Reach 3A Pipeline Replacement Project. The Bonds will be paid solely from installment sale payments made from the District’s net water system revenues to purchase the project assets. The bonds will be paid annually each September 1 in principal amounts ranging from \$42,700 to \$99,500 and semi-annual interest payments ranging from \$1,119 to \$28,803 at 2.25% from September 1, 2017 to September 1, 2055.

The annual requirements to amortize the outstanding loans and notes payable at June 30, 2017 were as follows:

Years ending June 30	Water Fund			Sewer Fund			Public Financing Authority Fund		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 1,325,683	\$ 107,988	\$ 1,433,671	\$ 557,780	\$ 39,753	\$ 597,533	\$ 42,700	\$ 57,819	\$ 100,519
2019	1,317,894	35,841	1,353,735	481,015	27,788	508,803	43,700	57,543	101,243
2020	1,177,420	23,725	1,201,145	396,594	17,828	414,422	44,700	56,548	101,248
2021	1,202,091	13,594	1,215,685	404,903	8,879	413,782	45,700	55,531	101,231
2022	40,463	5,449	45,912	14,217	1,915	16,132	46,700	54,492	101,192
2023-2027	119,975	5,436	125,411	42,152	1,910	44,062	249,600	256,043	505,643
2028-2032							278,900	226,344	505,244
2033-2037							311,800	193,095	504,895
2038-2042							348,400	156,049	504,449
2043-2047							389,600	114,575	504,175
2048-2052							435,300	68,226	503,526
2053-2056							384,900	17,619	402,519
	<u>\$ 5,183,526</u>	<u>\$ 192,033</u>	<u>\$ 5,375,559</u>	<u>\$ 1,896,661</u>	<u>\$ 98,073</u>	<u>\$ 1,994,734</u>	<u>\$ 2,622,000</u>	<u>\$ 1,313,884</u>	<u>\$ 3,935,884</u>

Pledged Revenues: The District has pledged future Water Fund and Sewer (wastewater) Fund revenues, net of specified operating expenses, to repay each of its Water Fund, Sewer Fund and Public Financing Authority loans and bonds as described above. Proceeds from the loans and bonds were used to fund certain water and sewer improvements, to purchase capital assets or refund certain prior debt issuances as described above. The loans and bonds are payable through September 1, 2055. Annual principal and interest on the loans and bonds are expected to be 75% or less (60% or less for the Vac-Con truck loan) of net revenues as required by the loan and bond covenants. Total principal and interest remaining to be paid on the loans and bonds are reported in the “Total” column for the Water Fund and Sewer Fund on the table above. Total principal and interest paid on all debt payable from net revenues in the Water and Sewer Funds was \$2,212,608 and \$651,239, respectively, and total water and sewer system net revenues were \$4,941,696 and \$1,515,533 for the year ended June 30, 2017. At June 30, 2017, the District’s total water and sewer system net revenues were 223% and 233% of debt service payments, respectively, as described in the debt service coverage ratio calculation in the Other Supplementary Information section of the financial statements.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE E – INTERNAL LOAN

On January 11, 2012, the Board of Directors approved a loan of \$3,000,000 from certain water and sewer expansion funds to pay for the construction of the District’s operations headquarters. This resulted in an internal loan of \$1,970,000 from the Sewer Fund to the Water Fund at June 30, 2017. The internal loan will be repaid over ten years at an interest rate of 2.5% or the weighted average of the District’s current return on investments each year, whichever is higher. The internal loan will be repaid on an "interest only" basis for the first five years and then principal payments of \$645,741 will be made each year thereafter in addition to yearly interest payments. On June 30, 2012, the Board of Directors approved a loan from the District’s Reserve Fund to cover debt service.

As part of the fiscal year 2017-18 budget adoption (June 28, 2017), the Board approved delaying the start of the principal pay down one year (to fiscal year 2018-19), which extends the “interest only” period to six years. Thus, the revised term will be eleven years, including six years with interest only payments and five years with principal and interest payments.

