

CALAVERAS COUNTY WATER DISTRICT

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

JUNE 30, 2014

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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 Calaveras County Water District (District), which comprise the statement of net position as of June 30, 2014, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Calaveras County Water District as of June 30, 2014, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 8 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

The basic financial statements include summarized prior year comparative information. Such prior year information does not include all of the information required 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 basic financial statements for the year ended June 30, 2013, from which such summarized information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2014 on our consideration of the Calaveras County Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

A handwritten signature in black ink, appearing to be 'Rudolph', written over the date.

September 5, 2014



MANAGEMENT'S DISCUSSION AND ANALYSIS

The Governmental Accounting Standards Board Statement No. 34 (GASB 34) requires that management prepare a Management's Discussion and Analysis (MD&A) section as a component of the audited financial statements. *“MD&A should provide an objective and easily readable analysis of the [District’s] financial activities based on currently known facts, decisions, or conditions. MD&A should include comparisons of the current year to the prior year...It should provide an analysis of the [District’s] overall financial position and results of operations to assist users in assessing whether that financial position has improved or deteriorated as a result of the year’s activities. In addition, it should provide an analysis of significant changes that occur in funds and significant variances. It should also describe capital asset and long-term debt activity during the year. MD&A should conclude with a description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.”*

This section of the Calaveras County Water District's (District) Audited Financial Statements provides management’s discussion and analysis of the District’s financial performance for the period ending June 30, 2014. The MD&A is intended to serve as an introduction to the District's basic financial statements. Readers are encouraged to consider the information presented here as complementary to the information contained in the accompanying financial statements.

The District is a proprietary entity and uses enterprise fund accounting to report its activities for financial statement purposes. 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 (including depreciation) of providing goods and services to the general public on a continuing basis be financed primarily through user rates, fees, and charges.

In addition to water and wastewater operations, the District owns hydroelectric facilities inclusive of major dams, reservoirs, tunnels and generation facilities which are governed by FERC licenses and operated by other entities, and aside from augmenting revenues these assets are not addressed in this report.

Overview of the Financial Statements

The financial statements consist of the following three parts: Management's Discussion and Analysis, Basic Financial Statements, and Other Required Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the financial schedules.

District-Wide Financial Highlights

The District's financial results are largely impacted by the collection of water and wastewater sales and service fees that are used to fund operating costs of the District and to fund or finance capital improvement activities. Following are some of the key highlights for the fiscal year ended June 30, 2014 in comparison to the prior fiscal year. A more detailed narrative analysis follows the listing.

- Total Assets increased by \$7.8 million
- Total Liabilities increased \$5.0 million
- Net Assets increased by \$2.8 million
- Operating Revenues decreased \$67 thousand
- Other Operating Expenses increased by \$83 thousand
- Non-operating Revenues decreased by \$421 thousand
- Non-operating Expenses decreased by \$764 thousand

Discussion of Key Changes from Prior Year

This section provides an analysis of the changes that occurred in Assets and Liabilities during the current and previous fiscal year. A table summarizing these amounts is presented below.

Table A-1						
Condensed Statement of Net Assets						
		Fiscal Year 2012-2013	Fiscal Year 2013-2014	Dollar Change	Total Percent Change	
Assets						
	Current and other assets	\$ 22,655,757	\$ 30,193,922	\$ 7,538,165	33.27%	
	Capital Assets	108,892,898	109,235,289	342,391	.31%	
	Total Assets:	131,548,655	139,429,211	7,880,556	5.99%	
Liabilities						
	Long Term debt outstanding	10,157,125	14,556,431	4,399,306	43.31%	
	Other Liabilities	1,228,318	1,859,831	631,513	51.41%	
	Total Liabilities:	11,385,443	16,416,262	5,030,819	44.19%	
Net Assets						
	Invested in capital assets, net of related debt	100,409,512	96,085,632	(4,323,880)	-4.31%	
	Restricted	18,033,201	25,664,288	7,631,087	42.32%	
	Unrestricted	1,720,499	1,263,030	(457,469)	-26.59%	
	Total Net Assets:	\$ 120,163,212	\$ 123,012,949	\$ 2,849,737	2.37%	

Analysis of the significant changes shown above is presented below.

Current and Other Assets: The \$7.5 million increase in current and other assets represents, (1) a \$7.65 million increase in cash and investments, including the \$6.3 million proceeds from the 2014 Capital Renovation and Replacement (Capital R&R) water and wastewater loans, and (2) a net decrease of \$109 thousand in current and non-current assets.

Capital Assets: New assets and construction projects completed during fiscal year 2013-14 added a total of \$4.3 million (net) in assets that included the Fly-In Acres Water System Improvement project, the completion of the Administrative Headquarters building, and the water and wastewater Capital Improvement Program (CIP) and Capital R&R projects. Depreciation expense of \$4 million was recorded bringing the net change compared to the prior year to an increase in capital assets of \$300 thousand.

Long Term Debt Outstanding: Details of the District's long-term debt issued are discussed in Note 6 accompanying the Financial Statements. As of June 30, 2014, \$14,556,431 in debt was outstanding. The source of repayment of the debt is water and wastewater rates and expansion fee revenues of the District as defined in the debt agreements with the exception of the Umpqua Bank 2014 Water and Wastewater loans that are being serviced through Capital R&R revenues.

Total Net Assets: The increase of \$2.8 million in Net Assets over the previous year is detailed as follows:

Operating and Non-operating Financial Highlights

As previously discussed, the financial statements present information consolidated for the entire enterprise. The table below compares the operating and nonoperating revenue and expenses for the District for the current and prior fiscal years.

Table A-2					
Condensed Statement of Revenues, Expenses and Changes in Net Assets					
		Fiscal Year 2012-13	Fiscal Year 2013-14	Dollar Change	Total Percent Change
Operating					
	Operating Revenues	\$ 12,408,999	\$ 12,341,884	\$ (67,115)	-.54%
	Operating Expenses				
	Depreciation Expense	(3,847,929)	(4,001,360)	(153,431)	-3.99%
	Other Operating Expenses	(13,908,267)	(13,991,223)	(82,956)	-.60%
	Net Operating Loss	(5,347,197)	(5,650,699)	(303,502)	-5.68%
Non-Operating					
	Revenues	9,238,000	8,816,742	(421,258)	-4.56%
	Expenses	(1,080,642)	(316,305)	764,337	70.73%
	Non-operating, net	8,157,358	8,500,437	343,079	4.21%
	Change in net assets	2,810,161	2,849,738	39,577	1.41%
Beginning net assets					
		117,353,051	120,163,212	2,810,161	2.39%
Ending net assets					
		\$ 120,163,212	\$ 123,012,950	\$ 2,849,738	2.37%

REVENUES

Operating Revenue: The District realized a decrease of (\$67,115) or a -.54% in operating revenue compared to the prior year. The decrease is attributable to the ongoing drought and the water conservation measures dictated by the State, which resulted in lower water consumption by ratepayers and thus reduced water consumptive revenues.

Operating revenues do not include Capital R&R water and wastewater revenues. On July 10, 2013, the District was successful in implementing a rate increase to fund a capital replacement and renovation program. Section 5 of the ordinance states, “*Funds received as a result of a rate increase above the current rates as of July 10, 2013 must be placed in a restricted fund and the funds must be used to fund the renovation and replacement of the District’s existing capital infrastructure. The funds in this account cannot be used for any other purpose without a 4/5th vote of the full Board of Directors of the District.*”

The tables below outline the rate modifications adopted by the Board of Directors with CCWD Ordinance 2013-01:

Monthly Water Rates

Monthly Base Water Rate (5/8” meter only)

July 1, 2013	Sept 1, 2013	Sept 1, 2014	Sept 1, 2015	Sept 1, 2016	Sept 1, 2017
\$39.50	\$49.38	\$56.78	\$61.89	\$61.89	\$61.89

Tiered Rates for Average Monthly Water Consumption (5/8” meter only)

0 - 500 cf (125 gpd)	501-3000 cf (126-750 gpd)	3001-6000 cf (751-1500 gpd)	Over 6000 cf (Over 1500 gpd)
Included in Base Rate	\$1.25 per 100 cf	\$1.56 per 100 cf	\$2.00 per 100 cf

The above table represents the charges for a standard 5/8” water meter. Monthly base rates for larger meters are calculated by multiplying the adopted monthly rate for a 5/8” meter by the American Water Works Association (AWWA) recognized meter multiplier for the larger meter sizes. Additionally, larger meter sizes receive a proportionally greater amount of water provided with the base rate.

Monthly Wastewater Rates

July 1, 2013	Sept 1, 2013	Sept 1, 2014	Sept 1, 2015	Sept 1, 2016	Sept 1, 2017
\$67.50	\$77.63	\$86.16	\$90.00	\$90.00	\$90.00

The above table represents the charge for a standard residential connection (or single family dwelling equivalent - sfde). Wastewater charges for commercial accounts are initially based upon a demand factor corresponding to the type of business, multiplied by the adopted monthly rate.

EXPENSES

Depreciation expense: Depreciation expense is systematically recorded to match the timing of the expense of an asset with its useful life. The District depreciates its capital assets according to the following established life periods:

Buildings & Infrastructure	50 years
Machinery & Equipment	10 years
Vehicles, Rolling Stock	8 years
Computers	4 years

Depreciation expense for fiscal year 2013-14 is \$4 million, an increase of \$153 thousand over the prior year. The increase is due primarily to the completion of District projects, including the CCWD Administrative Headquarters building and the West Point Water Rehabilitation grant projects.

Other Operating Expenses: As shown above, there was an overall increase in other operating expenses of \$83 thousand primarily comprised of Salaries and Benefits, Professional Services and Post-employment benefits.

NON-OPERATING REVENUES (EXPENSES)

Non-operating Revenue decreased by \$421 thousand or -4.56% compared to the prior year. With the completion of Grant projects early in the year, grant revenue decreased by \$4.8 million from the prior year. Capital R&R fee revenue increased by \$2 million while Expansion fee revenue grew by \$460 thousand. Contributed Capital made up of developer projects accepted by the District and the Fly-In Acres construction, increased by \$1.8 million. All other sources of non-operating revenue increased over the prior year by \$119 thousand.

Non-Operating Expenses decreased by \$764 thousand, or 70.73% compared to the prior year. The decrease is primarily due to a one-time event, the write off of bond issuance fees in the prior fiscal year. This transaction will result in a cumulative \$654 thousand in reduced expenses through FY 2017-18. Interest expense decreased by \$110 thousand, in part from the refinancing of the 2004 Revenue Refunding bonds and timing of the first payment on the new loan.