On June 13, 2012, the Board of Directors approved a loan from the District’s Reserve fund to cover debt service payments for the Jenny Lind Water Expansion Fund Loan. The outstanding loan balance as of June 30, 2017 was \$1,507,735. This resulted in an internal loan of \$383,015 from the Sewer Fund to the Water Fund at June 30, 2017. The Jenny Lind Water Expansion Fund debt service obligation continues through fiscal year 2017/18, at which time additional internal loan funds may be necessary. The internal loan is non-interest bearing and will be repaid from new connection fees from the Jenny Lind service area.

NOTE F – INTERFUND TRANSACTIONS

Interfund balances at June 30, 2017 were as follows:

<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Amount</u>
Water Fund	Sewer Fund	\$ 716,110
	Public Financing Authority	<u>346,633</u>
Total due to/from		<u>\$ 1,062,743</u>

Due from/to other funds typically result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, (3) payments between funds are made, or (4) revenue earned by a fund is not received until just after the end of the fiscal year. The amount the Sewer Fund owed to the Water Fund represents a cash deficit subsidized by the Water Fund, which does not bear interest. The Sewer Fund has not demonstrated the ability to repay the interfund borrowing within one year of the financial statement date. The District is reviewing possible funding solutions to this operating deficit. The amount the Public Financing Authority Fund owed the Water Fund was related to construction in process paid by the Water Fund on the Public Financing Authority Fund’s behalf until a U.S. Department of Agriculture grant for eligible expenditures related to the Ebbetts Pass Pipeline Project is received. The Public Financing Authority Fund’s due from/to balance is anticipated to be repaid within the next fiscal year.

Interfund transfers for the year ended June 30, 2017 were as follows:

<u>Fund Receiving Transfer</u>	<u>Fund Making Transfer</u>	<u>Amount</u>
Water Fund	Public Financing Authority	\$ 2,718
Public Financing Authority Fund	Water Fund	<u>16,188</u>
Total interfund transfers		<u>\$ 18,906</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the funds that statute or budget requires to expend them, (2) move receipts restricted to debt service from the Funds collecting the receipts to the debt service fund as debt service payments become due and (3) subsidize operating losses.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE G – SPECIAL ASSESSMENT DISTRICT DEBT

The District acts as agent for the bondholders of five of the nine special assessment districts in the District’s service area. Each of these special assessment districts has issued bonds to finance improvements within the related district. The bonds are secured solely by liens on real property in the related assessment district. Calaveras County collects special assessments from the property owners in these special assessment districts. The special assessments collected are forwarded to the District, which directs payment to the bondholders through the designated paying agent. The District is not obligated in any manner in the event of default of this debt, which is not included in the District's financial statements. The outstanding principal amounts of these special assessment bonds at June 30, 2017, were as follows:

<u>District</u>	<u>Amount</u>
Westpoint Acres #3A	\$ 27,000
Arnold Sewer #9S4 A/B	147,000
Saddle Creek Refinance 2001	2,015,000
DaLee/Cassidy	795,000
Fly-In Acres	<u>1,840,000</u>
Total	<u>\$ 4,824,000</u>

Additionally, the La Contenta Assessment District (AD 604) remains in default/foreclosure. The District will continue to act as the agent for La Contenta as foreclosure counsel works with the remaining three delinquent property owners. One property was sold in November 2016 by the Calaveras County Treasurer-Tax Collector in a Public Auction for non-payment of property taxes. The County notified the District that there are excess proceeds available after the sale and the District is in the process of claiming excess proceeds. The other two properties are in foreclosure and have had summary judgements filed against them. At this time the value of the properties (both unimproved) are significantly less than the lien amounts.

NOTE H – NET POSITION

Net Position: Net position is categorized as the net investment in capital assets, restricted and unrestricted.

Net Investment in Capital Assets – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Net position restricted for expansion and construction consisted of unspent capital renovation and replacement (R&R) and expansion fee revenues, offset by liabilities recorded at year-end.

Unrestricted Net Position – This category represents net position not restricted for any project or other purpose.