ECONOMIC CONDITION AND OUTLOOK

California's economy has continued to rebound from the great recession, which helped the state's unemployment rate drop to a seven year low of 7.4%, compared to 12.6% in March 2010 (U. S. Department of Labor - Bureau of Labor Statistics). Nevertheless, the state's unemployment rate is still above the 6.1% national average. Furthermore, Calaveras County's 8.6% unemployment rate remains above both the state and national average. Although it is a considerable drop from the January 2011 unemployment rate of 16.3% and a drop from a 10.4% rate in August 2013, Calaveras County is struggling to return to its pre-recession employment levels.

The public sector remains Calaveras County's largest employer, accounting for approximately 30% of all jobs. The largest job gains were recorded in education and healthcare, followed by the wholesale and retail trades. Although job growth continues to climb, average salaries for Calaveras County

remain below the state average. The county's per capita income of \$40,600 is 16.2% less than the state average of \$48,434.

The District's overall financial status remains strong as the county's economic recovery gains strength. Construction growth remains slow but steady, as evidenced by the increase in the number of new water and wastewater connections in FY 2013-14 (31 and 20 respectively) as compared to other post-recession years (7 water and 4 wastewater connections in FY 2012-13). Even though the county's population declined slightly by 0.7% to 44,650 (State Department of Finance 2014 projection), there are signs that the county's residential development is coming back to life.

Historically the District has been able to fund its ongoing day-to-day operations and small ticket repair and maintenance projects, but was unable to set aside funding for the renovation and replacement of the capital infrastructure – pipeline, lift stations, storage tanks, etc. In July 2013 the District completed a Proposition 218 process to implement a rate increase dedicated to the funding of a staged capital infrastructure renovation and replacement program. The five year incremental rate plan went into effect September 1, 2013 with additional increases scheduled for September 1, 2014 and September 1, 2015. Additionally, the District secured two loans, water and wastewater, to provide initial funding for large projects with construction expected to be started in FY 2014-15. The District has committed to providing the public with a record of all revenues collected for the program and the manner in which they are being expended, and has added a section on the District's website that displays an updated accounting of the program's progress as it is achieved.

Another factor affecting District operations is California's ongoing drought and the state's mandated water conservation program initiated by Governor Brown. Although the District has ample water supplies to meet customer demands, the District, in response to the state's goal of a twenty percent reduction in water diversions, enacted its own Stage 3 mandatory water restrictions, which includes limits on outdoor watering and wasteful water practices.

The District's efforts to comply with state mandated water conservation requirements has resulted in decreased water consumption by District's customers. However, reduced water consumption has in turn decreased water consumption revenues. As consumption revenues help balance the budget, any reduction in water consumption and related revenues generally requires the District to reduce expenditures. However, operating and maintaining water and wastewater utilities 24 hours per day entails a high percentage of fixed operating costs. Regulatory requirements, increased electrical costs, and higher fees and costs passed along from vendors have created funding challenges. The District has implemented cost-cutting and efficiency measures, measures that reduce expenses but do not compromise the District's ability to manage and operate the systems in a manner that meets public health and safety requirements.

As always, the District is committed to monitoring its fiscal condition and that of the economy, and will respond aggressively to any adverse condition it faces.

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

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

AS OF JUNE 30, 2014

WITH SUMMARIZED TOTALS AS OF JUNE 30, 2013

ASSETS	Water	Sewer	Totals	
			2014	2013
Current assets				
Cash and investments	\$ 1,988,513	\$ (2,106,137)	\$ (117,624)	\$ (106,207)
Accounts receivable	1,817,574	840,720	2,658,294	2,308,498
Taxes receivable	94,014	32,788	126,802	153,704
Grants receivable	144,135	-	144,135	319,523
Interest receivable	63,750	15,939	79,690	59,985
Prepaid expense	117,461	39,154	156,614	119,999
Total current assets	<u>4,225,447</u>	<u>(1,177,536)</u>	<u>3,047,911</u>	<u>2,855,502</u>
Non-current assets				
Deferred charges	16,724	5,575	22,299	93,315
Note receivable	-	52,650	52,650	-
Net pension asset	1,055,080	351,693	1,406,773	1,673,739
Capital assets, net of allowance for depreciation	66,418,683	42,816,607	109,235,289	108,892,898
Total non-current assets	<u>67,490,486</u>	<u>43,226,525</u>	<u>110,717,011</u>	<u>110,659,952</u>
Restricted assets				
Cash and investments	18,573,169	7,071,322	25,644,492	17,985,717
Interest receivable	14,073	5,724	19,797	47,484
Due to/(from) other fund	(2,273,159)	2,273,159	-	-
Total restricted assets	<u>16,314,083</u>	<u>9,350,205</u>	<u>25,664,289</u>	<u>18,033,201</u>
Total assets	<u>88,030,016</u>	<u>51,399,194</u>	<u>139,429,211</u>	<u>131,548,655</u>
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	817,529	133,966	951,495	350,786
Deposits payable	61,479	18,862	80,341	76,942
Accrued interest payable	55,001	15,707	70,707	53,064
Current portion of long-term debt	1,930,845	501,730	2,432,574	2,116,939
Total current liabilities	<u>2,864,853</u>	<u>670,264</u>	<u>3,535,117</u>	<u>2,597,731</u>
Non-current liabilities				
Long-term debt	9,253,121	2,870,736	12,123,857	8,040,186
Compensated absences	462,584	294,704	757,288	747,526
Total noncurrent liabilities	<u>9,715,705</u>	<u>3,165,440</u>	<u>12,881,145</u>	<u>8,787,712</u>
Total liabilities	<u>12,580,558</u>	<u>3,835,703</u>	<u>16,416,262</u>	<u>11,385,443</u>
NET POSITION				
Net investment in capital assets	56,289,797	39,795,835	96,085,632	100,409,512
Restricted for:				
Expansion and construction	16,314,083	9,350,205	25,664,288	18,033,201
Unrestricted	2,845,578	(1,582,548)	1,263,030	1,720,499
Total net position	<u>\$ 75,449,458</u>	<u>\$ 47,563,492</u>	<u>\$ 123,012,950</u>	<u>\$ 120,163,212</u>

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2014 WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2013

	Water	Sewer	Totals	
			2014	2013
Operating Revenues				
Water sales and sewer charges	\$ 7,712,074	\$ 4,170,663	\$ 11,882,737	\$ 11,939,873
Water and sewer fees	356,602	102,545	459,147	469,126
Total operating revenues	<u>8,068,676</u>	<u>4,273,208</u>	<u>12,341,884</u>	<u>12,408,999</u>
Operating Expenses				
Salaries and benefits	5,066,299	2,952,847	8,019,147	7,905,101
Repairs, materials and supplies	558,133	540,933	1,099,066	1,353,222
Utility service	591,559	402,675	994,233	922,970
Outside services	680,244	374,669	1,054,913	1,072,942
Professional services	523,492	191,380	714,872	583,702
Vehicle and equipment	200,851	151,589	352,440	392,886
Office expense	61,410	24,503	85,913	81,779
Travel and training	33,914	20,070	53,983	55,054
Purchased power	109,890	34,398	144,288	142,949
Miscellaneous operating expenses	123,986	195,670	319,656	280,899
Director costs	100,739	34,322	135,061	137,400
Post-employment benefits	763,238	254,413	1,017,651	979,363
Depreciation	2,698,209	1,303,151	4,001,360	3,847,929
Total operating expenses	<u>11,511,964</u>	<u>6,480,619</u>	<u>17,992,583</u>	<u>17,756,196</u>
Operating income/(loss)	<u>(3,443,288)</u>	<u>(2,207,411)</u>	<u>(5,650,699)</u>	<u>(5,347,197)</u>
Nonoperating Revenues/(Expenses)				
Property taxes and assessments	1,682,384	586,509	2,268,893	2,302,174
Investment income	320,896	149,850	470,747	345,611
Expansion fees	332,385	238,985	571,370	110,923
Capital R&R fees	1,531,125	521,281	2,052,406	-
Power sales	462,588	154,196	616,784	666,751
Contributed capital revenue	1,365,506	491,619	1,857,125	14,000
Other income	95,921	75,869	171,790	182,621
Grant revenues	690,971	78,095	769,066	5,613,244
Gain/(loss) on sale of assets	-	38,561	38,561	2,676
Amortization	(70,120)	(3,028)	(73,148)	(727,788)
Interest expense	(192,977)	(50,180)	(243,157)	(352,854)
Total nonoperating revenues/(expenses)	<u>6,218,679</u>	<u>2,281,758</u>	<u>8,500,437</u>	<u>8,157,358</u>
Net income before transfers	2,775,392	74,347	2,849,738	2,810,161
Transfers				
Transfers in/(out)	<u>87,453</u>	<u>(87,453)</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>2,862,844</u>	<u>(13,106)</u>	<u>2,849,738</u>	<u>2,810,161</u>
Net Position				
Beginning of year	72,586,614	47,576,598	120,163,212	117,353,051
End of year	<u>\$ 75,449,458</u>	<u>\$ 47,563,492</u>	<u>\$ 123,012,950</u>	<u>\$ 120,163,212</u>

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2014

WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2013

	Water	Sewer	Totals	
			2014	2013
Operating Activities				
Receipts from customers and users	\$ 7,842,817	\$ 4,152,669	\$ 11,995,486	\$ 12,016,470
Payments for contractual services and utilities	(1,927,005)	(1,170,025)	(3,097,030)	(3,519,824)
Payments to employees	(5,165,369)	(2,979,077)	(8,144,445)	(7,966,049)
Payments to suppliers	(978,294)	(932,765)	(1,911,058)	(2,163,840)
Net cash provided by (used in) operating activities	(227,851)	(929,197)	(1,157,047)	(1,633,243)
Non-capital Financing Activities				
Property taxes and assessments	1,702,478	593,317	2,295,795	2,540,334
Power sales	462,588	154,196	616,784	666,751
Other income	95,921	81,287	177,208	200,176
Grants from outside agencies	866,359	78,095	944,454	5,759,180
Transfers (to)/from assessment district	1,120,334	-	1,120,334	-
Transfers (to)/from other funds	163,952	(163,952)	-	-
Net cash provided by noncapital financing activities	4,411,632	742,943	5,154,575	9,166,441
Capital and Related Financing Activities				
Expansion fees	332,385	238,985	571,370	110,923
Capital R&R fees	1,531,125	521,281	2,052,406	-
Purchase of capital assets	(2,179,166)	(1,326,367)	(3,505,533)	(9,482,361)
Principal (paid)/received on long-term debt, net	2,157,598	2,120,775	4,278,373	(1,461,296)
Deferred bond issuance costs	-	-	-	(78,998)
Interest paid on long-term debt	(185,244)	(40,270)	(225,514)	(435,290)
Net cash provided by (used in) capital and related financing activities	1,656,698	1,514,404	3,171,102	(11,347,022)
Investing Activities				
Investment earnings/(losses)	318,493	160,236	478,729	359,362
Net cash provided by investing activities	318,493	160,236	478,729	359,362
Net Increase (Decrease) in Cash	6,158,973	1,488,384	7,647,357	(3,454,462)
Cash and Investments				
Beginning of year	14,402,709	3,476,801	17,879,510	21,333,972
End of year	\$ 20,561,682	\$ 4,965,185	\$ 25,526,867	\$ 17,879,510