Designations of Unrestricted Net Position: Designations of unrestricted net position may be imposed by the Board of Directors to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action. They are reported as part of the District’s unrestricted net position.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE H – NET POSITION (Continued)

Designations of unrestricted net position consisted of the following designations limited to the amount of unrestricted net position available to designate in each fund and the amounts as approved by the Board of Directors at June 30, 2017:

	Limited to Unrestricted Net Position			As Approved		
	Water Fund	Sewer Fund	Public Financing Authority Fund	Water Fund	Sewer Fund	Public Financing Authority Fund
Designated:						
90 Day Emergency Operating Reserve	\$ 2,261,222			\$ 2,960,000	\$ 1,040,000	
Water Rights Reserve	3,000,000			3,000,000		
CIP Cash Flow Reserve	1,258,000			1,258,000	442,000	
Special Projects Reserve	984,381			984,381	345,863	
Total designated	7,503,603					
Undesignated		\$ (1,352,045)	\$ (43,619)	\$ 8,202,381	\$ 1,827,863	\$ -
Total unrestricted net position	\$ 7,503,603	\$ (1,352,045)	\$ (43,619)			

NOTE I – PENSION PLAN

Plan Description: All qualified permanent and probationary employees are eligible to participate in the District’s cost-sharing multiple employer defined benefit pension plan (the Plan) administered by the California Public Employees’ Retirement System (CalPERS). The District participates in the Miscellaneous Risk Pool and the following rate plans:

- Miscellaneous Plan First Tier
- Miscellaneous Plan Second Tier
- PEPRA Miscellaneous Plan

Benefit provisions under the Plan are established by State statute and Board resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

Benefits Provided: CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 (52 for PEPRA Miscellaneous Plan) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is the following: the Optional Settlement 2W Death Benefit. The cost of living adjustments for each rate plan are applied as specified by the Public Employees’ Retirement Law. Plan provisions and benefits in effect for the year ended June 30, 2017 are summarized as follows:

Hire date	Miscellaneous Plan First Tier	Miscellaneous Plan Second Tier	PEPRA Miscellaneous Plan
	(Prior to August 1, 2012)	(August 1, 2012 to December 31, 2012)	(On or after January 1, 2013)
Benefit formula (at full retirement)	2.7% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.00-2.70%	1.092%-2.418%	1.0% to 2.5%
Final average compensation period	One year	Three years	Three years
Required employee contribution rates	7.949%	6.886%	6.250%
Required employer contribution rates	11.634%	7.159%	6.555%

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE I – PENSION PLAN (CONTINUED)

The first-tier rate plan is closed to all new participants while the second tier rate plan is closed to new members that are not already CalPERS eligible participants.

Contributions: Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans 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. For the year ended June 30, 2017 the employer contributions for the Plan (all rate plans combined) were \$946,214, including the contribution for the employer unfunded accrued liability.

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions: As of June 30, 2017 the District reported a net pension liability for its proportionate share of the net pension liability of the Plan (all rate plans combined) of \$8,797,338.

The District’s net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan as of June 30, 2017 is measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures as required by GASB Statement No. 68. 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 the Plan as of June 30, 2017 was as follows:

Proportion - June 30, 2016	0.25186%
Proportion - June 30, 2017	0.25324%
Change - Increase (Decrease)	0.00138%

For the year ended June 30, 2017 the District recognized pension expense of \$747,760. At June 30, the District reported deferred outflows of resources and deferred inflows of resources related to the pension plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 946,214	
Differences between actual and expected experience	30,588	\$ (7,008)
Changes in assumptions		(289,386)
Differences between the employer's contributions and the employer's proportionate share of contributions	227	(65,339)
Change in employer's proportion	556,500	(23,352)
Net differences between projected and actual earnings on plan investments	1,506,158	
Total	<u>\$ 3,039,687</u>	<u>\$ (385,085)</u>

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE I – PENSION PLAN (Continued)

The \$946,214 reported as deferred outflows of resources at June 30, 2017 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, 2018. Other amounts reported as net deferred outflows (inflows) of resources related to pensions will be recognized as pension expense as follows as of June 30, 2017:

Year Ended June 30	
2017	\$ 317,678
2018	317,781
2019	682,817
2020	<u>390,112</u>
Total	<u>\$ 1,708,388</u>

Actuarial Assumptions: The total pension liabilities in the June 30, 2016 actuarial valuations for each of the rate plans were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	2.75%
Projected Salary Increase	Varies by Entry Age and Service (1)
Investment Rate of Return	7.65%
Mortality	Derived using CalPERS Membership Data for all Funds (2)

(1) Varying by service, including inflation.

(2) The mortality table used was developed based on CalPERS specific data. The mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can be found on the CalPERS website under Forms and Publications.

Discount Rate: The discount rates used by CalPERS to measure the total pension liability was 7.65% in the June 30, 2015 valuation for each rate plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each rate plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans are projected to run out of assets. Therefore, the current discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset/Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require CalPERS Board action and proper stakeholder outreach.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE I – PENSION PLAN (Continued)

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

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

The table below reflects the long-term expected real rate of return by asset class for each of the rate plans as of the measurement date of June 30, 2016. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Debt Securities	20.0%	0.99%	2.43%
Inflation Assets	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	(0.55)%	(1.05)%
Total	100.0%		

- (a) An expected inflation of 2.5% used for this period.
- (b) An expected inflation of 3.0% 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:

	1% Decrease (6.65%)	Current Discount Rate (7.65%)	1% Increase (8.65%)
Net Pension Liability	\$ 13,443,327	\$ 8,797,338	\$ 4,957,659

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

Payable to the Pension Plan: At June 30, 2017 the District had \$55,637 of outstanding contributions payable to the Plan.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE J – OTHER POSTEMPLOYMENT BENEFITS PLAN

Plan Description: The District’s other postemployment benefits (OPEB) plan (the Plan) is an agent-multiple employer defined benefit healthcare plan administered by Public Agency Retirement Services (PARS). PARS maintains the Plan’s assets in a trust fund that complies with Section 115 of the Internal Revenue Code and provides administration of benefits and investment services. The Plan assets are invested by PARS together with assets of other participating employers. The Plan provides medical, dental and vision insurance benefits to eligible retirees and surviving spouses. Employees who retire directly from the District and their dependents are eligible for the District paid benefits if they meet the following criteria:

Medical Post Retirement Benefits: Employees hired by the District on or before July 31, 2001 who retire from the District with a minimum of five (5) years of service credit for work performed at the District may elect to be provided post-employment medical insurance coverage.

Employees hired by the District on or after August 1, 2001 who retire from the District with a minimum of five (5) years of service at the District and ten (10) years of CalPERS service credit are eligible to be provided post-employment medical coverage under the vesting schedule and provisions of Government Code 22893.

Dental and Vision Post Retirement Benefits: Employees hired on or before December 31, 2007 who retire from the District with at least five (5) years of service at the District may elect to be provided post-employment dental and vision coverage at no cost to the retiree.

Employees hired on or after January 1, 2008 will not receive any post-employment dental or vision coverage.

The District’s Board of Directors establishes and amends benefit provisions. The Plan does not issue a separate publicly available financial statement.

Funding Policy: Contribution requirements of plan members are established and may be amended by the Board of Directors. The District contributes, at a minimum, a percentage of the weighted average cost of the four basic health benefit plans that had the largest state enrollment in the previous benefit year. This percent is based upon each participant's years of service according to the following scale:

<u>Credited Years of Service</u>	<u>Percentage of the Weighted Average Cost</u>
Less than 10	0%
10	50%
11	55%
12	60%
13	65%
14	70%
15	75%
16	80%
17	85%
18	90%
19	95%
20 or more	100%

For the year ended June 30, 2017, the District made contributions of \$1,155,593, including \$543,585 for current premiums and an additional contribution of \$612,008 to prefund benefits. Plan members made no contributions.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE J – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