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF CASH FLOW - PROPRIETARY FUNDS (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2014 WITH SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2013

	Water	Sewer	Totals	
			2014	2013
Cash and investments as presented on Statement of Net Position:				
Cash and investments	\$ 1,988,513	\$ (2,106,137)	\$ (117,624)	\$ (106,207)
Cash and investments, restricted	18,573,169	7,071,322	25,644,491	17,985,717
Total cash and investments	<u>\$ 20,561,682</u>	<u>\$ 4,965,185</u>	<u>\$ 25,526,867</u>	<u>\$ 17,879,510</u>
Cash Flows from Operating Activities				
Operating income (loss)	\$ (3,443,288)	\$ (2,207,411)	\$ (5,650,699)	\$ (5,347,197)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	2,698,209	1,303,151	4,001,360	3,847,929
(Increase) Decrease in accounts receivable	(228,608)	(121,188)	(349,796)	(168,115)
(Increase) Decrease in prepaid expenses	(29,060)	(9,688)	(38,747)	14,910
(Increase) Decrease in net pension asset	200,224	66,742	266,966	259,240
Increase (Decrease) in accounts payable	570,252	30,456	600,708	(92,048)
Increase (Decrease) in deposits payable	2,749	649	3,398	(224,414)
Increase (Decrease) in compensated absences	1,670	8,092	9,762	76,451
Net Cash (Used) by Operating Activities	<u>\$ (227,851)</u>	<u>\$ (929,197)</u>	<u>\$ (1,157,047)</u>	<u>\$ (1,633,242)</u>

CALAVERAS COUNTY WATER DISTRICT

STATEMENT OF FIDUCIARY NET POSITION FOR THE YEAR ENDED JUNE 30, 2014 WITH COMPARATIVE TOTALS FOR JUNE 30, 2013

ASSETS	Special Assessment Districts	
	2014	2013
Cash and investments	\$ 2,734,260	\$ 2,108,911
Interest receivable	640	5,292
Due from Fiscal Agent	-	2,813
Due from County	221,776	12,171
Total assets	<u>2,956,676</u>	<u>2,129,187</u>
LIABILITIES		
Assessment deposits	-	1,014,224
Due to bondholders	2,956,676	1,114,963
Total liabilities	<u>2,956,676</u>	<u>2,129,187</u>
NET POSITION	<u>\$ -</u>	<u>\$ -</u>

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

The Calaveras County Water District (District) was formed on September 6, 1946, 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. Water and sewage services are provided to eight operational areas within the boundaries of the District. The District has no component units.

Basis of Accounting and Measurement Focus

The District accounts for its operations in an enterprise fund using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales and sewer services. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District reports the following major proprietary funds:

Water Fund – This fund accounts for the activities of providing water to residents of the District.

Sewer Fund – This fund accounts for the activities of providing sewer management to residents of the District.

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 special assessment districts in its boundaries.

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. In addition, the District allocates general and administrative activities 75% to the Water Fund and 25% to the Sewer Fund. Actual results could differ from those estimates.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Financial Statement Amounts

Cash and Cash Equivalents – For purposes of the statement of cash flows, the District considers all highly liquid investments including cash and cash equivalents in restricted assets to be cash equivalents.

Accounts Receivable – Billed, but unpaid, services provided to individuals or non-governmental entities are recorded as accounts receivable. The Proprietary Funds include a year end accrual for services through the end of the fiscal year which have not yet been billed.

Property Taxes - Secured and unsecured property taxes are levied on January 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; and the second installment is due February 1 and delinquent with penalties after April 10th, on the property taxes assessed on January 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.

Interfund Receivables/Payables - Items classified as interfund receivable/payable represent short-term lending/borrowing transactions between funds. This classification also includes the current portion of an advance to or from another fund.

Capital Assets - Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the assets constructed.

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

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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

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 accumulated. Employees are paid 100% of their PTO leave hours upon death, termination or retirement. The District accrues a liability for compensated absences which meets the following criteria set by GASB Statement No. 16.

- The District's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- The obligation relates to rights that vest or accumulate.
- Payment of the compensation is probable.
- The amount can be reasonably estimated.

In accordance with the above criteria, the District has accrued a liability for vacation pay, compensation time and holiday pay which has been earned, but not taken, by the District's employees. At June 30, 2014, the recorded liability was \$757,288.

Long-Term Obligations - Long-term debt and other long-term obligations are reported as liabilities in the Proprietary Fund Statement of Net Position. Debt principal payments are reported as decreases in the balance of the liability on the Statement of Net Position.

Net Position/Fund Equity - The financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, 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 on net position imposed by creditors, grantors, contributors, laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This category represents net position of the District not restricted for any project or other purpose.

Note 2 – Cash and Investments

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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 2 – Cash and Investments (Continued)

Classification

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

Statement of Net Position

Cash and investments	\$ (117,624)
Restricted cash and investments	25,644,492
	<u>25,526,868</u>

Fiduciary Funds

Cash and investments	2,734,260
Total cash and investments	<u>\$ 28,261,128</u>

Authorized Investments by the District

The District's Investment Policy and the California Government Code allows the District to invest in the following, provided the credit ratings of the issuers are acceptable to the District. The following also identifies certain provisions of the District and California Government Code that address interest rate risk, credit risk, and concentration of credit risk. The District's Investment Policy authorizes the following:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Minimum Credit Quality</u>
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. Agencies	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 Notes	5 Years	30%	A or >
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

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 2 – 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 issues. 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:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Minimum Credit Quality</u>
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. Agencies	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 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) Highest ranking 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 by the following table that shows the distribution to the District's investments by maturity:

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 2 – Cash and Investments (Continued)

<u>Investment Type</u>	<u>12 Months or less</u>	<u>13 to 24 Months</u>	<u>25 to 84 Months</u>	<u>Total</u>
California Local District Obligations	\$ -	\$ 2,093,060	\$ 2,121,540	\$ 4,214,600
Medium Term Notes	-	-	281,438	281,438
Certificates of Deposit	10,079,216	287,483	914,792	11,281,491
Money Market Funds	4,001,697	-	-	4,001,697
LAIF	6,847,227	-	-	6,847,227
Total Investments	<u>\$20,928,140</u>	<u>\$ 2,380,543</u>	<u>\$ 3,317,770</u>	<u>26,626,453</u>
Cash with fiscal agent				521,305
Cash in bank and on hand				1,113,370
Total Cash and Investments				<u>\$ 28,261,128</u>

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 corporations. 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 by Standard & Poor's required by the California Government Code or the District's investment policy, and the actual rating as of June 30, 2014 for each investment type:

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 2 – Cash and Investments (Continued)

	Rating as of Year-End		Total
	AA	A-1+ and A-1	
Investments			
California Local District Obligations	\$ 4,214,600	\$ -	\$ 4,214,600
Medium Term Notes	-	281,438	281,438
Total Investments	<u>\$ 4,214,600</u>	<u>\$ 281,438</u>	4,496,038
Not rated:			
LAIF			6,847,227
Money Market Funds			4,001,697
Certificates of Deposit			11,281,491
Cash with fiscal agent			521,305
Cash in bank and on hand			1,113,370
Total Cash and Investments			<u>\$ 28,261,128</u>

Concentration of Credit Risk

Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5% or more of total District-wide investments are as follows at June 30, 2014:

Issuer	Investment Type	Amount
South Coast Air Quality Management Bond	California Local District Obligations	\$ 2,093,060
San Bernardino County Pension Bond	California Local District Obligations	2,121,540

Custodial Credit Risk

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, the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The District's Investment Policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the District, including collateral for repurchase agreements, be conducted on a delivery-versus-payment basis. Securities are to be held by a third party custodian.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
Capital assets, not being depreciated				
Land	\$ 13,666,642	\$ 55,242	\$ (19,506)	\$ 13,702,378
Construction in progress	7,050,088	3,088,243	(7,905,591)	2,232,740
Total capital assets, not being depreciated	<u>20,716,730</u>	<u>3,143,485</u>	<u>(7,925,097)</u>	<u>15,935,118</u>
Capital assets, being depreciated				
Buildings	15,776,423	2,827,095	-	18,603,518
Utility system - infrastructure	142,040,111	5,646,177	-	147,686,288
Equipment and machinery	16,631,344	652,090	-	17,283,434
Total capital assets, being depreciated	<u>174,447,878</u>	<u>9,125,362</u>	<u>-</u>	<u>183,573,240</u>
Less accumulated depreciation for				
Buildings	(8,844,385)	(357,141)	-	(9,201,526)
Utility system - infrastructure	(63,038,950)	(2,954,157)	-	(65,993,107)
Equipment and machinery	(14,388,375)	(690,061)	-	(15,078,436)
Total accumulated depreciation	<u>(86,271,710)</u>	<u>(4,001,359)</u>	<u>-</u>	<u>(90,273,069)</u>
Total capital assets, being depreciated, net	<u>88,176,168</u>	<u>5,124,003</u>	<u>-</u>	<u>93,300,171</u>
Total capital assets, net	<u>\$ 108,892,898</u>	<u>\$ 8,267,488</u>	<u>\$ (7,925,097)</u>	<u>\$ 109,235,289</u>

Note 4 – Net Pension Asset

In fiscal year 2012, the District prepaid the District's unfunded PERS side fund in the amount of \$1,974,792. This prepayment has been recorded on the Statement of Net Position as a Net Pension Asset. The net pension asset will be amortized using the same amortization period (7 years) utilized by PERS to calculate the Annual Required Contribution (ARC) each year.