Annual OPEB Cost and Net OPEB Obligation: The District's annual 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 GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years. The following table shows the amount contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 746,759
Interest on net OPEB obligation	5,381
Adjustment to annual required contribution	(5,301)
Annual OPEB cost (expense)	<u>746,839</u>
Contributions made	<u>(1,155,593)</u>
Increase (decrease) in net OPEB obligation	(408,754)
Net OPEB obligation (asset), beginning of year	<u>(701,604)</u>
Net OPEB obligation (asset), end of year	<u><u>\$ (1,110,358)</u></u>

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

Year Ended June 30	Annual OPEB Cost	Contribution	Percentage of Annual OPEB Cost Contributed	Cumulative Net OPEB Obligation (Asset)
2015	\$ 694,543	\$ 1,072,066	154.36%	\$ (301,249)
2016	720,212	1,120,567	155.59%	(701,604)
2017	746,839	1,155,593	154.73%	(1,110,358)

Funded Status and Funding Progress: As of July 1, 2014, the most recent actuarial valuation date, the funded status of the Plan was as follows for the year ended June 30, 2017:

Actuarial accrued liability (AAL)	\$ 11,427,106
Actuarial value of Plan assets	5,023,691
Unfunded actuarial accrued liability (UAAL)	<u>\$ 6,403,415</u>
Funded ratio (actuarial value of Plan assets/AAL)	43.96%
Covered payroll	\$ 5,256,427
UAAL as percentage of covered payroll	121.82%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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 status and progress, as shown above, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the OPEB benefits provided

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE J – OTHER POSTEMPLOYMENT BENEFITS PLAN (Continued)

under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The actuarial calculations of the OPEB plan are designed to reflect a long-term perspective and include certain techniques used to reduce short-term volatility in the actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 2014 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 7.0% investment rate of return (net of administrative expenses), which is the expected long-term investment return and a 3.25% inflation factor. The initial health care cost trend rates were 6.4% reduced by decrements each year to an ultimate rate of 5.0% on January 1, 2021 and later. The dental cost trend rate was 4.0% and the vision cost trend rate was 2.0% for all years. The unfunded actuarial accrued liability (UAAL) is being amortized over thirty years on a closed basis. The remaining amortization period at June 30, 2015 is 24 years.

NOTE K – RISK MANAGEMENT

The District participates in the Association of California Water Agencies Joint Powers Insurance Authority (JPIA), a public entity risk pool of water agencies in California, for general, automobile, public officials errors and omissions liability, property damage and business interruption coverage. Through its membership in the JPIA, the District is provided with excess coverage for these items through commercial insurance. Loss contingency reserves established by the JPIA are funded by contributions from member agencies. The District pays an annual premium to the JPIA that includes its pro-rata share of excess insurance premiums, charges for pooled risk, claims adjusting and legal costs, and administrative and other costs to operate the JPIA. Financial statements for the JPIA may be obtained at 2100 Professional Drive, Roseville, California 95661-3700 or www.acwajpia.com.

The District’s self-insured retention levels and limits on coverage under the JPIA were as follows at June 30, 2016:

Coverage	ACWA/JPIA	Commercial Insurance	Deductible
General liability	\$ 5,000,000	\$ 55,000,000	None
Auto liability	5,000,000	55,000,000	\$ 1,000
Public officials liability	5,000,000	55,000,000	None
Property damage, including buildings, personal property, fixed equipment, mobile equipment and other	100,000	150,000,000	1,000 to 50,000
Crime	100,000	160,000	1,000
Workers compensation	2,000,000	Statutory	None
Employers liability	2,000,000	Statutory	None

Settled claims have not exceeded insurance coverage in any of the past three fiscal years and no significant changes or reductions in insurance coverage have occurred.