Note 5 – Note Receivable

On May 23, 2014, the District sold a parcel of land to the Calaveras Healthy Impact Product Solutions, Inc. for \$58,500. In connection with the sale the District entered into a note receivable with Calaveras Healthy Impact Product Solutions, Inc. in the amount of \$52,650. The note bears interest at an annual rate of 2.6% and is to be repaid in one balloon payment on November 23, 2015.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 6 – Long-Term Debt

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

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014	Current Portion
Series 2013 Refunding Water Revenue Loan	\$ 7,188,541	\$ -	\$ (1,656,404)	\$ 5,532,137	\$ 1,671,292
Series 2013 Refunding Sewer Revenue Loan	310,459	-	(71,537)	238,922	72,180
Umpqua Bank 2014 Water Revenue Loan	-	4,061,933	-	4,061,933	-
Umpqua Bank 2014 Sewer Revenue Loan	-	2,337,528	-	2,337,528	279,004
Vac-Con Truck Loan	328,623	-	(62,573)	266,050	64,028
Wallace WestAmerica Loan	-	120,933	(8,292)	112,641	8,749
U.S. Bureau of Reclamation Note	655,763	-	(55,316)	600,447	62,399
Umpqua Bank Pension Loan	1,673,739	-	(266,966)	1,406,773	274,922
Total Business-Type Activity Debt	<u>\$ 10,157,125</u>	<u>\$ 6,520,394</u>	<u>\$ (2,121,088)</u>	<u>\$ 14,556,431</u>	<u>\$ 2,432,574</u>

Series 2013 Refunding Water Revenue Loan

On February 1, 2013, the District obtained a loan from Compass Mortgage Corporation to refund the 2004 Revenue Bonds. The loan is paid annually at 1.58% interest for a period of 5 years, maturing on September 1, 2017.

Series 2013 Refunding Sewer Revenue Loan

On February 1, 2013, the District obtained a loan from Compass Mortgage Corporation to refund the 2004 Revenue Bonds. The loan is paid annually at 1.58% interest for a period of 5 years, maturing on 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 improvement projects. The loan is payable at 2.15% interest for a period of seven years with semi-annual interest payments and principal reductions beginning in September 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 improvement projects. The loan is payable at 2.12% interest for a period of seven years with semi-annual payments ranging from \$158,663 to \$197,428 including principal and interest.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 6 – Long-Term Debt (Continued)

Vac-Con Truck Loan

On April 25, 2013, the District obtained a loan from Umpqua Bank for the purchase of a Vac-Con truck. The loan is paid quarterly in installments of \$17,628 which includes interest at 2.675%, maturing April 2018.

Wallace WestAmerica Loan

The District assumed a loan from Wallace Community Services District in the amount of \$120,933 payable to WestAmerica Bank in exchange for capital assets owned by the Wallace Community Services District. The loan is paid annually in installments of \$14,944 which includes interest at 5.5%, maturing August 2023.

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 requires the Calaveras County Water District to make annual payments based on a variable computation to Stockton-East Water District through 2010 with no interest. Any unpaid balance at September 2010 began to bear interest at 4.5% and was due in fifteen equal annual installments of \$76,372 including interest through 2025. The remaining balance on the contract at June 30, 2014, is \$600,447.

The contract also provides for payment 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.

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 unfunded CalPERS pension obligation in the same amount. The loan is paid in monthly payments of \$26,051 including interest at 2.9%, maturing on April 1, 2019. The District collateralized the loan with certificates of deposit in the same amount.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 6 – Long-Term Debt (Continued)

Debt Service Requirements

The annual requirement to amortize the principal and interest on the above long-term debt at June 30, 2014 were as follows:

Years ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	2,432,574	273,696	2,706,270
2016	2,470,730	244,129	2,714,859
2017	2,518,944	195,843	2,714,787
2018	1,910,052	153,950	2,064,002
2019	1,829,590	112,330	1,941,920
2020-2023	3,394,541	118,025	3,512,566
	<u>\$14,556,431</u>	<u>\$ 1,097,973</u>	<u>\$15,654,404</u>

Note 7 – Internal Loan

On January 11, 2012, the District lent \$3,000,000 from the District's expansion funds to the building fund to pay for the construction of an operations headquarter. 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. The internal loan will be repaid on an "interest only" basis for the first five years and then principal and interest payments thereafter.

Note 8 – Special Assessment Districts

The District acts as agent for the bondholders of five special assessment districts in the District. Each of these special assessment districts has issued bonds to finance improvements in that district; these bonds are secured solely by liens on real property in that district. Calaveras County collects special assessments from the property owners in these special assessment districts. These collections 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 on this debt, which is not included in the District's financial statements. The outstanding principal amounts of these special assessment bonds at June 30, 2014, were as follows:

<u>District</u>	<u>Amount</u>
Westpoint Acres #3A	\$ 50,000
Arnold Sewer #9S4 A/B	179,000
Saddle Creek Refinance 2001	3,320,000
DaLee/Cassidy	865,000
Fly-In Acres	2,065,327
Total	<u>\$ 6,479,327</u>

A new assessment district referred to as Fly-In Acres was formed in the fiscal year ending June 30, 2014. Bond proceeds along with the prepayments will be used to finance the cost of the improvements for this district.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

Note 8 – Special Assessment Districts (Continued)

Additionally, the La Contenta Assessment District (AD 604) continues to be in default/foreclosure. The District will continue to act as the agent for La Contenta as legal counsel continues to work with the property owners. In 2016, all remaining funds held by the District (\$98,609 at June 30, 2014) will be disbursed to the bondholders and La Contenta SAD will be dissolved.