NOTE L — COMMITMENTS AND CONTINGENT LIABILITIES

The District had the following capital project commitments outstanding as of June 30, 2017:

Ebbetts Pass Reach 3A Pipeline Replacement	\$ 587,791
Ebbetts Pass Reach 1 Waterline Replacement	<u>429,820</u>
Total	<u>\$ 1,017,611</u>

CALAVERAS COUNTY WATER DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)

June 30, 2017

NOTE L — COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Grant Contingency: Amounts received or receivable under grant agreements are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, could possibly need to be returned to the granting agency. The amount, if any, of expenditures that may be disallowed by the grantors cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

Legal Contingencies: A claim was filed by La Contenta Investors, Ltd. (La Contenta), a local golf course, against the District where La Contenta claimed it is entitled to \$1.8 million in sewer credits under a contract provision that provides La Contenta with sewer credits in exchange for its use of recycled water for irrigation. If La Contenta prevails in the claim, the District would be required to provide up to \$1.8 million of credits for future sewer hookups to the District's system, less any credits previously exercised. Management does not believe La Contenta is due the full \$1.8 million of sewer credits.

Various other claims and suits are filed against the District in the normal course of business. Although the outcome of these claims is not presently determinable, in the opinion of the District's management, after consultation with counsel, the resolution of any claims outstanding will not have a material adverse effect on the financial condition of the District.

NOTE M — SUBSEQUENT EVENTS

On August 9, 2017, the District's Board of Directors approved a contract for design of the Copper Cove Wastewater Lift Stations 8, 12, 13 and Force Main Bypass Project and Copper Cover Wastewater Lift Stations 15 and 16 renovations project in the amount of \$3,999,500.

On August 23, 2017, the District's Board of Directors approved the sale of the former administration building and land to the Calaveras County Resource Conservation District for \$1 due to the significant costs to correct the building's Americans with Disabilities Act (ADA) deficiencies and asbestos contamination that made the rehabilitation or demolition of the building cost prohibitive. This sale resulted in a loss of approximately \$524,106.

On November 21, 2017, the District's Board of Directors approved a contract for the Jenny Lind Water Plant Pretreatment Project in the amount of \$3,418,000, which will be 75% funded by a Federal Emergency Management Agency (FEMA) grant. The project will result in the ability to pretreat water entering the Jenny Lind Water Treatment Plant to remove debris resulting from the Butte Fire.

REQUIRED SUPPLEMENTARY INFORMATION

CALAVERAS COUNTY WATER DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2017

**SCHEDULE OF THE PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY - MISCELLANEOUS PLAN (UNAUDITED)
Last 10 Years**

	June 30, 2017	June 30, 2016	June 30, 2015
Proportion of the Net Pension Liability	0.25186%	0.25186%	0.21557%
Proportionate Share of the Net Pension Liability	\$ 8,797,338	\$ 6,909,619	\$ 5,327,739
Covered - Employee Payroll - Plan Measurement Date	\$ 5,155,786	\$ 4,776,189	\$ 4,868,194
Proportionate Share of the Net Pension Liability as Percentage of Covered Payroll	170.63%	144.67%	109.44%
Plan Fiduciary Net Position	\$ 25,711,678	\$ 25,880,156	\$ 26,064,984
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.51%	78.93%	83.03%

**SCHEDULE OF CONTRIBUTIONS TO THE PENSION PLAN - MISCELLANEOUS PLAN (UNAUDITED)
Last 10 Years**

	June 30, 2017	June 30, 2016	June 30, 2015
Contractually Required Contribution (Actuarially Determined)	\$ 946,214	\$ 535,436	\$ 725,590
Contributions in Relation to the Actuarially Determined Contributions	946,214	535,436	725,590
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
Covered - Employee Payroll - Employer Fiscal year	\$ 5,256,427	\$ 5,155,786	\$ 4,776,189
Contributions as a Percentage of Covered - Employee Payroll	18.00%	10.39%	15.19%
Notes to Schedule:			
Valuation date:	June 30, 2015	June 30, 2014	June 30, 2013
Measurement date:	June 30, 2016	June 30, 2015	June 30, 2014
Investment Rate of Return and discount rate used to compute contribution rates	7.50%	7.50%	7.50%
Benefit Changes: There were no changes to benefit terms.			

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Method	Entry Age Normal Cost Method
Amortization Method	Difference Between Projected and Actual Earnings is Amortized Straight-line Over 5 Years. All Other Amounts are Amortized Straight-line Over Average Remaining Service Life of Participants
Remaining Amortization Period	Not Stated
Asset Valuation Method	5-year Smoothed Market
Inflation	2.75%
Salary Increases	Varies depending on Entry Age and Service
Retirement Age	50-67 Years. Probabilities of Retirement are Based on the 2010 CalPERS Experience Study for the Period 1997 to 2007.
Mortality	CalPERS Specific Data from January 2014 Actuarial Experience Study for the Period 1997 to 2011 that Uses 20 Years of Mortality Improvements Using Society of Actuaries Scale BB.

Covered payroll in the first table above was revised in 2017 to be the covered payroll at the measurement date.

Omitted Years: GASB Statement No. 68 was Implemented During the Year Ended June 30, 2015. No information was Available Prior to this Date. Future years will be reported prospectively as they become available.

CALAVERAS COUNTY WATER DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2017

SCHEDULE OF FUNDING PROGRESS FOR THE
 OTHER POSTEMPLOYMENT BENEFITS PLAN (UNAUDITED)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2015	\$ 3,966,537	\$ 10,368,516	\$ 6,401,979	38.26%	\$ 4,793,906	133.54%
June 30, 2016	4,471,207	10,880,088	6,408,881	41.10%	5,155,786	124.30%
June 30, 2017	5,023,691	11,427,106	6,403,415	43.96%	5,256,427	121.82%

OTHER SUPPLEMENTARY INFORMATION

CALAVERAS COUNTY WATER DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION
ASSESSMENT DISTRICT AGENCY FUND

June 30, 2017

(With Prior Year Data for Comparative Purposes Only)

	West Point Acres Fund	Wilseyville Fund	Arnold Sewer Fund	New Hogan/ La Contenta Fund	Lake Tulloch Fund
ASSETS					
Cash and cash equivalents	\$ 19,726	\$ 5	\$ 93,826	\$ 87,740	\$ 1
Interest receivable	26		122	114	
Tax proceeds receivable				12,938	
Due from County of Calaveras	730		1,620		
Restricted assets:					
Cash and cash equivalents with fiscal agents				2	
TOTAL ASSETS	<u><u>\$ 20,482</u></u>	<u><u>\$ 5</u></u>	<u><u>\$ 95,568</u></u>	<u><u>\$ 100,794</u></u>	<u><u>\$ 1</u></u>
LIABILITIES					
Accounts payable	\$ 372		\$ 959	\$ 423	
Notes payable					\$ 10,742
Due to other governments		\$ 5			(10,741)
Due to bond holders	20,110		94,609	100,371	
TOTAL LIABILITIES	<u><u>\$ 20,482</u></u>	<u><u>\$ 5</u></u>	<u><u>\$ 95,568</u></u>	<u><u>\$ 100,794</u></u>	<u><u>\$ 1</u></u>

Saddle Creek Fund	DaLee/ Cassidy Fund	Fly in Acres Fund	Wallace Fund	Totals for Comparative Purposes Only	
				2017	2016
\$ 514,358	\$ 71,215	\$ 99,465	\$ 207,116	\$ 1,093,452	\$ 1,093,033
667	92	129	269	1,419	781
252	3,646	6,764	2,345	12,938	
				15,357	21,262
<u>317,014</u>	<u>68,123</u>	<u>136,723</u>		<u>521,862</u>	<u>519,719</u>
<u>\$ 832,291</u>	<u>\$ 143,076</u>	<u>\$ 243,081</u>	<u>\$ 209,730</u>	<u>\$ 1,645,028</u>	<u>\$ 1,634,795</u>
\$ 2,045		\$ 592	\$ 575	\$ 4,966	\$ 1,141
				10,742	10,741
			209,155	198,419	247,794
<u>830,246</u>	<u>\$ 143,076</u>	<u>242,489</u>		<u>1,430,901</u>	<u>1,375,119</u>
<u>\$ 832,291</u>	<u>\$ 143,076</u>	<u>\$ 243,081</u>	<u>\$ 209,730</u>	<u>\$ 1,645,028</u>	<u>\$ 1,634,795</u>