Note 9 – Defined Benefit Pension Plan

Plan Description

The District contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and District resolution. PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required by State statute to contribute 8% of annual covered salary for miscellaneous employees. The District contributed one-half of the member cost required of the District employees on their behalf, as well as the full employer share, for a combined amount of \$922,163 for the year ended June 30, 2014. The District (employer) is required to contribute for fiscal year 2013/2014 at an actuarially determined rate of 15.685% of annual covered payroll for miscellaneous employees.

Annual Pension Cost

For 2013/2014, the District's annual pension cost of \$922,163 for PERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2012 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return (net administrative expenses), (b) projected annual salary increases ranging from 3.3% to 14.2% for miscellaneous employees, and (c) 3.0% per year payroll growth adjustments. Both (a) and (b) included an inflation component of 2.75%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average amortization period for current service unfunded liability at June 30, 2012 was 19 years for miscellaneous employees.

THREE-YEAR TREND INFORMATION FOR PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
06/30/12	1,320,030	100%
06/30/13	988,333	100%
06/30/14	922,163	100%

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

Note 9 – Defined Benefit Pension Plan (Continued)

A new State law authorized the creation of risk pools by PERS and required mandatory participation of employers to help reduce large fluctuations in their contribution rates. The District is now required to participate in the risk pool. Under this pooling method, assets and liabilities of the participant employers are aggregated. As such, individual employer's retirement data is no longer available.

Note 10 – Post-Employment Health Care Benefits

Post Retirement Benefits

From an accrual accounting perspective, the cost of post-employment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. Prior to adopting the requirements of GASB Statement No. 45, the District recognized the cost of post-employment healthcare in the year it was paid. With the implementation of GASB Statement No. 45 the District now reports the accumulated liability from prior years in order to provide information useful in assessing potential demands on the District's future cash flows. Recognition and funding of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008-2009 liability.

Plan Description

The District provides contributions for post-employment medical benefits to employees who retire directly from the District and their dependents through a single-employer defined benefit OPEB plan (the plan). To be eligible for the District paid benefits, the employee must qualify as follows:

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.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 10 – Post-Employment Health Care Benefits (Continued)

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.

Credited Years of Service	Percentage of the Weighted Average Cost
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

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 does not issue a separate stand-alone financial report for its OPEB plan.

Funding Policy

The District is currently funding the OPEB plan on a pay-as-you-go basis, with an additional amount to prefund future benefits as actuarially determined.

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 of thirty (30) years. The following table shows the amount contributed to the plan, and changes in the District's net OPEB obligation:

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 10 – Post-Employment Health Care Benefits (Continued)

Annual required contribution (OPEB cost)	\$ 1,051,676
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>1,051,676</u>
Contributions made	<u>1,017,651</u>
Increase (decrease) in net OPEB obligation	34,025
Net OPEB obligation, beginning of year	<u>42,249</u>
Net OPEB obligation, end of year	<u>\$ 76,274</u>

The District has elected not to record the Net OPEB obligation as a current year liability as the estimated amount is not material to the financial statements as a whole.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for 2014 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
2012	975,230	966,332	99.1%	8,898
2013	1,012,714	979,363	96.7%	42,249
2014	1,051,676	1,017,651	96.8%	76,274

Funding Status and Progress

The funded status of the liability as of June 30, 2012, the plan's most recent actuarial valuation date, was as follows:

Fiscal Year Ended	Actuarial Accrued Liability	Value of Assets	Unfunded Liability (Excess Assets)	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
6/30/2012	\$ 10,964,166	\$2,270,495	\$ 8,693,671	20.7%	\$4,914,480	176.9%
6/30/2013	11,725,997	3,016,207	8,709,790	25.7%	4,914,480	177.2%
6/30/2014	12,537,626	3,966,537	8,571,089	31.6%	4,914,480	174.4%

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.

CALAVERAS COUNTY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 10 – Post-Employment Health Care Benefits (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 2011 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 7.0% reduced by increments of .5% each year to an ultimate rate of 5.5%. The actuarial value of assets is equal to the market value. The unfunded actuarial accrued liability (UAAL) is being amortized over thirty years on a closed basis. The remaining amortization period at June 30, 2014 is 24 years.

Note 11 – Risk Management

The District is a member of the ACWA/Joint Powers Insurance Authority (JPIA). JPIA covers general liability and workers' compensation claims. Commercial insurance is purchased for excess liability, property and employee dishonesty coverage. The District has no deductible for the general liability coverage and workers' compensation coverage. The financial statements of ACWA can be obtained at 910 K Street, Suite 100, Sacramento, CA 95814.

Claims and judgements, including a provision for claims incurred but not reported, are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable. As discussed above, the District has coverage for such claims.

Note 12 – Contingent Liabilities

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

Various other claims and suits have been 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 counsel the resolution of these matters will not have a material adverse effect on the financial condition of the District.

Note 13 – Subsequent Events and Commitments

The District evaluated subsequent events for recognition and disclosure through September 5, 2014, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2014 that required recognition or disclosure in such financial statements.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Calaveras County Water District (District), which comprise the statement of net position as of June 30, 2014, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 5, 2014.

Internal Control Over Financial Reporting

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

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

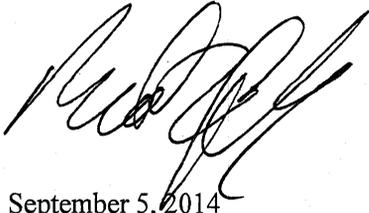
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink, appearing to be 'M. J. ...', is written over the date.

September 5, 2014