CALAVERAS COUNTY WATER DISTRICT
OTHER SUPPLEMENTARY INFORMATION
DEBT SERVICE COVERAGE RATIO - WATER FUND

For the Years Ended June 30, 2017 and 2016

	2017	2016
REVENUES		
Water operating revenues	\$ 7,833,129	\$ 7,533,019
Property taxes	2,028,441	1,989,031
Investment income	173,643	133,621
Expansion Fees	541,297	1,285,255
Power sales	569,956	423,697
Capital R&R fees	3,216,530	3,117,700
Other income	146,804	47,009
TOTAL REVENUES	14,509,800	14,529,332
EXPENSES		
Total Operating Expenses	11,979,226	11,097,419
<i>Less: Depreciation</i>	(2,606,062)	(2,612,334)
Transfers (in)	(2,718)	(151,945)
Transfers out	16,188	55,129
TOTAL EXPENSES	9,386,634	8,388,269
NET REVENUES	5,123,166	6,141,063
Debt Service Payments *	1,846,745	1,830,334
Debt Coverage Ratio - Actual	2.77	3.36
Required Ratio - 2013 Refunding, 2014 Water Revenue Loans and 2016 Revenue Bonds	1.25	1.25
<i>Annual Debt Service Payments</i>		
<i>* Includes all debt payments, including Compass Bank (Series 2013 Refunding Water Revenue Loan), Umpqua Bank (Series 2014 Water Revenue Loan) and USDA (Series 2016 Water Enterprise Revenue Bonds).</i>		
NET REVENUES	\$ 5,123,166	\$ 6,141,063
Debt Service Payments (ALL)**	2,212,608	2,294,084
Debt Coverage Ratio - Actual	2.32	2.68
Required Ratio - Wallace WestAmerica Loan	1.15	1.15
Required Ratio - 2013 Refunding, 2014 Water Revenue Loans and 2016 Revenue Bonds	1.25	1.25

*** Includes all debt payments.*

CALAVERAS COUNTY WATER DISTRICT
OTHER SUPPLEMENTARY INFORMATION
DEBT SERVICE COVERAGE RATIO - SEWER FUND

For the Years Ended June 30, 2017 and 2016

	2017	2016
REVENUES		
Sewer operating revenues	\$ 4,324,363	\$ 4,288,048
Property taxes	712,695	698,848
Investment income	107,864	88,668
Expansion Fees	161,572	135,648
Power sales	199,532	148,866
Capital R&R fees	1,172,164	1,166,444
Other income	56,170	18,788
TOTAL REVENUES	6,734,360	6,545,310
EXPENSES		
Total Operating Expenses	6,514,946	6,380,387
<i>Less: Depreciation</i>	(1,220,860)	(1,227,377)
Transfers (in)		(39,474)
Transfers out		156,495
TOTAL EXPENSES	5,294,086	5,270,031
NET REVENUES	1,440,274	1,275,279
Debt Service Payments *	397,011	396,935
Debt Coverage Ratio - Actual	3.63	3.21
Required Ratio - 2013 Refunding and 2014 Sewer Revenue Loans	1.25	1.25
<i>Annual Debt Service Payments</i>		
<i>* Includes payments on Compass Bank (Series 2013 Refunding Sewer Revenue Loan), plus parity debt from Umpqua Bank (Series 2014 Sewer Revenue Loan).</i>		
NET REVENUES	\$ 1,440,274	\$ 1,275,279
Debt Service Payments (ALL)**	651,239	488,836
Debt Coverage Ratio - Actual	2.21	2.61
Required Ratio - Wallace WestAmerica Loan	1.15	1.15
Required Ratio - 2013 Refunding and 2014 Sewer Revenue Loans	1.25	1.25
Required Ratio - Vac-Con Truck Loan	1.40	1.40

** Includes all debt payments.